

Commentary

PERSPECTIVE ON FINANCIAL MERGERS

Giant Banks and the Little People



The new combines may have lower costs, but the price they pay may be more government scrutiny and regulation.

By MARTIN MAYER

Bank mergers by definition are high finance, and they are not driven by thoughts of consumer benefits. Computers have brought economies of scale to banking. In the old days, a new account added to a bank's expenses about as much as an older one, mostly in teller and clerk time. Now computers stand there and run through all the accounts every night. And when you merge two banks, you save money automatically, because the consolidation means that some of the checks that had to go out to the Federal Reserve or the clearinghouse can be settled immediately.

From the financial institutions' point of view, data processing has virtually eliminated the differences between bank deposits and savings accounts, credit card advances and installment loans, money market funds and mortgage bonds, annuities and insurance. Efforts by government to keep these things separate are overwhelmed by technology. The same machines that handle an investor's income from her stocks and her payments to finance them can be used to process her salary checks and credit card bills. Stockbrokers can't "take deposits"—that breaks the law—but more checks are written on Merrill Lynch "cash management accounts" than on any bank in the country except Bank of America.

From a consumer's point of view, financial products remain quite different: Some are spending money, some are ways to hold or protect wealth, some are ways to build wealth. On the other side of the ledger, some are long-term borrowing to be paid back slowly, like mortgages, some are medium-term obligations to pay for automobiles or pianos, some are revolving credits because America is full of people who would rather have money in the bank

earning 5% or 6%, even if the price is carrying a credit card debt that costs 18% or 20%. Because the consumer has different purposes for her purchases of financial products, there isn't much sense of competition among them.

Some people play the financial system intelligently and successfully. They take the

lemons from a mailbox full of solicitations by credit-card companies and squeeze out the lemonade from a bushel of "introductory rates" to pay off their previous creditor. They grab for tax benefits, illegitimately but successfully, by borrowing on their homes for other purposes. They finance vacations with low-interest margin loans on their stocks.

More pay no attention. Historically, banks have competed by the convenience of their branches, not by the quality or price of their offerings. Complicated

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products, like the credit life insurance that supposedly assures you that your family can keep the car if you die (but really assures the bank that its loan will be paid), have been outrageously overpriced. New York state now has a law that forbids banks to take profits from such policies greater than 52% of premiums. The most profitable activity at any bank is bouncing a check, which costs very little but carries a high fee.

Banks are not alone in ripping off the customer who doesn't understand about finance. Brokers cold-call whole communities to sell initial public offerings on which they make huge commissions.

Unscrupulous insurance agents bait and switch customers to earn bonuses. Prudential is paying penalties in the billions of dollars for failing to police its agents.

Indeed, employers as a group have disgracefully exploited the innocence of their low-paid workers, who once were paid cash, and then were paid by checks that could be cashed free at the employer's bank and now get a check that leaves them on their own. Next to the mutual fund, the fastest growing financial enterprise is the wretched check-cashing shop that charges 2% or 3% of face value for its services. When the Treasury Department held hearings in the Bay Area about ways to create bank accounts for poor people, the head of an East Palo Alto community group reported on a survey that showed the residents of that city had an average annual income of \$16,300 and an average expenditure of almost \$350 a year to cash checks.

The giant bank mergers announced in the past few days (and there will be more) will make it possible for banks to give consumers better prices because their costs will be lower, but they will also lessen the competition without which such savings are unlikely. A big part of the question is the size and strength—and ability to band together—of what will be many surviving smaller banks. In Massachusetts, for example, after Fleet and BankBoston had pretty much swept the field of the state's larger institutions, a bunch of savings banks and smaller commercial banks formed a compact that promised, among other things, free access to all the ATM machines operated by any of them. Such a tactic might be particularly effective to control the bad habits of NationsBank, which not only surcharges visitors to its machines but in some states has imposed charges upon its own depositors. Any effort to impose higher ATM fees in California could be blocked at the gulch by a relatively few enthusiastic and well-publicized protesting depositors.

In the lending area, even the biggest banks have competitors as strong as they are—mortgage bankers backed by the immense resources of Fannie Mae, the Federal National Mortgage Assn.; finance companies headed by GE Capital; the



"I'm king of the world!"

automobile companies' own credit arms; pension funds and insurance companies and mutual funds looking to buy commercial paper or bonds or, increasingly, to offer loans themselves. The more standardized products growing out of competition among these banking and non-banking giants will continue to make loans cheaper for the standard borrower. Moreover, banks must expect competition in the years ahead on their own sacred turf of payments services. Microsoft and First Data, for example, are experimenting with bill collection for utilities, and telephone companies like Ameritech are looking for new uses for the wires they already have in your home.

Coming soon, of course, is the "financial services institution" heralded by last week's merger of Citicorp and Travelers Insurance. Europe has enthusiastically adopted a pattern of "Allfinanz" that combines insurance and banking. From a consumer point of view, there could be big savings here. Insurance agents' commissions are a much larger than necessary cost in household budgets; policies

marketed through banks could be a lot cheaper. But the new expanded banks could bundle what now are separate charges—for brokerage, mortgage origination and home insurance, for example—into confusing packages. If consumers get their information about these packages from our pervasively dishonest culture of television advertising, the combination of services is not likely to save them money.

Technology is in the saddle and rides the world, and not much can be done about it. But government can impose a higher level of disclosure and honesty than we are likely to get from the participants unpoliced. The pioneers of these mergers will find to their distaste that they have created a perceived need for greater government intervention to clarify the pools of information and even, perhaps, to regulate the world of finance.

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*C. Jennings
Fgt - good sign
for our research
budget*

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The Clues Are in the Blood

Ron Munger believed he could find the causes of cleft lip and palate in the DNA of the poor and isolated people of Cebu. But a remote Philippine island makes a complicated laboratory. **By Lisa Belkin**

Photographs by
Lauren Greenfield

A MENACING SPIDER CREEPS ACROSS THE FLOOR OF THE H.W. MILLER Memorial Sanitarium and Hospital on the Philippine island of Cebu, but Ronald Munger appears not to notice. Dozens of gecko lizards, all the same grayish color as the dingy, peeling paint, skitter along the walls, but Munger seems not to see them either. Making his way down a sweltering hallway, he passes countless children, their faces marred since birth, with raw, gaping holes where their lips and noses should be. The children stare at Munger — his red beard and pale skin are oddities here — but he does not stare back. Though they may never have seen a face like his, he has seen hundreds of faces like theirs. The sight has lost its power to shock, but not to sadden, so he keeps his gaze straight ahead and walks on.

A hand-lettered sign taped to a rickety partition identifies his corner of one room: "Genetics." Inside a makeshift cubicle sits a woman, Editha Bensí, her eyes clamped tight and her malformed mouth quivering while her blood flows out of a needle in her arm and into a vial. Next it is her children's turn. Nurses restrain Matthias, 5, and Maria Ana, 2, then prick their fingers, squeezing out 10 crimson drops onto an absorbent white card. Editha's vial, still warm to the touch, is labeled and placed in a box with dozens of others. The children's cards, the spots not yet dry, are clipped to a piece of twine that hangs along one wall. With every tepid blast from the air-conditioner, the cards jump and dance, like blood-splattered laundry in a breeze.

Ron Munger has come to Cebu for this blood. He knows that somewhere in these vials, on these cards, in this room, lie the reasons for the deformed faces. Cleft lip and palate has its origins long before birth, when something interrupts the normal function of the gene or genes that control the migration and differentiation of the cells in the craniofacial region. The results are unmistakable — upper lips that are split on one or both sides, with the fissures sometimes extending as high as the eye sockets; palates that fail to fuse, too, creating a mouth that looks like the epicenter of an oral earthquake. The causes, however, are less than clear. Which among the estimated 80,000 genes misfire to such consequence? And what in the limitless universe of triggers causes them to do so?

The answers are buried, coiled and encrypted in the blood. They have been there through the ages, but not until the past decade has the technology existed to begin unearthing and deciphering them. Only a few genes linked to diseases were discovered in all of the 1980's; by the end of last year, thanks to the increasingly detailed road maps created by the Human Genome Project, nearly 800 disease genes had been discovered, 100 last year alone.

There are thought to be 4,000 diseases that are directly inherited and countless others in





Maria Niña Bensi, 7, in her father's arms, just after a nurse's assistant drew 10 drops of blood from one of her fingers. The blood of the Bensi children, who live on Cebu Island in the Philippines, is a geneticist's dream, because cleft lip and palate has run in the family of Maria's mother, Editha (second from left), for generations.

which genetics plays an indirect role. The scramble to find all the pertinent genes will consume scientists well into the next century. Each search will end in a high-cost, high-tech lab, but none of them will begin there. Each will begin, instead, where the blood is.

The best way to locate a disease gene is usually to screen the DNA of affected relatives who have stayed in one place for generations, passing the mutant gene along. One such family is that of 35-year-old Editha Bensi, who has five children in all, four of whom have cleft lip. At the same time, the most common environmental triggers for genetic mutation include poor nutrition and other side effects of poverty. Such is the life of the Bensis, whose only source of income is the \$2 a day Editha's husband, Matthias Sr., earns selling used sacks and boxes door to door. The search for impoverished, isolated families who suffer from rare disorders means that gene hunters, the cutting-edge technocrats of modern science, spend a lot of time in the most remote and least developed places in the world.

The need for blood is why scientists from the Baylor College of Medicine in Houston regularly trek to the desert in Saudi Arabia, searching for the cause of primary congenital glaucoma. It is why Howard University, near Washington, sends researchers to study diabetes in Nigeria and Ghana. The University of Iowa finances trips to track down nomadic Bedouin tribes in the Middle East. Scientists from the Medical College of Virginia make yearly trips to Mongolia to find the causes of a rare form of deafness. And others, from the National Institutes of Health in Bethesda, Md., study families in Patras, Greece, to find the cause of Parkinson's disease.

A particularly hardy group from the University of Toronto has searched for the asthma gene on the island of Tristan da Cunha. There are but 300 people on the island, which is located halfway between Cape Town and Buenos Aires. The only way to reach it is to spend a week on a barge, passing through some of the world's roughest seas.

The same need for blood is what has taken Ron Munger to the Philippines, 17,668 frequent-flier miles away from his lab at Utah State University. The rate of cleft lip and palate is twice as high there as it is in the United States. This is why an American-based group called Operation Smile finances yearly missions to the Philippines, flying in nearly 200 surgeons and medical support staffers and reconstructing more than 1,000 cleft lips and palates over a two-week period.

Munger's work has nothing to do with Oper-

Lisa Belkin is a contributing writer to The Times Magazine. Her last article was about a mother who gave up her baby for adoption.



Four of Editha and Matthias Bensi's children (including two not pictured) inherited her cleft lip and palate. (Only Isidro, center, was spared.) Editha was eager for her children to have corrective surgery and avoid the taunts she faced while she was growing up, but would send only two to the hospital because she didn't want to appear "greedy."

ation Smile, except for this: When the patients travel from remote villages to a Philippine hospital for the surgery, they bring their families and set up camp around the hospital. This mass of people, all of whom were either born with the disorder or are related to someone who was, is a geneticist's dream. Munger is one of a team of scientists who have recently begun to piggyback on the efforts of Op Smile, collecting blood that will reshape the future as certainly as these surgeons are reshaping the faces distorted by cleft lip and palate.

Munger's team has made nine such trips to the Philippines. Each of these, like each trek to Saudi Arabia, Ghana, Mongolia and Tristan da Cunha, brings science that much closer to knowing the cause of a particular disease. When the research hits its mark, and a disease gene is finally found, it adds a single, small piece to a profound puzzle. One day that picture will be complete, and the result will be no less than an operating schematic for mankind—a picture of who we are and how we work.

Physicians and pharmaceutical companies are already gearing up for the miracles that genetics might make possible: drugs targeted to remedy the cause, not just the effects, of a disorder, by correcting or replacing the mutated gene. Ethicists and lawyers, critics and skeptics, are gearing up, too: Once a person can be reduced to a series of genes, will insurers and employers identify and weed out people whose DNA



Cards that tell the future, and the past: Somewhere in these blood samples, taken from Cebu Island residents who suffer from cleft lip and palate, lie the reason or reasons for the deformed faces, and the paths to gene and nutritional therapy.

makes them a higher health risk? Once traits can be swapped and altered in a laboratory, will society give in to the temptation to re-engineer individual weakness and imperfection? And what of the populations whose blood is being mined for this genetic gold? Does some of the profit from potential drugs or patents belong to them?

Here on Cebu, however, where the hospital X-ray machine is 30 years old and measles regularly kills, those questions seem very far away. Here, Munger's problems are less lofty and more immediate: what to do about the local



Just the facts: Ron Munger, left, tends not to get involved in the lives of the people whom he studies. He cannot make promises or give advice. He is there to collect information on a population, not on individual people. He and a local assistant visit Diana Sudaria (with baby) to discuss her family's eating habits.

health officer who may or may not be hinting at a bribe? How to find the only factory on the island that can supply dry ice to keep the blood samples cold? (Answer: You have to drive for two hours, then make a left behind the cock-fighting arena.) How to persuade Editha Bensi, whose blood is a potential treasure trove of information, to return another day, and bring the rest of her children for testing? What to do when she does not show?

Every trip by every gene-hunting scientist is made up of endless dramas like these; technology may have made it easier to get to the jungle, and to decode the blood that comes back from the jungle, but it is not of much help while you're actually in the jungle. Yet if researchers cannot negotiate the cultural and political challenges facing them at the ends of the earth, where the blood must be gotten, then they will never have the stuff with which to ponder the more purely scientific questions surrounding genes, their role in disease and their potential to yield cures. Looked at in this way, Ron Munger

has as much in common with explorers of centuries past as he does with the genetics-steeped medical professionals of the century to come.

THE LABORATORY SUITE IS THE MOST UP-TO-date part of the Miller Hospital, two rooms where the rotary telephones may work but the clock is stopped at 20 minutes past 10. The space is Munger's to borrow during his 12 days in Cebu, and he has brought along four large crates, filled with 375 pounds of everything he

Munger must trek out to some villages and test women whose children were born normal. He needs a control group, but at the moment, it does not look as if he will find one, for reasons that have little to do with science.

might need in this most makeshift of labs. One thousand needles, 1,400 vacutainer tubes, 7,000 subzero cryovials, a large chest to hold 50 kilograms of dry ice, 1,200 latex gloves, 100 rubber tourniquets, 1,400 microscope slides, 2,000 con-

sent forms and questionnaires. Alcohol. Cotton balls. Marking pens. Pencils. Batteries. Distilled water. A bathroom scale. A pair of scissors, a set of pliers, a Swiss Army knife.

Munger, 44, is a meticulous man, the type who somehow manages to wear an Oxford shirt and black denim jeans in the heat of the tropics while staying perfectly creased. He is also whip smart and tenacious, driven and efficient, typical of the breed so often attracted to academic medical research. The challenge, on a

trip like this one, is to turn some of those qualities off. You can't pack up efficiency and transport it like a piece of lab equipment. Nothing about Cebu is neat.

From the look of his résumé, Munger would

seem well suited for the culture shock. Trained as an anthropologist, Munger spent his early years searching for the cause of sudden cardiac death among Hmongs in Thai-border refugee camps. He has learned, he explains, that you have to be patient. "You can't just drop in, snap your fingers, get a blood sample and leave." He says such things a lot, but not always as if he means them.

On this, Munger's third day in Cebu, nothing is going according to plan. More precisely, Jeffrey C. Murray's plan. Murray, 48, of the University of Iowa, is one of the pre-eminent geneticists in the United States, and he is Munger's chief collaborator on this project. Like nearly all working relationships, theirs has a division of labor, and Murray — who did not come along on this trip because he had a grant application to complete — is the one who is actually searching for the genes. Munger has no genetic training. He is here as an epidemiologist with a focus on nutrition, and the fact that he is here at all is an example of the next wave of thinking in the field.

In the olden days — about a decade ago — the "genetic" part of genetic research effectively meant "directly inherited." Diseases like cystic fibrosis, Tay-Sachs and Huntington's fit this pattern — parents pass along a gene for a disease and the child necessarily develops the disease. Find Gene A, therefore, and you have found the direct and inevitable cause of Disease B. Those were the easiest puzzles to solve and the ones that researchers tackled first.

As knowledge and technology improved, however, the work moved on to more complex genetic questions. Sometimes what is passed down between generations is not a disease but a propensity to develop a disease. Or perhaps the gene received at birth is normal, but malfunctions later in life as a result of environmental factors — diet, for instance, or behavior. Most can-



A surgeon with Operation Smile, an American-based organization, prepares Maria Ana Bensi for surgery to correct her cleft lip and palate. The Bensis can afford the surgery only because it's free. Matthias Bensi earns the equivalent of \$2 a day.

several millionfold so they are visible — and examined by Murray and his lab team. When they find a statistically significant link between the inheritance of a particular DNA fragment and the inheritance of the cleft in these Filipino families, they will have identified the location of a cleft-palate disease gene. Having found the right haystack, they will then pull out all the needles (genes, really) and then look for the one that is bent (or mutated.)

Murray has been doing this for 10 years already, and he says he is agonizingly close to finding one gene for one directly inherited form of cleft lip and palate, known as Van der Woude

Munger knows firsthand the fragility of theory. He spent a year testing one nutritional hypothesis but saw it fall apart because he had assembled an unrepresentative control group. His most recent hypothesis is that the nutritional triggers of cleft lip and palate include deficiencies in both folate and vitamin B6; to test it, however, he will need a proper control group. This trip, therefore, must yield more than the hundreds of blood samples his team is drawing inside the genetics cubicle. He must also trek out to some villages and test women whose children were born healthy and normal. At the moment, it does not look as if he will find a control group, for reasons that have little to do with science and everything to do with local bureaucracy.

This is Munger's first year of research on the island of Cebu. Before that, he and Murray had confined their visits to the nearby island of Negros. They had friends in the local government there, and they had a support team of local nurses who tracked down affected families year-round and sent the blood samples stateside. But Operation Smile opted not to include Negros in its schedule this year, so Munger is on Cebu, starting from scratch.

He thought he had planned ahead. The smallest sociopolitical subdivisions in the Philippines are called barangays, and months before this trip, Munger instructed the nurses of his Negros team to come to Cebu and help pave the way with the barangay leaders. But he failed to account for the fact that each barangay has a captain. The individual captain will not participate in anything not approved by the

The children are operated on first, and when they emerge from the anesthesia they are screaming. The recovery-room nurse looks for Editha, but she cannot be found. She is downstairs, having a panic attack.

cers fit into these categories, as do diabetes, Alzheimer's, osteoporosis and many forms of heart disease. A wide range of birth defects do, too, like spina bifida and cleft lip and palate.

The intersection of genetics and nutrition, two disciplines, separate but intertwined, is the reason there are two methods of blood collection under way in the genetics cubicle down the hall. The cards are for Murray. When they dry they can be mailed back to Iowa, where he will take a hole puncher to each one. The tiny cardboard dots of dried blood will be immersed in chemicals, which will suck out the DNA. Small fragments will then be amplified — duplicated

Syndrome. There are 300 recognized causes of cleft lip and palate in humans, so locating one gene will not come close to completing the entire equation; but it may well provide a clue to the types of genes to look for in the future.

The vials of blood, in turn, are for Munger. Here in the makeshift lab, he will process the blood samples in a variety of ways, then freeze them in a chest filled with dry ice until he can get them home. There he will test them for the level of suspect nutrients. He has theories about what vitamin deficiencies are triggers for cleft, and he hopes this blood will help him transform theory into fact.

city's health officer, and apparently, Munger was not properly solicitous of him. Not until he arrived in Cebu did Munger learn that the health officer was threatening to keep his research team out of the villages.

Munger's hope for unraveling the mess is Dr. Florentino Solon, a former mayor of Cebu who is himself a physician specializing in nutrition-related diseases and who has taken an interest in the cleft lip and palate research. More important, Solon trained the city's health officer when he was still a medical resident. Munger, trying not to seem pushy, has left a series of messages for Solon, asking the senior doctor to come along on a visit to his former pupil.

"This is what makes it work," he says, as the hours pass and Solon doesn't call back. "Connections."

Finally, near dinnertime, word comes from Solon's office that the health officer will meet with Munger the next morning. But Solon will not be present. He has left for Manila, 300 miles to the north.

At about the same time, Munger learns that he will not be getting more blood from the Bensí family. Editha Bensí did return to the hospital as she promised, but she brought the wrong children. She knew the doctors wanted to see Isidro, Maria Rosa and Maria Niña, but they were in school, so she brought back Matthias Jr. and Maria Ana, who have already given blood — figuring maybe a second sample of their blood would do just as well.

It would not, and Munger sat amid his 21st-century lab equipment, trying not to care. "We're surfing on chaos here," he said. "The reality is when you do this kind of field work, things never work out. You have to get into that mindset."

It was unclear whether the pep talk was to convince his visitor, or to convince himself.

IT IS SO HOT INSIDE THE AIR-CONDITIONED van that a chocolate bar, brought along for breakfast, is melting. Outside, a woman at a bus stop takes a spare wooden door, leans it against a pile of bricks, then crawls under it for the shade. The van continues to crawl through the traffic, along streets where the buildings are no more than a collage of construction scraps. The air is a rancid brown mist.

When the van finally stops in front of the Cebu City Health Department, Ron Munger grabs his bulging briefcase and walks nervously to the office of Dr. Tomas L. Fernandez, the city health officer. Fernandez, looking cool and confident behind a huge black leather desk, offers a hot cup of coffee. Munger politely declines, but the coffee appears anyway.

After a few more pleasantries, Fernandez fires his first volley. Leaning back in his chair, and pressing his fingertips together, he asks: "Why can't our surgeons do it?" He is referring specif-

ically to the presence of Operation Smile in Cebu, but the question is also a more general one: Why do we need you?

Munger smiles wanly. "I'm happy to discuss your concerns," he says, "but I'm not a spokesman for Operation Smile. My expertise is in nutrition and epidemiology."

"Yes, let's discuss your research," Fernandez says, and Munger is momentarily relieved. "This here," Fernandez says, waving one of the many documents that Munger has strewn across the desk. "Does this mean you're going to get informed consent?"

Munger nods. "That is a requirement of the review boards at both Utah State University and the University of Iowa," he says. Ever since the 1940's, when the Nuremberg trials made clear that atrocities were committed in the name of science, and the 1970's, when the Tuskegee syphilis-experiment scandal drove home the point that Nazis were not the only ones who crossed ethical lines, informed consent has become a part of international law and scientific practice. Broadly defined, it means that a patient must understand what will be done to him, how the resulting information will be used and the nature of the risks involved.

It is one thing to require that information be given. It is another thing to insure that the information is understood, and the challenge increases in the face of more complicated science (like genetics) and cultural differences (like research halfway around the world). In the genetics cubicle at Miller Hospital, for instance, patients are read a two-page consent form, translated into Cebuano, the local language. The purpose of the study, the form says, "is to find out if there are genetic (inherited) differences between individuals with and without cleft lip and/or palate. This study involves a special examination done on DNA, your genetic material." It goes on to say that participation is voluntary.

But are patients signing the form because they want to be part of DNA research, or because someone wearing a name tag and surgical scrubs asked them to? And is their consent truly voluntary if it is requested just a few yards away from the surgeons who choose who is eligible for surgery? Munger does not know the answer; no one does. And ethicists generally agree that mind reading is not a requirement of the informed consent process. "You don't have to educate potential research subjects to the point where they understand the structure of DNA," says Hank Greely, a Stanford law professor and chairman of an ethics subcommittee of the Human Genome Diversity Project. "You can't insure that someone understands, you just have to do your best."

There is even greater murkiness on the subject of the risks of the test. On the simplest level, this has meant telling patients, according to the

team's consent form, that "the blood-drawing procedures may cause some discomfort, and there is the possibility of bruising or infection at the site from which the blood is taken." In genetic research, however, the universe of risk is harder to define. Does the risk include the fact that the information, despite guarantees of confidentiality, can fall into the wrong hands? In the English version of the document, used in the United States, Munger and Murray's subjects are cautioned that "there have been anecdotal reports of patients who were denied insurance (medical or life) after they received genetic testing to diagnose a disorder." In the Philippines, where that clause would have no meaning, it has been deleted. Should it have been replaced by a warning that "you could be diagnosed as having a genetic condition and word of this could leak out in your neighborhood and no one will want



Top: Maria Ana Bensí on her way to surgery. Middle: Matthias Bensí Jr. during his operation. Bottom: Maria Ana, after surgery, with Editha, who was also scheduled for the procedure but chose to be with her children instead. When her husband encouraged her to have it, she snapped, "You said it didn't matter how I looked."



to marry you?" Greely asks. Such was the fate of several Greek villagers who took part in a study of sickle-cell anemia, he says.

