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THE WHITE HOUSE

WASHINGTON

May 9, 1998

MR. PRESIDENT:

Attached are the following weekly reports:

- (A) Interest Rates and the Stock Market (CEA) and Update on Emerging Markets (Treasury)
- (B) DPC Report
- (C) NEC Report
- (D) CEQ Report
- (E) Climate Change Report
- (F) OSTP Report
- (G) Legislative Affairs Report

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(M) Political Report

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Tab J - Ibarra/COS

Tab K - Winston/Bowles/Matthews
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5-11-98

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THE WHITE HOUSE

WASHINGTON

May 8, 1998

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MEMORANDUM FOR THE PRESIDENT

FROM: GENE SPERLING

RE: NEC WEEKLY REPORT

cc: ERSKINE BOWLES

G. I. Bill: As you know, last Tuesday (5/6) the Senate passed their version of the G. I. Bill, the Workforce Investment Partnership Act, with an overwhelming bipartisan vote of 91-7. Our next task is to make sure that the House appoints conferees and keeps the bill moving. As you may recall, this bill must be passed by July 1 in order to make available appropriations (\$250 million) for the Youth Opportunity Areas initiative that would provide jobs and training for out-of-school youth in high poverty areas.

IRS Reform: On Thursday (5/7), the IRS bill passed overwhelmingly in the Senate. We put out a statement applauding the action and urging quick action on a final bill. Republicans failed in their efforts to keep the Treasury Secretary and union representative off of the oversight board. Chairman Roth did finally advance offsets for the entire Senate bill. His main new offset is poor policy, both distributionally and fiscally. It would allow people over the age of 70 1/2, who have incomes above \$100,000, to convert traditional IRAs into Roth IRAs. For an individual the effect would be an up-front tax bill in return for tax-free treatment in the future, which could be handed down to heirs. The offset would raise \$8 billion over the ten-year budget window but lose billions beyond the window. We will try to address this offset in conference, but it could be irresistible for Republicans.

H-1B: Last week INS reported that we had reached the cap on the number of temporary (H-1B) visas for skilled foreign workers. Not surprisingly, we're expecting action on the Hill this coming week (the week of 5/11). In the Senate, Sen. Lott has announced that he would like to consider the bill sponsored by Sen. Abraham (that the Administration strongly opposes because it does not reform the H-1B visa program to protect U.S. workers) early in the week. And, on Wednesday (5/6) the House Judiciary Committee is expected to mark up a bill sponsored by Rep. Lamar Smith that the Administration would support if it includes a training provision (which we have stressed must accompany any temporary increase in the number of these visas). We continue to work with House staff on a training amendment to be included at the full Committee mark up.

Commencement Speech: On Saturday (5/9), I addressed the 1998 graduating class of the College of Business Administration from the University of Arkansas.

America Reads: Chairman Jeffords has scheduled a mark-up of the House-passed bill for next Wednesday. His draft bill focuses heavily on teacher training and family literacy, *not* tutoring. This is his effort to avoid having to include the voucher-like tutoring program that was added to

the House bill by the conservatives. Given the July 1 deadline to get the advance appropriation, Education thinks we should accept Jeffords's political calculus and let him move forward (perhaps with a Kennedy amendment that would at least allow for the *training* of tutors). We can perhaps do better in conference, and we can make the strong argument that this is not a loss because we are providing tutors *now* with work-study and the AmeriCorps money. This means essentially acknowledging that the Republicans are right that teacher training should be a greater priority than we had originally suggested; that is consistent with the recent NAS study that does emphasize the need to bring the latest research into teaching.

Higher Education Act Reauthorization: The House completed action on the bill and ultimately passed it 414-4. Given that the interest rate provision is not paid for, this gives the bill almost too much momentum. Fortunately, the leadership in the Senate seems to be insisting that the cost issue be addressed before it comes up on the floor. Some key issues:

Student Loan Interest Rates: The House-passed proposal still has budget problems, because it requires taxpayers to pay 50 basis points to banks above the student rate. There was no real effort to change it, though the Committee does now acknowledge that it must be paid for. We are beginning to get some movement in the Senate toward a real negotiation. A counter-offer that we made to Sen. Domenici's Budget Committee staff was received well, and Sen. Kennedy is also interested in trying to work out a deal.

There are two areas where we may need to give some ground: (1) the interest rate that students pay, which may need to be 10-20 basis points higher than our proposal (which still means it would be 60-70 basis points below today's rates); and (2) in exchange for the authority to pilot "auctions" for setting the bank subsidy, Republicans are already asking that we pilot sales of direct loans (and/or the sale of servicing rights). While Education will be nervous about any movement in this direction, Bob Shireman on my staff -- as you remember he was Sen. Simon's architect of direct lending -- thinks that it is important that we try some new approaches to collection of direct loans. (Most of the success that schools have raved about has been at the front-end delivery of loans, *not* the back-end).

Affirmative Action: The Riggs amendment prohibiting affirmative action was defeated roundly by a vote of 249 to 171, with 55 Republicans joining 193 Democrats in opposition.

High Hopes: This was our biggest victory in the House bill. No effort was made to delete this program from the bill despite the general opposition to "new programs." In the Senate, we are making progress in working with Sen. Jeffords at the staff level. In our efforts to get some progress in the Senate, I prepped Rep. Fattah for a meeting he had with Jeffords on Thursday (5/7), and he reports that the meeting went quite well. We are working with Fattah's staff on a draft that would combine Jeffords's state-based program with High Hopes, and we are

cautiously optimistic that it will be something that would satisfy us and Jeffords.

Master Teachers: Since there was a real question whether we would win a vote on this issue on the floor, we did not encourage any effort to delete the provision from the bill that would prohibit funding for the National Board for Professional Teaching Standards. There is still no sign of a similar amendment on the Senate side, making a conference strategy still a viable approach. (Chairman Goodling's staff have indicated that it probably can be dropped).

Securities Litigation: The Securities Litigation Uniform Standards Act is slated for the Senate Floor on Tuesday (5/12). The Committee Report included the legislative history promised to SEC Chairman Levitt that should help to reduce confusion in the courts about the proper interpretation of the Private Securities Litigation Reform Act of 1995. We now need to ensure that the promised colloquy is delivered between Senators Dodd and D'Amato stating their intention to support legislation restoring the Second Circuit pleading standard, if the courts ultimately find that the Reform Act eliminated recklessness as a basis for liability. OLA, NEC, and SEC staff meet with Representative Eshoo next week to confirm that she will support the changes made in the Senate to address the SEC's and our concerns.

Financial Modernization: Floor consideration of H.R. 10 was postponed from this week (5/4-8) until next (5/11-15) because the House leadership was not yet sure they had the votes. Secretary Rubin released a letter stating that none of the amendments thus far included in the bill address the Treasury's central concern -- bias in favor of a holding company structure (regulated by the Fed) rather than an operating subsidiary structure (regulated by the OCC), which results in a shift in the balance of authority over financial institution policy between an executive branch agency accountable to the President and an independent agency. Dingell solicited and then released a 20-page letter from Fed Chairman Greenspan critiquing the Treasury position. Treasury is preparing a response. On Tuesday (5/5), Secretary Rubin and I, along with Sylvia Matthews and Rahm Emanuel, met with five CEOs of major securities, insurance, and banking firms that support the legislation. They argued that the issues that divide Treasury and the Federal Reserve should not interfere with passage of legislation necessary to ensure American financial services firms' global competitiveness. We agreed. But the Republican Leadership has been unwilling to do anything to address our concerns.

Bankruptcy: The Department of Justice sent letters Thursday (5/7) to the House and Senate Judiciary Committees that set forth principles which will guide the Administration's review of any consumer bankruptcy reform proposals. Both committees are expected to mark-up their respective bankruptcy bills next week. Our approach is closer to that of the Senate bill, which would require people who are able to repay a portion of their debts to act responsibly, but would give the bankruptcy judge the discretion to determine if their circumstances really allow them to do so. The House bill includes a more rigid formula for determining who has the ability to repay some of their debt, and they would be denied access to Chapter 7 relief. The credit card companies support the formula approach because they would not have to make the effort and bear the expense of proving to the court that a debtor should be required to repay. We fear, however, that the rigid formula would result in unnecessary hardship in specific cases. We also

have made clear our strong opposition to the provisions of the House bill that would have the effect of elevating some credit card debt to the same priority as child support and alimony. All indications are that the proponents of the bill are trying to revise these provisions to address this criticism. We will monitor this issue closely.

Low-Income Housing Tax Credit: On Thursday (5/7), the Local Initiatives Support Corporation (LISC), Enterprise Foundation, the National Council of State Housing Agencies, NAHB, National Low-Income Housing Coalition, and Affordable Housing Tax Credit Coalition held an event on the Hill with Deputy Secretary Summers, Sen. Sarbanes, Sen. D'Amato, Sen. Graham, Rep. Ensign, Rep. Johnson, Rep. Rangel to promote a 40-percent increase in the Low-Income Housing Tax Credit (LIHTC). Both Democrats and Republicans praised your leadership on this issue -- including your permanent extension of the credit in 1993, your proposed expansion in this year's budget, and your mention of the LIHTC in the State of the Union. You should know that there is growing bipartisan support for the increase in the LIHTC on the Hill: there are now 41 co-sponsors of the proposal in the Senate and 209 co-sponsors in the House. Supporters include conservatives (Faircloth and Bob Smith), liberals (Wellstone and Moseley-Braun), and moderates (Chafee and Landreiu). Jon Orszag, on my staff, has been working with Treasury, Leg. Affairs, and the DPC to build additional support for this proposal. We hope that any potential tax bill this year would include an expansion of the LIHTC, considering its wide support.

CFTC Regulation of OTC Derivatives: The Commodities Futures Trading Commission (CFTC) solicited comments on Thursday (5/7) on whether they should reexamine their approach to the over-the-counter (OTC) derivatives market. OTC derivatives are contracts executed outside of the regulated exchanges, whose value derives from the value of an underlying asset, reference rate, or index. Recent industry estimates put the unrealized paper value of outstanding OTC derivatives contracts at over \$28 trillion worldwide. Treasury, the Fed, and the SEC urged the CFTC to delay this relief, but apparently, CFTC Chair Brooksley Born felt that the CFTC's independence was being undermined and went ahead.

Treasury Secretary Rubin, Fed Chairman Greenspan, and SEC Chairman Levitt then released a joint press statement expressing "grave concerns" about this action and its consequences. They question the CFTC's jurisdiction to regulate these instruments. More importantly, since there is no current exemption for some of the outstanding OTC derivatives, they fear that the CFTC, merely by asserting that they have jurisdiction, raises questions about the legality of billions of dollars of outstanding OTC derivatives. The CFTC stated that they intended only to act prospectively; however, the other agencies are concerned about private litigation challenging outstanding contracts. We will monitor the reactions carefully and consider several options to defuse the situation.

Funding for research and development: NEC and OSTP met with the major science and engineering societies to build support for your 21st Century Research Fund. There is growing concern in the scientific community that if the tobacco settlement does not materialize --

Congress will only support increases in funding for NIH. One of the arguments that the Administration has been making is that we need a balanced research portfolio because different fields of science and engineering are interdependent. Advances in health, such as CAT scans for diagnostics or rapid sequencing of the human genome, are dependent on breakthroughs in physics and computing.

Internet Taxation Bill: There is a chance (although we think it is unlikely) that the Senate will pass the Internet Tax Freedom Act sometime next week. If it does, we will send a letter from Secretary Rubin that reiterates your support for a temporary moratorium on Internet taxes, and for the establishment of a commission that would deal with the longer term issues raised by electronic commerce. We are not endorsing the specifics of the bill, because Senator Wyden and the Governors remain divided on details such as the length of the moratorium and whether existing Internet taxes should be grandfathered. We are urging both the House and Senate to pass legislation, and to work out a compromise in conference.

Service Contract Act: Following a three-month NEC process, the Department of Labor and the procurement agencies (DoD, GSA, NASA and DOE, primarily) have reached a significant compromise on reforming the Service Contract Act, which requires firms that provide services to the federal government to pay their workers prevailing wages. The compromise would withdraw a regulation issued after the landmark 1994 acquisition streamlining act that gave agencies the authority to waive SCA altogether for subcontracts to provide commercial services: the reg was not properly issued, and organized labor has vehemently opposed it. In its place, DOL will propose a new reg that will exempt both prime contracts and subcontracts for many commercial services for which the federal government is a relatively small customer -- e.g., commercial data processing and telecommunications services, auto and aircraft maintenance, financial services, transportation services, real estate brokerage, and maintenance of specialized building equipment such as elevators and security systems. The goal is to eliminate the SCA administrative burden on firms that perform the same service for commercial and Government customers using the same employees, since many of these firms now decline to compete for Government work to avoid that burden. Organized labor has been briefed on the compromise, and we will consult with key Members before making it public.

Long Beach Naval Station: On Friday (5/8), NEC and NSC staff met with Mayor O'Neill on the reuse of the Long Beach Naval Station and Shipyard. Last year, following a successful suit by historical preservation groups over the State's environmental impact review (EIR), the Navy concluded that its own EIR needed to be revised. Although that was a blow to the City, DoD promised to complete the revisions in 10-months, and it has kept to its schedule. Thus, the property is nearly ready for transfer to the City. The government-owned China Ocean Shipping Co. (COSCO) remains eager to sign a lease with the City to expand its existing facilities onto the new property, and that will bring in additional revenue and jobs. The 1998 defense bill contains both a prohibition on transfer of Long Beach property to COSCO and authority for the President to waive that prohibition. When Mayor O'Neill sends her formal request for the waiver to you, NSC will carefully staff it and make the appropriate recommendation to you.

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U.S. Airways-British Airways in Private Talks To Help Resolve U.S.-UK Aviation Disputes:

U.S. Airways has entered into private talks with British Airways over a dispute that has effectively prevented, on the one hand, U.S. Airways from providing new service between Charlotte and London, and, on the other hand, British Airways from providing new service between London and Denver. British Airways holds the landing slots in London's Gatwick Airport that U.S. Airways needs to provide competitive service from Charlotte, but had been unwilling to discuss a slot trade with U.S. Airways while litigation stemming from their failed partnership is still pending. We have been in close contact with Senator Helms and Denver Mayor Webb on our diplomatic efforts to help resolve the Gatwick landing slot problem. Senator Campbell has also urged resolution. While we have made clear to all parties within and outside of the Government that the White House has not, and is not in a position to intervene in the Department of Transportation regulatory proceeding involving air service between Denver and London (where U.S. Airways filed formal objection based on its Gatwick slot problem), we have informed interested parties that we can and have taken diplomatic steps to resolve the related U.S. Airways Charlotte-Gatwick dispute. Secretary Albright, Secretary Slater, and I contacted our UK counterparts repeatedly. Deputy Prime Minister Prescott ultimately agreed to urge British Airways to enter into discussion with U.S. Airways to find a solution. U.S. Airways is hopeful a solution can be found. This would likely benefit Denver, Charlotte, U.S. Airways, British Airways and U.S.-UK relations.

US-EU: US and EU negotiators continued to meet this week to try to reach an agreement on an agenda in time for the May US-EU Summit. An NEC principals meeting was instrumental in producing a US proposal which encouraged the EU to be more forthcoming. As a result, the EU produced a draft which contains references to specific sectors (e.g., Agriculture services) which was an advancement over prior EU drafts. Key differences remain in areas such as Agriculture (where the EU resists reference to negotiating objectives in the WTO) and services (where the EU resists the more ambition agenda in general). In addition, the French still mount some resistance generally. Further talks this week will determine whether an agenda will be prepared for the May summit.

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EXECUTIVE OFFICE OF THE PRESIDENT
COUNCIL ON ENVIRONMENTAL QUALITY
WASHINGTON, D.C. 20503

5-11-98

May 8, 1998

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MEMORANDUM FOR THE PRESIDENT

CC: ERSKINE BOWLES

FROM: KATHLEEN A. MCGINTY

SUBJECT: CEQ WEEKLY REPORT

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RESOURCE STEWARDSHIP

American Heritage Rivers

The American Heritage Rivers advisory committee is scheduled to meet on Monday and Tuesday, May 11 and 12, to discuss the nominations that we have received. The advisory committee consists of a diverse group of twelve citizens chosen for their expertise in the fields of environmental protection, economic development, and historical and cultural preservation. The advisory committee will recommend to you up to twenty rivers from which you will select ten as American Heritage Rivers. Announcement of the final ten rivers is expected in mid-June.

Overall, Congressional reaction to the initiative has run greater than four to one in favor of specific nominations. However, in response to the views of Members of Congress who oppose specific nominations, the Administration has agreed that, under certain circumstances, the nomination of certain rivers would be excluded from consideration by the advisory committee, if a Member so requested. Even so, out of a total of 126 nominations, only parts of 26 rivers have been eliminated due to Congressional opposition.

Endangered Species

On Wednesday, Secretary Babbitt announced a close-hold decision regarding the delisting of several species. As a result of the "delisting" process that Interior is launching, the eagle, the falcon, and nearly two dozen other species could be removed from the endangered species list in two years or less. The delisting process is part of a broader overhaul of the ESA listing process ordered by the courts as a result of litigation. Attached is a positive editorial from Thursday's New York Times on the subject.

Grand Staircase-Escalante National Monument

Secretary Babbitt and Governor Leavitt on Friday announced an agreement on a major land exchange that could fulfill a commitment you made when you created the Grand Staircase-Escalante National Monument and would settle other outstanding land issues in Utah. If approved by Congress, this would be the largest land exchange ever in the continental United States.

As you recall, state-owned school trust lands are scattered throughout Grand Staircase-Escalante. Upon designating the monument you promised to protect the interests of Utah schoolchildren by exchanging those lands for federal lands of like value. As part of the new agreement, the State Institutional Lands Trust Administration will drop lawsuits stemming from the monument's designation. In addition, the agreement fulfills the intent of 1993 legislation that directed the Bureau of Land Management to exchange some combination of land and cash for state inholdings in national parks, Indian reservations, and national forests. These two sets of issues have been combined in a single non-segmentable deal.

In all, the federal government would receive more than 227,000 acres of state-owned land, and the state would receive more than 140,000 acres, \$50 million previously authorized by Congress, and extensive coal, oil and gas rights. Only lands already in commercial production will be exchanged.

The deal culminates two months of intense negotiation and allows Governor Leavitt to take credit for ending decades of contentious land disputes. The governor was in Washington this week to build support in Congress for the agreement. Secretary Babbitt has made clear that the Administration will support enacting legislation only if it is "clean" -- unencumbered by other land issues.

Attachment

Back From the Brink of Extinction

The Interior Department's proposal to remove more than two dozen rare plants and animals from the endangered species list is not only a triumph for the bald eagle, the peregrine falcon, the gray wolf and their fortunate companions but also a vindication of the Endangered Species Act, which made their survival possible. The act is the most controversial of all the landmark environmental statutes enacted in the early 1970's. Among the criticisms trotted out over the years is that it does not really work and causes more aggravation to developers and landowners than it is worth to the species. As yesterday's proposal makes clear, however, the act does indeed work. That should send an important message to those in Congress who would weaken it or cut the funds necessary to carry it out.

Under the proposal, announced by Secretary of the Interior Bruce Babbitt, 17 plant species and 12 animal species will be removed from the endangered list completely or downgraded to a lower level of protection over the next two years, following a period of public comment and a final biological review. Although some of the species will continue to receive Federal protection, many will be entrusted to state agencies. Mr. Babbitt will need to make sure that the states have programs in place to insure that the species continue to flourish once Washington withdraws its protective shield.

The timing of Mr. Babbitt's announcement had as much to do with persuading Congress of the

program's value as it did with his scientists' assessment that the species could now survive pretty much on their own. The Endangered Species Act is celebrating its 25th birthday and is also up for reauthorization. But since neither of the reauthorization bills in the Senate and House is going anywhere — which means that the act as originally written remains in force — the Administration's focus has shifted to the appropriations committees.

Mr. Babbitt has asked for a \$30 million increase in funds to help carry out the purposes of the act, from \$70 million to about \$100 million. Among other things, the money would help underwrite scientific research, breeding programs to help the species multiply and land purchases necessary to provide important habitat. The \$30 million request is hardly outrageous. But this is a budget-conscious Congress. It is also essentially the same Congress that, in 1995, bowed to logging and other commercial interests and imposed a yearlong moratorium on new listings by preventing the Interior Department from carrying out vital field research.

The American alligator was the first animal to be removed from the endangered species list, back in the 1970's. In the next 20 years, only six more species recovered enough to merit de-listing. Yesterday's proposed de-listing was the largest in the history of the act. But 1,135 species remain on the list. A generous Congress can guarantee even more success stories in the years ahead.

5-11-98

THE WHITE HOUSE

WASHINGTON

May 8, 1998

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MEMORANDUM FOR THE PRESIDENT

FROM: TODD STERN

SUBJECT: Climate Change Weekly Report

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Domestic Policy

PATH. The event in LA got PATH off to a strong start. The NAHB is enthused and has put a big article about PATH on the cover of its newsletter going to over 200,000 builders on May 11 (see attached). Media coverage of the event was good, with strong articles in the *New York Times*, *Washington Post*, *L.A. Times* (front page plus follow-ups) and many other papers. The event was covered by CNN during the day; included on the NewsHour's summary; covered by the local TV affiliates; and covered on NPR's "Morning Edition" and "Marketplace."

Bethlehem Steel. On April 30, I joined CEO Hank Barnette at the company's mill in Burns Harbor, Indiana for a ceremony with EPA and DoE. Bethlehem became the 400th company to join EPA's ClimateWise program and showcased six energy-efficient technologies it has deployed in collaboration with DoE. Hank, incidentally, conveyed his warmest regards to you.

Federal energy. We have a draft memo, which DoE took the lead on, with a lot of promising ideas. I am convening an interagency group next week to establish (a) agreement on a set of proposals we can move forward on, and (b) a work plan for the ideas that need further interagency work. I'll send you a final memo as soon as possible. The ideas include (1) enhancing Energy Saving Performance Contracts; (2) minimum standards for federal purchase of renewable energy; (3) procurement reform to encourage purchase of energy efficient products; (4) a compact fluorescent campaign; (5) promoting federal purchase of energy efficient windows; (6) expanded federal use of combined heat and power; (7) electrifying the federal postal fleet; (8) completing DOD base-by-base energy audits by the end of FY 2000; (9) constructing all new military buildings after FY 2000 using sustainable design to achieve 30-50 percent energy savings.

Outreach

Pew Center. Formation of the new Pew Center on Global Climate Change was announced today with an article in the *New York Times*. The Center was conceived and put together by former NSC Senior Director and Assistant Secretary of State Eileen Claussen. Thirteen major companies -- including Boeing, BP, Toyota, Enron, Maytag, Whirlpool, Lockheed Martin, United Technologies, Sunoco, 3M and American Electric Power -- have signed onto a very positive statement (see attached). A series of major print ads will start running next week (see attached) and there will be TV ads as well. The new center will work on public education domestically, as

well as efforts to build greater international consensus on key issues. This is important news. I think it would be a good idea if you sent short notes to the CEOs of the listed companies, as well as to Eileen, who has done a great job on this. I will prepare notes for your signature.

Diplomatic

G-8. With Kyoto done, we don't expect as contentious a discussion of climate change as at last year's Denver meeting. Preparations have focused on the need to (1) take domestic action to reduce greenhouse gas emissions, (2) establish rules for market-based mechanisms, and (3) forge a strategy for securing the participation of key developing nations. As I have noted before, emphasizing your commitment to domestic action is important because the Europeans wrongly see our push for efficient, unrestricted international permit trading as a stratagem to escape reducing emissions at home. In fact, unimpeded trading is designed to bring down the world-wide cost of reducing emissions, which would be good for everyone. The G-8 meeting will include announcement of a G-8 Climate Change Working Group, which we hope will help engage foreign and finance ministries, who are more likely to appreciate market-based mechanisms than their counterparts in environment ministries.

Umbrella Group. U.S. negotiators are in Reykjavik this week at the second meeting of the "Umbrella Group," an emerging negotiating bloc including the U.S., Canada, Japan, Australia, New Zealand, Russia and other non-EU industrialized countries. The group shares a strong common interest in building an effective emissions trading regime under the climate treaty.

Congressional

There was little action on climate change on the Hill this week. We continued to push for our budget initiatives, such as by organizing a bipartisan Dear Colleague letter, spearheaded by Vic Fazio (D-CA), in support of our energy R&D proposals. On the tax side, Cong. Matsui (D-CA) has agreed to lead the fight in Ways and Means for our tax package. We hope to have Sen. Breaux and others take the lead in Senate Finance. Sen. Byrd's staff organized a briefing for White House staff, Treasury, DoE and other Senate staff by the coal industry, which is pushing for tax credits for "clean coal technology." Treasury has concerns about the proposals, but I have asked that they be reviewed carefully to see if there's anything we could work with.

cc: Vice President
Erskine Bowles
John Podesta
Ron Klain
Katie McGinty
Gene Sperling
Jim Steinberg
Janet Yellen



EXECUTIVE OFFICE OF THE PRESIDENT
OFFICE OF SCIENCE AND TECHNOLOGY POLICY
WASHINGTON, D.C. 20502

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May 8, 1998

5-11-98

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Bowles

MEMORANDUM FOR THE PRESIDENT

FROM: KERRI-ANN JONES *K.A. Jones*

CC: ERSKINE BOWLES

SUBJECT: OSTP WEEKLY REPORT

RUSSIAN FUNDING FOR SPACE STATION PUTS PROGRAM AT RISK

Dr. Duncan Moore, OSTP's Associate Director for Technology, and Dan Goldin testified before the House Science Committee on the International Space Station. Chairman Sensenbrenner and nearly all the 15 members present expressed serious concern with continued failure by Russia to fund its portion of the project, in particular a key propulsion component known as the Service Module. Despite repeated assurances by President Yeltsin and former Prime Minister Chernomyrdin, the Service Module has been underfunded, already experiencing an 8-month delay and now, we understand, another 4-month delay.

The next 2 months will be critical. By June 15 -- the date we are to report back to Congress on cost and schedule issues -- we will need to make a decision on Russian participation in the program. If funding has not been released to the Russian Space Agency and the Service Module is again delayed, we will face a decision on whether to: 1) absorb the costs of continued Russian delays; or 2) build components to replace Russian elements.

NEW INTERAGENCY GROUP TO FOCUS ON TECHNOLOGY FOR THE ELDERLY

OSTP convened a meeting April 29 of 16 Federal agencies to discuss ElderTech and the 21st Century. The group identified issue areas, such as health, consumer protection, communications, and independence, where technology could be better used to serve older adults. A coordinated Federal effort could be launched this Fall or soon after to coincide with the designation of 1999 as the Year of the Elderly Person. OSTP and HHS will establish an interagency group to catalogue ongoing programs and projects, solicit briefings from the private sector, and outline possible initiatives.

EMERGENCY SUPPLEMENTAL REMOVES MAJOR HURDLE TO NGI

The emergency supplemental appropriations bill you signed May 1 restored FY98 funding for NSF's participation in the Next Generation Internet (NGI) research initiative, which came under legal challenge last October. A court ruling in March effectively denied NSF access to the \$23 million earmarked for NGI in the Intellectual Infrastructure Fund (established by setting aside

30% of the fee paid when Internet domain names are registered). The supplemental fixes the problem identified by the Court, and directs NSF to transfer monies in the Fund to their FY98 Research and Related Activities appropriation for use on NGI and other networking activities. The NSF funding is critical to the success of the program.

R&D GETS BIPARTISAN SUPPORT IN SENATE APPROPRIATIONS HEARING

Neal Lane and I testified before the Subcommittee on VA, HUD, Independent Agencies, Senate Appropriations Committee, on May 7 in defense of the NSF and OSTP budget requests. Although he seemed somewhat skeptical about the Subcommittee's ability to provide a 10 percent increase for NSF, Chairman Bond made a strong statement of support for Federal investment in R&D, which was echoed by Senators Mikulski and Burns.

PATH EVENT WINS MANY KUDOS

The reaction from the building community and local LA officials after you launched the Partnership for Advanced Technology for Housing (PATH) was overwhelmingly positive. OSTP has received calls from many of the PATH partners we have worked with for the past two years, especially builders and suppliers who were excited about the event and have renewed their support for the effort. The renewable energy industry, particularly the solar industry, was ecstatic about your focus on the PV shingle and with the LA Times coverage of the event. Local LA officials have called expressing their continuing interest in pressing forward with commitments they made in a City Council Resolution to support PATH, and we will be working with them over the next few weeks to lay out a plan and timeline.

HUBBLE TELESCOPE YIELDS MORE CLUES TO THE EARLY UNIVERSE

In a press conference sponsored Wednesday by NASA and NSF, astronomers reported on the most intense cosmic blast ever observed. They used observations made possible by the Hubble Telescope and several ground-based telescopes to measure an intense gamma-ray burst in a galaxy 12 billion light years away that occurred when the universe was only 1/7 of its present age. The amount of energy released in the brief burst was at least 50 times what the Sun will radiate in its entire lifetime and 100 times more energetic than a supernova. Anyone with a 1-meter telescope can contribute vital data for understanding these energetic explosions from the ancient universe, and NASA has posted on the Web background information and instructions on how people can sign up to learn the precise location of gamma-ray bursts within a few seconds after they are discovered. For your information, the Naval Observatory has the necessary viewing equipment, and the Web address is http://gcn.gsfc.nasa.gov/gcn/gcn_main.html.

5-11-98

98 MAY 8 04:00

THE WHITE HOUSE
WASHINGTON

May 8, 1998

MEMORANDUM FOR THE PRESIDENT AND THE VICE PRESIDENT

FROM: MARIA ECHAVESTE

SUBJECT: OPL WEEKLY REPORT May 2 - May 8

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Entire Report:
Echaveste/COS
Page 2:
Bowles/Podesta
VP/Ruff
Page 3:
Bergin/COS/Mathews
Page 4:
Spertling/COS

ACTIONS SUPPORTING PRESIDENTIAL INITIATIVES

- **Middle East.** U.S. Secretary of State Madeleine Albright denied during a conference call with the Conference of Presidents of Major American Jewish Organizations that the United States had issued an ultimatum to Israel to move forward with the peace process. During the more than hour long call from London, Albright attempted to deflect concerns that the Clinton administration was jeopardizing the U.S.-Israel relationship. Most organizations, including the Conference of Presidents as a whole, have refrained from issuing statements opposing the US proposal for a Washington summit next week, preferring instead to wait and see what the Israelis decide to do.

Churches for Middle East Peace is gathering the names of denomination leaders for a letter reiterating their concerns for the Palestinians and supporting your efforts to keep the peace process moving. It is not clear yet whether the U.S. Conference of Bishops will make a statement as well. There is growing discomfort within these communities over the alliance of Prime Minister Netanyahu and the Christian right.

Arab Americans continue to protest what they consider the Administration's use of a double standard when dealing with Israel and the Arab countries and they urged continued humanitarian aid to the Iraqi people.

- **Judicial Nominees / Affirmative Action.** We briefed the Coalition of National Bar Associations of Color (CBAC) on the judicial nomination process and sought their support for our nominees. The CBAC, includes African American, Asian Pacific, Hispanic, and Native American Bar associations. During the meeting, they expressed a desire to have their ratings of candidates for judicial nominations acknowledged in a similar fashion as the ABA. Both the Hispanic and Native American Bar Associations voiced interest in the Administration nominating more of their members to the federal bench.
- **Wolfe/Specter.** We organized a conference call with Eric Schwartz and a diverse group of South Asian Americans from around the country. The constituents demonstrated that

they understood the ramifications of passage and indicated that they will work against it and spread the word.

Arab Americans expressed their serious concerns over the Wolf/Specter legislation after a White House briefing and have committed to expressing that viewpoint to legislators on the Capitol hill.

We are also working with NSC to hold a conference calls with Arab and Muslim, Turkish, and Indian Americans regarding the pending legislation. It is expected that Wolf/Specter will be voted on in the House next week.

CONSTITUENT OUTREACH AND OTHER ISSUES

GAY AND LESBIAN OUTREACH

Bizarre twist in Navy's gay computer privacy case: McVeigh is promoted. On Friday the Navy will promote McVeigh to one of the highest enlisted ranks, on account of his exemplary record. At the same time the Navy is arguing in federal court that they should be allowed to discharge him on account of his anonymous AOL computer profile.

RELIGIOUS COMMUNITY OUTREACH

- **Africa Trade Bill.** A NSC/State briefing for religious groups involved in Africa will be held on May 19. In the meantime, groups are working with Senate staff on some of their differences on the legislation.
- **Faith forums on Race.** The faith forums are now scheduled for May 21 in New Orleans and June 1 in Louisville. The offices of Mayors Morial and Abramson have been very helpful. Rev. Tony Campolo will speak in Louisville.

HISPANIC OUTREACH

- **Meeting with Immigrants Affected by Section 377 of the 1996 Immigration Law.** OPL met with the League of United Latin American Citizens (LULAC), National Council of La Raza (NCLR) and immigrants from the class of cases under the Late Amnesty Program of 1982. The immigrants told their personal stories of being in this country for the past decade and being active participants in American society. They were given working papers pending their cases with INS and have thus been working and paying taxes in this country for the last ten years. Now, their cases have been suspended and they are without working papers and are struggling to maintain their families, some of which are American citizens. They are asking for the Administration's support for reinstatement of working privileges and in getting their cases processed by INS.

BUSINESS OUTREACH

- **Sun setting the IRS Code.** This week we heard again that NFIB will sponsor a meeting for this June will call for sun-setting the tax code. NFIB is organizing a major membership drive in Washington. Their original goal was to get 1 million signatures in support of abolishing the tax code. This goal will not be achieved. NIB was hoping to push for legislation that would coincide with the presentation of these signatures and be used as a litmus test for members in the Fall elections. It appears as though Speaker Gingrich and the House Republican leadership have backed away from introducing legislation that calls for sun setting the present code but is prepared to offer some type of legislation during the conference in June.

JEWISH OUTREACH

- **Holocaust survivors could react to visit to Eisenach plant.** A scheduled stop on your trip to Germany may prove sensitive for the Holocaust survivor community. You are scheduled to visit a GM/Opel plant in Eisenach. This plant itself does not have direct ties to wartime Nazi activity but the former BMW plant (which has been razed) on the neighboring location is classified as a sub camp of Buchenwald where concentration camp workers and other forced labor were utilized to assemble vehicles and aircraft for the German army. Survivors may automatically react to any visit of an auto/aero assembly plant since many of these plants utilized camp laborers but this particular location is notorious and we will need to be very clear in our communication that this is a new, distinct plant from BMW. Another glitch is that a group of survivors has filed a class action suit against Ford-Cologne for their complicity in wartime usage of camp labor. BMW-Eisenach is expected to be the next defendant.

SENIOR CITIZEN OUTREACH

- **Seniors Caucus.** Last weekend we spoke to the DNC's Seniors Coordinating Committee on the importance of highlighting the Administration's initiatives on Social Security, Medicare Buy-In, and the Patient's Bill of Rights. Many of the seniors expressed concern with the dominant role of privatization in the debate on the future of Social Security.

WOMEN'S OFFICE OUTREACH

- **National Breast Cancer Coalition.** About 500 survivors/advocates attended the annual advocacy conference of the National Breast Cancer Coalition. Their priorities focused on asking members to sign on to an appropriations request letter for \$175 million for the Dept. of Defense Breast Cancer Research Program for FY99, and to co-sponsor the "Genetic Information Non Discrimination in Health Insurance Act of 1977". Both are issues that the Administration supports. They also asked members to co-sponsor the

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"Breast and Cervical Cancer Treatment Act of 1998" which establishes the State Medicaid benefit for treatment coverage for women screened through the CDC early detection program, a measure we are not supporting.

- **Pensions.** OPL was briefed by 12 women from top corporations (Travelers, IBM, Aetna and others) who have formed a non-profit women's organization, Secure Retirement Coalition, devoted to identifying issues and solutions about retirement income. On the same subject, the Older Women's League released their Mother's Day Report on Women and Pensions. Their top suggestions include lower vesting requirements from 5 to 3 years, eliminate pension integration in defined benefit plans, institute portability provisions in defined benefit plans, and extend pension coverage to part-time and temporary workers.

Callers should be notified

AFRICAN AMERICAN OUTREACH

- **Black Farmers.** We coordinated a meeting between the VPOTUS and John Boyd of the National Black Farmers Association. Boyd is actively working with the White House to head off a black farmer demonstration against the Vice President when he travels to Detroit. Boyd has also called several CBC members requesting their support for our proposed legislation to correct the Statute of limitations Problem.

