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Memorandum

To: The President

From: Nancy Hernreich
Kari Oudenhoven

Re: Fax from Amb. Shearer

Ambassador Derek Shearer faxed you an article entitled "Bilingual Education: The Controversy" from the May 1998 issue of Phi Delta Kappan magazine. It presents the history of bilingual education across America starting with the wave of immigration at the turn of the 19th century through today.

Immersion into English-only schools did not produce truly fluent immigrants who understand the academic material until the third or fourth generation. Immigrant children spoke their native language; members of the second generation were bilingual, but not sufficiently fluent in English to excel in school; members of the third generation were fluent in English and began to acquire college educations. The main arguments supporting bilingual education is that immigrants spend considerable time on studies in English, when they may only understand 1/4 of what is being taught due to the language barriers. Proponents of bilingual education suggest that students are most successful when they learn in their native language along with taking a specific class to learn English, then switch to complete English immersion after they can demonstrate English competency.

After WWI, 35 states switched to English-only public instruction, which was struck down by the Supreme Court shortly after passage. Supporters of English-only education state that, "attempts to preserve immigrants' native languages and cultures will not only balkanize the American melting pot but hurt the children upon whom bilingual education is imposed because their failure to learn English well will leave them unprepared for the workplace". Conversely, in the 1970's the Supreme Court found that schools without special provisions for educating language-minority children were not providing equal education. For every person who states that bilingual education is the most successful method for teaching immigrants, there will be someone who believes the optimal solution is total English immersion.

FROM THE DESK OF
AMBASSADOR DEREK N. SHEARER

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FACSIMILE TRANSMITTAL SHEET

TO: <i>Nancy H.</i>	FROM: Ambassador Shearer
COMPANY: <i>White House</i>	DATE: Friday <i>Monday</i>
FAX NUMBER: <i>202-456-6703</i>	TOTAL NO. OF PAGES INCLUDING COVER: <i>7</i>
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RE:	YOUR REFERENCE NUMBER:

☐ URGENT ☒ FOR REVIEW ☐ PLEASE COMMENT ☐ PLEASE REPLY ☐ PLEASE RECYCLE

NOTES/COMMENTS:

Nancy,

Pls pass to Pres. He might find it useful, given his position on the controversial proposition in Calif. on Bilingual Ed. Hope all's well with you. We'll catch up on one of these trips.

Ruth has a temporary place near Dupont Circle for the next couple of months. Her office - for your info - is:

Commissioner Ruth Goldway

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Regards from Santa Monica,

Derek

FOR POTUS + FLOTUS FROM PEREK

Bilingual Education

The Controversy

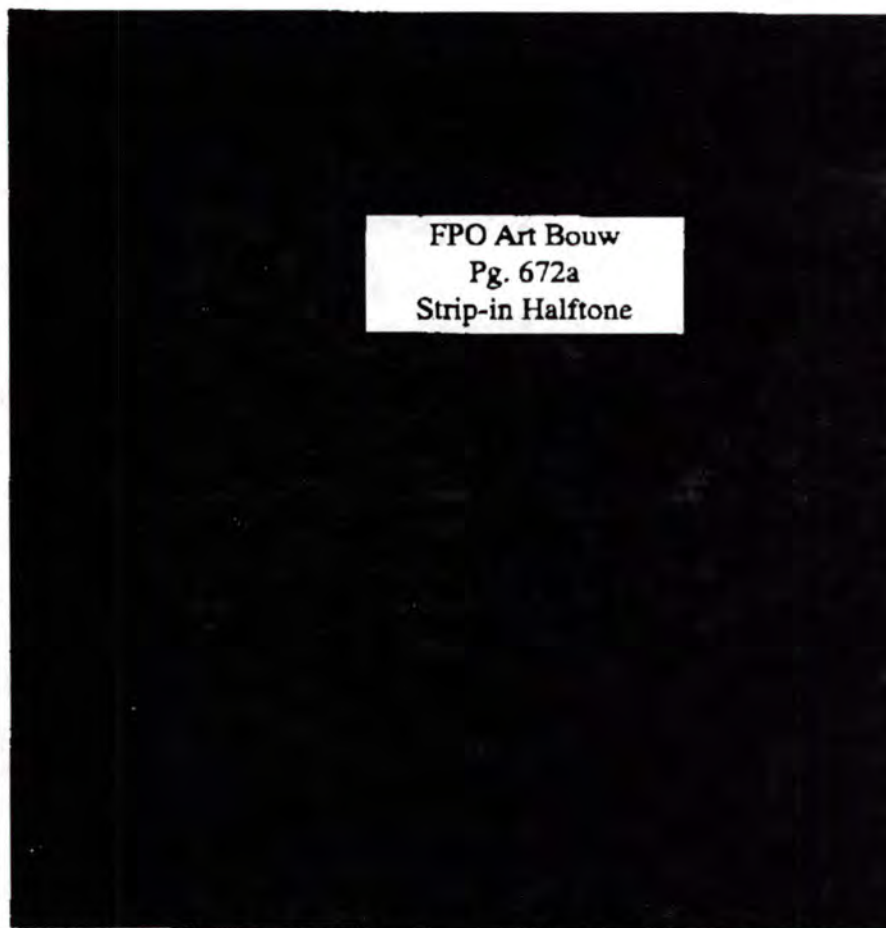
BY RICHARD ROTHSTEIN

Our commonly held notion of how earlier generations of immigrants were educated — often used as the chief argument in support of English immersion — is a myth, Mr. Rothstein reveals.

BILINGUAL education, a preferred strategy for the last 20 years, aims to teach academic subjects to immigrant children in their native languages (most often Spanish), while slowly and simultaneously adding English instruction.¹ In theory, the children don't fall behind in other subjects while they are learning English. When they are fluent in English, they can then "transition" to English instruction in academic subjects at the grade level of their peers. Further, the theory goes, teaching immigrants in their native language values their family and community culture and reinforces their sense of self-worth, thus making their academic success more likely.

In contrast, bilingual education's crit-

RICHARD ROTHSTEIN is a research associate of the Economic Policy Institute, Washington, D.C. This article is adapted from a chapter in his book, *The Way We Were?* (Century Foundation Press, 1998), and is reprinted with permission from the Twentieth Century Fund/Century Foundation, New York, N.Y. The book is available from the Brookings Institution, 1775 Massachusetts Ave. N.W., Washington, DC 20036; ph. 800/275-1447. ©1998, Twentieth Century Fund/Century Foundation.



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ics tell the following, quite different, story. In the early 20th century, public schools assimilated immigrants to American culture and imparted workplace skills essential for upward mobility. Children were immersed in English instruction and, when forced to "sink or swim," they swam. Today, however, separatist (usually Hispanic) community leaders and their liberal supporters, opposed to assimilation, want Spanish instruction to preserve native culture and traditions. This is especially dan-

gerous because the proximity of Mexico and the possibility of returning home give today's immigrants the option of "keeping a foot in both camps" — an option not available to previous immigrants who were forced to assimilate. Today's attempts to preserve immigrants' native languages and cultures will not only balkanize the American melting pot but hurt the children upon whom bilingual education is imposed because their failure to learn English well will leave them unprepared for the work-

place. Bilingual education supporters may claim that it aims to teach English, but high dropout rates for immigrant children and low rates of transition to full English instruction prove that, even if educators' intentions are genuine, the program is a failure.

The English First Foundation, a lobbying group bent on abolishing bilingual education, states that most Americans "have ancestors who learned English the same way: in classrooms where English was the only language used for all learning activities." According to 1996 Republican Presidential nominee Bob Dole, the teaching of English to immigrants is what "we have done . . . since our founding to speed the melting of our melting pot. . . . We must stop the practice of multilingual education as a means of instilling ethnic pride, or as a therapy for low self-esteem, or out of elitist guilt over a culture built on the traditions of the West."

Speaker of the House Newt Gingrich chimed in as well:

If people had wanted to remain immersed in their old culture, they could have done so without coming to America. . . . Bilingualism keeps people actively tied to their old language and habits and maximizes the cost of the transition to becoming American. . . . The only viable alternative for the American underclass is American civilization. Without English as a common language, there is no such civilization.⁴

This viewpoint has commonsense appeal, but it has little foundation in reality.

Bilingual Education: The History

Despite proximity to their homeland, Mexican Americans are no more likely to reverse migrate than were Europeans in the early 20th century. One-third of the immigrants who came here between 1908 and 1924 eventually abandoned America and returned home.⁵

What's more, the immigrants who remained did not succeed in school by learning English. During the last great wave of immigration, from 1880 to 1915, very few Americans succeeded in school, immigrants least of all. By 1930, it was still the case that half of all American 14- to 17-year-olds either didn't make it to high school or dropped out before graduating. The median number of school years completed was 10.

Far from succeeding by immersing themselves in English, immigrant groups did much worse than the native-born, and some immigrant groups did much worse than others. The poorest performers were Italians. According to a 1911 federal immigration commission report, in Boston, Chicago, and New York 80% of native white children in the seventh grade stayed in school another year, but only 58% of Southern Italian children, 62% of Polish children, and 74% of Russian Jewish children did so. Of those who made it to eighth grade, 58% of the native whites went on to high school, but only 23% of the Southern Italians did so. In New York, 54% of native-born eighth-graders made it to ninth grade, but only 34% of foreign-born eighth-graders did so.⁶

A later study showed that the lack of success of immigrants relative to the native-born continued into high school. In 1931, only 11% of the Italian students who entered high school graduated (compared to an estimated graduation rate of over 40% for all students). This was a much bigger native/immigrant gap than we have today.

While we have no achievement tests from that earlier period by which to evaluate relative student performance, I.Q. tests were administered frequently. Test after test in the 1920s found that Italian immigrant students had an average I.Q. of about 85, compared to an average for native-born students of about 102. The poor academic achievement of these Italian Americans led to high rates of "retardation" — that is, being held back and not promoted (this was the origin of the pejorative use of the term "retarded").

A survey of New York City's retarded students (liberally defined so that a child had to be 9 years old to be considered retarded in the first grade, 10 years old in the second grade, and so on), found that 19% of native-born students were retarded in 1908, compared to 36% of Italian students. The federal immigration commission found that the retardation rate of children of non-English-speaking immigrants was about 60% higher than that of children of immigrants from English-speaking countries.⁷ The challenge of educating Italian immigrant children was so severe that New York established its first special education classes to confront it. A 1921 survey disclosed that half of all (what we now call) "learning disabled" special education children in New York schools had Italian-born fathers.⁸

As these data show — and as is the case today — some groups did better than others, both for cultural reasons and because of the influence of other socioeconomic factors on student achievement. If Italian children did worse, Eastern European Jewish children did better. This is not surprising in light of what we now know about the powerful influence of background characteristics on academic success. In 1910, 32% of Southern Italian adult males in American cities were unskilled manual laborers, but only one-half of 1% of Russian Jewish males were unskilled. Thirty-four percent of the Jews were merchants, while only 13% of the Italians were. In New York City, the average annual income of a Russian Jewish head-of-household in 1910 was \$813; a Southern Italian head-of-household averaged \$688.⁹

But even with these relative economic advantages, the notion that Jewish immigrant children assimilated through sink-or-swim English-only education is a nostalgic and dangerous myth. In 1910, there were 191,000 Jewish children in the New York City schools; only 6,000 were in high school, and the overwhelming majority of these students dropped out before graduating. As the Jewish writer Irving Howe put it, after reviewing New York school documents describing the difficulties of "Americanizing" immigrant children from 1910 to 1914, "To read the reports of the school superintendents is to grow impatient with later sentimentalists who would have us suppose that all or most Jewish children burned with zeal for the life of the mind."¹⁰ There may have been relatively more such students among the Jewish immigrants than in other immigrant communities, Howe noted, but they were still a minority.

Immersing immigrants in an English-language school program has been effective — usually by the third generation. On the whole, immigrant children spoke their native language; members of the second generation (immigrants' native-born children) were bilingual, but not sufficiently fluent in English to excel in school; members of the third generation were fluent in English and began to acquire college educations. For some groups (e.g., Greek Americans), the pattern more often took four generations; for others (e.g., Eastern European Jews), many in the second generation may have entered college.

This history is not a mere curiosity, because those who advocate against bilin-

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bicultural
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gual education today often claim that we know how to educate immigrant children because we've done it before. However, if we've never successfully educated the first or even second generation of children from peasant or unskilled immigrant families, we are dealing with an unprecedented task, and history can't guide us.

To understand the uniqueness of our current challenge, compare the enormous — by contemporary standards — dropout rate of New York City Jewish students in 1910 with that of Mexican students in the Los Angeles school district today. Like New York in 1910, Los Angeles now is burdened with a rising tide of immigrants. In 1996, there were 103,000 Hispanic students in grades 9-12 in Los Angeles (out of the city's total K-12 Hispanic population of 390,000). Hispanic high school students were about 26% of the total Hispanic student population in Los Angeles in 1996,¹¹ compared to 3% for Jews in New York in 1910 (only 6,000 high school students out of 191,000 total Jewish enrollment). In Los Angeles today, 74% of Mexican-born youths between the ages of 15 and 17 are still in high school; 88% of Hispanic youths from other countries are still in attendance.¹² More than 70% of Hispanic immigrants who came to the United States prior to their sophomore year actually complete high school (compared to a 94% high school completion rate for whites and a 92% rate for blacks).¹³ English immersion programs for Jews early in this century (and certainly similar programs for Italians) cannot teach us anything that would help improve on today's immigrant achievement or school comple-

tion, much of which may be attributable to bilingual education programs, even if imperfectly administered.

If the notion is misleading that English immersion led previous generations of immigrants to academic success, so too is the claim that bilingual education repudiates the assimilationist approach of previous immigrants. In reality, today's Hispanics are not the first to seek bicultural assimilation. Some 19th- and early 20th-century European immigrants also fought for and won the right to bilingual education in the public schools.¹⁴ Native-language instruction was absent from 1920 until the mid-1960s only because a fierce anti-German (and then anti-immigrant) reaction after World War I succeeded in banishing it from American classrooms. Even foreign-language instruction for native-born students was banned in most places. If Chicago's Bismarck Hotel found it necessary to rename itself the "Mark Twain," it should not be surprising that bilingual education programs were also abolished.

Before World War I, immigrant groups often pressed public schools to teach children in their native language. The success of these groups depended more on whether adult immigrant activists had political power than on a pedagogical consensus. The immigrants' objective, as it is today, was to preserve a fragment of ethnic identity in children for whom the pull of American culture seemed dangerously irresistible. In this, they were supported by many influential educators. William Harris, the school superintendent in St. Louis and later U.S. commissioner of education, argued for bilingual education in the 1870s, stating that "national memories and aspirations, family traditions, customs and habits, moral and religious observances cannot be suddenly removed or changed without disastrously weakening the personality." Harris established the first "kindergarten" in America, taught solely in German, to give immigrant students a head start in the St. Louis schools.¹⁵

Nineteenth-century immigrant parents were often split over the desirability of bilingual education, as immigrant parents are split today. Many recognized that children were more likely to succeed if schools' use of the native language validated the culture of the home. But others felt that their children's education would be furthered if they learned in English only.

The first bilingual public school in New York City was established in 1837 to pre-

pare German-speaking children for eventual participation in regular English schools. The initial rule was that children could remain in German-language instruction only for 12 months, after which they would transfer to a regular school. But the German teacher resisted this rule, believing that, before transferring, the children needed more than the limited English fluency they had acquired after a year of German instruction. The record is unclear about how often the rule was stretched.

Many immigrant children, not just Germans, did not attend school at all if they could not have classes in their native language. In his 1840 address to the New York legislature, Gov. William Seward (later Lincoln's secretary of state) explained that the importance of attracting immigrants to school — and of keeping them there — motivated his advocacy of expanded native-language instruction: "I do not hesitate to recommend the establishment of schools in which [immigrant children] may be instructed by teachers speaking the same language with themselves." Only by so doing, Gov. Seward insisted, could we "qualify . . . [them] for the high responsibilities of citizenship."

Buoyed by Seward's endorsement, Italian parents in New York City demanded a native-language school as well, and in 1843 the Public School Society established a committee to determine whether one should be established. The committee recommended against an Italian-language school, claiming the Italian community was itself divided. "Information has been obtained," the committee stated, "that the more intelligent class of Italians do not desire such a school, and that, like most [but not, apparently, all] of the better class of Germans, they would prefer that those of their countrymen who come here with good intentions should be Americanized as speedily as possible."¹⁶

Bilingual education, though sometimes controversial, was found nationwide. In Pennsylvania, German Lutheran churches established parochial schools when public schools would not teach in German; in 1838, Pennsylvania law converted these German schools to public schools. Then, in 1852, a state public school regulation specified that "if any considerable number of Germans desire to have their children instructed in their own language, their wishes should be gratified."¹⁷

In 1866, succumbing to pressure from politically powerful German immigrants,

the Chicago Board of Education decided to establish a German-language school in each area of the city where 150 parents asked for it. By 1892 the board had hired 242 German-language teachers to teach 35,000 German-speaking children, one-fourth of Chicago's total public school enrollment. In 1870, a public school established in Denver, Colorado, was taught entirely in German. An 1872 Oregon law permitted German-language public schools to be established in Portland whenever 100 voters petitioned for such a school. Maryland, Iowa, Indiana, Kentucky, Ohio, and Minnesota also had bilingual education laws, either statewide or applying only to cities with large immigrant populations. In Nebraska, enabling legislation for bilingual education was enacted for the benefit of German immigrant children as late as 1913.¹⁵

There was considerable variation in how these programs arranged what we now call the "transition" to English. In St. Louis, Harris' system introduced English gradually, beginning in the first grade. The 1888 report of the Missouri supervisor of public instruction stated that "in some districts the schools are taught in German for a certain number of months and then in English, while in others German is used part of the day and English the rest. Some of the teachers are barely able to speak the English language." Ohio's 1870 rules provided that the lower grades in German-language public schools should be bilingual (half the instructional time in grades 1 through 4 could be in German), but in grades 5 through 8 native-language instruction had to be reduced to one hour a day. Baltimore permitted public schools in the upper grades to teach art and music in German only, but geography, history, and science had to be taught in both English and German. In some midwestern communities, there was resistance to any English instruction: an 1846 Wisconsin law insisted that public schools in Milwaukee must at least teach English (as a foreign language) as one academic subject.¹⁶

While Germans were most effective in demanding public support for native-language instruction, others were also successful. In Texas in the late 19th century, there were seven Czech-language schools supported by the state school fund. In California, a desire by the majority to segregate Chinese children seemed to play more of a role than demands by the Chinese community for separate education. San Francis-

co established a Chinese-language school in 1885; the city later established segregated Indian, Mongolian, and Japanese schools.¹⁷

San Francisco's German, Italian, and French immigrants, on the other hand, were taught in their native languages in regular public schools. Here, bilingual educa-

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unanimous or
consistent.*

tion was a strategy designed to lure immigrant children into public schools from parochial schools where they learned no English at all. According to San Francisco's school superintendent in 1871, only if offered native-language instruction could immigrant children be brought into public schools, where, "under the care of American teachers," they could be "molded in the true form of American citizenship."¹⁸

Support for bilingual education was rarely unanimous or consistent. In San Francisco, the election of an "anti-immigrant" Republican school board majority in 1873 led to the abolition of schools in which French and German had been the primary languages of instruction and to the firing of all French- and German-speaking teachers. After protests by the immigrant community, bilingual schools were reestablished in 1874. In 1877, the California legislature enacted a prohibition of bilingual education, but the governor declined to sign it. William Harris' bilingual system in St. Louis was dismantled in 1888, after redistricting split the German vote and the Irish won a school board majority.¹⁹

In 1889, Republican Gov. William Hoard of Wisconsin sponsored legislation to ban primary-language instruction in public and

private schools, claiming the support of German immigrant parents. The *Milwaukee Sentinel* published a front-page story about "a German in Sheboygan County . . . who sent his children away to school in order that they might learn English." The father, reported the *Sentinel*, complained that "in the public schools of the town, German teachers, who . . . did not know English . . . had been employed . . . [and] he felt it essential to the welfare of his children, who expected to remain citizens of this country, to know English."²⁰

But both the newspaper and Wisconsin's Republican politicians had misjudged the immigrants' sentiments. In response to the anti-bilingual law, enraged German Americans (who had previously supported Republican candidates) mobilized to turn the statehouse over to Democrats and to convert the state's 7-to-2 Republican majority in Congress to a Democratic majority of 8-to-1. The Democrats promptly repealed the anti-bilingual education law.