When Fernandez raises the subject of informed consent, Munger is prepared for all these questions. Fernandez asks none of them. Instead, he darts in a different direction altogether, and Munger is unsure where the conversation is heading.

"In our experience," the health officer says archly, "we meet great resistance from mothers to drawing blood, particularly from children." Munger understands there are two questions being asked here, and he answers them in reverse order of importance to Fernandez.

"No blood would be required from the children" for the control group study, he says. As for the mothers, he continues, "we try to make the experience a worthwhile one for them."

Paying cash for blood samples is almost never done by scientists, and not only because the costs would be prohibitive. "No payment for participation in this research will be made," the Murray-Munger consent form says in language typical of these documents. The stated reason is that money is a means of coercion, and compliance cannot be truly informed and voluntary if it is purchased. The unstated reason is more sweeping. "There's an undercurrent of moralism, puritanicalism," Greely says. "A feeling that research should be done for the love of science." He pauses, then says sarcastically, "And for their CV's. And for the prestige. And for the tenure. And for the appointments to scientific advisory boards. . . ."

Munger does not try to explain to Fernandez why the subjects will not be paid. Instead he describes what will be done for them in lieu of money.

"Dr. Solon's suggestion," he says, "was to give the mother something in return for her participation." He is hoping that the mention of the name of the health officer's teacher will have some effect, but Fernandez does not react at all.

"The mothers are very interested in learning their own blood type," Munger continues, "so we test the blood and tell them. We also measure

catching items, like plastic washtubs and beach balls and thermoses. Everyone who gives blood gets a chance to win.

Eventually, Munger says, there may be something else to give back to these women, albeit indirectly — the results of the research. If, for in-

"Who will own the data?" he asks abruptly. There is money to be made in genetic research, because pharmaceutical companies are eager to buy the patent rights for cloned genes that could be used to create new families of drugs. For example, the gene that regulates the pro-



The recovery room at the H.W. Miller Memorial Sanitarium and Hospital. Families of patients frequently camp in and around the hospital during tests and operations, providing geneticists and other scientists with an ideal population for their research into cleft lip and palate.

stance, his hypothesis proves correct and increased folate and vitamin B6 are what is needed to reduce the risk of cleft lip and palate, then they will have information for use in their own lives. Fernandez laughs aloud at the suggestion that much of what is being discovered in American laboratories will make it back to Cebu any time soon.

"Iodine," he says, removing his glasses and leaning back in his chair. "Another simple solution. When they started iodizing salt it upped the price by three times so those who need it

duction of leptin, which, in turn, regulates the metabolism of fat, was purchased by the pharmaceutical company Amgen from Rockefeller University for \$20 million. The search for the asthma gene on Tristan de Cunha is being financed by Axys Pharmaceuticals.

Some ethicists argue that when there is profit from a genetic discovery, a portion belongs to the patients who provided the raw materials. A group called Rural Advancement Foundation International believes that not paying those like the blood donors on Cebu constitutes "biopiracy." In all likelihood, the group's Web page says, "the people who are giving DNA samples do so with a general understanding that the . . . science may someday improve the human condition. They are not informed that their DNA, or information gleaned from it, will be patented and commercialized."

True, researchers say, but for good reason. First, the odds of any given research project resulting in a huge payoff is extremely small. There are no pharmaceutical companies, for instance (at least none that Munger or Murray knows of), lining up to grab the gene for something as uncommon as cleft lip and palate. "This is a rare disorder," Murray says. "The odds for

Are patients signing the form because they want to be part of DNA research? And is their consent truly voluntary if it is requested just a few yards from the surgeons who choose who is eligible for surgery?

hematocrit and hemoglobin, and give iron pills to those who are anemic. That was Dr. Solon's suggestion, too."

In addition, Munger says, the team does its best to give the blood-drawing session a "party-like atmosphere." They bring a fast-food lunch for the crowd, with candy and cookies for the children. There are raffles, too, of large eye-

couldn't afford it and those who didn't need it are the only ones who could afford it." As for gene therapy, he says, "We do not have the plastic surgeons to operate on our deformed children. Until we can do that. . . ."

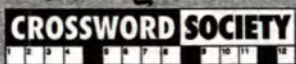
An awkward silence follows. Munger sips his cooling coffee. Fernandez replaces his glasses then presses his palms on the desk top.

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commercialization are extremely small." In addition, not promising future benefits, financial or medical, has deep roots. If subjects in drug trials are promised access to the medications that result from those trials, are you gaining participation by the promise of a future cure? "You can't imply that you will cure people and you can't imply that you will make them rich," Greely says.

All of this is why the team's consent decree warns: "There is no direct benefit to you or your child from participating in this study. Society may benefit from the identification of molecular genetics of cleft lip and/or palate in patients suffering from these disorders. This is a research project and not a form of treatment or diagnosis for you or your child or any condition you might have."

Munger is not in any position to make promises to the women of Cebu, therefore, and he does not. There is something he can promise to Fernandez, however - a piece of the prestige, a part of the research, a slot in the list of names at the start of all published research papers. But he does not offer that either - not yet.

"So, what do you want to do in Cebu City?" Fernandez asks.

"Visit two or three barangays, collect our samples -" Munger begins. Fernandez interrupts.

"There are 18 barangays in Cebu. Which do you want to visit?"

Munger gives him the names of the places chosen randomly by his team of nurses. "We contacted the barangay captains," he said, "but we put the brakes on everything when we realized we would be well advised to come and talk to you."

"What's the role of this office?" Fernandez asks.

"To give your blessing." Fernandez sits, stone-faced.

"We're also looking for collaborators," Munger adds, quickly. "If there are any public-health scientists, perhaps yourself, who might be interested in getting involved in this."

Fernandez nods, acknowledging the offer. He then recites an exhaustive list of things he would need to see before he could even consider giving his approval. When and if he says yes, he continues, "your institution should enter into a formal letter of agreement with the government of Cebu. You must also write a letter to the Mayor and specify what you really want to do in Cebu. If the Mayor says you can do it, then you can do it. Once you get the approval of the Mayor it will be easy."

Munger slumps, deflated, and begins to collect his mountain of paper. He is thinking of the theories that will not be proven on this trip, the journal articles that will not be written, the advances he will not be able to make.

"It sounds like this will take more time," he says. "Dr. Solon," he adds, giving it one last try, "Dr. Solon and I had hoped to make real progress soon."

Fernandez smiles, but there is no warmth in his face. "I consider Solon as a surrogate father," he says, chuckling softly. Then he gives a final jab. "I like to tell him that. But only to stretch his age."

WALTER NANCE, the chairman of the department of human genetics at the Medical College of Virginia, has spent the past few years studying a rare form of genetic deafness in the children of Ulaan Baatar in Mongolia, a place he describes as "beyond the end of the world." During his most recent visit, last October, he found himself in a cluster of shacks where 30 or 40 street children were living.

"I was all pumped up," he

remembers, "about how successful we had been bringing this advanced technology to Ulaan Baatar. Then we get to this place and there's this little girl, crying with pain." She was pressing her hand to her ear the way children across the globe do when they have an inner ear infection, he remembers, and pus from that infection was oozing down the side of her face. She had no access to antibiotics, the simple, common medication that could quickly end her agony.

Whatever pride Nance had been feeling turned instantly to chagrin. "Why in God's name," he wondered, "do we have a system that grants money to me to come over to Mongolia to study something esoteric like congenital deafness? What good is that going to do this little girl?"

Every gene-hunting journey has moments like these, where the clash between technology and subsistence, between those who are suffering in the present and those who live in the future, is thrown into sharp relief. On this trip the moments came during a visit to Editha Bensi, who lives in a neighborhood crisscrossed by paths instead of roads, a place where the homes have no addresses. If Munger's vials and consent forms seemed incongruous back at Miller Hospital, they are all the more jarring and otherworldly here.

When Munger's nurses find Editha outside her two-room wooden shack, she does not invite them in. The group would not fit inside, and even if they did their combined weight would likely be too much for the floor, which is made of narrow, sagging strips of bamboo. Instead they all crowd in a patch of shade near the front door. Chickens wander about. Across the way, a neighbor sits in a sudsy metal washing tub

Continued on page 120

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GENE HUNTERS

Continued from page 54

while his wife scrubs his back. Flies crawl along Editha's face and arms as she answers the questions from these strangers.

Because Editha did not bring her children back to the hospital, Munger sent his nurses out to find them. It was, he thought, a chance to accomplish something on this trip. That is why Sallie Onggaga, who has been tracking families for Munger and Murray for two years, is spending this Saturday morning here, reading the consent form aloud to Editha yet again. Onggaga also takes a family history, learning that Editha's brother died of dysentery when he was 23, and her oldest daughter died shortly after birth from dehydration.

While Onggaga gets Editha's signature, her assistant distracts the children with the candy and cookies she always brings on these trips. The happy snacking is soon interrupted, however, by the business at hand. First it is 6-year-old Isidro's turn. His father seats him on a large rock next to the house, but as soon as the boy sees the tiny lancet he jumps up and runs away. The chickens scatter. Matthias Sr. catches him and drags him back, throwing his own weight over the child's legs to keep them still. Editha, in turn, grabs her son's shoulders, pinning him to the ground.

"Mama, Mama, Mama," the terrified boy sobs and screams, still trying to wriggle free. Onggaga's assistant, remarkably unshaken by all this, holds tight to Isidro's hand, damming the blood in his tiny fingertips just long enough to prick one of them. She squeezes out 10 drops onto a white card. "Look," she says, trying to be heard over the crying. "It's like painting."

Maria Niña, 7, is next. She has watched these strangers attack her brother, so she wraps her fists tightly inside her shirt. This means she cannot use her hands against her parents when they come for her, but she makes good use of her elbows and feet until finally she, too, is held down.

By this time the nurses, the parents, even the neighbors who have gathered to watch are exhausted. There is a collective sigh of relief when Maria Rosa, only 5, sits herself on the rock and nervously offers up her hand, as if in sacrifice. She bites

her lower lip with her malformed upper one, but she does not cry.

When it is over, Editha leans in the doorway, drained. Her children are fighters, she says through an interpreter, because they have to be. The slang insult for cleft lip in Ce-buano is "boongy," and it is hurled often at her family. "I tell them to fight back, bust them," she says. "They get teased a lot, that's why they are so tough."

Was she teased as a child? She shakes her head — not to deny the statement, but to broaden it. "Now, too," she says. When she was pregnant, her husband called her "boongy," and that, she believes, not some gene she has never heard of and does not understand, is the reason why her children suffer. "God must have heard it," she says of her husband's taunts, "and so he made the children this way."

She took the children to the surgeons of Operation Smile, she says, so that the teasing will end. Why did she bring only two children? Because she did not want to seem "greedy." Did she fear it seemed greedy to be scheduled for surgery herself? That was the doctors' idea, she says, and she does not really want the operation. One senses that she fears her children will not be allowed to have surgery if she doesn't have it, too.

And why did she agree to give blood to the geneticists? For the good of medical science? For the future of her grandchildren? For the benefit to society that she was told about each time (three so far) that she signed the informed consent form?

"Because they wanted it," she says. "Because they asked."

During her intake interview Onggaga learned that Editha's mother, who lives close by, also has the disorder, and Editha agrees to accompany the team to her mother's house. Eleuteria, 62, is nearly as terrified of giving blood as was Isidro. She sits, childlike, in Editha's lap, while Editha holds her own hands over her mother's eyes. As the blood is squeezed onto a card, Eleuteria's curiosity overcomes her fear. She peeks out, wide-eyed with fascination.

Editha was supposed to have reconstructive surgery as a child, Eleuteria says, but when the required blood tests were done, Editha fainted. Her mother thought she was dead, and refused to allow her back in a hospital again.

Editha looks surprised, as if she is hearing this for the first time. Then she confronts her mother. If her mouth had been repaired, she says, her husband could not have called her "boongy" and her children would not have been cursed.

The interpreter, who is a nutrition student, begins to explain to both women that Editha's surgery could not have helped her children because the disorder is "not from words but from the blood." She points to the consent form, to the part that describes cleft in genetic terms.

Eleuteria will have none of it. Neither epitaphs nor ancestry is at work here, she says. The reason her children and grandchildren are "defective" is what their fathers ate.

"The husbands like to eat the anus of the chicken," she says, painting on the air with her finger to show that this particular poultry part is shaped much like a cleft lip. Her tone makes it clear that no needle-wielding visitor from another realm will convince her otherwise.

"That is the reason," she says. "It has nothing to do with my blood."

MONETTE ALIÑO IS A FORCE of nature. The wealthy, well-connected woman is the executive director of the Mariquita Salimbangon-Yeung Charitable Foundation, which is paying all the expenses of the 38 Operation Smile volunteers in Cebu. Munger's airline tickets, hotel room (\$15 a night at the minimalist Diplomat) and lab space are all supplied by the foundation, and he is grateful.

Largesse always entails some obligation, however, and Aliño has arranged elaborate and lengthy dinners for the Op Smile volunteers nearly every night of the two-week trip. After a long, hot day processing blood or sparring with health officers, a party is not always what Munger has in mind. But Aliño is the type of woman who posts a sign warning "All Volunteers are EXPECTED to attend the farewell party" and takes attendance at dinner. The few times Munger has ducked out, she has asked him about it as he arrived at the hospital the next morning.

Aliño was the first person Munger saw when he returned from his meeting with Tomas Fernandez, and when she heard that something was thwarting one of her volunteers, she took action.

She was able to hand Munger a letter from the provincial health officer of Cebu — Fernandez's boss — that was also signed by the provincial Governor. Dated 10 days before the day Munger met with Fernandez, and addressed to "Municipal Health Officers, Others Concerned," it described the research project and said: "In view of the laudable purpose, the vital information obtained and the possible benefits derived from the study, you are hereby requested to facilitate and provide assistance in the conduct of the research activity. Your usual cooperation is hereby enjoined."

Munger has a copy of that letter

Neither epitaphs nor ancestry is at work here, she says. The reason her children and grandchildren are 'defective' is what their fathers ate.

with him as he arrives at Aliño's next dinner, at a mountainside country club — Cebu has its pockets of privilege. The Op Smile volunteers dine outside, by torchlight, near a pool that overlooks the entire island. As a troupe of students dressed in native garb entertain, Aliño takes Munger by the elbow and walks him toward a heavyset man on the other side of the patio. "Mr. Mayor," she says, "I would like you to meet Dr. Munger."

The Mayor seems unsteady on his feet, and there is the scent of alcohol on his breath as he shakes Munger's hand. Munger explains his research and his needs for a control group, then he hands the Mayor the letter from the Governor.

"Have you met with Fernandez?" the Mayor asks.

"Yes," Munger answers. "The results were a little disappointing."

"I would have thought it would have been easy," the Mayor says. "I'll tell him that I am supporting the project."

The Mayor excuses himself to give a short speech. He stumbles slightly on the step up to the stage, and his words sound slurred. Then he walks among the tables, shaking hands. When his mingling takes him next to Munger, he introduces himself, giving no indication that he remembers their meeting of 10 minutes earlier.

Several days later Munger decides to go to the barangays as originally scheduled. He packs up all his equipment, so that he might

recreate his lab in the open-air health center and the home for street children where the barangay captains will assemble up to 60 women each. As he leaves for the first of those sites, he arranges to have Aliño fax a note to Fernandez telling him that he has received the Mayor's permission. Fernandez does not respond, and certainly does not try to stop him, so Munger assumes he has the health officer's blessing.

THE BENSI FAMILY SLEEPS AT THE hospital the night before surgery that Operation Smile has arranged. Because they are patients, Editha, Matthias Jr. and Maria Ana are

each given a narrow cot on the operating floor, one of a dozen crammed into a small, stifling room. The other children are home with Eleuteria. Matthias Sr. sleeps up on the hospital's roof.

On the morning of surgery, the most senior nurse of the Murray-Munger team, who has just arrived from another Operation Smile site on another island, notices something unusual about Editha's lips. They are dimpled. On closer examination it is discovered that the skin between Editha's hands is slightly webbed. Both are signs of Van der Woude syndrome, one of the few pure genetic syndromes that cause cleft lip and palate, and the one for which Murray is so close to finding the gene.

The children are operated on first, and when they emerge from the anesthesia they are screaming. The recovery-room nurses look for Editha, but she cannot be found. She is downstairs, on the other side of the hospital, having a panic attack. "My stomach hurts, my heart hurts," she says, terrified about facing her children when they are in pain. A visiting Mormon missionary finally persuades her to come upstairs, where Matthias, his upper lip bloody and swollen but unmistakably whole, is thrashing so violently he requires more sedation. Maria Ana, similarly repaired, lies near him, sobbing. Editha tells the doctors she will not undergo her own surgery after all.

The next few hours are tense

ones in Patient Room 11, as a parade of doctors try to persuade her to have the procedure and the nurses quietly say they will understand if she does not. Her husband, standing in a corner, holding his daughter's IV bag aloft for better flow, tells Editha to go to surgery; he will take care of the children. Squeezing small amounts of hospital-issue Tang into Maria Ana's mouth with a syringe, she snaps at him. "You said it didn't matter how I look," she says, fighting tears.

In the middle of all this, Munger arrives, with the Nikon N90S he uses for photos of interesting cases. This is the first chance he has had to see Editha since she was found to have Van der Woude syndrome. As he enters the room he realizes this is not an ideal time, but he also realizes it will probably be his only chance. So he asks permission to examine her, then looks at her lips and hands. Borrowing a flashlight from a nurse, he peers in her mouth, then takes a few quick pictures.

More doctors come to see her. More nurses. Munger backs toward the door and watches the drama from a distance, studiously uninvolved. He is the only one in the room who knows what is wrong with Editha. Even the surgeons who resurrected the children's lips, he would bet, do not know what Van der Woude's syndrome is. And yet he is the only one in the room with nothing to offer. All he can do, for the moment, is take.

Murray had spoken to me about such moments. "That's the frustration of this work," he said, "that you can't change things now. But I always tell my students that the reason you're in this isn't to make the planet perfect, it's to make it 5 percent better for the next generation."

Munger leaves the emotions to swirl in Editha's room, and returns to the quiet of his temporary lab. What advice, I ask him, did he give Editha about surgery?

He seems taken aback by the question, and by its implication that he has the right to give advice at all. The sciences that have shaped his life — anthropology, epidemiology, genetics — are all the study of populations, not people, he explains. To lose track of that is to lose sight of the entire purpose. No, he did not say anything to Editha, who in the end did not have surgery. "All I can do," he says, "is take her blood." ■

WASHINGTON EDITION

Los Angeles Times

Wednesday
April 15
1998

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A Sporting Exchange



President Clinton speaks at forum on race and sports in Houston on Tuesday. Joining him are, from left, Jackie Joyner-Kersey, Dennis Green, Carmen Policy, Joe Morgan, Keyshawn Johnson, Jim Brown, Felipe Lopez, John Thompson, Vince Dooley and John Moores. A4

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Medications Kill 100,000 a Year, Study Says

■ **Health:** Adverse reactions to prescribed drugs are found to be far more common than previously thought. But some question research methods.

By TERENCE MONMONEY
TIMES MEDICAL WRITER

Properly prescribed medications may kill more than 100,000 people a year, taking more lives than diabetes or pneumonia, according to a new analysis that suggests prescription medications cause more harm than previously believed.

The study, appearing today in the Journal of the American Medical Assn., estimates that 76,000 to 137,000 people died in 1994 from such treatments. That would make so-called adverse drug reactions between the sixth and fourth leading cause of death in the United States.

Moreover, of the 33 million hospitalized patients in 1994, some 2.2 million had a nonfatal reaction serious enough to require medical attention, the researchers say.

Although some experts questioned the study's methods, the new estimates put the problem in the most dramatic light yet.

The study "puts into clear perspective that adverse drug reactions are a major form of death and injury that can be prevented," said Dr. Sidney Wolfe, director of the Public Citizen Health Research Group. He said the injuries and deaths detailed in the study are nearly twice as high as estimates recently done by his consumer group.

The findings should not encourage people to abandon vital medications, said the study's leader, Dr. Bruce Pomeranz of the University of Toronto, who said he was surprised by the death toll. "What's needed is more awareness of the potential problems with taking some drugs. Before you take a medication you should know about its risk-benefit ratio," he said.

In addition, Pomeranz and other researchers say that the new findings should spur hospitals and doctors to monitor patients more closely to reduce potential toxic drug reactions.

The Pharmaceutical Research and Manufacturers of America, an drug industry group, cautioned patients not to panic. "Prescription medicines are safe and effective when used properly," president Alan Holmer said in a statement.

The analysis did not specify which drugs were most risky or what diseases patients had when the adverse reactions occurred. But other studies have found that the drug types causing the most serious medical problems in hospitalized patients are painkillers—from narcotics that halt breathing to aspirin

Virginia Rejects Pleas, Executes Paraguayan

By NORMAN KEMPSTER
TIMES STAFF WRITER

WASHINGTON—The governor of Virginia refused Tuesday night to block the execution of a 32-year-old Paraguayan citizen, brushing aside a warning from U.S. Secretary of State Madeleine Albright that the case could undermine international justice and endanger American citizens traveling abroad.

Minutes after Gov. James S. Gilmore III rejected clemency, Angel Francisco Breard was executed by lethal injection at the state prison in Jarratt, about 55 miles south of Richmond.

The governor said Breard "was convicted and sentenced to death for the attempted rape and brutal murder" of a 39-year-old neighbor, Ruth Dickie, in 1992. The U.S. Supreme Court refused to intervene Tuesday.

The case attracted international attention because Breard was never informed of his right to receive diplomatic assistance from the Paraguayan Embassy, as required by the Vienna convention, a cornerstone of international law.

Police in the Washington suburb of Arlington, where the crime took place, admitted that they had not

Times Wins 2 Pulitzers for Spot News, Photos

■ **Journalism:** Honors bestowed for bank shootout, addiction stories. Public service prize goes to N.D. paper.

By DAVID SHAW
TIMES STAFF WRITER

The Los Angeles Times won two Pulitzer Prizes and the New York Times won three Tuesday, but the most coveted Pulitzer of all—the gold medal for meritorious public service—was awarded to the small Grand Forks, N.D., Herald (circulation 37,000) for its coverage of the March 1997 floods and fire that destroyed more than 10% of the city's homes and ravaged the newspaper's own offices.

The Pulitzer Prize Board praised

■ **PULITZER FOR ROTH**
Novelist Philip Roth won in fourth time as finalist. A6

the Grand Forks paper for its "sustained and informative coverage, vividly illustrated with photographs, that helped hold its community together in the wake" of disaster.

The Los Angeles Times won its Pulitzers in the spot news category for "comprehensive coverage of a botched bank robbery and subsequent police shootout" in North Hollywood last spring and in the

photographs—22 in all—were published last fall, illustrating the paper's two-day series of stories on "Orphans of Addiction" written by reporter Sonia Nazario.

Most Pulitzers are given to individuals, but the prize for the shoot-out coverage was given to The Times' staff, 30 of whom worked on various aspects of the story on the first day alone; this was the third Pulitzer in six years awarded to the entire local reporting staff of The Times for coverage of a Southern California tragedy. The staff also won Pulitzers in 1993 for coverage of the riots in South Central Los Angeles and in 1995 for the Northridge earthquake.

This was the fourth time since 1969 that The Times has won two Pulitzers in a single year. The paper has now won 22 since its first in 1942.

The New York Times, which has won 77 Pulitzers—more by far than any other news organization—won three Tuesday for the fourth time since 1978. The three went to: Linda Greenhouse, in beat reporting, for her "consistently illuminating coverage of the United States Supreme Court"; to Michiko Kakutani, in criticism, for her "insightful, intelligent writing on

Debate Derails Disposal Plan for Napalm

By ERIC LICHTBLAU
TIMES STAFF WRITER

A decade ago, it was a barge loaded with garbage that generated an international stink, floating homeless down the East Coast because no one would take its contents.

Now it is a rail car filled with napalm, bound for the Chicago area from Southern California this week amid a runaway debate about how best to dispose of the deadly chemical remnants of the Vietnam War.

The train left Fallbrook in northern San Diego County on Saturday carrying two 6,000-gallon drums of napalm in one car. It rumbled through Texas on

Tuesday, headed for an Indiana treatment plant as the first step in a two-year plan to dispose of 3 million gallons of the jellied gasoline and turn it into industrial fuel.

But there is a hitch: The treatment plant no longer wants the stuff, and an array of powerful people in the Midwest wants the train to turn around.