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ASIAN AMERICAN OUTREACH

- **Budget:** We coordinated a Food Stamp meeting between representatives of the National Korean American Services & Education Consortium (NAKASEC) and Secretary Glickman. NAKASEC collected Congressional messages about Food Stamps written on paper plates. Secretary Glickman indicated that he would use the messages as he works with Congress to get the Agricultural Research Bill passed.

cc:	Erskine Bowles	Rahm Emanuel
	Craig Smith	Michael McCurry
	Doug Sosnik	Gene Sperling
	Sylvia Mathews	Thurgood Marshall, Jr.
	Sid Blumenthal	John Podesta
	Bruce N. Reed	John Hilley
	Mickey Ibarra	Ron Klain

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Thurgood Marshall, Jr.
John Podesta
John Hilley
Ron Klain

cc: p.d
Sperling
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THE WHITE HOUSE
WASHINGTON

5-11-98

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May 9, 1998

MEMORANDUM FOR THE PRESIDENT

FROM: Mickey Ibarra *Mickey Ibarra*

SUBJECT: Office of Intergovernmental Affairs Weekly Report -- May 4 - 8, 1998

Governors

- On Wednesday, May 6, IGA facilitated a meeting between OMB and Governors Parris Glendening (D-MD) and Jim Gilmore (R-VA) to discuss the Woodrow Wilson Bridge. Senators Paul Sarbanes (D-MD), Barbara Mikulski (D-MD), John Warner (R-VA), and Chuck Robb (D-VA) attended, along with members of the Maryland and Virginia Congressional delegations, OMB Director Frank Raines, DCOS Sylvia Mathews, and other White House staff. We agreed on an expedited dialogue to address the costs of replacing the bridge in the context of the current ISTEA bill.
- Governor Gary Locke (D-WA) wrote to ask for your assistance in the clean up of nuclear contamination at the Department of Energy's Hanford site in Washington State. We are meeting with Governor Locke's Chief of Staff Joe Dear (D-WA) early next week to discuss more details.

*Sharon
5/11/98*
State Legislators

Your address to the Delaware General Assembly on Friday, May 8, was very well-received by Governor Carper, the state legislators, and other participants.

County Officials

- IGA and Political Affairs coordinated a White House briefing on Thursday, May 7, for the Los Angeles County Board of Supervisors, including District Attorney Gil Garcetti and Sheriff Jerry Harper. The County's budget is larger than those of 43 states. Issues addressed included the backlog of immigrants awaiting citizenship, food stamps, and the flow of federal dollars to the State rather than local jurisdictions.

Mayors and Municipal Officials

- We have received very positive feedback regarding the White House program during the Mayors Conference on Public Schools on Thursday, May 7. Following the program, the mayors participated in extensive regional press and the photos of you with each mayor were made available digitally through the newswire services.
- On Friday, May 8, Rahm Emanuel, Lynn Cutler, and Karen Skelton met with Mayor Richard Riordan (R-Los Angeles, CA) to discuss the Mayor's COPS program. Los Angeles is seeking a funding extension to bolster the Youth Violence Initiative.
- Mayor Vera Katz (D-Portland, OR) eagerly awaits your commencement address at Portland State University in June. The Mayor reported that the Justice Department collaborated with her to undertake a criminal justice project with Multnomah County officials and other key stakeholders.
- Mayor Roxanne Qualls (D-Cincinnati, OH) met with Lynn Cutler on Friday, May 8, to discuss various issues, most notably Social Security Reform.
- Mayor Chuck Burris (D-Stone Mountain, GA), the first African American to be elected mayor in Stone Mountain (and a guest of Mrs. Clinton's in the House Gallery for your State of the Union address), visited with Lynn Cutler to speak on issues affecting his community.
- On Thursday, May 7, Attorney General Reno and Mayor Richard Daley (D-Chicago, IL) met to discuss progress on a narcotics strike force proposed by the Mayor. The Attorney General told Mayor Daley she has adopted his proposal. She outlined the Justice Department's plans to commit an estimated twenty Federal prosecutors and more than 150 Federal agents (including 20 IRS agents the Mayor specifically requested). The Justice Department anticipates finalizing this plan next week after consultations with the Treasury Department.

Indian Country

- On Thursday, May 7, Fred DuVal hosted a meeting with members of the Navajo tribe to discuss your Race Initiative and identify ways we can broaden the dialogue to include more Native American opinions.
- The Department of Interior ruled this week in favor of a California gaming agreement between Governor Pete Wilson (R-CA) and the Pala Tribe, a non-gaming tribe (this was the only way the Governor would negotiate renewal of compacts.) The Justice Department has notified tribes that they will begin enforcement proceedings against those that continue with illegal gaming. This means that the Indian gaming tribes now must

negotiate their own compacts with the State consistent with the Pala agreement. The Department of Interior also wrote to the several governors who lobbied for the Pala ratification to explain that this settlement does not reduce in any way the states' responsibility to negotiate in good faith with all tribes.

Insular Affairs

- Seven national Hispanic organization leaders urged Senate Majority Leader Trent Lott (R-MS) to entreat a Senate vote regarding the Puerto Rico "Status Choice Bill." They also released two recent polls, one which reported 90 percent support for a Puerto Rican status choice. The other, by the Univision network, reported 56 percent support for statehood vs. 27 percent for commonwealth.
- Governor Pedro Rossello (D-Puerto Rico) and Resident Commissioner Carlos Romero-Barcelo (D-Puerto Rico) expressed concern regarding the Defense Department's reconsideration of its announced decision to move the Army's Southern Command to Puerto Rico when it leaves Panama.
- Puerto Rico Interagency Group Co-Chair Jeffrey Farrow addressed the League of United Latin American Citizens Puerto Rico Convention. He discussed your support of a Puerto Rican status choice.



ONE AMERICA IN THE 21ST CENTURY

The President's Initiative on Race

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Washington, DC 20503
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MEMORANDUM FOR THE PRESIDENT

FROM : JUDITH A. WINSTON *Judith Winston*
THROUGH : ERSKINE BOWLES
SYLVIA MATHEWS *AmcH*
DATE : MAY 8, 1998
SUBJECT : PRESIDENT'S INITIATIVE ON RACE WEEKLY REPORT
MAY 2 - MAY 8, 1998

ADVISORY BOARD ACTIVITIES

Asian Americans/Pacific Islanders in Philanthropy (APIP). On May 5, Angela Oh participated in a panel discussion on race relations and human relations at the APIP conference in Los Angeles. She spoke to an audience of 100 about the important role of philanthropy in improving race relations.

California State University at Long Beach. On May 7, at the invitation of the university president, Angela Oh addressed students, faculty, and staff on the future of race relations.

Asian Pacific American Institute for Congressional Studies (APAICS). On May 9, Angela Oh will give the keynote address at the APAICS conference to an audience of approximately 200 people in Washington, D.C.

OFFICE OF THE EXECUTIVE DIRECTOR

ESPN Follow-up. As you requested, I identified a number of options for activities to follow-up on the ESPN town hall meeting on race and sports, and forwarded them to you for your review. Attached is a copy of that memorandum.

May Advisory Board Meeting on Administration of Justice. The next meeting of the Advisory Board is May 19 at the George Washington University Law School in Washington, D.C. The subject of the meeting is race, crime, and the administration of

justice. Attorney General Reno will deliver opening remarks. The meeting will begin with a brief presentation of data concerning race, crime, and the administration of justice. Harvard Law School Professor Charles Ogletree then will facilitate a two hour roundtable discussion with 8-10 experts and practitioners on issues such as racial profiling, disparities in sentencing and incarceration rates, and challenges and strategies related to promoting a criminal justice system that serves Americans of all races fully and equally.

Religious Leaders Forum. The Reverend Suzan Johnson Cook will host the first Religious Leaders Forum on May 21, at Tulane University, in New Orleans. The Reverend James Forbes of the Riverside Church in New York City will be the keynote speaker and New Orleans Mayor Marc Morial will provide opening remarks. Among the topics to be discussed at the forum are the changing demographics in the faith community and the key elements for successful racial reconciliation. The second Religious Leaders Forum is scheduled to be held at Spaulding University in Louisville on June 1.

Fairfax County Human Rights Commission. On May 5, I was the Keynote Speaker for the Fairfax County, Virginia Human Rights Commission's Twenty-First Annual Awards Banquet. I encouraged the audience of over 300 people to continue their efforts in working together on expanding opportunities for all Americans and decreasing the educational and economic barriers that are faced by diverse cultures in our country. The event also was an opportunity for our staff to identify promising practices.

Navajo Nation Leaders. On May 6, I gave a welcoming address at a Washington, D.C. luncheon for Navajo Nation leaders. In attendance were the Navajo President, Vice President, Speaker of the House, and several Tribal Council members. On May 7, senior Initiative staff and Fred DuVal (OIGA) held a meet and greet session with a few members of the Navajo Nation delegation. We encouraged the delegates to consider both participating as leaders of the Initiative and nominating their Tribal programs to be promising practices.

Children and the Media Conference. On May 8, I participated in a panel discussion during the Fifth Annual Children and the Media Conference held in Los Angeles. The theme of this year's conference was "A Different World: Media Images of Race and Class." I was on a panel that focused on the power of the media in shaping our children's future. I opened the discussion with brief remarks on the President's Initiative on Race and challenged the media industry to recognize its role in promoting racial harmony and reconciliation instead of perpetuating racial stereotypes. The audience for the conference was primary media industry insiders and decision makers. Other participants during the conference included Dr. Alvin Pouissant, Cornel West of Harvard University, Juan Williams of the Washington Post, and Margaret Carlson of TIME magazine.

FEDERAL AGENCY ACTIVITIES

Department of Interior

Indian Trust Funds: Over 300,000 individual Indian trust account holders are part of a class action lawsuit against DOI to seek improvements in DOI's management systems for Indian trust funds and a determination of whether account holders have lost money as a result of alleged historic deficiencies in DOI's systems. A trial is scheduled for March 1999 on the claim to seek systems improvements; no trial date has been set on the lost money claim. DOI is in the midst of a \$160M project to upgrade its systems.

Department of Commerce

Congressional Black Caucus: On April 30, Secretary Daley and Deputy Secretary Mallet met with several Members of the Congressional Black Caucus to discuss Commerce Department programs and policies.

Business and Economic Development Forum: On May 4, the Minority Business Development Agency (MBDA), in cooperation with Representative Clyburn, sponsored a Business and Economic Development Forum in Columbia, SC. Speakers included: Secretary Daley, and representatives from MBDA, Census, other DOC economic development, trade, and technology experts, and the DOC-funded South Carolina Manufacturing Extension Partnership.

Department of Health and Human Services

Genetic Study of Diseases: On May 7 or 8, NIH will announce collaboration with and award grants totaling \$3.5 million to Howard University to expand research on the genetic basis of diseases, such as diabetes and cancer, which affect African-Americans and other minorities disproportionately. The expansion of the Howard University Human Genome Research Center supports a White House initiative to eliminate the disparities in health between racial and ethnic minorities and white Americans in six key health areas by 2010. The Research Center will study primarily breast cancer, prostate cancer, and non-insulin dependent diabetes.

Department of Housing and Urban Development

National Hispanic Housing: On April 30, Secretary Cuomo called on the National Hispanic Housing Council to join HUD in "a new partnership to revitalize communities, create jobs, reduce homelessness, produce affordable housing and expand homeownership." The Secretary met with the group recently at HUD headquarters to discuss the agency's efforts that address the housing needs of the Hispanic community.

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Lending Discrimination: HUD recently announced two record-high settlements of lending discrimination cases involving Hispanics and African Americans - one is an agreement by AccuBanc Mortgage Corporation to target \$2.1 billion in mortgages to minorities and low- and moderate-income families, and a similar agreement involving \$1.4 billion in targeted mortgages by three other lenders. National Council of LaRaza President Raul Yzaguirre joined Secretary Cuomo at a news conference announcing the AccuBanc settlement.

Homeownership Diversity Workshop: On May 1, Assistant Secretary for Fair Housing and Equal Opportunity Eva Plaza delivered the opening address at the National Partners in Homeownership workshop on diversity. The goal of the workshop was to explore reasons for the gap in homeownership rates and to develop specific collaborative actions to help close the gap. Assistant Secretary Plaza addressed the barriers to homeownership opportunities to underserved populations.

Department of Transportation

NAACP Legal Defense Fund: On May 14, Secretary Slater will address the NAACP Legal Defense Fund annual awards dinner.

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WASHINGTON

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MEMORANDUM FOR THE PRESIDENT

FROM: THURGOOD MARSHALL, JR. **T.M.**

SUBJECT: Summary of Cabinet Weekly Reports
May 2 - 8, 1998

DEPARTMENT OF TREASURY

- **Finance Ministers' Meeting:** On May 7-10, Secretary Rubin is meeting in London with his G-7 and G-8 counterparts to help complete preparations for the Birmingham Summit. The G-7 will focus on the Asia crisis and will work on a report on strengthening the architecture of the system, to be released in Birmingham. They will also work on the strengthening of financial systems, including enhanced cooperation of financial supervisors, as well as financial crime, tax cooperation, and customs data standardization. The G-8 Finance Ministers will present their employability action plans.
- **Financial Modernization:** On May 5, Secretary Rubin, NEC Chairman Sperling, Under Secretary Hawke, and other Administration officials met with the CEOs of several large financial services firms to discuss Administration concerns about the Financial Services Act in its current form.
- **Debt Management:** On May 4, Treasury published borrowing estimates for the balance of the fiscal year, estimating a net redemption of \$110 billion of marketable securities in the April-June quarter, assuming a cash balance of \$45 billion at the end of June. On May 6, Treasury announced 1) the decision to discontinue new issues of 3-year notes and shift from a monthly to a quarterly issuance schedule for 5-year notes; 2) the terms of the May quarterly refunding; 3) Treasury's anticipated market borrowing requirements for the balance of the current quarter and for the next quarter; and 4) the July auction of 30-year inflation-indexed securities.
- **Ten Most Wanted Fugitives List:** On May 5, Under Secretary Kelly participated in a press conference with DOJ and the FBI to name Eric Robert Rudolph, alleged Birmingham abortion clinic bomber, to the Ten Most Wanted Fugitives List. The FBI announced a reward of \$1 million dollars for information leading to his arrest.

- **Asia and the IMF:** On May 7, Deputy Secretary Summers briefed the House International Relations Committee on the ongoing crisis in Southeast Asia and the IMF. Rep. Gephardt publicly reconfirmed his commitment to keep the Democrats unified to pass the IMF funding and to work separately on the capital account issue and other reforms. On May 5, former Secretary Shultz and former Fed Chairman Volcker testified at a Joint Economic Committee hearing on the IMF chaired by Rep. Saxton. While Shultz testified that the U.S. should withdraw from the IMF, Volcker stressed that the problem is bigger than just the IMF and that future reforms are necessary. He said these reforms will proceed better if the U.S. contributes its fair share and is not perceived as turning its back on existing institutions and the global economy.

DEPARTMENT OF JUSTICE

- **FL Prostitution Smuggling Ring:** On April 23, a Federal grand jury indicted 16 defendants with various smuggling violations. From August 1996 to approximately February 1998, members of the Cadena family smuggled female juveniles and adults from Mexico to South FL with the promise of work as agricultural laborers, in domestic services, or in restaurants. Also on April 23, the Attorney General announced the formation of an interagency Task Force on Worker Exploitation, to be chaired by Assistant Attorney General for Civil Rights Bill Lee, to focus on the investigation and prosecution of worker exploitation cases, such as involuntary servitude cases involving farm workers, sweatshop employees, and domestic laborers.
- **WI Daycare Centers and HIV-Positive Child:** On April 23, DOJ entered into consent decrees with two child care centers in Beloit, WI, for allegedly refusing to admit a three-year-old boy because he was HIV-positive. Under the terms of the consent decrees, the centers have agreed to admit the child and to ensure that their admission policies comply with the Americans with Disabilities Act (ADA) and do not discriminate against children with disabilities. They also agreed that a child with HIV is disabled under the ADA.
- **Teamsters Official Indicted:** On April 27, in the Southern District of NY, William W. Hamilton, Jr., the former Governmental Affairs Director of the International Brotherhood of Teamsters Union (IBT), was charged with six counts of conspiracy. The indictment alleges that Hamilton participated with outside fund raisers in a scheme to donate IBT treasury funds to non-IBT organizations in exchange for contributions to the 1996 reelection campaign of former IBT President Ron Carey, and to conceal the source of campaign contributions from the Election Officer.
- **Caregiver Abuse:** Next week, the Office of Juvenile Justice and Delinquency Prevention will release a report which announces new guidelines to help protect children, the elderly, and the disabled from caregiver neglect and abuse.

- **Voting Rights Case:** The Supreme Court noted probable jurisdiction in Vicky Lopez v. Monterey County. The question presented is whether a county covered by Section 5 of the Voting Rights Act of 1965 may administer voting changes put in place by county ordinances without obtaining either administrative or judicial preclearance of those changes. The argument is that the State, which is not covered by Section 5, enacted those changes into a state statute. The Solicitor General filed an *amicus* brief arguing that the Court should note probable jurisdiction and might wish to consider summary reversal in order to avoid a delay of another year in the ultimate resolution of the case.

DEPARTMENT OF INTERIOR

- **UT Land Exchange Agreement:** On May 8, in Salt Lake City, Secretary Babbitt, and UT Governor Leavitt held a press conference to announce a land exchange package covering state-owned lands in National Parks, Forests, Indian Reservations, and the Grand Staircase-Escalante National Monument. The agreement represents the fulfillment of your promise to negotiate a land exchange with UT.
- **Salton Sea:** At the request of DOI, the International Boundary Waters Commission has agreed to set up a consultation process to allow the Government of Mexico to be briefed on proposed options to address water quality problems in CA's Salton Sea.
- **Endangered Species:** On May 6, Secretary Babbitt announced a policy that allows the Fish and Wildlife Service (FWS) to delist or downlist approximately two dozen species listed as either "endangered" or "threatened" under the ESA. Removing species from these lists allows FWS to redirect resources to species with greater needs. FWS is considering whether the bald eagle and peregrine falcon can be delisted or downlisted.
- **Washington Monument Renovations:** On May 22, the Washington Monument is scheduled to reopen following a \$1.7 million effort to modernize the elevator and replace the heating, ventilation, and air-conditioning system. The exterior restoration of the monument will require top-to-bottom scaffolding, the design for which has been conceived by architect Michael Graves. Scaffolding is not scheduled to go up until after July Fourth holiday celebrations on the Monument grounds.
- **Natomas Basin Habitat:** On May 11, in Sacramento, CA, Secretary Babbitt will dedicate the Natomas Basin Habitat Conservation plan which will protect 37 species of threatened or endangered plants and animals over 9000 acres of land.

UNITED STATES DEPARTMENT OF AGRICULTURE

- **Agriculture Research Reauthorization:** USDA expects the Senate to begin consideration of the agriculture research reauthorization conference report later this week or early next week. The bill provides \$1.7 billion over five years for agricultural

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research, crop research, rural development, and the restoration of food stamps to certain legal immigrants.

- **Organic Foods Standard:** On May 8, in response to over 150,000 comments, Secretary Glickman announced that USDA will issue a revised proposal establishing a national organic foods standard that will not allow foods produced by biotechnology, irradiation, or biosolids to be certified as organic.

DEPARTMENT OF COMMERCE

- **Telecom Deregulation in Japan:** On May 1, Secretary Daley met with Japan's Minister of Post and Telecommunications to discuss electronic commerce and telecom issues. The Secretary urged Minister Jimi to make additional progress on deregulating the Japanese telecom sector before the G-8 Birmingham Summit. The Secretary also expressed his hope that a final U.S.-Japan Joint Statement on Electronic Commerce will be successfully concluded and issued by you and Prime Minister Hashimoto at the Summit.
- **Intense Geomagnetic Activity:** Geomagnetic activity from a large solar flare and coronal mass ejection on May 2 began to affect Earth overnight. Several readings of 8 on the "Kp" index (range 0-9) for geomagnetic activity were confirmed, and Satellite Environmental Data from the Geostationary Operational Environmental Satellite (GOES) spacecraft showed a value of 9 overnight. While the major impact of the storm did not reach the Earth until mid-day May 4, x-rays from the flare caused a failure of all high-frequency radio communications on the daylit side of the Earth for several minutes on May 2.
- **Mexican Beer:** U.S. beer exporters have experienced escalating labeling problems in Mexico in the last few months. U.S. companies have received adverse treatment from local authorities due to inconsistencies in implementation of Mexican alcoholic beverage labeling requirements. Secretary Daley sent a letter to Mexican Commerce Secretary Banco and raised the issue in a May 7 meeting with the Mexican Commerce Secretary. Secretary Daley is also responding to letters from Senators Feingold and Helms and Representative Kleczka.
- **NAFTA Tariff Elimination:** On April 29, NAFTA Trade Ministers announced the elimination of tariffs on August 1 on certain textiles, chemicals, antibiotics, steel and wire products, watches, toys, and other goods, accounting for \$1 billion of trade annually.
- **Fisheries Settlement:** On April 27, the National Oceanic and Atmospheric Administration (NOAA) and the U.S. Attorney's Office in Boston announced the largest settlement of a federal fisheries case in U.S. history. The settlement resolved three Federal District Court cases arising out of an enforcement action for groundfish and Atlantic sea scallop fisheries violations. The settlement requires the defendants to pay

NOAA \$1.5 million plus interest; sell all their fishing vessels by certain dates or forfeit them to NOAA; and remain out of all federal fisheries for life as of January 30, 1998.

DEPARTMENT OF LABOR

- **Competitive Information Technology Forum:** On May 11, DOL, DOC, DOEd, the National Science Foundation, the Montgomery County, MD Workforce Development Corporation, the High Technology Council of MD and the Montgomery County Chamber of Commerce will sponsor the MD Regional Forum on Developing a Competitive Information Technology Workforce at the University of MD. This forum is the first in a series of information technology town meetings announced by the Vice President's Office in January. Its purpose is to discuss innovative ways to prepare the country's workforce with the information technology skills necessary for success in the 21st century economy.
- **BLS Data Announcements:**
 - ▶ May 1 - College Enrollment and Work Activity of 1997 High School Graduates showed a record number of students entering college.
 - ▶ May 5 - Mass Layoffs in February showed a slight rise in layoffs compared to last year.

DEPARTMENT OF HEALTH AND HUMAN SERVICES

- **Cost of Alcohol and Drug Abuse:** On May 13, the National Institute on Drug Abuse and the National Institute on Alcohol Abuse and Alcoholism will release a new study estimating the economic cost of alcohol and drug abuse in 1992, the most recent year for which data were available. Previous estimates are based on data from 1985.
- **Mentor Consent Decree:** On May 5, FDA announced that it has entered into a consent decree with Mentor Corporation, manufacturer of silicone gel and saline breast implants. Mentor has agreed to bring its manufacturing process into full compliance with FDA requirements. Inspections of Mentor's manufacturing facilities in Irving, TX, found deficiencies in the plant's quality assurance system that could potentially affect safety. Because the deficiencies have not been shown to result in a significantly increased risk to women who have the breast implants, FDA is allowing Mentor to continue distributing its products while the company corrects the deficiencies.
- **Cervical Cancer Test:** On May 5, the first automated primary screening device for evaluating Pap smears for cervical cancer was approved by FDA. Neopath's Autopap Primary Screening System has proven effective at identifying samples of possible abnormal cell growth. Cervical cancer affects more than 13,000 women a year in the U.S. and is responsible for 4,500 deaths.

- **Girl Power Public Service Announcements:** On May 6, new public service announcements featuring Olympic gymnast Dominique Dawes were released by HHS. The announcements are part of the Girl Power! campaign, a public information campaign sponsored by HHS that uses interactive and educational materials to help girls ages 9-14 develop the skills they need to resist unhealthy influences and to make positive decisions for their lives. The announcement will kick off a year-long statewide Girl Power! program hosted by multiple government agencies, private, and non-profit partners throughout NC.
- **Hepatitis C Treatment:** On May 4, an FDA advisory panel voted unanimously for approval of Schering Corporation's IntronA/Rebetol for the treatment of chronic hepatitis C. This approval would provide an alternative for the only available treatment.
- **Genetic Study of Diseases in African-Americans:** On May 7 or 8, NIH will announce an award totaling \$3.5 million in grants to Howard University to expand research on the genetic basis of diseases, such as diabetes and cancer, which disproportionately affect African-Americans and other minorities. The expansion of the Howard University Human Genome Research Center supports a White House initiative to eliminate the disparities in health between racial and ethnic minorities and white Americans in six key health areas by 2010.
- **Human Tissue Regulations:** During the week of May 11, HHS will publish the first proposed rule to implement your initiative to reinvent the regulation of human tissues. The purpose of this first proposal, *Establishment Registration and Listing of Human Cellular and Tissue-Based Products*, is to acquire a database of all establishments and persons who procure, process, screen, test, store, or distribute human cellular and tissue-based products.
- **Food Safety:** On May 14, the Senate Governmental Affairs Subcommittee on Investigations will hold a hearing on the GAO report on the safety of imported foods. An HHS witness may be invited to testify.
- **Nicotine Withdrawal:** The May 7 issue of *Nature* features a study funded by the National Institute on Drug Abuse showing that the changes in the brain's pleasure circuits during withdrawal from chronic nicotine use are comparable to changes observed during withdrawal from other abused drugs such as cocaine, opiates, amphetamines, and alcohol. After laboratory rats stopped receiving nicotine, there were significant decreases in the sensitivity of their brains to pleasurable stimulation which lasted several days.

DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT

- **HUD Storefront Office:** On May 6, Secretary Cuomo opened the first HUD Storefront Office, a new type of consumer-oriented center in Washington, DC, designed to be a

national model for more responsive government. The HUD Storefront Office, called "HUD Next Door," is one of many changes being made as part of the sweeping management reform plan called HUD 2020 that Secretary Cuomo launched in June 1997.

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- **French Minister of Transport**
Infrastructure, Transport, Urban Planning

- Phil -
Should we send to VAP/COs
Yes ☒
No ☐

- **“Buckle Up America” Week** – The National Highway Traffic Safety Administration (NHTSA) has declared the week of September 17-23, 2012, as “Buckle Up America” Week. A chance for police stations to invite reporters and news coverage. Across America will

- Cabinet Weekly Report, May 2 - 8, page 7*

- **CA Commuter Rail Accident:** On May 6 a commuter train collided with a tow truck in Watts, south of downtown Los Angeles. There were approximately 50 passengers on board and 14 received injuries, none life threatening. The driver of the tow truck died and two other people in the truck were critically injured. Investigators do not know why the truck was on the tracks; there is no crossing there.
- **737 Fuel Tank Wiring:** On May 7, the FAA issued an urgent Airworthiness Directive (AD) on 737 fuel tank wiring, the same issue as in the 747: teflon sleeves over wires because of abrasion and the possibility of arcing through an aluminum half-inch conduit. The AD will require the inspection of the wires. Depending on the results of the inspections and the availability of replacement parts, some planes may have to be held out of service for a while. The order applies to 737s with 50,000 or more hours.
- **Airport Security:** On May 4, FAA announced it will introduce computer-based training for security screening personnel at the nation's busiest airports. This system responds directly to a recommendation of the White House Commission on Aviation Safety and Security.
- **Cocaine Seizure:** On April 28, Coast Guard personnel and Customs agents boarded the motor vessel *MERCI JESUS* in Miami. A ballast tank was emptied and a hidden compartment loaded with 969 pounds of cocaine was discovered. Customs arrested the crew and seized the vessel.
- **Aviation Negotiations:**
 - ▶ **China:** Formal negotiations are scheduled to take place in Beijing the week of May 18. The talks are an outgrowth of informal consultations that took place in Washington the first week of April.
 - ▶ **Italy:** As requested by Italy, informal discussions on an "Open-Skies" agreement were held in Rome on April 29. The Italians would like to hold formal negotiations during the first half of June on a transitional agreement.

DEPARTMENT OF ENERGY

- **U.S. Russian Plutonium Disposition Agreement:** All outstanding issues on the U.S.-Russian government-to-government agreement on Scientific and Technical Cooperation in the Management and Disposition of Plutonium Which Has Been Designated to Be No Longer Required for Defense Purposes have been successfully resolved. This agreement expands U.S.-Russian cooperation on small-scale tests and demonstrations of plutonium technologies, up to and including a pilot-scale plutonium conversion facility in Russia. The agreement is the first of four linked components on plutonium disposition that the two countries have agreed to pursue in the next two to three years.

- **Waste Isolation Pilot Plan (WIPP) Conversion:** Certification to commence transuranic waste disposal operations at WIPP is expected from EPA on May 14. Secretary Peña plans to make his decision to open WIPP on the same day and notify Congress accordingly. DOE must wait 30 days after the notification before opening WIPP and shipping waste from Los Alamos National Laboratory. Lawsuits are expected, along with expressions of support and opposition. The opposition is strongest in Santa Fe. WIPP is a research and development facility, designed to demonstrate the safe disposal of defense-related transuranic waste. The WIPP facility is an integral part of DOE's long-term planning for radioactive waste disposal.

DEPARTMENT OF EDUCATION

- **DC Vouchers Bill:** On May 6, Secretary Riley wrote to Director Raines to recommend that you veto the District of Columbia Opportunity Scholarship Act of 1997. The bill would appropriate \$7 million in vouchers for use at public or private elementary and secondary schools, with little or no public accountability for how those funds are used. The House passed the bill on April 30, clearing it for your signature.
- **CA Citizenship Programs Investigation:** The *Wall Street Journal* reported on May 4 that DOEd's Office of Inspector General is investigating the CA Department of Education's administration of DOEd funds provided for citizenship and training in English as a second language.
- **Religious Expression in Schools:** On May 21, Secretary Riley is tentatively scheduled to release revisions to DOEd's guidance on religious expression in public schools. The revisions are intended to make the guidance consistent with the Supreme Court's decision overturning the Religious Freedom Restoration Act.
- **Hispanic Caucus:** On May 14, Secretary Riley will meet with the Congressional Hispanic Caucus.
- **Blue Ribbon Schools:** On May 22, DOEd will notify members of Congress of the selection of 1998 Blue Ribbon Schools.

VETERANS AFFAIRS

- **Heroes to Heroes:** Seven former major league baseball heroes have been scheduled to visit with veterans at fifteen VA medical centers across the country during April and May. George Foster, Maury Wills, Tug McGraw, Bill Mazeroski, Phil Niekro, Tony Perez, and Jim "Catfish" Hunter are participating in this "Heroes to Heroes" program.
- **Dingell Medical Center:** On May 8, Secretary West joined the Vice President in Detroit for a ceremony to name the VA Medical Center after Congressman John Dingell.

- **“Windows World Open”:** On April 20, the NY VA Medical Center Rehabilitation Research Team won first honors over 26 other public and private health care groups at the Microsoft Windows World Open '98 Competition in Chicago. Bill Gates awarded the team for its use of Microsoft technology in the VA Pedorthic CAD/CAM System, a project that uses computer-aided design and manufacturing for the fabrication of custom orthopedic footwear.
- **Showtime Movie on Gulf War Veterans:** On May 31, *Showtime* will air a TV movie titled "Thanks of a Grateful Nation" about Gulf War veterans' health issues. More than two years ago, VA cooperated in a limited way in the preparation of this movie by meeting with the author of the script and providing some background information. The movie focuses on Gulf War Syndrome and an alleged coverup by the U.S. government.

ENVIRONMENTAL PROTECTION AGENCY

- **DOE's Waste Isolation Pilot Project (WIPP):** Next week, Administrator Browner will sign a final rule certifying that DOE's WIPP near Carlsbad, NM, will comply with EPA's standards for management and disposal of radioactive waste. EPA's certification will allow the WIPP to receive wastes provided conditions designed to ensure better protection of public health and the environment are met. EPA expects this decision to be well received by most members of Congress, although members from states with generator sites will not support the conditions. NM Governor Johnson will openly support the decision, but the State Attorney General opposes the decision for environmental and public health reasons and will likely sue EPA. Environmental groups will also oppose EPA's decision and many are likely to sue.

UNITED STATES TRADE REPRESENTATIVE

- **Special 301 Review:** On May 1, as a result of the Special 301 annual review which examined in detail the effectiveness of intellectual property protection in more than 70 countries, Ambassador Barshefsky announced she will initiate WTO settlement consultations with Greece and the EU. The U.S. is concerned over Greece's failure to take action against television stations that routinely broadcast U.S. movies and other programming without authorization.
- **European Income Tax Subsidies:** On May 5, Ambassador Barshefsky issued requests for WTO dispute settlement consultations to Belgium, France, Greece, Ireland, and the Netherlands concerning tax practices in those countries which are prohibited by the WTO Subsidies Agreement. These requests follow on the requests of the EU to consult on the Foreign Sales Corporation provisions of the U.S. International Revenue Code.

OFFICE OF NATIONAL DRUG CONTROL POLICY

- **Interview:** On May 13, Robert Ansel, a noted writer on leadership, will interview Director McCaffrey on his leadership of ONDCP, the challenges faced, and the techniques used.
- **Commencement Address:** On May 16, Director McCaffrey will deliver the commencement address at Saint Mary's University School of Law in San Antonio, TX. The Director will outline the Administration's Southwest Border Initiative, define the problem, and detail the steps the Administration has taken to stop the flow of drugs.
- **Organization of American States (OAS):** On May 4, In a speech to the OAS Inter-American Commission Against Drug Abuse, Director McCaffrey told the delegates that the purpose of the hemispheric evaluation mechanism should be to improve efforts through objective measures and constructive criticism. Canada was elected chair of the working group to develop the measures, and Chile was elected vice-chair.
- **Ecumenical Breakfast:** On May 9, Director McCaffrey will travel to NY to meet with clergy at Rep. Ed Towns' Ecumenical Breakfast.

SMALL BUSINESS ADMINISTRATION

- **Costa Rica Inauguration:** On May 7-9, Administrator Alvarez led the U.S. delegation to the inauguration of Miguel Angel Rodriguez, President of Costa Rica.
- **Disaster Loans:** Since the start of FY98, SBA has approved 17,306 new disaster loans for \$416.4 million, which has resulted in \$427.3 million in obligated funds after cancellations, increases, and decreases.
- **Welfare to Work (W2W):** On April 28-29, SBA field staff participated in a day-long training session on W2W at the agency's Quarterly Management Meeting. The W2W Small Business Owner of the Year was honored in Wichita, KS, and the W2W Initiative Entrepreneur of the Year was honored in Kansas City, MO. W2W activities are planned throughout the country during May.

FEDERAL EMERGENCY MANAGEMENT AGENCY

- **Project Impact and AmeriCorps:** As of April 17, 70 volunteers from the Oakland, CA School District, AmeriCorps, and the Retired Service Volunteer Program, as well as 35 AmeriCorps National Civilian Community Corps members, have assessed 127 apartments for potential non-structural damage, mitigated these potential losses, and provided general hazard awareness briefings for residents. The non-structural mitigation measures are intended to reduce earthquake damage.

OFFICE OF PERSONNEL MANAGEMENT

- **Early Retirement:** On April 30, Congress approved the Supplemental Appropriations bill, which included a provision to give agencies the authority through September 30, 1999, to offer voluntary early retirements (VERA) targeted by occupational series and grades. A federal court decision last year limited agencies' ability to target VERAs by occupational series, grades, and other factors.

UNITED STATES INFORMATION AGENCY

- **USIA Exchange Students:** On May 11, The First Lady will host 88 high school students from the NIS who are participating in the Agency's Future Leaders Exchange Program (FLEX). The students have been living with American families and attending high schools around the country.
- **All News Program:** On April 28, VOA announced its first change of format in two decades with the formation of a 24-hour, seven-days-a-week, all-news, English language international radio broadcast. To be called "VOA News Now," the programming will feature world, regional, and U.S. news, along with features about sports, science, business, and entertainment. It will be tailored to deliver news and information to each region of the world during its prime listening hours.

- 20-22
News
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- **AmeriCares Flight to Baghdad:** USIS Amman and posts throughout the Middle East gained regional press attention when AmeriCares, a non-governmental organization, made the first American humanitarian flight into Iraq on April 28. Coverage of the AmeriCares donation of medicines to the people of Iraq appeared on the front pages of many local and regional publications. Most stories included White House and State Department press statements noting U.S. support for the AmeriCares' humanitarian flights.