An almost identical series of events took place in Illinois, where formerly Republican German American voters mobilized in both East St. Louis and Chicago to elect a liberal Democrat, Peter Altgeld, governor in 1890, largely because of his bilingual school language policy. These upheavals in two previously safe Republican states played an important role in the election of Democrat Grover Cleveland as President in 1892. Nonetheless, the controversy continued, and in 1893 the *Chicago Tribune* began a new campaign against German-language instruction. In a compromise later that year, German instruction was abolished in the primary grades but retained in the upper grades, while Chicago's mayor promised German Americans a veto over future school board appointments to ensure that erosion of primary-language instruction would not continue.²¹

But these controversies ended with World War I. Six months after the armistice, the Ohio legislature, spurred by Gov. James Cox, who was to be the Democratic Presidential candidate in 1920, banned all German from the state's elementary schools. The language posed "a distinct menace to Americanism," Cox insisted. The *New York Times* editorialized in 1919 that, although some parents "want German to be taught [because it] pleases their pride . . . , it does not do their children any good." Within the following year, 15 states in which native-language instruction had flourished

adopted laws requiring that all teaching be in English. By 1923, 35 states had done so.²⁵ Only when Nebraska went so far as to ban native-language instruction in parochial as well as public schools did the Supreme Court, in 1923, strike down an English-only law.²⁶

During the next 30 years, bilingual instruction had its ups and downs, even where English was not the native language. In 1950, Louisiana first required English, not French, to be the language of public school instruction. In the Southwest, where teaching in Spanish had long been common, the practice continued in some places and was abolished in others. Tucson established a bilingual teaching program in 1923, and Burbank established one in 1931. New Mexico operated bilingual schools throughout most of the 20th century, up until the 1950s. The state even required the teaching of Spanish to English-speaking children in elementary school. But in 1918, Texas made teaching in Spanish a crime, and, while the law was not consistently enforced (especially along the Mexican border), as recently as 1973 a Texas teacher was indicted for not teaching history in English.²⁷ In the same year, Texas reversed itself and adopted bilingual education as its strategy.

When bilingual education began to emerge in the 1970s — spurred by a Supreme Court finding that schools without special provisions for educating language-minority children were not providing equal education — the nation's memory of these precedents had been erased. Today many Americans blithely repeat the myth that, until the recent emergence of separatist minority activists and their liberal supporters, the nation had always immersed its immigrant children in nothing but English and this method had proved its effectiveness.

Bilingual Education: Mixed Evidence

This mixed history, however, does not prove that bilingual education is effective, any more so than English immersion or intense English-language instruction. To an unbiased layperson, the arguments of both advocates and opponents of bilingual education seem to make sense. On the one hand, it's reasonable to insist that children who don't speak English continue their education in a language they understand in history, literature, math, and

science, while they learn English. It's also reasonable to expect, however, that this might make it too tempting to defer English-language instruction. Moreover, the best way to do something difficult — e.g., making the transition to English — is simply to do it without delay. It makes sense to acknowledge that children may adapt better to school if the school's culture is not in conflict with that of the home. But some immigrant parents may be more intent on preserving native culture for their children than are the children themselves.

Modern research findings on bilingual education are mixed. As with all educational research, it is so difficult to control for complex background factors that affect academic outcomes that no single study is ultimately satisfying. Bilingual education advocates point to case studies of primary-language programs in Calexico, California; Rock Point, Arizona; Santa Fe, New Mexico; New Haven, Connecticut; and elsewhere that show that children advance further in both English and other academic subjects when native-language instruction is used and the transition to English is very gradual. Opponents point to case studies in Redwood City and Berkeley, California; in Fairfax, Virginia; and elsewhere that prove that immersion in English or rapid and intensive English instruction is most effective.²⁸ Overall, the conflicting evidence from these case studies does not suggest that abolition of bilingual education or even the substitution of parental choice for pedagogical expertise in determining whether bilingual approaches should be used would improve things much.

The problem is especially complex because not only economic factors but also generational variation apparently affects the achievement of immigrant youths. In 1936, the principal of a high school in New York City that enrolled large numbers of Italian immigrants wrote:

The problem of juvenile delinquency . . . baffles all the forces of organized society. . . . The highest rate of delinquency is characteristic of immigrant communities. . . . The delinquent is usually the American-born child of foreign-born parents, not the immigrant himself. Delinquency, then, is fundamentally a second-generation problem. This intensifies the responsibility of the school.²⁹

The same is true today. The challenge

now facing immigrant educators is that academic achievement for second-generation Hispanic and Asian children is often below that of children who arrive in the U.S. as immigrants themselves.³⁰ Many of these children of the second generation seem to speak English, but they are fully fluent in neither English nor their home language. Many of their parents, frustrated that their own ambition has not been transmitted to their children, may become convinced that only English immersion will set their children straight, while others seek bilingual solutions to prevent the corruption of American culture from dampening their children's ambition.

In the absence of persuasive evidence, the issue has become politicized. In a country as large as ours, with as varied experience, there is virtually no limit to the anecdotes and symbols that can be invoked as substitutes for evidence.

Opponents of bilingual education promote Hispanic parents to the media when they claim they want their children to learn English without bilingual support; the clear implication is that only liberal ideologues and separatists support native-language instruction. These claims, like those circulated by the *Milwaukee Sentinel* a century ago, may not reflect the feelings of most parents. And the technology of teaching a new language to immigrant children is complex; both bilingual education advocates and opponents claim their goal is full English literacy as rapidly as possible. But there's no reason to expect that politicized parent groups are the best judges of language acquisition research.

There are also successful adult immigrants who brag of their English fluency, acquired either with or without bilingual education. As always, such anecdotal evidence should be treated with caution. Richard Rodriguez' autobiography, *Hunger for Memory*, describes his successful education in an English-only environment. But Rodriguez, unlike most immigrants, was raised in a predominantly English-speaking neighborhood and was the only Spanish speaker in his class.³¹ His experience may be relevant for some immigrants, but not relevant for many others.

Whichever method is, in fact, more effective for most immigrant children, there will be many for whom the other method worked well. It may be the case that immigrant children's social and economic background characteristics should affect the pedagogy chosen. Even if some Rus-

sian Jewish immigrants did not require bilingual education to graduate from high school, perhaps Italians would have progressed more rapidly if they'd had access to bilingual instruction. Today, the fact that some (though not all) Asian immigrants seem to progress rapidly in school without native-language support provides no relevant evidence about whether this model can work well for Mexican or Caribbean children, especially those low on the ladder of socioeconomic status and those whose parents have little education. Nor does it tell us much about what the best pedagogy would be for Asians who generally do less well in school, such as Hmong, Laotian, and Cambodian children.²²

It is certain, however, that the American "melting pot" has never been endangered by pluralist efforts to preserve native languages and cultures. Bilingual instruction has never interfered with the powerful assimilationist influences that overwhelm all children whose parents migrate here. And this is equally true of Spanish-speaking children today.

After the last 20 years of bilingual education throughout America, Spanish-speaking children continue to assimilate. From 1972 to 1995, despite rapidly accelerating immigration (more Hispanic youths are first-generation immigrants today than 20 years ago), the Hispanic high school completion rate has crept upward (from 66% to 70%). Hispanic high school graduates who enroll in college jumped from 45% to 54% (for non-Hispanic whites, it's now 64%). And the number of Hispanic high school graduates who subsequently complete four years of college jumped from 11% to 16% (for non-Hispanic whites, it's now 34%).²³ A study of the five-county area surrounding Los Angeles, the most immigrant-affected community in the nation, found that from 1980 to 1990, the share of U.S.-born Hispanics in professional occupations grew from 7% to 9%, the share in executive positions grew from 7% to 10%, and the share in other administrative and technical jobs grew from 24% to 26%.²⁴ Overall, 55% of U.S.-born Hispanics are in occupations for which a good education is a necessity, in an area where bilingual education has been practiced for the last generation.

Perhaps we can do better. Perhaps we would do better with less bilingual education. But perhaps not. All we can say for sure is that the data reveal no apparent crisis, and the system for immigrant

education with which we've been muddling through, with all its problems, does not seem to be in a state of collapse.

The best thing that could happen to the bilingual education debate would be to remove it from the political realm. Sound-bite pedagogy is no cure for the complex interaction of social, economic, and instructional factors that determine the outcomes of contemporary American schools.

1. Technically, "bilingual education" refers to all programs designed to give any support to non-English-speaking children, including programs whose main focus is immersion in English-speaking classrooms. In public debate, however, the term generally refers to only one such program, "transitional bilingual education (TBE)," in which native-language instruction in academic subjects is given to non-English speakers. In this article, I use the term in its nontechnical sense to refer only to "TBE" programs.
2. Web site. English First Foundation: <http://englishfirst.org>.
3. Mark Pitsch, "Dole Takes Aim at 'Elitist' History Standards," *Education Week*, 13 September 1995, p. 18.
4. Newt Gingrich, *To Renew America* (New York: HarperCollins, 1995), pp. 161-62.
5. Irving Howe, *World of Our Fathers* (New York: Simon and Schuster, 1983), p. 58.
6. Michael R. Olneck and Marvin Lazerson, "The School Achievement of Immigrant Children: 1900-1930," *History of Education Quarterly*, Winter 1974, pp. 453-82, Tables 3, 5, 6.
7. David K. Cohen, "Immigrants and the Schools," *Review of Educational Research*, vol. 40, 1970, pp. 13-27.
8. Seymour B. Sarason and John Doris, *Educational Handicap, Public Policy, and Social History* (New York: Free Press, 1979), pp. 155-56, 340-51.
9. Olneck and Lazerson, Tables 11 and 12.
10. Howe, pp. 277-78.
11. *Fall 1995 Preliminary Ethnic Survey* (Los Angeles: Information Technology Division, Los Angeles Unified School District, Publication No. 124, 1996).
12. Georges Vernez and Allan Abrahamse, *How Immigrants Fare in U.S. Education* (Santa Monica, Calif.: RAND Corporation, 1996), Table 3.2.
13. These figures are not strictly comparable; estimates are based on data in Vernez and Abrahamse, Table 4.2, and in National Center for Education Statistics, *Dropout Rates in the United States: 1995* (Washington, D.C.: Office of Educational Research and Improvement, U.S. Department of Education, NCES 97-473, 1997), Table 9.
14. Native-language instruction in public schools was also common in the Southwest, particularly in Texas, New Mexico, and Arizona, which were formerly part of Mexico and whose native populations, not their immigrants, were originally Spanish-speaking Mexicans. It was also common in Louisiana, where French-language public schools were established well after the Louisiana Purchase to preserve native French culture.
15. Diego Castellanos, *The Best of Two Worlds: Bilingual-Bicultural Education in the United States* (Trenton: New Jersey State Department of Educa-

- tion, CN 500, 1983), pp. 23-25.
16. Sarason and Doris, pp. 180-81, 194.
17. Heinz Kloss, *The American Bilingual Tradition* (Rowley, Mass.: Newbury House, 1977), pp. 149-50.
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EXECUTIVE OFFICE OF THE PRESIDENT
COUNCIL ON ENVIRONMENTAL QUALITY
WASHINGTON, D.C. 20503

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May 22, 1998

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MEMORANDUM FOR THE PRESIDENT

CC: ERSKINE BOWLES

FROM: KATHLEEN A. MCGINTY *RSK for KAM*

SUBJECT: CEQ WEEKLY REPORT

PROTECTING COMMUNITIES FROM TOXICS

Superfund

On Monday, the Vice President held an event calling upon Congress to release the \$650 million in Superfund appropriations needed to avoid cleanup delays at up to 171 sites across the country. This funding was part of the balanced budget agreement but was later made conditional on enactment of Superfund Reform legislation. The day of the event, EPA released a list of potentially affected sites and the Administration transmitted a budget amendment that would make the money available.

X The event, which included EPA Administrator Browner, Senator Baucus, Congressman Borski, and mayors from several affected cities, received positive regional press coverage across the country. The event also met with criticism from Congressional Republicans, who used the event to call for new negotiations on a Superfund reform bill.

RESOURCE STEWARDSHIP

Idaho Bombing Range

Senator Kempthorne recently inserted a provision into the Defense Authorization bill which will create a U.S. Air Force bombing range on BLM land in Idaho. This could seriously affect Native American religious and burial sites, critical wildlife habitat, and have significant noise impacts on recreation. Although several Members of Congress have raised concerns about this project and environmental groups have strongly objected, it is believed that Kempthorne has the political muscle to drive this amendment through.

The Air Force and BLM continue to work on legislation to replace Kempthorne's current language. It appears as though they have worked out a compromise that both can live with. The agreement allows the Air Force to withdraw land from BLM for the bombing range. However, there will be time restrictions placed upon the Air Force in terms of when they can use the bombing range

5-25-98

therefore minimizing the impacts on Native Americans, wildlife, and recreationists. The environmental community will not be happy about our compromise since the only outcome that would please them is to allow absolutely no new training facility.

OTHER

Mandates Information Act

On Tuesday, the House passed the Mandates Information Act of 1998 (H.R. 3534), by a vote of 279-132. The bill, which subjects new "private sector mandates" (those imposing \$100 million or more in costs for the private sector) to elaborate analysis by the Congressional Budget Office and a point of order on the floor, was strongly opposed by the Administration because of the obstacles it would create for legislation to protect the environment or public health (e.g. the tobacco bill).

To highlight this issue, Congressman Waxman offered an amendment that would compel consideration of the benefits of legislation and would create a point of order to compel a separate vote on provisions that would modify or weaken environmental or public health protection. The Waxman amendment failed by a vote of 190-221 but attracted support from many moderate Republicans and generated a helpful debate focused on Republican anti-environmental riders.

should work
for veto proof # in Senate

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THE WHITE HOUSE

WASHINGTON

May 22, 1998

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MEMORANDUM FOR THE PRESIDENT

FROM: GENE SPERLING

RE: NEC WEEKLY REPORT

cc: ERSKINE BOWLES

H-1B: There is mixed news with respect to legislation to increase the number of temporary (H-1B) visas for foreign "specialty" workers. On Monday (5/18), the Senate voted 78-20 in favor of a bill introduced by Sen. Abraham, despite the Administration's strong opposition (because it does not provide adequate protections for U.S. workers). However, on Wednesday (5/20), the House Judiciary committee overwhelmingly passed, by a vote of 23-7, a bill introduced by Rep. Lamar Smith that the Administration would support if it also included a training component and a smaller increase in the number of visas. All of the Democrats with the exception of Zoe Lofgren voted against an amendment to strike protections for US workers. I spoke to Rep. Wexler several times this week to garner his support against this amendment. The House vote is significant because the bill includes strong protections for U.S. workers. Given the strong House vote, it is likely that representatives from the high-tech industry (the strongest supporters of increasing the number of H-1B workers and the strongest opponents of the protections for U.S. workers) will be willing to work with us to draft the protections in a way that minimizes the burden on employers who genuinely face labor shortages while still protecting U.S. workers from employers who abuse the program.

Good!
G.I. Bill: Given the politics on this bill, where the business communities overwhelmingly support it and family groups overwhelmingly oppose it, the Republicans have not been eager to move this bill forward. Nonetheless, with the help of White House Legislative Affairs and Ceci Rouse of my staff, late Friday evening the House appointed conferees for the G.I. Bill for America's Workers (Goodling, McKeon, Riggs, Graham, Schaefer, Clay, Martinez, Kildee). This allows us to move forward in conference and hopefully to a resolution quickly.

Bankruptcy: The House this week postponed floor consideration of its bankruptcy reform bill. However, the Administration sent a letter to Reps. Gekas, McCollum, Boucher, and Moran saying that we "strongly oppose" the House bill in its current form. In addition to other concerns, we noted that the amendments offered at mark-up failed to eliminate the child support problem. On Friday (5/22), Sarah Rosen, on my staff, along with representatives from Legislative Affairs and DoJ met with Rep. Boucher to answer his questions about our views. Sarah also met with Judge Lisa Hill Fenning, a bankruptcy judge who is also a college and law school classmate of the First Lady. The Senate Judiciary Committee approved its version of the

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bill 16-2. Divergent amendments from both Democrats and Republicans were postponed for further negotiations before the bill reaches the Senate floor. A preliminary assessment of the current version of the Senate bill is that it is getting closer. We will work to further improve it until acceptable, if possible, and to protect those gains during conference.

Financial Modernization: Senator D'Amato announced that he will hold a hearing on financial modernization on June 17. While this provides some limited momentum for the legislation, most still believe that the Senate will not act this year. We will work with Treasury to prepare for the Senate hearing.

Yes - let's go on get new down

Securities Litigation: At a House hearing, Rep. Eshoo pledged to make the enacted changes that were made in the Senate which are necessary for our support and address the SEC's concerns. Only one member argued that the legislation should be broadened (in ways that would be acceptable to us). Some Democrats, however, led by Rep. Markey, argued that there is insufficient evidence that any bill is needed and, if one is advanced, it should include deal-killer provisions on the statute of limitations and aiding and abetting liability. We will continue to monitor the SEC's work with the House to ensure that: (1) the bill that emerges is acceptable; and (2) no adverse legislative history is offered on the effect of the 1995 Reform Act on the 2nd Circuit pleading standard and whether "recklessness" is a basis for liability for securities fraud.

IRS Reform -- Citizen Advocacy Panels: The membership of the first of your proposed Citizen Advocacy Panels, which will cover southern Florida, will soon be ready to be announced. As you know, this first panel, and eventually 32 others throughout the country, will provide taxpayers an independent voice to identify problems, recommend improvements, and monitor IRS offices. Chuck Marr, a member of my staff participated with Treasury this week in a staff review of recommendations provided by an outside consultant. The consultant reached out to community groups and individuals. The response was quite strong and the recommendations of the consultant represent an impressive and diverse group of people, both with and without tax backgrounds. The members of this first panel will be ready for announcement in mid-June.

MIT **Commencement:** NEC staff is working with other White House offices and Cabinet agencies to develop policy proposals for your consideration in three areas: technology training for teachers; universal IT literacy as a high-school graduation requirement; and doubling the information and communications R&D budget over a 10-year period.

Should I do something with?

Child Labor--Global March: The Global March for child labor makes it last stop this week in Washington, D.C. before moving to Geneva Switzerland for the opening of the ILO meeting on June 9th. The Global March is a world wide effort to draw attention to the problem of child labor with marches through Asia, Africa, and the Americas. The goal is to promote a new ILO convention aimed at the elimination of the most intolerable forms of child labor--bonded labor hazardous work and work by children twelve and under. Secretary Herman and I will join Senator Harkin as keynote speakers at a Teach-In next Wednesday. Secretary Glickman will speak at a rally later that day. In the U.S. the march's primary focus is on illegal child migrant

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labor and sweat shops.