The political maelstrom that the disposal has generated in the Chicago area in recent weeks "has made it impossible to continue with this napalm recycling project," Pollution Control Industries President Robert L. Campbell said Tuesday. The tug of war over the



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Associated Press

ston on Tuesday. Joining him are, from left, Jackie Joyner-Kersey, Dennis Brown, Felipe Lopez, John Thompson, Vince Dooley and John Moores. A4

Kill 100,000 a Year, Study Says

■ **Health:** Adverse reactions to prescribed drugs are found to be far more common than previously thought. But some question research methods.

By TERENCE MONMANEY
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The study "puts into clear perspective that adverse drug reactions are a major form of death and injury that can be prevented," said Dr. Sidney Wolfe, director of the Public Citizen Health Research Group. He said the injuries and deaths detailed in the study are nearly twice as high as estimates recently done by his consumer group.

The findings should not encourage people to abandon vital medications, said the study's leader, Dr. Bruce Pomeranz of the University of Toronto, who said he was surprised by the death toll. "What's needed is more awareness of the potential problems with taking some drugs. Before you take a medication you should know about its risk-benefit ratio," he said.

In addition, Pomeranz and other researchers say that the new findings should spur hospitals and doctors to monitor patients more closely to reduce potential toxic drug reactions.

The Pharmaceutical Research and Manufacturers of America, an drug industry group, cautioned patients not to panic. "Prescription medicines are safe and effective when used properly," president Alan Holmer said in a statement.

The analysis did not specify which drugs were most risky or what diseases patients had when the adverse reactions occurred. But other studies have found that the drug types causing the most serious medical problems in hospitalized patients are painkillers—from narcotics that halt breathing to aspirin pills that induce stomach bleeding; antibiotics and antiviral drugs, which can cause severe diarrhea.

Please see DRUGS, A8

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photographs—22 in all—were published last fall, illustrating the paper's two-day series of stories on "Orphans of Addiction" written by reporter Sonia Nazario.

Most Pulitzers are given to individuals, but the prize for the shootout coverage was given to The Times' staff, 30 of whom worked on various aspects of the story on the first day alone; this was the third Pulitzer in six years awarded to the entire local reporting staff of The Times for coverage of a Southern California tragedy. The staff also won Pulitzers in 1993 for coverage of the riots in South Central Los Angeles and in 1995 for the Northridge earthquake.

This was the fourth time since 1969 that The Times has won two Pulitzers in a single year. The paper has now won 22 since its first in 1942.

The New York Times, which has won 77 Pulitzers—more by far than any other news organization—won three Tuesday for the fourth time since 1978. The three went to: Linda Greenhouse, in beat reporting, for her "consistently illuminating coverage of the United States Supreme Court;" to Michiko Kakutani, in criticism, for her "passionate, intelligent writing on books and contemporary literature," and to the New York Times staff for its "revealing series that

Please see PULITZER, A6

Debate Derails Disposal Plan for Napalm

By ERIC LICHTBLAU
TIMES STAFF WRITER

A decade ago, it was a barge loaded with garbage that generated an international stink, floating homeless down the East Coast because no one would take its contents.

Now it is a rail car filled with napalm, bound for the Chicago area from Southern California this week amid a runaway debate about how best to dispose of the deadly chemical remnants of the Vietnam War.

The train left Fallbrook in northern San Diego County on Saturday carrying two 6,000-gallon drums of napalm in one car. It rumbled through Texas on

Tuesday, headed for an Indiana treatment plant as the first step in a two-year plan to dispose of 3 million gallons of the jellied gasoline and turn it into industrial fuel.

But there is a hitch: The treatment plant no longer wants the stuff, and an array of powerful people in the Midwest wants the train to turn around.

The political maelstrom that the disposal has generated in the Chicago area in recent weeks "has made it impossible to continue with this napalm recycling project," Pollution Control Industries President Robert L. Campbell said Tuesday. The tug of war over the issue has given the firm no choice but to pull out of the \$1.7-million contract, he said.

Please see NAPALM, A5

THIS COUNTRY'S ECONOMY

near full employment, low inflation, the stock market continuing to "outbull" itself. Yet the line between the well-off and the not well-off seems to be growing more marked. What role do you see for antitrust in this?

Answer: Antitrust really is the part of the economic team in government that focuses on consumers. Our concern is not simply what's good for business, but what's good for America's consumers. That is as true for the sort of small-time, one-time consumer. . . . We've done cases recently involving the price of school milk—you're talking only about a few cents on a carton of milk—up through some very sophisticated technologies, whether it's telephones, computers. But I think, in that respect, antitrust is probably the most focused part of the government's economic analysis in terms of consumer interests.

Q: Couldn't that have been said of antitrust over the years, and this is really just a shift of rhetoric here? Hasn't it always been to protect the consumer?

A: When it did what it was supposed to do, it's always been consumer focused. However, there were times in the history of antitrust where, I think, people worried about competitors. In other words, they were concerned about the

Ronald J. Ostrow has covered the Justice Department and related assignments for The Times since 1966.

THE ECONOMY

interests. And if there is a stronger or a more efficient competitor, our job is not to hamper that competitor.

Q: With the global economy becoming more of a reality every day, is there a danger that vigorous antitrust enforcement's going to be a brake on the ability of U.S. companies to compete?

A: I think it's just the opposite. You started out by saying, look at how strong our economy is right now. I think there's no doubt the American economy is the strongest in the world. But it's also the most competitive economy in the world. If you look at what's going on in Asia and elsewhere, you see some of the problems that these countries face because of regulatory protection, of a model that says let's protect our domestic firm in the international arena. I think that hurts a country's businesses. The U.S. economy right now is a very competitive economy, and we need to make sure, through the appropriate enforcement of the antitrust laws, that that competition remains vigorous domestically.

Q: Do you think, in the case of Japan, that that might be what's happening with their economy right now?

A: I think that's part of what's going on. . . . People are not used to competing in the rough and tumble. That's one of the problems I think that we dealt with in the breakup of American Telephone and Telegraph, where you had a long-term monopoly, used to a highly

THE ECONOMY

patent. As we all know, we've probably got some 25 grand juries looking at cartels involving companies in, I don't know how many different nations—but all over the globe. We have investigative resources committed to cartels in a large number of international countries.

This has been a sea change in terms of enforcement: Where two years ago, we had \$40 million in criminal fines, last year, because of our international efforts, we went over \$200 million. This year, we're on a trajectory to beat last year's record.

Q: Mergers are at an all-time high. Do the numbers themselves call for greater antitrust enforcement, or is there a change in the nature of these mergers that underscores the need for greater enforcement?

A: I think there are two or three things that lead to this. Obviously, if you see a rise in the numbers, pure and simple, that's going to mean you're likely to have more enforcement action just as a percentage.

But there are two things that are really key here. One is that these are strategic mergers. These are not leveraged buyouts. These are not, if you will, economic takeovers. These are people looking either for synergy in their businesses, which would be good for consumers, or looking for market power, which would be not so good for consumers.

The second factor is, if you look at the size of these mergers, up until quite

And based on our analysis, the price of those cans would have gone up some and that would have been passed right along to every consumer who drinks a soda pop or a beer out of an aluminum can.

We had a recent case involving a merger between Scott Paper and Kimberly-Clark. These were basic consumer products like Baby Wipes, in which we required divestiture in order to keep the prices down. . . . We did a case in Texas on the cost of white bread, a basic commodity.

Then, of course, we do some much more elaborate and complicated cases like AT&T. But if you look at the AT&T divestiture, from 1984 to today, in real terms, adjusted for inflation, the cost of a long distance phone call has come down 60%. You can get frequent flyer miles, you can get this "x" cents a minute kind of deal. Remember when we all had the rotary dial telephones, and you look [today] at the kinds of services. A lot of that is the product of competition that we set in place—the Justice Department did—in the AT&T breakup. And there are numerous other cases we're looking at.

I've announced this issue of airline pricing in hub cities. This is obviously a real concern for America's consumers, and we are doing the work to find out whether there are important antitrust issues there or not.

Q: About this job, do you find it more challenging, rewarding or less of a nightly problem when you go home from working here, than in the [White House] counsel's office?

you do in that job has those kinds of dimensions to it.

I enjoyed my time in the White House. I thought it was a very valuable time. I believe I made a real contribution there. But it's a different set of skills and different people, I think, enjoy themselves more or less, depending on the nature of the experience.

Q: On Microsoft, do you see that as the first in a series of actions in that field, in that industry?

A: Well, it's obviously an industry that's very critical to our economy. We are certainly devoting appropriate resources to analyze, consider and think about what future actions one would take.

Part of what we're trying to do is see what the appropriate general principles are for conduct in this very fast-moving, high-tech industry. But it's also an industry that involves a huge number of consumers who essentially are often interconnected with respect to a single product—so there are issues of market power in this industry.

I think it's very hard to anticipate when you have ongoing investigations what the ultimate outcome will be. But it's hardly surprising to me that people in the antitrust area will, I think, as we move into the 21st century, certainly be focused on the relationship of antitrust to high-tech society, and an economy that's essentially an information-based economy. So I would expect those issues will be with us for some time.

NATION

DRUGS: Study Finds 100,000 Deaths a Year

Continued from A1

and cardiovascular and anticoagulant drugs, which can cause a range of problems including internal bleeding.

In addition, some people are allergic or sensitive to particular drugs, while other bad reactions happen when two or more drugs are combined. For instance, the widely prescribed allergy drug terfenadine, or Seldane, was withdrawn from the market this year after reports that it triggered heart rhythm problems in people also taking the commonly administered antibiotic erythromycin.

Adverse drug reactions especially trouble the elderly, experts say, because they are more likely to have multiple underlying health problems and also tend to have a weakened liver and kidneys, the organs that break down and eliminate medications.

Medical researchers believe that adverse drug reactions have been underestimated for years. That is chiefly because hospitals and physicians seldom report such reactions, dismiss them as unavoidable or mistake them for disease symptoms.

The U.S. Health Care Financing Administration last fall proposed new federal regulations requiring hospitals to step up drug-reaction monitoring. But some physicians have criticized the proposed monitoring system, which would involve periodic reviews of

patient charts, as intrusive and costly.

In their study, the Toronto researchers pooled and analyzed data from 39 U.S. studies on adverse drug reactions published between 1964 and 1996. They looked at two groups: Patients who underwent an adverse drug reaction while in the hospital that was at

midpoint of 106,000 drug-induced deaths. That means that in 1994—which the researchers chose as a representative year—0.32% of patients on a prescription drug, or three out of every thousand, had a fatal reaction.

Their approach was "conservative," the researchers

'What's needed is more awareness of the potential problems with taking some drugs. Before you take a medication you should know about its risk-benefit ratio.'

DR. BRUCE POMERANZ

Of the University of Toronto, who said he was surprised by the death toll

least serious enough to prolong their stay, and also outpatients who had a drug reaction bad enough to hospitalize them.

While other studies have looked at those two groups separately, this was the first to combine them, leading to the "extremely high" prevalence of drug reactions, as the researchers called it.

Between the upper and lower fatality estimates is the

said, in that they focused only on correctly prescribed drugs. Their analysis did not consider other sources of prescription drug problems, such as patient compliance errors, intentional overdoses, narcotic abuse and accidental poisonings.

Nor did the researchers consider the presumably large number of people with bad drug reactions who were not subsequently hospitalized.

"The truth is we missed a lot of people," Pomeranz says, including those who "died at home."

Still, other researchers questioned aspects of the study because it is a "meta-analysis," which involves statistically analyzing data pooled from other studies, rather than studying real people. It is often difficult to establish that a very sick person died from a drug reaction rather than an underlying illness, said Dr. John Burke, a medical epidemiologist at LDS Hospital in Salt Lake City, who has studied adverse drug reactions.

He urged caution in accepting the study as fact, but also praised it as a "spur to action" in attacking the problem of adverse drug reactions. At LDS Hospital, which has one of the nation's few computer systems for linking drug reactions and patient records, doctors have reduced adverse events by 50%.

Dr. David Bates of the Brigham and Women's Hospital in Boston, who has studied hospital reporting of adverse drug reactions, said "even if the true incidence of [adverse drug reactions] is somewhat lower" than the Toronto researchers say ". . . it is still high, and much higher than generally recognized."

Wolfe, co-author of the book "Worst Pills, Best Pills," said the analysis underscored that the United States is "an over-medicated society." Patients being prescribed a drug should ask if it is absolutely necessary, he said, and should also be sure to tell doctors of any other drugs they may already be taking.

DEBT FREE
Breaking Out of Plastic Prison

U.S. News & WORLD REPORT

APRIL 27, 1998



The Great School Experiment

Charter schools are the cutting edge of education reform. Are they right for your children?

PLUS: LEGAL HANG-UPS FOR WINDOWS 98

10 REASONS WHY SCANDALS ARE FOREVER

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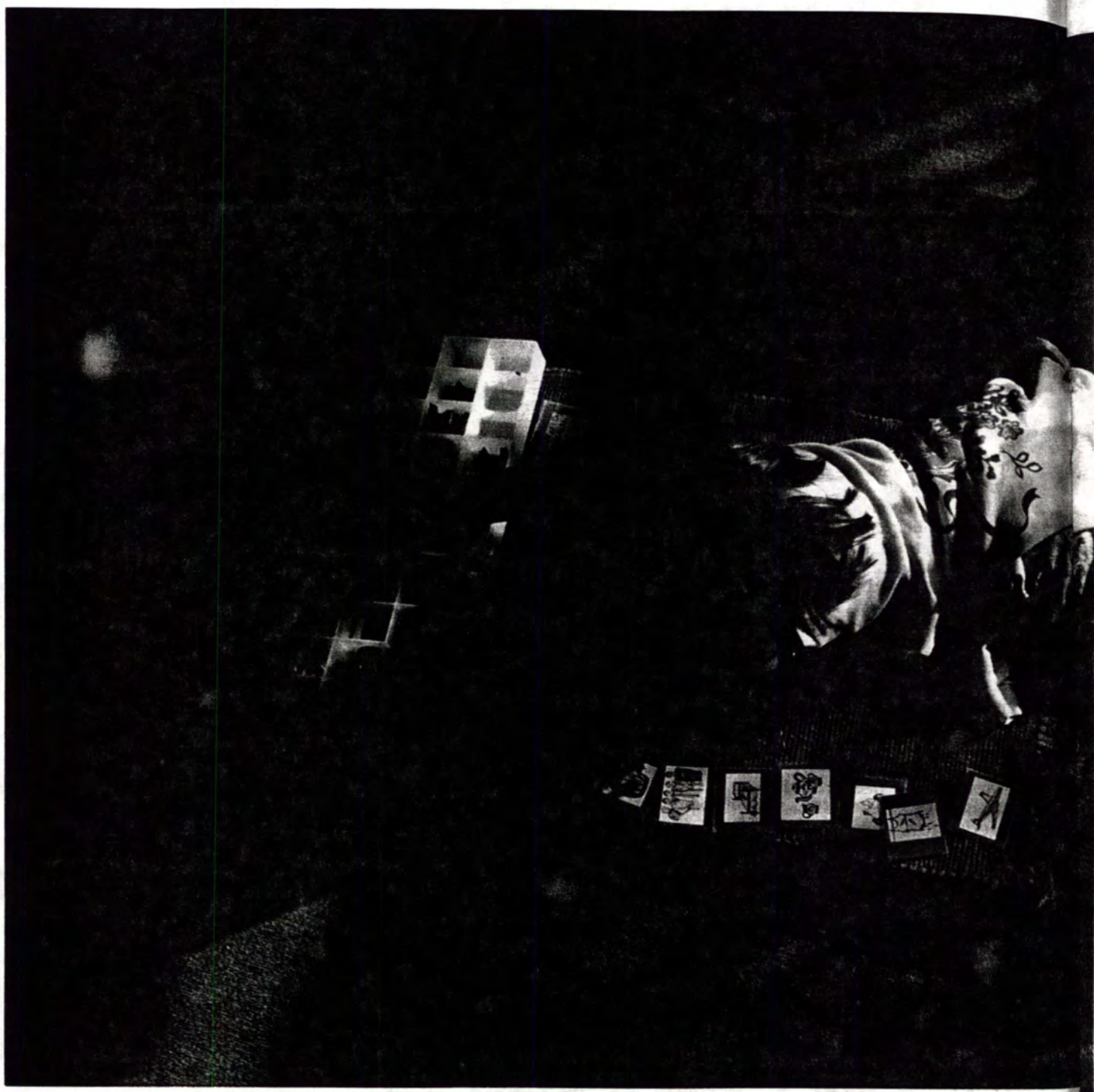


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The New Edu



Education Bazaar

Charter schools represent the free market in action—with all its problems

BY THOMAS TOCH

David Mackey liked the idea of running his own school. So last year he got a franchise to open a branch of Life School College Preparatory, a new kind of “public” school. The company holds a charter to educate Arizona kids with public funds outside the regular school system and offers franchises to operators for a fee of \$1,000 per student. Now Mackey, who once taught public school in Utah and worked as education curator at a Phoenix firefighting museum, teaches math, science, history, and English to two dozen students, grades seven through 12, in a small room in a single-story, downtown professional building in Mesa, Ariz. He had to recruit the students himself, and if his enrollment drops, so does his \$40,000 income—each student brings about \$4,500 in state funding. The founder of Life School, James Alverson, a former public school teacher himself, says he borrowed the single-person franchise idea from Amway, the home-products distributor.

Until recently, the notion of maximizing profits and creating incentive schemes had little to do with running a public school. But Mackey and hundreds of other charter-school operators like him around the country are part of a bold new experiment in education reform. For over a century, local school boards have held a tight monopoly on where and how students can receive schooling at public expense. But deepening dissatisfaction with traditional public schools has changed the landscape. Conservative thinkers have long argued that public schools would do a better job if they had to compete for customers, as private firms do. Now, a hybrid “free market” system, in which students and parents exercise choice but the public pays the costs,

In the best case

Charter schools do offer more choices for kids with different learning styles.

Left, the Montessori Education Centre charter in Mesa, Ariz.

PHOTOGRAPHY BY SCOTT GOLDSMITH FOR USN&WR

is becoming a reality.

Since 1988, 16 states have passed "school choice" laws granting students permission to attend schools beyond the geographic borders of their local school districts tuition free. More than 4,000 "magnet" schools allow students to select schools with special teaching or curriculum themes within their school systems. And six years after the first charter school opened in Minnesota, there are nearly 800 such independent public schools educating more than 165,000 students in 23 states and the District of Columbia.

Of all these free-market reforms, charters have attracted particular interest because they represent the most dramatic departure from traditional schooling. Proponents of charter schools include both political conservatives—who view them as a step toward a more radically demonopolized system in which students would receive vouchers to attend public, private, or parochial schools—and moderates who see charters as a way of averting precisely this dramatic step. Both groups believe that charter schools, which in their purest form operate largely beyond the reach of school boards and teachers' unions, can strengthen public education by promoting competition and by liberating innovators from the shackles of tradition. President Clinton, a strong backer of the charter concept, has called for quadrupling the number of charter schools to 3,000 within the next two years.

In two states, Arizona and Michigan, the notion of

a free-market school system has moved well beyond the theoretical stage. Charter laws in both states are the most permissive in the nation: Virtually any person or organization can open a charter school and enjoy wide latitude over staffing, curriculum, and spending, and the backing of the state lawmakers and regulators. Together, Arizona's 241 charters and Michigan's 107 make up nearly half the total number of charters in the United States.

Good and bad. Yet weeks of reporting in the two states, including visits to nearly three dozen charter schools, yield a picture of educational entrepreneurialism that features not only the classic benefits of any market-based enterprise but also the classic drawbacks. Charter schools are both better and worse than ordinary public schools. Their problems are *different*, having more to do with those of a free-wheeling market than a state bureaucracy. The best charter schools pursue innovation and educational excellence with an enthusiasm sorely lacking in many traditional public schools. But these schools are the minority. Much more common are schools beset with problems as bad as—and in some cases worse than—those found in traditional public schools. If competition and market models are in-

evitable features of tomorrow's education, the operating realities of charter schools in Arizona and Michigan are reminders of perils to avoid—and guideposts for parents seeking the right schools for their children.

High-quality charter

Open door

Unlike other charter arts schools, the Arizona School for the Arts in Phoenix (below) admits any interested student, regardless of talent.



schools share one trait: They have brought new participants who care about children's welfare into public education. A dozen or so Detroit-area clergy, for instance, have started charters to help students languishing in the city's public schools. Charter schools are also generally small and safe, offering a cohesiveness hard to find in Arizona's and Michigan's often large public schools.

Charter schools in both states offer a wider variety of options for students with different learning styles. The teaching philosophies of two charters in Mesa, Ariz., for example, couldn't offer a more striking contrast: Benjamin Franklin Charter School is a throwback to Norman Rockwell schools of the 1950s, with well-scrubbed students working silently at desks in tidy rows, under the watchful eye of no-nonsense teachers. Several miles away at the Montessori Education Centre Charter School, elementary students





grouped three grades to a room sprawl on the floor or bunch together at tables, learning math by grouping beads and working on sound-letter relationships, or drawing in their journals. When they need help, they call their teachers by their first names.

A few schools in both states are truly innovative. In Michigan, a secondary school created by the Ford Motor Co. is located in the Henry Ford Museum in Dearborn. Students study the museum's technology exhibits as part of the curriculum. A smattering of new schools have established themselves as specialized educational powerhouses, including Sankofa Shule, an Afrocentric elementary school in Lansing, Mich., that includes instruction in four languages, and the Arizona School for the Arts, a junior/senior high

**'I pledge'
At Sankofa Shule in
Lansing, Mich., students
celebrate African
Independence Day and
recite a daily pledge to
"my African nation."**

school in Phoenix that couples a half-day performing-arts program with a college-prep core curriculum. Most fundamentally, the spread of charters in Arizona and Michigan proves that competition can promote reform. So far, the Mesa school system, Arizona's largest, has lost only 1,600 of its 70,000 students to the area's many charter schools. But the mere existence of the schools seems to have motivated the mainstream bureaucracy. To stanch the flow of students to the likes of Ben Franklin and the Education Centre, the district is opening new traditional and Montessori elementary schools, building a performing-arts magnet school, and adding daylong kindergartens to many elementary schools to court working parents.

If the best of a newly marketized sys-

tem is very good, however, the worst has problems rarely encountered in traditional public education. And in scores of charters in Arizona and Michigan, curricula and teaching are weak, buildings are substandard, and financial abuses are surprisingly prevalent. Nearly half Arizona's charters are high schools, the majority run by chains such as PPEP TEC High School, Excel Education Centers Inc., and the Leona Group. These companies take advantage of the fact that Arizona requires high school students to attend only four hours of school a day. They target kids on the margins of traditional public schools—low achievers, discipline problems, truants—with pledges of swift and simple routes to graduation. And many of the companies increase their revenues by running two or three four-hour sessions a day and substituting self-paced computer instruction for a regular teaching staff.

Academic standards in such "high

schools"—many occupy a few rooms in commercial buildings—are often very low. Marilyn Henley, Arizona's curriculum director in the mid-'90s, who last year visited more than 100 of the state's charter schools, calls the computer coursework "work sheets on screens—mostly at a seventh- or eighth-grade level." Many "courses" last only a few weeks. There is typically no homework. And many students get credits for after-school work, including, in the case of students at the Arizona Career Academy, a nonprofit charter in Tempe, jobs in fast-food restaurants.

Standards in many of Arizona's for-profit charter high schools with conventionally taught courses aren't any higher. At the Leona Group's new Apache Trail High School in Apache Junction, where staffers are paid bonuses for raising enrollment, 30 students taking a course called "American literature through cinema" listened (with the exception of those asleep at their desks) to the soundtrack from *Last of the Mohicans*. Defenders of the charter high schools say the schools offer a second chance to students abandoned by traditional public education.