- **Middle East:** USIS offices in Tel Aviv, Jerusalem, Riyadh, and Cairo provided extensive media support during the Vice President's visit to the Middle East. Stories focusing on the Vice President's message of Saudi-American friendship dominated the Saudi during and following the visit. A series of public events emphasized partnership priorities in job creation, economic growth, and environmental protection.
- **Iraq Presidential Inspections:** After the U.N. decided to maintain sanctions against Iraq, VOA interviewed Iraqi Foreign Minister Sa'ed Al-Sahhaf prior to his news conference at the U.N. Al-Sahhaf told VOA that he was disappointed by the UN Security Council's decision to leave in place international sanctions against Iraq. He went on to say that Iraq might allow only a limited number of visits to presidential sites, raising doubts about Iraq's willingness to abide by an agreement with the UN permitting unlimited such inspections. In a separate interview, Mohamed Aboul Hassan, Kuwait's

ambassador to the UN, told VOA's listeners that Iraqi leaders still harbor dangerous intentions.

- **Senator Mitchell in Doha:** On April 28, USIS Doha hosted former Senator Mitchell, who was in Qatar on a private visit, at a press conference, followed by a 30-minute exclusive interview with regional satellite television station *Al-Jazeera*. Responding to questions about similarities between Northern Ireland and the Middle East, Senator Mitchell stressed that all human problems, including those in the Middle East, have attainable solutions when people work together. All five local newspapers ran lengthy articles on the press conference, and one editorial appeared under the title, "Middle East Needs Mitchell Doctrine."

GENERAL SERVICES ADMINISTRATION

- **Reagan Building Dedication:** On May 5, Administrator Barram hosted the dedication of the Ronald Reagan Building and International Trade Center. Members of Congress, key Congressional staff, diplomats, and local business leaders were among the 1200 people attending the ceremony. Later in the evening, the building was used for a Reagan Foundation gala.

cc:

The Vice President
Erskine Bowles
Paul Begala
Sandy Berger
Sidney Blumenthal
Maria Echaveste
Rahm Emanuel
Mickey Ibarra
Janis Kearney
Ron Klain
Neal Lane
Ann Lewis
Sylvia Mathews
Michael McCurry
Katie McGinty
Mack McLarty
John Podesta
Franklin Raines
Bruce Reed
Craig Smith
Doug Sosnik
Gene Sperling
Larry Stein
Melanne Verveer

Democracy's DesertTHE PRESIDENT HAS SEEN
5-11-98**A Rising Tide of Freedom Bypasses the Arab World**

By BARBARA CROSSETTE

PRESIDENT CLINTON was at it again in Latin America last week-end, congratulating democratically elected leaders of countries that not long ago were better known for their dictators. Barely weeks before his visit to Chile, the President was delivering the same encouraging pat on the back to Africans. In June in China, he will no doubt be touting the virtues of democracy again, hoping Beijing will soon match its economic liberalization with more of the political kind.

Just as well that the President isn't planning a trip to the Arab world any time soon. Here is perhaps the one region where the end of the cold war has brought the least progress toward democracy, and very little hope for it. Even the United States, which raises the question of democracy with great frequency elsewhere, has shied away from that in the Arab world. Its policy has remained fixated on supporting Israel, protecting access to oil and averting war.

But this is an age when Latin American dictators have seemingly vanished overnight, when democracy has buried Communism in Russia and Eastern Europe, when democracy movements sprout in Africa and

**Nationalist dreams
and religion have been
the issues, not reform.**

Asia even where the cause can seem most hopeless — witness China — and when even the non-Arab Middle Eastern lands of Iran and Turkey have been fighting political battles through the medium of elections, however imperfect by Western standards.

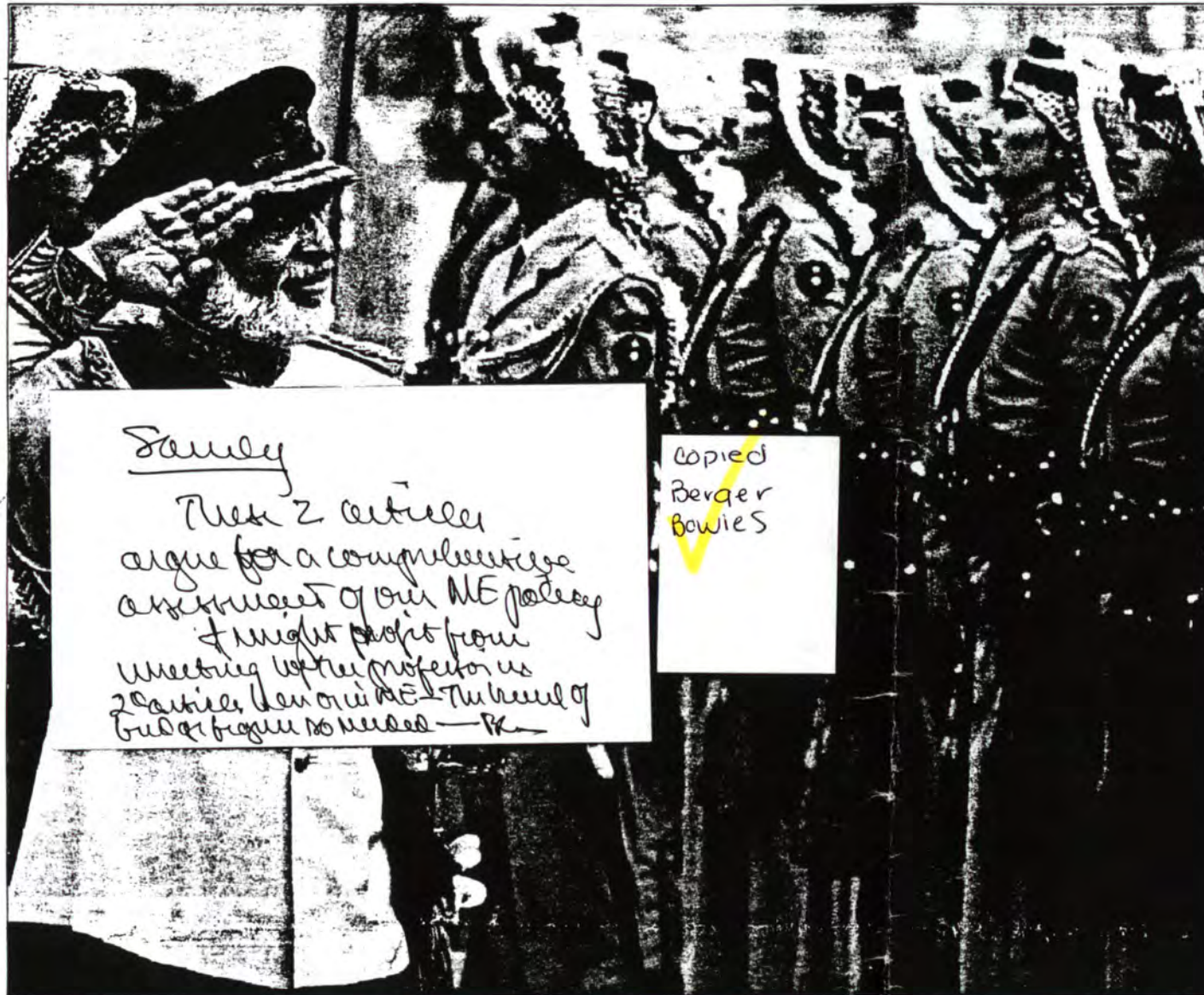
Today, by contrast, a great many Arabs remain the subjects of kings and sheiks whose rule, even when enlightened, is always personal. And in recent decades, many others have fallen under tyrants: Muammar el-Qaddafi of Libya, Hafez al-Assad of Syria, Saddam Hussein of Iraq.

Even Egypt, where political and intellectual life once flourished, has been technically under martial law for half a century. And despite the democratic longings of intellectuals in the region, the great political drama being played out across the Arab world has been something else: the battle between advocates of Islamic rule and secular rule.

Why, then, has democracy — or at least popular pressure for it — not surged across the Arab world, where one-fifth of the world's people live, in the last decade of the 20th century?

Experts hunting for an explanation look variously into history, religion, social patterns, desert expanses, a weakness for strongmen as leaders, and an obsession with opposing Zionism (now recharged by a dying Israeli-Palestinian peace process).

With a few notable exceptions, these experts explain, the Arab people have no history of democracy. Yes, they have had brushes with Western empires — notably the British and French — that left democratic institutions in their wake in other places like



Jordan's King Hussein, here reviewing an honor guard, is as liberal as any of the Arab world's leaders. But he also exemplifies the region's autocratic rule, in his case monarchy.

India, Africa and the West Indies. But for many Arabs the most sustained contact with foreign rule was the Turkish Ottoman Empire, which was emphatically not remembered for building democracy.

Fouad Ajami, a leading interpreter of the Arab world, offers an additional explanation: Rather than following political philosophies, Arabs have been more often seduced into glorious romances and reckless flings with fantasies of a greater Arab civilization. These fantasies, he says, never could deliver on what they promised.

Mr. Ajami says Arab nationalists like Nasser at first appealed to their masses with a promise to "solve the question of the place of the Arabs in the modern world." The promise was doomed to be broken, but that was not clear in the 1960's, 1970's and 1980's, when a number of undemocratic Arab countries got rich on oil, and the workers and middle classes alike set aside dreams of reform. Then Muslim militants came along, playing on equally large-scale themes of a resurgent Arab people uniting and purifying themselves.

Edward Said, a Columbia University scholar and author who has devoted much of his career to studying the interplay between the Arabs and the West, argues that many young Arabs no longer believe in these absolutist, overarching dreams of a grandeur that replaces political life. They look to India, he said, where a fierce nationalism aroused by the independence movement adapted itself to democratic politics.

Independence came to the Arabs in different garb. "From the day the Arabs walked their way out of the wreckage of the Otto-

man Empire in the immediate aftermath of the First World War, the question that has engaged the minds of the very best and most politically conscious Arabs was nationalism," said Mr. Ajami, now director of Middle East studies at Johns Hopkins University's School of Advanced International Studies. "Where nationalism is the main issue, the demand for democracy always takes second place."

Mr. Said acknowledges that the world the

Continued on Page 16

**Tide of Freedom
Bypasses Arab World**

Continued From Page 1

Arabs created is now marked by censorship and self-censorship, intellectual alienation or exile and political silence. In the case of Iraq, there is state terror and total repression. And everywhere the lure of nationalism still has some life. Intellectuals from Beirut to Cairo to Rabat have applauded Saddam Hussein's vitriolic rejection of Israel and defiance of the United States. "Except for Lebanon and to a certain degree Egypt, institutionalized democracy in the way most people understand the term doesn't really exist in the Arab world," Mr. Said said.

Still, he says, "there is a fairly vigorous contest in most Arab countries between the authority on one hand and on the other intellectual, artistic, grassroots opposition, which is very vociferous in demanding democracy. That's been ignored."

Morocco's new Prime Minister, Abdulrahman al-Youssifi, a Socialist, was a vice president of the leading Arab human rights organization, and his appointment by King Hassan II draws attention to the ambivalence of Arab monarchies, which have been a source of both progress and regression. In Jordan, King Hussein has opened up considerable democratic space, and political parties flourish. But Mr. Ajami cautions that "this is democracy from above, democracy by grant and it can be taken back."

Islam's Mixed Influence

Islam has been another source of mixed influence. It is at heart egalitarian, with a commitment to public welfare. But it preaches a unity of religion and state that can be interpreted to stifle secularism and free choice while hobbling the law, education, and women and family life.

Islam does not preclude democracy, as Malaysia and Bangladesh demonstrate. Turkey and to a still-uncertain extent Iran also have functioning electoral systems, if restricted political choice. But more often the recent impact of Islam has been a chilling one; openings to democracy are seized by militant Islamists who, critics say, offer the prospect of "one man, one vote, one time."

Mr. Ajami points to Algeria, where the specter of an Islamic electoral victory led the Government to cancel an opening to democracy. That experience, and the brutal war that followed, have made moderates timid everywhere.

"You must have the self-confidence to have democratic politics," Mr. Ajami said. "If what happened in Algeria is used as a model, there will never be democratic elections." He and others think Egypt, with its democratic tradition dulled by the Nasser, Sadat and Mubarak years, could still lead the way by restoring full democracy. If that happened, he said, "the political landscape of the Arabs would immediately change."

Tribal Splits

But the middle class has to do more than vote, said Phebe Marr, author of a history of Iraq. "You have to start with opening society and building attitudes of tolerance. You have to build institutions: women's organizations, a more open press." A society that doesn't debate issues will, when presented with political opportunity, often split along ethnic or tribal lines, she said.

The Arab world is quite susceptible, said Joseph Chamie, head of the Population Division at the United Nations and the son of Lebanese immigrants. "They are not one people," he said. "Their history was basically tribal, with people isolated by great distances and environment."

A number of experts and Arab-Americans interviewed think the United States has not done enough to foster democracy among Arabs, and they focus on America's unquestioning support for some of the region's least democratic, most conservative regimes, like Saudi Arabia and Kuwait. Mr. Said said Americans haven't noticed enough that in the Arab world today "people are trying constantly to test and push the limits of what is allowed by the regime, by the religious authorities."

"There's a very strong discussion within the Islamic world on the question of what is modernity," he said. "The old rhetoric is discredited; there is a new language now." He said television, foreign publications and the Internet are steadily eroding old isolations. Mr. Ajami says he would like to be optimistic too, but has been wrong before in prophesying the birth of a new order. "As the Arabs knock at the gate of the 21st century, can they bid farewell to the cluster of ideas that nationalism, the struggle against the West, the alibi of the struggle against Israel such prime importance in their lives?" he asked. "Can they hold their rulers accountable? Can they reclaim their politics?"

In other words, can they reform their political life without the detour, the excuse of nationalism? "It's up to them."

5-11-98

The New York Times

Washington
Washington and Baltimore: patchy fog and chilly, high. Tonight, showers ending, low 40's. Tomorrow, clouds yielding, breezy, high near 65. Details, page 1.

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ONE DOLL.

5% Admit Giving Injections — More Say They Would Do So if Procedure Were Legal

WASHINGTON, April 22 — In the intense debate over physician-assisted suicide, one question has always gone unanswered: How often does it occur? Now, the first national survey to examine how frequently doctors help people kill themselves finds that while patients often ask for help, they rarely get it.

Nearly 1 in 5 doctors who care for seriously ill and dying people reported that they had been asked, on one or more occasions, for assistance in speeding a patient's death, either by writing prescriptions for lethal drugs or delivering a lethal injection.

But a little more than 3 percent said they had ever written the prescriptions, mostly to patients who had less than six months to live. And just under 5 percent said they had administered lethal injections to patients on their deathbeds, a figure that the study's authors said reflected "the double effect," in which painkillers, given to relieve suffering at the end of life, also hasten the patient's death. The margin of sampling error on these questions was plus or minus one percentage point but varied for other questions.

"It is odd that there is such strong public support for legalization of assisted suicide, and we find there is so little of this actually occurring," said Dr. Diane E. Meier, an associate professor of geriatrics at the Mount Sinai School of Medicine in New York, who is the study's lead author.

The majority of doctors who granted the requests to hasten death said they had done so only once or twice in their careers. That translates into a very small number of patients affected, said Dr. Kathleen M. Foley, director of the Project on Death in America, a foundation in Manhattan that sponsors research on the end of life. She could not provide a precise figure but estimated that only a fraction of 1 percent of the 2.4 million Americans who die each year do so with help from their doctors. "However you do the numbers," she said, "it's minuscule."

One reason it is so rare is that it is illegal. When the doctors were asked if they would write lethal prescriptions, defined as assisted suicide, if it were legal, 36 percent said they would. And 24 percent said they would administer lethal injections, defined as euthanasia, if the law permitted it.

The study, which appears Thursday in *The New England Journal of Medicine*, is renewing the debate

Continued on Page A20



Abdul-Aziz Shikaki, right, talked with a neighbor during a regular Friday picnic at the Shikaki farm in the Gaza Strip last week. Mr. Shikaki mixes a hard political line with a pragmatic accommodation to Israel.

REHOVOT, Israel — At first, Ibrahim Shikaki is lost amid the widened roads, bowling alley and Toyota garage off Menachem Begin Avenue. But having spent his first 20 years here in what was once the village of Zarnouga, he insists that even at age 70 he will gain his bearings. At the intersection of streets honoring Israelis who fought in the 1967 and 1973 wars, he says: "Turn right. The mosque used to be that way."

It still is, up a dirt road, crumbling and fenced off, with six-foot-high weeds climbing a steel door that now bears a Star of David. The sight of the dome from which Mr. Shikaki used to call for prayers produces tales of his imam father, the surviving mulberry tree elicits memories of his sister, and the few remaining houses from his era bring to his tongue the names of their former owners — Ahmed Nimr here, Hahem Oassab there.

The Shikakis farmed this land for generations, if not centuries, cultivating wheat and apricots, oranges and cucumbers. In May 1948, they fled the fighting that led to the establishment of Israel and were never permitted back. Their house was demolished and their land given to Jews. Today their former village is on the outskirts of the Israeli city of Rehovot, and the clan lives as refugees in the sand-choked, litter-

Through Arab Eyes



strewn town of Rafah at the southern edge of the Gaza Strip.

The last half century has not been an easy one for Mr. Shikaki, scion of a respected village family coming out a living as a day laborer in the Jewish state. In many ways, his story and that of his eight children — including a founder of Islamic Holy War, a professor, a businessman and unskilled workers — is that of the Palestinian people, a saga of humiliation and fury but also one of emerging accommodation and rebirth.

Israel is observing its 50th anniversary, celebrating the vibrant and democratic regional superpower established upon the ashes of Nazi genocide. But for the Palestinian Ar-

abs, the anniversary marks the Nakba, or catastrophe.

The Arabs had rejected the 1947 United Nations plan to partition British-controlled Palestine into Jewish and Arab states, and when Israel declared its independence the next spring, five Arab countries attacked. By the time the fighting ended, Israel had conquered far more land than had been allotted to it under the plan, and some 700,000 people — half the Palestinian Arab population at the time — had fled or were driven out.

Those who remained within Israel took up the truncated existence of internal refugees, mistrusted and feared, seeking a middle way between their state and their people. The rest were scattered, largely around the Arab world, many in refugee camps in Lebanon, Jordan, Syria

Continued on Page A12

Interest Grows in Wake of Paula Jones Suit

WASHINGTON, April 22 — For a dozen years, the Supreme Court has skated above the complexities of sexual harassment law in a series of unanimous opinions that announced general principles while deferring the difficulties of practical application for another day.

Judging by the Justices' response to arguments in a sexual harassment case today, that day has arrived and the ice may be starting to crack.

The Justices appeared confounded by the law's intricacies—even to the point of disclaiming responsibility for them. "Don't put it on us!" Justice Antonin Scalia blurted out after Ernest T. Rossiello, one of the lawyers who argued today, remarked that a Court precedent had inadvertently wreaked havoc on the subsequent development of the law.

The case today, the fourth and final sexual harassment argument of the current term, posed the question of how the law should treat a supervisor's "unfulfilled threat," a demand for sexual favors from a lower-ranking employee who neither submits nor suffers adverse consequences on the job for the refusal.

The United States Court of Appeals for the Seventh Circuit, in Chicago, ruled last year that such a scenario could amount to "quid pro quo" sexual harassment, a category for which courts have typically held employers automatically liable, whether the company knew of the misconduct or not.

The case, *Burlington Industries v. Ellerth*, No. 97-569, has drawn increased attention in recent weeks following a Federal district judge's dismissal of Paula Corbin Jones' sexual harassment suit against President Clinton. The question of an unfulfilled threat is an issue in *Melby*.

...fanned threat is an issue in the

A document prepared by lawyers hired to review the legal defenses of the R. J. Reynolds tobacco company suggests that the cigarette maker suppressed unfavorable research about smoking and destroyed troublesome documents for decades.

The document was among 39,000 records being studied after their release by the House Commerce Committee despite efforts of the tobacco companies to keep them confidential.

Lawmakers were trying to assess what effect the records might have on the current debate in Congress over tobacco legislation.

Article, page A18

PRESSURE ON GINGIVA

The Democrats and Dissid Republicans Force a Shift — No Action in Senate

By ALISON MITCHELL

WASHINGTON, April 22 — Being to growing pressure from insurgents, the House Republican leadership reversed itself today and agreed to allow a full debate and vote on overhauling campaign finance law by late May.

The surprise about-face occurred as Speaker Newt Gingrich and his lieutenants became concerned that Democrats, with the help of dissident Republicans, were about to succeed in using a parliamentary maneuver to force a campaign finance bill to the floor despite opposition from the leadership.

Just last month, the senior Republican leaders had tried to dislodge the campaign finance issue from the agenda by passing a series of rules that never allowed the main bipartisan overhaul bill to come to the floor and that required any bill to gain a near impossible two-thirds vote of the House for passage.

"This is an extraordinary day," said Representative Christopher Shays, the Connecticut Republican who along with Martin T. Meehan, a Massachusetts Democrat, sponsors the bipartisan overhaul legislation. "It is everything we wanted hoped for."

"Make no mistake," said Representative Richard A. Gephardt, minority leader. "This was a real not a conversion. The Republican leadership still opposes reform reduces the role of money in politics."

The day's development breathes new life into an issue that has recently been declared dead. It is that the House will now have with Republican leaders have resisted several years: a free-flowing holds-barred debate on campaign finance overhaul. And it will

The debate also puts pressure on Democrats to demonstrate the strength of their support now that the real chance it can pass. And House should pass significant legislation, it could force the Senate to take up the issue once more, though Senator Trent Lott, the majority leader, insisted tonight voters in his Mississippi district "don't ask me about this subject."

"I don't think that we should spend a lot of time additionally on it this year," Mr. Lott said tonight on News Hour with Jim Lehrer.

But House Republicans said they had been receiving calls from

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The Palestinians Endure A 50-Year 'Catastrophe'

Continued From Page A1

and Egyptian-controlled Gaza. They lived from sacks of United Nations rations and in temporary shelters that many have never left. Others ended up in the Persian Gulf, Africa, Europe and the Americas.

Stunned into quiescence for decades, the Palestinians channeled their rage in the late 1960's — after the 1967 Arab-Israeli war left the West Bank and Gaza Strip under Israeli control — through Yasir Arafat's Soviet-backed Palestine Liberation Organization, hijacking airplanes and setting off bombs. In the late 80's, the occupied territories exploded into a rock-throwing, tire-burning anti-Israel rebellion known as the intifada.

Long preoccupied with their own nation-building, the Israelis could no longer look away. And the Palestinians, in the post-Soviet world, understood they had to scale back their demands. In 1993, on the South Lawn of the White House, the unimaginable occurred: Mr. Arafat and the Israeli Prime Minister, Yitzhak Rabin, shook hands and agreed on interim limited self-rule for Gaza and portions of the West Bank. There is one year left to that deal, which has stalled under mutual recrimination.

'Do Americans Know? Do They Care?'

The focus this month on celebration of the events of 1948 has been galling for Palestinians, who feel their agony has been ignored. "Do Americans know our land was taken by force?" Ibrahim Shikaki asked recently, sitting in his living room in Rafah, the muezzin's call to prayer piercing the early evening air. "Do they care? There were United Nations resolutions demanding we be allowed to go back to our land. But they were not enforced. America imposes resolutions on Iraq but not on Israel."

For most Israelis, the idea of Mr. Shikaki staking claim to victimhood is chilling. His first-born, Fathi Shikaki, founded the Iranian-backed Islamic Holy War organization, whose stated goal is to destroy the Jewish state through armed struggle and replace it with a Palestinian state based on sharia, or Muslim law.

The Israeli military says Islamic Holy War has been behind scores of attacks on Israelis here and abroad, including one on an Israeli tour bus in Egypt in February 1990, in which 9 tourists were killed and 17 wounded. In January 1995, an Islamic Holy War member placed two bombs at a soldiers' hitchhiking post in north-central Israel, killing 20 soldiers and a civilian. In September of that year, a suicide bomber from the same group rammed his car into a bus in the Gaza Strip and caused the death of 7 soldiers and an American student.

Six weeks later, Fathi, in transit to his base in the Syrian capital, Damascus, was assassinated in Malta. Israel does not take responsibility for such operations, but it is nearly universally assumed both here and abroad that his killing was the work of Israeli agents.

Fathi Shikaki was born in a Gaza refugee camp in 1951 and, like many others, his early years were marked by hardship and

displacement. Two-thirds of the strip's one million people are refugees or their descendants and half of them are still in camps. The man who would later view Ayatollah Khomeini as a model and promote suicide bombings was a gifted pupil. Pushed to study by his illiterate mother, he won a scholarship to medical school in Cairo. He later combined his practice as a physician with gun-running until jailed and ultimately deported by Israel in 1988.

Paradoxically, Fathi was a man of warmth and natural leadership who impressed nearly all who met him with his verbal skill and nuanced mind. He is considered an important Palestinian political theorist, among the first to call for regional Islamic revival through a focus on the Palestinians and to look to Iran as a model for Arabs. This physician was among the first proponents of violence in the Islamic camp.

The paradoxes do not stop there. One of the most thoughtful and critical analysts of Fathi's work is his brother Khalil Shikaki, 44, the second son of Ibrahim and Khadra Shikaki and a political scientist who rejects all violence and works closely with several Israeli scholars.

Khalil Shikaki, who earned his Ph.D. from Columbia University, is a professor at Al Najah University in the West Bank city of Nablus and director of the Center for Palestine Research and Studies, one of the Arab world's few independent research institutes.

Khalil, who looks remarkably like his brother — the same eyes, the same beard, the same build — says their differences over how to handle the tragedy that befell their parents are common in Palestinian families. "National and Islamic ideologies have taken over from the family as a structural unit," he said. "In the past, the families controlled everything with family loyalty coming first and foremost. Now, Islamic and nationalist ideologies have completely transformed Palestinian society."

Khalil's research center has the feel of a Western academic institution with its beige carpeting and potted plants and young researchers staring at computer screens. But its work, especially its opinion surveys, is pioneering here.

Palestinians, like most Arabs, are unused to offering opinions on their leaders without fear of reprisal, so the center has worked hard at training the poll-takers to reduce suspicions among the public. Palestinian and Israeli scholars agree that Khalil's data, which come out monthly, are the most consistently reliable.

West Bankers, Gazans, All in a Family

Khalil's wife, Wafa, who is from the West Bank town of Tulkarm, works on an American-financed project promoting democratic attitudes. While she covers her head in Muslim tradition, their three children — Muna, 18, Ibrahim, 14, and Leila, 11 — look very American in their T-shirts and pants. Muna, who does not cover her head, will enter Bir Zeit University next fall and says she wants to devote herself to her people, perhaps as a journalist. She has already begun a muckraking career, having investigated Palestinian police abuse in her town for "The Awakening," the high school newspaper she founded.

"We run lots of features on human rights and democracy," she said.

Like most West Bankers, Khalil Shikaki's family rarely makes visits to Gaza. The Israeli authorities do not issue many permits for movement between the two zones because of security concerns. In fact, Palestinians, despite having their own police force and elected parliament and passports, are subject to Israeli security requirements and often feel caged in by such restrictions. Their autonomous zones are not contiguous and they find themselves faced with Israeli checkpoints on all sides.

So contact between Khalil's family and their Gaza cousins is rare. For Muna and her siblings, their notion of Palestine is limited to the West Bank, a more prosperous and less traditional area of about 1.7 million, compared with the more religious, socially conservative Gaza.

If the split between Khalil and his older brother, Fathi, offers a Palestinian case study, it is their brother next in line, Abdul-Aziz, 42, who may be more emblematic still, embodying common and important contradictions. Another good student and winner of a scholarship to Egypt to become a pharmacist, Abdul-Aziz married his first cousin, Nima, who was studying medicine there. His association with the Muslim Brotherhood in Egypt led to his expulsion from the country.

Abdul-Aziz, like most Palestinians, considers his Islamic militant brother a hero, and when his sixth child was born a few months ago, he was named Fathi.

As is common in Gaza, Abdul-Aziz is an observant Muslim who prays daily and says he believes that suicide bombers who attack Israelis go to Paradise. He dismisses the 1993 deal between Israel and the P.L.O. on Palestinian autonomy as a sham. He sees no difference between Benjamin Netanyahu, the hawkish Israeli Prime Minister, and his predecessor, Mr. Rabin, who was assassinated by his peace efforts. Neither would give the Palestinians what is rightfully theirs, he says.

Finally, Abdul-Aziz insists that there can be no peace or justice until his family wins back its ancestral farmland, a move no Israeli Government would countenance and a goal that Mr. Arafat's Palestinian Authority has effectively abandoned.

And yet Abdul-Aziz Shikaki's actions reveal a hidden pragmatism. While offering a picture of utter despair, he is in fact deeply engaged in the process of constructing a new Palestinian entity alongside Israel. He owns a building in Rafah that houses his pharmacy along with a variety shop belonging to another brother, Khaled. Moreover, Abdul-Aziz is part of a consortium of pharmacists and doctors who are establishing the first pharmaceutical factory in the Gaza Strip, in itself part of the nascent industrialization of the economy that is so vital to



Ibrahim Shikaki and his wife, Naama, visited land in what was once the village of Zarnouga, now part of Rehovot, that their family lost during the fighting that surrounded the creation of Israel in 1948. He had not been there since 1982.



Photographs of Fahti Shikaki, a founder of Islamic Holy War, the militant anti-Israel movement, and his brother Khalil, a West Bank college professor, in their father's house, above, show their strong physical resemblance. Abdul-Aziz Shikaki, another brother, and his family picnicked last week on their farm in the Gaza Strip, at top.

creating a viable Palestinian entity after decades of occupation.

Due to open this summer, the Middle East Company for Pharmaceutical Industries will employ 60 full-time workers and produce cough syrup, aspirin-like analgesics, and anti-diarrhea medicine. Designed by Israeli engineers, with whom Abdul-Aziz has met regularly, and based on international standards, the \$2.5-million enterprise occupies a bright new building near the Israeli border and is gradually filling up with European and American equipment.

Abdul-Aziz has also purchased several acres of farmland in southern Gaza where he and his family cultivate olives, wheat and almonds. His father, Ibrahim, spends a couple hours every day working the land and the family gathers there most Fridays for work and a picnic. He has begun building a small house on the site.

"I love land and it is good for my father to come here," he said one afternoon walking between the young olive trees, picking wheat stalks and offering their grains as a snack. "This way my children also learn the value of land. It reminds us of our roots. We like to work here together, irrigating and planting. We make olive oil and give it away to our cousins."

Abdul-Aziz also reveals admiration for what Israel has accomplished, implying an ability to coexist not evident from his other

comments. The gap between his words and his feelings is not uncommon among the many Palestinians who regard Israel both as the source of their misfortunes and the best model for them in the region.

"The Israelis deserve what they have, in many ways," Abdul-Aziz said one evening. "Their democracy is one of their greatest strengths. They have developed a society that is more civilized than ours. We are still suffering from our lack of civilization. Israel has advanced science and we don't. We are ignorant. Israel is a part of the world. All the world supports Israel."

Foreign support for Israel is a complaint heard among the teachers at the middle school attended by his third child, Ibrahim, 15. Like his West Bank cousin, Ibrahim is founder and editor of a school newspaper. But in keeping with his more religious upbringing, he has named his "The Lamp of Al Aksa," a reference to the Jerusalem mosque viewed by Palestinians as their national symbol held illegally by Israel. His paper runs Koranic verses and editorials on defending the homeland.

The young were the mainstay of the uprising a decade ago, the so-called "Children of Stones." Many took to the streets and missed school. Today, the Palestinian Authority is seeking to re-educate that generation and repair the torn social fabric. Ibrahim's school registry lists all pupils

Israel at 50

These articles focus on facets of Israel as it nears the anniversary of its independence, celebrated this year on April 30. The series began on April 6 with profiles of eight Israelis typifying the country's social diversity. The second article, on April 10, reported on the controversy surrounding a television series reviewing Israel's history. The third, on April 18, examined the transformation of the Israeli economy.

ON THE WEB

The complete Israel at 50 series and an historical look at Israel's statehood from the from The New York Times' archives are available on the Web.

www.nytimes.com/library/world/israel-index.html

with their parents' town or village of origin from 1948, many of them no longer in existence, and the teachers instruct the youngsters never to forget their origins or their struggle to return.

Ibrahim, who says he wants to be a doctor, has never had a conversation with an Israeli aside from hostile exchanges with soldiers at checkpoints outside the Jewish settlements near his house. Some 4,000 heavily guarded Jews still live in Gaza, taking up a third of its land, a source of fierce local irritation. Ibrahim says he cannot imagine making friends with any Israeli.

The lives of the other Shikaki siblings are equally reflective of their society. The husbands of two sisters work in Israel in factories and under newly relaxed rules introduced last month often spend the night in Israel rather than returning each day.

Palestinian State Is 'All We Want'

A third sister, Leila, lives with the family of her husband, Nabil, who left his work in Israel to join the new armed police force established by Mr. Arafat four years ago, perhaps the most palpable symbol of Palestinian autonomy. The mother of five, Leila says the arrival of the Palestinian Authority has made life much safer. She no longer fears that Israeli soldiers will break in at night in search of suspects and the nightly curfews of past years are gone.

"All we want is our state in the West Bank and Gaza," she said, her 3-year-old daughter, Nibal, on her lap. "But of course, the most important is Jerusalem. Nothing is worth it if we can't have Jerusalem."

Leila's husband, Nabil, has a crisp blue uniform and an AK-47 semi-automatic rifle and sits contentedly at a checkpoint within the Gaza Strip watching cars as they pass near the newly built but unused airport. Israel has continued to oppose the opening of the airport on security grounds, still another issue of contention here. The Palestinian police also face the task of stopping Islamic militants who oppose Mr. Arafat's peace deal with Israel.

Despite their anger and religious bent, none of the younger Shikakis appear to have become active either in Islamic Holy War or its larger sister organization, Hamas, to which about a fifth of the population vows allegiance. Many young Shikakis say they long only for a state in Gaza and the West Bank. This is something Mr. Arafat asserts he will declare — following Israel's example 50 years ago — in May 1999, when the interim period in the peace process ends, if negotiations remain stalled.

The young Shikakis profess an attachment to their father's old village but none have ever gone there. They seem intent, most of all, on rebuilding their shattered society in their new home.

Typical of this growing pragmatism was a comment by Abdul-Aziz's wife, Nima, who often expresses herself in militant terms. Asked about the moderation of her brother-in-law, Khalil, she said it was his Western education that made him different. She added, "I would be very happy to have all my children educated just like Khalil."

And Abdul-Aziz, offering one of his more radical assertions, caught himself. He insisted that he would give up all he owned in Gaza for "one square meter" of his family's ancestral land and the right to return there. Then he laughed and said, "I can dream, can't I?"



THE PRESIDENT HAS SEEN
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That's Fit to Print"

The New York Times

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WEDNESDAY, APRIL 1, 1998

Foiled Drug Pursuit of a Mexican Bares a System Rife With Graft

Suspect Walks Free Twice, Frustrating the U.S.

By SAM DILLON and CRAIG PYES

CIUDAD JUÁREZ, Mexico — For nearly a decade, the United States Government has been trying to prosecute a Mexican multimillionaire who is accused of running a cartel that smuggled tons of cocaine into California several years ago.

When American drug agents raided one of his warehouses, it was the largest single drug bust in history and it remains so today. American agents thought it was an open and shut case against the suspect, Rafael Muñoz Talavera, because several traffickers who were arrested after the drug seizure identified him as their leader.

But despite two trials, one conviction, and what American prosecutors say is overwhelming evidence against him, Mr. Muñoz is free. Mexican and American authorities say he is directing a violent campaign to seize control of a major part of the Mexican drug trade.

Neither Government has ever publicly explained the collapse of the lengthy effort to convict Mr. Muñoz. But a history of the investigation,

based on interviews with law enforcement officials, judges who tried Mr. Muñoz, and an examination of documents, shows a Mexican criminal justice system in chaos, rife with corruption and mismanagement.

In the first trial, the police and prosecutors, who were later accused of accepting bribes from the drug cartel that officials say was run by Mr. Muñoz, steered a watered-down package of evidence to a friendly judge. A second trial, bolstered by stronger evidence from investigators in the United States, ended in a conviction. But a Mexican appeals court freed Mr. Muñoz, ruling that he had been illegally tried twice for the same crime.

During the trials, Mr. Muñoz was lodged in comfortable suites in Mexican federal prisons, including one with a bar.

"We knew he was going to walk from the date of his arrest," said an American official who spoke on condition of anonymity. "In Mexico the guy with the biggest pocketbook always wins."