China MFN: As you know, to continue Most Favored Nation tariff treatment for China, you must transmit no later than June 3 a determination stating that the continuation of the Jackson-Vanik waiver for China will substantially promote the freedom of emigration objectives of the Jackson-Vanik amendment. Sandy Berger, the Chief of Staff's office and I will be consulting early next week to decide on what our best strategy is at this point.

Indonesia: While President Habibie today (5/22) provided no details on pledges to implement IMF-mandated reforms, the economic team he has put into place is, overall, a solid one. Ganjar, one of the quickest to perceive the down sides of actions taken by his government while serving as senior economic minister in Soeharto's last cabinet, and who earlier this week had refused to serve in a new Soeharto cabinet, will be coordinating minister for economy, finance and industry. Habibie has named as finance minister Bambang Subiyanto, a respected bureaucrat who was fired in March as head of the Indonesian Bank Restructuring agency for challenging business interests linked to Soeharto. We have some concerns about Habibie's choice for Minister of Industry and Trade, Rahardi Ramelan, although we do not know how central he will be to decision making.

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THE WHITE HOUSE

WASHINGTON

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May 22, 1998

MEMORANDUM FOR THE PRESIDENT

FROM: Bruce Reed
Elena Kagan

SUBJECT: DPC Weekly Report

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1. Tobacco -- Senate Update: As you know, after soundly defeating amendments to (1) cap attorneys' fees, (2) eliminate industry payments, and (3) raise industry payments to the equivalent of \$1.50 per pack of cigarettes, the Senate passed an amendment to the McCain bill to remove the \$8 billion annual cap on industry liability. We are fearful that the passage of this amendment will make the bill appear unbalanced to some Senators and will introduce a kind of open season on further amendments. When the Senate returns from recess, it is scheduled to take up an amendment by Sen. Durbin to increase lookback penalties and an amendment by Sen. Gramm to devote most of the bill's revenues to a tax cut for married couples with income of less than \$50,000 per year (advertised as an elimination of the marriage penalty). Some moderate Republicans might join Democrats to pass the Durbin amendment; just as likely, some Democrats might join Republicans to pass the Gramm amendment, which would wipe out most of the public health and research spending in the bill, but provide a significant tax cut to low- and middle-income people. We will have to decide in the next week whether to develop and/or support a smaller tax cut proposal. Such a proposal would take the pressure off Democrats to vote for the Gramm amendment and if passed, would enhance the attractiveness of the bill to Republicans; inevitably, however, the proposal would diminish the funds available for spending on health research and public health programs.

2. Tobacco -- MMWR Study: The Centers for Disease Control released on Thursday new statistics on teenage smoking patterns and addiction. The data found that: (1) teenagers find it difficult to quit smoking -- 86 percent of teens who smoke daily and try to quit are unsuccessful; (2) teenagers underestimate the addictiveness of nicotine -- 75 percent of teenage daily smokers who expect to quit are still smoking five years later; and (3) casual smokers easily become hooked -- 42 percent of young people who smoke as few as three cigarettes per month go on to become regular smokers. About 36 percent of high school students currently smoke.

3. Crime -- COPS Event: You are tentatively scheduled to participate in an event on Friday to: (1) announce that the COPS initiative has now funded the hiring of 75,000 new police officers and (2) launch a new pilot project to target COPS funding toward distressed and

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underprotected neighborhoods. The first phase of the pilot will fund more than 500 officers in 10 large and 10 small cities across the country.

4. Crime -- Police Legislation: Congress passed two pieces of legislation last week that the Administration and law enforcement groups strongly supported. One bill will create a grant program to help local law enforcement agencies purchase additional bulletproof vests; the other will help fund counseling services for dependents of slain officers. We are working with Rahm and the Legislative Affairs Office to schedule a signing ceremony for these bills, perhaps as part of the COPS event described above.

 **5. Health -- Patients' Bill of Rights:** Amidst reports that Speaker Gingrich is trying to stop Congress from passing a patients' bill of rights this year, Rep. Norwood has begun quiet discussions with Rep. Dingell about filing a discharge petition to bring such legislation directly to the floor for a vote. To highlight the necessity for immediate Congressional action on this issue, you are scheduled to participate in an event next week to release a state-by-state analysis showing how many Americans are not currently covered by patient protection laws. This event also will highlight why the protections in the patients' bill of rights are so important to women: in particular, studies show that doctors view health complaints made by women as less urgent than those made by men and as a result, refer women to specialists less often. Nancy Dickey, the newly-appointed first woman chair of the American Medical Association, is scheduled to participate in the event.

6. Education -- Bilingual Education: The House Subcommittee on Children, Youth and Families last week approved a bill offered by Rep. Riggs that would replace the current bilingual and immigrant education programs with a block grant to states to help LEP students learn English. The bill would (1) require states to cut off funds to any local program that does not place all LEP students in regular English-language classes within two years; (2) prohibit states from exempting any student who has been in school for two years from participation in English-language tests; (3) void existing compliance agreements between the Education Department's Office of Civil Rights (OCR) and local school districts under Title VI of the Civil Rights Act regarding the provision of services to LEP students; and (4) prohibit OCR from entering into additional agreements until it proposes, and Congress ratifies, new guidelines and compliance standards for Title VI. DPC is working with other White House offices and the Education Department to develop a strategy for addressing the Riggs bill; as part of this strategy, we may wish to propose alternative legislation that reflects the principles you have articulated for strengthening programs for LEP students. We will send you a more detailed report on this issue next week.

7. Education -- New Orleans Schools: You recently asked about how the Education Department's Office of Civil Rights (OCR) is handling a complaint brought by parents against a selective magnet school in New Orleans for using high IQ scores as a strict admissions requirement, regardless of grades or other indicators of academic performance. In response to this complaint, the local school board already has agreed to work with OCR to develop new

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admissions criteria that will maintain high standards but not rely solely on IQ scores. On OCR's advice, the board will not rescind admission decisions made under the current admissions standard for the next school year. OCR understands the importance of working with the school board to resolve this complaint in a way consistent with the Administration's commitment to high standards and testing, and so far has managed to defuse much of the controversy arising from the complaint's filing.

8. Welfare Reform -- Welfare-to-Work Celebration: You are scheduled to participate in an event on Wednesday to celebrate the success of the welfare-to-work effort, with a particular spotlight on the Welfare-to-Work Partnership. Over the last year, the Partnership has grown to 5,000 businesses, which have hired a total of 135,000 welfare recipients. In a recent survey, 75 percent of the businesses in the Partnership found welfare recipients to be productive employees; indeed, a number of businesses reported that people hired off welfare have higher retention rates than other new employees. At the event, you will announce the latest caseload reduction numbers and the first round of Welfare-to-Work Competitive Grants (from the \$3 billion Welfare-to-Work program in the balanced budget); you also will challenge the Partnership to double the number of people hired by its business partners in the coming year. In conjunction with the event, the Partnership will release a report called the *Road to Retention*, which profiles the successes of 16 large and small businesses in retaining former welfare recipients as employees. The Partnership also will release new PSAs on the welfare-to-work effort.

9. Immigration -- H-1B visas: By a vote of 23-4, the House Judiciary Committee approved on Wednesday legislation authored by Rep. Lamar Smith to increase the cap on H-1B visas. As requested by the Administration, the bill makes substantial reforms in the H-1B program in order to protect qualified U.S. workers from being displaced or passed over in favor of temporary foreign workers. The bill however, does not contain a training component. Prior to the mark-up, Secretary Daley, Secretary Herman, and Attorney General Reno sent a letter to Chairman Hyde indicating that the Administration would support the bill if it were modified to include a meaningful training provision. Also last week, the full Senate passed its version of legislation to increase the cap on H-1B visas. The Senate bill is the mirror image of the current House provision: the former authorizes money for increased training through Title IV of the JTPA, but fails to include any meaningful reforms of the H-1B program. Our SAP on the bill stated that unless the final bill includes meaningful reform of the H-1B program, the Secretary of Labor would recommend a veto.

10. Immigration -- INS Reform: As we expected, Rep. Rogers introduced a bill last week that would disband the INS and reallocate immigration functions among the Justice, State, and Labor Departments along the lines suggested by the United States Commission on Immigration Reform. Soon after the Memorial Day recess, Sen. Kennedy and/or Rep. Watt will introduce legislation implementing the Administration's alternative reform plan, which would preserve the INS but fundamentally reform its operations by separating service and enforcement functions. Sen. Abraham has announced that he will hold hearings in June on

restructuring the immigration system, but has indicated that he does not expect Congress to approve a plan this year.

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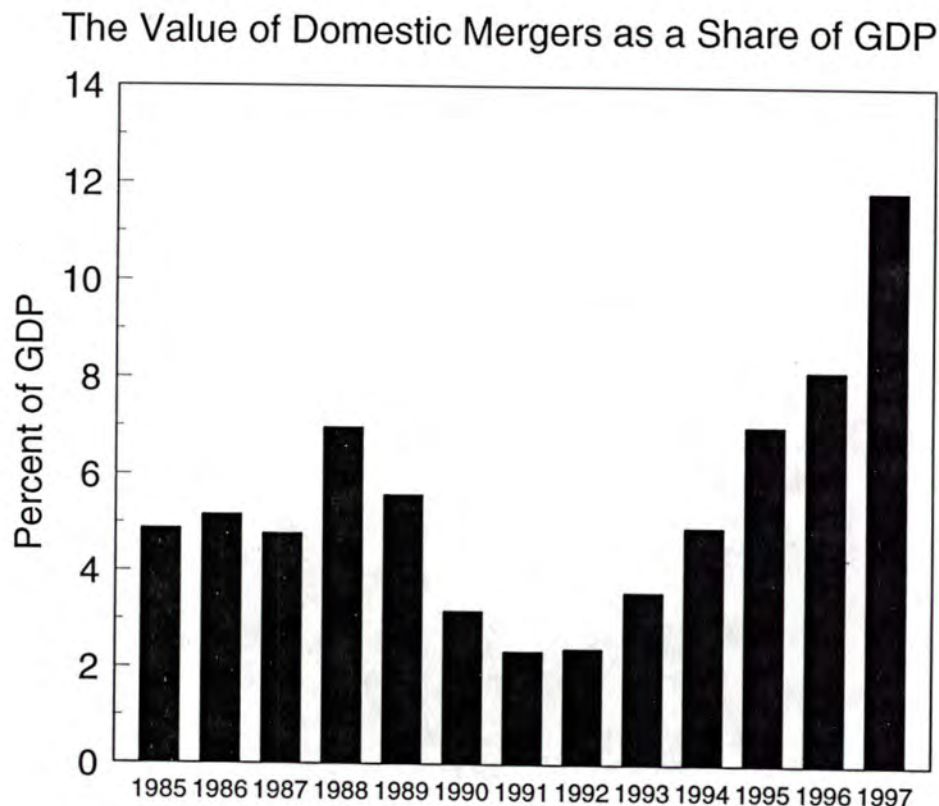
WEEKLY ECONOMIC BRIEFING OF THE PRESIDENT OF THE UNITED STATES

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

May 22, 1998

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CHART OF THE WEEK



In 1997 the volume of mergers and acquisitions among U.S. firms approached \$1 trillion. In sheer dollar terms (whether current or inflation-adjusted), this volume was far greater than ever before. Relative to the size of the economy, merger activity in the past 2 years has exceeded peak activity in the 1980s merger boom. The last time merger activity approached current levels relative to the size of the overall economy was in the Great Merger Wave at the turn of the last century. (A Special Analysis in this *Weekly Economic Briefing* provides an historical perspective on the current merger wave.)

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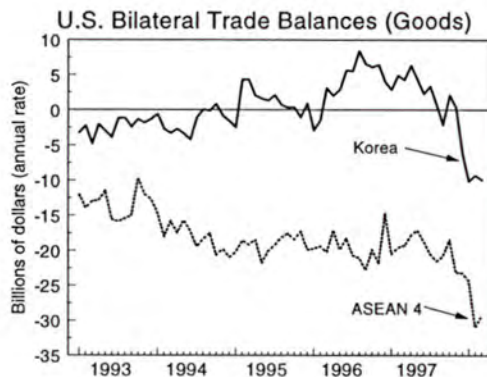


"And, in a move sure to attract the attention of regulators, the private sector made a bid to acquire the public sector."

CURRENT DEVELOPMENT

The Widening Trade Deficit

The latest data show a sharp deterioration in the U.S. trade deficit in the first quarter. The Asian crisis has been a major contributing factor, although a strong dollar and rapid U.S. growth have also played a role.



Effects from Asia. The cleanest measure of the impact of the Asian crisis compares the latest figures for bilateral imports and exports with levels from the second quarter of 1997—the quarter just before the Thai baht floated. Based on data seasonally adjusted by the CEA, the U.S. bilateral goods balances with both Korea and the ASEAN four have deteriorated sharply (see upper chart). U.S. exports to these five countries have fallen \$21 billion at an annual rate relative to pre-crisis levels (see lower chart). The effect on exports was slow in developing but made a big dent in the first quarter. About \$14 billion of the decline was accounted for by U.S. exports to Korea. U.S. exports to Japan also dropped \$8 billion at an annual rate over this period.

Impact on growth. The March trade deficit was larger than many analysts were expecting. The CEA expects that the revised estimate of first quarter GDP due out later this month will show a 2.6 percentage point drag on real growth from net exports. This is a larger subtraction than in last month's advance release—and one of the largest ever. However, growth in real GDP is likely to be little changed from the advance estimate of 4.2 percent at an annual rate as the reduction in net exports is more than offset by a large upward revision to stockbuilding.

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SPECIAL ANALYSIS

Mergers: An Historical Perspective

The United States is in the midst of its fifth major merger wave in a hundred years. Each of these waves has reflected the economic, financial, and policy conditions of their time.

The Great Merger Wave of the 1890s. The first great merger wave at the turn of the last century was the culmination of the trust movement, when numerous small and mid-sized firms were consolidated into single dominant firms in a number of industries, including Standard Oil and U.S. Steel. One estimate is that this merger wave encompassed at least 15 percent of all plants and employees in manufacturing at the turn of the century. An estimated 75 percent of merger-related firm disappearances occurred as a result of mergers involving at least five firms, and about a quarter involved 10 or more firms at a time. Merger activity declined sharply during 1903 and 1904 at the same time as a severe recession and the Northern Securities case, which established a legal precedent for prohibiting market-dominating mergers under the antitrust laws.

The Roaring Twenties. The merger movement of the 1920s saw the consolidation of many electric and gas utilities as well as manufacturing and minerals mergers. Some of the most prominent manufacturing mergers (such as the one that produced Bethlehem Steel) created relatively large number-two firms in industries previously dominated by one giant.

The "Go-Go" Sixties. The 1960s conglomerate wave represented a deflection of the "urge to merge" away from horizontal (same-industry) mergers, perhaps due to stronger antitrust enforcement. The constant-dollar value of mergers in manufacturing and minerals surpassed the prior peak attained in 1899 (though it remained much smaller as a share of the economy). The 1960s boom was also fueled by a strong stock market and financial innovation (such as convertible preferred stocks and debentures). This merger wave ended with a decline in stock prices that was especially severe for companies that had aggressively pursued conglomerate mergers.

The Deal Decade of the 1980s. Unlike other merger booms, this one began in a depressed stock market. With stock prices low relative to the cost of building new capacity, it appeared cheaper to expand by takeover. The 1980s boom was marked by an explosion of hostile takeovers and financial innovation (such as junk bonds and leveraged buyouts). The 1980s wave was unique in the prevalence of cash purchases (as opposed to acquisition through stock). Finally, the antitrust environment was more permissive and companies were more willing to attempt horizontal mergers.

The current wave. The current merger wave appears to be a reversion to earlier form in some ways: It is taking place in a strong stock market, and stock rather than

cash is the preferred medium. Mergers are neither purely horizontal (in general large horizontal mergers would raise antitrust issues) nor purely conglomerate. Rather they represent market extension mergers like SBC-Ameritech (companies in the same industry that serve different and currently non-competing markets) or mergers seeking “synergy,” like Travelers-Citicorp, which presumably expects to achieve “economies of scope” in offering a full line of financial services.

Conclusion. Economists have identified five distinct waves of merger activity in the past hundred years. Qualitative descriptions of past merger waves provide some perspective for evaluating the current wave, but no satisfactory “general” theory of merger activity has yet emerged in the economics literature.

SPECIAL ANALYSIS

A New Approach to Inner-City Redevelopment?

A controversial proposal, expounded by Michael Porter of the Harvard Business School, argues that the best way to revitalize inner cities is to promote private for-profit initiatives that exploit the unique competitive advantages of inner cities. But critics argue that what is good for business is not always good for inner cities.

Competitive advantages. The following are among the most important advantages to business development in inner cities that are cited by Porter:

- Strategic location. In most metropolitan areas, inner cities are located near high-rent business centers, entertainment complexes, and transportation and communication nodes. These locational advantages offer a competitive edge to inner-city businesses (such as food processing, business support, and rapid-response warehousing and distribution) that benefit from proximity to downtown economic activity.
- Local market demand. Inner cities have dense populations that receive relatively low levels of retail and financial services, offering opportunities for businesses to expand.
- Integration with regional clusters. Inner-city businesses can often capitalize on clusters of firms and industries that are unique to a region, such as the entertainment industry in Los Angeles and the world-class financial services and health care sectors in Boston. Porter cites the Detroit-based Mexican Industries, which has emerged as a key supplier of head rests, arm rests, air bags, and other auto parts by forging close relationships with local automobile manufacturers.
- Human resources. Despite popular stereotypes, Porter finds that many inner-cities employers are satisfied with their inner-city workforce and that they are able to identify a large pool of workers who are committed to work. Porter also argues that inner cities have a large pool of community leaders who have the potential to be effective entrepreneurs.

Overcoming barriers to development. Despite these advantages, it has proven difficult for businesses to flourish in inner cities, for reasons such as inadequate local infrastructure, high crime rates, burdensome government regulations, and the high cost of land development. Porter suggests that government can play a critical role in creating an environment that is favorable to business investment by investing in public infrastructure, eliminating burdensome regulation, cleaning up environmentally hazardous sites, and making education and training services more responsive to private sector needs.

Porter also argues that the government should not subsidize the creation of businesses that would not otherwise be economically viable. For this reason, he argues against ongoing business tax subsidies or set-asides for minority businesses. He also argues that access to capital should be made available through mainstream financial intermediaries (rather than government loan pools or quasi-public financing entities), because they have a greater capacity to identify good business investments.

The view of the critics. While Porter's theory has attracted widespread interest, critics have made the following arguments:

- Policies that help businesses may not help inner-city residents. Urban renewal may drive up rents and displace inner-city residents. In addition, high skill requirements and labor market discrimination may limit the extent to which new businesses are willing to hire inner-city residents.
- Businesses may still not be willing to locate in inner cities. Porter's policy recommendations may not be sufficient to counteract systemic economic forces driving employment from cities to the suburbs. In addition, businesses may be unwilling to locate in hard core inner-city neighborhoods, where social problems are severe and where other business activity is limited.
- More activist policies may be necessary to counteract discrimination. Many of the policies that Porter criticizes as economically inefficient may counteract discrimination in housing, credit, and labor markets. For example, research suggests that minority business owners are more likely to hire inner-city minorities, suggesting that minority set-asides may increase employment of inner-city residents.

Conclusion. Porter offers some useful insights that may help to identify potentially promising private sector initiatives for inner-city economic development. His particular prescriptions for government policy are more controversial and have not yet been adequately tested.