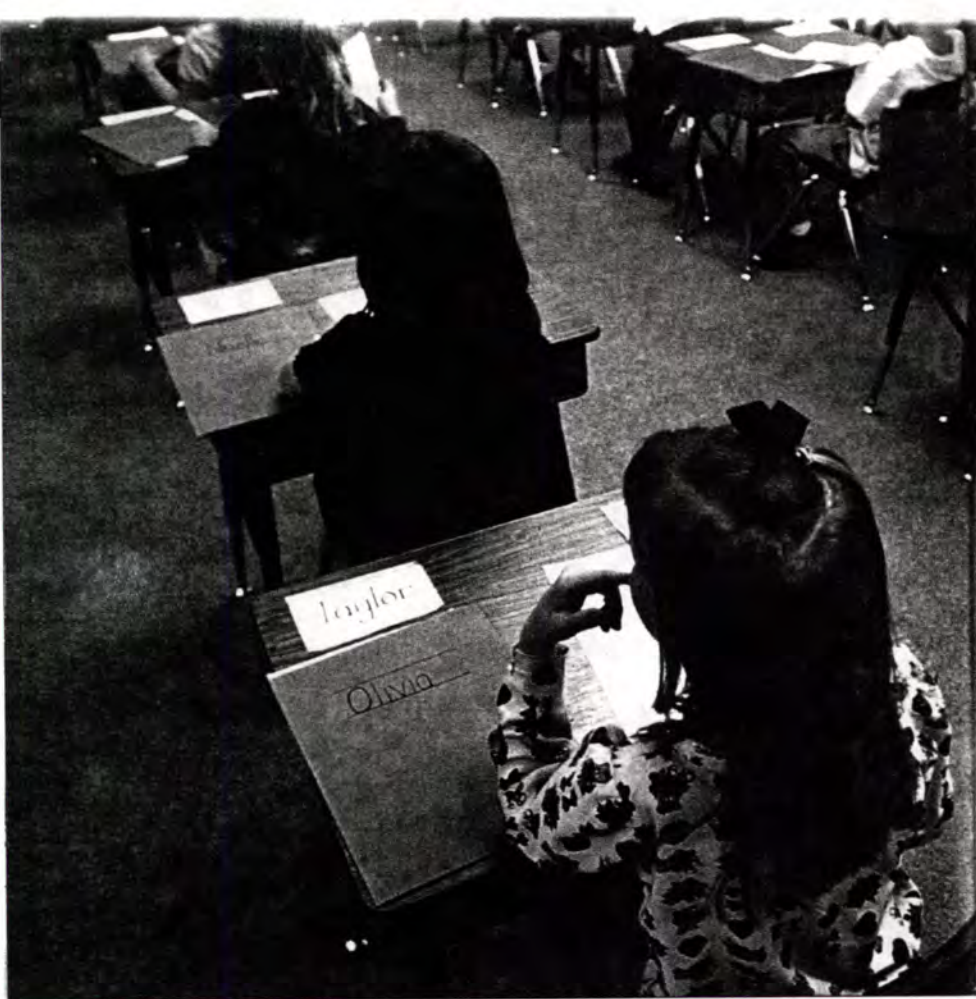
Hard to learn. No one would dispute that bad teaching and scarce resources plague many traditional public schools. But shortages are so severe in some charter schools in Arizona and Michigan that it's hard to see how any learning can take place. Many of the charters' teachers are low-paid neophytes; as a result, staff turnover is high. Labs and libraries are rare. Even basic classroom supplies are often lacking: The kindergarten teacher at Eco-Tech Agricultural Charter School in Chandler, Ariz., for example, appeared to have little more than paper and pencils available for her students. And there are plenty of charter schools housed in buildings few

would deem conducive to learning: Teachers at the West Michigan Academy of Environmental Sciences spent more than a year teaching 300 students at picnic tables and old desks in the Stadium Arena in Grand Rapids, briefly vacating the building for a knife-and-gun show.

Even more disturbing is the opportunity for profiteering created by charter laws in Arizona and Michigan. When William and Mary Delaney turned Warwick Pointe Academy, a private elemen-

tary school they owned and operated in Grand Blanc, Mich., into a public charter school in 1996, they began charging the school \$200,000 a year in rent for the building and furnishings—over three times the per-foot rate paid by several public schools and another charter school in the area. William Delaney declined to discuss the rent.

A study of Arizona's charters conducted last year turned up a number of instances where the enrollments schools



BUYING A REVOLUTION

Sugar daddies for charters

Foundations created by wealthy, industrial-era families like the Fords and the Carnegies have been the traditional benefactors of public school reform. But today's market-driven experiments are drawing a new generation of underwriters. They include:

■ **Donald and Doris Fisher.** The billionaire founders of the Gap

Inc. have pledged \$25 million through a new foundation to help the San Francisco area public schools hire the Edison Project, a for-profit operator of both traditional and charter public schools, and one of nearly two dozen new companies drawn to the business of public education by the chance to compete for students. "Edison has a good [education] model

and we want to give Bay-area schools a chance to use it," says Donald Fisher, 69, himself a product of San Francisco's public schools. Bringing in an outside firm like Edison, Fisher says, gives public school systems a catalyst for reform "without getting caught up in the voucher debate." (The Fishers' son John independently owns about 4 percent of the Edison Project.)

■ **A. Alfred Taubman.** A shopping-mall developer and chair-

man of Sotheby's, the New York auction house, Taubman, 73, is using his vast wealth—pegged at \$680 million—to launch the Leona Group, a Michigan-based, for-profit operator of charter schools. Leona already has won contracts to run 16 charters in Michigan and Arizona by helping charter-school founders secure start-up loans backed by Taubman's millions. The company expects to have three dozen charter schools open by September and hopes to expand nationally.

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state aid, but only about a fifth of the students continued to attend the school. (Last year, the Michigan legislature outlawed such practices in Detroit, causing the school to close.)

Traditional public school systems have the ability to grant charters in Arizona. Most of those that have done so, however, have been tiny, cash-strapped rural school systems out to make money by charging chartering fees of up to 10 percent of the charter schools' revenues. The Arizona charter law also let sponsoring school systems count charter students as their own for state-aid purposes, a since-rescinded double-dipping opportunity that gave the 3,300-student Window Rock school district, located on the Navajo Indian reservation in northeast Arizona, an added \$200,000 to a budget of \$20 million.

Nepotism is widespread in Arizona and Michigan charter schools. One example is NFL-YET Academy, a 620-student elementary school in Phoenix. The school's founder and chief executive is Armando Ruiz, a former state senator and adviser to former Gov. Fife Symington. His twin brother, Fernando, is the school's budget director; his younger brother Reyes is the school's "spiritual development" director; his mother, Estella, is an administrator; his father, Reyes Sr., is a school carpenter; his sister, Rebecca, is a teacher. While the family-run model is ideal for many small businesses, the potential for abuse in public contracting is obvious; the law in Arizona bans nepotism in regular public schools but not in charter schools.

Such problems have multiplied in the absence of rigorous oversight. "We have not found a single [state] with a well-

formed plan for dealing with problem schools or outright failures," write conservative education expert Chester Finn Jr. and his coauthors in their 1997 report, "Charter Schools in Action." Local school systems have largely sidestepped the task of monitoring the 50 or so charter schools they sponsor in Arizona. Window Rock, for instance, hasn't assigned any staff to keep tabs on the dozen schools it has chartered, the closest of which is 400 miles away. Window Rock's new school superintendent, Paul Hanley, did

move to close four schools last fall, including two run by Reed Gaddie, who in 1989 was sentenced to jail on a drug paraphernalia charge. One of Gaddie's schools, Community Campus, had no building and was conducting classes in a park; the other, the Arizona

Career and Technology High School, on one occasion last fall resorted to "locking down" students in their classrooms with custodians and construction workers patrolling the halls to keep order.

State chartering boards haven't been eager to crack down on abuses, either. Last year's evaluation of Arizona's charter schools was conducted by the staff of Lisa Graham Keegan, Arizona's elected state superintendent of schools, after Keegan's office began receiving many complaints about the schools. But Keegan's department didn't make the evaluation's troubling findings public until nearly a year later—after the state school board association lawyer filed a freedom-of-information request, and after Keegan's top charter-school aide removed evaluators' handwritten notes on their school visits, as allowed by law. Says Keegan about the evaluators' report: "I would prefer that

Flashback

With its tidy rows of desks and no-nonsense teachers, Benjamin Franklin Academy (left) might be mistaken for a 1950s school.

submitted to claim state aid differed sharply from the schools' average attendance. In Michigan, the Romulus public school system sought to profit from another market reform—the state's new school-choice law. Located just west of Detroit, the Romulus system opened a school within the Detroit school district's borders. It enrolled about 2,200 students, including many dropouts, offering as one attraction a \$50 "signing bonus." The school qualified for \$14 million in

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Students at the Michigan Automotive Academy, a charter school

■ **J. C. Huizenga.** This wealthy manufacturer and evangelical Christian founded his own for-profit charter school company—National Heritage Academies—which runs eight charter schools in the Grand Rapids, Mich., area stressing traditional values (each school has a "moral focus" committee). Huizenga, cousin of entrepreneur Wayne Huizenga, also plans to expand.

■ **The Walton family.** The heirs of Wal-Mart founder Sam

Walton are using part of their \$28 billion fortune to encourage the shift of students from traditional public schools to both charters and private schools. The family foundation has donated \$350,000 over the past two years to a national group that helps launch charter schools, for example, and John Walton, 51, has contributed \$3 million to help District of Columbia students attend private schools, one of three dozen such efforts begun nationally in the 1990s. —T.T.

everything [the monitors] saw was wonderful. But if it wasn't, OK. In the main, I'm pleased, far and away, with the quality of the public charter schools. . . . How much monitoring do you think is going on in the traditional system?"

Two governor-appointed boards that grant charters in Arizona, the State Board of Education and the State Board for Charter Schools, also declined to take action against many schools discovered during the evaluation to have serious educational problems. The boards, dominated by free-market advocates, revoked two charters in the wake of the evaluation, including that of Alan Wright, a past superintendent of education at the Arizona Department of Juvenile Corrections, who recruited many students from the state's youth justice system to his 12 Success charter schools. The state said Wright failed to serve special-education students and committed other transgressions, which he denied. (A state court recently reinstated Wright's charter on due-process grounds, though the Success schools have shut down.)

But over three dozen schools in last year's evaluation of Arizona's charters that were identified as having education programs bad enough to close were left alone on the grounds that they weren't physically endangering students or defrauding taxpayers. The systematic evaluation of the charter schools by Keegan's staff ended last fall, halted by the heads of the two charter boards and Keegan, a former speech pathologist who entered the Arizona legislature at age 30 and coauthored the state's charter law after failing to push through voucher legislation. Through a spokesperson, they say that the Arizona Department of Education is not required by law to conduct charter-school evaluations.

No furniture. In Michigan, the majority of charter schools are sponsored by state universities: Central Michigan University, Grand Valley State, Saginaw Valley State, and a few others, all of whose boards of trustees were appointed by Republican Gov. John Engler. Engler is a staunch advocate of charters who readily acknowledges that he pressed trustees to promote charter schools. Instead of closing down a severely troubled school in Muskegon, the head of the charter-school office at Grand Valley served as the school's interim prin-

cipal for several weeks. Harry Ross, director of oversight at Central Michigan's charter-school office, says the university had nearly 30 charter schools in operation before it hired oversight staff.

Keegan and other market-reform advocates argue that it is consumers—parents and students—who should determine the fate of charter schools. "If the education in charter schools isn't good, people leave, and the schools don't stay in business. It's a better way to run a system,"

sued to its advanced arts program.

Some charter schools discourage special-needs students from applying. Lyle Voskuil, director of special education at eight Grand Rapids area charters run by National Heritage Academies, a for-profit company, says that for financial reasons his schools offer no more than three hours of special-ed services to a student a week and that they urge the parents of students who need more help not to attend the schools. "We tell them upfront that they



No frills

The Alternative Learning Center, a charter in Mesa, Ariz., operated in a former nursing home. The school went bankrupt and closed last February.

she says. Yet neither Arizona nor Michigan incorporates testing systems to measure whether charter students are learning any more than their counterparts in regular public schools—making it difficult for parents and students to make smart choices.

In fact, the choices may be fewer than many consumers realize: Though funded with tax revenues, many charters have proved less welcoming than truly "public" schools. To be eligible for federal start-up grants, the schools must be open to any student who applies and must use a lottery if they are oversubscribed. But Arizona doesn't require charters to use a lottery, and some schools that have received federal funds don't. The well-regarded New School for the Arts in Scottsdale, for example, has a lengthy waiting list. Yet it considers applicants on a first-to-apply basis and then counsels out students not

may be better off elsewhere," says Voskuil. Traditional public schools don't have that luxury.

Bad apples. Arizona's charter high school chains may recruit troubled students, but other charter operators work to keep such students out. Many have

"zero tolerance" discipline policies that they discuss in long, preadmission interviews with parents and students as a way to discourage potential bad apples. "We're trying to get our share of good kids," says Japen Hollist of Life School in Mesa. "We've raised the dress code to scare off a few, and we have frank conversations with others."

Twenty percent of Arizona's charter schools and nearly half the charters in Michigan are former private schools that converted to charter status—frequently as a way to raise their revenues. Many of these "conversion" schools—including

DO THEY WORK?

Vouchers for good and ill

Cleveland's 3,000-student voucher program is in its second year, and it is wildly popular: 5,000 students who applied couldn't get in. The enthusiasm isn't surprising, given that only 16 percent of ninth graders in Cleveland's regular public schools pass Ohio's proficiency tests, and only 33 percent of the city's students graduate on time. Voucher schools tend to be smaller and safer than the public schools; 60 percent of voucher students attend Catholic schools, which have a reputation for strong academics.

Yet in other ways the pilot program, advanced as a market-based remedy for public school ills, falls short of its promises. In theory, vouchers encourage public schools to improve by giving their students the option to leave. But in Cleveland, the program seems more a form of educa-

tional triage than a catalyst for reform. With only 3 percent of Cleveland's public school students participating, the voucher program hasn't to date had a reforming effect on the whole system.

Yet expanding the voucher program significantly would be hard, in part because it's proved far more costly than expected. The law requires Cleveland to transport voucher students to private schools, but the city was short on bus-

es and drivers, so a third of students took taxis—at a yearly cost of \$1,300 per student, nearly as much as the vouchers themselves.

Full up. Even if costs could be brought under control, Cleveland doesn't have enough private schools to provide voucher seats for all 77,000 public school students. Already, 33 of the city's 39 Catholic schools—by far the city's largest source of private education—participate

in the voucher program, and many are at or near capacity. Although Cleveland's vouchers are publicly funded, voucher schools can select their students and need not accommodate all comers. The private school with the most voucher students, Hope Central Academy, offers no services for learning-disabled students. Meanwhile, the fact that a majority of the city's voucher schools include religion in the school day has

triggered lawsuits challenging the program's constitutionality.

Perhaps of biggest concern, there is as yet no evidence that Cleveland's voucher schools educate kids any better than public schools do. A recent independent study of the city's public and parochial voucher-school students found that third graders in voucher schools last year progressed at the same pace in core subjects as did public school students. —*Warren Cohen in Cleveland*



Hope Central Academy enrolls most of Cleveland's voucher students.

some 20 Montessori schools in Arizona and two prestigious private schools in Detroit, Nataka Talibah Schoolhouse and Aisha Shule—have created more options for families who couldn't otherwise afford private schooling. But to the extent that such schools don't open their doors to "outsiders," charter laws are simply creating public subsidies for private schooling, and encouraging social balkanization. The A.G.B.U. Alex and Marie Manoogian School in Southfield, Mich., for example, was a private Armenian church school before it became a charter two years ago (tripling its revenue in the process). As a charter school, its board, faculty, and student body are still almost entirely Armenian. "Not a lot of new kids apply," acknowledges principal Nadya Sarafian, who keeps small U.S. and Armenian flags side by side on her desk.

Nowhere are the separatist tendencies of some charter schools more strongly reflected than at Sankofa Shule, one of half a dozen African-centered charters in Michigan. While its students clearly

thrive in a setting celebrating their heritage, Sankofa deliberately places itself outside the cultural mainstream. Rather than Labor Day, Memorial Day, and Presidents' Day, it observes holidays such as African Independence Day and Malcolm X Remembrance Day. "The traditional concept of Thanksgiving, like the Fourth of July, really has nothing to do with us," writes a teacher in the school newsletter. And a daily "affirmation" spoken by the entire school begins, "I pledge to my African nation . . ."

The segregation of many charter schools along ethnic, racial, and religious lines has also created church-state conflicts. A year after Heritage Academy Inc., a privately run Mesa high school, converted to charter status, the *Arizona Republic* reported that the school was teaching creationism in its science classes—and violating the law in the process. The school's headmaster at first defended the practice. Later, faced with the loss of state funding, he vowed instead to teach neither creationism nor evolution.

Keegan and other charter backers contend that charter schools shouldn't be held to higher standards than traditional public schools. Yet charter schools offer a chance to introduce a level of accountability absent from public education in the past. For decades, public schools have been at the mercy of central-office edicts and teacher-union contracts—and thus not responsible for their own performance. They were told what to spend money on, whom to hire, and what to teach. Many charter schools, in contrast, are largely free of such bureaucracy. In exchange for that freedom, it would make sense to allow public authorities to scrutinize charters' financial practices and educational results—and to crack down on laggards. Such a trade-off could in turn inspire a similarly rigorous system of accountability in traditional public schools. What is clear from the Arizona and Michigan experiences with charters is that, without rigorous accountability, both students and taxpayers suffer. ■

THE WHITE HOUSE
WASHINGTON

May 11, 1998

98 MAY 11 AM 10:52

MEMORANDUM TO THE PRESIDENT

FROM: SIDNEY BLUMENTHAL *SB*
SUBJECT: SUNSTEIN LETTER

I am passing along this letter from Cass Sunstein of the University of Chicago Law School. He proposes three remedies for the possible serious risk of increased IRS noncompliance in the next year or two.

5/11/98

Per Phil Caplan -
Send to Burkhardt for
reply -

C. Cleveland

THE WHITE HOUSE
WASHINGTON

'98 MAY 11 AM 10:52

May 11, 1998

MEMORANDUM TO THE PRESIDENT

FROM: SIDNEY BLUMENTHAL 
SUBJECT: SUNSTEIN LETTER

I am passing along this letter from Cass Sunstein of the University of Chicago Law School. He proposes three remedies for the possible serious risk of increased IRS noncompliance in the next year or two.

University of Chicago Law School
1111 E. 60th Street
Chicago, Illinois 60637

Cass R. Sunstein
Karl N. Llewellyn Distinguished Service Professor of Jurisprudence, Law School and
Department of Political Science
Telephone 773-702-9498
FAX 773-702-0730
e-mail: csunstei@midway.uchicago.edu

May 11, 1998

President Bill Clinton
c/o Sidney Blumenthal
The White House

by fax to 202 456 1213

Dear Mr. President:

A quick note about the current IRS difficulties; I'm writing because of the obviously serious risk of increased noncompliance in the next year or two, with a possible revenue loss in the billions of dollars.

Two excellent predictors of whether people will comply with the law, or otherwise contribute to the common good, are (a) whether they think that **other people** are complying or contributing and (b) whether they think they are being treated **fairly**. The current danger is that the recent anecdotes about alleged IRS abuses will reduce voluntary tax compliance, thus increasing the \$90 billion tax gap. The danger will of course be increased by any steps, in the new bill or in appropriations, that make it less likely that the IRS will be able to bring noncomplying taxpayers into line.

Recent work on law and social norms suggest that there are three possible remedies.

(a) People should know that **over 90%** of their fellow citizens do their part voluntarily. If people know this, voluntary compliance should go up. This effect -- **people contribute or help if they think otherwise people do, and don't if they don't** -- has been demonstrated in many contexts.

(b) People should know that average Americans pay **\$1600 more** than they otherwise would, just because of tax cheating. Tax cheaters tend to think they are cheating "the IRS" or "the government," but the real victims are their fellow citizens, who have to bear a bigger burden.

(c) A "reinvented" IRS might offer Americans a new deal: from the government, there would be simpler, less adversarial, and more user-friendly assistance, with a **quid pro quo** -- continued high levels of voluntary compliance, and indeed with the hope of even more in the way of voluntary compliance. This idea could be accompanied by small, symbolic rewards -- maybe just praise -- for voluntary compliance.

These are some brief and simple thoughts on a complex topic. Very best wishes.



to Phil Carlson
from Karen Fawcett

This card was hand delivered
to Erskine for POTUS.

8 May 98

5-8-98

Phil -

Do you want
this in system?

Yes

No

Per Burkhardt
for reply

here for three months I
am settling in and
starting to undertake some
initiatives that will bring
good news for the Army, the
Administration, and the environment.

There are some key issues
to consider and I think we
will see progress in the
next few months.

Thank you again for
this opportunity.

Sincerely,
Jim Spotila

Dear Mr. [unclear]



Office, Assistant Secretary of the Army
Installations, Logistics and Environment

JAMES R. SPOTILA, Ph.D.
Chief Environmental Scientist

The
opportunity
Chief E.

SAILE-ESOH Room 1A875
110 Army Pentagon
Washington, DC 20310-0110

(703) 695-0984/1020
FAX (703) 614-5822
email: SpotiJR@hqda.army.mil

of the Department of the Army.
You have a great team
here with Mike Walker,
Alma Moore, and Ray Fatz
looking out for the
environment. I am very
impressed with the fine
job they are doing and
with their excellent staff.
Now that I have been

THE WHITE HOUSE
WASHINGTON

May 8, 1998

98 MAY 8 04:04

Dear Mr. President and Mrs. Clinton,

It has been an honor to work for the Clinton Administration and in the White House for the past two years.

I first came into the "Clinton Camp" in Northeast Texas, 1992, to assist with your bid for the Presidency. I knew then that you would make a wonderful, a special, team as The President and First Lady of our country. I am so proud to say that I was here, with you, as part of the team.

God bless you with the remainder of your term, and thank you again for such a wonderful opportunity.

Sincerely,

Lisa Richards

Lisa Richards

5-8-98

To Burkhardt for
reply?

Yes

No

reply to
2nd letter B
as well (attached)

THE WHITE HOUSE

WASHINGTON

Dear Mr. President
Well my mom is leaving so we probley wont
get to see you again, I would just like to say bye
and I think you were a very good president!
Bye we will miss you

Sincerely,
Brandon Feldkamp

P.S. my Brother and Sister probley
think the samething but there not here so they
can't say bye but **I** know that there probley
thinking **I** wish **I** could say bye to President
Bill Clinton!

and I think that the First lady did a wonderful
job to.

once again BYE!

countries, compared to \$5B each in Mexico and China, \$2.6B in the Philippines, and over \$2.5B in Russia; Harmon says, clearly the Bank can, and intends to, do more

*Delivering
C.B. Back
from leave*

Letter and Note/Booklet from Harris Wofford -- Letter following up on your conversation at Steve and Emily's good-bye party in the East Room. Harris writes that hearing your account of Nelson Mandela was a special privilege he will not forget, hopes you go to Cleveland to get a "roaring welcome" and see the energy and idealism you and City Year have released; forwards for your information a copy of Jonathan Alter's *Newsweek* article on the service Summit's aftermath, in which Alter writes that the service movement is "struggling to be born, with more progress than the public knows," says Alter misunderstands the nature of the Work Study program when he describes it as "federally-insured work-study loans;" Harris says they're making progress toward your goal of a 100,000 work study positions committed to literacy tutoring, 1000 college and university presidents have pledged support; *Note Booklet* also forwards a Corporation booklet on the MLK Day of Service with a note thanking you for your help in moving the Day to a new level of recognition and success.

DAN BURKHARDT

please coordinate the reply

*To him not
to Brian*

Brian Mulroney Speech forwarded by Mack -- Mack thought you would find interesting portions of a recent speech by the former Canadian PM at Columbia University in which he discusses the responsibilities of a free press; Mulroney says, "in the 1992 primaries, Gov. Clinton took more hits than the Bismarck, some accurate and important, many false and contrived;" he denounces the "indiscriminate houndings of public servants given legal respectability;" *please see speech, pages 5-6, for details*

DAN BURKHARDT

please coordinate the reply

Tab A: page 1 of covers & Tab A - VP/COS
Tab C: page 1 of cover & Tab C - Burkhardt/COS
Tab D: page 2 " " + Tab D - Burkhardt/Reed/
Tab E: " " " " Lewis/COS
+ Tab E - Burkhardt/COS

OK

THE WHITE HOUSE
WASHINGTON

1998 MAY 6 PM 5:25

May 6, 1998

DAN BURKHARDT:

please coordinate the
reply.

cc: COS

The Right Honorable Brian Mulroney, C.P., LLD
Ogilvy Renault
1981 Avenue McGill College
Suite 1100
Montreal
Quebec, Canada, H3A 3C1

Dear Prime Minister Mulroney:

Your letter following up on our recent conversation is received, noted, and appreciated. I very much enjoyed our telephone visit and, of course, I am particularly gratified by your very kind words about me given my genuine respect for you over the years.

I will make certain your very thoughtful and timely commentary is conveyed to the President. I know he will appreciate your insights and support, as I do.