Now Mr. Muñoz has been reported back in Ciudad Juárez, just across the border from El Paso, Tex., and American prosecutors are working to assemble yet another case against him.

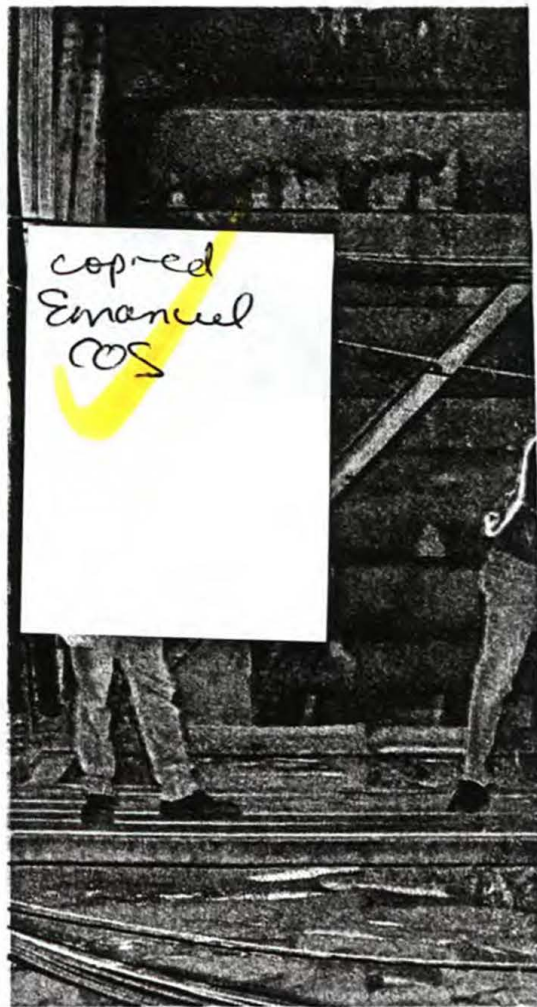
Mr. Muñoz did not respond to requests, left at his Juárez restaurant, to discuss his legal fight. But in December, in a newspaper advertisement, he denied any involvement in drug trafficking and described himself as a "simple and hard-working man." The lawyer who defended him in his seven-year legal battle, Sergio Roldán Ramos, was slain in Ciudad Juárez last October. Mr. Roldán's partners and other lawyers who have worked for Mr. Muñoz did not respond to requests for interviews.

Mr. Muñoz's release, and criminal comeback, dramatize the legal crisis threatening Mexico's modernization. The economy has opened up and op-



Diario de Juárez

Rafael Muñoz Talavera



Workers at Yankee Stadium were laying down steel beams. City inspectors

Yankee Stadium's S Rarely Checked, O

By CHARLES V. BAGLI and RAND

A day after a heavy piece of steel crashed onto empty seats beneath the upper deck of Yankee Stadium, city officials said yesterday that the landmark ball park visited by 2.5 million fans last year is rarely inspected for structural problems by either the city or the team.

Although the Yankees are responsible for maintaining the 75-year-old stadium under the terms of its lease with the city's Parks Department, Commissioner Henry J. Stern said there is no requirement for anyone to assess the safety of the stadium's concrete decks or steel beams periodically.

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Foiled Drug Pursuit of a Mexican Bares a System Rife With Graft

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position political parties are finding a voice. But criminal syndicates are casting a widening shadow and the justice system is riddled with graft and incompetence, mired in archaic procedures and shielded from accountability.

Mexicans hold every element involved in disrepute, from the police and prosecutors to judges and jailers. A 1998 United Nations survey asked Mexicans how much confidence they had in their judicial system and 80 percent responded "little" or "none," the worst showing of any Latin American country.

"We have a justice system immersed in the routine violation of every basic principle," said Eduardo López Betancourt, a law professor at the national university. "Nothing is respected. Prosecutors rig evidence and judges sell verdicts according to the highest bidder, without delay, favoring every kind of criminal from drug traffickers to car thieves."

Confronted with this crisis, American prosecutors routinely press to extradite traffickers for trial in United States courts. Although the extradition of Mexicans is constitutionally barred, officials in Washington say that Mexico has recently vowed to honor future extradition requests. Still, the United States Government has never successfully extradited a major Mexican drug dealer.

Four years ago, President Ernesto Zedillo of Mexico replaced the entire Supreme Court and set up a Judicial Council to attack corruption. By requiring competitive examinations, the reform cleaned up the system of judicial appointments, based on cronyism. But otherwise the council has been timid.

Mario Melgar, a council member, said that of 1,538 complaints filed against federal judges, only 8 had been forwarded to prosecutors. Not one Mexican judge has been punished for accepting payments from traffickers, he said.

"I don't see any way to know if a judge receives a bribe," Mr. Melgar said. "It's practically impossible."

The Justice System

Bribes Can Blind Judges to Crime

Many of the forces that foiled the prosecution of Mr. Muñoz are embedded in the nation's justice system.

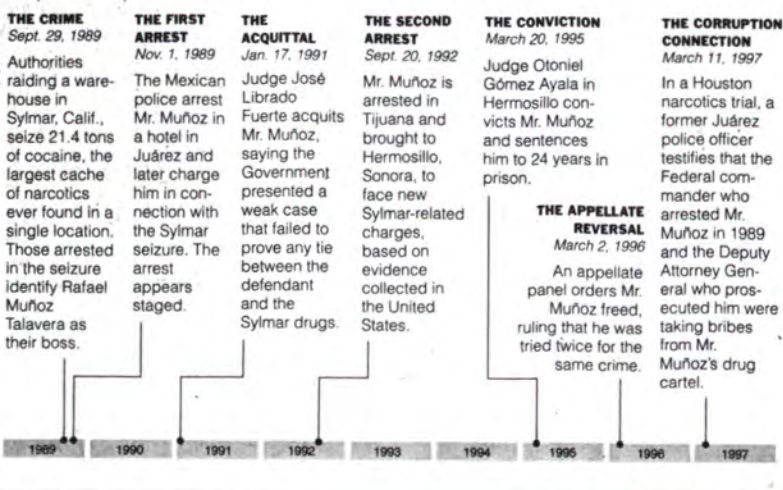
Graft is considered rampant. In the Muñoz case, only the police and a prosecutor were accused in American testimony of corruption, but many judges are also suspect. The General Accounting Office, the investigative arm of the United States Congress, told a committee in March that a specially vetted Mexican police unit fighting organized crime trusts only one of Mexico's 500 federal judges and magistrates to authorize wiretaps without tipping off the suspects.

Judges allow thousands of fugitives to avoid arrest. The police commander who led the arrest of Mr. Muñoz was later charged with taking bribes from the drug cartel. But he was never arrested because he obtained an amparo, or writ, barring his detention. For thousands of dollars, corrupt officials and accused traffickers can easily buy an amparo, amounting to what one American official likened to a "Get-out-of-jail-free card."

Court papers are secret, inhibiting accountability and independent scrutiny. Officials at the five Mexican courts that heard the various stages of Mr. Muñoz's case refused to allow reporters to read the trial record, citing laws that keep documents from scholars and journalists. The system is poorly managed. The judge in the second trial of Mr. Muñoz found him guilty, only to be reversed on appeal because he was tried twice on the same charges. Communications are so poor that the judge said in an interview that he had never even heard of the previous trial.

The Mexican Attorney General's office was in such disorder that 10 successive federal attorneys were assigned to oversee the second, 30-

The Prosecution That Failed



Rafael Muñoz Talavera seen in police custody after his arrest in Ciudad Juárez in 1989 with the rifles and handguns reportedly seized with him.



Traffickers are battling for control of the Ciudad Juárez drug cartel.

years in jail.

But his case went before a judge with a reputation for leniency. From the beginning, the circumstances of Mr. Muñoz's arrest aroused suspicions among American officials that the prosecution was rigged.

First, the authorities announced his arrest in advance, inviting reporters to film him as policemen escorted him handcuffed out of the hotel. Then the hotel manager said that the room in which Mr. Muñoz was arrested had been rented not by Mr. Muñoz, but by the police a week earlier.

"This was one of those deals that appeared to be prearranged," said a Texas lawyer involved in related proceedings who spoke on the condition of anonymity. "There was pressure on the Mexican Government to do something, and so they did something. Why arrest him in a hotel? It smacked that he made an appointment with the authorities so they wouldn't arrest him in front of his children."

Later, more disturbing information emerged. Two Mexican officials involved in the arrest and trial of Mr. Muñoz were accused in American court testimony of receiving huge bribes from his drug organization.

The police officer who orchestrated Mr. Muñoz's arrest and assembled the initial evidence was Elias Ramírez Ruiz, the powerful Federal Police commander in Chihuahua, the state in which Ciudad Juárez is situated. Javier Coello Trejo was the Mexican Deputy Attorney General, based in Mexico City, who channeled evidence received from American officials to Mexican prosecutors in Ciudad Juárez and supervised the Muñoz case.

Late in 1990, even before Mr. Muñoz's first trial ended, Mr. Ramírez and Mr. Coello were driven from office by a barrage of corruption charges. Since the resignation of Mr. Coello, several witnesses in at least three Federal trials in Texas have detailed how he received suitcases of cash from the Ciudad Juárez and other drug cartels.

Mexican press reports accused Mr. Ramírez of staging several phony cocaine seizures as window dressing for Mexico's antidrug effort. And two years later, Mr. Ramírez was

charged with narcotics smuggling and racketeering. Federal prosecutors sought his arrest, but he obtained an amparo from a judge and has never been detained.

The First Trial

Extradition Is Foiled By a 'Masquerade'

A year ago in a Houston courtroom, César Domínguez Becerra, a former police officer who worked for Mr. Ramírez in Ciudad Juárez at the time of Mr. Muñoz's arrest and trial, testified that both Mr. Ramírez and Mr. Coello were working with Mr. Muñoz's organization. Mr. Domínguez was asked to describe his duties.

"Sometimes it was to pick up money, and on other occasions it was to pick up drugs," he testified. "Sometimes it was to help with the sacks that we got off the planes."

"Did you also do police work?" he was asked by Jesse Rodríguez, an assistant United States attorney. "Sometimes," Mr. Domínguez said.

"On whose orders were you operating?" Mr. Rodríguez asked.

"Elias Ramírez Ruiz," he said. Later Mr. Domínguez testified that he had personally delivered bundles of cash from the cartel to Mr. Coello.

"Where did you deliver this money to Mr. Coello Trejo?" he was asked. "Sometimes in the Federal Police office itself," he said.

In an interview, Mr. Coello denied that he had accepted drug bribes, saying "no trafficker has ever paid me one cent." He scoffed at assertions that American officials suspected him of corruption, reeling off names of American agents with whom he had worked closely, and expressed outrage at accusations that he and his prosecutors had sabotaged the case against Mr. Muñoz.

"Why say that only prosecutors are corrupt?" Mr. Coello asked. "Don't you think some judges are corrupt too?"

Mr. Ramírez did not respond to interview requests made to him through his Ciudad Juárez lawyer, Francisco Peña González.

Mexican and United States officials said that American evidence in the Sylmar investigation was channeled to Mexico for use against Mr. Muñoz, although what was provided has never been made public.

Recently, however, a Mexican official who took part directly in the first prosecution of Mr. Muñoz described the Government's management of the case as a deliberate farce.

"It was a masquerade," the official said. "It was arranged ahead of time. They orchestrated a trial in Mexico so that Muñoz Talavera couldn't be extradited to the United States" for prosecution.

The official said that while the charges linked Mr. Muñoz to the drugs seized at Sylmar, the evidence presented in the first trial failed to prove the tie.

"The idea was not to present strong evidence," the official said. A second official on the Mexican Attorney General's staff who has studied the Muñoz case also acknowledged its weakness. The reason, he said, was that American officials became so suspicious of Mr. Coello's ties to the cartel that they

broke off cooperation. The United States Justice Department, however, has refused to discuss the proceedings.

Judge Librado Fuerte Chávez, who presided over the first trial, acquitted Mr. Muñoz of all charges in January 1991. Mr. Muñoz's release illustrated the blatant corruption surrounding the justice system in another way. The Mexican authorities had seized several Muñoz properties, including two ranches and a mansion. During the trial, prosecutors and their families had squatted in the homes. With the acquittal, the judge had to order them out.

A year later, a grand jury in El Paso indicted Mr. Muñoz on trafficking and money-laundering charges, and American authorities later requested his extradition. The Mexican police, acting on a tip from the Drug Enforcement Administration, re-arrested him in September 1992 in Tijuana.

Instead of delivering Mr. Muñoz to United States authorities, however, Mexico mounted a new trial, again on Sylmar-related charges, this time before a Federal judge in Sonora, the state south of Arizona. The second trial lasted nearly three years.

Two assistant United States attorneys and a team of Drug Enforcement Administration agents helped gather evidence, prepare testimony, and translate documents. Half a dozen American officials traveled to Sonora to testify.

Street Wars

Rivalry Threatens 'A Real Blood Bath'

But it was a waste of time. Although the second judge found Mr. Muñoz guilty in 1995 and sentenced him to 24 years in jail, an appellate tribunal overturned the conviction, ruling that Mr. Muñoz had already been tried and acquitted in Ciudad Juárez on the same charges.

Freed from prison, Mr. Muñoz returned to Ciudad Juárez, but another trafficker, Amado Carrillo Fuentes, had taken control of the cartel based there. Mr. Muñoz seemed for a time to administer his restaurant quietly. But when Mr. Carrillo died last year, Mr. Muñoz moved into action, officials from both countries said.

Francisco Barrio Terrazas, the Governor of Chihuahua, said in an interview that Mr. Muñoz forged an alliance with exceptionally violent traffickers from Tijuana, hoping to seize control of the Ciudad Juárez drug trade from Mr. Carrillo's followers. Months of narcotics killings have followed. One grisly slaughter that Mr. Barrio attributed to Mr. Muñoz and his Tijuana henchmen came last August when gunmen sprayed a Ciudad Juárez restaurant with gunfire, killing six.

In recent weeks, Mr. Muñoz has appeared to retreat from Ciudad Juárez, a Mexican official said. But Thomas L. Kennedy, the D.E.A.'s special agent in charge in El Paso, recently told an Austin television station, KTBC, that he expected the street wars between Mr. Muñoz and his rivals to continue. "It's liable to end up in a crescendo of violence, a real blood bath, before somebody backs down," Mr. Kennedy said.

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To decertify, or not?

Savory McCaffrey



There are better ways for the United States to battle against drugs

BY THE end of this month, the president of the United States will certify—or “decertify”—to Congress sundry countries around the world as reliable allies in his country’s war on drugs. One might think he had a bigger war to worry about this month, but the choice is not his: it is American law. And far more Americans have been and are being killed by heroin and cocaine than are immediately at risk over Iraq. But will Bill Clinton’s naming of foreign names help to win America’s drug war? Very probably not. Will it anger countries that are America’s allies both in that war and in other respects? Quite certainly yes.

The regions most concerned in this process are Latin America and the Caribbean. The countries there that look most at risk of decertification are Peru and Bolivia, which grow coca; Colombia and Mexico, which process it and pass it and other drugs north; and various bits of the Caribbean and Central America that are used mainly as way-stations by the traffickers. In practice, the list is shorter than that: Mr Clinton’s decisions will be closely scrutinised in Congress, but no one can stop him turning a blind eye to what he does not choose to see, and he can always apply a waiver in the name of that useful catch-all, “national security”.

This year, for instance, there are people on Capitol Hill who want Mexico decertified; but that, even if it were fair, would be hugely embarrassing. The United States has issues enough already with its neighbour and partner in the North American Free-Trade Agreement (NAFTA). Haiti is awash with drugs; but that is the country to which Mr Clinton restored the joys of democracy. With a bit of propaganda, more than one Central American country could be made to look like a

drug warehouse; and probably would be, if it were politically convenient, but happily it isn’t. In practice, the list of Latin American delinquents may come down to just one, Colombia; and even it can still hope for a waiver.

So why do nearly all Latin Americans object? They do not deny the United States’ right to fight its war; they do resent its sitting in self-appointed judgment over them like a schoolmaster over rows of inky boys. One with a cane, at that. For decertification goes beyond naming names: it can bring refusal of visas, loss of financial aid, at worst blockage of commerce. And though Colombia, decertified in 1996 and 1997, has in fact not suffered much, dislike of the big stick in a Yanqui hand is still alive among Latin Americans. Not least, they ask why all the blame, and the cost, of America’s drug problem should be cast on them. That is only half-true: Mr Clinton has just approved a \$17 billion anti-drug strategy for fiscal 1999, and there is a new readiness to accept that drug-using countries are open to blame. Yet, relative to size and wealth, Colombia spends more in cash—let alone chaos and lives—fighting drugs than the United States does.

A better way

There is a better way: Latin American countries have proposed that the Organisation of American States look collectively at each member’s anti-drug policies. Mr Clinton’s officials are open to this, but fear that pushing for it in Congress would let loose hard-liners who want more stick-waving and head-cracking, not less. That is a risk the president should take. The war on drugs cannot be won. But—if war is thought the way to go—it can be fought more sensibly.

*Copied
Berger
McCaffrey
Bowles*

does it again

for a stable West Africa without a democratic Nigeria

imperialists. The military thugs who a Leone’s elected government in May not going to leave power this April as igeria has just taken it upon itself to erians, too, who led the forces that last government to Liberia—after six years of bloody chaos. As West Africa’s biggest and richest power, Nigeria has taken a proprietorial interest in its neighbourhood. That was inevitable. No one else was so inclined. After the disasters in Somalia and Rwanda, no western government was prepared to send troops to the region. Nothing wrong, then, with a little Nigerian-imposed law and order? There would not be, if Nigeria’s motives were benign. But there are strong reasons to be sceptical.

Nigeria’s military leader, General Sani Abacha, ordered

his troops to boot out the junta in Sierra Leone without a mandate from the United Nations and without telling its secretary-general of his intentions, as he had promised (see page 44). He even failed to inform other West African governments who had troops in the country as part of the Nigerian-dominated West African peacekeeping force. What will the Nigerians do now? Will they depart, once they have restored Sierra Leone’s elected leader, Ahmad Tejan Kabbah? Or will they stay on, uninvited, and turn their attentions to the country’s diamond mines? The precedents are not good. They started digging up diamonds after the fighting in Liberia. Elsewhere Nigeria has been downright aggressive: in 1994 it invaded Cameroon, its eastern neighbour, and still occupies a chunk of oil-rich territory there.

After chasing out the military regime in Sierra Leone, Ni-



If Japan should crash

THE PRESIDENT HAS SEEN
5-11-98

Gu/ce UP
worth nothing
BC



Thanks to years of dithering by the government, Japan's economy faces further grief. Does it matter to the rest of the world?

FLAT on its back for years and showing few signs of life, Japan's economy was nonetheless still in the world of the living. When we last checked, that is. Reports of its imminent demise are now coming thick and fast. A world that had grown bored with the "Japan isn't growing" story is suddenly paying attention to the new "Japan will collapse and take the rest of us with it" story. You might argue, with reason, that an outright slump looks the only thing likely to persuade Japan's peculiar government to push through radical deregulation; or to force its industry to scrap excess, unprofitable capacity; or to unleash a gale of "creative destruction" and at last set the economy to rights. Well, the world may be about to find out.

Japan's economy has been hammered first by an increase in sales tax last year which choked consumer spending, and then by a collapse in exports to the cash-strapped East Asian economies. (Japan's exports to the region are two and a half times larger than America's or Europe's as a share of GDP.) In the three months to February, Japan's industrial production fell by an annualised 6% compared with the previous three months, and its GDP is expected to shrink in 1998 for the first time in more than two decades. As a result, more banks are likely to fail, and many large debt-laden Japanese firms are also likely to go bust (see page 15-17). As unemployment rises, worried consumers will save even more and spend even less.

Norio Ohga, the chairman of Sony, has warned that the economy is on the brink of a collapse that could cause a world-wide recession. He likened Prime Minister Ryutaro Hashimoto to Herbert Hoover, America's president at the onset of the Great Depression, for his failure to spur Japan's economy. The ¥16 trillion (\$120 billion) stimulus package announced by the government at the end of last month sounded impressive, but only about half of this is likely to be new money. The government could yet prevent a collapse in output by introducing big income-tax cuts to revive consumer and business confidence, but policymaking remains paralysed. Japan's recession could turn out to be even worse than advocates of creative destruction deem necessary.

Munch, munch

Suppose that happens, and Japan crashes. How worried should the rest of the world be? The OECD in its new *Economic Outlook* forecasts that America's economy will slow this year, mainly because of weaker growth in exports, especially to Asia, but it still expects growth of 2.7%—healthy by any standards. The European Union is forecast to grow at the same pace. But these forecasts assume that Japan's GDP falls by a modest 0.3%. What if Japan sinks deeper?

Even a worse Japanese recession need not scupper the world economy. One reason is that Japan, large as it is, accounts for only 13% of global GDP. Japan's weight in world trade—the main channel through which a recession would spread abroad—is also surprisingly modest. America's exports to Japan account for only 1% of its GDP, those of countries in the European Union only 0.5% of GDP. And, contrary

to popular wisdom, imports from Japan are only 2% of GDP in each case.

Moreover, a deeper Japanese recession is intuitively very different, so far as Europe and America are concerned, from the experience of the past six years. Japan's growth has averaged only 1.3% a year since 1992, say, 2½% less than its long-term average. This is equivalent to a total drop to potential, of 7%. In other words, unlike the 1990s, Japan has acted as a brake on the world economy. For outsiders, a worse recession than the 1990s. Its effects would be detectable elsewhere (as they have been already) but not devastating.

A further reason to be sanguine is that economic cycles are currently more out of kilter than for several decades. As Asia slumps, America and Britain have been booming, and economies in continental Europe and Latin America are picking up speed. As a result, strong economies can offset the impact of a downturn in Asia—which is better than everybody spinning downwards together. Weaker demand in Japan and the rest of Asia has actually served a useful purpose, preventing the American economy, which had been growing too fast, from overheating. America's growing trade deficit is a safety valve: it has prevented domestic demand from spilling over into inflation. The success of America and Europe in trimming budget deficits and curbing inflation also means that policymakers have room to cut interest rates or taxes to keep their economies healthy, should Japan's recession prove severe.

So much for the direct effect on the other rich economies of a severe Japanese recession. But two possible indirect effects are more worrying—a rise in protectionism as Japanese exports rise, and the risk of a stockmarket crash.

America's trade deficit is likely to widen sharply as a result of problems in Japan and the rest of Asia. If this encourages America to raise trade barriers and others to retaliate, a global recession may follow. But the biggest risk to America, and hence to the world economy, lies on Wall Street. It looks dangerously overvalued, yet share prices continue to climb. Some unexpectedly bad news from Japan might just be the event that brings investors back to reality and so causes a crash. Awkwardly, America's economy is more vulnerable to a drop in share prices than ever before. Almost twice as many Americans hold shares today (either directly or through mutual funds or pension plans) as in the mid-1980s. A fall in share prices will make a much bigger dent in the economy.

If America and Europe do stumble, politicians will be quick to blame the Japanese. But on present evidence the real blame in that event is more likely to lie either with trade-bashing politicians or with the Federal Reserve, which failed to raise interest rates last year to deflate the stockmarket bubble. Foreigners are right to urge Japan to revive its economy, but they will have mainly themselves to blame if Japan's woes spread to their own.

If Japan should crash

Guy/CC 00
worth reading
BC



Thanks to years of dithering by the government, Japan's economy faces further grief. Does it matter to the rest of the world?

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Moreover, a deeper Japanese recession would not be qualitatively very different, so far as Europe and America are concerned, from the experience of the past six years. Since 1992 Japan's growth has averaged only 1.3% a year, or more than a percentage point less than its long-term underlying rate of, say, 2½%. This is equivalent to a total drop in output, relative to potential, of 7%. In other words, unlike the rest of East Asia, Japan has acted as a brake on the world economy throughout the 1990s. For outsiders, a worse recession there would merely be more of the same. Its effects would be detectable elsewhere (as they have been already) but not devastating.

A further reason to be sanguine is that economic cycles are currently more out of kilter than for several decades. As Asia slumps, America and Britain have been booming, and economies in continental Europe and Latin America are picking up speed. As a result, strong economies can offset the impact of a downturn in Asia—which is better than everybody spinning downwards together. Weaker demand in Japan and the rest of Asia has actually served a useful purpose, preventing the American economy, which had been growing too fast, from overheating. America's growing trade deficit is a safety valve: it has prevented domestic demand from spilling over into inflation. The success of America and Europe in trimming budget deficits and curbing inflation also means that policymakers have room to cut interest rates or taxes to keep their economies healthy, should Japan's recession prove severe.

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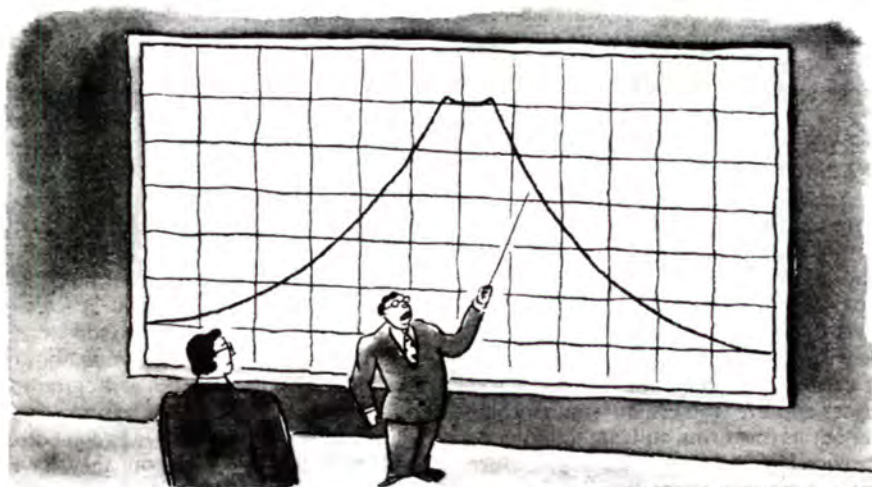
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JAPAN ON THE BRINK

THE PRESIDENT HAS SEEN

5-11-98



Worse to come

TOKYO

Swathes of Japanese companies are insolvent in all but name. Many of them are going to go under

THE invisible hand is giving Japan an almighty whack. First to feel the pain were the country's banks. Having lent immoderately large sums to just about anyone that wanted the money, they have been on the ropes ever since the collapse of stock and land prices earlier this decade. But another wave of casualties is coming, this time in the non-financial parts of Japan's ailing economy. The implications for output and jobs are serious, more so than many Japanese yet understand.

Up to now the country has been chiefly preoccupied with the unfolding financial mess, and this has indeed been bad enough. Last November the country narrowly avoided an outright collapse of confidence in its financial system. Such problems are almost certain to resurface—but it is ever more clear that the problems go wider. Now that the country's non-financial companies are in deep trouble too, Japan may be about to enter a vicious circle in which worries about the parlous state of its banks and its non-financial firms amplify each other.

The news gets worse by the day. On April 3rd, Moody's, a credit-rating agency, said in effect that it was unsure whether Japan deserved its top credit rating. For a country that runs a huge current-account

surplus and is by far the world's biggest creditor nation, this seems, at first sight, startling. But Moody's was only saying what many already know: Japan's economy is in a horrible state.

Anxious consumers are still curbing their spending; industrial production fell by 3.3% in February compared with the previous month; and the latest *tankan* survey of business confidence by the Bank of Japan, echoing a clutch of other surveys, was remorselessly awful. Corporate profits are slumping. Alex Kinmont, a strategist at Morgan Stanley, expects manufacturing profits to fall by 30% during the current financial year and those of non-manufacturers by 20%, though he says his forecasts may be too optimistic. The country's hugely bloated construction industry, which employs 11% of the workforce, is in the deepest mess; but look around Japan's corporate landscape and there is scarcely a bright spot to be seen.

Understandably, other countries are increasingly worried about the dismal condition of the rich world's second-biggest economy. At a meeting in London between Asian and European leaders last weekend, Ryutaro Hashimoto, the Japanese prime minister, was roundly chided for failing to revive his country's economy. Defensive in

London, on returning to Tokyo he admitted that Japan faced its biggest economic crisis since 1945. Hints that the government will announce tax cuts and/or big new increases in public spending have been coming thick and fast.

Looser fiscal policy would give the economy a badly needed short-term boost, but would fail to deal with a variety of deeper problems. In important respects, the country's problems are structural rather than cyclical. Simply stated, there are too many big, inefficient companies in almost every part of the economy. Many have survived, burning shareholders' cash, thanks to a financial system that has long tolerated—even encouraged—over-investment and over-borrowing in sectors that were never going to earn more than derisory returns. More recently they have been helped by the government's willingness to spend lots of money stoking demand, by the country's healthy exports, and by the Bank of Japan's super-loose monetary policy. That the economy has failed to respond shows how deep-seated the illness really is.

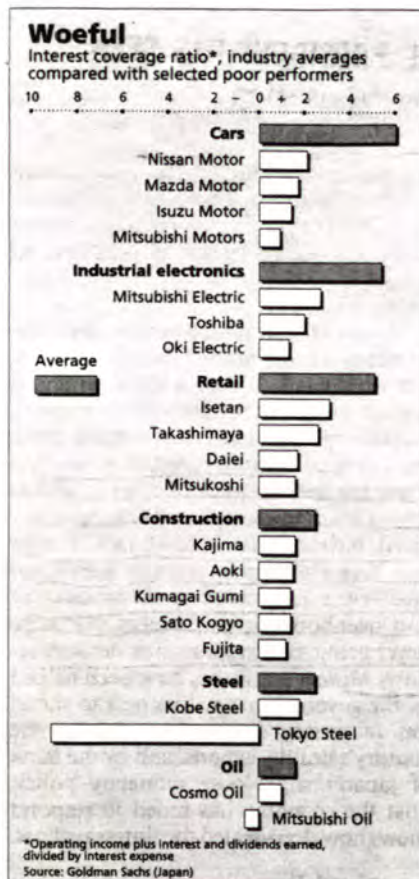
Invest and die

The problems for Japanese companies start and stop with the huge amount that they have invested over the years with little thought of profitability. At the peak, taking advantage of a surging stockmarket to raise cheap equity-linked debt, businesses invested almost 20% of GDP in early 1990. In America, it was about half that. Bizarrely, the investment did not stop when the bubble burst: companies have taken advantage of record-low interest rates to invest even more. Encouraged by deregulation in retailing, for instance, retailers have increased their floor space by half since 1990.

Apart from lots of unneeded factories and a surfeit of clothes shops, the result is a mountain of debt. Corporate sales have doubled since 1980 but debts have tripled. Taken as a whole, the manufacturing sector is not too indebted, but the debt-equity ratio for non-manufacturing companies (debt as a percentage of shareholders' funds, an inverse measure of a company's financial strength) is 159%, high by any standards.

For the past few years, these debts have been manageable—thanks largely to the Bank of Japan's lax monetary policy. Indeed, some 60% of the increase in overall company profits in the recovery that has just ended came from lower interest costs.

Official interest rates are still low, but new borrowing is nonetheless more expensive: banks have started to raise the price of



their loans to reflect the greater risk of bankruptcy. Companies are getting into deeper trouble because the economy is on the skids. And the implicit guarantee of a company's debts given by its main bank is worth much less than it used to be, because the banks themselves are in a mess. In addition to all the bad loans that they had already amassed, recession and the financial crisis in Asia are causing their good loan books to deteriorate rapidly.

Quite how much more companies are having to pay is hard to gauge—banks keep this information to themselves. But a good idea can be gleaned from the rates at which companies are prepared, in ever increasing numbers, to borrow in the bond markets. Yields have shot up, particularly since Yamaichi, then Japan's fourth-largest stockbroker, and Hokkaido Takushoku, a big commercial bank, went bust last November. Though the Bank of Japan flooded the financial system with liquidity to stave off a systemic collapse, and the government has promised squillions of yen to shore up troubled banks, those concerns have not gone away.

Increased interest charges have come at a time when operating profits are falling fast. For manufacturers' profits, the rate of capacity utilisation is crucial: the lower it is, the higher the unit costs of every widget they make. Weak demand means that output and operating rates are falling sharply.

Since the ratio of shipments-to-stocks is still at a ten-year high, firms will have to cut output—and prices—still more.

Bad enough, to be sure—but these averages lump together the good and the bad, and the bad is turning very ugly. Many companies are in danger of going bust. The non-manufacturing sector is in the weakest state. Having spent so much on building shops which consumers are failing to patronise, many retailers are in a bad way. Daiei, the biggest and most expensive, is also the worst off.

Yet, for sheer awfulness, construction firms are in a league of their own, despite feeding at the trough of public works. The leading companies—Shimizu, Taisei and Obayashi—are merely revising profits forecasts downwards (or declaring losses) as they write off overdue receivables, revalue or even sell off their land, slim their businesses and fire workers. But some second-tier outfits (big firms, still) are teetering on the edge. Like Tada and Tokai Kogyo, which failed last year, most are deeply in hock to a single bank rather than to a handful of lenders. Kumagai Gumi is vulnerable, but Sumitomo Bank has promised to stand by it as it restructures. The fate of companies such as Fujita, JDC, Sato Kogyo, Aoki and Daikyo is in the hands of their banks.

Lenders were keen to keep them afloat until the end of their financial year, for fear of turning more of the loans on their books bad. But a month into the new financial year another series of construction bankruptcies—bigger and scarier than last autumn's—is looming, as stronger banks choose to pull the plug on firms with no prospect of recovery.

Driven to destruction

Much of Japan's manufacturing industry is struggling too. Of the big car companies, for example, Toyota and Honda stand as remarkable exceptions—they have probably just earned record profits. But the others—Mitsubishi Motors, Nissan and Mazda—are on their knees. Nissan may have just scraped a profit, but it has been in trouble for years. Both Mazda and Mitsubishi are losing money; their debts are huge. The upshot is that the car industry as a whole is making enough (in operating and investment income added together) to cover its interest costs six times over, but only because Toyota and Honda are doing very well; Mazda's interest cover is only 1.7, and Mitsubishi's is 0.9 (see chart).

Weak sales of computers and domestic appliances at home coupled with tumbling prices of DRAM memory chips abroad have clobbered Japan's big electrical groups. All three of the country's electrical conglomerates—Hitachi, Toshiba and Mitsubishi Electric—have seen mounting losses in the brutally competitive DRAM market. This is the year that the three of them will have to

focus ruthlessly—as Sony has done—on a handful of high-growth sectors if they are to survive. None is “too big to fail” but the most vulnerable is clearly Mitsubishi Electric. It lost ¥70 billion (\$570m) last year.

The smokestack manufacturers, particularly the steel companies, are in a dreadful hole. Though Nippon Steel, in particular, has restructured fairly diligently, all have been dealt a severe blow by falling demand for their high-quality steel from the car and electronics industries at home and from buyers elsewhere in Asia, themselves reeling under their own troubles. Meanwhile their arch rival, South Korea's Posco, has been given a big competitive boost by the devaluation of the won. The stockmarket fears that two at least—Kobe Steel and NKK—may fail to survive.

Oil companies are in a similar bind. They pump almost no oil out of the ground and rely for their profits on refining and distributing the stuff. They are bad at both. Long protected by regulation, they have failed to keep their costs under control. On top of that, deregulation—which is allowing more imports of petroleum products and, from April 1st, the introduction of self-service petrol stations—is causing pain. So dearly were banks and financial markets going to charge the oil companies for new borrowing that in March the government had to step in to lend them more cash. The markets are most worried about the privately owned Idemitsu Kosan and two other big firms: Cosmo and Mitsubishi Oil.

Japan's experiences are salutary for those who think that investment should be encouraged at all costs, or that bureaucrats are better at allocating resources than markets. Some pundits used to claim that Japanese companies could build long-term profitability—in contrast to American companies, ever at the mercy of quarterly results. So much for that theory.

Japanese companies have never cared much about profitability, long-term or any-term. At 4.4%, the return on equity of the non-financial companies listed on the To-



kyo Stock Exchange is dreadful by any standards, and has been falling for years. Many companies claim now that they want to increase returns, but they have done almost nothing that involves any pain (notably, sacking people). The chairman of Mitsubishi Heavy Industries, Japan's largest maker of heavy machinery, probably spoke for many company bosses when he said recently that "profit maximisation is inappropriate for manufacturing industry". Increasing market share and keeping people employed has always been, and remains, the higher priority.