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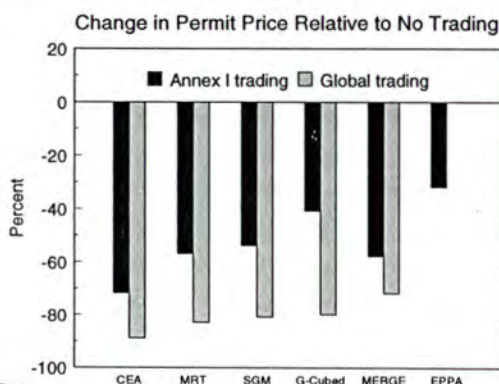
Early Results from Economic Models of Kyoto

Last week, economists who maintain large econometric models of climate change policy met to present the first set of results that incorporate the terms of the Kyoto agreement reached in December. The preliminary results presented at a meeting of the Energy Modeling Forum (EMF) are generally consistent with the economic analysis underlying Administration testimony to Congress regarding the likely economic effects of climate change policy. In particular, the EMF results show the importance of international trading, broad-based international participation, and other flexibility provisions that are part of the U.S. position.

A prior dearth of model results. As of December, no model inside or outside of government was set up to analyze the parameters of the Kyoto agreement. For example, none was designed to assess carbon sinks (such as afforestation), let alone all six categories of greenhouse gases covered by the agreement (attention has focused overwhelmingly on carbon dioxide from fossil fuel combustion). Moreover, incorporating changes in policy parameters into large econometric models takes months or even years.

Thus, the CEA relied on "off the shelf" technology when it was called on to testify before Congress in March on the likely economic implications of climate change policy. In particular, CEA had to integrate in a relatively ad hoc manner numbers drawn from the model that seemed best for analyzing the role of international trade in emission permits (Battele's SGM) with cost analyses of non-carbon dioxide greenhouse gases. CEA also stressed that no single model could answer with confidence all the important questions relevant to assessing climate change policy.

The importance of trading. Assessments of Kyoto based on five widely recognized models were presented at the EMF meeting (see box on next page). Four of these



illustrate the potential for trading among Annex I (industrial) countries, as called for in the Kyoto Protocol, to reduce permit prices substantially. The results are comparable to the earlier CEA estimate (see chart). Since permit prices directly affect energy prices, substantial reductions in permit prices imply much smaller increases in energy prices than under a no-trading scenario.

One model (MERGE) explicitly assessed the effects of a constraint on the amount any country could purchase from abroad (no more than one-third). It found that such a trading cap would about double the U.S. permit price.

The importance of developing country participation. The EMF modeling results indicate that additional reductions in permit prices may be achieved if developing countries adopt emissions targets and participate in trading. Indeed, three models and the CEA analysis found that global trading would reduce the U.S. permit price by another 13 to 40 percent over and above the 30 to 70 percent associated with trading among Annex I countries. These results assume that the developing countries only commit to limit emissions to their “business-as-usual” or baseline level.

Unfinished business. Researchers remain uncertain about the potential for carbon sequestration (sinks) to be used in achieving the Kyoto Protocol emissions targets. Nevertheless, some modelers reported that sinks may significantly lower permit prices. Also, the CEA analysis incorporates trading in all six greenhouse gas categories, while the other models look only at fossil fuel combustion. If these models were to incorporate the other gases more fully, their estimates of the gains from trading would almost surely be larger. Finally, modelers have noted that a small set of countries that are likely to be net sellers of permits, including Russia and the Ukraine, could form a cartel and drive up prices in the permit market. More refined results on the economic effects of the Kyoto Protocol are expected this August.

The Energy Modeling Forum

The Energy Modeling Forum, which is coordinated from Stanford University, is generally recognized as the leading group providing model comparisons. Of the dozen or so models that have typically participated in the past, only five have yet been able to produce results based on the specifics of the Kyoto Protocol:

<u>Model</u>	<u>Modeling Team</u>
SGM	Edmonds, et al. (Battelle Laboratory)
MERGE	Manne and Richels (Stanford University and Electric Power Research Institute)
MRT	Montgomery and Rutherford (Charles River Associates and University of Colorado)
EPPA	Jacoby (Massachusetts Institute of Technology)
G-Cubed	Shackleton (Environmental Protection Agency)

BUSINESS, CONSUMER, AND REGIONAL ROUNDUP

The Benefits from Early Childhood Intervention Programs. Early intervention programs—programs designed to improve the long-term social and economic well-being of disadvantaged children by providing various forms of assistance in the early years of life—can yield substantial benefits to participants, according to a recent study by the RAND Corporation. The study compiled and assessed evaluations of nine early intervention programs, ranging from child care, preschool, and Head Start programs to programs providing prenatal care, health services, or meals. Some of the evaluations focused on only a few indicators of social and economic well-being, but as a group they covered a range of outcomes. The study found that each program favorably affected at least one of the measured indicators of well-being, and most programs favorably affected several. Favorable outcomes were recorded for long-term school achievement (measured by test scores), high school graduation rates, income, the likelihood of criminal activity, grade repetition, and emergency room visits.

Serious Crimes Fell in 1997 for Sixth Consecutive Year. Reports of serious crime declined by 4 percent in 1997, according to preliminary data from the Federal Bureau of Investigation. This decline marks the sixth consecutive annual decrease in reported crime. Violent crimes fell by 5 percent in 1997, fueled by 9 percent decreases in both murders and robberies. Property crimes fell 4 percent, led by an 8 percent drop in arson and a 5 percent decline in car thefts. Crime fell in all regions, with the Northeast reporting the greatest declines (6 percent), followed by the South (4 percent), and the West and Midwest (3 percent each). Crimes also fell in cities, with the greatest declines in the largest cities—those with 250,000 or more residents. Final crime statistics for 1997 are scheduled to be released in the fall of 1998.

What Investors Don't Know Can Hurt Them. A new study indicates that less-informed investors may consistently tend to “buy high and sell low,” systematically transferring their wealth to better-informed investors through overly aggressive trading. The study is based on a “laboratory experiment” in which about 60 Cornell University MBA students were asked to make judgments about securities values and trade based on information about a small set of profitable companies. Half of the students were given a small amount of information about the companies; the other half were given more data. Although market theory predicts that the less-informed investors would be less confident in their judgments about the value of securities and trade more cautiously, the study found that they were just as confident as the more-informed investors and were just as aggressive in their stock trading. As a result, the less-informed investors suffered significant losses to the investors trading with more information. The researchers found, however, that when the investors were made aware of their relative information disadvantage, they traded more cautiously. These results lead the authors to question proposals to reduce the amount of information companies are required to disclose, arguing that the complexity of current financial statements is a valuable caution to casual investors about what they do not know.

INTERNATIONAL ROUNDUP

Indonesian Conflict Rattles Emerging Markets. Social unrest in Indonesia may have triggered speculative pressure in Russia, where the main stock index plunged 12 percent Monday over fear the ruble would be devalued. (This followed a decline of 14 percent last week.) Share prices in Latin America followed suit later Monday, with Brazilian stocks falling 6.4 percent, Mexican stocks tumbling almost 3 percent, and Argentine stocks declining 4.8 percent. In addition to the general caution over emerging markets among international investors, factors contributing to the poor investor sentiment in Russia include the absence of a credible fiscal policy, the lack of well-developed hedging mechanisms against currency risk, and the absence of authoritative data on central bank reserves. The IMF mission that is in Moscow this week to conclude the 1998 program is expected to demand implementation of the fiscal program that Russia has been deferring, which might boost investor confidence.

France Approves 35-Hour Work Week. Fulfilling the campaign promises of Prime Minister Jospin, France passed legislation on Tuesday reducing the maximum length of the working week from 39 to 35 hours by 2000 (with exemptions to 2002 for smaller businesses). The policy is meant to reduce unemployment, but unless weekly compensation is allowed to fall along with hours, the effect on employment is likely to be small (see *Weekly Economic Briefing*, September 19, 1997).

Australia Is Back in the Black. According to current projections, Australia's 1998-99 budget will be the first to deliver an underlying surplus since that of 1990-91. The surplus—estimated to be equal to 0.5 percent of GDP in 1998-99 and to rise to 1.3 percent in 2000-01—is due largely to targeted reductions in government outlays and will be achieved without increases in income, corporate, or sales taxes. The 1998-99 budget assumes GDP growth of 3 percent, down ¼ percentage point from the December mid-year forecast, reflecting expected weakness in Asia.

Environmental Watchdog Offers Cautious Assessment. A new report by the nonprofit environmental group, Worldwatch Institute, documents trends in a series of over 50 environmentally related indicators and offers a cautious view of the progress of global welfare last year. Although world output expanded at a near-record 4 percent in 1997, the Institute's report suggests that increases in world population and production may be causing some of these indicators to head downward. World population grew by 1.4 percent to 5.8 billion; as a result, per capita grain production fell, despite a second consecutive record-breaking harvest of 1.9 billion tons of grain. Relative to historical levels, however, per capita food production remains high—though grain stocks are quite low. Carbon emissions, atmospheric carbon dioxide concentrations, and the world's average temperature each climbed to record highs in 1997. Coal and oil use are at record highs, but alternative energy sources are steadily increasing capacity. Urbanization continued apace in 1997, while the number of individuals with HIV surged 16 percent to 42 million, and AIDS cases rose 21 percent to 15 million.

RELEASES THIS WEEK

U.S. International Trade in Goods and Services

The goods and services trade deficit was \$13.0 billion in March; it was \$12.2 billion in February.

Housing Starts

Housing starts decreased 2 percent in April to 1.538 million units at an annual rate. During the first four months of 1998, housing starts were 6 percent above the same period a year ago.

MAJOR RELEASES NEXT WEEK

Consumer Confidence—The Conference Board (Tuesday)
Advance Durable Shipments and Orders (Thursday)
Gross Domestic Product (Thursday)

U.S. ECONOMIC STATISTICS

	1970- 1993	1997	1997:3	1997:4	1998:1
Percent growth (annual rate)					
Real GDP (chain-type)	2.7	3.7	3.1	3.7	4.2
GDP chain-type price index	5.4	1.8	1.4	1.4	0.9
<u>Nonfarm business (NFB) sector:</u>					
Productivity (chain-type)	1.5	2.1	3.6	1.4	0.2
Real compensation per hour:					
Using CPI	0.6	2.2	1.8	3.1	3.5
Using NFB deflator	1.3	2.5	2.7	3.9	3.1
Shares of Nominal GDP (percent)					
Business fixed investment	10.9	10.5	10.7	10.6	10.8
Residential investment	4.5	4.1	4.1	4.1	4.2
Exports	8.2	11.8	11.9	11.9	11.5
Imports	9.2	13.1	13.3	13.2	13.0
Personal saving	5.3	2.8	2.6	2.9	3.1
Federal surplus	-2.7	-0.4	-0.1	-0.1	N.A.
	1970- 1993	1997	Feb. 1998	March 1998	April 1998
Unemployment Rate (percent)	6.7**	4.9**	4.6	4.7	4.3
Payroll employment (thousands)					
increase per month			259	-24	262
increase since Jan. 1993					15246
Inflation (percent per period)					
CPI	5.8	1.7	0.1	0.0	0.2
PPI-Finished goods	5.0	-1.2	-0.1	-0.3	0.2

**Figures beginning 1994 are not comparable with earlier data.

FINANCIAL STATISTICS

	1996	1997	March 1998	April 1998	May 21, 1998
Dow-Jones Industrial Average	5743	7441	8709	9037	9132
Interest Rates (percent per annum)					
3-month T-bill	5.01	5.06	5.03	4.95	5.10
10-year T-bond	6.44	6.35	5.65	5.64	5.65
Mortgage rate, 30-year fixed	7.80	7.60	7.13	7.14	7.10
Prime rate	8.27	8.44	8.50	8.50	8.50

INTERNATIONAL STATISTICS

Exchange Rates	Current level May 21, 1998	Percent Change from	
		Week ago	Year ago
Deutschemark-Dollar	1.759	-1.3	4.0
Yen-Dollar	135.7	1.1	18.9
Multilateral \$ (Mar. 1973=100)	99.17	-0.7	5.6

International Comparisons ^{1/}	Real GDP growth (percent change last 4 quarters)	Unemployment rate (percent)	CPI inflation (percent change in index last 12 months)
United States	3.6 (Q1)	4.3 (Apr)	1.4 (Apr)
Canada	4.2 (Q4)	8.5 (Mar)	1.0 (Mar)
Japan	-0.2 (Q4)	3.9 (Mar)	2.2 (Mar)
France	3.0 (Q4)	12.1 (Mar)	0.8 (Mar)
Germany	2.3 (Q4)	^{2/} 7.6 (Feb)	1.1 (Mar)
Italy	2.8 (Q4)	12.1 (Jan)	1.7 (Mar)
United Kingdom	2.8 (Q1)	6.4 (Mar)	3.5 (Mar)

^{1/} For unemployment data, rates approximating U.S. concepts as calculated by the U.S. Department of Labor, Bureau of Labor Statistics.

^{2/} Rate for former West Germany. Using OECD standardized unemployment data, the unemployment rate for unified Germany for February 1998 is 9.7 percent.

5-25-98

THE WHITE HOUSE

WASHINGTON

May 23, 1998

98 MAY 22 PM6:33

MEMORANDUM FOR THE PRESIDENT

FROM: TODD STERN *TS*

SUBJECT: Climate Change Weekly Report

*copied
stern
COS*

*Burkhardt
(for response)
by Adams
for response*

Domestic Policy

Good! I convened an interagency economic group this week to work up a proposal on how credit could be awarded to companies that take action early. This is a matter of considerable importance to many in business who worry that government will encourage them to act but then fail to provide adequate emissions credit.

Diplomatic

need to push developing country participation in future treaty Japan and the European Union agreed today to join efforts to convince the United States to sign the Kyoto Protocol and to encourage developing countries to reduce greenhouse gas emissions. The agreement came after two days of annual, high-level consultations.

More than 35 countries have signed the Kyoto Protocol, including Canada, Australia, Japan and all members of the EU. We have said we will sign within the one-year signing period (March 1998 - March 1999), when most appropriate in light of the overall diplomatic situation.

Congressional

This week the House passed an amendment to the Defense Authorization bill that would prevent regulations issued under the Kyoto Protocol from restricting operations of the U.S. military. The amendment is broadly consistent with policy guidance you approved on this topic several months ago. We did not oppose the amendment, although we have technical concerns with the provision that we will work address as the bill proceeds to the Senate and conference.

to my to him from us Janet Yellen again testified about the Administration's assessment of the economic impact of the Kyoto Protocol. Cong. McIntosh (R-IN), a vocal opponent of Kyoto, quizzed Janet extensively and chided her for not producing more documents in support of our position. Cong. Dennis Kucinich (D-OH) was an equally vocal defender of our policies and processes. We also continued this week pushing for our climate change - related budget initiatives.

5-25-00

Outreach

We had a useful meeting on Thursday with a joint labor/environmental group at the AFL-CIO. The two communities have tended to come at this issue from opposite directions -- the enviros have argued that our approach should be more aggressive and labor has argued that our approach is too aggressive. If they can find some common ground, that would be all to the good. At our meeting, labor made it clear, as they had in previous meetings, that they want a chance to participate with respect to our industry consultations. We have assured labor that we will consult with them about our industry talks and that we will encourage industries to include labor in formulating their plans for cutting greenhouse gases.

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

Good!
very important
to get them as close
as possible →



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

'98 MAY 22 PM 7:22

May 21, 1998

THE PRESIDENT HAS SEEN
5-25-98

MEMORANDUM FOR THE PRESIDENT

FROM: KERRI-ANN JONES *K.A. Jones*
CC: ERSKINE BOWLES
SUBJECT: OSTP WEEKLY REPORT

*copied
Jones
Bowles*

G-8 PLEDGES TO ACCELERATE AIDS VACCINE DEVELOPMENT

Your discussions at Birmingham led to a G-8-wide pledge to enhance cooperation on infectious diseases, particularly malaria, consistent with your June 1996 Decision Directive on emerging infectious diseases. On HIV/AIDS, the leaders reaffirmed their commitment to accelerate the development of an effective AIDS vaccine, which you called for one year ago at Morgan State University. The previous week, Surgeon General David Satcher and OSTP staff represented the U.S. at a meeting of G-8 disease experts, who launched an effort to strengthen global surveillance and response to infectious diseases.

VARMUS SETS THE RECORD STRAIGHT ON HUMAN GENOME PROJECT

On May 17 the New York Times published a letter to the editor from Harold Varmus responding to the story about Craig Venter's plan to sequence the human genome within 3 years (letter attached). Varmus went on the public record with critical points Neal Lane raised with you (memo of May 12), namely:

- It is unclear whether Venter's "rough draft" will meet the needs of the scientific community.
- The enthusiasts for Venter's "cheaper, faster" claims neglect the role the government-funded Human Genome Project has played in facilitating the private effort.
- The costs of the Human Genome Project reflect the government's commitment to address broader issues than sequencing, including evaluation of the ethical, legal, and social implications of the work -- something the private sector will not undertake.

NEW CLONING TECHNIQUE REPORTED

Science magazine reported that researchers from the University of Massachusetts, using similar cloning techniques that were used to create Dolly (somatic cell nuclear transfer), produced three genetically identical calves. In this case however, the source of the transfer material was a genetically engineered cell line from an unborn calf. The result was three genetically identical

calves carrying inserted gene markers. Steve Stice, the chief scientist of the study, said that the technique demonstrates that a cell culture from cattle or other livestock can be manipulated to contain specific, desirable genes, and that these cells can then be used to clone endless herds of genetically identical offspring. This new advance in cloning technology could lead to important health and economic benefits for humans.

Stice has said that he and his colleagues are working to build a herd of cattle genetically modified to be immune to mad cow disease, and planning cows genetically altered to produce milk that closely resembles human milk. The group is also experimenting with pigs and hopes to create a herd of swine with hearts, lungs, livers and kidneys that carry human genes. Such organs could be transplanted into humans with less chance of rejection.

Progress on All Fronts in Race to Map Genes

To the Editor:

"Beyond Sequencing of Human DNA" (Science Times, May 12) may give the impression that because a private entity announced it will sequence the human genome within three years, this task is a fait accompli and the publicly financed Human Genome Project may not be needed. This is not the case.

Sequencing experts have significant reservations about whether the "rough draft" this private group aims to produce will meet the needs of the scientific community and the public. Whether the approach is successful in creating an accurate sequence of the human genome — and one that is freely accessible and assembled so that it can be interpreted — will not be known for at least 18 months.

The ambitious milestones set by the Human Genome Project since it began in 1990 have thus far been reached. In fact, data produced by the project have made the private effort possible and have reduced the time needed to isolate disease-related genes from decades to often just days.

You compare the estimated \$200 million cost of the private initiative with the Human Genome Project budget of \$3 billion. The public is getting much more than just the sequence to the human genome from our 15-year effort, including studies of many other genomes, genetic maps and genetic markers, as well as information about new disease genes and an evaluation of the ethical, legal and social implications of our new abilities to decipher genetic information.

HAROLD VARMUS, M.D.

Dir., National Institutes of Health
Bethesda, Md., May 12, 1998

Increase Ethics Budget

To the Editor:

If Edward O. Wilson is right that coming discoveries in molecular biology will allow us to direct human evolution through our choices ("From Ants to Ethics: A Biologist Dreams of Unity of Knowledge," Science Times, May 12), then the Government should drastically increase the share of the Human Genome Project budget that will go to studying ethical, legal and social implications ("Beyond Sequencing of Human DNA," Science Times, May 12).

The Times welcomes letters from readers. Letters must include the writer's name, address and telephone number. Those selected may be shortened for space reasons. Fax letters to (212) 556-3622 or send by electronic mail to letters@nytimes.com, or by regular mail to Letters to the Editor, The New York Times, 229 West 43d Street, New York, N.Y. 10036-3959.

It is unlikely that private industry, in its three-year sprint to map the human genome, will pause to reflect on the ethical and social implications of its findings. It is essential for a democratic society to devote more money to preserving and authenticating the values of fairness and justice when biology makes it possible for us to select for or against particular traits in ourselves and others.