I look forward to our hopefully having the occasion to cross paths in the near future. In the meantime, all good wishes, and I remain keenly mindful of your unfailing hand of friendship.

Personally,

Mel Mulroney

bcc: Phil Caplan
Note: Mack asks
that you ensure
that the President
sees the attached.
Thanks. P.

TRANSMISSION PAR TÉLÉCOPIEUR - FAX COVER LETTER

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**OGILVY
RENAULT**

S.E.N.C.

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NUMBER OF PAGES INCLUDING COVER LETTER

11

L'ORIGINAL SERA POSTÉ
ORIGINAL TO FOLLOW BY MAIL

no

Le 4 mai 1998

EXPÉDITEUR/FROM:

Francine Collins, adjointe au/assistant to
Le très honorable Brian Mulroney, C.P., LLD
The Right Honorable Brian Mulroney, P.C., LLD

DESTINATAIRE(S) / TO: ↓

MR. MAC MCLARTY	WHITE HOUSE	WASHINGTON	(202) 456-2215
-----------------	-------------	------------	----------------

MESSAGE: ↓

PLEASE SEE THE ATTACHED DOCUMENTS.

Brian Mulroney

Montreal, May 4, 1998

BY FAX: (202) 456-2215

Mr. Mac McLarty
Special Envoy to the Americas
White House
Washington, DC

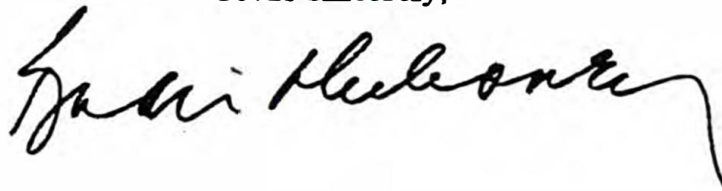
Dear Mac:

Further to our conversation, I enclose a speech I made over three years ago at Columbia University.

You will find pages 5 and 6 particularly interesting, given the current climate. I would be obliged if you could ensure the full text is given to President Clinton. It might be of some consolation for him to know that, for other world leaders, all of this is both deeply deplorable but utterly predictable.

Once again, my warmest congratulations on the tremendous leadership you have demonstrated in bringing about greater hemispheric trade and unity.

Yours sincerely,

A handwritten signature in black ink, appearing to read "Brian Mulroney", with a long, sweeping horizontal stroke at the end.

NOTES FOR AN ADDRESS
BY
THE RIGHT HONOURABLE
BRIAN MULRONEY

COLUMBIA UNIVERSITY
FREEDOM FORUM MEDIA
STUDIES CENTRE

NEW YORK, N.Y.
MARCH 20, 1995

- 1 -

The fundamental goal of government is to make a better world – a world that is safe from war and safe for democracy, a world that is free from deprivation and free from degradation.

For 40 years, the United States and the Soviet Union were the world's two superpowers, the leaders of the West and East, of NATO and the Warsaw Pact, the keepers, in President Kennedy's words, of "a hard and bitter peace".

And then in 1985, there came to power in the Kremlin a man named Mikhail Gorbachev, who questioned the assumptions of the Soviet system, ended the arms race and ultimately the cold war, disbanded the East bloc, the Warsaw Pact, and, finally, the tyranny of the Soviet federation itself. Sitting across a conference table from him in a private meeting in the Kremlin, just hours after he assumed office in March 1985, I would never have thought it possible. Flanked by Andrei Gromyko, this new leader of the Soviet Union spoke to me with confidence of the future, but gave precious few indications of the convulsive changes he was about to unleash – so profound, as it turned out, that he and his administration and his federation would be consumed by them.

For Canada and the United States, the post-cold war world offers unique opportunities and daunting challenges. We begin from a common heritage of democratic traditions and a common defence of liberty. There are reminders of that from the trenches of one war to the beaches of the next, places inscribed in the history of valour, where Canadians and Americans have stood together, where Canadians and Americans have died together, in the defence of freedom.

And because we have remained true to those values and had the courage and the strength to defend them in NATO, Korea, the Gulf and elsewhere, within the last few years, the Berlin Wall fell and Germany was re-united; a trade unionist from Gdansk became President of Poland; a dissident poet sat in the castle in Prague, as communist regimes tumbled like dominoes across Central and Eastern Europe; and, in the second Russian revolution, the people of Moscow made a human wall around their parliament, and tanks that had crushed each stirring of liberty for seven decades in the past, now dared not cross.

- 2 -

Canada and the U.S. are in the vanguard of industrialized nations building a foundation of economic growth and prosperity in which justice and freedom can flourish both at home and around the world. For generations, the United States and Canada have made common cause for both. Indeed, no less a democrat than Winston Churchill described our relationship: "Example for all mankind and a model for future of the world."

Canada and the United States are also by far one another's largest trading partners. Last year, we conducted over \$350 billion in two-way trade between our two countries-- over \$1 billion per day -- the largest such commerce between two nations in history. And that trade has been growing steadily, from both countries, to both countries, since we implemented the Canada-U.S. Free Trade Agreement that I negotiated with President Reagan in 1987.

Thomas Macauley wrote in another century: "Free trade, one of the greatest blessings a government can confer on a people, is in almost every country unpopular." I know all about that!

Mexico then sought entry and NAFTA resulted in 1993.

In Mexican terms, the concept was revolutionary and marked a dramatic break with many past policies. In global terms, the concept was unusual in that it marked the first attempt to link, within a free trade zone, the economies of two mature, wealthy trading countries (both G-7 nations) with that of the equivalent of a developing nation -- though one with a strong educational and scientific tradition and influence throughout the hemisphere.

Based on the Canada-U.S. experience, NAFTA has opened up the Mexican market of 95 million people, creating the largest, richest single market in the world -- 370 million people accounting for one-third of the world's output, approximately \$7 trillion per year.

In fact, figures reveal that the first full year of NAFTA was a significant success for all parties -- it increased trade and investment by record amounts.

- 3 -

So what does this have to do with freedom of the press? Well, around the world, the enemies of democracy know that political instability will damage the cause of social justice. Last year, they struck with a vengeance in Mexico – and inflicted great damage upon the people and the nation. I was in Mexico City a year ago the day Luis Donald Collasio was assassinated. This was an enormous tragedy for Mexico. But the calm and sensible manner in which Mexicans responded to this act of violence was compelling evidence of just how mature that democracy was becoming.

And then the killers struck again.

And today Mexicans are going through a period of great anguish, resulting from the peso collapse to allegations of corruption and cover-up at high political levels.

But because of the strength of the Mexican people and the resolve of the Zedillo government, they will survive this and other challenges and Mexico will continue to pursue a course towards greater democracy, justice and prosperity. But they are not there yet and they know it.

Mexican democracy is, in some ways, in its infancy when compared with great and genuine western democracies like the U.S.A. and Canada – a state of mind and a commitment to values that we built over two centuries of common purpose.

The reality is that most western industrialized nations are genuinely transparent democracies while Mexico and many other countries have, until recently, enjoyed only a veneer of democracy. A dynamic and aggressive free press, for instance, that delights and dismays us all has not been a hallmark of Mexican life, where the same political party has governed without interruption for sixty years.

Freedom is indivisible. You can't have prosperity without a free market or free speech – and you can't have either without a free press.

I touched on Mexico but consider the situation in the former Yugoslavia and I refer you to an analysis in *Foreign Affairs* by Former U.S. Ambassador, Warren Zimmerman:

- 4 -

"The breakup of Yugoslavia is a classic example of nationalism from the top down – a manipulated nationalism in a region where peace has historically prevailed more than war and in which a quarter of the population were in mixed marriages. The manipulators condoned and even provoked local ethnic violence in order to engender animosities that could then be magnified by the press, leading to further violence. Milosèvic gave prime television time to fanatic nationalists like Vojislav Seselj, who once said that the way to deal with the Kosovo Albanians was to kill them all. Tudjman also used his control of the media to sow hate.

...

Worst of all, the media, under the thumb of most republican regimes, spewed an endless daily torrent of violence and enmity. As a reporter for *Vreme*, one of the few independent magazines left in the former Yugoslavia, said, "You Americans would become nationalists and racists too if your media were totally in the hands of the Ku Klux Klan."

This destruction of human life and decency and dignity did not occur 200 years ago or 75 years ago or in the last world war. It is happening today – as we meet here in New York – right in the heart of a civilized and modern Europe.

17th century cruelty in a 20th century setting – the common denominators? Nationalism, tyranny and the absence of a free press.

And so, political assassinations and economic calamities and dramatic developments abroad have surprisingly little destabilizing effect on life in a great democracy. Whereas other more fragile nations are thrown into complete tailspins by such tragic developments, in many countries of the world our democratic

- 5 -

traditions are so strong and important public policy institutions so transparent that life goes on with hardly a change.

In our nations, much of this powerful democratic underpinning reposes on the remarkable achievements of a free and unfettered press.

Our countries have made great and impressive strides but perfection in this area has eluded our grasp — even after over 300 years of trying!

And so, we must protect our freedoms with our lives because our democracies will wither without a free press.

The media has important rights and privileges in our societies. But they also have assumed vital obligations and responsibilities.

The media must focus daily on the need to maintain balance, fairness and perspective. Like most others of us, they do not always succeed.

There are some great and impressive media outlets in all our democracies. But no one in the U.S. who has endured the malice of an incorrigibly hostile media will doubt the proposition that public service entails great personal costs for participants and their families.

No leader who has seen responsible public policy initiatives subverted or smothered by mountains of trivia, drivel and trash will disagree with the notion that perseverance in the face of indignity is one of the fundamental requirements of modern leadership.

All that said, if it is true that it is better for a guilty man to go free than an innocent one be convicted — and it is — it is also true that such personal abuse by the media has, to some significant degree, become an unfortunately high — but necessary — price for leaders to pay for the privilege of service in truly democratic societies.

- 6 -

For example, in the 1992 primaries, Gov. Clinton took more hits than the Bismark, some accurate and important, many false and contrived. When he persevered and won, the media announced he had "character". Had he faltered and lost because of the same charges, he would have been castigated in life and pilloried in death as a "loser" – the most humiliating epithet a North American public figure can endure.

But the accusations against him would not have become more accurate or relevant with the passage of time. A falsehood about a public figure loses none of its venom and gains no credence simply because it appears in print less frequently or prominently than it once did.

As you watch the daily kaleidoscope of gossip, rumour, innuendo, anonymous sources and unnamed tipsters that invade some of our media;

And as you in America observe the sometimes indiscriminate houndings of public servants given legal respectability by the words "independent counsel", a prosecutor with unlimited access to public funds; and then, as you consider the explosive nature of these elements combining as they sometimes do to erode professional achievement, diminish personal honour and destroy a family's financial security, reflect for a moment on the words of former Labour Secretary Raymond Donovan who, when he was fully exonerated of all charges brought against him, looked at the media and asked; "What door should I knock on now to get my reputation back?"

Remember those words because politicians are not the only ones tracked these days by a certain media – or individuals masquerading as journalists – they are only the most numerous, the most visible and, strange to say, often the most defenceless.

The words from French history ring true today: "Qui s'excuse, s'accuse"

The fact is that political leaders who protest serious inaccuracy or bias are often dismissed as "thin skinned" or someone with "a hair trigger temper" – both grave impediments to the pursuit of higher office.

- 7 -

And political leaders who sue for libel and defamation frequently wind up ridiculed or broke – or both – unless you're from Singapore! As they say in polite society: "It just isn't done!"

I preach for no parish any longer – I did that for a decade. I was prime minister of a great country for nine years and I was privileged to win two back-to-back majority governments. And while I was there, I executed as best I could, the responsibilities of my office. And I have no complaints about the manner in which I was treated – today! But my only message today is the need for responsibility and accountability by the media, as they fulfil their indispensable roles as vigorous critics and faithful chroniclers of our lives and times, our great failings and our high achievements.

And what inspiration would the media have for this? The American media? Well, I think that you could do no better than apply to your profession the words of Judge Learned Hand, the greatest American jurist who was never appointed to your Supreme Court, who, over 50 years ago, was down here welcoming immigrants to the United States of America – Jews and Irish and Catholics and Protestants and Muslims from all over the world.

And he was explaining to them what he thought was important about your society. And he talked about the spirit of liberty. And he said to immigrants that:

"The spirit of liberty is the spirit that is not too sure it is right. The spirit of liberty seeks to understand the minds of other men and other women. The spirit of liberty weighs their interests alongside its own without bias. The spirit of liberty knows that not even a sparrow falls to earth unheeded. The spirit of liberty is the spirit of Him who, near 2000 years ago, taught mankind a lesson that it has never quite learned and never quite forgotten – that there may be a kingdom where the least shall be heard and considered side-by-side with the greatest."

- 8 -

That, to me, is a magnificent definition of the splendor of the American republic. That is the reason for your success: the respect for the spirit of liberty. And I believe that of American media and Canadian media which, by and large, have followed in a manner respectful of that great tradition.

If they continue to do what Judge Learned Hand advised, I believe that the North American media, in spite of difficulties, will emerge and continue to grow as a positive and dynamic force for good in our societies.

countries, compared to \$5B each in Mexico and China, \$2.6B in the Philippines, and \$2.5B in Russia. Harmon says, clearly, the Bank can, and intends to, do more.

→
Bolin
C: B Back
Ann Lewis

Letter and Note/Booklet from Harris Wofford -- Letter following up on your conversation at Steve and Emily's good-bye party in the East Room. Harris writes that hearing your account of Nelson Mandela was a special privilege he will not forget. Hopes you go to Cleveland to get a "roaring welcome" and see the energy and idealism you and City Year have released; forwards for your information a copy of Jonathan Alter's Newsweek article on the service Summit's aftermath, in which Alter writes that the service movement is "struggling to be born, with more progress than the public knows." says Alter misunderstands the nature of the Work Study program when he describes it as "federally-insured work-study loans." Harris says they're making progress toward your goal of a 100,000 work study positions committed to literacy tutoring. 1000 college and university presidents have pledged support. *Note Booklet* also forwards a Corporation booklet on the MLK Day of Service with a note thanking you for your help in moving the Day to a new level of recognition and success.

DAN BURKHARDT

please coordinate the reply

→
to Brian
to Brian

Brian Mulroney Speech forwarded by Mack -- Mack thought you would find interesting portions of a recent speech by the former Canadian PM at Columbia University in which he discusses the responsibilities of a free press. Mulroney says, "In the 1992 primaries, Gov. Clinton took more hits than the Bismarck, some accurate and important, many false and contrived." he denounces the "indiscriminate houndings of public servants given legal respectability." *please see speech pages 5-6 for details*

DAN BURKHARDT

please coordinate the reply

- Tab A: page 1 of cover 4 Tab A - VP/COS
- Tab C: page 1 of cover 4 Tab C - Burkhardt/COS
- Tab D: page 2 " " + Tab D - Burkhardt/Red/Lewis/COS
- Tab E: " " " " + Tab E - Burkhardt/COS

OK

98 MAY 6 PM 6:34

May 6, 1998

5-11-98

President William Jefferson Clinton
The White House
Washington, DC

DAN BURKHARDT:

please coordinate the
reply.

cc Read
New
CO's

Dear Mr. President,

Hearing your account of Nelson Mandela was a special privilege which I won't forget.

I hope you do go to CYZYG in Cleveland where you'll get a roaring welcome and see the energy and idealism you and City Year have released through AmeriCorps.

Did you read Jonathan Alter's account of the Summit "After the Trumpets" and the campaign for America's Promise one year later? It is a movement "struggling to be born, with more progress than the public knows." My point, quoted by Alter, is crucial to understand the method in our madness in convening the Summit and the nature of the movement to turn the tide for millions of children and youth:

"To say that this movement is meant to increase volunteerism is like saying the early civil-rights movement was aimed at increasing 'protestism.' The civil-rights protests were merely means to achieving two goals—voting rights and ending public segregation."

Our National Service programs are right now planning further actions to put them even more effectively and publicly in the front lines of the campaign to achieve the five Summit goals – meeting the five fundamental needs of youth as declared at Philadelphia. We are the lead agency for the large alliance of organizations supporting and making commitments to Goal Five: challenging, inspiring and offering opportunities for all young people to serve, not just be served.

On that front, one of the targets set at the Summit for Goal Five—that half of the million college work-study positions be in service to the community, not in campus jobs—goes beyond the Corporation's direct jurisdiction. We talked about that in our last Oval Office meeting and you indicated support. Alter misunderstands the nature of the Work-Study program when he writes of it as "federally-insured work-study loans." As you know, these are direct federally-provided payments to students who average ten hours a week. It's soon to be \$1 billion dollars a year helping more than one million students.



We've made progress—not enough—toward your aim of 100,000 of these positions committed to tutoring for local literacy initiatives of America Reads. A thousand college and university presidents have pledged their institutions' support (but in most cases without numerical commitments). But further action is needed from your Bully Pulpit, from the America's Promise campaign, and, I believe, from legislation.

The legislation that would be a giant step toward your vision of young people being able to serve their way through college would turn half of work-study into serve-study — a work-serve-learn program — by the end of the year 2000.

I hope you'll see this as a natural, strong move, in line with everything you've been saying about citizen service. Those 500,000 additional college ground troops in citizen service would in many cases be working for programs in which AmeriCorps members serve. Indeed, we see AmeriCorps members as organizers of such college "work-serve-learn" students

In Salt Lake City last month, I saw how this can work in action. One AmeriCorps* VISTA assigned to the University of Utah's Benion Center for Student Public Service had secured the University's agreement for at least 40 students to work in elementary school literacy programs (in which AmeriCorps members were key organizers). She had already recruited and coordinated 36 of these. At two elementary schools I visited, the principals, teachers or literacy program organizers said those college students were working closer to more than ten hours each week, and were more reliable and efficient than the much shorter-term and more sporadic volunteers from the community.

I'll be back to you on this point soon.

Yours,

A handwritten signature in black ink, appearing to read "Harris", written in a cursive style.

Harris Wofford

BETWEEN THE LINES

LONG AFTER THE TRUMPETS

A year after the Philadelphia summit, we're only beginning to make good on the hype

BY JONATHAN ALTER

WHEN WE LOOK BACK AT 1998 a few years from now, it's a good bet we'll think of it as lost time. The surging Viagra

Economy should be giving the United States the luxury to work on long-range problems. Alas, it isn't, at least not as intently as necessary. And in the department of squandered opportunities, President Clinton and Congress have plenty of company—us. One year ago last week, Clinton traveled to Philadelphia with Colin Powell and the former presidents and proclaimed that while the era of big government is over, the “era of Big Citizen” is just beginning. He wasn't entirely wrong. A movement is struggling to be born, with more progress than the public knows. But it hasn't gone far enough.

The Philadelphia summit remains misunderstood by the press. It was dubbed the Volunteer Summit, because no one could figure out something else snappy to call it. When a vast army of fresh recruits failed to materialize afterward, skeptics wrote the whole thing off as a public-relations gesture. But volunteerism wasn't the real purpose of the summit and of America's Promise (Powell's Alexandria, Va.-based follow-up umbrella group). “To say that this movement is meant to increase volunteerism is like saying the early civil-rights movement was aimed at increasing ‘protestism,’” says Harris Wofford, the director of AmeriCorps and a veteran of civil-rights struggles. “The civil-rights protests were merely means to achieving two goals—voting rights and ending public segregation.” Volunteerism, he says, is merely a means to achieving the five goals of the summit—connecting at-risk kids with caring adults; safe places to go after school; health care for uninsured kids; education in a marketable skill, and enrollment in service, so that young people can give something back.

The appeal of America's Promise lies in the clear lines of accountability and coordination it offers to the hodgepodge of thousands of different youth programs. The idea is to get corporations, nonprofits and governments to make specific commitments of time and money to help America's 15 million at-risk kids, then forge local partnerships to fulfill them. Last week all of the 350 companies and groups making national commitments in Philadelphia reported back on their progress. Many of the updates were underwhelming, a mere repackaging of familiar corporate charitable commitments that are not even close to keeping pace with stock-price increases.



Follow up, boys: Powell and the former presidents are staying on message—and the results could redeem a squandered year

Too few companies are willing to give their employees a mere afternoon off a month to mentor, even if it involves no more than bringing a few kids regularly into the workplace. And most companies prefer cataloging their employees' weekend volunteering to ponying up real money.

But there are also hundreds of bright spots. Employees of U S West, for instance, have tutored more than 59,000 children since last April. Junior Achievement, a terrific matching of volunteer executives and kids looking for an economic leg up, has reached half a million more youths. And Big Brothers/Big Sisters, in collaboration with UPS and other companies, has launched 122 school-based mentoring programs in the last year.

The real action is local, where more than 250 “States of Promise,” “Communities of Promise” and “Schools of Promise” are leveraging thousands of new commitments. Powell and some of the former presidents rev up the troops at local summits. After its summit, Louisville, Ky., reported a 44 percent increase in volunteerism. And last month George Bush attended the Kansas City, Mo., summit, where organizers began the critical task of actually identifying every at-risk kid in town, then assessing how much help he or she is getting. By this summer the Web site www.americaspromise.org will have software allowing anyone to punch in a ZIP code and find all of the youth-service volunteer options in that area. One key

unknown: will the local press consistently cover how the public and private institutions in their areas are meeting their pledges?

On the one-year anniversary last week, Powell, describing himself as a kind of Johnny Appleseed, was in Chicago addressing an America's Promise meeting of 70 mayors. Afterward, he mused aloud about the future of his organization, which he insists will not become another fund-raising bureaucracy. “How do we get the message down without visiting every village in America?” Scaling up is the tough part. If the movement is wildly successful, it will still leave more than 10 million at-risk kids untouched.

Slowly, Powell is coming around to the view that government, too, must do more, not in—God forbid—running programs but in helping to fund the nonprofits we already know work. While avoiding the usual Washington scramble for money, he admits that the pending \$200 billion-plus transportation bill got him thinking. Youth-development programs are “as good a place to invest as highways in Kansas,” he says. So why not more public investment?

Last year Clinton's budget essentially achieved goal three of the summit—health care for needy kids, though the implementation has been slow. But he and Congress could do more. For instance, 1 million college students get federal ~~grants~~ work-study ~~loans~~, which were originally designed for service. The higher-ed lobby wants those students washing dishes and otherwise easing campus labor costs. But with their endowments more than doubling in the bull market, the colleges' poor-mouthing is increasingly unconvincing. If a million students worked off their ~~loans~~ through tutoring and other service, the “scaling up” would be much easier. That's the sort of seemingly small but significant change that could fulfill the promise of the Philadelphia summit, and salvage some of 1998.

* As you know, Work-Study positions are not loans but direct pay, encouraging 10 hours a week.

98 MAY 5 PM 4:26

CORPORATION
FOR NATIONAL
★ SERVICE

The Fifth of May
Cinco de Mayo

To the President
& First Lady,

With warm thanks for your
help in moving the Martin Luther King
Day of Service to a new level of
recognition & success, I send you
this souvenir of the day, hot off
the press.

Harris

THE WHITE HOUSE
WASHINGTON

May 9, 1998

MEMORANDUM FOR THE PRESIDENT

FROM: PHIL CAPLAN ^{PW}
SEAN MALONEY

SUBJECT: Recent Information Items

We are forwarding the following recent information items:

cc VP/EO

(A) **Raines/Koskinen Memo on Y2K Problem** -- this is the first quarterly report of the Y2K Council you created by Executive Order in February: the enormity of the problem has become apparent: it will create some disruptions: could be harmful to the normal functioning of local, regional, and national economies: not just a Federal systems problem or an American problem, it's a global problem (more than half the world's countries have not yet begun to focus on it); agencies making insufficient progress are: DOE, DOE, HHS/HCFA, Labor, DOT, and USAID; the FAA, HCFA, DOD, and the IRS face particularly difficult challenges, which Frank and John detail: the evidence so far also indicates that States and localities are not paying appropriate attention to the problem: in the private sector large organizations have a better handle on it than their small and mid-sized counterparts: over the next few months the Council and OMB will work to increase awareness, monitor agency progress, and use the budget process to direct resources to Y2K efforts: *please see memo for further details*

cc VP/EO

(B) **Sec. Rubin Memo on Rep. Gephardt's Support of IMF Funding** -- Bob wanted to draw your attention to Rep. Gephardt's strong expression of support for IMF funding in a recent speech to the Economic Strategy Institute (attached); especially important in light of the letter Rubin received from House Dems last week (including Gephardt, Barney Frank, and David Bonior) expressing serious concerns over capital account liberalization in the IMF Charter; Rubin and Larry Summers have spoken to Members to address their concerns; in his speech, Gephardt said, "IMF replenishment is insurance against future global economic crises and is in our deep national self-interest. The Republicans are playing a dangerous game of chicken with our economy . . . [W]e must not risk support for IMF funding [over the issue of capital account liberalization]."

cc VP/EO
cc Rubin
cc Bonior
cc Frank

(C) **Jim Harmon Memo on his Recent Trip to Sub-Saharan Africa** -- Harmon recently traveled to Namibia, South Africa, and Zimbabwe: was the first trip to sub-Saharan Africa by an Ex-Im Bank chairman in Ex-Im's 65-year history: goal was to "jump start" the Bank's activities and establish new relationships with the region's business and government leaders; in Africa, knowledge of Ex-Im's mission and programs is limited: since 1993 Ex-Im has financed \$653M in U.S. exports to only 9 of the 48 sub-Saharan

DAN BURKHARDT

please coordinate the reply.