Markets and messages

Japanese companies concentrated on investment not profits because the financial system and the tax regime encouraged them to do just that. Efficient capital markets have never been allowed to develop. Markets send embarrassing messages about how, where and at what price capital should be allocated—best to ignore them, Japan used to think. Though the Tokyo Stock Exchange looks like a normal stock-market, it isn't. Above all, it is not a market in corporate control. Cross-shareholdings have made that almost impossible. Unprofitable companies, the ones that squander capital, cannot be taken over.

The main suppliers of capital, the banks, have also been remarkably unconcerned that their money be put to good use. Banks were big shareholders in the companies they lent to; and they did not worry (as banks do in other countries) that their big debtors might go bust. A company's main bank implicitly guaranteed its debts. Lending was collateralised, mainly by land. Bankruptcies among big firms were rare.

The corporate tax system must also shoulder some of the blame. Companies' effective tax rate—especially for smaller ones, with little scope for sheltering their profits—hovers at just over 50% in Japan, compared with 41% in America. Trying to shield profits from so large a tax bite has led to all manner of corporate abuses. One of the worst has been the urge by management to depreciate assets as fast as possible irrespective of their useful life.

The results of all this—bad investment on a breathtaking scale—are only now becoming plain. How much worse might things get? Consumer sentiment was hit hard enough by the collapse of middling companies. The failure of a big one would almost certainly knock it for six. That would put still further pressure on companies to slash output and prices in order to get rid of the mountains of unsold goods now cluttering stores and showrooms.

Such a failure is becoming more likely thanks to a number of changes about to be introduced. The first is in Japanese accounting, which is about to become more revealing. Like America, Japan is moving

towards adopting International Accounting Standards (IAS). Starting next April, Japanese companies will have to produce full consolidated accounts—something provided now by only a few of the healthiest.

At present Japanese accounts are, to a greater extent than elsewhere, bottom-up affairs: firms decide what profit they want to report and then fill in the numbers accordingly. Losses that threaten the final figure can be covered by cashing hidden reserves; embarrassing surpluses (rare at the best of times) can be allocated to "research and development". In a country where shareholders are an afterthought, accounting methods have evolved to render profit, or lack of it, somewhat meaningless.

One of the worst aspects of Japanese accounts is their treatment of subsidiaries.



These are left off the parent company's accounts if its shareholding is less than 50%. As long as they own less than that, parent companies in Japan can hide ugly things from tax inspectors. Next year's introduction of consolidated accounting will force companies to take on to their books subsidiaries in which they have effective control, even though they may have only a minority stake. At the same time, they will have to adopt marked-to-market valuations for all their tradable securities, putting an end to the hidden-reserves era of corporate accounting. Together, these changes will force companies to reveal unpleasant truths.

The second change is that, in return for agreeing to a reduction in the corporate tax rate, the Ministry of Finance is closing a number of loopholes. One of these is likely to be the "completion method" of accounting used by construction firms to put off paying their taxes. Japanese builders defer the recognition of profits until a construction project is completed, expensing everything up front. They pay their taxes eventually, but they gain in the meantime from an inflated cashflow. Under the coming reforms, construction firms will have to match their expenses and revenues more

closely. That will put even greater strain on their already depleted resources.

But the biggest time-bomb hidden in Japanese accounts is the horrifying amount of unfunded pension obligations that have been piling up and now threaten to topple many firms. This is happening just as the greying of Japan's population gathers pace. According to Timothy Marable, an analyst at UBS Securities in Tokyo, the pension-liability figure that (sometimes) appears in the company's accounts is the legal minimum, not the actuarial liability. In a study of 26 blue-chip Japanese firms which do their accounts the American way, Mr Marable found that, on average, the assets in their pension funds covered only 60% of the projected benefits. Making matters worse, some of the firms had chosen implausible discount rates (with the effect of reducing their estimated liabilities).

The most vulnerable was Tokio Marine & Fire Insurance, which had the lowest ratio of assets to liabilities (0.4) and had used the highest discount rate (5.5%) of the group. Those with below-average solvency ratios included household names such as Komatsu, Mitsubishi Electric, Mitsui, Toshiba, Sony and Fuji Photo. Only the giant supermarket operator, Ito-Yokado, came close to having a fully-funded pension plan. And note that this is the situation among companies that have already adopted proper accounting methods. These are unlikely to be the worst cases.

The going rate

Pressure to change is sure to mount further. No longer able to rely on tame banks for cheap capital, companies will have to turn increasingly to the capital markets. But investors—Japanese and foreign—will require higher returns and greater transparency if they are to invest. Japan is turning from an economy where capital is abnormally cheap into one where it costs what financial markets dictate.

Many companies simply cannot afford to pay that rate, and will go to the wall. Over the next few years, bankruptcy rates, already at an all-time high, will climb higher still. Unemployment could easily double from today's 3.6%.

To survive, companies will have to do the unthinkable. They will have to merge. They will have to sack surplus workers. They may have to seek salvation—could it really come to this?—in the arms of foreign firms. Right now, corporate Japan and the Japanese government would both find it wholly unacceptable for, say, Volkswagen to acquire Nissan, or General Electric to buy Toshiba. After a string of dramatic failures, such acquisitions may come to be seen as necessary and even desirable. That would mark the final demise of the Japan Inc way of doing business.

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The Economist

FEBRUARY 21ST 1998

THE PRESIDENT

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Asia's coming explosion

THE nouns used to describe events in East Asia in the past year have been dramatic: turmoil, crisis, collapse. The adjectives, however, have been more reassuring: economic, financial. Such words are little comfort if you are among those in South Korea, Thailand or elsewhere who are now unemployed, or about to be. But reassurance lies in the fact that economies recover, financial markets revive, often quite quickly. And the economic and financial signs are looking rosier, as countries begin taking their cures and investors return, looking for bargains. However, a new adjective is about to take over, putting that rosiness into considerable doubt.

The new word is political, and its first home is South-East Asia's most important country: Indonesia. There is now at least an even chance that this nation of almost 200m people will shortly erupt in murderous violence. Already, protests of various sorts have broken out, mostly in provincial cities (see page 37). Only five people are so far known to have died, but trouble is spreading as fear of rising food prices, and shortages, spreads too. So far, the army seems solidly behind the government, which itself appears united. But the most worrying thing is that President Suharto, who has run the country ever since its last episode of bloodshed, in 1965, appears gripped by self-delusion. Determined to protect the business interests of his family and cronies at all costs, this 76-year-old is behaving as if his own, and the economy's, mortality can be postponed indefinitely. He is testing his neighbours', his financiers' and his people's patience.

Termination, without respect

The most immediate sign of this is somewhat technical, at first sight. For several weeks, Mr Suharto and his circle have let it be known that their chosen remedy for the Indonesian currency's 75% collapse against the dollar in the past year is to repeg it and back a new, much stronger rate with a currency board. What that means is that the government would pledge to back every rupiah with a dollar at the fixed rate, buying up any rupiah that holders want to sell. This works well in Hong Kong, and has survived against the odds in Argentina. It has the virtue of ruthless clarity, and if the rate held it would restore the solvency of the many Indonesian companies that are bankrupt at the current rate.

Yet that phrase—ruthless clarity—is the key. Currency boards work when their governments have the dollar reserves needed to make the guarantee credible, which at present Indonesia does not. And, most important of all, they work when the government is strong enough and durable enough to pay any and all the economic prices—a sharp monetary contraction, vastly higher interest rates—that may from time to time



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to float an idea, endure the storm of protest about it, and then go ahead anyway. And, plainly, he is desperate for a magic solution to his country's woes.

So what should outsiders do? With him, it will be said, there may be chaos, but without him it will be even worse. The first, limited answer is that he must be given no political support—otherwise, the risk is that Mr Suharto will be the Shah of Iran of the 1990s. The second is that the financial discipline imposed on him by his foreign rescuers should be as ruthlessly clear as his own currency plan: if he goes ahead, the IMF rescue must be withdrawn, no matter what, along with the foreign-government monies that backed it.

The consequences of that could be grave. But the future may well be bleak anyway. The hope must be that Mr Suharto's army backers will prove less loyal than they now seem if violence spreads and if such financial discipline is imposed. The army has a special place in Indonesian life; there are even seats reserved for officers in the country's parliament. Though the army can be brutal and corrupt, it is probably the most reliable institution remaining in the country, and is thus best-placed to begin the process of change—even towards democracy.

The biggest mistake would be to under-estimate Indonesia's importance. Already, Asia's most senior statesmen are issuing dark warnings about the tragedy they see emerging in this complex, mostly Muslim, country, whose 13,677 islands envelop the region. They fear millions of Indonesian refugees turning up on their shores. They fear, most of all, that the chief victims of the violence will be the ethnic Chinese who make up 3% of the population but own much of the wealth, and that this would put pressure on them and, most important of all, on China itself, to respond in some way. And, even if they are sanguine about some of those consequences, they know that an explosion in Indonesia will bring on a new, darker phase of Asia's economic crisis—which could in turn bring political change elsewhere.

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be needed to defend the rate. They do not work well when your dictator is 76 years old and plainly dedicated to protecting his family's businesses at others' expense, and when riots are breaking out around the country.

This week President Suharto sacked his central-bank governor for opposing this scheme—or, in the official phrase, he "terminated him with respect". This occurred despite warnings from the International Monetary Fund that if the plan goes ahead, it will withdraw the \$43 billion bail-out it put in place last autumn. Mr Suharto has apparently told Germany's finance minister that he will reconsider. But his recent habit has been

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*Source:
for original article*

Sandy Berger relives Vietnam

BACK in 1972, when he was working for the McGovern campaign, young Bill Clinton met a budding foreign-policy wonk named Sandy Berger. Both men opposed the Vietnam war, and both agreed on its main lessons. These were, first, that public support for military engagement was indispensable; and, second, that America should never get bogged down in open-ended foreign conflicts. Now, as President Clinton's national security adviser, Mr Berger is preparing for the bombing of Iraq. The lessons of Vietnam still haunt him.

Mr Berger is not a natural television type. He is plump, dishevelled, lawyerly; his ego is of modest size; he is the grey guy with the fat briefcase. But, in the service of that first lesson from Vietnam, he has taken to the air this week to make the case for his Iraq policy. It is a rule of the television age that, although politicians can address cameras from the comfort of their offices, they must endure inconvenience to earn serious airtime. And so Mr Berger flew to Columbus, Ohio, to take part in a "town hall" meeting modelled on the robust democracy of the pre-television age. The town hall (a basketball arena, actually) was then beamed across America; indeed, it was beamed as far afield as Iraq, since the White House took care to give Saddam Hussein's favourite station, CNN, a world exclusive.

In some ways, the town hall was a great success. All 90 minutes were carried live, and then repeated in the evening too—no mean feat given that coverage of foreign policy on the main networks has halved over the past decade. Yet the drive to sell Iraq policy is not going well. Polls suggest that, over the past fortnight or so, opinion has swung against bombing Iraq: a new CNN survey has 50% against, and only 41% in favour. Anti-war hecklers disrupted the town hall meeting in Columbus too: "One, two, three, four, we don't want your racist war" came their chant, echoing the Vietnam protests with which the young Mr Berger sympathised. But neither polls nor hecklers seem likely to persuade Mr Berger to back down, whatever the first lesson from Vietnam. "I appreciate all of you coming; I appreciate most of you listening," he said tartly in Columbus.

Mr Berger wants to live by the second Vietnam lesson too; but doing so is proving just as difficult. In the first year of the Clinton administration, the phobia about getting bogged down abroad intensified dramatically with America's humiliation in Somalia. A new dictum arose: that America should not use force without a clear "exit strategy". In 1996 Mr Berger's predecessor, Anthony Lake, elevated this notion to the status of a "doctrine": "before we send our troops into a foreign country, we should know how and when we're going to get them out."

In practice, as Gideon Rose argues in the latest issue of *Foreign Affairs*, foreign interventions are never quite this tidy. In 1995, when the Dayton peace accord was signed, the Clinton administration swore that American troops would be out of Bos-

nia within a year. But it then extended this and now, with Mr Berger at the helm, it deadline as well and, sensibly, to refrain. However strong the fear of getting bogged down finds the chaos that would follow from Bosnia even less appealing.

The same is true now on Iraq. Mr Bush, Mr Hussein's arsenals, but he is careful not to destroy all of them, or that there is anything from building new weapons. He America must be prepared to bomb Iraq about its mission. Plenty of critics

Berger would topple Mr Clinton. America could then claim to have solved the Iraq problem for good. But there is no UN mandate for this, and it took 26,000 troops to hunt Manuel Noriega down in tiny Panama. So the administration prefers to hit Iraq from the air, if necessary at frequent intervals.

In sum, Mr Berger is prepared to set aside the two lessons of his youth: he seems willing to defy increasingly sceptical public opinion, and to embark on a bombing campaign that may not work the first time. This break with past thinking might have been enough to prompt some past national security advisers to proclaim (in charismatic Central European tones) a whole new conception of foreign policy. Mr Berger, by contrast, has not much taste for grand ideas; he is happier composing lists of phone calls that need making. But there is another reason why he has refrained from trumpeting his rethink of Vietnam. Though events have shoved him down this path, he is not remotely happy about it.

When it comes to public opinion, he is right not to be. If the polls show minority support for bombing now, they are likely to show even less when Mr Hussein produces photos of maimed Iraqi civilians. If public opinion goes sour, in these days of the permanent campaign, the administration may lose its will to persist in toughness. This being the case, the only way Mr Berger can contain Iraq's weapons programme is to win over the public. CNN is a part of his armoury, as important as cruise missiles.

But when it comes to the fear of getting bogged down, Mr Berger could usefully repudiate the lesson of Vietnam more forcefully. There is nothing wrong with extended military commitments overseas: think of NATO, or America's deployment in East Asia. There is nothing wrong, either, in committing troops indefinitely to full-blown war if the cause is large enough: FDR did not fight Nazism while proclaiming an exit strategy. America needs to decide whether a given problem affects its national interest gravely enough to warrant force; and then, if it does, to commit force until the job is done. The challenge, admittedly, is to get the public to go along with this: for it is not just America's leaders who are marked by the Vietnam experience.



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nia within a year. But it then extended the deadline to June 1998; and now, with Mr Berger at the helm, it proposes to ignore this deadline as well and, sensibly, to refrain from setting new ones. However strong the fear of getting bogged down, Mr Berger evidently finds the chaos that would follow America's withdrawal from Bosnia even less appealing.

The same is true now on Iraq. Mr Berger proposes to bomb Mr Hussein's arsenals, but he is careful not to claim that this will destroy all of them, or that there is anything to prevent Mr Hussein from building new weapons. He therefore concedes that America must be prepared to bomb Iraq repeatedly if it is serious about its mission. Plenty of critics in Congress wish Mr

Berger would dispatch troops to topple Mr Hussein, so that America could then claim to have fixed the Iraq problem for good. But there is no UN mandate for this, and it took 26,000 troops to hunt Manuel Noriega down in tiny Panama. So the administration prefers to hit Iraq from the air, if necessary at frequent intervals.

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Once again, Indonesia starts living dangerously

JAKARTA

It is not too late for Indonesia to pull back from the brink of a collapse into mayhem and bloodshed. But time is running short

"LIKE a Greek tragedy," says one veteran Indonesian political analyst who, like many others, feels he is a helpless spectator to a remorseless slide towards economic, social and political chaos. The achievements of the 32-year rule of President Suharto—steady economic growth and relative social harmony—are unravelling so fast that some fear his regime may end up where it started: with the country in a shambles and wracked by communal bloodshed. Catastrophe could still be averted by far-sighted political leadership; but little of that seems on offer.

Of the countries directly battered by East Asia's financial turmoil, Indonesia seemed to have the strongest potential for continued growth. Now it is the farthest from recovery. Its currency, the rupiah, has suffered the most vertiginous fall, from about 2,400 to the dollar last July to 8,500-10,000 this week. At this level, most Indonesian companies and banks are technically bankrupt in the face of private-sector foreign debts of more than \$70 billion. Prices are shooting up and many imported goods, such as medicines, are hard to find. Parents complain they cannot get powdered milk for their babies. There are even fears that chickens and eggs may soon vanish from the shops as poultry farmers, unable to afford imported feed, slaughter their stock. In the east of the country's long archipelago, prolonged drought has led to food shortages, which are expected to worsen.

The rising price of essentials, such as rice and cooking oil, has led to panic-buying. Shortages are aggravated by distribution failures and by shops shutting in fear. Some 40 towns, mainly but not only on the most populous island of Java, have seen rioting and looting. Five people have already died in the violence. Usually it is directed at ethnic Chinese shopkeepers accused of hoarding or profiteering. The Chinese, who make up about 3% of the population, own a disproportionate share of the wealth.

Remembering the carnage of 1965-66, when some 500,000 Indonesians, many of them Chinese accused of being communists, died, some Chinese are preparing to flee. With much of the army deployed in Jakarta, the capital has been relatively trouble-free. Elsewhere, in some towns outnumbered policemen and soldiers have simply watched the looting. Even rich and well-connected Chinese were alarmed when Sofyan Wanandi, a prominent ethnic-Chinese tycoon (and a former student leader who supported Mr Suharto's rise to power) was interrogated about improbable contacts with an outlawed group of radicals said to have been making a bomb.

In neighbouring Singapore and Malaysia, there are fears of an exodus of Indonesians leaving as boat-people, or even turning to piracy in desperation. The region fears its own future is at risk as Indonesia crumbles. Yet when Jakarta turned to the International Monetary Fund for help last October, it seemed to enhance its reputation for prudence by doing so before, rather than after, it had gone bust. It was rewarded with a huge IMF-led rescue package worth \$43 billion. In October, and again last month, Mr Suharto agreed to drastic structural reform that, if implemented, would make Indonesia's among the most open economies in Asia; it would also dent the massive commercial interests of his own children and friends.

That the economy nevertheless keeps spiralling downwards seems to be blamed by the president on the IMF, and on the



The looters were here

economists in his cabinet whom he had trusted to fix the mess. Mr Suharto claims he has done what he was told, and it has not worked. On February 17th, he sacked the governor of the central bank. The finance minister is unlikely to reappear in the new cabinet to be appointed next month. The removal of these two "technocrats" will further erode investors' faith in Mr Suharto's judgments. So, too, will the rift that has developed between him and the IMF.

Criticism of the effectiveness of the IMF-prescribed reforms would carry more weight if a real effort had been made to implement them. In January, for example, Mr Suharto promised to dismantle many of the monopolies and cartels which control trade in some products. But he seems to have forgotten to tell the monopolists: the plywood cartel, run by his golf-partner,

Mohamad ("Bob") Hasan, continues to issue instructions to its members. Restructuring of the financial system, awash with red ink, has barely begun—although 16 of Indonesia's 240 banks were closed down last year, and others have been told to raise their capital. Most of the private banks seem unlikely to meet the new criteria (only ten currently qualify). They might face nationalisation, which would wipe out a big chunk of



corporate wealth, including some that belong to the Suharto family.

But Mr Suharto has found what looks like a quick fix. Through his children, he was introduced to Steven Hanke, an American economist who believes that the way to restore confidence in Indonesia's economy is through pegging the rupiah to the dollar by means of a currency board, as Hong Kong, Argentina, Bulgaria and others do. This would require the monetary base (rupiah notes, coins, and deposits with the monetary authorities) to be fully backed by reserves of dollars. It would be impossible to issue new rupiah without an inflow of foreign currency.

Mr Hanke argues that the experience of other countries shows such a system would

bring interest rates tumbling down. On February 17th, he reverted to professorial type and told reporters that those who wrote otherwise would "fail their exams". Since the overnight interbank rate is between 40% and 50%, and industry is crippled by the liquidity crunch, this is a siren song. Not everyone agrees, however. Many predict that a currency board would come under immediate pressure, forcing interest rates sky-high. Mr Suharto has yet to demonstrate the necessary commitment to seeing through any reform, so his devotion to this one would be tested to its limit.

Critics of a rushed currency board include the United States, Europe and (privately) the governments of Indonesia's South-East Asian neighbours. Most impor-

tant, the IMF is sceptical and has threatened to withhold its loans. Many Indonesians are, not surprisingly, confused: ready to believe the worst of the IMF, but likewise sceptical of their president's motives. Some see the real point of a currency board as being to allow Mr Suharto's family quickly to change their remaining rupiah holdings into dollars at an artificially high rate. Others whisper that if the IMF were to withdraw, then Mr Suharto might finance a currency board himself—repatriating some of his fabled off-shore billions disguised as loans from friendly governments.

Old man of Java

Such wild theories illustrate one truth about Indonesian politics and economics: how much they remain dominated by Mr Suharto himself. He is 76, but will almost certainly be granted a seventh five-year term as president by the People's Consultative Assembly, which starts a ten-day meeting on March 1st. Even doubts about his intended vice-president (and, constitutionally at least, potential successor) were dispelled on February 18th, when the army announced its backing for the man believed to be the president's choice, Bucharuddin Jusuf Habibie, the minister of research and technology. The only other candidate—a respected former cabinet member, Emil Salim—has the support of Indonesia's democracy activists and some technocrats in the government itself. But his is a purely symbolic gesture.

Mr Habibie is unpopular with foreign investors, since he is associated with ambitious but economically dubious projects to develop high-technology industries, such as aircraft manufacturing. Some Indonesians, nervous about a drift away from secular politics, are also suspicious of his chairmanship of an influential association of Islamic intellectuals.

The alarm may be based on a misconception: that Mr Suharto sees him as a successor. On the contrary, the president seems to have no intimations of mortality. He has always been adept at ensuring that he has no credible rival. A reshuffle among the army top brass this month had a similar effect. The new commander is a loyalist, and the army's strategic reserve (from where Mr Suharto launched his power-grab in 1965) is now led by his son-in-law.

So even those hoping for swift political change in Indonesia can envisage it emerging only from a collapse. The army, they believe, might throw its weight behind an opposition coalition, which could soon start attracting defectors from Mr Suharto's regime—but only after economic meltdown and a breakdown of social order. Indonesia's predicament is frightening: those indulging in such speculation count themselves among the optimists.

Ballots and bombs

DELHI

ELECTION violence is common in India, but the bomb blasts that killed more than 60 people over four days in the southern textile centre of Coimbatore represent a sinister new trend. Police say the explosions were engineered by two Islamic militant organisations, Al-Umma and the All India Jihad Committee, which have now been formally banned. The carnage could produce a Hindu backlash that helps the Bharatiya Janata Party (BJP) get closer to winning a majority in the polls that began on February 16th, and will continue in phases with a result in early March.

The Hindu nationalist BJP is publicly outraged by the blasts, but secretly thinks it could benefit. One explosion took place near the site where the BJP president, L.K. Advani, was scheduled to address an election rally. The party immediately declared this to be an attempt on

his life. Police, however, say the explosion took place too far away to be an assassination attempt. A BJP spokesman also claimed that several Islamic militants had strapped explosives to their bodies to act as human bombs. The police said there was no evidence at all of this. That hardly bothers rumour-mongers in the BJP. A former prime minister, Rajiv Gandhi, was killed by a suicide bomber in 1991, and that generated a wave of sympathy which yielded his Congress party a bonanza of votes.

Sitaram Kesri, president of the Congress party, was so dismayed by the bombings that he accused an associate organisation of the BJP of planting them just to win sympathy. The BJP has threatened to sue Mr Kesri for defamation.

All this distracts attention from the serious threat of Islamic terrorism that Coimbatore reveals. The city has long been troubled by conflict between Hindus and Muslims. In December, Islamic militants set off bombs in three trains to mark the fifth anniversary of the demolition of a disputed mosque in the north Indian city of Ayodhya by a Hindu mob. The battle has now been carried further, and may be difficult to quell. Worryingly for India, just as the world's largest democracy goes to vote, the type of explosive used to make the bombs in Coimbatore is easily available, and the police are probably too ineffective to foil determined militants.

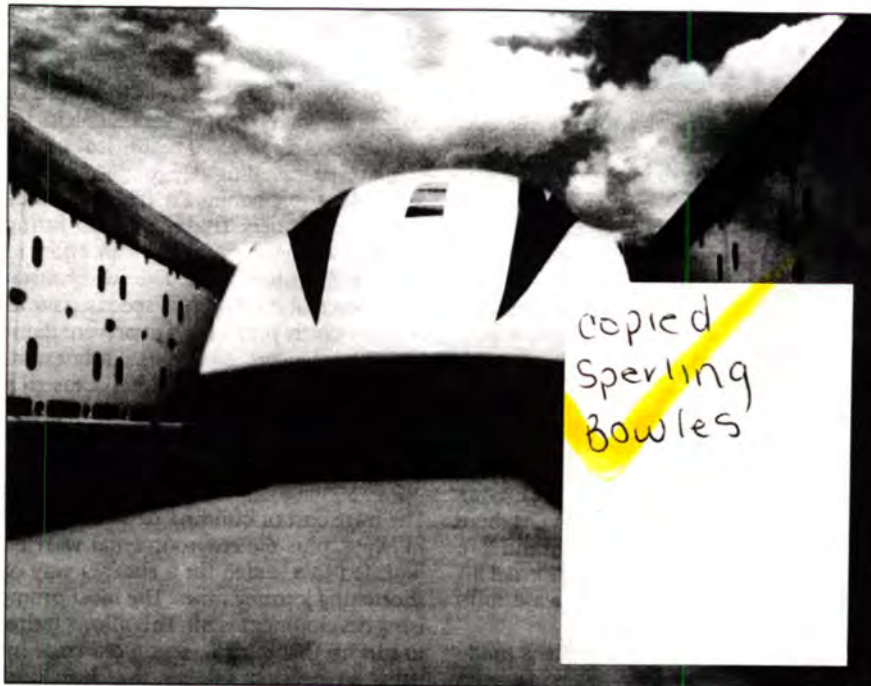


The human toll

THE NEW AGE OF THE TRAIN

THE PRESIDENT HAS SEEN

5-11-98



A better way to fly

All over the world, railways are reviving thanks to technology, deregulation and road congestion. Another day of the train may be dawning

THE MLX-01 magnetically levitated train makes a low banshee wail as it hurtles at nearly 350mph (560kph) along a test track near Tokyo. It is the sound of renewed confidence in the future of railways. At the end of last year, the Japanese test vehicle broke one speed record after another, going faster than any train has ever gone before. Not since the 1930s, when the Orient Express thundered across Europe and the Zephyr criss-crossed the United States, have railways seemed so glamorous. After years of decline, as car and airliner relentlessly advanced, high-speed trains are fighting back.

Both the Japanese and the German governments are investing huge sums in magnetic levitation, which uses high-powered magnets and linear-induction motors to lift, guide and propel trains on a cushion of air along a concrete track. After trials stretching over three decades, a "maglev" train is tantalisingly near to full-scale commercial operation. The construction of a 250mph maglev link between Hamburg

and Berlin, which will cost DM9.8 billion (\$5.4 billion) but will cut the time of a journey to under an hour, is due to begin in 1999. Commercial operations are expected to start in 2005. The Japanese government, beset though it is by financial problems, is also likely to decide next year whether to back an ¥8 trillion (\$60 billion) maglev track between Tokyo and Osaka.

Magnetic levitation is the most radical advance in rail technology since the days of Stephenson's Rocket nearly 200 years ago—but ordinary trains have also begun to go much faster. High-speed trains using conventional steel wheels on steel rail are no longer a rarity. Twelve countries have passenger trains operating at average speeds of more than 125mph. Another 16 new high-speed railways are under development from Australia and Korea to Sweden and the United States. A European consortium led by Siemens and GEC Alsthom, an Anglo-French group, has just been awarded a contract to build a \$13.4 billion high-speed

line in Taiwan. And journey times in Europe are being dramatically cut by special high-speed tracks that have spread like tentacles across the continent (see chart 1).

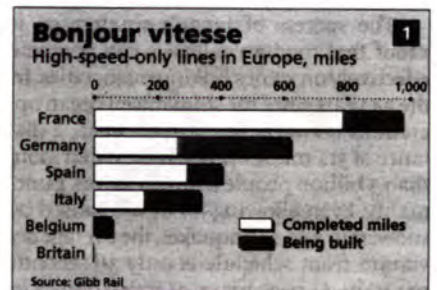
The French Train à Grande Vitesse (TGV), with its cruising speed of 185mph, has cut the journey between Paris and Brussels to 85 minutes, a saving of more than half an hour. Spain's Alta Velocidad Española (AVE) express does the 294 miles from Madrid to Seville in just over two hours, at an average speed of 131mph. Germany's Inter-City Express (ICE) trains zip from Göttingen to Hanover in 28 minutes at an average of 125mph. In Italy, dedicated high-speed track is being built from Rome to Naples and from Florence to Bologna. The fast rail-link from London to the Channel was planned to open in 2003; the original contractor, London and Continental Railways, has run into well-publicised financial difficulty. But, if or when the link is eventually completed, the journey from London to Paris will take only two hours and 20 minutes, 40 minutes less than now.

Even quicker journeys lie ahead. Japanese and French engineers are racing to develop an ultra-fast train that can cruise at 225mph. Jean-Claude Raoul, technical director of GEC Alsthom, predicts that speeds of 300mph will be commonplace on conventional railways in the 21st century.

The rival that lost its glamour

New technology is not the only reason for renewed confidence in the future of rail travel. Investment in railways around the world is growing because governments accept that the car, the train's chief competitor, is running out of space. Congestion and pollution in many countries are now so bad that politicians are obliged to restrain road traffic either by price or by regulation. The economic balance, so long tilted against rail, is beginning to shift.

Half of all American expressways slow to a crawl during rush hours every day. More than 100m Americans live in cities where vehicle emissions regularly exceed federal health standards. As urban and in-



ter-urban congestion worsens, more and more countries are seeking to restrain the use of cars by levying road-user charges with electronic road-pricing systems. Regulation to restrain both car and lorry traffic is also increasing.

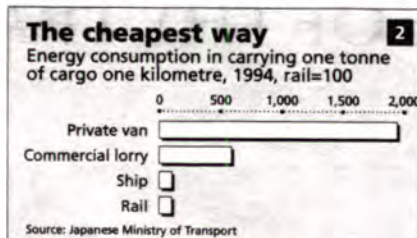
Many Italian cities exclude cars from their central areas. France prohibits heavy vehicles on motorways on Sundays. Switzerland has banned all lorries over 28 tonnes from crossing the Alps. By 2004, all through-freight across the Swiss Alps will have to be carried by rail. Even Los Angeles, the temple of the motor car, has begun to invest in light and heavy rail.

This shift in the relative merits of different means of transport is aided by a long-overdue move towards the deregulation of national railways. Since the privatisation of Japan National Railways in 1985, and its split into six separate companies, jobs have been drastically cut and passenger numbers have increased by more than a quarter on the *shinkansen* high-speed lines. Although Japan's railways are still saddled with huge debts, the three main *shinkansen* operators, JR Central, JR East and JR West, all make operating profits sufficient to meet the interest costs of their lines.

In Britain, rail subsidies of £2 billion (\$3.3 billion) a year before privatisation are set to be halved within seven years despite heavy new investment in track and new trains. One industry estimate suggests that by 2012 the 26 private passenger franchises into which the industry was split will be making net repayments to the government. In the United States, deregulation has led to the renaissance of profitable rail-freight operations. In Sweden, the split between track and rail operations has allowed the railways to concentrate on improving passenger services. Swedish Railways has a distinct advantage because transport taxes are based on environmental costs, such as pollution and noise, thus strengthening rail's competitive position against road and air.

Innovation, congestion and privatisation have transformed the prospects for railways. For journeys of between 100 and 400 miles, rail is now usually quicker than either air or road from city centre to city centre, if access times are taken into account. High-speed rail is also more reliable, more energy-efficient, more comfortable and arguably safer than any competing mode of transport (see charts 2 and 3).

The success of Japan's *shinkansen* is proof that modern railways can compete effectively on routes linking major cities. In the 34 years since the *shinkansen* began operations between Tokyo and Osaka, a distance of 312 miles, the line has carried more than 3 billion people with clockwork punctuality. Even allowing for delays caused by snow, rain and earthquakes, the average deviation from schedule is only 36 seconds per train. At peak hours, 11 trains depart in



each direction, carrying a total of 368,000 passengers a day. To cope with demand, there are now plans to raise this rush-hour frequency to one train every four minutes. The new Series-300 train, which cruises at 170mph, has clipped the time to Osaka by 15 minutes, to 2½ hours.

Another innovation is the introduction of double-deck high-speed trains, which carry 500-800 passengers, a third more than normal. Transmission-based signalling, enabling train operations to be controlled from the cab instead of from the track, has also delivered improvements in productivity. There are now six times as many trains from Tokyo to Osaka as there are airline departures. The single train fare is ¥14,720, ¥1,000 less than the normal air fare. All this has helped to increase rail's share of the market to 84%.

This exceptional performance is made possible by an army of 3,000 workers who carry out essential maintenance after rail operations close down at night. The safety record is exemplary. Not a single passenger has been killed on any express line in Japan since the *shinkansen* operations began in 1964. If the hundreds of millions who travel on these express lines each year switched to car travel, it is estimated that there would be at least 1,800 extra deaths and 10,000 serious injuries each year.

The *shinkansen's* performance is so good that it makes one wonder whether the maglev will be a mere luxury. If ordinary high-speed trains can be made to travel at 200mph, what is the point of spending huge sums on experimental technology that offers little gain in speed? The current conventional train-speed record is held by a French TGV doing 322mph. But Japanese experts say that this would not be reproducible in commercial operations; they point

out that the record was established by using four engines to haul a single coach. The current fastest commercial service is that provided by JR West's Series-500 train between Hiroshima and Kokura at 164mph.

High-speed conventional trains, moreover, face problems as they push speeds higher and higher. The maglev is less affected because it is so much quieter. Propelling heavy surface vehicles at the speed of aircraft through populated areas creates intense pressure waves. The impact of the *shinkansen* travelling at high speed is so intense that sonic booms are triggered off as they enter tunnels. That has meant fitting cowls at tunnel entrances in an effort to limit the disturbance. The *shinkansen* trains, even at their present speeds, have to be expensively pressurised to prevent damage to passengers' eardrums. Early examples of unpressurised coaches caused a number of unhappy side-effects, including several cases of exploding lavatories.

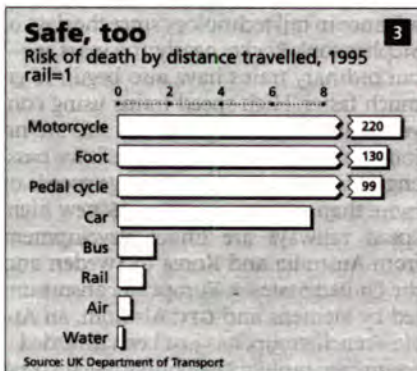
Sip as you lean

The huge cost of building new high-speed railways, plus the environmental worries, have led to a search for a cheaper way of shortening journey times. The most promising development is tilt. This allows trains to run up to a third faster on old track by using suspension systems that lean into bends. Gyroscopes and accelerometers are used to give advance warning of curves, thus ensuring a smooth ride for passengers.

Tilt technology, to be sure, got off to a disastrous start in 1981. That was when British Rail (BR), Britain's old nationalised railway, had to withdraw its so-called Advanced Passenger Train after only three days of scheduled services. Passengers had complained of feeling sick, and there were many technical hitches with brakes and the state-of-the-art suspension. Since that unhappy debut, however, the technology has developed to a point where tilt trains are now being operated throughout Europe.

A recent four-hour journey from Milan to Basle on a *Pendolino* tilting train built by Fiat Ferroviaria proved exceptionally smooth. At lunch, the wine hardly moved in the glass as the train snaked through the Alps at speeds up to 30% faster than a normal train. The *Pendolino* operates in Germany, Finland, Switzerland, Spain, Portugal and the Czech Republic. In Britain, Virgin is spending nearly £1 billion on a 140mph fleet of tilting trains that will cut the journey time from London to Glasgow by more than a third. The trains will be run under a risk-sharing agreement with the manufacturers and Railtrack, with revenues dependent on performance.

In Sweden, the introduction of Adtranz's X2000 tilting train has cut the 285-mile journey from Stockholm to Gothenburg by nearly a quarter and lifted rail's share of the market compared with air



from 41% to 55%. In the United States, Amtrak has ordered 150mph tilting trains for its Washington-New York-Boston route. When they go into operation next year, journey times should be cut from eight to nearer five hours. Even France, the champion of high-speed trains on dedicated track, is now testing tilt for use on both its high-speed and its conventional tracks.

Tilt may be less glamorous than ultra-high-speed trains but it is distinctly cheaper. Track suitable for tilt needs only modest upgrading, costing about \$500,000 a mile, a twentieth of the cost of new dedicated high-speed track. The new tilting trains are also relatively cheap to buy; they cost about \$24m, roughly a third more than the price of a conventional train.