VIRGINIA A. SHARPE

Garrison, N.Y., May 15, 1998

The writer is an associate for biomedical and environmental ethics at the Hastings Center.

Why Do Research?

To the Editor:

I applaud Dr. John Kihlstrom and Dr. Robert Plomin for recognizing the potential for abuse in research on genes linked to high intelligence (news article, May 14). It is a shame that the product of this research will be exploited by genetic centers seeking to make a profit off people intent on having their designer baby be more intelligent than the children of others.

The question for the doctors is, Why perform this type of gene research? There appears to be no other use for knowledge about genes that affect intelligence than the abuses they decry. Will all newborns be in vitro someday so we can screen out the embryos that are not likely to produce children with I.Q.'s below 160?

JON D. ARBOGAST

St. Louis, May 15, 1998

What the Artist Sees Loc

To the Editor:

"The Eye in the Eye of the Beholder" (Week in Review, May 10) reports the intriguing observation that traditional portraits place one eye halfway between the two sides of the frame.



The New York Times Company

229 West 43d St., N.Y. 10036-3959

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May 17, 1998

5-23-00

excellent. The day included panels on the changing face of faith in America and key elements of success for racial reconciliation programs as well as breakout groups. We are hopeful that the event will be the catalyst for renewed racial reconciliation efforts there.

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Coss

CONSTITUENT OUTREACH AND OTHER ISSUES

GAY AND LESBIAN ISSUES

Reaction to Inhofe's remark comparing Hormel to David Duke fuels momentum for nomination. In Monday's *Roll Call*, Senator Inhofe compared James Hormel's views to those of David Duke, suggesting they were equally extreme. Those comments were widely condemned in stories in *AP*, *The New York Times*, *The Wall Street Journal* and *The San Francisco Examiner*, among others. The reaction served to energize supporters.

JEWISH OUTREACH

Support for Palestinian Broadcasting Corporation questioned. The United States should cease its support for the Palestinian Broadcasting Corporation, 62 members of Congress said in a letter to U.S. Secretary of State Madeleine Albright. The letter, which has been circulating the past month in Congress as part of a Republican-led effort, cites what it charges is the corporation's continued support of violence and terrorism against Israel. Since 1994, the corporation, which runs a television and radio station, has received about \$500,000 from various U.S. federal agencies.

- **Religious coercion in public schools.** The American Jewish Congress and the Anti-Defamation League told the U.S. Commission on Civil Rights that religious coercion in public schools threaten to undermine the values of American democracy. The testimony came as part of a public fact-finding hearing examining current issues and disputes involving religious rights and public schools.
- **Congressional visits to Israel.** House Speaker Newt Gingrich announced at a rally for AIPAC activists that he plans to visit the site of the future U.S. Embassy in Jerusalem and declare that it is time to break ground. Gingrich and Democratic Majority leader Richard Gephardt (D-Mo.) are slated to lead a congressional delegation to Israel Friday in celebration of its 50th anniversary. Their group is one of several congressional delegations planned during the next week. At least 27 lawmakers are expected to visit Israel this week and next.

WOMEN'S OFFICE OUTREACH

- **Gender "Segregated" Basic Training.** We have received numerous calls and e-mails from women's groups, women service members and veterans outraged over the



ONE AMERICA IN THE 21ST CENTURY

The President's Initiative on Race

THE PRESIDENT'S INITIATIVE

5-25-98

The New Executive Office Building
Washington, DC 20503
202/395-1010

MEMORANDUM FOR THE PRESIDENT

FROM: JUDITH A. WINSTON

THROUGH: ERSKINE BOWLES
SYLVIA MATHEWS

DATE: MAY 22, 1998

SUBJECT: PRESIDENT'S INITIATIVE ON RACE WEEKLY REPORT
MAY 16 - MAY 22

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Bowles

ADVISORY BOARD ACTIVITIES

May Advisory Board Meeting on Administration of Justice. On May 19, the Advisory Board met at The George Washington University to discuss Race and the Administration of Justice. The meeting featured an address by U.S. Attorney General Janet Reno, who spoke about the importance of establishing trust in the criminal justice system, and included a factual overview of race and the justice system by Christopher Stone, Director of the Vera Institute of Justice. Professor Charles Ogletree of Harvard Law School served as the moderator, of the meeting, which included 10 panelists and Advisory Board members Dr. John Hope Franklin, Reverend Dr. Suzan Johnson Cook, Governor Tom Kean, Angela Oh, Linda Chavez-Thompson and Bob Thomas. Among the topics discussed were racial profiling, jury composition, and disparities in sentencing between whites and minorities. Approximately 250 people attended the meeting.

Religious Leaders Forum. The first Religious Leaders Forum was held on May 21, at Tulane University in New Orleans. It was hosted by Reverend Dr. Suzan Johnson Cook and was attended by more than 100 local and national religious leaders. Reverend James Forbes of the Riverside Church in New York City was the keynote speaker at the plenary session. The forum focused on the ways to strengthen the faith community's commitment to and involvement in, One America. The next Religious Leaders Forum is scheduled to occur in Louisville, Kentucky on June 1.

5-25-98

Asian Pacific American California School Board Officials. On May 16, Angela Oh spoke to this organization in San Diego about the role of California public schools in promoting improved race relations.

Ecumenical Group of Clergy. On May 18, Reverend Dr. Suzan Johnson Cook addressed the Ecumenical Group of Clergy for Metropolitan DC. She discussed her work as an Advisory Board member and her vision of One America.

Joint Center for Political and Economic Studies. On May 20, Linda Chavez-Thompson was the keynote speaker at a forum entitled "The African American Military Officer in the New Millenium." The forum was hosted by the Joint Center for Political and Economic Studies. At the forum, the Joint Center released a nine-month study regarding the state of affairs of the African-American officer in the Army.

OFFICE OF THE EXECUTIVE DIRECTOR

Race Symposium. We participated in a symposium sponsored by the National Park Service and the *Brown v. Board of Education* Foundation. The symposium was part of a series of events that the Park Service has sponsored around the country on race. This three-day conference commemorated the 44th anniversary of the *Brown* decision. It brought together community leaders to address race issues that affect the quality of life in the community, schools and families of the people of Topeka.

 **Dakota Territory Tribal Chairmen's Association Meeting.** On May 20, we met with representatives from the Oglala, Rosebud and Yankton Sioux Tribes. The discussion focused on steps the Initiative could take to promote a more complete historical understanding of the Native American experience.

Meeting with the Navajo Nation. On May 19, Advisory Board members Dr. John Hope Franklin and Bob Thomas and myself, met with Navajo Nation representatives Chief Justice Robert Yazzie and Sharon Clahchischillie to discuss the May Advisory Board meeting and issues of concern to the Navajo Nation.

The National Research Council Project. On May 19, we announced the National Research Council (NRC) project. The NRC will hold a conference October 15 and 16 in Washington, DC. The NRC has commissioned nationally recognized scholars to examine past and current trends for different racial and ethnic groups in key areas, including health, education, employment and the administration of justice and identify gaps in research and data that are needed to promote a clear understanding of race-related issues.

June Advisory Board Meeting. We have begun planning the June Advisory Board Meeting, which is scheduled to take place June 17 and 18 in Washington, DC. The Advisory Board plans to discuss and analyze information that has been gathered during the course of the year.

Carnegie Endowment for International Peace. On July 13, the Carnegie Endowment for International Peace will sponsor an event on the immigrant experience and race. The event will provide Advisory Board members with a more in-depth understanding of the issues relating to the changing face of immigration and its effect on America.

Federal agency activities were not available.

THE WHITE HOUSE
WASHINGTON

'98 MAY 23 PM 1:33

THE PRESIDENT HAS READ

5-25-98

May 23, 1998

MEMORANDUM FOR THE PRESIDENT

FROM: Mickey Ibarra *Mickey*

SUBJECT: Office of Intergovernmental Affairs Weekly Report -- May 11 - 22, 1998

*Copied
Ibarra
Mathews
COS
Emanuel
Smith
COS*

ISTEA

- State and local officials are pleased with the agreement we reached on ISTEA. They are very interested in participating in a signing ceremony. Attached is a press release from the National Governors' Association that applauds the agreement.

Year 2000

We facilitated a presentation by John Koskinen for the executive directors of the "Big Seven" organizations of elected officials to discuss the complex problems surrounding the conversion of computer systems for the next millennium. Many states have been actively preparing for the conversion to the year 2000, however, Administration officials and the Big Seven organizations remain concerned that a few states and some local governments will be ill-prepared.

Governors

- The governors are very pleased with the work that we have done on tobacco. DPC has done an excellent job of negotiating with the governors and they feel very invested in the McCain package. Many of the Republican governors are receiving pressure from Senator Trent Lott (R-MS) and Speaker Newt Gingrich (R-GA) for negotiating with the Administration, but they are fully aware that the bill protects the primary goals of the states, namely to protect the state claims (\$196 billion) and state programmatic flexibility. In coordination with DPC, we are considering inviting the governors to the White House soon to discuss the tobacco legislation.

- IGA worked with Cabinet Affairs to apprise Governor George Bush's (R-TX) office of the Administration's efforts to help Texas deal with the air quality hazard created by the massive fires in Northern Mexico. COS Bowles also discussed our efforts with him.

5-25-96

- Governor Paul Patton (D-KY) agreed to write a letter committing his support regarding tobacco to the Leaf Act. Our efforts to gain the support of other Southern governors have been hampered by the unwillingness of Governor Jim Hunt (D-NC) to support this Act.

County Officials

We hosted a meeting with Commissioner Jane Campbell (D-Cuyahoga County, OH) to discuss her welfare to work plan. She is in a predicament because Governor George Voinovich (R-OH) did not apply for welfare to work money. We are attempting to find alternatives to help localities from states that did not apply for the funds.

Mayors and Municipal Officials

Mayor Pat Owens (I-Grand Forks, ND) brought a delegation of civic, business, and political leaders to the White House on Thursday, May 14. DCOS John Podesta, Thurgood Marshall, and Lynn Cutler received their appreciation on behalf of the Administration for its assistance and support during the floods last spring. Their profound gratitude to you and your leadership was very apparent.

Indian Country

- We are closely following Section 604, the Gorton Amendment, of Senator John McCain's (R-AZ) tobacco bill. The section involves state sales and estate taxes on the sale of tobacco on Indian reservations. At issue is the possible infringement upon tribal sovereignty.
- We continue to work with our colleagues to prepare for a national day of dialogue on race in Indian Country.

Ladonna and Laura Harris of Americans for Indian Opportunities brought 17 members of their "Ambassador Program" for a briefing at the White House. The ambassadors are selected from tribes from around the nation for their leadership skills and future potential. They were briefed by representatives from OMB, the Department of Interior, the Department of Justice, and the Small Business Administration.

Insular Affairs

The Senate Finance committee's tobacco bill amendment would apply its \$1.50 per pack cigarette tax to Puerto Rico and the other unincorporated areas, but does not include them in its revenue allocation formula. We alerted Senators Daniel P. Moynihan (D-NY) and Bob Graham (D-FL) to the problem and they and Senators Bob Kerrey (D-NE), and Al D'Amato (R-NY) are willing to rectify it. We are working on this.

- Republican pollster Richard Wirthlin reported that: 97% of Puerto Rican and 63% of U.S. voters favor a Puerto Rican status choice; 47% of Puerto Ricans think the Island will become a state within a decade while 35% think it will remain in its present status; 45% would vote now for Commonwealth and 42% would vote for statehood; and 57% of Puerto Ricans prefer a Democrat as president vs. 27% who prefer a Republican.
- Governor Pedro Rossello (D) put aside his concerns about the Interior Department's draft for legislation to allocate some of the tax on rum produced in the islands to the Puerto Rico Conservation Trust and agreed to the Interior Department's language.

Council of State Governments

- I spoke to the Intergovernmental Affairs Committee and Executive Committee of the Council of State Governments (CSG) in Phoenix on May 15 and 16. Governor Pedro Rossello (D-PR) is the current president of CSG. My remarks focused on building support for your policy initiatives, including transportation and ISTEA, tobacco, Internet taxation, .08 BAC standards, the Race Initiative, and education.

Salt Lake City Olympics

- At the invitation of Mayor Deedee Corradini (D- Salt Lake City, UT), I traveled to Salt Lake City on May 14 to tour the Salt Lake Olympics 2002 venues, meet with senior Olympics staff, and review the Salt Lake light rail system and Gateway brownfield project. The Mayor and other officials are very appreciative of the federal assistance the region has received.

Seattle Chamber of Commerce

- IGA facilitated a meeting between the Vice President and Governor Gary Locke (D-WA), prior to the Vice President's drop-by to an OEOP reception for the Seattle Chamber of Commerce on Friday, May 15. Included in the Seattle delegation was Mayor Paul Schell (D-Seattle, WA) and several local officials from the greater Seattle region.

NATIONAL
GOVERNORS'
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News Release



Hall of the States
444 North Capitol Street
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ONE PRESIDENT BUILDING

5-25-98

FOR IMMEDIATE RELEASE

May 22, 1998

Contact: Becky Fleischauer, NGA, 202/624-5364

GOVERNORS GIVE STANDING OVATION TO CONGRESSIONAL APPROVAL OF TRANSPORTATION FUNDING —

"Restoring Taxpayer Trust and Investing in America's Economic Future "

Washington, D.C.—The nation's governors gave congressional leadership a standing ovation today for giving final approval to the transportation reauthorization conference report. The agreement comes after intense pressure from governors, who warned that funding lapses would have serious consequences for states and their citizens. The bill now moves to the floors of the House and Senate for a final vote and then to President Bill Clinton to be signed into law.

"Governors applaud the conferees for providing significant increases in transportation funding consistent with the balanced budget agreement. We are especially pleased that the legislation contains a guarantee that all taxpayer money sent to Washington's Highway Trust Fund will be invested for their intended purpose - maintaining and improving our nation's highways, bridges, and transit systems," said NGA Chairman Ohio Gov. George V. Voinovich, Vice Chairman Delaware Gov. Thomas R. Carper, and co-chairs of NGA's transportation task force, North Dakota Gov. Edward T. Schafer and Kentucky Gov. Paul E. Patton in a letter to congressional leadership. "This action makes enormous strides toward restoring taxpayer trust and investing in America's economic future."

Overall funding for the bill would top \$200 billion over six years, with highway funding rising to \$28 billion annually and transit funding rising to \$6 billion annually. These funding levels represent a more than 25 percent increase in transportation investments over last year, consistent with NGA policy. The conference report's automatic guarantee that all taxpayer money dedicated to the Highway Trust Fund be used for transportation investments means that states will be better able to plan for long-term, capital investments.

The governors also expressed relief that negotiators rejected proposed cuts in Medicaid administrative costs, and hope that Congress will continue this momentum by sending a bill to the president to sign before the Memorial Day recess so that there will be no disruptions in the critical summer construction season.

"A healthy transportation system is the backbone of our national economy. Our economic future depends on the federal government investing its fair share in the highways and byways that keep America moving," said Govs. Voinovich, Carper, Schafer, and Patton. "State government has been steadily increasing its investment in transportation infrastructure. We're pleased Congress has recognized its responsibility to contribute its fair share to the nation's transportation system."

Governors also praised the efforts of their partners in the Coalition for TRUST (Transportation Revenues Used Solely for Transportation) in pressing Congress to boost transportation funding for the sake of the nation's economic future. The Coalition for TRUST represents a broad cross-section of American business, farm, and labor organizations with a major stake in a viable national transportation system.

—END—

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THE WHITE HOUSE
WASHINGTON

May 22, 1998

THE PRESIDENT HAS BEEN
5-25-98

MEMORANDUM FOR THE PRESIDENT

FROM: THURGOOD MARSHALL, JR. T.M.

SUBJECT: Summary of Cabinet Weekly Reports
May 16 - 22, 1998

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DEPARTMENT OF TREASURY

- **Drug Money Laundering:** On May 18, Secretary Rubin, Attorney General Reno, and Under Secretary Kelly announced the culmination of the most comprehensive drug money-laundering case in the history of U.S. law enforcement, representing the first time in which Mexican banks and bank officials have been directly linked to money laundering of U.S. drug profits by the Cali and Juarez cartels. The nearly three-year undercover operation, known as Operation Casablanca, was led by Customs in cooperation with federal, state, and local agencies. The investigation spanned six countries and, prior to this weekend's arrests, resulted in 112 arrests, as well as seizures of \$35 million in illegal proceeds from drug money laundering, more than two tons of cocaine, and four tons of marijuana.
- **Russia:** During the week of May 11, Deputy Secretary Summers and Under Secretary Lipton traveled to Russia to meet the new economic team and to discuss Russia's economic policy strategy. Summers and Lipton found more coherence and technical competence among the deputy prime ministers than at any time in the last five years, but an overarching political strategy for selling and implementing reform has not yet emerged. Summers commended progress on taming inflation, stabilizing the ruble through resolute monetary action, and maintaining democracy, but stressed current policy challenges, such as the need for careful economic management, the importance of transparency about key economic indicators and the banking sector, and the imperative of sustainable deficit-cutting to promote growth.
- **Ghana:** On May 19, Deputy Secretary Summers met with Vice President Mills of Ghana. The major objective was to secure help in dealing with a severe power crisis that results partly from a regional drought, but even more from the government's failure to take timely action, including raising heavily subsidized electricity rates. Summers

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like to help
them - make sure
we do all we can

expressed support for technical assistance from the World Bank, and possibly for IDA guarantees for private sector solutions, while pressing Ghana to rationalize prices and privatize its power sector.

- **DC Economic Development:** The DC Council recently passed the amendment to the National Capital Revitalization Corporation (NCRC) legislation that restores the Board to a composition and structure acceptable to the Administration. The legislation now goes before the Financial Authority and then to Congress. Treasury has begun to put together a legislative strategy to obtain the \$50 million appropriation requested, together with the companion requests for \$25 million for economic development management reforms and \$25 million for transportation improvements associated with the planned convention center.
- **IRS:** On May 15, House Ways and Means Committee Chairman Archer sent a letter to Secretary Rubin asking for comment on the pending House and Senate provisions in the IRS restructuring legislation. Archer noted that the Senate made numerous changes and additions to the bill and that some involve significant modifications to the tax collection process, and that he believes the final legislation will benefit from a detailed statement of the Administration's views. In particular, Archer called for consultations on the IRS's requested delay of implementation for many provisions in the bills in order to complete Year 2000 fixes.

DEPARTMENT OF JUSTICE

- **BCCI Case:** On May 6, the Court of Appeals for the DC Circuit affirmed the denial of two of the largest remaining claims in the forfeiture phase of the BCCI case. In what are likely to be the last cases to be appealed, the panel affirmed the denial of claims totaling \$9.4 million that were filed by the Republic of Bangladesh and the State Trading Organization of the Maldives. Both petitioners unsuccessfully asserted that the money forfeited by BCCI actually belonged to them.
- **Fourth Amendment Privacy Case:** DOJ filed an *amicus* brief in Minnesota v. Carter. The case presents two questions concerning the extent of Fourth Amendment protection: whether a person who has used an apartment for approximately two and a half hours to package illegal narcotics has a legitimate expectation of privacy in the apartment, and whether a policeman who stands on a grassy common area just outside an apartment window and peers inside through gaps in the venetian blinds is conducting a "search." DOJ argued that a temporary visitor to a home lacks the socially recognized expectation of privacy required to support a claim of a Fourth Amendment violation and that it is not a Fourth Amendment search to look through an apartment window from a place open to the public.