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Lewis/COS
Tab E: " " " " + Tab E - Burkhardt/COS

OK

DAN BURKHARDT:

please coordinate the
reply.

cc: COS



3-11-98
98 MAY 6 AM 9:55

JAMES A. HARMON
PRESIDENT AND CHAIRMAN

EXPORT-IMPORT BANK
OF THE UNITED STATES

MEMORANDUM FOR THE PRESIDENT

FROM: James A. Harmon
RE: Report on my recent trip to sub-Saharan Africa
DATE: May 4, 1998

To follow up on our recent phone conversation about Africa, I want to provide you with a brief report on my trip to Namibia, South Africa, and Zimbabwe from April 17-25. As this was my first trip to sub-Saharan Africa, and the first-ever to Southern Africa by a Chairman of Ex-Im Bank in its 65-year history, my principal goal was to "jump-start" Ex-Im Bank's Africa activities and establish new relations with government and business leaders. Overall, my impression was that there is opportunity for Ex-Im Bank to support significantly more U.S. exports to this challenging marketplace.

Building on the momentum established by your historic trip and bi-partisan Congressional support for more engagement with Africa, on every stop and in every meeting of the trip the message was (1) our trip is tangible evidence of your commitment to expand U.S. trade with sub-Saharan Africa; (2) the commitment of Ex-Im Bank to be more active in sub-Saharan Africa; (3) our desire to catch up to our competition in Africa, namely the European export credit agencies that currently have many times the amount of exposure that Ex-Im Bank has in the region; and (4) our interest to support small business in its acquisition of U.S. goods and services.

We will achieve these goals only with appropriate follow-through, i.e., this must be the first of many trips by Ex-Im Bank representatives to the region. Moreover, it is important to coordinate to a greater degree with the other trade agencies. As a beginning, TDA, OPIC, and Ex-Im Bank should share one FTE to be based in Johannesburg to focus on our programs as a joint representative.

The trip to Africa was my third trip to the emerging markets since Ex-Im Bank was reauthorized by Congress in October, 1997. The challenges in Africa are significantly different from those we faced on my trips to Russia last November and East Asia in January. In Russia, East Asia, and most emerging markets around the world, Ex-Im Bank is very well known in the financial and business communities. In Africa, public knowledge of Ex-Im Bank, our mission and programs is limited. As a result of this mission, I believe the companies and government officials whom we visited will more readily consider U.S. goods and services for their future procurements.

Some of the next steps we will take to increase Ex-Im Bank activity in Africa include building stronger relationships with banks operating in Africa, developing mechanisms that will help us reach and support transactions to more small businesses, and examining how we can become open in more countries in sub-Saharan Africa (we are currently open for business in only 18 of the 48 countries). We have established a bank task force to work on these matters, and have begun discussions with TDA and OPIC to coordinate activities.

Since 1993 Ex-Im Bank has financed \$653 million in U.S. exports to only nine of the 48 sub-Saharan Africa countries, and in FY 1997 the Bank financed \$217 million in U.S. exports. On a comparative basis, Ex-Im Bank has an exposure of approximately \$5 billion in Mexico, \$5 billion in China, \$2.6 billion in the Philippines, and over \$2.5 billion in Russia. Clearly, we can (and intend to) do more in Africa.

THE WHITE HOUSE
WASHINGTON

May 9, 1998

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DAN BURKHARDT

please coordinate the reply.

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OK

DAN BURKHARDT:

please coordinate the
reply.

cc: COS



THE PRESIDENT
5-11-98

98 MAY 6 AM 9:55

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PRESIDENT AND CHAIRMAN

EXPORT-IMPORT BANK
OF THE UNITED STATES

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THE WHITE HOUSE
WASHINGTON

May 9, 1998

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cc Rubin not to him

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DAN BURKHARDT

please coordinate the reply.

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5-11-98
THE WHITE HOUSE
WASHINGTON

98 MAY 5 PM 5:54

May 5, 1998

copied
VP
Bowles

MEMORANDUM TO THE PRESIDENT

FROM: John A. Koskinen
Franklin D. Raines

John A. Koskinen
Franklin D. Raines

SUBJ.: The Year 2000 Problem

On February 4, 1998, you issued Executive Order 13073, creating the President's Council on Year 2000 Conversion (the "Council") to ensure that the Federal Government was doing everything possible to minimize year 2000-related disruptions in the lives of the American people. The executive order requires the Council Chair and the OMB Director to report to you at least quarterly on agency progress in addressing the year 2000 problem, or Y2K. This is our first report.

Since the Council began its work, the enormity of the year 2000 problem has become increasingly apparent. It is not just a Federal systems problem or an American problem, it is a global problem. Governments, organizations, and individuals around the world are dependent upon the electronic processing and exchange of financial and other data, and computer systems and embedded chips in the most common household appliances are part of our daily lives. We now know that the problem will cause some disruptions, and that significant disruptions could be harmful to the normal functioning of local, regional, and national economies.

As we get closer to January 1, 2000, the level of attention that both the press and Congress devote to Federal year 2000 efforts will increase. Just last week, the Senate announced the creation of a special committee, which Senator Bennett will chair, to examine Federal efforts to address the problem in the agencies, the private sector, and other areas.

The Council's primary goals are to work with OMB and the agencies to ensure that there are no disruptions to critical public services, and to work with public and private sector organizations in the United States and around the world to increase awareness of the problem and offer support. This memorandum describes the Council and how it is working to achieve those goals and offers our assessment of year 2000 progress in Federal, State, and local government, in the private sector, and internationally.

Council Operations

The Council is comprised of representatives from over 30 major Federal executive and regulatory agencies. Agency heads personally chose their Council representatives, the majority of whom are Deputy

Secretaries or Chief Information Officers, based upon the Chair's two criteria: (1) that they be senior executives with extensive knowledge of their agency's year 2000 activities, particularly their outreach efforts beyond the Federal Government, and (2) that they can immediately commit their agency to action.

As a group, the Council will not duplicate or interfere with the work of OMB and other interagency councils. OMB will continue to provide guidance to, and monitor the progress of, agencies on their internal systems. Where appropriate, the Council will support OMB's work. For example, the Chair has met individually with 42 agency heads to reinforce your message that every agency head is personally responsible for ensuring that their mission-critical systems are ready. Each of the agency heads assured the Chair that their critical systems will function effectively on January 1, 2000.

To help ensure that the agencies have sufficient personnel resources, the Chair also recently asked OPM to remind agencies of existing flexibilities for attracting and retaining personnel to work on the problem. In addition, OPM will give agencies the authority to re-hire retired government programmers with special skills for solving the problem without requiring them to give up their retirement benefits while they work.

The Council is encouraging agencies to increase awareness of the year 2000 problem beyond organizations with whom they have formal relationships through regulatory or grant activities, to include any organization involved in their policy areas or economic sectors whose system failures would adversely affect the general public. The Transportation Department, for example, will reach out not only to State and local transportation authorities but to private sector organizations like the Big Three automakers and the Air Transport Association as well to increase awareness and assess year 2000 readiness. Agency heads have committed to raising the issue in their speeches and presentations to these organizations and may also ask business leaders in their sectors to come to Washington to offer their perspectives on year 2000 progress. The Council is coordinating all of these activities to ensure that there are no gaps or unnecessary overlaps.

Assessment -- Federal Government

OMB continues to provide quarterly reports to Congress on Federal progress in fixing the year 2000 problem. The next OMB report is due out in mid-June and will include, for the first time, an assessment of small agency progress. Attachment A displays OMB's March assessment of each agency's progress, based on the latest available data. Agencies making insufficient progress are: Education, Energy, HHS (HCFA), Labor, Transportation, and the Agency for International Development.

The key message of the latest OMB report was that while agencies are making progress on the problem, the rate of that progress needs to increase. The FAA, HCFA, DOD, and the IRS face particularly difficult challenges.

Federal Aviation Administration. The FAA is arguably the agency at most significant risk for system failures. The FAA's Host Computer System, which is the backbone of en route air traffic control, is of particular concern. The FAA is still assessing the system with the intention of fixing and testing it

while the agency simultaneously attempts to purchase and install new computers before January 1, 2000. The costs and relative risks of this dual strategy are still being determined. However, the FAA is confident that its multiple contingency plans -- which range from rolling back dates to make its computers think it is 1991 to relying on a backup system that enables planes to continue flying, albeit with greater spacing between takeoffs -- will ensure continued domestic air traffic control with minor inconveniences.

Health Care Financing Administration. HHS' primary problem is the slow progress of HCFA's external Medicare contractor systems toward Y2K compliance. The agency has not yet completed its assessment of these contractors' claims processing systems. Under current law, Medicare contractors are exempt from normal government termination procedures. Thus, the agency has limited ability to influence their behavior. The Administration submitted contractor reform legislation to Congress that would give HCFA needed flexibility to ensure that the roughly 70 contractors (e.g., Blue Cross) who process more than \$200 billion in annual Medicare payments will continue to do so without interruption. This legislation is very important, and its passage will be a good test of Congress' willingness to support our Y2K efforts. Both the Council and OMB will also be working closely with HHS to ensure that the agency develops contingency plans that allow for the continued operation of the Medicare program.

Department of Defense. The Defense Department has more mission-critical systems than any other agency and, while it has been making progress, faces a huge challenge on an extremely tight time frame. GAO has found that DOD is behind schedule, which has increased the level of concern about the Nation's defense capabilities. However, the Secretary and Deputy Secretary are now very much engaged on the issue, and have appointed a year 2000 project manager to coordinate the Department's efforts.

Internal Revenue Service. The IRS Commissioner, who is personally managing the Service's year 2000 conversion efforts, is overseeing a three-pronged systems effort that includes modernizing IRS systems, year 2000 conversion, and software changes required by the 1997 Taxpayer Relief Act. The IRS anticipates the pending IRS Reform Bill may require further system changes. Secretary Rubin and the Commissioner have told Congress that the IRS's ability to ensure that its critical systems are year 2000 compliant will be severely threatened if it has to make additional system modifications related to new policies.

Assessment -- State and Local Government

State and local governments not only operate many vital Federal programs, but are often primary service providers to the American people. States are the chief regulatory authorities for insurance companies, local power and telecommunications companies, public safety and emergency response. Unfortunately, the evidence thus far suggests that many State and local governments are not paying appropriate attention to the problem. Few States have a year 2000 coordinator to mobilize their efforts and the lines of communication among State, county, and local governments are poor. We know the least about local governments' status, but we are especially concerned about them because many rely upon older computers, where the problem is most prevalent, and do not normally have the financial or personnel resource flexibility to adequately address a problem of this magnitude.

The Government's Chief Information Officers (CIO) Council is working with Federal agencies to inventory thousands of Federal-State data exchange points to ensure that these interfaces are year 2000 compliant and that Federal programs will continue to operate. Agencies have recently provided this inventory to State officials so that they can begin to ensure compliance for their portion of the exchanges.

Assessment -- Private Sector

As a general matter, large private sector organizations seem to have a better handle on the problem than their small to mid-size counterparts. Most large organizations are aware of the problem and have the financial and personnel resources at their disposal to deal with it. Small- and medium-sized organizations, on the other hand, often do not have the same resource flexibility, and many have mistakenly assumed that the problem will not affect their operations.

There are two primary concerns in the private sector. First, we need to ensure that our basic infrastructure is sound. The Council has already formed working groups to address year 2000 preparedness in the key infrastructure areas of energy, telecommunications, personnel, and emergency response. Second, we need to closely monitor progress in key economic sectors such as transportation, insurance, finance, banking, health care, and small business. The finance and banking sectors are especially important. At this point, Federal banking regulators are working together on the problem and are making good progress, as is the Securities and Exchange Commission, but they are dealing with complicated systems that become even more so on the international level.

Assessment -- International

Although it is the area over which we have the least control, the lack of international year 2000 preparations is our greatest concern. Informal surveys indicate that more than half of the world's countries have not even begun to focus on the problem. Many developing countries are unaware of the problem or think that it doesn't apply to them. Meanwhile, European countries are focused on the more immediate concern of the 1999 Euro conversion deadline. By waiting until 1999 to attack the year 2000 problem, they risk significant disruptions.

In response to these concerns, the Chair has met with the United Nations and the World Bank to encourage them to become more involved in increasing international awareness of the problem. The United Nations is considering passage of a resolution urging member states to address the year 2000 problem immediately. The World Bank President has committed to writing the leaders of the 106 countries with whom the Bank has a relationship and plans to make loans to developing countries to assist them with their year 2000 efforts. Prime Minister Blair, who has lately been a strong advocate for year 2000 preparedness and is using his European Union presidency to encourage his EU partners to act, has established a World Bank year 2000 fund for developing countries to which Great Britain has contributed about \$17 million. We are considering ways in which the United States can best support that effort.

In addition to individual Federal agencies reaching out to international organizations in their sectors, the State Department has agreed to be the lead agency for raising inter-governmental awareness. Secretary Albright is sending to all U.S. ambassadors a cable that designates them as U.S. year 2000 coordinators in their host countries and instructs them to determine the year 2000 readiness of those countries' basic infrastructures.

Next Steps

Over the next few months, the Council will focus on coordinating agency outreach activities to increase awareness outside the Federal Government and will work with the agencies to develop assessments of where problems are likely to occur and associated contingency plans to ensure that normal operations will continue to the maximum extent possible.

OMB will continue to monitor the agencies' internal progress on mission-critical systems and refine its guidance to them. OMB will also continue to use the budget process to direct resources to Y2K efforts. For FY 1998, OMB is, in some cases, apportioning funds to ensure that information technology funds are spent on Y2K; your FY 1999 Budget takes a similar approach, and requests additional funds for agencies where there is demonstrated need. Finally, OMB will continue to work with the CIO Council and other interagency groups to share best practices and to focus on government-wide issues.

Perhaps most important of all, we are looking for ways in which you can raise Y2K awareness both at home and abroad. Internationally, you know from your own conversations with leaders at the Chile summit that awareness of the problem in many countries is sorely lacking, and we are looking for international venues in which you can address the issue. The communique for the upcoming G-8 summit in Great Britain will discuss Y2K and the fact that the G-8 leaders have resolved to work together to combat the problem. Beyond whatever discussions you may have with your counterparts about Y2K, the British press may ask you about it, and we believe your public discussion of the problem would greatly enhance our efforts to increase awareness abroad.

We are also working with your staff to determine appropriate domestic venues in which you might address Y2K. Thus far, we have discussed two possibilities: a radio address, in which the goal would be to raise the American people's awareness of the problem without causing them to panic; and an upcoming commencement speech, perhaps at MIT, in which you could frame the issue as one of the key challenges facing graduates and the Nation as we approach the new millennium.

Finally, we believe that you can play a key role in mobilizing State and local Y2K preparedness efforts. As a former governor, you know the extent to which our citizens depend upon State and local services in their daily lives, and your experience gives you a special credibility among your former colleagues. Therefore, we are considering whether you should call on the Nation's governors to appoint State year 2000 coordinators and invite them come to Washington to review with the Council their year 2000 efforts.

Attachment

FIXING THE YEAR 2000 PROBLEM

AGENCY	PROGRESS TO DATE	PEOPLE/ AUTHORITY	TIMETABLE/ RESOURCES	OTHER FACTORS
Education	●	Need CIO and new Y2K project manager	Behind schedule	Emphasis correctly on student loan systems
Energy	●	Strengthen CIO	Behind schedule	Labs are very independent
HHS (HCFA)	●	Limited leverage over Medicare Contractors	Contractor systems behind schedule	Large number of external data exchanges
Labor	●	OK	Progress has been slowed recently	Large number of external data exchanges
Transportation	●	Need CIOs at DOT and FAA	Seriously behind schedule	Extent of problem unknown in highly complex systems
AID	●	Need CIO	Behind schedule	Modernization delayed in order to address Y2k
Agriculture	○	OK	Recent improvement is encouraging	Large number of external data exchanges
Commerce	○	In the process of hiring a CIO	On schedule, but limited progress in Census and PTO	Data exchanges have been inventoried
Defense	○	CIO function is unsettled	On tight schedule; have adequate resources	Massive Y2K challenge; large number of systems
HUD	○	New CIO will be on board soon	Behind schedule	Large number of external data exchanges
Justice	○	Strengthen CIO	Behind schedule; cost estimates may be low	IG and new contractors are working on this issue
State	○	Need Permanent CIO	Behind schedule	Needs stronger verification of current and future compliance

FIXING THE YEAR 2000 PROBLEM

AGENCY	PROGRESS TO DATE	PEOPLE/ AUTHORITY	TIMETABLE/ RESOURCES	OTHER/ FACTORS
Treasury	○	OK	Good progress in IRS and Customs; concerns w/ FMS	Large and complex systems with many data exchanges
OPM	○	OK	Some accelerated progress	Contingency planning needs work
FEMA	○	OK	Need contingency planning	
Interior	●	OK	On schedule	Large number of external data exchanges
Veterans Affairs	●	Need CIO	On schedule	
EPA	●	OK	On schedule	Many data exchanges to coordinate with outside entities
GSA	●	OK	On schedule	Also addressing buildings and telecommunications
NASA	●	OK	On schedule	Complex problem; senior management involved
SSA	●	OK	Ahead of schedule	Government's leader
NSF	●	OK	On schedule	
NRC	●	OK	On schedule	
SBA		OK	On schedule	

5-11-98

THE WHITE HOUSE
WASHINGTON

May 8, 1998

MEMORANDUM TO THE PRESIDENT

FROM: STEPHANIE STREETT

SUBJECT: SCHEDULING DECISIONS

CC: JOHN PODESTA & SYLVIA MATHEWS

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Podesta
Mathews
Streett
COS

ACCEPT:

Date of Event:

Description of Event:

5/21/98

Present Commander in Chief's Trophy to the Air Force Academy
The White House
Staff Contact: Virginia Apuzzo, Alan Sullivan

5/20/98 - 5/21/98

NATO Treaty Modification Event
The White House
Staff Contact: Samuel Berger

The purpose of this event is to acknowledge the Senate's historic consent to modify the NATO Treaty to bring new members into the alliance.

6/19/98 - 6/23/98

U.S. Conference of Mayors
Staff Contact: Mickey Ibarra, Lynn Cuff

U.S. Conference of Mayors is June 19-22 in Reno, Nevada. Senior Staff recommend that you address the group via satellite, rather than travel to Reno, as your schedule is very tight the last few days before you depart for China.

7/25/98

Commissioning Ceremony for the U.S.S. Harry S. Truman
U.S. Naval Station, Norfolk, VA
Staff Contact: Samuel Berger

5-11-98

PENDING:

Date of Event:

5/19/98

Description of Event:

Announcement on Budget Surplus Figures

Staff Contact: Frank Raines, Linda Ricci

May TBD

Drop-by Sandy Berger's Meeting with U.S. Religious Leaders Who Visited China

Staff Contact: Samuel Berger

6/7/98

Informal Dinner with President Cardoso of Brazil

Staff Contact: Samuel Berger

5/6/98 - 6/13/98

Participate in Homeownership Week Event

Location TBD

Staff Contact: Gene Sperling

REGRET:

Date of Event:

5/9/98

Description of Event

Attend Washington Capitals Hockey Playoff Game

**Abe Pollin invited you to dinner and to watch the game.
You will be in Boston, MA.**

5/11/98 - 5/12/98

Council of the Americas Washington Conference

Staff Contact: Mack McLarty

5/12/98

Photo-op with Members of American Nurses Association

Staff Contact: Maria Echaveste

This is the day you leave for Europe.

5/21/98

Order of the Sons of Italy Dinner

Staff Contact: Maria Echaveste

We have forwarded this request to the Vice President for his consideration.

6/4/98

World Bank Conference on Education Reform in Latin America

Staff Contact: Samuel Berger, Mack McLarty

We are currently looking for a high level administration official to attend this event.

6/18/98

5-11-98
✓ White House Reception of the 35th Anniversary of the Lawyer's
Committee for Civil Rights Under Law

Staff Contact: Maria Echaveste, Charles Ruff

192 You hosted a reception in 1993 in recognition of the 30th
Anniversary of the Committee.

✓ The First Lady's Scheduling Office is considering this request.

2/13/98
Fig. 1
Spec

5-11-98

CENTER ON BUDGET AND POLICY PRIORITIES

Revised May 4, 1998

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HIGHWAY BILL LIKELY TO CUT INTO FUNDING FOR OTHER NON-DEFENSE DISCRETIONARY PROGRAMS

by Sam Elkin and Robert Greenstein

Summary

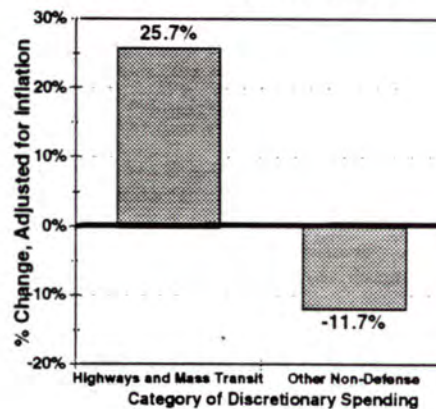
The highway bill now in a conference committee between the Senate and House threatens to precipitate large reductions in the next several years in the non-defense discretionary part of the federal budget. Programs in areas ranging from education and child care to environmental, agricultural, rural, veterans, and foreign aid programs, as well as scientific research, are likely to be affected adversely.

The versions of the highway bill that both the House and Senate have passed would sharply increase highway spending to levels well in excess of what was agreed to during last year's budget negotiations between Congress and the President. Due to the binding caps the budget agreement placed on expenditures for discretionary (i.e., non-entitlement) programs, increased highway spending must automatically lead to reductions in other discretionary programs unless the increased highway spending is offset in some other manner.

That the highway bill will have this effect on other discretionary programs is not well understood. There is a widespread — but wholly mistaken — view that the increased highway spending is being financed out of the highway trust fund in a way that does not affect funding for other programs. The highway trust fund, however, is essentially a bookkeeping mechanism. Its existence does not alter the fact that discretionary spending on highways is counted under the discretionary spending caps — and an increase in highway spending consequently requires reductions in other discretionary programs so that overall discretionary spending remains within the cap.

The budgetary realities related to these matters are as follows:

**Change in Discretionary Spending Under the
House Highway Bill Between 1998 and 2002**



- The Balanced Budget Agreement established legally binding caps on spending for discretionary programs for each year through fiscal year 2002. If the relative proportions of overall discretionary spending that go to defense and non-defense programs remain relatively stable (as the budget agreement assumes they will), the caps will reduce spending for non-defense discretionary programs by a cumulative total of \$39 billion over the next four fiscal years. In fiscal year 2002 alone, spending for non-defense discretionary programs will be \$24 billion — or eight percent — below the fiscal year 1998 level after adjusting for inflation.¹
- Increasing funding for any discretionary program means that the amount left for other discretionary programs must be reduced. As a result, the increase in spending in the highway bill will almost certainly lead to a decrease in spending for other discretionary programs. If the House version of the highway bill becomes law, highway (and related mass transit) spending will rise 26 percent by 2002, after adjusting for inflation. Over the same period, spending levels for other non-defense discretionary programs will fall 12 percent in inflation-adjusted terms (assuming the reductions needed to offset the increased highway expenditures come from the non-defense portion of discretionary spending). The overall reduction in non-defense discretionary programs for fiscal years 1998 through 2002, other than highway and mass transit programs, would be about 50 percent deeper than the reduction that last year's budget agreement, by itself, will cause in these programs.

Spending on highways and mass transit would be about one-third higher in 2002 under the House version of the highway bill than the Balanced Budget Agreement assumed.²

¹ The documents setting forth last year's Balanced Budget Agreement, released May 15, 1997, included agreed-upon levels for various categories of discretionary spending through 2002. Among these were specific levels for defense and non-defense discretionary spending; these levels kept the relative shares of discretionary spending going for defense and non-defense programs essentially stable. However, for fiscal years 2000 through 2002, these specific defense and non-defense levels were not set into law. For those years, only the overall ceiling on all discretionary spending is written into law.