The ghost of subsidies past

If governments are to be convinced of the case for investment, a more cost-conscious approach will have to be adopted. The old image of railways as a devourer of government subsidy will not be easy to shake off, despite their new high-tech image. France's government has had to take over FF125 billion (\$20.5 billion) of debts of the state-owned railway. Italy's nationalised railway is currently in a financial crisis, losing 4 trillion lire (\$2.2 billion) a year. Europe's railways as a whole swallowed 25 billion ecus (\$31 billion) a year in subsidies in 1990-94. Continuing rows over the ¥37 trillion debts amassed by Japan's railways in their state-owned days continue to dog the new privatised companies.

Privatisation sharpens the contrast between profitable inter-city express trains and loss-making rural and suburban ones. Special high-speed lines built along corridors between cities with big populations can certainly make operational profits: both France with its TGV and Japan with its *shinkansen* have shown that. But for such projects to go ahead some degree of government investment is needed. The financial troubles of Britain's plan for a high-speed line from London to the Channel is evidence of that. Having watched losses soar on the Channel Tunnel project, the private sector is rightly wary of handling huge infrastructure projects on its own.

Even more awkward are suburban commuter lines, with their large peak-hour flows. Over 200 new urban rail lines are under construction around the world, but most are wholly government-financed. Few such routes can exist without subsidies. A notable exception is Hong Kong's mass transit railway, which runs 34 trains an hour on a single track and moves 2½m people daily. It makes profits of more than £100m a year. For most commuter operators, such figures remain a dream. The high cost of running peak-hour services, and the obligation to run trains at anti-social hours to isolated communities, make

profits hard to achieve whatever the fares.

Another difficulty for modern railways is freight traffic. The speed, flexibility and economy of road transport have caused a precipitous decline in rail freight across the world. In Britain, rail's share of freight traffic has declined from 42% in 1952 to only 6% today. In continental Europe, rail lost half its 32% share of the freight market between 1970 and 1994. In Japan, rail's share of freight has dropped from 50% in 1955 to less than 5%.

There are at last, however, some signs of a revival as rail modernises and deregulates. Freight trains may be slow and inflexible, but they are capable of carrying huge loads. Australia holds the world record, with some privately operated mineral trains exceeding 25,000 tonnes, the equivalent of 500 heavy lorries. Chris Green, a former senior manager of BR and now director of Gibb Rail, a transport consultancy, predicts that long-distance rail freight will be "the awakening transport giant of the 21st century". He notes that American railroads are already jammed with mile-long freight trains travelling between the Atlantic and the Pacific.

The key to unlocking Europe's rail-freight potential lies in co-ordinating its Byzantine network of 30 national railways, each with its own standards, fare structure and regulations. So serious are these hurdles that it takes six days for a rail-freight wagon to get to Milan from London, twice as long as a heavy lorry. The average speed of rail freight on this route, because of hold-ups at frontiers, customs inspections and the like, is barely 9mph. The European Commission has issued a directive requiring common standards, which promises deliverance from such nonsense.

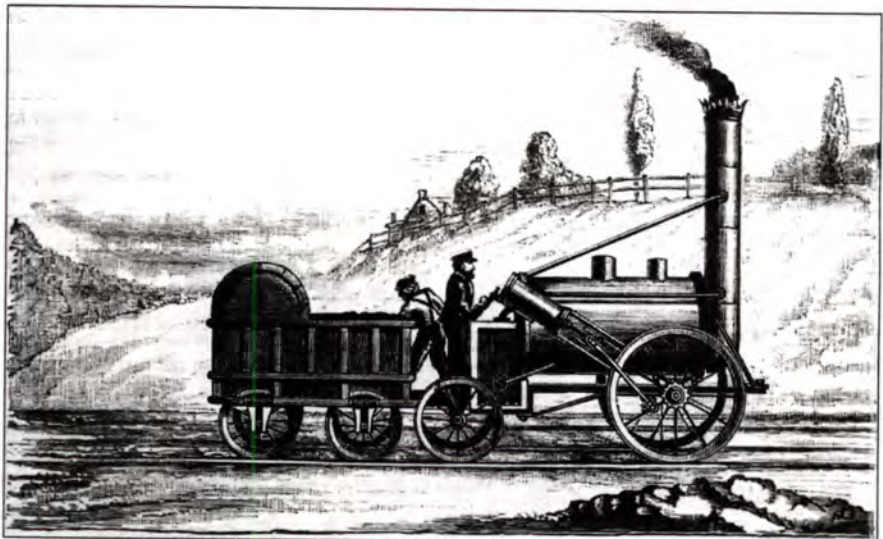
Ed Burkhardt, chairman of English, Welsh & Scottish Railway, the company that has taken over the privatised freight

operations of the old BR, is confident that he can triple rail's share of the British freight market from 6% to 18% within a decade. He says that the industry has sunk to such a low point that "turning this around is not a major task." One potential area for growth is "piggyback", which allows trains to carry heavy-goods-vehicle trailers. In Germany, piggyback trains are loading 30 HGV wagons without a crane in eight minutes.

Rail freight may revive in the 21st century; but it will not prosper against its road competitors until prices are properly adjusted to reflect environmental and other costs. One heavy lorry, with its weight distributed over five axles, does as much damage to the road surface as 10,000 cars, according to a study published by the Adam Smith Institute, a right-wing think-tank.

One reason why European, and in particular British, motorways are continually having to be repaired is the damage caused by super-heavy traffic. The proposed introduction of 44-tonne lorries in Britain is likely to require another £1 billion-2 billion for stronger bridges. Sweden and New Zealand charge vehicles according to the damage they cause. The sooner other countries follow their example and base transport taxation on total costs, the sooner rail freight will be able to compete.

In the passenger market, railways face stiff competition from both cars and cheap air travel. But, as Japan has shown, and Europe is starting to, high-speed railways can be profitable. For most inter-city journeys of more than two hours and less than five, rail has the competitive edge in safety, reliability and speed over both aircraft and cars. As passenger numbers increase with better marketing and customer-friendly services, even the hurdle of cost should start to fall. So long as they continue to innovate, and governments to deregulate, railways have nothing to fear from the future.



Well, it seemed like a Rocket then

Seccy - interview with general + the Hungarian piece worth reading

Lessons of an unfought war

Saddam Hangs On

THE PRESIDENT HAS SEEN
5-11-98

■ *In mid-March, an uneasy peace had settled over the Persian Gulf. But few expect the calm to last, as the world wonders how to get out of Saddam's trap. He seems almost certain to break his word or commit some future act of brutality, leaving other nations to ponder once more how to deal with him. Bombing would further devastate an already suffering people, but letting Saddam escape again seems at least equally unjust. Our cover package:*

*copied
Berger
Bowles*

LE MONDE
diplomatique

There are at least three lessons to be learned from the recent crisis in the Persian Gulf. The first is that in the new world, the United States is tempted to act in an authoritarian manner, knowing full well that it is the strongest member of the international family of nations. America holds sway over the world as no empire has in the entire history of mankind. It dominates in every sphere. Thus, after the U.S. victory in the Persian Gulf war, then President George Bush said, "The United States is destined to lead the world out of the darkness and chaos of dictatorship toward the promise of better days."

This call to lead the world and influence events to its own advantage has been constantly reaffirmed under President Bill Clinton. The French foreign minister, Hubert Védrine, has observed that "the United States believes it has a self-appointed mission because of the weight it carries on the world chessboard . . . We are looking at a hyperpower." The U.S. secretary of state, Madeleine Albright, stated during the recent confrontation with Iraq that she represented "an America that is convinced that it plainly has global responsibilities, which means that when we can change things, we ought to do so." This without reference to the United Nations, which the U.S. is constantly trying to marginalize.

The second lesson is that the United States has no overall strategy for the Middle East. Washington is still determined to bomb Baghdad but appears to be quite unable to explain the political purpose of such a strike. The brutality of the embargo imposed on Baghdad and U.S. raids in 1992, 1993, and 1996 suggest that the U.S. is in the grip of an anti-Iraq fever directed mainly against civilians.

This contrasts sharply with the U.S.'s extremely indulgent attitude toward Israel—a country that continues to occupy part of Lebanon and Syria, as well as East Jerusalem and

territories in the West Bank and Gaza Strip, in defiance of international law. A country whose government has brought the peace negotiations with the Palestinians to a standstill and is continuing to pursue its settlements policy. A country, finally, that has weapons of mass destruction of all kinds and for 30 years has systematically—and with complete impunity—refused to comply with any of the relevant UN resolutions. Yet, Washington continues to grant it aid amounting to \$3 billion a year.

In Arab circles, this is felt to be quite unjust, and Arab public opinion is increasingly sympathetic to Iraq. The region's most influential thinkers, while aware that the Baghdad regime is a dictatorship based on terror and repression, have taken the lead in a movement of solidarity with the Iraqi people. Fearing the power of this movement (and angered by the intransigence of the Israeli government), most leaders in the region refused to have anything to do with the plan to bomb Iraq. An attack would have provoked large anti-American demonstrations throughout the region. And it would doubtless have destabilized several regimes, including those closest to Washington, in an Arab world characterized by the absence of any real democracy.

The third lesson is that Europe simply does not exist. Look at what happened in this crisis! On February 3, without consulting the other states of the European Union (EU), the British—who happen to hold the EU presidency—followed the U.S. lead and announced that they would join in bombing Iraq. One by one, in a rattle-taggle way, most of the Fifteen—with the notable exception of France—fell in with this bellicose line, putting loyalty to NATO above their own interests as Europeans.

War in the Gulf has been avoided this time. But for how long? Meanwhile, these three lessons offer food for thought.

—Ignacio Ramonet, "Le Monde Diplomatique" (liberal monthly), Paris, March, 1998.

"America holds sway over the world as no empire ever has."



Kurdish victims of an Iraqi gas attack: A willingness to use weapons of mass destruction.

Beyond the Anguish Of Dying Babies

EXTRAVAGANCE AMID THE SANCTIONS

The Observer

In the center of Baghdad stands a gray statue of the president of Iraq, Saddam Hussein. At its feet is a scrap-metal yard of an American missile that whacked into a communications center in 1991. To its left the new Saddam International Tower shoots some 300 feet into the sky. It was completed in 1994, a hugely extravagant feat of engineering for a country stricken by international sanctions.

Nearby, Saddam's new Palace of Flowers is under construction. It will be dominated by the magnificent cupola of the main palace, which is reflected in two artificial lakes. Behind the palace walls are a series of guest houses and entertainment villas, each one dedicated to a particular pursuit: the Billiards Villa, the Swimming Pool Villa, and so on. The scale is immense, but that is the point.

In the private ward of the Academia Children's Hospital in Baghdad there is a baby girl, four months old and a terrible blue-green color, with a huge white bandage on her head. She has just been operated on for hydrocephalus. There is severe danger of her developing meningitis. Have you got the medicines to treat this child? I ask.

"No," says the pediatrician. "There are not the right drugs in this hospital for this case. The family has to buy the drug outside for a very high price."

That was a private ward. The public wards are worse. Of all the terrible sights and sounds in the public ward—that special high-pitched mewing of a severely malnourished baby, the sight of a much-loved boy dying in front of his mother's eyes—the worst is that of a little girl dressed in a beautiful purple top. She is 18 months old, and she weighs 11 pounds. She looks more like a marmoset than a human being. The doctor says the sanctions caused this: "We don't have the sheets to cover the beds, we don't have the antibiotics. We don't have the disposable syringes to inject the children. We use glass syringes. We boil them, and we inject all the children with the same syringe."

Why haven't you got syringes?

"There are sanctions, a blockade. Also we don't have money. The stores at the Ministry of Health are empty."

How come there are so many splendid buildings in Baghdad and not enough drugs or equipment for the children?

"I don't know about this. I don't know."

[According to demographers quoted by Gilles Paris in *Le Monde* of Paris, some 400,000 to 600,000 children are the cost Iraq has paid for the international sanctions. Each month, 4,500 children die in Iraq's hospitals. Today, an Iraqi youngster's odds of dying if he or she contracts pneumonia are one in eight, compared with one in 50 before 1990. Diarrhea proves fatal one out of five times, compared with once every 60 times 10 years ago. —WPR]

There are, in principle, no sanctions against medical supplies going to Iraq. So why can't the children have disposable syringes?

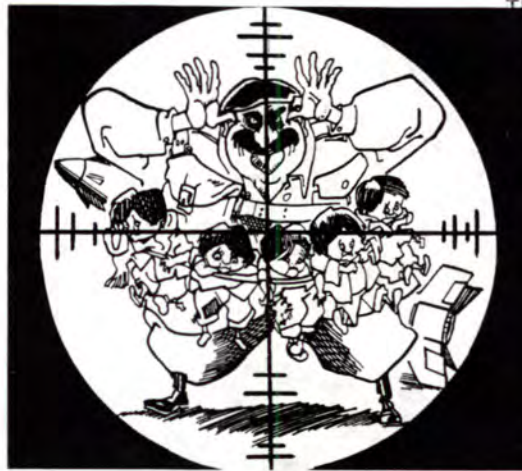
"Ahmed," a United Nations official from the Arab world working in Baghdad, tells me, "With food, the sanctions committee holds things up, but with medicines they are terrible. The British and the Americans are the worst. If a father is treating his children badly, must we starve the children?"

He goes on to denounce the "Zionists" in the American administration with such vehemence that he weakens his argument. But could he be right about the delays?

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The World Health Organization's spokesman in Geneva confirms that the sanctions committee deliberated for 170 days before approving one consignment of syringes to Iraq. How could we be so cruel? The answer is simple. We are afraid of what Saddam might do with syringes. A disposable syringe can be used to save a child's life. It can also be used to inject a spore of anthrax into a growth medium in a petri dish. A teaspoonful of anthrax could wipe out southern England. (Iraq cannot account for 17 tons of growth medium imported to the country.)

Not far from the Ministry of Information building where all the journalists have to go to pick up their minders and beg for visa extensions is an ugly shoebox building. Outside it are two portraits of Saddam, the most spectacular ringed with a set of fairy lights. It is the headquarters of the Amn El Khas, the special security unit, the most feared of Saddam's five intelligence networks, charged with the maintenance of the regime itself. Saddam has two sons: Uday and Qusay. Qusay runs the Amn El Khas. Every reporter in



Carlucho/Uno Más Uno/Mexico City

Baghdad worth the contents of a minibar knows what happens inside the basement. One of Amnesty International's reports lists 30 different tortures used by the Iraqis. They include fingernail treatment, hanging victims from a fan by the wrists and beating them as they rotate, roasting the eyeballs with intense ultraviolet light, roasting the whole body over a spit, mutilation of sexual or-

gans, the rack. The list goes on and on.

The Baathist regime allows reporters to cover "permitted suffering" such as the dying children. But what is going on inside the Amn El Khas building—unimaginable suffering taking place as you read this—is not "permitted" and therefore is not covered. None of the world's great TV networks has run a story about this building. Why not? After all, the Saddam in fairy lights outside the torture chamber is pure kitsch, great TV. In one image, it sums up Iraq. And there are plenty more fingernail palaces in Baghdad.

The risks of honest speaking in Baghdad are all too real. But reporting, for example, the suffering of the children in

The Story from Saddam's Inner Circle

Wafik Samarra was once part of Saddam Hussein's inner circle. The major general from the town of Samarra was a leading strategist for the Iraqi army and later headed the powerful military intelligence agency. He then fell into disfavor, because, he says, Saddam did not like his "critical remarks." After an attempt was made to kill him in 1994, Samarra fled to Syria. He now lives in London.

Have the United Nations' inspectors, who have been working since 1991 to seek out Saddam's weapons of mass destruction, done their jobs right?

• Saddam is still in a position to manufacture chemical weapons. Completely

eliminating the chemical and biological weapons is impossible. The know-how for producing them cannot be washed from the brains of our scientists. Production facilities for chemical and biological weapons were dismantled before the UN inspectors arrived and moved to new, secret locations and reassembled. These installations are so well hidden that foreigners will never find them.

There are more than 200 containers of biological weapons hidden in Iraq. Even if perhaps half of them were no longer usable, the rest could still completely depopulate the Near East. Iraq also possesses at least 45 rockets with a range of about 375 miles. I am con-

vinced that Saddam could equip them with chemical and biological warheads. I can also state that Iraq has, since 1988, possessed VX, a highly dangerous chemical warfare agent.

The U.S. has spy satellites trying to locate Saddam's hiding places. Can he fool them?

• With all due respect for American technology, Iraq has an area of about 168,000 square miles. Saddam can hide countless containers with weapons in that space, if necessary putting them in ordinary dwellings.

Or presidential palaces?

• Those are ideal hiding places. Some palace complexes such as El-Rad-

waniya are 11 miles wide and 16 miles long. With about 60 palaces, there are lots of options.

Do you believe there could be a rebellion against Saddam by the Iraqi military?

• That is the only way this dictator could be overthrown. However, according to my information, Washington has not held talks with much of the Iraqi exile opposition and their forces within Iraq.

Saddam can apparently rely on his elite troops.

• The extraordinary protection they provide, which makes overthrowing Saddam Hussein so hard, is something he owes to foreign help. Many national se-

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the hospitals or of the poor without asking. "How come they can't afford syringes if Saddam is building a new palace and the intelligence headquarters has got seven satellite dishes?" is to miss the whole picture.

And consider this: There are hospitals in Baghdad that reporters are not allowed to visit. One of them is the Saddam Cardiac Hospital. It is open only for the very rich and the elite. Last year, it carried out elective open-heart surgery on a prized member of the regime, evidence that it enjoys splendid medical resources. And then ask: Could Saddam be deliberately accentuating the suffering of the children as part of his propaganda war to end sanctions?

A Western reporter described visiting a permitted hospital. Somehow, she managed to escape from her minder for five minutes. A doctor took her to the morgue and gestured to the fridges. He whispered: "In there we keep dead babies for the purposes of the state." The dead babies were being held back for one of the mass funerals of children that the regime likes to hold for the TV cameras.

Peace in our time? With Saddam and his goons? I don't think so. And the dying children? It's not us who are killing them. It's him.

—John Sweeney, "The Observer" (liberal weekly), London, March 1, 1998.

DER SPIEGEL

cret services helped train our elite units, beginning with the Stasi from East Germany. These people were splendid teachers who did excellent work, but the French, Russians and Yugoslavs also did their part.

And so, shielded and isolated from the outside world, the dictator tends to continue to overestimate himself?

• Saddam is neither a politician nor a soldier. He is a savage dictator obsessed with conspiracy theories, trusting no one. During the Gulf war, I reported to him that 50,000 Iraqi soldiers had deserted in Kuwait. It was a severe blow to our army. Saddam answered, "I will still triumph, and the air forces of the allies will be de-

stroyed and sink into the dust of the deserts." This reaction is typical of a blind despot.

When you were part of his inner circle, could you persuade Saddam with reasoned arguments?

• At the military intelligence agency, we could not say to Saddam: "Withdraw from Kuwait." Anyone advising that would have had his throat cut.

Aren't you afraid of Saddam's vengeance when you reveal his secrets?

• Anyone who has stood up against Saddam has already put his life on the line.

—Adel S. Elias, "Der Spiegel" (liberal newsmagazine), Hamburg, Feb. 9, 1998.

Annan's Deal: Win, Lose, or Draw?

HAZARDS OF A DIPLOMATIC COUP

Saddam's Successes

The agreement between United Nations Secretary-General Kofi Annan and President Saddam Hussein to resolve the Iraq crisis has been seen by the world as an opportunity to dispel the clouds of war looming over the region. Who won in this confrontation?

Saddam is at the helm of a country in shambles. Notwithstanding U.S. claims to the contrary, Iraq poses no threat to world peace. Yet it succeeded in drawing the U.S. and Britain into a highly expensive fiasco. Saddam also succeeded in driving wedges between the members of the UN Security Council as well as between the U.S. and its traditional allies.

In the final reckoning, Saddam has not lost anything. The inspection teams will come back, possibly on more favorable terms. The inspectors will resume their work, but this time in a global environment sensitized to U.S. exploitation of the UN to realize its own goals. Russia, France, China, and the rest of the world are angered by U.S. insistence on pushing through resolutions single-handedly, regardless of the threat to peace.

For the U.S. administration, the agreement came as a bitter disappointment. Having decided it was time to get rid of the regime in Baghdad, the U.S. will keep its forces stationed in the Persian Gulf, watching Saddam's every move. The U.S. may have put off a military strike, but has by no means changed its mind. It is more likely waiting for a more opportune moment to prove to the world that its pathetic policy in Iraq was not a total fiasco.

—Salama A. Salama, "Al-Ahram Weekly" (government-owned), Cairo, Feb. 26-March 4, 1998.

The Rise of 'Saddamism'

Just as the Middle East underwent a change after the 1991 Gulf war, so has it undergone a change now. This time, a wave of psychosis, fear, and illusion is washing over the region. Its center is the Arab "man in the street." It involves support for what can be termed "Saddamism": support for the crushed, the lowered, the one who is pushed by the First World into the margins of the world process. Support for Saddam has become a metaphor for frustration, disappointment, and desire for revenge. Saddamism is a vote

of no confidence in the corrupt administrations in every Arab country, the deteriorating quality of life, the long awaited peace agreement with Israel that has disappointed, and the policies of the West.

It is easy to understand how the sanctions in Iraq are perceived: as a new type of colonialism, as the controlling whip of the strong in the West over the weak in the East.

The burning of American and Israeli flags shows the Arabs' scorn and opposition to what is perceived as American imperialism, with Israel as the regional branch office. America is now seen throughout the Middle East as vengeful, non-pragmatic, and cruel. The universal disillusionment with America is found also in Arab governments, which feel the U.S. is acting like a brainless thug.

—Guy Bachor, "Ha'aretz" (liberal), Tel Aviv, Feb. 23, 1998.

The Cruel Moralist

U.S. Secretary of State Madeleine Albright is a female version of the old John Foster Dulles, who was always "going to the brink" and threatening the world with hellfire. He was the great moralist of our times. And moralists cannot negotiate because they are convinced of their own righteousness and piety. They believe themselves to be the guiding lights of our world.

Moralists generally are cruel. The last seven years have been years of suffering for the Iraqi people. Thousands of old people and young children have been dying for want of food and medicine that has become scarce due to the economic blockade. The UN, which was created "to save succeeding generations from the scourge of war" and "to promote social progress and better standards of life in larger freedom," has been turned into a passive spectator while the arrogant United States imposes its military will on all those who choose to resist its domination.

—Abu Abraham, "Hindustan Times" (centrist), New Delhi, Feb. 15, 1998.

A Victory for All—Almost

Si vis pacem, parbellum, the Romans used to say. An acceptable translation would be: If you would live in peace, prepare for war. Combined, a credible demonstration of a readiness to make war and high-caliber diplomacy can produce the kind of inspired solution that's just been effected by U.N. Secretary-General Kofi Annan.

Saddam has agreed to unlimited, unfettered inspections not only of his palaces, but of records and other suspect sites. Simultaneously, while the U.S. forces will remain in the Gulf, the clock of war has been pushed back several hours.

Saddam may cheat. This time, though, he'd be cheating on a personal agreement with Annan. The U.S. also may cheat by finding reasons to block the parallel pact to double, to \$8 billion a year, the amount of food, medicine, and equipment that Iraq will now be able to buy with oil exports.

But such back-room conniving would put the U.S. at direct odds with the UN.

In short, the deal may actually work. After just a year in office, Annan suddenly promises to be the most effective UN leader since Dag Hammarskjöld in the 1950s.

If Annan is the big winner, so is Clinton. He has gotten away with threatening war rather than actually going to war. Saddam hasn't done too badly, either. The new oil-for-food program holds out the promise that sanctions against Iraq may eventually end one day, once Saddam's weapons program is ended. And Saddam has gained the allure of having dared to face down the U.S. to the point of war.

France and Russia are claiming to be winners because of their early diplomatic initiatives. In fact, there's little evidence these made any difference.

The clear losers are the Arab states. None had any diplomatic influence on Saddam. Israel is a loser also. The crisis in the Gulf will no longer overshadow its stalling of the Middle East peace process. Saddam's belated acceptance of UN resolutions will contrast with Israel's repeated failure to implement any of the decisions of the world community that it doesn't like.

The deal took diplomacy. But without the cruise missiles and Stealth bombers, it would have been undoable. Out of bellum has come pacem.

—Richard Gwyn, "Toronto Star" (liberal), Feb. 25, 1998.

**"Many
Arabs feel
the U.S. is
acting like a
brainless
thug."**

A Loss of Moral Authority

Kofi Annan's trip will compromise the UN and its secretary-general in a dubious fight between two parties, "the bad and the ugly," responsible for a contrived crisis. On his way to Baghdad, Annan could not avoid announcing that his mission was "to persuade Saddam, er,

President Saddam Hussein, to do what he must in order to avoid a [U.S.] military strike." Thus the secretary-general acknowledged that he was, in short, the errand boy not for the UN or its Security Council, but for America.

How can the secretary-general agree to put himself in such a situation? He of all people should know that many other nations refuse to apply United Nations resolutions that they have expressly accepted. Why is Iraq, already subject to an embargo that only the U.S. wants to keep in place, being targeted for military strikes? Why is the secretary-general giving his endorsement to this clear-cut abuse of force?

From the opposite perspective, how can we approve of the secretary-general flying halfway around the world to talk to one of the most horrible dictators of our day, thus cloaking him with a legitimacy that he has long since lost?

The UN, its secretary-general, and all of us should not be serving as an alibi, endorsement, or shield for an evil-doing tribal dictator or for a superpower run amok.

—Béchir Ben Yahmed, "Jeune Afrique" (independent Africa-oriented biweekly), Paris, Feb. 21, 1998.

THE PRESIDENT HAS SEEN

5-11-98

Trying to Topple A Master of Survival

A WEAK AND FRAGMENTED OPPOSITION

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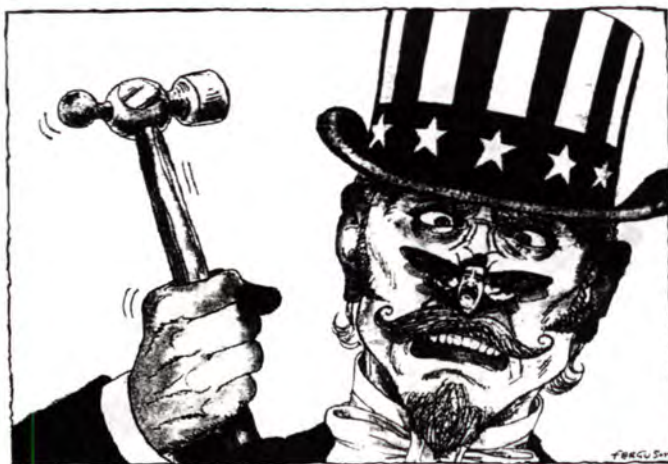
Iraq would be much better off without Saddam Hussein," U.S. Secretary of State Madeleine Albright said recently, expressing an opinion that nearly the whole world agrees with. But during his 19 years in power, Saddam has perfected survival to a fine art.

Saddam is intensely careful. He never sleeps in one place two nights in a row. Sometimes he spends the night in a tent in the desert, other times at a farm. "You have a guest today," a security officer announces to an astounded family, and a few moments later a cavalcade of vehicles pulls into their farmyard. Saddam is protected by 10,000 Special Guards. He employs doubles and servants who taste his meals before he eats. An Arab dignitary who recently met with Saddam says the letter that he brought was taken away by an assistant, and only a copy was given to the president. Saddam does not touch envelopes for fear of poisoning.

During the Gulf war, the allies eventually abandoned the idea of marching on Baghdad to overthrow the dictator. But U.S. and British intelligence services made several chaotic tries at instigating a popular uprising or a palace coup in Baghdad. About \$100 million was spent on this. The CIA cooperated with the Iraqi National Congress, led from Iraqi Kurdistan by Ahmed Chalabi, and with the Iraqi National Union led by Iyad Mohammed Alawi, based in Jordan.

A year and a half ago, the local CIA network worked out a plan for Saddam's overthrow. He was to be killed while crossing a bridge in the town of Samarra, and power was to be taken over by a group of officers who had been "turned" by the Iraqi National Union. This ended in perhaps the greatest CIA fiasco since the Bay of Pigs disaster. Saddam learned about everything in advance from double agents in the opposition. He struck before the play was executed. First, he killed 120 civilians and about 80 officers suspected of treason, and arrested another 2,000 persons. Then, using tanks, he chased the opposition and its Western protectors out of Kurdistan. The final humiliation was a call from an Iraqi officer to the head of the CIA in Jordan suggesting that the latter go home. As a result, in August, 1996, the Americans had to evacuate 7,000 people from northern Iraq.

The coup attempt was reportedly the low-level initiative of "Bob," the head of the CIA in Kurdistan. Washington



Ferguson/Financial Times/London

learned of it from an intercepted communiqué in which "Bob" and opposition leader Chalabi informed Iran of their plans and asked for help in instigating a simultaneous uprising in the Shiite south. After learning of the plot, Tony Lake, then President Clinton's national security adviser, told "Bob" that he was opposed to the coup. [This report does not explain why the attempt proceeded anyway. —WPR]

Now there are reports from British intelligence that the morale of the Iraqi army is low and Saddam fears an insurrection. The ruling clan is no longer a monolith and is squabbling over the division of profits from smuggling, which run into the millions.

But the anti-Saddam opposition is fragmented and poor and is infiltrated by agents of the Iraqi secret police. There are some 60 Iraqi opposition groups, some numbering only a few members in London, the home base of the opposition. The only ones to undertake occasional skirmishes with the regime are Shiites backed by Tehran.

Chalabi, the dissident most often received in international salons, urges extension of a flight-free zone to the whole country and the installation of a "no-movement sphere" in the no-fly zones. He thinks the opposition would then take control within six months. The provisional government could be recognized by the world and financed by Iraqi frozen assets deposited in Western banks, and Saddam could be tried for crimes against humanity. It is said this plan has the backing of several Iraqi military commanders.

The U.S. government is talking to Chalabi and offering help, but probably the fear of the disintegration of Iraq and destabilization of the region will return to the fore. "We would be pleased with anyone who would replace Saddam," says a Western diplomat. According to the CIA, though, the most likely replacement for Saddam would be a Sunni Muslim military man, whose entourage would have ideas and manners not very different from Saddam's.

Chalabi has accused the West of preferring to maintain a dictatorship in Iraq rather than replace it with a democratic government. But it is not clear who would form any democratic government. Would it be possible to reconcile the interests of the Shiites, Sunnis, and Kurds, and the interests of the countries and individual clans backing them? The insane dictatorship could be replaced by a mad struggle for power, leaving Iraq to the fate of Afghanistan.

—Robert Stefanicki, "Gazeta Wyborcza" (liberal),
Warsaw, Feb. 23, 1998.

J Podesta

THE PRESIDENT'S OFFICE
5-11-98

What should we
do about this? —

BC

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House member wants Clinton to personally apologize to her

Says treatment at White House has been discriminatory

ASSOCIATED PRESS

The White House said yesterday it has apologized to Rep. Cynthia A. McKinney, Georgia Democrat, for the way guards at the Executive Mansion treated her and two Pakistani-American constituents.

But Mrs. McKinney, the first black woman elected to Congress from Georgia, said she wants a personal apology from President Clinton.

Mrs. McKinney fired off a letter to Mr. Clinton demanding an apology after her constituents, Haji Agad and his 16-year-old daughter, Henna, were detained by White House security Wednesday. They missed welcoming ceremonies for Italian Prime Minister Romano Prodi that they had been invited to attend as her guests.

Although White House officials called her office Thursday and apologized, the Democrat said that was not sufficient. Mrs. McKinney said she wants to hear directly from the president.

"It was shocking treatment that my constituents were actually

"I am absolutely sick and tired of having to have my appearance at the White House validated by white people."

—Rep. Cynthia A. McKinney

asked to get out of their car so the car could be sniffed," she said.

During six years as a member of Congress, Mrs. McKinney said the incident was the first time any of her guests had been detained at the White House so their vehicle could be checked for explosives by dogs.

"That is completely insulting," she said, "and it smacks of the same kind of profiling" that police have been accused of using to detain people for drug searches based solely on their appearance.

Mrs. McKinney, who said she missed another White House event in 1996 when guards at two separate gates refused her admittance, arrived in a separate car Wednesday but was stopped by a guard once she entered the White House.

"I am absolutely sick and tired of having to have my appearance at the White House validated by white people," she said in the letter to Mr. Clinton.

White House spokesman Barry Toiv said yesterday there "clearly was some miscommunication with regard to her and her guests. We've already apologized to her."

He said Secret Service officials are talking with the guards involved in the incident "to minimize the likelihood of that happening again."

Asked if Mr. Clinton intended to apologize personally to Mrs. McKinney, as the congresswoman is demanding, Mr. Toiv replied, "We've apologized and the president agrees with that."

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5-11-98

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THE PRESIDENT HAS BEEN
5-11-98

15 April 1998

As a Christian minister I am more concerned about people than policy and about the concerns of daily life than constitutional matters. I also have a special heart for those who have been most affected by the troubles in Northern Ireland. My father was murdered by the IRA in 1985. I have had to conduct funeral services for people murdered by both Republicans and Loyalists. I have visited many homes where the evil in our land has brought unspeakable grief. As chairman of The Cost of the Troubles Study and as a member of the management committee of WAVE I am as close as almost anyone to the thoughts and feelings of 'victims'.

There is no doubt that the concessions made to prisoners in the Agreement are too generous and it is a particularly bitter pill for those who will see the people who murdered their loved ones walk free. I am sure that if the DUP and the UKUP had not opted out then the PUP and UDP would not have been in such a powerful position so as to extract such generous concessions. Clearly David Trimble had used all his energy to focus on the bigger political and constitutional issues and at the end of the day no one had the victims at the top of their agenda.

Having said all this I am convinced that we must support the agreement for the following reasons.

1. Constitutionally it is a fair deal - certainly much better than what might be imposed by the two governments. Talk of betrayal and treachery is ridiculous.
2. If Sinn Fein sign up to it - in particular the issue of consent (and it is very hard to believe it is possible) - then they have moved a very long way. The whole basis for 'armed struggle' is cut from under their feet.
3. What is the alternative? How else can we bring about peace and prosperity in Northern Ireland? What can those who vote NO offer that will give my children a better life in the years to come?
4. If there is one thing that families of victims will generally agree on it is that they do not want others to have to suffer in the same way. This agreement can not guarantee peace but to reject it at this stage will surely guarantee a continuation of violence.

I plead with you to consider the bigger picture very carefully before rejecting this agreement. If you reject it, what alternative do you leave for our children?

Yours sincerely,
David Clements

[illegible]

UlmGrow1	m	21.02	+0.1	-0.7	+15.7
UlmGrow2	m	20.71	+0.1	-0.8	+15.6
WorldGr1	m	16.37	-0.2	-1.7	+17.5
WorldGr2	m	15.16	-0.2	-1.9	+17.3
WorldGr3	m	15.70	+0.1	+17.1	+20.8
WorldGr4	m	15.34	+0.1	+18.0	+20.6
GT Global Income					
GovtIncA	m	8.51	+0.2	3.1	3.0
GovtIncB	m	8.31	+0.2	3.1	2.8
MilInc A	m	8.2	+0.2	6.1	9.8
MilInc B	m	7.3	+0.2	4.1	9.6

Homestead	ShTmbd	5.18	...	+ 1.7	+ 0.8
Value	28.92	+0.2	+13.4	+16.8	
Hotchkiss	...	...	...	...	...
Bal	...	...	...	...	...
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LowOx	...	...	...	...	...
SmCap	...	...	...	...	...
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Valdrow	16.34	+0.7	+14.6	+16.0
Work2004	11.54	+0.3	+7.3	+6.7
Kemper S				
BIClip	18.42	+0.5	+12.0	+14.2
Contr	12.49	+0.3	+6	+18.3
Divinc	6.11			+1.7
DreHFr	35.56	+0.2		
Growth	14.69	+1.1	+1	
Yield	3.58	+0.1		
Horizon10	12.06	+0.2		
Horizon20	13.78	+0.4		
Horizon30	15.06	+0.4		

WildEq	
WildGov	
WildGrew	
WildTotRt	
MFS B	
Bond m	13.35
MuniBd m	5.75
Opp m	16.16
Grew m	43.43 +1
Mld m	18.73 +0.5
Lld m	8.35 +0.1

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5-11-98

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'We're just praying the foreseeable future will last until we get into it'

BY JANE BRYANT QUINN

WHEN ALLEN SINAI PHONED ME LAST week, I heard a lot of street noise in the background. Sinai is chief global economist for Primark Decision Economics in New York. "I'm not in my office, I'm walking to Starbucks for coffee," he said. "I just got thrown out of a meeting for being too optimistic."