- **Medicare Reimbursement:** In Your Home Visiting Nurse Services, Inc. v. Shalala, DOJ agreed that the Court should consider whether the denial of a Medicare provider's request to reopen an annual reimbursement is subject to review. Although the brief argued that the Sixth Circuit opinion in this case correctly concluded that neither the Provider Reimbursement Review Board nor the federal courts have jurisdiction to review the merits of a fiscal intermediary's denial of a provider's request to reopen a final Medicare reimbursement determination, it supported a review of that conclusion. This is of considerable importance to the administration of the Medicare program and is in conflict with other federal court decisions.
- **NC High-Tech Crimes Conference:** The Eastern, Middle, and Western Districts of NC, in conjunction with the NC Justice Academy, co-sponsored the High-Tech Crimes Conference. The purpose of the one-day conference was to educate the law enforcement community in the investigation and prosecution of high-tech crimes, such as computer crimes.
- **Computer Crime:** *The Washington Post* and *Newsweek* are working on stories about computer crime enforcement.

DEPARTMENT OF INTERIOR

- **Kodak Public Lands Foundation:** On May 15, BLM and the Vice President discussed the development of a Kodak foundation for protecting and preserving public lands and educating the public about the importance of America's public land legacy.
- **Tulsequah Mine Impacts on Salmon:** The Tulsequah Chief mine is a multimetal mine proposed for development in northern British Columbia. It is located on a tributary of the Taku River, a major transboundary stream that supports hundreds of thousands of all five species of Pacific salmon. Degradation of downstream water quality would have an adverse effect on fishery resources of enormous biological and socioeconomic value. FWS believes that current plans for the development and operation of the mine are inadequate to protect transboundary fish and wildlife resources. Efforts to assure resource protection have been unsuccessful. Consequently, DOI, EPA, and State are considering taking the issue to the International Joint Commission.
- **AK National Parks:** In 1997, visitation to national parks in AK topped the 2 million mark for the first time.
- **Wildlife Conservation Initiative:** At the request of OSTP and CEQ, FWS is developing proposals for a wildlife conservation initiative in conjunction with your trip to China. Among the activities being considered is an initiative for conservation of the critically endangered South China tiger, in conjunction with 1998 as the "Year of the Tiger" in the Chinese calendar and using funding from FWS's Rhino-Tiger Conservation Fund.

UNITED STATES DEPARTMENT OF AGRICULTURE

- **India Sanctions:** USDA's General Counsel has advised officials regarding the applicability of sanction provisions of the Arms Export Control Act with respect to specific USDA actions and general U.S. agriculture-related activities in India. Major issues under review include: the applicability of the Act to USDA's export credit guarantee programs, and the definitions of "humanitarian assistance," "food," and "agricultural commodities" for purposes of determining the applicability of several exemptions.
- **Fires in Mexico:** The Forest Service, in cooperation with State and AID, is supplying Mexican officials with fire fighting equipment, including chain saws, safety equipment, and other tools, to fight the fires spreading smoke into TX and the Gulf states.
- **Conservation Farm Option (CFO) Program:** On May 6, USDA began accepting proposals for participation in the CFO pilot program, in which a farmer implements a single conservation plan that addresses soil, water, wetlands, or wildlife conservation measures on the farm, and receives a single annual payment.
- **Commodity Markets:** Wheat cash and futures prices fell last week, as weather conditions improved, demand remained slow, and corn prices fell. Corn cash and futures declined following rapid planting progress, especially in the Eastern Corn Belt. Soybean prices dropped on indications of growing supplies and weakened demand for soybean oil. Rice cash prices remained firm, while new-crop futures rose on good export prospects to Latin America. Cotton prices surged, following USDA's forecast last week showing 1998-99 U.S. ending stocks 20 percent lower than the current year. Cattle prices fell, as packers completed their Memorial Day purchases. Hog and broiler prices continue to move up seasonally, but pressure from large supplies, including beef, overhang the market. Cheese prices moved up modestly in light trading, while butter prices remained firm.
- **Food Safety:** On May 21, Secretaries Glickman and Shalala and the Vice President participated in a food safety event that demonstrated the "PulseNet," and "FORC-G" interagency food safety systems. These systems will allow USDA, CDC, FDA, and other state and Federal agencies to better monitor and respond to outbreaks of food-borne illness.

DEPARTMENT OF COMMERCE

- **International Science and Technology Agreements:** On May 14, DOC met with GAO officials to discuss the costs associated with international Science and Technology (S&T) agreements and the types of international S&T activities undertaken by DOC.

- **Trade Ministerial:** Secretary Daley and Ambassador Barshefsky co-chaired the Trade Ministerial with the EU in London. Secretary Daley urged his European colleagues to match U.S. sanctions on India, while preventing the Indians from switching to alternate suppliers. On May 17, Secretary Daley hosted a U.S. TransAtlantic Business Dialogue dinner to elicit TABD's direct involvement to create a private sector working group to explore best business practices for Cuba.
- **Mexican Fires:** The National Oceanic and Atmospheric Administration's (NOAA) Air Resources Laboratory's HY split modeling capability is being used extensively by state authorities and researchers to help manage the large fires burning on the Yucatan Peninsula that are affecting FL, TX, and other states. EPA requested assistance from NOAA's Hydrometeorology Prediction Center to forecast wind trajectories over Mexico and into the U.S.
- **Semiconductor Industry Measurements:** On May 26, the National Institute of Standards and Technology (NIST) will release the first major study ever done of measurement-related costs in the U.S. semiconductor industry. The report by a NIST contractor is a milestone in economic analyses about a particular industry's costs in acquiring the measurement capability needed to compete globally and the corresponding portion of industrial investment that NIST has the opportunity to leverage. The study indicates a current annual investment rate of about \$3 billion, with expenditures expected to grow at 15 percent annually and reach \$5.5 billion in 2001.
- **Deemed Export Outreach:** In response to recent press coverage regarding increasing employment of high-skilled foreign workers in the U.S., the Bureau of Export Administration (BXA) will be mailing letters to a number of companies that frequently hire foreign workers. BXA is notifying them of possible obligations they may have under the Export Administration Regulations. The letters will remind recipients of the "deemed export rule," that a transfer of technical data to a foreign national in the U.S. may be deemed an export and require BXA authorization, and offer various services to assist employers in understanding and complying with the requirements.
- **U.S.-Northern Ireland Joint Board:** On May 29, DOC will convene a Belfast meeting of the U.S.-Northern Ireland Joint Board, an advisory body to DOC and the Northern Ireland Industrial Research and Technology Unit under the MOU on Technology Cooperation with Northern Ireland. DOC staff will also meet in Dublin with the Irish government about the Research and Development Ireland and North America (RADIAN) program, which is funded by the International Fund for Ireland, to discuss an electronic commerce network.
- **Northern Ireland Trade Mission:** Secretary Daley announced the participants for the business delegation that will accompany his Secretarial Trade Mission to Northern Ireland and the Border Counties. Eighteen companies will be represented from a variety

of fields, including aerospace, environmental technology, medical technology and pharmaceuticals, software, telecommunications and information technologies, agriculture and food processing, and consumer goods.

- **Civil War Battleship MONITOR:** In early June, the U.S. Navy and NOAA will carry out a state-of-the-art laser line scanner survey of the MONITOR site. The MONITOR, which was the first fully iron-clad battleship and sank during the Civil War, lies in 230 feet of water 16 miles southeast of Cape Hatteras, NC. With the help of NOAA, the Navy's NR-1 submarine will generate images of the MONITOR and its surroundings. This information will be used to develop a detailed plan to stabilize the ship's hull and recover artifacts.

DEPARTMENT OF LABOR

- **MI Lawsuit:** On May 15, U.S. District Judge Robert Holmes Bell issued a decision siding with DOL in a dispute over the State of MI's attempt to reorganize its employment service. The dispute centered on DOL's insistence that the state continue to use civil service employees to deliver employment services. MI intends to appeal this decision.
- **Mexico v. DeCoster Egg Farm:** On May 18, the Mexican Government filed a class action lawsuit charging DeCoster Egg Farm, a U.S. egg producer, with discrimination against Mexican workers. The lawsuit alleges that DeCoster violated the civil, labor, and human rights of as many as 1,500 documented and undocumented Mexican nationals who worked for the egg producer over a 10-year period. DOL has a history of serious enforcement matters with this employer and is reviewing current practices.
- **Cooperative Partnership with Microsoft Corporation:** DOL's Veterans' Employment and Training Service (VETS), in conjunction with DoD and VA, is continuing discussions with Microsoft Corporation to develop a program that assists in the transition of separating service members to civilian employment.
- **Commencement Address:** On May 22, Secretary Herman addressed the Commencement for Louisiana State University, Baton Rouge, LA.
- **Black Trade Unions:** On May 23, Secretary Herman will address the National Conference of Black Trade Unions in Minneapolis, MN.
- **Child Labor:** On May 27, Secretary Herman will deliver opening remarks at a Teach-In on Child Labor in Washington, DC. The event, which is designed to educate members of the public and Washington decision-makers about the extent of the problem and efforts underway to reduce child labor.

DEPARTMENT OF HEALTH AND HUMAN SERVICES

- **Mammography PSAs:** Beginning next week, *WJLA*, the *ABC* affiliate in Washington DC, will air two thirty-second PSAs alerting seniors to the benefits of mammography. The PSAs are the result of a collaboration between HCFA and *WJLA*, with consultation from the National Cancer Institute (NCI), and are available from HCFA for use nationwide. DC-area Safeway stores have agreed to promote mammography in conjunction with the PSAs.
- **Egg Safety:** In the May 19 *Federal Register*, USDA and FDA asked for public comment on how to implement a comprehensive, farm-to-table strategy to decrease the food-safety risks associated with shell eggs. The notice asks for comments on such challenges as preventing the introduction of *Salmonella Enteritidis* in chickens and changing egg processing, handling, and storage procedures to further enhance egg safety. USDA and FDA share federal regulatory responsibility for egg safety.
- **Food Safety Research:** On May 21, as part of FDA's mandate to reduce the incidence of foodborne illnesses under your Food Safety Initiative, a notice went on display in the *Federal Register* announcing the availability of FDA funds for research to support the reduction of foodborne illnesses. FDA anticipates awarding three to five research funds of \$100,000 to \$200,000 per year for up to three years.
- **Teen Smoking:** To determine the prevalence of selected cigarette smoking initiation and quitting behaviors among youth, CDC analyzed data from the 1997 Youth Risk Behavior Survey. This week's *MMWR* reports that among U.S. high school students in 1997, 70.2 percent had tried cigarette smoking. Among those who had ever tried cigarette smoking, 35.8 percent continued to smoke daily; and among those who had ever smoked daily, 72.9 percent had ever tried to quit smoking and 13.5 percent had not smoked during the 30 days preceding the survey.
- **Cholera Outbreak among Rwandan Refugees:** In April 1997, a cholera outbreak occurred among 90,000 Rwandan refugees residing in three temporary camps between Kisangani and Ubundu in the Democratic Republic of Congo (formerly Zaire). Médecins sans Frontières (MSF) established two referral medical centers and one separate cholera treatment center in these camps. Personnel from MSF, Zairean nongovernmental organizations, and the UN High Commissioner for Refugees implemented morbidity and mortality surveillance to monitor refugee health status.

DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT

- **San Francisco Geneva Towers:** On May 16, Geneva Towers, twin 20-story high-rises that had become a blight on the community in San Francisco, were demolished. Constructed in 1967 as private housing, Geneva Towers failed to attract middle-income

renters, and the owners sought low-income Section 8 tenants whose rents were subsidized by HUD. Poor management, lax security, crime, and unsafe living conditions forced HUD to foreclose on the property in 1991. HUD attempted emergency repairs and security, but was unable to eliminate the crime and dilapidation. HUD and the City agreed to raze the towers and replace them with apartments and townhouses. A majority of tenants agreed, after HUD promised to help them relocate and then move them back when the new townhouses are ready.

DEPARTMENT OF TRANSPORTATION

- **Boeing Aircraft Wiring Inspection:** As of May 19, reports have been received on 260 out of a total of 292 U.S.-registered aircraft affected by the two Airworthiness Directives issued earlier this month. Of the aircraft inspected, 27 had 50 percent insulation chafing and nine had exposed conductors. As new information is gathered, the FAA will determine if additional action will be required. All foreign authorities associated with this issue have been kept informed of FAA actions.
- **Washington, DC Traffic Congestion:** On May 28, Secretary Slater will convene a day-long regional summit to address the problem of traffic congestion in the National Capital Area. The summit is co-sponsored by MD DOT, VA DOT, DC Department of Public Works, Washington Metropolitan Transit Authority, and the National Capital Region Transportation Planning Board.
- **Change of Command:** On May 29, Secretary Slater will participate in the change of command ceremony for the Coast Guard Commandant, Admiral Kramek, at Fort McNair.
- **Railway Grade Crossing Emergency Telephone System:** On May 28, FRA Administrator Molitoris and CSX Transportation (CSXT) Chief Executive Officer Carpenter will announce the inauguration of a CSXT 1-800 emergency telephone system. The system will provide the public with a telephone number that will be posted at each highway-rail grade crossing on the CSXT system. The number will give the public access to a help desk where emergencies that arise at CSXT crossings may be immediately reported.
- **Operation FRONTIER LANCE:** On May 10, FRONTIER LANCE forces concluded a two-month undercover operation with the seizure of 1,095 pounds of cocaine, one fast boat, and the arrest of nine suspects in the Dominican Republic. The operation was led by DEA field agents and assisted by Coast Guard helicopters during the apprehension of the suspects.
- **Dominican Migrants:** On May 14, the Cutter *VALIANT* interdicted 16 migrants near Puerto Rico and later transferred them to a Dominican Navy vessel.



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- **United Kingdom Aviation:** U.S. Airways and British Airways (BA) are continuing their commercial discussions on Gatwick slots and other issues that have delayed U.S. Airways' ability to inaugurate Charlotte-London service. Meanwhile, DOT has not acted on BA's application to start Denver-London service.
- **China Aviation:** On May 18-20, a first round of formal aviation negotiations was held in Beijing. The talks, which are aimed at expanding opportunities for additional air services between the U.S. and China, follow informal discussions that took place in early April. The talks resulted in the two sides gaining a deeper understanding of the issues. Although further talks are anticipated, no dates have been set.
- **American-TACA Alliance:** On May 20, DOT approved the American-TACA code sharing alliance. This pact is for code sharing and marketing and does not include antitrust immunity. Grupo TACA consists of six Central American air carriers. The agreement was made possible by the Administration's open skies policy and the agreement that Secretary Slater signed with six Central American nations in May 1997 in San Jose, Costa Rica during your visit. This decision will generate significant congressional interest on both sides of the issue and will be closely watched by the industry.
- **Highway Contract Fraud:** Labor racketeering charges against Palumbo Brothers Inc., the largest highway construction firm in IL, three subsidiaries and six individuals were reinstated by an appeals court. The Government is attempting to recover \$23 million dollars in fraudulent charges made by Palumbo Brothers over the past 10 years. The defense plans to appeal the latest ruling to the State Supreme Court.

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DEPARTMENT OF ENERGY

- **"Crossroads of the World" Conference:** Next week, Secretary Peña will visit Istanbul, Turkey, to deliver the keynote address at TDA's "Crossroads of the World" conference. The Caspian region has been one of Secretary Peña's top priorities and he will meet with energy ministers and key regional and business leaders.

Nuclear Fuel Shipment Lawsuit: Contra Costa County and the City of Concord, CA, have apparently decided not to appeal the District Court decision in favor of DOE and State regarding the selection of the Concord Naval Weapons Station as the West Coast port of entry for foreign research reactor spent nuclear fuel. Planning activities and training are continuing along the transportation corridor in preparation for the shipment later this summer.

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DEPARTMENT OF EDUCATION

- **DC Adult Education Review:** DOEd has been conducting discussions with Washington, DC Public Schools (DCPS) regarding DOEd's serious concerns about the DCPS adult education program. A possible transfer of responsibility for federally funded adult education programs from DCPS to the University of the District of Columbia is under consideration.

Charter Schools Review: DOEd is beginning compliance reviews of federally-funded charter schools in MI and AZ. A DOEd Office of Inspector General audit and an April cover story in *U.S. News and World Report* raised concerns about schools in these two states, which have two of the most permissive charter school laws in the country.

- **Educational Excellence for Hispanic Americans:** On May 19-21, the White House Initiative on Educational Excellence for Hispanic Americans convened five working groups of the Inter-Departmental Council on Hispanic Education. The groups, focusing on early childhood, K-12, community, undergraduate education, and graduate and professional education, explored ways of implementing the recommendations of your Advisory Commission for increasing educational achievement among Hispanic Americans.

- **Hemispheric Education Ministers:** On June 4-5, Secretary Riley will participate in a meeting with Western Hemisphere education ministers in Washington, DC.

VETERANS AFFAIRS

- **Medicare Subvention:** On May 12, the Stump-Thomas VA Medicare subvention measure was introduced in the House. On May 14, the Ways and Means Committee reported it by a vote of 31-1. Next, the House bill will be considered by the House Commerce Committee. Senator Jeffords is seeking additional cosponsors for the VA-Medicare subvention measure he introduced.

ENVIRONMENTAL PROTECTION AGENCY

- **Fires in Mexico:** EPA offered assistance to TX in monitoring air quality to ensure that the public's health is adequately protected. The fires have produced significant air pollution (soot) which has drifted over the southern part of TX. On May 16, EPA installed five new fine particulate air monitors which began collecting samples. Two monitors capable of measuring very small particles were deployed in San Antonio, and one each in Dallas, Galveston, and Brownsville. The information from these monitors will enable the state to produce accurate information for public health advisories. Initial data from the monitors found that current levels of small particulates should not create a high health risk for most of the general population over a short period of time.

- **Food Quality Protection Act (FQPA):** On May 28-29, Deputy Administrator Hansen and USDA Deputy Secretary Rominger will chair the first meeting of the advisory committee on implementation of the FQPA. The committee was formed to comply with the Vice President's directive regarding the FQPA, in particular the treatment of the organophosphate pesticides, one of the most toxic classes of pesticides.
- **Ozone Mapping Project:** On May 21, "Ozone Action Day," EPA and several states announced the availability of the Ozone Mapping System, which provides real-time information on ground level ozone or smog. This announcement is one of many actions and events designed to raise public consciousness about steps that can be taken to reduce ozone pollution. The system uses data from over 400 monitoring stations located in over 20 Eastern and Midwestern states to map daily, real-time ozone levels and track movement of the pollutant. The maps will be posted on EPA's website and will be made available to commercial weather service providers and television stations.

OFFICE OF NATIONAL DRUG CONTROL POLICY

- **Puerto Rico:** On May 26, Director McCaffrey will meet with Governor Rossello and local High Intensity Drug Trafficking Area (HIDTA) officials in Puerto Rico. He will visit the local correctional facility, the National Guard of Puerto Rico. Finally, he will be the featured speaker at an event hosted by the Partnership for a Drug-Free Puerto Rico.
- **Dominican Republic:** On May 27, Director McCaffrey will meet with the U.S. Country Team and with Dominican counterdrug officials. In addition, the Director will speak at a roundtable discussion with the Dominican banking community, address the American Chamber of Commerce, and visit a Coast Guard cutter where he will meet with Dominican and Haitian counterdrug authorities and receive briefings on Operation Frontier Lance.