² The documents setting forth the terms of the Balanced Budget Agreement include assumptions for discretionary spending levels for transportation (Function 400 of the budget) for each fiscal year through 2002. These figures were not written into law. This paper estimates the highway and mass transit share of overall transportation spending that is reflected in the budget agreement by assuming a five-year freeze on spending for transportation expenditures other than highways and mass transit, with the increase above a freeze level in overall transportation spending assumed to go for highways and mass transit. If we had assumed instead that all transportation programs were expected under the budget agreement to grow at the same rate, the levels used in this analysis for the spending levels the budget agreement assumed for

203/6 specialty
Fig. 1-12

5-11-98

CENTER ON BUDGET AND POLICY PRIORITIES

Revised May 4, 1998

HIGHWAY BILL LIKELY TO CUT INTO FUNDING FOR OTHER NON-DEFENSE DISCRETIONARY PROGRAMS

by Sam Elkin and Robert Greenstein

Summary

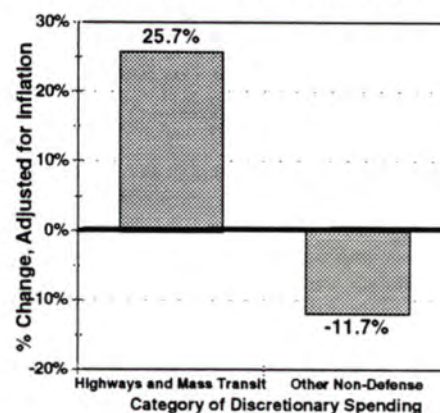
The highway bill now in a conference committee between the Senate and House threatens to precipitate large reductions in the next several years in the non-defense discretionary part of the federal budget. Programs in areas ranging from education and child care to environmental, agricultural, rural, veterans, and foreign aid programs, as well as scientific research, are likely to be affected adversely.

The versions of the highway bill that both the House and Senate have passed would sharply increase highway spending to levels well in excess of what was agreed to during last year's budget negotiations between Congress and the President. Due to the binding caps the budget agreement placed on expenditures for discretionary (i.e., non-entitlement) programs, increased highway spending must automatically lead to reductions in other discretionary programs unless the increased highway spending is offset in some other manner.

That the highway bill will have this effect on other discretionary programs is not well understood. There is a widespread — but wholly mistaken — view that the increased highway spending is being financed out of the highway trust fund in a way that does not affect funding for other programs. The highway trust fund, however, is essentially a bookkeeping mechanism. Its existence does not alter the fact that discretionary spending on highways is counted under the discretionary spending caps — and an increase in highway spending consequently requires reductions in other discretionary programs so that overall discretionary spending remains within the cap.

The budgetary realities related to these matters are as follows:

**Change in Discretionary Spending Under the
House Highway Bill Between 1998 and 2002**



- The crunch that will face non-defense discretionary programs over the next several years may be even sharper than these figures indicate. The budget agreement places separate caps on defense and non-defense discretionary spending in fiscal years 1998 and 1999; starting in fiscal year 2000, however, these separate caps disappear and are replaced by one overall cap on total discretionary spending. Many budget and Congressional observers expect Congress to increase spending levels for defense after 1999, causing still-deeper cuts in non-defense discretionary programs. Reductions in non-defense discretionary programs made as a result of increased highway spending thus would be in addition to both the reductions precipitated by the budget agreement and any additional reductions caused by increases in defense spending.
- Furthermore, the highway bill's sponsors seek to *guarantee* that no matter how severe the crunch becomes on other areas of non-defense discretionary spending in coming years, highway programs will get every penny of the increased funding the highway bill calls for, and other programs will be reduced correspondingly. Rep. Bud Shuster, chairman of the House Transportation Committee and principal author of the House highway bill, is apparently seeking in conference to place a "firewall" around highway and mass transit spending. This would insure that even if the increases in highway spending are perceived in coming years to be overly generous when compared to the painful reductions being meted out to other discretionary programs, no reallocation of funds from highways to other areas is permitted. This Shuster proposal would prevent Congress from making budget priorities decisions on a level playing field, locking in the spending increases in the highway bill through at least 2002.
- In theory, the conference committee on the highway bill could adopt the approach set forth in the Senate budget resolution, which attempts to pay for highway spending increases through reductions in entitlements and other mandatory programs, rather than through deeper cuts in discretionary programs. But the approach reflected in the Senate budget resolution is, at best, likely to offset only a modest share of the increased highway spending. That would still leave reductions in discretionary programs bearing most of the load of paying for the highway bill.

highways and mass transit would have been lower, and the amount by which the highway bill would increase highway spending above the budget agreement levels would have been larger than the figures cited here.

CBO Affirms that the Highway Trust Fund Will Not "Pay" for Increased Highway Spending

On April 28, 1998, June O'Neill, director of CBO, wrote to Senator Pete Domenici, Chairman of the Senate Budget Committee, in response to several questions the Senator posed regarding the highway bills. In its letter, CBO dispels the myth that the increases proposed in the Senate and House highway bills would be offset by gas tax receipts earmarked for the Highway Trust Fund or by cash balances in that trust fund. The CBO letter states that discretionary spending on highways falls under the discretionary caps and an increase in such spending necessitates corresponding reductions in other discretionary programs. Excerpts from the CBO letter follow.

1. Why are gas tax receipts not an offset to ISTEA spending?

"Most of the ISTEA outlays are discretionary — subject to annual obligation limitations in appropriation acts — and thus fall under the discretionary caps. The excise taxes, in contrast, are subject to the pay-as-you-go mechanism; changes in such taxes can only be offset, for pay-as-you-go purposes, by changes in other revenues or in direct [i.e., mandatory] spending that were enacted in authorizing bills."

"Both S. 1173 and HR. 2400 [the Senate and House highway bills] would only have modest effects on revenues over the next five years but would substantially increase spending for surface transportation programs (assuming appropriation action consistent with the bills). Thus, even if the separate budgetary categories did not exist, the small changes in revenues resulting from S. 1173 or HR. 2400 would not offset the additional spending."

2. Why is the current Highway Trust Fund cash balance not an offset to ISTEA spending?

"... the cash balance in the trust fund reflects tax revenues that the government has already received and has counted in calculating the budget deficit or surplus. Counting the balance as an offset to spending [such as the spending in the highway bill] would have the effect of counting revenues twice."

3. Why is reducing or eliminating the current cash balance in the Highway Trust Fund not an offset to ISTEA spending?

"The cash balance of the Highway Trust Fund plays no part in calculating the deficit or surplus because it is neither a receipt nor an expenditure. It is simply a summary of previous budgetary transactions — the prior deposits into the fund less the prior spending out of the fund. Eliminating or reducing the cash balance without changing federal spending or revenues...would have no effect on the surplus or deficit."

This is true for several reasons. First, the Senate budget resolution does not appear to contain enough mandatory spending reductions to pay for the full cost of the highway bill. Second, the Senate budget resolution assumes the appropriations committees will make significant cuts in *mandatory* programs over which they normally lack jurisdiction to produce savings sufficient to offset the additional highway spending. That, however, is likely to prove difficult politically for the appropriations committees. Nothing in the budget resolution would obligate them to make these reductions in mandatory programs, and some of the cuts are highly controversial. For example, more than half of the mandatory programs savings the Senate budget resolution assumes the appropriations committees will make to pay for the added highway spending would come from a contentious proposal to deny veterans' disability compensation benefits to veterans who smoked while in the armed forces and later developed smoking-related disabilities. Although this proposal also is in the Administration's budget, numerous Members of both parties oppose it, and the House has gone on record against it. If this proposal is not enacted, half of the mandatory savings that the Senate budget resolution assumes will be used to pay for highway spending increases will evaporate. Under the Senate budget resolution approach, any savings that are assumed to come from mandatory programs reductions but are not enacted must be made up by cuts in discretionary programs instead.

The approach reflected in the Senate budget resolution also would be likely to run into roadblocks in the House. The Senate budget resolution approach uses savings in mandatory programs to offset highway spending costs so that discretionary programs do not have to be reduced further. Conservative House Republicans apparently would prefer to use mandatory program reductions to pay for tax cuts and seem ready to make deeper reductions in non-defense discretionary programs. In fact, the draft House budget resolution that House Budget Committee chairman John Kasich has recently produced is widely reported to include further reductions in non-defense discretionary spending of \$100 billion to \$150 billion over five years, on top of the reductions in last year's budget agreement.

- One other point also may be noted about the Senate budget resolution approach. To the extent that some reductions in mandatory programs are used to pay for a modest portion of the increased highway expenditures, these savings become unavailable to pay for initiatives in the President's budget. Most of the mandatory program reductions that the Senate budget resolution assumes would help pay for the added highway spending are reductions the President's budget would use to finance

Administration initiatives. The combined effect of losing financing for Presidential initiatives and having to make deeper reductions in overall funding for non-defense discretionary programs (other than highways and mass transit) would likely mean that some discretionary program areas that the President's budget proposed to increase would instead find themselves subject to cuts in the years ahead.

Background on the Discretionary Caps

In negotiating the Balanced Budget Agreement, Congress and the President agreed to extend the strict spending limits on discretionary programs that have been in place since 1991. These limits, known as caps, were set in law through 2002.

Defense and non-defense discretionary programs operate under separate caps until the end of fiscal year 1999. After that, defense and non-defense discretionary programs are subject to a single cap. The discretionary part of the federal budget encompasses a wide range of government responsibilities, including the military, international programs, NASA, civilian energy, agricultural and biomedical research, environment, national parks, community and economic development, education, job training, Head Start, public health programs, housing, veterans hospitals, law enforcement, rural programs, general governmental operations, and highways, among others. Funding for these programs as a whole cannot exceed the amount of the caps without triggering automatic across-the-board cuts in discretionary programs.

The caps the Balanced Budget Agreement established are quite restrictive; under these caps, the total amount of inflation-adjusted spending available for discretionary programs shrinks over the next several years. Programs must be reduced or eliminated if overall spending is to fit within the caps. If Congress continues to abide by the defense spending levels assumed in last year's budget agreement (which assumed that the relative shares of discretionary spending that go to defense and non-defense programs would remain essentially stable), expenditures for non-defense discretionary programs (including highway spending) will by 2002 be 8.4 percent below the 1998 level, after adjusting for inflation.

The Highway Bill Takes Substantial Funding Away from Other Programs

The highway bill would deepen the cuts required in discretionary programs other than highway and mass transit programs, because it would increase highway and mass transit spending and leave less money for other discretionary programs under the discretionary spending caps. The highway bill the House has passed would raise highway and mass transit spending to a level 25.7 percent higher in 2002 than its 1998 level, after adjusting for inflation. As explained below, the House version of the highway bill also would wall off highway and mass transit spending from other

The Effect of the Highway Bill on Discretionary Spending
Discretionary spending, in billions of FY 1998 dollars

	<u>1998</u>	<u>Fiscal year</u>				<u>Percent change, 1998 to 2002</u>
		<u>1999</u>	<u>2000</u>	<u>2001</u>	<u>2002</u>	
Discretionary spending levels agreed to in the Balanced Budget Agreement of 1997						
Highways and Mass Transit*	\$25.2	\$25.3	\$25.1	\$24.6	\$24.1	-4.6%
Other non-defense programs	\$261.2	\$261.3	\$257.5	\$249.9	\$238.4	-8.7%
Defense	\$266.8	\$260.9	\$257.5	\$253.0	\$249.2	-6.6%
Total	\$553.3	\$547.5	\$540.2	\$527.5	\$511.7	-7.5%
Discretionary spending levels under House version of the highway bill.						
Highways and Mass Transit*	\$25.2	\$27.2	\$29.7	\$31.6	\$31.7	+25.7%
Other non-defense programs	\$261.2	\$259.4	\$252.9	\$243.0	\$230.8	-11.7%
Defense	\$266.8	\$260.9	\$257.5	\$253.0	\$249.2	-6.6%
Total	\$553.3	\$547.5	\$540.2	\$527.5	\$511.7	-7.5%

* Highways and other discretionary programs covered by The House highway bill (H.R. 2400)

Notes:

CBPP calculations based on CBO estimates of H.R. 2400 and the Bipartisan Budget Agreement (May 15, 1997)

Assumes all nominal increases in Transportation spending under the Budget Agreement go to highways and mass transit. (See footnote 2.)

discretionary spending, thereby guaranteeing that deeper cuts must be made in other discretionary programs.

Each extra dollar in discretionary spending the bill gives to highways and mass transit must be taken from other discretionary programs, unless the extra spending is offset by cuts in mandatory programs. Since defense spending is unlikely to be reduced below the levels assumed in the balanced budget agreement (and may be raised to levels higher than that), increases in discretionary spending for highways and mass transit programs will, in all probability, need to be paid for through deeper cuts in other non-defense discretionary programs.

As the table above shows, if the House version of the highway bill is enacted, total spending on all non-defense discretionary programs other than highways and mass transit will have to be cut a cumulative total of \$58.8 billion between 1998 and 2002. In 2002 alone, spending on these programs will have to be \$30.4 billion — or 11.7 percent — below the 1998 level, after adjustment for inflation.

The House bill also would ensure that Congress could not lessen the magnitude of the reductions in non-defense programs in future years by paring back the highway

and mass transit spending increases. The House bill would take highway and mass transit spending "off budget" and result in lower caps being applied to other discretionary spending.³ Rep. Bud Shuster, chairman of the House Transportation Committee, has suggested an alternative approach for conference, but the alternative approach would have essentially the same effect. It would place highway and mass transit spending under a separate cap and lower the cap for other discretionary spending accordingly.

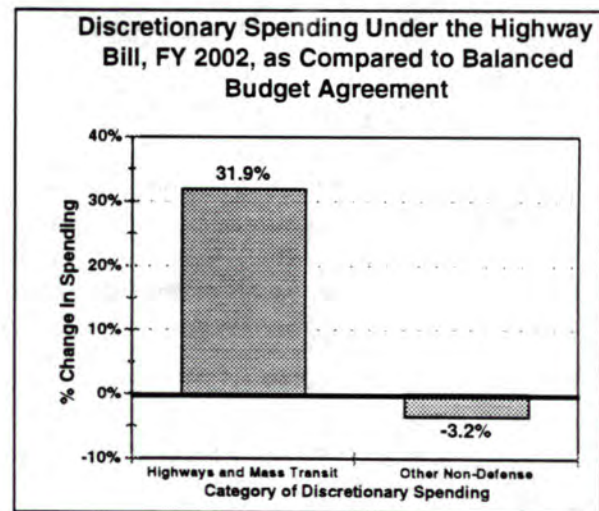
In either case, the impact on other discretionary programs would essentially be the same — these programs would be reduced by the amount the highway bill increases discretionary spending for highway and mass transit programs. Other discretionary programs would have to be cut dollar for dollar by the amount the legislation boosts discretionary spending on highways and mass transit.

The Balanced Budget Agreement itself accorded somewhat more favorable treatment to transportation programs than most other programs, largely due to Chairman Shuster's efforts last year. (See table on page 7.) The pending highway legislation goes much further. In the year 2002 alone, discretionary spending on highways and mass transit under the House highway bill would be \$7.7 billion, or 31.9 percent, above the level the budget agreement envisioned. Other non-defense discretionary spending would have to be cut \$7.7 billion below the level the budget agreement assumed for 2002.

Defense Spending Increases May Further Erode Funding for Non-Defense Discretionary Programs

The estimates cited above assume that defense and non-defense programs will retain approximately the same shares of total discretionary spending over the next five years. Beginning in 2000, however, the budgetary mechanism that prevents Congress from cutting non-defense programs more deeply to increase funding for the military (and vice versa) will disappear.

Defense spending has been reduced over the course of recent



³ Under the Budget Enforcement Act, if a program is taken "off-budget," there is a corresponding reduction in the discretionary caps.

years, and proponents of a larger military clearly intend to push for increases in defense spending at the expense of non-defense programs as soon as the opportunity arises. (Some, including Representative Floyd Spence, chairman of the House National Security Committee, are even urging Congress to reopen the budget agreement now to increase defense spending. Spence recently declared: "How are the military services supposed to stabilize their downsized post-Cold War force structure, protect quality of life and readiness, and end the decade-long procurement 'holiday' when they lose purchasing power every year?"⁴) Many budget observers, including the authors of this paper, believe it is likely Congress will raise defense spending over the next few years to levels exceeding those assumed in the budget agreement. Doing so would mean that reductions in non-defense discretionary programs would be larger than the figures cited here.

Military spending thus is likely to grow at the same time that highway spending would increase. If defense spending is raised to higher levels than those the budget agreement assumed and the House highway becomes law, non-defense discretionary programs will need to be cut more than 11.7 percent by 2002.

Furthermore, some non-defense programs Congress favors may receive special treatment. If such programs receive additional funding, or if they simply receive enough to keep up with inflation and are not reduced, that will further shrink the funds available to other non-defense discretionary programs.

Despite the likelihood of reductions in discretionary programs, some in the House are proposing still deeper cuts in the overall amount available for non-defense discretionary programs. According to news reports, the budget resolution that House Budget Committee chairman John Kasich has written and is discussing with other House Republicans would lower the discretionary caps and cut non-defense discretionary funding by an additional \$100 billion or more over the next five years, on top of the reductions in last year's budget agreement.

The Senate Budget Resolution and Increased Highway Spending

Both the Senate and House versions of the highway bill increase highway spending substantially over the levels reflected in the budget agreement. Neither version of the highway bill pays for these increases by making offsetting cuts in other programs.

Some in the Senate have said the Senate version of the budget resolution would pay for increased highway spending without requiring additional reductions in other discretionary programs. The Senate budget resolution envisions that Congress would

⁴ "Rep. Kasich Stirs up a Low-Calorie Budget", *Washington Post*, April 26, 1998.

accommodate the increased highway spending by writing offsetting cuts in entitlements and other mandatory (i.e., non-discretionary) programs into this year's appropriations bills.

There is strong reason to believe, however, that only a modest portion — if any — of these mandatory savings will actually materialize as offsets to the increased highway expenditures. The budget resolution is not a piece of legislation; it cannot make these cuts itself. The appropriation committees would have to do that. But some of the assumed mandatory cuts are highly controversial and will be politically difficult to achieve. It is far from clear that appropriators will be willing — or more important, will be able — to make some or all of these cuts. In addition, the process of using cuts in mandatory programs to offset increased discretionary spending might not be acceptable to the House, where a number of conservative Members would prefer to use savings from reductions in mandatory programs for larger tax cuts and appear ready to exact further reductions in non-defense discretionary programs.

A budget resolution is only a framework for the development of legislation and generally can enforce reductions in mandatory programs only through "reconciliation instructions." This year's Senate budget resolution contains no reconciliation instructions. Even if the Senate budget resolution approach for financing highway spending increases is ultimately written into the final budget resolution that both the Senate and House adopt, there likely will be no enforcement mechanism to require that the proposed reductions in mandatory programs actually be made.

Moreover, the Senate budget resolution does not actually contain these mandatory program reductions. The Senate Budget Committee report accompanying the budget resolution simply lists reductions in mandatory programs that it assumes the appropriations committees will make during the appropriations process.

Some of the mandatory savings listed in the Senate Budget Committee report will be difficult to secure. More than half of the mandatory savings the Senate budget resolution assumes will be used to pay for increased highway spending — \$10.5 billion out of \$18.5 billion — comes from a proposal to deny veterans disability compensation to veterans with smoking-related disabilities. Although this proposal appears to have merit and also is included in the President's budget, it seems unlikely to pass.

The upshot is that there appears to be little chance that the highway spending increases will be largely or fully offset by reductions in mandatory programs. To the extent that increases in discretionary transportation spending are not offset by reductions in mandatory programs, other discretionary programs must be cut.

Presidential Priorities Endangered

A final point is that if some of the mandatory savings listed in the Senate Budget Committee report *are* used to offset a portion of the increase in highway spending, that will have other consequences. Virtually all of the mandatory savings measures the Senate Budget Committee envisions using to pay for added highway spending are proposals included in the President's budget to pay for Administration initiatives. To the extent these savings are used to pay for highway spending increases instead, various initiatives will be left without a financing mechanism.

The impact of the highway bill both on discretionary programs in general and on the Clinton initiatives in particular does not appear to be well understood. Supporters of some discretionary programs that the President's budget would increase may assume the question is what portion of the proposed increase these programs will receive. But in many cases, it appears such programs may more likely to be reduced over the next five years than expanded.

The President's budget substantially increased the discretionary caps; it used a combination of anticipated tobacco legislation revenue, revenue from closing certain tax breaks, and mandatory program savings to pay for the increase in the caps. The Congressional majority is rejecting that approach and, as noted, it may seek to reduce the caps. (In addition, the Congressional Budget Office has estimated the President's budget falls \$32.3 billion short over five years of fully offsetting the cost of its initiatives.)

The bottom line is that if highway spending is increased without raising the discretionary caps, other discretionary programs must be cut. There is no way around that budgetary arithmetic. The question increasingly appears to be how large the additional cuts in discretionary programs will be.

Conclusion

Since highway spending falls under the discretionary caps, increases in it must come at the price of reductions in other discretionary programs, unless mandatory offsets are found. Neither the House nor the Senate highway bills include mandatory offsets. The Senate budget resolution assumes mandatory offsets but cannot make these reductions itself. And it is likely the appropriations committees will not be able to make many of the mandatory program reductions the Senate budget resolution assumes.

Non-defense discretionary programs consequently are likely to bear the brunt of most of the increased spending in the highway bill. Furthermore, the emerging question regarding many of the initiatives in the Clinton budget is not what portion of the initiative will be salvaged but how much more deeply discretionary programs overall — including some of the discretionary programs the Administration has proposed to expand — may be sliced over the next five years.

5-11-98

Phil -

Who should we send to?

To Anne
McGuire to
send to HHS
for appropriate
handling.

Staff
Sec of.

WHITE RIVER RURAL HEALTH CENTER, INC.
A BAPTIST HEALTH AFFILIATE



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Phone: 347-2508

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Phone: 724-6207

Carlisle Medical Clinic
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Cotton Plant Medical Clinic
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Des Arc Health Center
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Phone: 255-3696

McCrory Health Center
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McCrory, Arkansas 72101
Phone: 731-5411

Swifton Medical Clinic
300 East Main Street
P.O. Box 553
Swifton, AR 72471
Phone: 485-2234

White River Medical Services Clinic
609 Marion Street
Searcy, Arkansas 72143
Phone: 268-0680

February 26, 1998

ACF-2
Administration for Children and Families
1301 Young Street, Room 937
Dallas, Texas 75202

ATTN: Janice A. Pruitt, Grants Officer

RE: Woodruff County Head Start
Woodruff County, Arkansas Replacement

Dear Ms. Pruitt:

I am enclosing one (1) original and five (5) copies of the above in accordance with the request for application dated December 12, 1997

If you need further information, please feel free to contact me.

Sincerely,

Ray M. Cockrill
Ray M. Cockrill
Executive Director

RMC:jm
Enclosures (6 grant applications)



Member
Community Health Centers
of Arkansas

This Center is in Compliance With Title VI Of Civil Rights Act And Does Not Discriminate On The Basis Of Race, Age, Sex, Color, Or National Origin

02/25/98 16:04

TX/RX NO.7089

P.003

WHITE RIVER RURAL HEALTH CENTER, INC.
A BAPTIST HEALTH AFFILIATE



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Phone: 268-4680

February 26, 1998

ACF-2

Administration for Children and Families
1301 Young Street, Room 937
Dallas, Texas 75202

ATTN: Janice A. Pruitt, Grants Officer

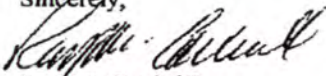
RE: St. Francis County Head Start
St. Francis, County Arkansas Replacement

Dear Ms. Pruitt:

I am enclosing one (1) original and five (5) copies of the above in accordance with the request for application dated December 12, 1997

If you need further information, please feel free to contact me.

Sincerely,


Ray M. Cockrill
Executive Director

RMC:jm
Enclosures (6 grant applications)



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Searcy, Arkansas 72143
Phone: 268-0680

February 26, 1998

ACF-2
Administration for Children and Families
1301 Young Street, Room 937
Dallas, Texas 75202

ATTN: Janice A. Pruitt, Grants Officer

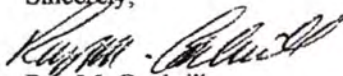
RE: Lee County Head Start
Lee County, Arkansas Replacement

Dear Ms. Pruitt:

I am enclosing one (1) original and five (5) copies of the above in accordance with the request for application dated December 12, 1997

If you need further information, please feel free to contact me.