I know what he means. With stocks in the stratosphere and business chugging toward the longest peacetime expansion ever, it's statistically risky to argue that the arrows will keep on pointing up. It's professionally risky, too. If you're right, who remembers? If you're wrong, you're a modern-day Irving Fisher, the economist who declared — in October 1929 — that stocks were on a "permanently high plateau."

But what else can I say? The economy looks sound, which means that this historic bull market still has room to run. Yes, growth may slow. Some corporate profits will disappoint. At any

BY ALLAN SLOAN

IF THERE'S ANY DOUBT THAT THE MEGA-BULL MARKET in stocks can't go on forever, take a look at the cover of the magazine you're holding. You'll see a bull—a witty and ironic rendering, to be sure, but nevertheless a bull. So the end must be near. After all, weekly magazines' covers—all of them, not only NEWSWEEK's—are notorious on Wall Street for being what economists call contrary indicators. If we put it on the cover, it is about to become wrong. Case in point: the bear NEWSWEEK put on its cover during a brief market swoon in 1994, some 5600 Dow points ago. Or the classic cover "The Death of Equities"—"equities" is a fancy word for stocks—that BusinessWeek ran in 1979, more than 8000 points ago.

All kidding aside, this fabulous bull market, almost 16 years old now, just can't keep going forever at the rate to which many of us have become accustomed. Since the bull market started in August of 1982, the Standard & Poor's 500 Index has returned a

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sses 10.90 +0.1 +1.7 +0.5	RealGro m 31.61 +0.4 +10.8 +12.3	UnitGro m 30.71 +0.1 -0.8 +15.6	ShrtMid 5.18 +1.7 +0.8	Kemper B 18.99 +0.2 +13.4 +16.8	Widow m 12.50 +0.1 +0.8 +1.2
sses 61.78 +0.1 +1.7 +0.5	RealGro m 31.61 +0.4 +10.8 +12.3	UnitGro m 30.71 +0.1 -0.8 +15.6	ShrtMid 5.18 +1.7 +0.8	Kemper B 18.99 +0.2 +13.4 +16.8	Widow m 12.50 +0.1 +0.8 +1.2
sses 19.33 +0.1 +1.7 +0.5	RealGro m 31.61 +0.4 +10.8 +12.3	UnitGro m 30.71 +0.1 -0.8 +15.6	ShrtMid 5.18 +1.7 +0.8	Kemper B 18.99 +0.2 +13.4 +16.8	Widow m 12.50 +0.1 +0.8 +1.2
sses 52.19 +0.8 +14.3 +17.2	RealGro m 31.61 +0.4 +10.8 +12.3	UnitGro m 30.71 +0.1 -0.8 +15.6	ShrtMid 5.18 +1.7 +0.8	Kemper B 18.99 +0.2 +13.4 +16.8	Widow m 12.50 +0.1 +0.8 +1.2
sses 28.99 +0.1 +1.7 +0.5	RealGro m 31.61 +0.4 +10.8 +12.3	UnitGro m 30.71 +0.1 -0.8 +15.6	ShrtMid 5.18 +1.7 +0.8	Kemper B 18.99 +0.2 +13.4 +16.8	Widow m 12.50 +0.1 +0.8 +1.2
sses 10.86 +0.1 +4.2 +3.8	RealGro m 31.61 +0.4 +10.8 +12.3	UnitGro m 30.71 +0.1 -0.8 +15.6	ShrtMid 5.18 +1.7 +0.8	Kemper B 18.99 +0.2 +13.4 +16.8	Widow m 12.50 +0.1 +0.8 +1.2
sses 28.53 +0.3 +14.8 +14.8	RealGro m 31.61 +0.4 +10.8 +12.3	UnitGro m 30.71 +0.1 -0.8 +15.6	ShrtMid 5.18 +1.7 +0.8	Kemper B 18.99 +0.2 +13.4 +16.8	Widow m 12.50 +0.1 +0.8 +1.2

Our two veteran columnists disagree on whether the bull market will continue trampling records

'We're just praying the foreseeable future will last until we get into it'

BY JANE BRYANT QUINN

WHEN ALLEN SINAI PHONED ME LAST week, I heard a lot of street noise in the background. Sinai is chief global economist for Primark Decision Economics in New York. "I'm not in my office, I'm walking to Starbucks for coffee," he said. "I just got thrown out of a meeting for being too optimistic."

I know what he means. With stocks in the stratosphere and business chugging toward the longest peacetime expansion ever, it's statistically risky to argue that the arrows will keep on pointing up. It's professionally risky, too. If you're right, who remembers? If you're wrong, you're a modern-day Irving Fisher, the economist who declared—in October 1929—that stocks were on a "permanently high plateau."

But what else can I say? The economy looks sound, which means that this historic bull market still has room to run. Yes, growth may slow. Some corporate profits will disappoint. At any

BY ALLAN SLOAN

IF THERE'S ANY DOUBT THAT THE MEGA-BULL MARKET in stocks can't go on forever, take a look at the cover of the magazine you're holding. You'll see a bull—a witty and ironic rendering, to be sure, but nevertheless a bull. So the end must be near. After all, weekly magazines' covers—all of them, not only NEWSWEEK's—are notorious on Wall Street for being what economists call contrary indicators. If we put it on the cover, it is about to become wrong. Case in point: the bear NEWSWEEK put on its cover during a brief market swoon in 1994, some 5600 Dow points ago. Or the classic cover "The Death of Equities"—"equities" is a fancy word for stocks—that BusinessWeek ran in 1979, more than 8000 points ago.

All kidding aside, this fabulous bull market, almost 16 years old now, just can't keep going forever at the rate to which many of us have become accustomed. Since the bull market started in August of 1982, the Standard & Poor's 500 Index has returned a



ILLUSTRATION BY WILLIAM HAMILTON

moment stocks may suddenly "correct," dropping as much as 15 percent or so. But corrections during bull markets are brief. When they're over, stocks typically rise higher than ever.

Saying yes: For investors, then, there's only one question: is the economy strong enough to produce the gains in corporate earnings needed to push stocks farther up? Here's my case for saying yes.

■ *Recessions aren't inevitable.* They result from bad government policies or unforeseen shocks, like the Persian Gulf War. By definition, I can't discuss the unforeseen. So let's talk policy.

Every recession since 1946 has been preceded by a run-up in inflation, usually caused by imbalances in the economy. (The 1990-91 turnaround arguably arose from the short oil-price shock when Saddam Hussein invaded Kuwait.) Inflation brings higher interest rates and tighter monetary policies, which put a squeeze on business.

Today, thanks to the Federal Reserve, we have negligible inflation—just 0.2 percent in the first quarter and 1.7 percent last year. Fed chair Alan Greenspan, the inflation fighter-in-chief, holds his job at least until June 2000. If he decides to retire, no matter; everyone at the Fed is chanting from the same prayer book. Low inflation has made future corporate earnings more valuable, says Irwin Kellner, professor of economics at Hofstra University in Hempstead, N.Y.—putting the value of the entire stock market up.

■ *Real wages have recently been*

touch under 20 percent a year, compounded, in capital gains and reinvested dividends, according to Ibbotson Associates. That's well over double the 8.8 percent rate of the previous 56 years. In the past two years the S&P has returned 80 percent, including reinvested dividends. You could have taken a cash advance on your credit card, put it into stocks and come out well ahead. But it's not going to last.

Yes, I know you've heard the this-can't-go-on song before, several times from me. And the market has kept on climbing. But unless you really think that trees grow to the sky, a few simple mathematical exercises show that stocks can't indefinitely rise the way they have since the bull market started. If you buy stocks at today's high prices you may end up doing OK if you hold on for the long term, but I doubt that you'll see anything like the 20 percent of the past 15-plus years, let alone the 30 percent-plus of the past two. I wouldn't be at all surprised to see a sideways or declining market for the next few years, which would give corporate profits a chance to catch up to stock prices.

So let's noodle a few numbers around. The great bull market started on Aug. 12, 1982, when the Dow was 777. To keep the math simple, we'll use last Monday's Dow close of 9012, which is 15 years and eight months from the market's takeoff. Thus, the Dow rose about 1,050 percent in a bit under 16 years. Say you expect this rate to continue. Get out your compounding calculator and crunch the numbers, and you'll see this means the Dow will

rising, giving consumers more purchasing power. That could be inflationary. But so far, wage hikes have been covered by rising productivity (defined as what a worker can produce in an hour), so they're not forcing prices up. "We're learning that you can have low inflation and low unemployment, too," says economist William Niskanen, chair of the Cato Institute in Washington, D.C.

■ *The economy shows no imbalances that need cleaning out.* Growth has proceeded at a moderate pace, the president and Congress closed the federal budget deficit, new technology continues to cut business costs, trade is freer than it used to be, deregulation is working its magic and peace is boosting global growth. "This is the best business-cycle expansion in our history," Sinai says.

■ *The federal budget will be in surplus this year, maybe by \$50 billion or more.* If no giant tax cuts are passed (just some small ones) and

no new federal programs (just modest additions to spending), substantial annual surpluses could become a fixture. They're potentially large enough to pay the government's bills and gradually eliminate the entire national debt. Stunning but true.

Here's another amazing fact. Not counting the interest on the national debt, federal spending—as a percentage of the overall economy—is currently the lowest since 1966.

■ *We're a magnet for international money, especially money pouring out of Asia.* "America's

The Great Depression



Soup Lines



Selling Apples



Screwball Comedies

The Next Depression



'Soup Nazi' Lines



Selling Deepak Tapes



The 'Jerry Springer' Show

break the 100,000 level in December of the year 2013. If you expect the last two years' returns of about 32 percent annually to continue, the Dow will break 100,000 in less than a decade. You expect either of these things to happen? I don't—if only for fear of having to write 90-something more stories on Dow thousand-point milestones.

Instead of confining ourselves to the 30-stock Dow, which is the most popular market barometer but also the

narrowest, let's look at the Standard & Poor's 500 Index, which since mid-August 1982 has risen somewhat less rapidly than the Dow: to 1110 last Monday from 102. That rise has been propelled by two things: the per-share profits of the S&P 500 companies have about tripled, and the valuation that investors are awarding to these profits has more than tripled. In August of 1982, the S&P sold at less than eight times annual per-share profits; last Monday it was selling at 28 times profits. It's possible that profits will triple over the next 15½ years: that's an annual compounded increase of a tad above 7 percent. But do you think the price-earnings multiple will go up 250 percent again? That would mean stocks' selling at an average of 100 times their annual profits. Fuggedaboutit.

Now, just for fun, let's apply the laws of compound interest to one of the market's current favorites, Warren Buffett's Berkshire Hathaway. Berkshire closed Friday at \$70,500 a share. Its price has grown about 28.5 percent a year, compounded, since Buffett took control in May of 1965, with its stock at \$18. For this trend to

rate of return on capital is significantly higher than in other rich nations of the world," Niskanen says. Our traditional measures of stock-market value are based primarily on internal sources of investment funds. International flows could be driving up prices to levels beyond our past experience.

■ *It's a waste of good worry time to compare the United States with Japan in the 1980s.* Japan's bubble stock market drew from the profits in land speculation and the efficiency of its export sector. But its basic economy was a mess—rigid, inefficient, shielded from competition. Today, eight years after its market flamed out, Japan still can't summon the will to reform. By contrast, the United States upended itself in the 1980s, to restore its economy to powerhouse mode. Stocks may stall occasionally, but there's no bubble here. This rise has been backed by solid increases in earnings and competitiveness.

■ *The market's astonishing gains may be capitalism's way of saying "I'm sorry."* Stocks went nowhere from 1966 to 1982—never rising much above 1000 on the Dow. These past 15 years amount to a catch-up, says Jeremy Siegel, professor of finance at the Wharton School in Philadelphia and author of the fine book "Stocks for the Long Run." If you average the 15 good years with the 16 bad ones, you get an annual return of 7 percent above inflation, with dividends reinvested—just about the stock market's historic trend.

But give up your fantasies of

continue for another 33 years, Berkshire's stock, currently valued at about \$87 billion in the stock market, would have to be worth more than 3,900 times as much—call it \$340 trillion—by 2031. Since the output of the entire U.S. economy currently runs only about \$8.2 trillion a year, Berkshire's value would far exceed the nation's gross domestic product. And Buffett, 67, would be worth \$135 trillion and would still be going strong at the age of 100. Yes, I did a similar analysis two years ago, when Berkshire was less than half its current price. But who knew the S&P would generate an 80 percent two-year return?

We could do a similar this-can't-go-on exercise with Microsoft, which first sold stock to the public in 1986 at a price of 58.3 cents a share, adjusted for stock splits, and closed Friday at 924. But I'm afraid the numbers would be so enormous that they would burn out my calculator.

Please note that I'm not saying that stock prices are going to collapse. Last fall, when many people were predicting that Asia's financial problems would end the bull market in the United States, I demurred. So why am I so gloomy? Because with stocks priced at a record-high 28 times earnings, there's little room for error. This price assumes interest rates will probably head lower, and corporate profits will continue to grow rapidly as far as the eye can see. But sustainable, double-digit profit growth isn't that easy to come by. Consider an exercise by David Braverman, a

permanent, 20 percent annual returns. Being an optimist doesn't mean putting your brain on hold. Siegel sees future nominal increases at a more typical 9 to 10 percent. If profits dip lower than investors now expect, there might be a stutter before another market rise. But nothing says that a stutter has to degenerate into a plunge. And think about it: even if prices sank by 27 percent, as they did during the 1987 crash, we'd still be as rich as we were almost exactly one year ago. Investors would almost certainly buy.

The unforeseen: The biggest risk you're facing is the unforeseen (everything foreseeable is already in the market's price). Careful investors protect the critical parts of their lives—say, with guaranteed life insurance, safe cash for upcoming expenses and a secure place to live (no borrowing against home equity to buy stocks). After that, however, you can afford to invest long-term money ferociously.

If good times continue until Christmas, this will become the longest peacetime expansion ever, outlasting the previous record in the 1980s. If business moves ahead until February 2000, we'll even beat the wartime record, run up in the 1960s, during the buildup for Vietnam. That's the goal for us optimists: the longest expansion in American history. And you know how to spot an optimist. It's someone who jumps off a 30-story building and, on her way past the seventh floor, shouts, "So far, so good."

Reporter: TEMMA EHRENFELD

The Great Depression



'Nothing to Fear But Fear Itself'



The Dust Bowl



Hopping a Freight Train

The Next Depression



'Don't Worry, Be Happy'



El Niño



Flying Coach

senior investment analyst at S&P, who scanned a huge database looking for companies whose per-share earnings have risen at least 12 percent in the most recent fiscal year. For 1997, 3,733 of 10,233 companies made the cut. How many of those made the cut every year for the nine previous years? Only six. (In case you're interested: Automatic Data Processing, Schering-Plough, Stryker, Thermo Electron, Home Depot and Microsoft.)

None of this means that I'm about to sell all my stocks, crawl under the covers and wait for a crash. I'm still heavily in stocks and expect to stay that way. Long term, I think, stocks are still my best bet, but I don't expect much from them over the next few years. And I sure don't expect to continue getting the 20 percent annual returns we've gotten since 1982.

But rationality doesn't always prevail in the market. There are plenty of signs of market peaks that could presage a crash. Big banks—always the last to catch on to what's happening—are buying each other en masse. There's serious talk of turning Social Security, which is supposed to keep you from being poor, into a get-rich scheme by putting trillions of dollars into stocks. More to the point, last week my boss and I sent off sizable checks to buy into index funds. And then there's that damn bull on the cover.

SLOAN is NEWSWEEK's Wall Street editor. His e-mail address is sloan@panix.com.

98 MAY 8 PM 7:54

THE WHITE HOUSE
WASHINGTON

Phil —

Sylvia asked me to give
this to you. I got a call
from Nadar's office and
was told that this is the only
version we can expect to get —
the original was never sent.

She wanted you to coordinate
w/ her and Bill Anthopolis
(NSC)

Thanks,

Peter

To Burkhardt
for reply

Coord w/ Mr. KX

+ Sylvia

Phil

5/16/98

CENTER FOR STUDY OF RESPONSIVE LAW
P.O. BOX 19367
WASHINGTON, D.C. 20036

4 May 1998

FAX (6 pages) to Peter Rundlet: (202) 456-1121
From Amir Attaran, Malaria Project Director, CSRL: (202) 387-8030

URGENT: Malaria and the upcoming G-8 leaders summit

Dear Peter -

Since being in touch shortly before the President's trip to Africa in March, there have been a few striking, multilateral developments on the campaign against malaria, all of which invite a response from the White House. I bring two of these to your attention briefly here, and direct you to the attached letter from Ralph Nader to the President for further details.

First, I have just learned that the Japanese and British governments intend to make sizable program announcements (\$100 million, in the latter case) for malaria control and research at or around the time of upcoming G-8 leaders summit. Malaria will appear on the G-8 agenda under the rubric of "global economic issues". It is of paramount importance that the U.S. act together with its partners, in order that the G-8 meeting result in a strong, multilateral approach on malaria.

Second, I understand that on the day following Dr. Gro Harlem Brundtland's election to the leadership of the WHO (*i.e.* May 12th), Dr. Brundtland will give an address on the subject of WHO's new "Roll Back Malaria" plan. My sources in WHO say that malaria will become a centerpiece of her leadership. The Roll Back Malaria announcement comes only a few days before the G-8 summit, and I believe that the final text of the summit will make direct reference to the WHO plan.

The launching, in the span of a week, of the G-8 and WHO initiatives on malaria is an unprecedented confluence of events that points the way for America to act in tandem with its international partners to vanquish the second worst infectious cause of death in the world. Multilateral, diplomatic action is among the measures contemplated by the President's June 1996 Decision Directive on Infectious Diseases. The coming weeks will present an opportunity to give effect to that Directive.

In preparation for these events, I recommend the White House begin immediate consultation with NIH, CDC, USAID, DoD, and Surgeon General Satcher. The objective must be to forge an American position that includes vocal support for multilateral action against malaria, and significantly enhanced funding for disease research and control. I am at your disposal to assist in developing that position, and I am amenable to assisting in press outreach as well.

Please read the following letter from Ralph Nader to President Clinton, dated today, and do not hesitate to call me at (202) 387-8030 if I may answer your questions or otherwise be of help.

Sincerely,



Dr. Amir Attaran
Malaria Project Director

P.O. Box 19312
Washington, DC 20036
Tel. (202) 387-8030

May 4, 1998

President William Jefferson Clinton
The White House
1600 Pennsylvania Avenue NW
Washington, DC 20500

Dear President Clinton:

Thank you for your letter of March 22 on infectious diseases, which arrived only a couple of days after your address of March 24 in Mukono, Uganda, in which you spoke of the tragic malaria problem in Africa and announced a further \$1 million for the West African Malaria Center in Mali.

While this is a welcome, first step toward a reinvigorated American malaria effort, I must concur with your sentiment that "this should be only the beginning of our efforts to attack this problem" of infectious diseases of the developing world.

I am encouraged by your statement in Uganda that, as a nation, "we want to do more." The timing of this is fortuitous: America's global partners also want to do more at the moment. I am, accordingly, writing on this occasion to suggest how your Administration may, through unilateral and multilateral action, renew America's commitment to controlling the scourge of malaria.

1. "A disaster of immense proportions"

The malaria epidemic is worse than ever, particularly in Sub-Saharan Africa. Since the failure of malaria eradication efforts in the 1960s, the disease has regained the upper hand. Sri Lanka, which had only eighteen malaria cases in 1963, today has over *one million annually*.¹ In Senegal, the final stop of your African tour, French scientists reported a *seven-fold increase in malaria deaths over the last five years*.² Every year, almost *half a billion* people are diagnosed with malaria and 2.7 million human beings lose their lives to the disease³. As you noted in Uganda, malaria takes a far greater toll of African lives than does AIDS. About as many Africans will die of malaria in 1998 alone, as have died of AIDS in the last fifteen years⁴.

In Uganda, you were correct to warn that Americans cannot ignore the malaria problem – that "with increasing globalization we are all at risk." Every year, about 1500 Americans returning home from foreign travels are hospitalized with malaria, after spending as little as one day abroad⁵. For those who reside overseas, such as American military forces or Peace Corps workers, the risks are even more severe. Malaria was the leading cause of hospitalization among troops who served in Somalia⁶, and caused over 1600 cases of serious illness among Peace Corps workers in West Africa in the late 1980s alone⁷. Even persons who do not travel may contract malaria from contaminated blood transfusions: two Americans died last year in just this way⁸.

What is worse, resistance to anti-malarial drugs, and the absence of an effective malaria vaccine, are threatening to make the disease incurable for the first time since the 17th century. Researchers in South East Asia recently discovered strains of malaria that cannot be treated by *any* drug now on the market⁹. The introduction of these strains to Africa within a decade, where 90% of malaria

cases occur, would be "a disaster of immense proportions," in the words of researchers at Harvard University and the WHO published recently in the *Journal of the American Medical Association*¹⁰. Yet despite this looming crisis, the National Academy of Sciences reported in 1996 that "not a single major Western pharmaceutical company is now developing new drugs for the disease."¹¹

Although the United States contributes half of the world's malaria research budget, the overall numbers are far too low. A research audit by the Wellcome Trust in 1996 found the malaria research budgets of *all* nations, charities, drug companies, and the WHO total *under \$90 million annually* – about as much as the budget of a single, modestly-sized hospital in the United States.

To redress the neglect of malaria, your Administration needs a two-track approach. As a matter of domestic policy, America must fortify its research commitment through inter-agency cooperation and a real increase in appropriations. As a matter of foreign policy, America must put malaria research and control squarely onto the diplomatic agenda, where it already has the support of our international partners. The following are my specific recommendations.

1. Inter-Agency Coordination is Essential to Efforts on Malaria & Infectious Disease Generally

At present, America's malaria effort is divided, not always rationally, between four agencies: the Centers for Disease Control, Department of Defense, National Institutes of Health, and the US Agency for International Development. This division has been criticized before. Two separate National Academy of Sciences, Institute of Medicine panels (in 1991 and 1996) called the division of effort "disarticulated", and warned that, "there is inadequate joint planning and coordination among U.S.-based agencies that support malaria research and control activities"¹².

Your Administration should take two steps to bring the malaria agenda under one strategic umbrella. First, the recommendation of the NAS-IOM panels, for "the establishment of a national advisory body on malaria", should be acted on at once. Such a body would coordinate, monitor and report on the progress of malaria research and control¹³. In these ways, it would emulate other inter-agency bodies that were pivotal in fighting diseases: the Polio Vaccine Committee and the National Task Force on AIDS Drug Development are two examples¹⁴. Seven years after the first NAS-IOM recommendation, it is high time the American government formally coordinate its malaria research and control effort.

Second, you should convene the heads of several Executive Branch agencies to develop an Administration-wide agenda for infectious diseases generally. In my discussions with members of your Administration, all have agreed there should be an assembly of this type, namely: Secretary Donna Shalala; Surgeon General David Satcher; Ambassador J. Brian Atwood, USAID Administrator; Dr. Harold Varmus, NIH Director; Mark Gearan, Peace Corps Director; Dr. Helene Gayle, Director of CDC's Center for HIV, STD, and TB Prevention; Ambassador Richard Morningstar, State Department Coordinator of Assistance to the Newly Independent States; and Josh Gotbaum, Executive Assistant Director of OMB. This meeting could reaffirm your June 1996 Presidential Decision Directive on infectious diseases, and set the stage for a major Presidential address on the challenges of infectious diseases – from malaria to AIDS to TB – at a later date.

2. America Must Support Multilateral Activities Against Malaria

Since 1997, the global community has become much more aware of malaria, and a number of multilateral and diplomatic initiatives have been or will soon be taken against the disease. Diplomatic action and multilateralism are part of your June 1996 Presidential Decision Directive,

which called for a the U.S. to collaborate with other nations and international bodies on emerging infectious diseases. In that spirit, your Administration should pay especially close attention to the following three developments.

2(i). The Multilateral Initiative on Malaria

Your Administration must work aggressively to build the Multilateral Initiative on Malaria (MIM) – a scientific and diplomatic collaboration between the U.S., eleven European countries, twenty-one African countries, four Asian countries, the Burroughs Wellcome Fund, the Malaria Foundation, the Organization of African Unity, the Wellcome Trust, the World Bank, and the World Health Organization – to coordinate new research essential to controlling the rising global incidence of the disease. The leadership of NIH Director Dr. Harold Varmus was instrumental in convening the first MIM conference in Dakar, Senegal in January 1997. The MIM continues to merit American support now that it has become a pre-eminent international research collaboration – one that involves, for the first time, African scientists on an equal footing with American scientists.

At Dakar, the MIM partners identified areas in which they agree that research is acutely needed. The CDC, DoD, NIH and USAID all have research plans aimed at these areas, but most are inactive for want of funding. For example, the DoD is sitting on about fifteen drug and vaccine candidates suitable for testing, and NIH has a vaccine plan that would test another thirty vaccine candidates within a decade¹⁵. *The limitations are not technical, so much as financial.* Your Administration ought to seek special appropriations, in this Congress, so that these and other research plans may proceed. Also, OMB must be instructed to consult with the above agencies, to ensure that their malaria research plans are accommodated in the forthcoming budget.

In deciding to make available more funding for malaria research, history lends a helpful perspective. The last time the United States seriously grappled with malaria was in the years from 1958-63. Back then, Congress gave its bipartisan support to a global malaria eradication program which cost the equivalent of *billions* of today's dollars¹⁶. President Eisenhower called for the "unconditional surrender" of the disease; and Senator John F. Kennedy predicted that children would be born into a world naive of this scourge. Unfortunately, in the end malaria eradication failed, but this is hardly surprising: the eradication plan was proposed just one year after scientists deciphered the structure of a mysterious thing called "DNA". Four decades later, our expertise in vaccinology, pharmacology and genetics is beyond the imaginations of the architects of that program, and the technical barriers are no longer so daunting. There is no doubt that today we can, for a fraction of the cost of that program, develop effective drugs or vaccines¹⁷.

2(ii). WHO's Roll Back Malaria Plan

You will have heard the news that Dr. Gro Harlem Brundtland will be confirmed later this month as director of the World Health Organization. Under her leadership, the WHO is imminently to launch the "Roll Back Malaria" campaign, which is aimed at halving the number of malaria deaths by the year 2010, and halving them again by 2015. This will require a large-scale, sustained malaria control program, primarily in Africa. It will also require more research, much of it under the auspices of the WHO's Tropical Disease Research (TDR) program.

United States scientific and aid agencies both contribute to and receive funds from TDR. In recent years, U.S. projects have in fact received more money from TDR than they have contributed¹⁸. Your Administration ought to watch Dr. Brundtland's Roll Back Malaria plan with the greatest of interest, and strengthen the involvement of American scientists and development specialists in TDR research as a means of supporting this very noble plan.

2(iii). Malaria and the Agenda of the Group of Eight (G-8) Summit

In preparation for the upcoming G-8 summit of leaders this month, Japan and Britain are calling for concerted action on malaria research and control, and this will be raised in the G-8 session and discussions on "global economic issues". The rationale for treating malaria under this rubric is inescapable: as the G-8 economies grow increasingly connected to developing country markets, the *health* of people in those countries becomes a matter of global economic and political security. You alluded to this linkage when, in Uganda, you commented that, "By weakening as well as killing people, malaria contributes to poverty and undermines economic growth."

Your Administration should ensure the U.S. goes into the G-8 summit with a position on malaria no weaker than that of our partners. At last year's G-8 summit, Prime Minister Hashimoto urged more international cooperation on parasitic diseases: the Japanese are returning this year with a firmer proposal¹⁹. Similarly, the Blair government shall also announce a large disbursement – on the order of £60 million (\$100 million) – for malaria control and research around the dates of the summit, and this will be very heavily promoted to the press. If the U.S. is to not lose its position as the world's preeminent supporter of malaria research – a fact you cited with pride in Africa – it too must be prepared to grant an increase to American funding. That increase should not be an exercise in tokenism, but a major augmentation consonant with the devastating, global proportions of malaria. With the summit less than two weeks away, your Administration must make a decision on doing this shortly.

* * *

Your growing recognition of the global malaria crisis is a first step toward committing the seriously increased budgetary resources that are needed to banish this scourge. I look forward to being of assistance as your Administration turns to further action on this problem.

Sincerely,



Ralph Nader

For additional information, please call:

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- ¹ Laurie Garrett, The Coming Plague: Newly Emerging Diseases in a World Out of Balance (Penguin, New York, 1995), p. 51 [hereinafter *The Coming Plague*]
- ² D. Butler (1997) "Time to put malaria control on the global agenda", *Nature* 386:535-6.
- ³ World Health Organization, The World Health Report 1996 (WHO, Geneva, 1996), p. 47 [hereinafter *World Health Report*].
- ⁴ The Malaria Foundation Factpack (October 1997), <http://www.malaria.org/factpack.htm>
- ⁵ Centers for Disease Control, *MMWR* (Jun 13, 1997) 46(23): 536-539.
- ⁶ Dr. R. De Fraites, Preventative Medicine Staff Officer, Office of the Army Surgeon General, January 1998 (personal communication to Dr. A. Attaran of my office).
- ⁷ Institute of Medicine, National Academy of Sciences, Vaccines Against Malaria: Hope in a Gathering Storm, (National Academy Press, Washington, 1996), p. 7 [hereinafter *NAS-IOM Malaria Report #2*].
- ⁸ Dr. D. Wirth, Director of Harvard Malaria Project, Briefing to Congressional Biomedical Research Caucus, April 29, 1998.
- ⁹ Ibid.
- ¹⁰ P. Olliaro, J. Cattani and D. Wirth (1997) "Malaria, the Submerged Disease", *Journal of the American Medical Association* 275(3):230-233.
- ¹¹ Institute of Medicine, National Academy of Sciences, America's Vital Interest in Global Health (National Academy Press, Washington, 1997), p. 36-7.
- ¹² NAS-IOM Malaria Report #2, *supra*, p. 16; Institute of Medicine, National Academy of Sciences, Malaria: Obstacles and Opportunities (National Academy Press, Washington, 1991), p. 11-12 [hereinafter *NAS-IOM Malaria Report #1*].
- ¹³ NAS-IOM Malaria Report #1, *supra*, p. 12.
- ¹⁴ NAS-IOM Malaria Report #2, *supra*, p. 21.
- ¹⁵ NIAID Research Plan for Malaria Vaccine Development (1997), NIAID, NIH. Also Military Infectious Diseases Research Program, Department of Defense (as at April 1998)
- ¹⁶ *The Coming Plague*, *supra*, p. 49.
- ¹⁷ For instance, NIAID suggests that vaccine development would cost about \$350 m, spread over 10 years.
- ¹⁸ Personal Communication, Nelle Temple-Brown, WHO External Relations Officer, Washington (Jan. 13, 1998).
- ¹⁹ Summary of "A Report on Global Parasite Control", Draft of 9 March, 1998; Government of Japan.

THE WHITE HOUSE
WASHINGTON

Date

5/11

To:

Glyn Davies

From:

The Staff Secretary

I'll defer to you
on whether to bump this
up for the B.V. summit.
If not, then your folks
should coordinate with
Correspondence on a reply. Phil
cc: Don Berkhardt



'98 MAY 8 PM5:50

Telecopier Cover Page

TO: Phil Caplan

FAX #: 456-2215

FROM: Kyd D. Brenner

DATE: May 8, 1998

NUMBER OF PAGES INCLUDING THE COVER: 3

May 8, 1998

President William J. Clinton
The White House
Washington, DC 20005

Dear Mr. President:

The undersigned organizations wish to request that you strongly consider using the opportunity of the upcoming U.S.-E.U. and G-8 summit meetings to reiterate the need for timely and scientifically-based approval processes for agricultural products developed using modern biotechnology. We also hope you will express the U.S. expectation that each European Union member be expected to live up to their market opening promises when new products are approved.

Last month the European Commission approved three genetically-engineered corn varieties which are widely grown by U.S. farmers. Some of these products have been before European regulators since 1995. The lengthy delay in approval has cost the U.S. its corn grain export market to Europe in 1997-98.

Even with Commission approval, we are not assured this market will become available soon. With record corn plantings and declining prices, regaining this market is critical to the U.S. corn industry.

The Government of France, which sponsored several of the corn applications, has indicated it will not sign the final documents necessary for completion of European approval for these products in the near future. Because France conducted the initial safety reviews for these products – and concluded they were safe – their delay is no longer based on any scientific concern. We urge you to use both of these meetings to stress to the French government that they should complete this final step as soon as possible. We also ask that you communicate the need for more timely and predictable regulatory processes to all European governments and to Mr. Jacques Santer, President of the European Union.

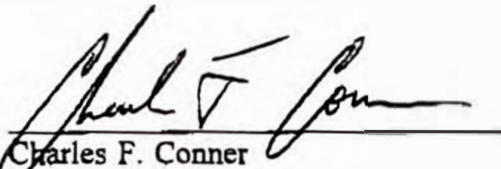
Agricultural biotechnology is helping U.S. farmers increase productivity, use more environmentally friendly farming practices and produce foods which benefit the health of both U.S. and world consumers. The delays in European approvals for these products threatens this progress. Ambassador Barshefsky and Secretary Glickman

President William J. Clinton
May 8, 1998
Page Two

have worked tirelessly to overcome the barriers to international acceptance of agricultural biotechnology, and we very much appreciate their efforts. We believe the upcoming summit meetings offer an excellent opportunity to complete this mission and we appreciate your support.

American Crop Protection Association
American Farm Bureau Federation
American Seed Trade Association
Biotechnology Industry Organization
Corn Refiners Association, Inc.
Grocery Manufacturers of America
National Corn Growers Association
National Food Processors Association
National Oilseed Processors Association
U.S. Feed Grains Council

Submitted for the above organizations by:


Charles F. Conner
President

Corn Refiners Association, Inc.,
1701 Pennsylvania Avenue, N.W.
Suite 950
Washington, D.C. 20005

cc: Ambassador Charlene Barshefsky, United States Trade Representative
Secretary Madeleine K. Albright, U.S. Department of State
Secretary Daniel R. Glickman, U.S. Department of Agriculture
Secretary William M. Daley, U.S. Department of Commerce
Secretary Donna E. Shalala, U.S. Department of Health and Human Services
Hon. Richard G. Lugar, chairman, Senate Agriculture Committee
Hon. Tom Harkin, ranking member, Senate Agriculture Committee
Hon. Robert F. Smith, chairman, House Agriculture Committee
Hon. Charles Stenholm, ranking member, House Agriculture Committee

5-11-98

Too Many Arms to Twist

3/22/98 - Sunday - Some of these are BS but some are in the news

By Jack F. Matlock Jr.

PRINCETON, N.J.

The Clinton Administration's frenetic diplomatic activity in recent weeks in and around Serbia's Kosovo region provides a fresh example of floundering in today's international environment. Senior Administration officials have made public threats that, if carried out, could embroil the United States in an ethnic war with slight if any relevance to American security.

In response to outrageous Serbian police attacks on ethnic Albanians in Kosovo, Secretary of State Madeleine Albright announced on March 7 that the United States held Slobodan Milosevic, the Serbian leader, "personally responsible" for developments in Kosovo and reiterated that the United States "will not tolerate violence." Earlier, Robert Gelbard, the United States envoy, was even more pointed when he threatened "the most dire consequences imaginable" to the Yugoslav Government.

By making implied threats to use military force — an idea that has no support among our NATO allies — and blaming Mr. Milosevic for all the trouble, the Administration is setting up for a Hobson's choice: if our threats do not deter him, we will either have to take action that can only worsen the situation or be seen as engaging in bluff. Worse, our posturing can encourage those Albanians who use force and violence to assert their irrefutable claims not only in rump Yugoslavia but also in Macedonia.

Certainly it is in the American interest to deter another Balkan war, as it discourages brutal Serbian treatment of ethnic Albanian citizens. But the problem cannot be solved by bluster, military action, much less unilateral American strikes. A solution requires Mr. Milosevic to agree to

restore the autonomy to Kosovo that he took away in 1989 and to protect the rights of ethnic Albanians and Serbs alike.