SMALL BUSINESS ADMINISTRATION

- **Deputy Administrator:** On May 21, the Senate unanimously confirmed Fred Hochberg as Deputy Administrator of SBA.
- **Partnership Agreements:** On May 18, Administrator Alvarez signed MOUs with the National Black Chamber of Commerce, the Minority Business Enterprise Legal Defense and Education Fund, and the National Hispanic Chamber of Commerce. These MOUs set out the terms of partnerships that will promote greater access to SBA's programs and services in local communities.
- **Small Business Week:** SBA's 1998 National Small Business Week, May 31-June 5, will focus on small business and technology. The week is represented by the phrase smallbusinesssuccess@SBA.gov, the theme of the conference and the address of a web

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page advertising the event. Announcements include the national rollout of SBA's Y2K strategic plan to help small businesses deal with their technical problems in the Year 2000, a new on-line system for technology firms, and a new on-line franchise registry that will simplify lending to entrepreneurs who are starting a franchise. SBA will also announce national disaster assistance winners and national Welfare-to-Work winners. On June 5, Administrator Alvarez will join the Vice President and Secretary Rubin to announce the Small Business Mentoring Project. SBA's National Advisory Council and the National Procurement Conference are also scheduled during small business week.

- **National Urban League:** On May 27, Administrator Alvarez will sign an MOU with the National Urban League, which will commit the parties to working together to reach out, provide technical and other assistance, and increase SBA lending activity to the underserved small business communities.

OFFICE OF PERSONNEL MANAGEMENT

- **Solutions '98:** On May 18-20, OPM hosted "Solutions '98," its first conference devoted to employment issues, at the University of MD. Over 500 federal employees from across the country and 90 presenters participated. The conference allowed federal human resource professionals to share up-to-date information and innovative solutions to issues such as restructuring, career transition, making use of automation to enhance efficiency, and recruiting a diverse workforce.

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UNITED STATES INFORMATION AGENCY

- **South Korea:** Despite their economic crisis, South Koreans' views of the world show remarkable stability, according to a recent USIA-sponsored poll. A solid majority of South Koreans have a favorable opinion of the U.S. and a large majority (84 percent) see U.S. forces in Korea as important for protecting their security. Nevertheless, over the long run, more South Koreans see China (45 percent) as the key to their country's economic future rather than Japan (17 percent) or the U.S. (14 percent).

Cyprus: Recent USIA surveys in Turkey and Greece show that while there is little overlap in Turk and Greek preferences for how to resolve the Cyprus issue, there is limited support from both publics for a bizonal federation. Turks' preferred solutions for Cyprus are division of the island into two separate states or political integration with Turkey, while Greeks prefer unification of the island with proportional representation or integration with Greece. A sizable percentage in each country thinks a federal arrangement with equal power sharing is an acceptable solution (40 percent of Greeks; 47 percent of Turks). Few in Turkey or Greece believe that the Cyprus issue is any closer to a resolution compared to a year ago. Greeks are more likely than Turks to support continued international mediation efforts.

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- **Indian Nuclear Issue:** In the wake of India's nuclear tests, USIS India has worked to get information about the official U.S. reaction to policy makers and the media. USIS has succeeded in its effort to ensure accurate press reporting about the U.S. position against testing even though editorial commentary has overwhelmingly supported India's decision to test. The consulting editor of the *Economic Times* warned the ruling Hindu nationalist party to avoid turning the nuclear issue into a partisan political party exercise. The associate editor of the *Indian Express* presented a balanced discussion of the tests and their impact on India's place in the world and on the consequences of sanctions. The Bengali language daily *Ananda Bazar Patrika* used information supplied by USIS-Calcutta for its critical editorial, "After the Explosion of the Bombs." *Ananda Bazar Patrika* is Eastern India's most influential daily and is in the minority of Indian papers which have not welcomed the blasts in its op-ed columns.

GENERAL SERVICES ADMINISTRATION

- **8(a) Program:** Administrator Barram and SBA Administrator Alvarez recently signed an MOU granting authority to 25 Federal agencies to award contracts for up to \$100,000 without having to go to SBA for authority. This MOU removes the "middleman" from the process and will substantially reduce the program's contracting process. The 8(a) program is designed to help small disadvantaged businesses compete for Federal contracts.

SOCIAL SECURITY ADMINISTRATION

- **Supplemental Security Income Report:** The Personal Responsibility and Work Opportunity Reconciliation Act of 1996 requires the Commissioner of Social Security to submit a report to you and the Congress on the Supplemental Security Income program by May 30 of each year. The report provides estimates of program participation and costs over a 25-year period. The second annual report will be issued on May 29.

cc:

The Vice President
Erskine Bowles
Paul Begala
Sandy Berger
Sidney Blumenthal
Maria Echaveste
Rahm Emanuel
Mickey Ibarra
Janis Kearney
Ron Klain
Neal Lane
Ann Lewis
Sylvia Mathews
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Katie McGinty
Mack McLarty
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Franklin Raines
Bruce Reed
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Larry Stein
Melanne Verveer

5-25-98

THE WHITE HOUSE
WASHINGTON

'98 MAY 22 PM 3:41

May 22, 1998

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FROM: MARIA ECHAVESTE

SUBJECT: OPL WEEKLY REPORT May 16 - May 22

Copied
Echaveste
cos
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THE PRESIDENT HAS BEEN
5-25-98

THE WHITE HOUSE
WASHINGTON

May 22, 1998

'98 MAY 22 PM5:31

MEMORANDUM TO THE PRESIDENT

FROM: ANN LEWIS AND STACIE SPECTOR
SUBJECT: COMMUNICATIONS WEEKLY REPORT

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Event Coverage

- Your Tobacco event with 1,400 young people on Wednesday was covered extensively in print, and on television. Attached is the photo that the *Los Angeles Times* ran from the event.

Amplification

- **Tobacco.** This week we worked to amplify your tobacco message by supplying the Department of Education with our talking points and a release to be distributed at their summer picnic. In addition we sent the text of your letter about tobacco legislation to our supporters and allies for further distribution through their network.

Food Stamps

die harder
how can we?

We worked with the offices of the Vice President, Public Liaison, Specialty Press, Legislative Affairs, and Intergovernmental Affairs to send out a strong message about the Republican house leadership attack on restoring food stamps to legal immigrants, targeted to Hispanics and other immigrant sensitive constituencies; and, to agricultural districts because of the inaction on crop insurance and research.

Web Site

- **Welfare to Work.** The Vice President's Welfare-to-Work Coalition web site was launched on the White House web site.

Special Projects

- **Patients Bill of Rights.** We are working in conjunction with the Hill Leadership and the AFL-CIO to amplify your event on Thursday promoting the Patients Bill of Rights.
- **Oceans Conference.** We have been working with the Council on Environmental Quality, the National Oceanic and Atmospheric Association, and other pertinent agencies to put together a package for the Oceans Conference focusing on commerce, environmentalism, exploration and research and global security.

Message Overview

- The events for next week reflect a strong values theme:

Monday:	Honoring Veterans
Tuesday:	Budget Surplus/Save Social Security First
Wednesday:	Welfare to Work
Thursday:	Patients Bill of Rights
Friday:	COPS pilot program (T)
Radio Address:	Revised religious guidelines for schools

Women's History

- We are working on a number of events to celebrate women's history, beginning with Mrs. Clinton's trip in June to the 150th anniversary of Seneca Falls. Ann met with the National Park Service, Department of Interior, and GSA staff to go over programs, logistics, and media outreach.

Children's Health Outreach

- We are working with Chris Jennings on the outreach plan for the new children's health initiative, including a basic national message and 800-number which can be rolled out in the fall.

Speaking Engagements

- Ann spoke at a briefing for a group of Israeli reporters from various prominent Israeli newspapers.

NATION



President Clinton and Vice President Gore walk with children on the South Lawn before an anti-tobacco rally on Wednesday.

Photos by Associated Press

5-25-96

- Governor Paul Patton (D-KY) agreed to write a letter committing his support regarding tobacco to the Leaf Act. Our efforts to gain the support of other Southern governors have been hampered by the unwillingness of Governor Jim Hunt (D-NC) to support this Act.

County Officials

We hosted a meeting with Commissioner Jane Campbell (D-Cuyahoga County, OH) to discuss her welfare to work plan. She is in a predicament because Governor George Voinovich (R-OH) did not apply for welfare to work money. We are attempting to find alternatives to help localities from states that did not apply for the funds.

Mayors and Municipal Officials

Mayor Pat Owens (I-Grand Forks, ND) brought a delegation of civic, business, and political leaders to the White House on Thursday, May 14. DCOS John Podesta, Thurgood Marshall, and Lynn Cutler received their appreciation on behalf of the Administration for its assistance and support during the floods last spring. Their profound gratitude to you and your leadership was very apparent.

Indian Country

- We are closely following Section 604, the Gorton Amendment, of Senator John McCain's (R-AZ) tobacco bill. The section involves state sales and estate taxes on the sale of tobacco on Indian reservations. At issue is the possible infringement upon tribal sovereignty.
- We continue to work with our colleagues to prepare for a national day of dialogue on race in Indian Country.

Ladonna and Laura Harris of Americans for Indian Opportunities brought 17 members of their "Ambassador Program" for a briefing at the White House. The ambassadors are selected from tribes from around the nation for their leadership skills and future potential. They were briefed by representatives from OMB, the Department of Interior, the Department of Justice, and the Small Business Administration.

Insular Affairs

The Senate Finance committee's tobacco bill amendment would apply its \$1.50 per pack cigarette tax to Puerto Rico and the other unincorporated areas, but does not include them in its revenue allocation formula. We alerted Senators Daniel P. Moynihan (D-NY) and Bob Graham (D-FL) to the problem and they and Senators Bob Kerrey (D-NE), and Al D'Amato (R-NY) are willing to rectify it. We are working on this.

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- **United Kingdom Aviation:** U.S. Airways and British Airways (BA) are continuing their commercial discussions on Gatwick slots and other issues that have delayed U.S. Airways' ability to inaugurate Charlotte-London service. Meanwhile, DOT has not acted on BA's application to start Denver-London service.
- **China Aviation:** On May 18-20, a first round of formal aviation negotiations was held in Beijing. The talks, which are aimed at expanding opportunities for additional air services between the U.S. and China, follow informal discussions that took place in early April. The talks resulted in the two sides gaining a deeper understanding of the issues. Although further talks are anticipated, no dates have been set.
- **American-TACA Alliance:** On May 20, DOT approved the American-TACA code sharing alliance. This pact is for code sharing and marketing and does not include antitrust immunity. Grupo TACA consists of six Central American air carriers. The agreement was made possible by the Administration's open skies policy and the agreement that Secretary Slater signed with six Central American nations in May 1997 in San Jose, Costa Rica during your visit. This decision will generate significant congressional interest on both sides of the issue and will be closely watched by the industry.
- **Highway Contract Fraud:** Labor racketeering charges against Palumbo Brothers Inc., the largest highway construction firm in IL, three subsidiaries and six individuals were reinstated by an appeals court. The Government is attempting to recover \$23 million dollars in fraudulent charges made by Palumbo Brothers over the past 10 years. The defense plans to appeal the latest ruling to the State Supreme Court.

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DEPARTMENT OF ENERGY

- **"Crossroads of the World" Conference:** Next week, Secretary Peña will visit Istanbul, Turkey, to deliver the keynote address at TDA's "Crossroads of the World" conference. The Caspian region has been one of Secretary Peña's top priorities and he will meet with energy ministers and key regional and business leaders.

Nuclear Fuel Shipment Lawsuit: Contra Costa County and the City of Concord, CA, have apparently decided not to appeal the District Court decision in favor of DOE and State regarding the selection of the Concord Naval Weapons Station as the West Coast port of entry for foreign research reactor spent nuclear fuel. Planning activities and training are continuing along the transportation corridor in preparation for the shipment later this summer.

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DEPARTMENT OF EDUCATION

- **DC Adult Education Review:** DOEd has been conducting discussions with Washington, DC Public Schools (DCPS) regarding DOEd's serious concerns about the DCPS adult education program. A possible transfer of responsibility for federally funded adult education programs from DCPS to the University of the District of Columbia is under consideration.

Charter Schools Review: DOEd is beginning compliance reviews of federally-funded charter schools in MI and AZ. A DOEd Office of Inspector General audit and an April cover story in *U.S. News and World Report* raised concerns about schools in these two states, which have two of the most permissive charter school laws in the country.

- **Educational Excellence for Hispanic Americans:** On May 19-21, the White House Initiative on Educational Excellence for Hispanic Americans convened five working groups of the Inter-Departmental Council on Hispanic Education. The groups, focusing on early childhood, K-12, community, undergraduate education, and graduate and professional education, explored ways of implementing the recommendations of your Advisory Commission for increasing educational achievement among Hispanic Americans.
- **Hemispheric Education Ministers:** On June 4-5, Secretary Riley will participate in a meeting with Western Hemisphere education ministers in Washington, DC.

VETERANS AFFAIRS

- **Medicare Subvention:** On May 12, the Stump-Thomas VA Medicare subvention measure was introduced in the House. On May 14, the Ways and Means Committee reported it by a vote of 31-1. Next, the House bill will be considered by the House Commerce Committee. Senator Jeffords is seeking additional cosponsors for the VA-Medicare subvention measure he introduced.

ENVIRONMENTAL PROTECTION AGENCY

- **Fires in Mexico:** EPA offered assistance to TX in monitoring air quality to ensure that the public's health is adequately protected. The fires have produced significant air pollution (soot) which has drifted over the southern part of TX. On May 16, EPA installed five new fine particulate air monitors which began collecting samples. Two monitors capable of measuring very small particles were deployed in San Antonio, and one each in Dallas, Galveston, and Brownsville. The information from these monitors will enable the state to produce accurate information for public health advisories. Initial data from the monitors found that current levels of small particulates should not create a high health risk for most of the general population over a short period of time.

5-25-98

page advertising the event. Announcements include the national rollout of SBA's Y2K strategic plan to help small businesses deal with their technical problems in the Year 2000, a new on-line system for technology firms, and a new on-line franchise registry that will simplify lending to entrepreneurs who are starting a franchise. SBA will also announce national disaster assistance winners and national Welfare-to-Work winners. On June 5, Administrator Alvarez will join the Vice President and Secretary Rubin to announce the Small Business Mentoring Project. SBA's National Advisory Council and the National Procurement Conference are also scheduled during small business week.

- **National Urban League:** On May 27, Administrator Alvarez will sign an MOU with the National Urban League, which will commit the parties to working together to reach out, provide technical and other assistance, and increase SBA lending activity to the underserved small business communities.

OFFICE OF PERSONNEL MANAGEMENT

- **Solutions '98:** On May 18-20, OPM hosted "Solutions '98," its first conference devoted to employment issues, at the University of MD. Over 500 federal employees from across the country and 90 presenters participated. The conference allowed federal human resource professionals to share up-to-date information and innovative solutions to issues such as restructuring, career transition, making use of automation to enhance efficiency, and recruiting a diverse workforce.

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UNITED STATES INFORMATION AGENCY

✓ **South Korea:** Despite their economic crisis, South Koreans' views of the world show remarkable stability, according to a recent USIA-sponsored poll. A solid majority of South Koreans have a favorable opinion of the U.S. and a large majority (84 percent) see U.S. forces in Korea as important for protecting their security. Nevertheless, over the long run, more South Koreans see China (45 percent) as the key to their country's economic future rather than Japan (17 percent) or the U.S. (14 percent).

Cyprus: Recent USIA surveys in Turkey and Greece show that while there is little overlap in Turk and Greek preferences for how to resolve the Cyprus issue, there is limited support from both publics for a bizonal federation. Turks' preferred solutions for Cyprus are division of the island into two separate states or political integration with Turkey, while Greeks prefer unification of the island with proportional representation or integration with Greece. A sizable percentage in each country thinks a federal arrangement with equal power sharing is an acceptable solution (40 percent of Greeks; 47 percent of Turks). Few in Turkey or Greece believe that the Cyprus issue is any closer to a resolution compared to a year ago. Greeks are more likely than Turks to support continued international mediation efforts.

See
CC Holbrooks
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THE WHITE HOUSE

WASHINGTON

'98 MAY 22 PM 3:41

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FROM: MARIA ECHAVESTE

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Thurgood Marshall, Jr.
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Mickey Ibarra
Larry Stein

5-25-98

THE WHITE HOUSE

WASHINGTON

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May 22, 1998

MEMORANDUM FOR THE PRESIDENT AND THE VICE PRESIDENT

FROM: MARIA ECHAVESTE

SUBJECT: OPL WEEKLY REPORT May 16 - May 22

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BergerACTIONS SUPPORTING PRESIDENTIAL INITIATIVES

- **Child Custody Protection Act.** This week we met with pro-choice advocates who expressed serious concern that this legislation would further isolate young women who do not involve a parent in their decision to have an abortion and endanger their health by criminalizing people who help them in crisis pregnancies. Both the House and Senate held hearings this week. Bill Bell, father of Becky Bell who died from a back alley abortion as a result of Indiana's parental consent law, presented compelling testimony at both hearings. We are working with Legal Counsel, Legislative Affairs, Communications, the Deputy Chief of Staff and DOJ to identify the best legal objections to the bill and most effective legislative and media strategy.

Africa Trade Bill. We had a very good meeting at BET on the Africa Trade Bill. We had an excellent panel of supporters which included the Ugandan Ambassador, Congressman Donald Payne, Ambassador Joe Wilson (NSC) and Rosa Whitaker from the USTR. The Ugandan Ambassador was excellent in countering Randall Robinson's opposition to the bill. Additionally, we hosted a African Trade Briefing for members of the interfaith community. The briefing was conducted by the NSC, USTR and Ambassadors of Uganda and Zimbabwe. We received immediate support for the Trade Bill from World vision, the Progressive National Baptist Convention and Rev. John Cherry of Full Gospel Church. They were strong advocates of the Bill and agreed to push hard to encourage their colleagues to do likewise. Other groups expressed interest in supporting the bill but are concerned about the eligibility requirements favoring market economics over economic development and the need for more civil society input.

- **Tobacco.** The Campaign for Tobacco Free Kids and public health advocates were thrilled with the Tobacco event at the White House this week. Saying it was the best event ever. The ENACT Coalition is currently working on its recess strategy of working on grassroots.
- **Race Initiative.** The first of the faith forums was held in New Orleans and went very well. Rev. Cook, Mayor Morial, and Rev. James Forbes of Riverside Church were

Good.
But how
can we
bring it
in the future?

5-23-00

excellent. The day included panels on the changing face of faith in America and key elements of success for racial reconciliation programs as well as breakout groups. We are hopeful that the event will be the catalyst for renewed racial reconciliation efforts there.

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CONSTITUENT OUTREACH AND OTHER ISSUES

GAY AND LESBIAN ISSUES

Reaction to Inhofe's remark comparing Hormel to David Duke fuels momentum for nomination. In Monday's *Roll Call*, Senator Inhofe compared James Hormel's views to those of David Duke, suggesting they were equally extreme. Those comments were widely condemned in stories in *AP*, *The New York Times*, *The Wall Street Journal* and *The San Francisco Examiner*, among others. The reaction served to energize supporters.

JEWISH OUTREACH

Support for Palestinian Broadcasting Corporation questioned. The United States should cease its support for the Palestinian Broadcasting Corporation, 62 members of Congress said in a letter to U.S. Secretary of State Madeleine Albright. The letter, which has been circulating the past month in Congress as part of a Republican-led effort, cites what it charges is the corporation's continued support of violence and terrorism against Israel. Since 1994, the corporation, which runs a television and radio station, has received about \$500,000 from various U.S. federal agencies.

- **Religious coercion in public schools.** The American Jewish Congress and the Anti-Defamation League told the U.S. Commission on Civil Rights that religious coercion in public schools threaten to undermine the values of American democracy. The testimony came as part of a public fact-finding hearing examining current issues and disputes involving religious rights and public schools.
- **Congressional visits to Israel.** House Speaker Newt Gingrich announced at a rally for AIPAC activists that he plans to visit the site of the future U.S. Embassy in Jerusalem and declare that it is time to break ground. Gingrich and Democratic Majority leader Richard Gephardt (D-Mo.) are slated to lead a congressional delegation to Israel Friday in celebration of its 50th anniversary. Their group is one of several congressional delegations planned during the next week. At least 27 lawmakers are expected to visit Israel this week and next.