Sincerely,


Ray M. Cockrill
Executive Director

RMC:jm
Enclosures (6 grant applications)



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Phone: 268-0680



Member
Community Health Centers
of Arkansas

February 26, 1998

ACF-2

Administration for Children and Families
1301 Young Street, Room 937
Dallas, Texas 75202

ATTN: Janice A. Pruitt, Grants Officer

RE: Cross County Head Start
Cross County, Arkansas Replacement

Dear Ms. Pruitt:

I am enclosing one (1) original and five (5) copies of the above in accordance with the request for application dated December 12, 1997

If you need further information, please feel free to contact me.

Sincerely,

Ray M. Cockrill
Executive Director

RMC:jm

Enclosures (6 grant applications)

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A BAPTIST HEALTH AFFILIATE



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February 26, 1998

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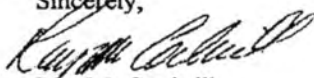
RE: Crittenden County Head Start
Crittenden County, Arkansas Replacement

Dear Ms. Pruitt:

I am enclosing one (1) original and five (5) copies of the above in accordance with the request for application dated December 12, 1997

If you need further information, please feel free to contact me.

Sincerely,


Ray M. Cockrill
Executive Director

RMC:jm
Enclosures (6 grant applications)



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5-11-98

NAE
NATIONAL
ASSOCIATION of
EVANGELICALS

National Office
450 Gundersen Drive
Carol Stream, IL 60188
Phone: 630-665-0500
Fax: 630-665-8575
E-mail: NAE@nae.net
Web Site: www.nae.net

Don Argue, Ed.D.
President

Sam
OK

*copied
Berger
COS
Street*

May 5, 1998

The Honorable William J. Clinton
President of the United States
The White House
Washington, DC 20500.2000

Dear Mr. President:

Warmest greetings!

I trust that in advance of your trip to Beijing next month, it will be possible to have a debriefing session with you regarding the results of my trip to China. I know Rabbi Schneier and Archbishop McCarrick will be pleased to share their impressions with you.

Our mutual friend, Doug Coe, of The Fellowship suggested that I invite President Jiang Zemin to the Prayer Breakfast which is scheduled for February 4, 1999. I have written to President Jiang and extended the invitation. A copy of that letter is enclosed for your review. An invitation to the Prayer Breakfast from you to President Jiang Zemin would be most appropriate.

Thanks again for all that you are doing for our Country. I pray for you every day.

Blessings!

Your friend,



Don Argue
President

DA/kf
enclosure

National Office
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Phone: 630-665-0500
Fax: 630-665-8575
E-mail: NAE@nae.net
Web Site: www.nae.net

Don Argue, Ed.D.
President

May 5, 1998

His Excellency Jiang Zemin
President
State Council
100701 Beijing
People's Republic of CHINA

Dear President Jiang:

Warmest greetings!

Thank you for the most gracious way that you received me, along with Rabbi Arthur Schneier and Archbishop Theodore McCarrick, on our special mission to China some weeks ago. President Clinton had requested that we make the trip, and we were honored to have been selected.

We feel that the trip was a success, and relationships have been established in China that are the start of significant developments.

I would like to extend an invitation for you to attend the President's Prayer Breakfast which will be held in Washington, DC, February 4, 1999. For over 50 years, the President of the United States has attended the Prayer Breakfast and is one of two featured speakers. Heads of State from around the world have been guests at the Prayer Breakfast, and it would be a great statement for China if you could join President Clinton at the head table. I will speak with President Clinton about this invitation, and if you have questions, I know that he would be pleased to discuss the Prayer Breakfast with you during the upcoming summit in Beijing next month.

Thanks again for the privilege of spending time with you during our recent visit to Beijing.

Sincerely,



Don Argue
President

DA/kf

NATIONAL ASSOCIATION of EVANGELICALS

450 Gundersen Drive
Carol Stream, IL 60188
Phone: 630.665.0500
Fax: 630.665.8575
e mail: NAE@nae.net

'98 MAY 7 PM3:57

MEMORANDUM

May 5, 1998

TO: Betty Currie
FROM: Don Argue
RE: The Enclosed Letter

Betty, would you please see that the President receives the enclosed letter? I appreciate your help with this.

Blessings!

May 8, 1998

5-11-98

copied
Smith
COS
page 6
VP
COS

MEMORANDUM FOR THE PRESIDENT AND THE VICE PRESIDENT

FROM: Craig T. Smith

SUBJECT: Weekly Political Update

ALABAMA

A Southern Opinion Research poll conducted April 27-30 tested the following gubernatorial candidates: Gov. Fob James (R), former Governor Guy Hunt (R), businessman William Blount (R), businessman Mac McAllister (R), former state Finance Director Phil Williams (R), Lt. Governor Don Siegelman (D) and attorney Lenora Pate (D). The primary is June 2. Blount (R) has surged 16 points in the last month, which is likely a result of his 2-week TV ad blitz. James (R) and Hunt (R) are splitting the Christian right vote. A Republican primary runoff is expected. Siegelman maintains a healthy lead in the Democratic primary.

Republican Primary	<u>Now</u>	<u>4/98</u>	Democrat Primary	<u>Now</u>	<u>4/98</u>
James	39%	45%	Siegelman	68%	71%
Blount	30%	14%	Pate	17%	17%
Hunt	14%	20%	Undecided	15%	
McAllister	9%				
Williams	2%				
Undecided	7%				

ARIZONA

Rep. Matt Salmon (R-01) announced on Monday that he would not challenge Governor Jane Hull (R) for her seat this year, and would instead seek a third term to Congress. Salmon, who has repeatedly criticized Hull for her lack of conservative credentials, stated that the timing of a primary challenge this year was not good and that he is setting his sights on 2002.

CALIFORNIA

Negative campaigning continues to dominate the Democratic primary race for governor. State Democratic Party Chairman Art Torres urged the candidates this week to end the negative campaign ads or risk destroying the party's chance of winning in November. The State Party was forced to cancel a proposed debate in San Francisco because of a dispute over former Northwest Airlines Chair Al Checchi's (D) insistence that Attorney General Dan Lungren (R) be included in the debate. Checchi, who is behind Lieutenant Governor Gray Davis (D) in the latest polls, is hoping to win the primary by capturing Republican cross-over votes under California's new open primary system. Checchi's internal polls show that he is having trouble gaining Republican votes, however, with Lungren (R), who faces no Republican primary challenge, campaigning hard to secure votes for November. Checchi also may face further problems due to his former ties to Northwest Airlines. Northwest currently is engaged in heated negotiations with its ground workers and pilots unions. If the negotiations fail, a pre-primary strike could hurt Checchi, who has cited his record of cooperative labor relations at Northwest in an effort to gain union support. Checchi received a needed boost this week when Rep. Maxine Waters (D-35) endorsed his campaign.

Meanwhile, Rep. Jane Harman (D-36) continues to struggle due to questions over her 1989 hiring

of a British nanny, who had neither a green card nor work authorization. Republican National Committee Chair Jim Nicholson raised more questions about Harman's previous hiring of a nanny from Ghana, who also lacked a green card. Despite the latest attacks, Harman continues to have an advantage over her Democratic rivals in gaining support from the California congressional delegation. She has been endorsed by 14 of the delegation's 28 Democrats, while Lt. Governor Gray Davis (D) has been endorsed by four members and Al Checchi (D) by three. Harman also is hoping to capitalize on her strong abortion rights record as a tool to attract more women voters.

Senator Barbara Boxer (D) leads both her Republican opponents in the latest Field Poll conducted April 20-28. Political writers suggest, however, that Boxer may be vulnerable, noting that her support never rises above 50%.

Open Primary

Sen. Barbara Boxer (D)	43%
Darrell Issa (R)	18%
Matt Fong (R)	14%

General Election Match-Ups

Boxer (D)	48%	Boxer (D)	47%
Issa (R)	39%	Fong (R)	41%

The Field Poll mentioned above shows support declining for Proposition 226, an initiative that would require unions to obtain permission from individual members before withholding dues for political contributions.

Proposition 226:

	<u>NOW</u>	<u>3/98</u>	<u>2/93</u>
For	55%	60%	71%
Against	34%	29%	22%

The drop in support likely is due to a grassroots effort and recent campaign ads from the "No on Prop. 226" campaign. Some nonprofit organizations, including the United Way, also have begun to caution voters about Proposition 226. They fear that the language in the measure is too broadly worded and could apply to all payroll deductions, including those for charity, health insurance, and pension plans.

The California state legislature approved an alternative to Proposition 227, the initiative that would virtually eliminate bilingual education programs. The measure approved this week would allow individual school districts to determine how best to teach children who speak little English. Governor Wilson has not decided whether he will sign the bill. His thirty-day deadline to decide will fall after the June 2 election.

FLORIDA

Florida Democratic Party Chair Terrie Brady resigned on May 5 in the face of racial division within the party and a commanding Republican lead in campaign fundraising. Entering the 1998 election season, the Republican Party has raised \$5 million and the Democratic Party has raised \$1.5 million. Brady had been blamed by some for statewide Democratic registration dropping below 50%, losing Democratic control of both chambers in the state Legislature, five legislators switching parties, and failing to blunt the racial schism after state Rep. Willie Logan's (D) ouster as the first African American Speaker Designate.

Two white Democrats are considering running in the June election to succeed Brady -- Broward

County Democratic Party Chair Mitch Ceasar and State Party Vice-Chair Jon Ausman. Every statewide elected Democrat signed a letter backing Ceasar, making him the clear frontrunner for the position. That support prompted state Rep. Logan to accuse white Democrats of circling the wagons and choosing a chair without consulting the African American community.

Internal Revenue Service documents filed by gubernatorial candidate Jeb Bush's (R) *Foundation for Florida's Future* showed the majority of its funds came from large donors, rather than the grass-roots support Bush claimed. Of \$999,579 received in contributions, \$707,420 came in amounts of \$5,000 or more. Bush also was criticized for raising \$372,000 for his campaign and \$450,000 for the Florida Republican Party from Texas oil interests.

GEORGIA

The May 1 candidate filing deadline produced no serious Democratic challengers to Republican congressional incumbents. Rep. Sanford Bishop (D) and Rep. Cynthia McKinney (D) have drawn serious Republican opponents, but they are still favored to win reelection.

The *Atlanta Constitution* reported that Georgia leads the nation with 21 African American candidates running as Republicans (three times as many candidates as in 1996), and cited that the Republican Party's effort to reach out to minority candidates is paying off. This number, however, is still a very small percentage of Republican candidates running statewide.

ILLINOIS

State Senator Peter Fitzgerald received an endorsement from 1996 presidential candidate Bob Dole (R), who had served as the national campaign chair for Fitzgerald's primary opponent, Loleta Didrickson (R). Dole, who had previously referred to Fitzgerald as extreme, is now fully supporting Fitzgerald in an effort to unseat Moseley-Braun. Fitzgerald began attacks on Moseley-Braun this week that focused on allegations that her 1992 campaign manager and former fiancé, Kgosie Matthews, a South African citizen, did not have proper immigration documents to legally work in the U.S. in 1992.

INDIANA

On Tuesday, moderate Ft. Wayne Mayor Paul Helmke (R) narrowly defeated two conservative attorneys, John Price and Peter Rusthoven, to win the Republican Senate nomination. Helmke, who attended law school with the President and First Lady and now serves as President of the U.S. Conference of Mayors, caused discomfort among Indiana Republicans Thursday by introducing the President at a White House event. Helmke now faces former Governor Evan Bayh (D), who is widely believed to be unbeatable. The results of Mason- Dixon/PRM poll conducted April 27-29 shows:

General Election Matchup			Fav/Unfav	ID
Bayh	54%	Bayh	62%/17%	100%
Helmke	24%	Helmke	26%/6%	57%

In the Tenth congressional district, which is represented by Julia Carson (D), moderate former state Senator Virginia Blankenbaker, who narrowly lost to Carson in '96, was defeated by conservative jeweler Gary Hofmeister, who ran on the slogan of "Faith, Family, Freedom." Carson should have an easier time against Hofmeister in this moderate, urban district.

Handwritten signature: Jeff Miller

5-11-98

1990 Democratic Senate nominee Baron Hill (D) and Evansville City Councillor Gail Riecken (D) easily won their primaries in the 8th and 9th congressional districts with over 70% support. Hill is poised to succeed Rep. Lee Hamilton (D), and Reicken's campaigning and fundraising prowess has made her very competitive against Rep. John Hostettler (R), who is in his second term. All other Indiana congressional incumbents are considered safe bets for reelection.

KANSAS

State Republican Party Chairman David Miller (R) announced plans to challenge Governor Bill Graves (R) for the Republican nomination for governor. While Graves remains popular in the state, Miller has criticized Graves for his moderate stances on social issues. Miller's candidacy prompted state Senate President Dick Bond (R) to comment: "If Kansas wants extremism, we now have that opportunity." To date no Democrat has joined the race, though party leaders have been urging state Senator Janis Lee (D) to run. The filing deadline for candidates is June 10.

MARYLAND

1994 Republican gubernatorial nominee Ellen Sauerbrey (R) completed a week-long visit to Israel on May 4. The visit is part of Sauerbrey's strategy to win the support of the Jewish community. Governor Parris Glendening (D) won 80% of the state's Jewish vote in 1994. Jewish leaders scoffed at the notion that the anti-choice, pro-gun Sauerbrey can take Jewish votes away from the Democratic nominee.

NEW HAMPSHIRE

On May 7, House Speaker Newt Gingrich (R) addressed the New Hampshire House of Representatives. The speech was slated to be a bipartisan speech about federal issues and their potential impacts on the states. Instead, he gave a partisan speech against the President and the administration. 17 of the 147 Democratic members of the House, led by state Rep. Ray Buckley (D), left their seats during the speech. House Democratic Leader Peter Burling (D) issued a response to Gingrich's address: "Speaker Gingrich has placed his presidential ambition ahead of the interests of the New Hampshire House, its leadership, and the people of our state. I'm sure he is pleased with himself for his morning's work."

NEW MEXICO

An *Albuquerque Journal* poll conducted April 27-30 surveyed voters for their preferences for the June 2 primaries. In the race against Governor Gary Johnson (R), former Albuquerque Mayor Martin Chavez (D) leads his main rivals, state Rep. Gary King (D) and former Governor Jerry Apodaca (D). The poll also showed Attorney General Tom Udall (D) slightly ahead of state Corporation Commissioner Eric Serna (D) in the race against Rep. Bill Redmond (R-03).

Democratic primary (Governor)

Chavez	39%
King	15%
Apodaca	10%
Undecided	28%

Democratic Primary (CD-3)

Udall	24%
Serna	22%
Undecided	35%

NORTH CAROLINA

On May 5, wealthy Raleigh trial attorney John Edwards (D) won 51% of the vote in a 7-way Democratic Senate primary. Edwards spent \$3.2 million on a TV ad blitz funded mostly from his own pocket. Edwards will face Senator Lauch Faircloth (R) in November. A Mason-Dixon poll

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conducted March 27-30 found that a Faircloth-Edwards general election matchup was 43%-32%, with 25% undecided. Faircloth's favorable/unfavorable rating was 42%/17%. Before the primary, Senator Faircloth (R) began attacking Edwards in TV ads criticizing him for prosecuting medical malpractice suits that drive up health-care costs. Edwards countered with an ad portraying Faircloth as a friend of big insurance companies.

OHIO

Cuyahoga County prosecutor Stephanie Tubbs Jones (D) won 51% in the five-way Democratic primary and is expected to succeed Rep. Louis Stokes (D).

In Ohio's sixth congressional district, which is represented by Ted Strickland (D), moderate Lt. Governor Nancy Hollister defeated two conservatives, former Rep. Frank Cremeans and Michael Azinger, to win the Republican nomination. Strickland, who lost his seat in '94 and came back to win in it in '96, is in for another tough battle.

Cincinnati Mayor Roxanne Qualls easily won the Democratic primary in the first congressional district with 82% and promises to be a formidable opponent against Rep. Steve Chabot (R). All other Ohio congressional incumbents are likely to win reelection.

Issue Two, a proposal to increase the state sales tax by one cent in order to provide more money for schools, while at the same time distributing property tax relief, was defeated 80%-20% even though Governor George Voinovich campaigned hard for its approval. Voinovich's Democratic opponent, former Cuyahoga County Commissioner Mary Boyle, opposed Issue Two. Democrats also were heartened by the fact that Voinovich's little-known and severely under-funded opponent received 28% of the Republican primary vote.

A Buckeye State poll conducted April 12-23 shows that Bob Taft (R) leads Lee Fisher (D) 42% to 35% with 20% undecided in the governor's race. Governor George Voinovich (R) leads Mary Boyle (D), 52% to 29% with 3% going to other candidates and 16% undecided in the Senate race.

Former Ohio Auditor Thomas Ferguson (D) announced that he will not run as an Independent candidate for governor, relieving many Democrats who feared he would take votes away from Fisher.

SOUTH CAROLINA

Senator Fritz Hollings (D) launched a \$632,000 ad buy on May 4 touting his legislative efforts to fight breast cancer in women and protect children from TV violence. The buy will run through the June 9 primary. Hollings will face either Rep. Bob Inglis (R-04) or former Greenville County Republican Chair Stephen Brown (R) in November.

Governor David Beasley (R) formally launched his reelection campaign this week with a 5-city tour citing his 4-year accomplishments of child immunization, cutting taxes, and getting people off welfare. Former state House Minority Leader and Democratic gubernatorial nominee Jim Hodges (D) is taking some heat for accepting contributions from the video poker industry, since he supported anti-gambling bills for 10 years while serving in the state House.

WASHINGTON

A poll released on Thursday shows that while Senator Patty Murray's (D) unfavorable rating is up

to 50%, compared to 34% in February, she continues to lead her rivals, Rep. Linda Smith and former King County prosecutor Christopher Bayley (R).

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Murray Favorability

Favorable 40%
Unfavorable 50%

Voter Preference

Murray (D) 36%
Smith (R) 16%
Bayley (R) 3%
Undecided 44%

FAR RIGHT

Focus on the Family president James Dobson is encouraged about his sensitive talks with Republican lawmakers in Washington this week. Dobson said, "So far, I have found them receptive to our concerns and willing to deal with the moral issues that we feel have gotten the short shrift in recent years. We will wait and see what the results of the discussions will be, but we are encouraged to this point."

WHITE HOUSE 2000

The DNC site selection committee eliminated Seattle and Charlotte from its final list of potential hosts for the 2000 convention. The finalists include Boston, Denver, Los Angeles, Miami, Minneapolis, New Orleans and Philadelphia.

Six of the nine finalists chosen by the RNC site selection committee are in states that the GOP lost in 1996: Chicago, Los Angeles, Minneapolis, New Orleans, New York, and Philadelphia. Congressional Republican sources note that two favorites, Chicago and New Orleans, are in swing states key to Republican victory in 2000.

Former Democratic National Committee Chair David Wilhelm is emerging as a top advisor to Jesse Jackson, who is contemplating a third presidential bid. Wilhelm's presence during Jackson's tour of the Appalachian region of Southeastern Ohio last week fueled speculation about a potential Jackson candidacy in 2000.

In preparation for the 2000 presidential campaign, the Republican National Committee is carefully monitoring the Year 2000 computer problem, which many economists predict may spark a recession. Republicans intend to remind voters that the Vice President, who popularized the term "Information Superhighway," had eight years to tackle to problem.

cc: The First Lady
Mrs. Gore
Erskine Bowles
Sylvia Mathews
John Podesta
Doug Sosnik
Maria Echaveste
Ann Lewis
Rahm Emanuel
Bruce Reed

cc: [Handwritten signature]

Mike McCurry
Larry Stein
Mickey Ibarra
Thurgood Marshall, Jr.
Paul Begala
Sidney Blumenthal
Susan Liss
Ron Klain
Maurice Daniel
Stacie Spector

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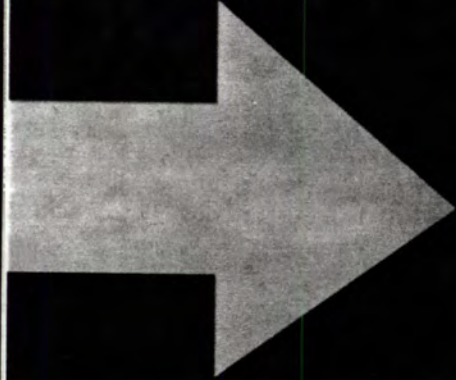


THE FUTURE OF MONEY

What the big
mergers mean

Will banks really
be merged?

Will Microsoft
control it all?





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Whether
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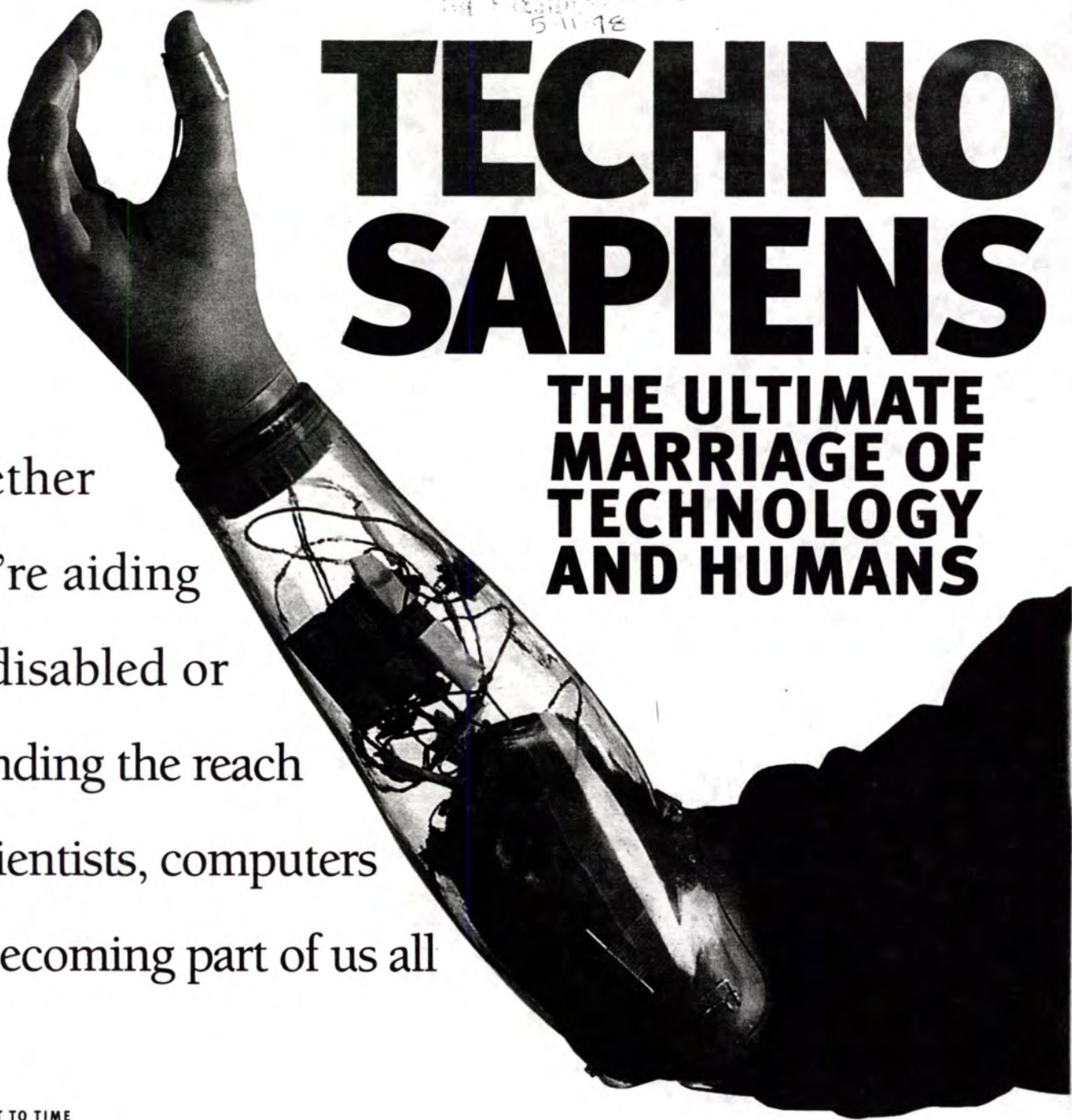
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THE ULTIMATE
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TECHNOLOGY
AND HUMANS

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