By blaming Mr. Milosevic alone for the recent crackdown, and not giving adequate public attention to the violent actions by armed Albanian separatists that provoked it, we hardly encourage compromise. By not insisting publicly that the Kosovo Albanian leaders drop their demand for full independence and negotiate in good faith for autonomy within Yugoslavia, we seem to be insisting on something no Government in Belgrade can accept, with or without Mr. Milosevic.

Our NATO allies and, importantly, Russia have taken a more balanced approach, exerting pressure on each side to conduct negotiations on self-rule. But if armed Kosovo Albanians continue to attack Serbs in the region,

More overseas blundering, this time in Kosovo.

it is difficult to see how talks could lead to a settlement or how the Yugoslav Government could resist public pressure to retaliate.

If the American threat were an isolated tactical error, it could be excused as an uncharacteristic blunder easily fixed. Unfortunately, it fits a pattern of strategic misjudgment that has marked the Administration's foreign policy of late. The Administration has maneuvered itself very close to a lose-lose choice in dealing with Saddam Hussein, and has weakened American leverage and ties with allies by attempting a "dual containment" of Iraq and Iran.

The Administration has also reduced our ability to keep weapons of mass destruction away from terrorists and rogue regimes. By pursuing a mindless expansion of NATO, the United States has given Russia more cause to hold on to its nuclear arsenal

and resist an American role in preventing leaks of nuclear technology.

The collapse of the Soviet Union transformed the international environment. The United States no longer has a global rival that can threaten it by exploiting local conflicts. We, therefore, can safely insist that other countries accept the prime responsibility for keeping peace in their neighborhoods. The United States must be able to counter threats to regional balances of power when they occur. But over the long run, we can maintain our strength and influence only if we can do so with the support and participation of our friends.

Europeans should be required to bear the prime responsibility for insuring peace in the Balkans. Islamic states, which along with Israel have the most to lose from Iraq's weapons of mass destruction, must be responsible for supporting effective means to contain Saddam Hussein. Israelis and Palestinians must understand that they bear the responsibility for settling their problems and that others will not intervene to save them from themselves. Tough love works.

Our assistance will often be essential. But we need to resist the temptation to jump into every unstable situation. As the Persian Gulf war showed, our military power is most effective when used in coalition with others. It also showed that even a spectacularly successful military victory cannot assure future peace. It takes an orderly regional neighborhood to do that; not an overeager sheriff rushing in from another continent.

The United States is now strong enough, both economically and militarily, to commit blunders without sensing the immediate effects. The public seems oblivious to the dangers that lie ahead if the United States continues, without strategic design, to inject itself into one crisis after another, treating much of the world as its protectorate.

Uncle Sam still needs a big stick in this dangerous world. But the American people and our friends abroad will eventually whittle it to a toothpick unless he remembers Theodore Roosevelt's advice to speak softly and use it sparingly. □

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Jack F. Matlock Jr., a professor at the Institute for Advanced Study, was ambassador to the Soviet Union from 1987 to 1991.

Frontpage Headlines

THE PRESIDENT WAS SEEN
5-11-98

For JS

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News	Sport

Updated Monday-Saturday at 2.30pm BST

Friday, 8 May 1998

President urges end to terror

New cash grants are announced

By Dan McGinn

US PRESIDENT Bill Clinton urged the people of Northern Ireland today to "honour the dead" of three decades of violence by rejecting violence and supporting a brighter future. The President issued his appeal after receiving a delegation in the White House of 10 men and women who had lost relatives in 29 years of the Troubles from the pressure group, Widows (Widowers) Against Violence Empower.

Mr Clinton, who described their visit as "inspirational", also announced plans to make available five million dollars to the Springvale university campus straddling the peace line in west Belfast and \$500,000 dollars to the Stormont assembly under the International Fund for Ireland.

The White House's advisor on economic initiatives for Ireland, Jim Lyons, also indicated that the First Lady, Hilary Clinton, will be returning to Belfast this autumn to attend a women's conference called Vital Voices.

However, it is understood the President has no plans to visit the province in the near future - even during the G8 summit next week in Birmingham.

President Clinton praised the "courage" of the WAVE delegation, which is currently on a trauma and conflict resolution training course at the Eastern Virginia Menonite University. He said the way they had dealt with the loss of their relatives to republican and loyalist violence and committed themselves to reconciliation was "inspirational" and he praised the Good Friday Agreement which, he claimed, offered the hope of a lasting peace.

"The Good Friday Agreement, forged by an extraordinary group of leaders representing the full range of Northern Ireland society and politics, offers the people of Northern Ireland the chance of a lifetime to secure a lasting peace.

"It is time for all the parties to say no - once and for all - to violence and yes to hope. To make a decisive break with the past and launch a brighter future.

"There is no better way to honour the sacrifice of the people with whom I met today - and so many more like them." WAVE director Marie McNeice confirmed the delegation raised the issue of the families of the disappeared with Mr Clinton.

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Bowles

Policy: More cash for NIH would benefit managed care firms; there are better ways to spend public dollars.

By MICHAEL D. REAGAN

President Clinton wants to add 10%, or \$1.15 billion, to the National Institutes of Health budget for fiscal 1999, bringing the total to \$14.8 billion. And doubling the NIH budget in five years is being seriously discussed in Congress. That's a no-brainer, a great idea, right? But compared with other needs? Maybe not.

Some of those other needs are within medical care:

- The 1997 Balanced Budget Act included more than \$20 billion to develop health coverage for perhaps half of the country's uninsured children; that leaves 5 million other children uninsured. Can we assume that all of the \$14 billion it will take to double NIH's budget will be better spent than if some or all of it were spent on coverage for more kids?

- Congress and the administration are hellbent on reducing the cost of Medicare by shoving seniors into HMOs. Maybe some of the money could be used to lessen the pressure on seniors to give up their long-time family physicians in order to accept cheaper care through managed care organizations.

- California has led the way in showing that sophisticated, strongly phrased anti-smoking messages can markedly reduce that drug's contribution to sickness and death rates. Might not a national campaign built on this state's model (that is, the model in operation when Gov. Pete Wilson was not curbing the anti-tobacco campaign in the mass media) be a better use of some of that money, conceivably preventing millions of cancers?

- More testing might be a competitive use of a chunk of money. This was a bad flu year, yet only half of Americans over 65 get annual flu shots. Insulin-dependent diabetes mellitus patients are susceptible to a condition that is the leading cause of blindness. Yet a survey of a few years ago found that only half of patients had the recommended dilated eye exam within the surveyed year and 20% had had no eye exam in two years.

- Better medical care can be obtained, with less waste, if we devote more funding to clinical evaluation of existing treatments, procedures and off-label uses of approved drugs. Only about one-eighth of 1% of U.S. health spending supports that kind of health services research, which is needed to develop cost-effective guidelines and reduce inappropriate and ineffective treatments. That work is done not in NIH but in the meagerly funded Agency for Health Care Policy and Research in the Public Health Service.

If \$14 billion is added to NIH, while Congress requires itself not to unbalance the budget, we need to ask what alternative uses outside of medicine might well be worth consideration?

- President Clinton has again proposed budgeting \$5 billion for school modernization, after abandoning an earlier version last year. That's nice—but the General Accounting Office estimated the national need at \$112 billion. And early Head Start, combined with food and health treatment for very young children, is a winner in usefulness, but still greatly underfunded.

- An Alameda County research study in the New England Journal of Medicine con-

'Better medical care can be obtained, and with less waste, if we devote more funding to clinical evaluation of existing treatments, procedures and off-label uses of approved drugs.'

firmed that long-term poverty is a causative factor in depression and other mental problems. Perhaps more money should be pumped into the federally funded but locally operated community development programs that are reviving economically depressed inner cities. And into sadly neglected vocational education for non-college-bound youth.

- Environmental protection programs

THE PRESIDENT HAS SEEN

5-11-98

are producing cleaner air and water and are beneficial both to the economy and to the nation's health. Their slow pace could be picked up with more money.

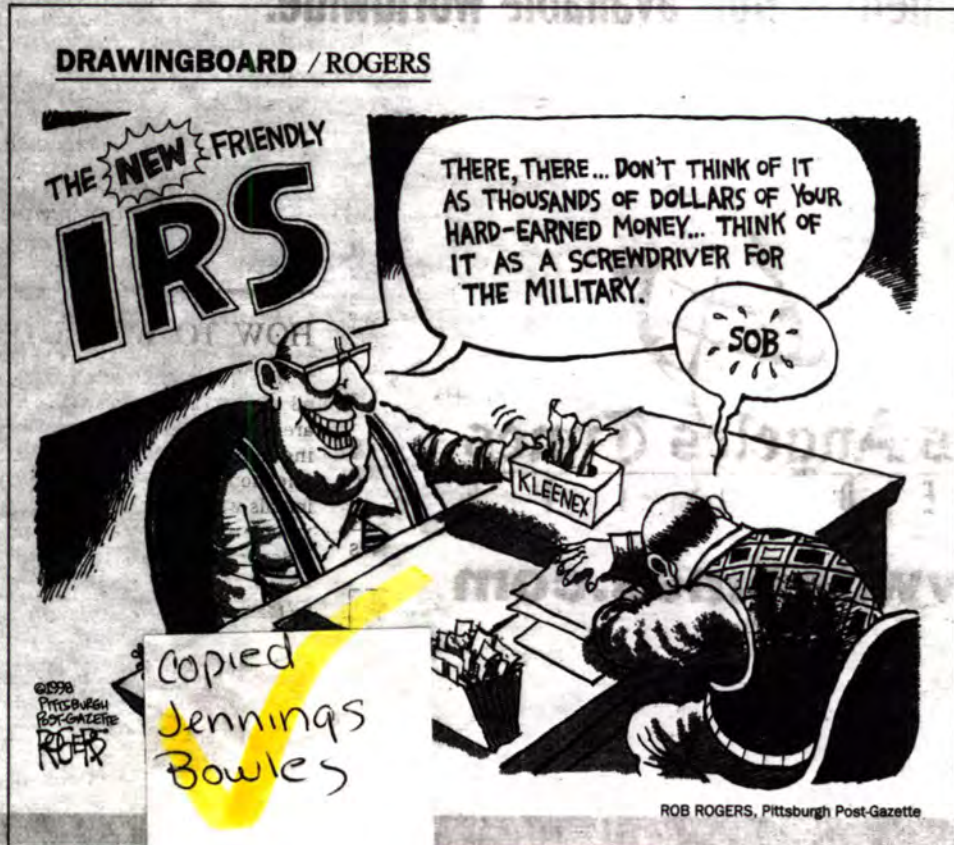
Are all of these needs less urgent than increasing medical technology expenditures at the rate of 15% a year? Imagine what could be done with schools, inner city housing and economic development, public transportation so that ex-welfare clients can get to the suburban jobs in need of workers and other urban and rural infrastructure needs if we increased their budgets 15% a year.

The NIH budget proposals are being justified in part as needed to make up a shortfall caused by managed care companies' reluctance to pay routine costs of patients in early clinical trials and by academic medical centers' deteriorating financial situations (also partly caused by the economics of managed care competition). Consider this irony: Because the companies paying extraordinarily high executive salaries and squeezing patient expenses to keep Wall Street happy don't want to continue contributing to clinical trials, we taxpayers are to give No. 1 budget priority to NIH.

Because health plans are immediate beneficiaries of federally funded medical research, why shouldn't Congress legislate instead that these firms set aside some small percentage of income to continue contributing to research? In short, why should medical research win the budget sweepstakes without even having to compete?

Michael D. Reagan is an emeritus professor of public policy at UC Riverside.

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ROB ROGERS, Pittsburgh Post-Gazette

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REMARKS BY VICE PRESIDENT AL GORE
AS PREPARED FOR DELIVERY
ECONOMIC CLUB OF DETROIT
Friday, May 8, 1998

TO UP
This is excellent
Thanks
Bob

Thank you, Mayor Archer – and I thank the Economic Club of Detroit for having me here today.

As I'm sure you understand, no one from the White House is free to discuss the particulars of the proposed Daimler-Chrysler merger, or any other proposed merger that may have to be reviewed under the Anti-Trust Laws. But I can say that because of your efforts, the American auto industry, from the factory floor to the design studios, to the showrooms, has never been stronger. Your efforts have helped lead an economic renaissance, not only here in Detroit, but across America. Ours truly is an economy that is now the envy of the world.

For those who doubted that American industry could lead the world again -- come to Detroit: the city where hope has defeated fear. Come to Detroit and see why opening markets is good for growth, and good for our workers. Come to Wayne County and see how we are competing and beating the whole world with a unionized workforce. Come to Southeast Michigan and see how business is lighting up our central cities and surrounding communities. Come to this Great Lakes region and see how we can lead the world in commerce, and have sparkling rivers and lakes at the same time. And while you're here, you can still see the Lions, the Tigers, the Pistons, and of course, those Stanley Cup-winning Red Wings. If the Red Wings keep winning, we'll have to add the octopus to the endangered species list.

When President Clinton and I brought about change toward a "new economy," some worried that it would work only for high-tech start-ups -- not for the region they wrote off as the "Rust Belt." Well, thanks to you, the new economy is a renewed economy -- in which our core industries are more competitive, more innovative, and are themselves more high-tech and high-skilled. Thanks to you, the Rust Belt is now the Renewal Belt.

In the early 90's, this state was losing more than 18,000 manufacturing jobs each year. Now, you are creating more than 12,000 a year. Six years ago, America's economy was rated fifth in the world. Now, we're number one.

Just this morning, we received the newest evidence of our economic renaissance: our Labor Department reports this morning that unemployment has fallen to 4.3 percent -- the lowest in 28 years. In April alone, our economy added 262,000 new jobs, wages continued to rise, and inflation remains low and stable. Since January, 1993, our economy has created 15.2 million new jobs. America's economic engine is truly humming. It feels so good to be able to say: thank you, Detroit -- for keeping America growing.

Our economic success is about more than balance sheets and bottom lines. It's about empowering individuals, through the jobs and opportunities that are the heart of the American dream. It's about strengthening families, by helping them have the means to raise strong children. It's about empowering communities, by bringing private investment to untapped markets in our own backyards. It's about uniting our nation -- by ensuring that we all grow together instead of growing apart. It's about leading the world -- because we must engage the

Very good

world beyond our borders to guard the prosperity we cherish here at home. That ripple effect -- from the individual, to the family, to the community, to the nation -- and ultimately, to the world -- is very real.

Here in Motor City, we recognize that cars have done more than fuel our commerce. Cars have freed the American spirit, and given us the chance to chase our dreams. To quote E.B. White, "everything in life is somewhere else, and you get there in a car."

I have great admiration for what many of you and your workers have done to turn the auto industry around. After fourteen years of trailing Japan, America has led the world in car and truck production four years in a row.

On this very day 119 years ago, the application was filed for the first automotive patent. Now, the industry that revolutionized the 20th Century is poised to revolutionize the next century as well. Once, Detroit built America's first mile of paved road. Now, Detroit is leading America down the Information Superhighway.

If you look at today's products, it's no wonder that, of all the private R&D in America, three-quarters is done by the manufacturing sector. Using 3-D models and computers, U.S. automakers have shortened production cycles from six years to 30 months. Through a massive "Extranet" computer network, linking thousands of suppliers and manufacturers, automakers are ordering parts, designing new products, saving enormous amounts of time and money. Raw materials are lighter, stronger, better-engineered to get less out of more. It's been estimated that while the physical weight of America's economic output has barely changed in a half century, its value has more than tripled.

Let me be clear: I believe very strongly that American manufacturing -- and Michigan's auto, truck, and high-tech industries -- must be at the center of any successful economic strategy for the 21st Century. That doesn't mean all of us in this room will always see eye to eye, or that we won't have disagreements in the future. But I've learned a lot from the people in this room -- and on so many issues, I hope we will continue to listen to each other, work with each other, to keep an open door and an open mind.

I know that today's American auto industry is committed to building not only the best and most competitive cars, but also the safest and cleanest cars in the world. For example, Ford's 1999 line of sports utility vehicles will actually surpass present emissions requirements.

That's not just the right thing to do, it's what consumers and the market are demanding. But I also know that new regulatory or environmental standards don't always come without cost to industry. For all our successful research to find cleaner technology, real progress depends on the industry's ability to make and sell cost-effective, competitive products.

That is why, back in 1993, we tried a new approach. President Clinton and I joined with the Big Three to create a Partnership for a New Generation of Vehicles, to triple fuel-efficiency by 2004. Our National Labs, as well as your own researchers and engineers, have brought the industry new insights about technologies that can reduce fuel use; you've certainly brought us

considerable insight about what industry needs to stay competitive. So far, we've been creative about balancing those goals. Detroit is on the right track -- for our economy, and for our environment.

But the success of industry here should not tempt us into complacency. Times are so good, some are starting to believe prosperity can be self-sustaining. Let me share a quote from Time Magazine: "The amazing U.S. economy may defy even the laws of physics: what goes up need not necessarily come down."

That quote isn't from last week, last month, or even last year -- it's from 1969. The last time unemployment numbers were this low. That was the last time we thought our economy was invincible and the last time we had a budget surplus. That was the year we ended 106 months of unbroken economic growth.

The problems came when America took growth for granted -- when our budgets became flabbier; our investments flimsier. A vicious cycle began, with faltering growth leading to bigger deficits, and bigger deficits causing higher interest rates -- crowding out the private investment that is the real engine of growth and jobs. By the early 90's, we had deficits at record levels, \$300 billion a year, stretching out as far as the eye could see. A quadrupled national debt. Every time businesses tried to invest and expand, the deficit would put pressure on interest rates and the recovery would stall.

For years, Americans heard there were only two choices: tax and spend, or cut and run. We knew there was a third way: invest and grow.

We put together a policy with elements that had never been tried in combination before: cut the deficit, open markets, and invest in our people. We replaced the vicious cycle with a virtuous cycle -- lower interest rates, more investment, more jobs, more growth -- which fuels even greater investment in our future. America's new economic strategy is working. You could call it the law of intended consequences.

But already, there are voices urging us to take growth for granted -- to revive the complacency of the 70's, and once again pursue the misguided policies of the 80's. Even before the first surplus rolls in, some want to dump every dime into risky tax cuts, or new spending we can't afford. I believe we have to use good times to tackle even tougher challenges; to lead the world economy; to provide world-class education and training for a world-class workforce; to make permanent the disciplined, pro-growth policies that have enabled you to create good jobs and raise incomes. And I believe there are five core principles we must uphold:

First, we must maintain our newfound commitment to fiscal discipline. Our economic power comes from a vote of confidence in America, a vote cast in markets around the world that evaluate every government's policies every day, through billions of transactions. Forget the gold standard -- today's economy operates on the information standard.

If investors think you're playing fiscal games, interest rates climb almost instantly. It took a lot of painful decisions, and two herculean battles in Congress. But for the first time in

thirty years, we have balanced the federal budget. It was the right thing to do -- right for our national economy, and right for our national spirit.

Our willingness to make hard choices based on real numbers helped us win the faith of financial markets -- and so did our refusal to play politics with America's financial system. Too often in the past, administrations have been willing to bash the Federal Reserve for a quick headline. Let's face it: bashing the Fed is a fool's game. It doesn't lower short-term interest rates, because the Fed doesn't respond to criticism. But it can raise long-term rates -- because the market does respond to Fed-bashing.

I believe in sound fiscal policy. Barring an economic reversal, a national emergency, or a foreign crisis, we should balance the budget this year, next year, and every year. Not through a Constitutional Amendment that would clog up the courts, but through the resolve of our national leaders, and strong pressure from the American people. Our economy will be stronger in the 21st Century if our grandchildren never even learn the words "federal budget deficit."

Second, we must use these good economic times to tackle tough, long-term economic problems -- and that means saving Social Security and Medicare while we have both the means and the will to do it. We've closed the budget deficit -- now we must tackle the generational deficit. I don't believe in waiting for the rain to start fixing the roof. Let's do it now, while the sun is shining. Let's reform Medicare and Social Security in the next few years, long before my generation of baby boomers reaches retirement.

In the next decade, projections show more than \$1 trillion in surpluses for Social Security. But by 2013, the deficits open up -- and by 2032, Social Security becomes insolvent.

That's why President Clinton has proposed reserving every penny of any surplus until we have strengthened the Social Security system for the 21st century.

Even in the best of economic times, there aren't easy answers. Social Security is already one of the most efficient insurance programs in the world, in terms of administrative cost. Reforming it is going to take some political courage. But through hard choices, we must make Social Security as strong for our children as it has been for our parents. Social Security is not just a government program; it is a solemn social compact between generations.

Third, we must continue the hard work of reforming and reinventing our government -- so that it costs less, works better, and keeps pace with today's fast-moving economy. Just look at the faltering economies of Asia. Their own rigid regulatory structures are squeezing the life out of industry and preventing those economies from getting back on their feet -- and they failed to identify and prevent the abuses and the problems. America needs a common-sense government -- one that's flexible, and keeps up with new markets and technology.

That's why we took a long, hard look at the way American industry has reenergized itself in order to bring those lessons to government. So far, we have cut 350,000 federal employees, eliminated more than 200 outdated government programs, cut 16,000 pages of regulations, and 640,000 pages of internal rules. We have saved \$137 billion -- which helped us to balance the

budget.

We need to redouble our efforts to reform the regulatory system – so that regulations are more cost-effective, fairer, and don't rely on a "guilty until presumed innocent" mentality. When it comes to all regulation, the best strategy is to pursue public health, environmental, and regulatory policies that grow our economy and improve our society at the same time. But when there are costs and trade-offs, and when we must move forward for the sake of the public interest, we must do so in the least burdensome, most cost-effective ways possible.

This is how we must meet the challenge of global warming. We all recognize the mounting evidence of global warming, many auto industry leaders have spoken eloquently about it. I believe that the consequences are so great, we simply must act. But we must act with common sense and realize that most of the solutions will emerge from industry. Private sector innovation can help us stop global warming -- without economic cooling. We owe it to our children to meet both goals.

Fourth, America must remain engaged with the world, and not pretend we can shut it out. It is in world economic affairs that our fear of complacency should be greatest. For one of the great and tragic ironies of our history is that we are prone to turn inward when our power is greatest; when our economy is strongest; when our interests are most secure.

In the roaring 20's, after World War One, America turned inward – refusing to engage its allies through the League of Nations. We raised tariffs to unprecedented new heights and failed to ensure the economic security that is the basis of national security. Not only did American isolationism help plunge us into Depression – the failure of a single Austrian Bank, with no way to calm the panic, led to a downward spiral of devaluations throughout Europe, which some believe helped trigger World War Two.

In America's post-World War II era, we chose a different course. We forged strategic alliances for our national security – such as NATO and the United Nations.

We built world economic security, and bolstered free markets – through the Marshall Plan, the International Monetary Fund, and the World Bank. Most importantly, during the post-war boom, we built a shared prosperity here at home – with rising incomes, rising home ownership, and the birth of our great middle class. Because we made prosperity work for all Americans, we were able to sustain a consensus for leadership in the world, and become even stronger in the second half of the 20th Century.

Today, at the brink of a new American century, we are at a crossroads. Will we lead and shape the world economy, when our power to do so is at its peak? In 1993, with our recovery uncertain and anxiety high, we passed NAFTA, which deepened our ties with our two closest neighbors, and increased our auto exports to Mexico by a factor of nine. It was one of more than 240 new trade agreements we have reached. But last year, with growth strong and the economy booming, Congress denied the President the traditional trading authority – commonly referred to as Fast Track -- which every modern President has had to negotiate new trade agreements. And while it may be a controversial view among some here in Detroit – many of them my dear

friends -- I believe Congress was right in 1993 to approve NAFTA, and wrong in 1997 to reject traditional trade authority. Expanding trade has been vital to today's growth and prosperity, and reversing this course will only erode our economic progress.

In the last five years, over one-third of our economic growth has been due to exports. Do we really expect to grow by turning our backs on the world's consumers, by letting their economies grow without us? I believe we must do even more to tear down trade barriers -- and to champion and expand our exports, as I was proud to do for General Motors in China last year. We must fight against the corrupt practices of foreign businesses and governments that tilt the playing field against our businesses. We must make the Internet a global free trade zone, to harness its explosive potential for growth.

Of course we will suffer if we throw up new barriers for our consumers overseas. But we will suffer even more if their own economies collapse -- if foreign customers can't buy our products -- if foreign currencies lose their value, and our competitors try to flood the marketplace with cheap, devalued goods -- hurting our businesses, our farmers, and our families.

That is why we need the IMF -- to work with countries that are at risk, before the risk spreads to us. The IMF needs reform of its own -- of that there is no doubt. But to cut off IMF support now is like shutting down the Fire Department when the house next door is on fire.

With almost a third of our exports going to Asia, we have a lot at stake. But the hardest work must be done by the nations of Southeast Asia themselves. And the place to start is Japan, which must jump-start its economy -- so it can lift up its neighboring economies, and buy more American products again. The Japanese government has put forward a positive proposal to stimulate its economy; they must implement it quickly. But that is not enough to solve Japan's problems. Japan must do more to strengthen its financial system and open and deregulate its economy, in order to build long-lasting, demand-led growth.

With the sun shining here at home, the storm clouds over Asia may seem far away. But a central fact of economic life in the 21st Century is this: we must stay engaged abroad if we are to be prosperous at home.

Fifth, and finally, we must continue to make the investments that give us faster growth and also share our prosperity for the 21st Century. The price of opportunity is responsibility. This is where government, business, and all Americans must play a role. We must make the investments today that are the foundation of prosperity for tomorrow.

That is why we have proposed an aggressive increase in civilian R&D, to stay competitive in the world. We are fighting for lifetime learning for every American -- from pre-school to college to job training -- for the high-skilled workforce that is already in short supply here in Detroit. We are empowering our poorest areas -- because we know they have the most untapped potential.

Industry here has been a leader in supporting these investments. As business leaders, you understand this fundamental bargain. By making our economy work for everyone, we can build

and sustain a consensus for open markets, for international engagement, for aggressive leadership in the world. I was proud to stand with the Big Three as they announced a 50% increase in subcontracts to disadvantaged businesses. I applaud industry's leadership in building up Detroit's distressed communities. All of American business should follow your example.

Every American citizen has a bargain to live up to as well. In exchange for a strong economy, in exchange for education, and training, and the tools to succeed, we are right to demand responsibility -- through strong families and communities, through work instead of welfare, and by making the most of the opportunities good times bring.

There is another shared bargain we must all uphold. In exchange for sustained and sustainable economic growth -- in exchange for good jobs and rising incomes -- we must all seek to perfect our union, to reach across the lines that divide us, and to pass on our values to the next generation. No nation can achieve its full promise if unemployment is low, but child poverty is high -- if interest rates are low, but hunger rates are high. Let us seek growth that lifts up those who have been left out. Let us open closed markets around the world, but also around the corner. Let us use the power of markets to grow together, instead of growing apart.

I believe this must be our blueprint for growth in the 21st Century -- the means by which we empower individuals, strengthen our families and communities, unite our nation and lead the world. But that is not a record to rest on; it is a record to build on. We must fight the impulse to inaction, the temptation to withdraw from the world, the tendency to shrink from hard choices. To those who would unravel our fiscal discipline, derail our investments in education, and roll back our leadership in the world, I say: that's not a plan to extend our prosperity, that's a plan to end it.

Prosperity, after all, is not a destination, it is a never-ending journey. We must be even more focussed, even more aggressive, to keep it going. Not just for the sake of business, but for the young families entering the workforce, eager to build a better future. For the children hungering for the tools and skills to revolutionize the workplace of tomorrow. For a 21st Century of even greater promise and prosperity, for all our people. Detroit and Michigan have been at the center of that promise for so much of this century. Let's keep it that way for the next century. Thank you.

A Special Breed of Bandit

At their summit in Chile, Bill Clinton and other heads of state ignored Latin America's most pressing problem



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'The No. 1 crisis':
Greeting the U.S.
president at a
Santiago university

BY BROOK LARMER

FOR LATIN AMERICA'S NEW BREED OF bandits, there is no such thing as a bad time for crime. If there were, then the thief in Santiago wouldn't have targeted President Clinton's social secretary on the eve of the Summit of the Americas. The Chilean capital is always patrolled heavily by police; last week it was crawling with hundreds of extra uniformed *carabineros* and visiting foreign agents, all checking and reinforcing security on routes designated for Clinton and 33 other global leaders. That didn't stop a thief from brazenly snatching the Clinton aide's purse in broad daylight—and then melting into the crowd.

When the president arrived in Chile last week, he praised the stunning transformation of Latin America and the Caribbean. The civil wars are mostly over. Democracy has replaced dictatorship in all but one of the region's countries, Cuba. And Latin American economies, leavened by free trade and privatization, have rebounded from the "lost decade" of the 1980s with eight years of robust growth, averaging 5 percent a year. But amid all the smiles and toasts, a troubling question went unanswered: if everything is so great, why are

Latin American citizens more fearful than ever? "The No. 1 crisis in the entire region is the crisis of personal security," says Eduardo Gamarra, a professor at Florida International University. But it was not, he points out, "the subject of a single formal discussion at the summit."

Nobody doubts that the four main topics on the summit agenda—poverty, trade, democracy and education—are vital to the region's future. Summit organizers stress that, unlike crime, these "second generation" development issues (those that follow "first generation" economic reforms) strike at the root of the region's social problems. But the crisis in security is warping the region's social and economic development. And it consistently ranks as the top public concern in opinion polls throughout Latin America. It's easy to see why: Latin America now averages 30 homicides per 100,000 inhabitants, six times the world average, three times the rate in the United States and twice that of Africa and the Middle East. The fear of common crime— theft, assault, kidnapping—affects nearly everyone.

And the situation is only getting worse. Fueled by a widening gap between rich and poor, an ineffectual legal system and a sur-

plus of weapons left over from cold-war conflicts, crime is rising in nearly every country in Latin America. In Mexico crime has multiplied faster in the past four years than in the previous six decades. Colombia, aside from its drug violence, has become the world leader in kidnappings, with more than 2,000 reported last year—one abduction every four hours. El Salvador has surpassed Colombia as the world's most murderous country, with more homicides per year than during the height of its bloody civil war. And a recent United Nations survey reports that 78 percent of Chileans expect to be robbed—while 47 percent of Chilean women expect to be sexually attacked.

The criminal free-for-all is exacting a heavy toll. Last month the Inter-American Development Bank called violent crime "the principal barrier to regional economic development." Its annual cost: \$168 billion, or 14 percent of the region's GDP. But the social and political costs may be even greater. Crime has made large swaths of Latin America a Hobbesian world of brutal competition in which normal social constraints are stripped away. With legal systems too weak or corrupt to enforce law and order,

citizens are turning their homes into fortresses, forming neighborhood-watch committees or—in extreme cases—taking the law into their own hands with private armies or lynch mobs. "The real message is that good macroeconomics is not enough," says Colombian security expert Francisco Thoumi. "The deep problems of Latin American societies are coming to the fore."

What's to be done? A growing number of Latin Americans are clamoring for the *mano dura* (heavy hand): stiffer sentences, more troops on the streets, even a return to the old days of authoritarian rule. But such nostalgia could exacerbate the problem even as it compromises democracy. Carrying out the second-generation reforms pledged in Santiago would certainly help: improving schools, reforming judiciaries, reducing poverty. "You can't solve this with more cops or more diplomacy," says Thomas Cash, a security expert in the Miami office of Kroll Associates. "You need a system of justice, and people committed to it." The Santiago summit produced a bushel of noble pledges. But until the region's leaders show the courage and commitment to tackle the crisis in public security, Latin Americans won't escape their future of fear.

With MARTHA BRANT in Mexico City

of license in Tehran's streets. When a young artist was asked how he judged what women really looked like under the shapeless coats or traditional chadors required on the street, he smiled broadly. "You just ask them back to your place," he said, "and they get naked." This in a country where the head of the judiciary recently put a German businessman on death row for admitting to adultery. Without such a law, Ayatollah Mohammed Yazdi told a press conference, girls might be abducted and raped—"and if they went willingly and enjoyed mutual pleasure," he said, "that is even worse."

With such old-time religious revolutionaries still in control of the security forces and the judiciary, Khatami has to move cautiously as he kicks around ideas for opening his country to the world. And Washington isn't always quick to catch on. When American wrestlers competed in Tehran last February, they were treated like superstars. ("Now I know how the Bulls feel," one of them says.) When the Iranian wrestlers came to America this month, they were detained, photographed and fingerprinted as potential terrorists in the Chicago airport.

Still, Tehran keeps trying. The next milestone on Iran's drive for detente will be at the World Cup matches. The Iranian team will have a unique chance to show just what good sports—how modern, and how tolerant—they really are. A random draw has pitted Iran against three countries with which its regime has had, to say the least, difficult relations. First comes Yugoslavia—the Serbs. During the war in Bosnia, clandestine aid from Iran armed Muslim forces. Last comes Germany, long Iran's leading trading partner in Europe, but which recently accused Iran's leaders of ordering political enemies murdered on German soil. And in between those two matches, on June 21 in Lyon, there is Iran versus the United States.

For the Iranians, the U.S. game is not the grudge match it might seem. Although Khomeini's dogma calls America the Great Satan, many young Iranians see it as the promised land. Still, there's no question that every Iranian wants to win the match in Lyon: hoping for that moment of sport, that moment of history—a new moment of joy. Given what happened in November, America could well change the face of Iran—if the U.S. team loses. When the celebrations are over, the Islamic Republic may have a whole new look—or at least a world-class hangover. ■

Saddam's Stone Wall

Iraq still hasn't satisfied the U.N. inspectors

WHEN UNITED NATIONS ARMS INSPECTORS ARRIVED AT THE RADWANIYAH presidential compound in Baghdad earlier this month, smiling Iraqi officials met them, offering tea. The smiles didn't last; the Iraqis were furious when the inspectors said they wanted to take aerial photographs of the complex. The argument became so heated that Secretary-General Kofi Annan had to intervene via telephone to get approval for the pictures. Despite the departure from their script, the Iraqis got the outcome they wanted. As the experts continued their inspection of Radwaniyah, they found what they had expected to find: nothing—no trace of Iraqi efforts to build weapons of mass destruction. But that's not the end of it.

Saddam Hussein thought perfunctory visits to his presidential palaces would be a prelude to the end of the inspections. Instead, a new U.N. assessment, released last week, said the Iraqis are still lying about their weapons program. In his semiannual report to the Security Council, chief investigator Richard Butler said Baghdad had made "virtually no progress in verifying disarmament." In fact, the inspectors found evidence that Iraq may still have the capability to produce chemical and biological weapons.

"The Iraqis are behaving nicely," says a senior U.N. official, "but they haven't changed their policy."

That could set off a dispute when the Security Council meets next week to discuss the report and argue about lifting the economic sanctions imposed on Iraq. Last fall, Butler quietly made a major concession to Saddam: Iraq and the inspectors would each make their case to international panels of experts in "Technical Evaluation Meetings"—TEMs in U.N. jargon. This would offset the strong American and British presence on the inspection teams by subjecting them to review by Russian, French and other experts potentially friendlier to Iraq. Saddam hoped the



Men behaving nicely: His helpers offered tea

arrangement would slow down the inspection process, Butler said. But so far, the Iraqi dictator has lost the battle of the TEMs.

There have been three to date. A chemical-warfare panel—including four experts from Russia, two from France and one from China—concluded that Iraq still has the capability to produce massive quantities of VX, a deadly nerve agent. A group of missile experts, including five from Russia and two from China, said Iraq failed to provide "factual answers" about warheads designed for chemical or biological weapons. The third TEM, chaired by a Swede, said the Iraqis were lying about their biological-weapons program. "The attitude of Iraq ... was disappointing and shows no change since 1995," the panel said politely.

Earlier this month, a report by another U.N. body, the International Atomic Energy Agency, revealed that Iraq tried to revive its nuclear-weapons program after the end of the Persian Gulf War in 1991. When the agency demanded an explanation, Baghdad said an "unauthorized" program had been run by Lt. Gen. Hussein Kamel, Saddam's luckless son-in-law, who defected to Jordan in 1995 and then returned to Iraq, where he was killed. That effort now seems to have been shut down, and the IAEA is prepared to give Iraq a clean bill of health on nuclear weapons.

Last week Baghdad warned of increased tensions if the sanctions weren't lifted quickly. Iraq's government newspaper said the Security Council "should slap Butler on his mouth." Clearly, some council members want to end the inspections soon. Butler's next report, due in October, could set off a new crisis if it shows that Iraq still has not complied with U.N. demands. So far, the "new spirit of cooperation" that Annan professed to find in Baghdad appears to be little more than the old habit of stonewalling.

GREGORY BEALS and JOHN BARRY