WOMEN'S OFFICE OUTREACH

- **Gender "Segregated" Basic Training.** We have received numerous calls and e-mails from women's groups, women service members and veterans outraged over the

5-25-99

Can we
stop in the
future?

re-segregation of male and female military recruits during basic training, particularly in light of the House vote. They agree with Secretary Cohen and do NOT think that segregated basic training is in the country's best interest relative to national security. The groups also prefer the current "women-only" bays in integrated barracks. Basically they feel certain that if and when these changes to the Army, Navy and Air Force become a reality, women will be set back 20+ years in their struggle for equity and opportunity in the military.

ETHNIC OUTREACH

✓ **Albanian-American community express concern about easing of sanctions.** The Albanian-American community is very concerned about the decision to ease sanctions on Yugoslavia. Although, Milosevic agreed to begin talks; the community feels it is too soon to ease sanctions without knowing the level of Milosevic's commitment to actually receive a settlement.

HISPANIC OUTREACH

We can't forget
them

Families of the Cuban Pilots. The Families of the Cuban Pilots contacted OPL to express concern that their case does not get forgotten in the midst of our efforts to obtain humanitarian relief for Cuba. They were successful in obtaining a judgment against Cuba. Their case is currently with the FBI and under investigation.

- **Guatemalan Immigrants Rallied on Capitol Hill.** OPL meet with Guatemalan immigrants who are seeking to get the same relief granted to Nicaraguans under the NACARA Bill of 1997. They are seeking the Administration's support of a new bill being offered by Congressmen Luis Gutierrez (D-IL) called the "Central American and Caribbean Refugee Act".

cc: Erskine Bowles
Craig Smith
Doug Sosnik
Sylvia Mathews
Sid Blumenthal
Bruce N. Reed
Ron Klain

Rahm Emanuel
Michael McCurry
Gene Sperling
Thurgood Marshall, Jr.
John Podesta
Mickey Ibarra
Larry Stein

THE WHITE HOUSE
WASHINGTON

May 22, 1998

MEMORANDUM FOR THE PRESIDENT

FROM: LARRY STEIN *RET for LOS*
SUBJECT: LEGISLATIVE WEEKLY REPORT

THE PRESIDENT'S OFFICE
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(page 1)
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House of Representatives

Transportation Reauthorization Conference Report (ISTEA, H.R. 2400): On Friday, May 22, the House approved (297-86) H.R. 2400, the six-year, \$216 billion transportation reauthorization bill. Rep. Obey's motion to recommit the bill with instructions to strip provisions cutting service-connected disability compensation to veterans for smoking-related illnesses, narrowly failed (190-195). The Administration, having addressed many funding concerns in conference, supports the bill. Also on Friday, May 22, the Senate passed (88-5) this measure.

Defense Authorization (H.R. 3616): On Thursday, May 21, the House approved (357-60) H.R. 3616, the defense authorization bill. The Administration will work with the Congress regarding both funding and policy concerns, including a Bosnia expenditure cap and the issue of gender integrated training. On Wednesday, May 20, the House considered a number of amendments, including the approval of several regarding China. Among them were the Spence-Gilman amendment prohibiting agreements with China regarding missile-related technology (417-4); the Hefley amendment prohibiting the transfer of missiles or missile-related technology to China (412-6); and the Hunter amendment prohibiting exports of U.S. satellites to China (364-54).

Agricultural Research Conference Report (H.R. 2534): On Friday, May 22, in a decisive victory for the Administration and a defeat for the Republican Leadership, the House rejected (120-289, 1 present) the rule, as amended, for H.R. 2534. The reported rule removed both administration savings and food stamp provisions for legal aliens from the bill; the amended rule restored only administration savings. Senior Advisers and Secretary Glickman recommend you veto the legislation if any of the food stamp provisions are removed from the conference report.

Campaign Finance (H.R. 2183): On Thursday, May 21, and Friday, May 22, the House considered the rule and general debate for H.R. 2183, the freshman campaign finance reform bill. The rule, which passed by voice, permits consideration of the Administration-supported Shays-Meehan bill as a substitute to the legislation. Further consideration is expected after the Memorial Day recess.

The Week Ahead

The House adjourned for the Memorial Day recess Friday, May 22, and will resume legislative business Wednesday, June 3. Among the items to be considered when the House returns, is the continued consideration of campaign finance reform and the Bankruptcy Reform Act of 1998.

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*another
amendment
on
Manning*

United States Senate

American Competitiveness Act (S. 1723): On Monday, May 18, the Senate passed (78-20) S. 1723, the H-1B visa waivers, sponsored by Abraham (R-MI). This measure is designed to respond to a shortage of skilled labor in the information technology industry by increasing the annual cap on the number of temporary visas for foreign "specialty" workers under this program. The Secretary of Labor has recommended that you veto this bill because it emphasizes providing opportunities for foreign workers rather than providing opportunities for and protecting U.S. workers.

Tobacco Settlement Bill (S. 1415): The Senate began consideration of S. 1415, the Tobacco Settlement bill, sponsored by Senator McCain (R-AZ). During this week's consideration, the Senate tabled (59-39) a Faircloth amendment to cap at \$250 the hourly fee that could be charged by a lawyer representing a plaintiff in a tobacco case; tabled (58-40) a Kennedy amendment, which raises the excise tax from \$1.10 to \$1.50 per pack of cigarettes; tabled (72-26) an Ashcroft amendment to strike all tax increases from S. 1415; and failed to table (39-76) a Gregg/Leahy amendment that would eliminate the bill's \$8 billion annual cap on legal damages that tobacco companies could be forced to pay.

Iran Missile Proliferation Sanctions Act (H.R. 2709): On Friday, May 22, the Senate passed (90-4) H.R. 2709. The Administration strongly opposes this measure because it would weaken the U.S.'s ability to persuade the international community to halt such transfers to Iran. The bill's broad scope, retroactive sanctions, and indiscriminate sanctions would undermine U.S. nonproliferation goals and objectives. The Senate adopted a Levin amendment which would impose sanctions on foreign persons who transfer items contributing to Iran's efforts to acquire, develop, or produce ballistic missile, and to implement the obligations of the U.S. under the chemical weapons convention. The House will now reconsider H.R. 2709 which gives the Administration additional time to gain support to sustain a veto. We anticipate that the House will add a number of problematic amendments.

The Child Custody Protection Act (S. 1645 / H.R. 3682): The Senate and House Judiciary Committees held hearings this week on this measure which would make it a criminal offense for an individual to transport a minor across a State line with the intent to have an abortion, if a parental consent law exists in the State where the female resides. During both the House and Senate hearings, supporters asserted the importance of protecting State parental consent laws with Federal enforcement powers, while the bills' opponents raised a number of constitutional, practical and policy objections to the legislation.

The Week Ahead

Following the Memorial Day recess, June 1, the Senate is expected to continue consideration of the Tobacco Settlement bill (S.1415). The Senate will also begin consideration of the Department of Defense Authorization Act (S. 2057).

cc: The Vice President
Erskine Bowles
John Podesta
Sylvia Mathews

5-25-98

News: Analysis & Commentary

WASHINGTON

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BCCORPORATE AMERICA VS.
THE RELIGIOUS RIGHT?

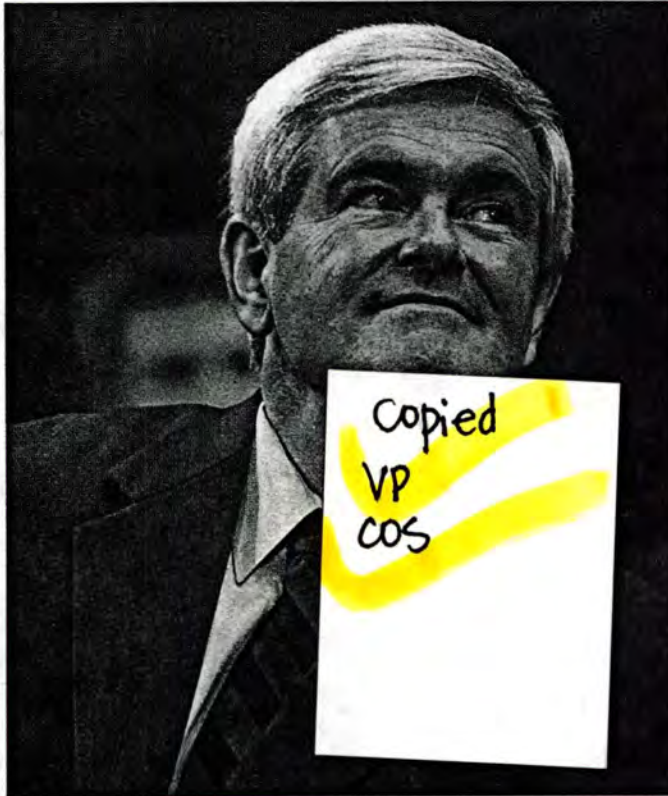
As volcanic Newt delights social conservatives, business frets

Say *adieu* to the Newt. The House Speaker, trim, tamed, and faintly bipartisan of late, has returned to his more familiar, decidedly more belligerent guise as the Georgia Slasher.

In recent weeks, Gingrich has blasted a Senate GOP tobacco bill as too liberal, threatened to sink business-backed legislation to help shore up the International Monetary Fund, and directed lieutenants to take on the Clinton Administration. Once again, there are the daily fiery sermons from Gingrich on the President's character or lack thereof. The rhetoric harks back to the 1995-96 "shut-the-government" legislative session—and tactics that backfired in the 1996 campaign.

So as the nation approaches the 1998 elections, the obvious question is: Why bring back the old Newt? The answer: thunder on the right. Furious that the GOP leadership has failed to push for their social and moral concerns, religious conservatives and right-wingers have turned up the heat on Gingrich & Co. With the strong economy lulling many Republicans into complacency about a Democratic White House, Republican leaders feel they have to energize the party's conservatives—or face low turnout in November, when House control hangs in the balance.

The strategy could backfire. By courting hardliners, GOP leaders have turned the legislative process into a game of political hostage-taking. Case in point: the IMF fight. Religious activists are insisting that anti-abortion provisions be included in the \$18 billion package. Gingrich says he's willing to see the measure die unless the White House cooperates with GOP scandal investigations. The demands of social conservatives are also tying up bipartisan trade liberalization, a new budget, tax cuts, and education reform.



FIRE-BREATHER Once again, Gingrich is trying to charge up the Republicans' conservative base for fear of a low turnout in November

House Republican leaders think their solidify-the-base strategy will enable them to expand their 11-seat cushion in the House. Besides, party pros reckon, if they fight for conservative principles now, they can always avoid the gridlock rap by cutting a few last-minute deals with Clinton come fall.

But some strategists fear the return to head-banging could turn off moderate Republicans and independents. "The charge that we're a do-nothing Congress, linked with our focus on sex and scandal, could leave voters soured on Republicans," frets a GOP pollster. Certainly, Gingrich has been hurt: In a late-April Har-

ris poll, his already dismal negative rating rose to 62%, from 56% in February.

Business lobbyists are also worried about the Republicans' renewed embrace of the Religious Right. Every day Congress spends debating social issues, business lobbyists complain, it loses a day working on Corporate America's priorities, including trade expansion, reform of the legal system, and strengthening ties to China. Religious fundamentalists say these priorities elevate profits over moral concerns, such as Beijing's human-rights record. Business bristles at these charges. Some Christian activists "would like a holy war with business," fumes R. Bruce Josten, senior vice-president of the U.S. Chamber of Commerce.

DOBSON FACTOR. Dems, naturally, are delighted. "Newt's a volcano spewing lava," says Representative Martin Frost (D-Tex.), chairman of the Democratic Congressional Campaign Committee. "I want him on TV every day."

Meanwhile, the rest of the party leadership shows signs of moving right, too. House Majority Leader Richard K. Armey (R-Tex.) dined on May 4 with James L. Dobson, the powerful leader of the fundamentalist group Focus on the Family. Dobson has threatened to bolt the GOP unless party leaders shape up. And on May 8, House Majority Whip Tom DeLay (R-Tex.) planned to hold a Capitol Hill summit with Dobson, Gary L. Bauer of the Family Research Council, and Christian Coalition Executive Director Randy Tate. "We want them to know that their agenda is our agenda," says a senior Republican aide.

Already, social conservatives say they have assurances that the GOP will force votes on cherished priorities: a ban on partial-birth abortion, repeal of the "marriage penalty" tax, a constitutional amendment allowing prayer in schools, and tax breaks for families of private- and religious-school students.

That should satisfy the right. Now, GOP leaders just have to figure out how to keep other Republicans happy, too. Otherwise, the only cheerful partisans come fall may be the Democrats.

By Richard S. Dunham
in Washington

international law, though possession of them was not until a year ago, when the Chemical Weapons Convention (CWC) came into force, banning all development, production and stockpiling of them. Has it made a difference?

It is too early to tell whether a universal ban can be made in a year has gone. They have signed them but the Organisation for the Prohibition of Chemical Weapons (OPCW) details of any potentially destroyed, with military uses now subject to inspection. It also has to inspect some cases is

Over 200 inspections have been carried out so far in about 25 countries: they include Russia, one of the world's chemical giants, where inspections began last month, and China, which had hitherto fiercely resisted allowing international inspectors to snoop about its territory. Eight states thus far have declared that they either possess weapons (which they must destroy) or else have had military programmes in the past. Of these, Japan and Britain ended their weapons programmes years ago; France and China appear to have quietly destroyed their weapons before signing the CWC; while India and South Korea had not previously admitted to having such weapons. However, by far the biggest stocks to be destroyed are in America (33,000 tonnes) and Russia (40,000 tonnes).

But the real measure of the CWC is not the numbers of inspections done or munitions destroyed by countries keen to meet their obligations. It is whether the regime of checks can keep up with changing weapons technologies and deter would-be cheats. There are problems. Some states (including America and some prominent Europeans) have yet to give full details of their dual-use chemicals. Many countries lack the national controls needed to help the inspectors do their job. And since governments are allowed to insist that information about their weapons or chemicals remains secret, they may prevent outsiders from being able to judge whether the inspectors are doing even their routine work well.

Being seen to do the job is particularly important when something suspicious turns up. That may well happen soon, since Pakistan, Iran and some countries in the Balkans that were thought to have chemical-weapons programmes have not yet declared them. The inspectors have practised short-notice "challenge" checks only on volunteers so far. When it comes to the real thing, inspectors could be on site within 12 hours but a determined quibbler could

keep them hanging about for days.

Some countries remain outside the convention, including North Korea, Iraq, Syria, Libya and Egypt, all of which may well have chemical weapons. The hope is that peer pressure will narrow this group down to the hardest cases. And even they will not escape scot-free: restricting trade with non-signers will make it hard to buy even quite ordinary-sounding chemicals on the open market—assuming the new controls work.

Iraq Digging for defeat

BAGHDAD

WEEDS grow taller than wheat in Sakhriya Al-Gharbiya, an agricultural area half an hour's drive from Baghdad. A tidemark of salt around some wilting cucumber plants betrays the breakdown of the local irrigation system. Nearby, a decrepit tractor and an ancient pump stand idle, their engines cannibalised for spare parts. A strange blight has withered the garlic crop. Many fields lie fallow, the soil too saline or the crops too weed-infested to bother with.

According to the United Nations' Food and Agriculture Organisation (FAO), most of Iraq's farms are in a similar state. The combination of international sanctions and government neglect has brought ruin to Mesopotamia's famously fertile fields. Harvests of vegetables and cereals have shrunk by over a third since 1990: in one province surveyed by the FAO, some 300,000 hectares (1,170 square miles) of land have simply been abandoned because



Strung up by sanctions

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of the collapse of the irrigation system and the lack of pesticides, fertilisers and machinery. Numbers of livestock have fallen by 40%, partly thanks to an epidemic of screw worms that had spread to two-thirds of Iraq's provinces by the end of last year.

Before the Gulf war, Iraq imported about two-thirds of its food. Since sanctions were imposed, the lack of oil revenue to pay for food imports (which are not themselves banned) has made the country turn instead to local agriculture. But that too is a victim of sanctions. They prevent the import of spare parts, chemicals for fertilisers and pesticides and all manner of machinery that might have some military purpose. Without them the Iraqis have proved incapable of maintaining food production, let alone increasing it. Even the smallest irrigation pumps have caused problems, say UN officials. The FAO itself operates all the crop-dusters in Iraq, lest the government use them to dust its own people with one of the deadly toxins the UN says it is hiding.

But sanctions are not Iraq's only problem. The government, whether for lack of money or concern, is no longer providing farmers with the support it used to do. Abu Haidar, a farmer in Sakhriya, explains how the state-owned bank no longer gives subsidised loans to farmers. Handouts of high-yielding seeds have stopped, and the state-run veterinary clinic has closed. Before the war, he says, the government took responsibility for cleaning out the irrigation ditches and drains, allowing salts to be washed from the soil. Now he must either hire someone to do the job at a price he cannot afford, or watch his land go to ruin.

Since all farming in central and southern Iraq depends on irrigation, the government's inaction has had a devastating effect. Mr Haidar reckons half the land in Sakhriya has been abandoned because of high salinity. FAO officials say it would take several years to rehabilitate the soil, even if sanctions were lifted tomorrow.

Conscious of this, the UN Security Council has allowed farming supplies to be imported under the oil-for-food deal. Iraq may sell oil despite sanctions to pay for humanitarian goods. But in the government's eyes, the shortages faced by farmers come second to the public's urgent need for food and medicine. Just \$94m was left over for agriculture under the scheme in 1997—a sum the FAO considers "grossly inadequate". The government does not, of course, dwell on how much it has spent on the 48 new "presidential sites" built since the end of the Gulf war (guesses put the cost at about \$2 billion) or on the armed forces.

Sandy B
Whitcomb/Kenyon

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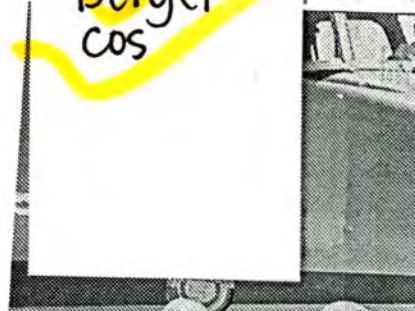
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Missile Expert Warns of '100s of Chernobyls'

By David Hoffman
Washington Post Service

MOSCOW — A Russian specialist on strategic missiles has warned that Russia's older submarine-based nuclear-tipped rockets are wearing out and has publicly criticized the military leadership for prolonging their use, which he said risks a catastrophe.

The specialist, Yuri Balashov, said in recent interviews that military leaders had kept sea-based missiles on duty without their having undergone thorough individual checks. In surprising detail, Mr. Balashov described how the liquid-fueled intercontinental ballistic missiles, which carry nuclear warheads, have been corroded and degraded by age, making them potentially unreliable.

He said corrosion and "natural weakening" of the rockets' metal parts heightened the risk of an unintended explosion. Russia is risking "hundreds of Chernobyls" by keeping the rockets in service, he said.

Mr. Balashov did not identify the type of missile he was referring to, but it was clear he was describing the SS-N-18, a two-stage, liquid-fueled missile which carries three nuclear warheads. Russia has 208 of the missiles deployed on Delta III class submarines in its Northern Fleet, according to its arms treaty declarations. The first SS-N-18 missiles were deployed 20 years ago and are believed to be nearing the end of their service life.

Mr. Balashov, 64, who lives in the Siberian city of Krasnoyarsk, worked until recently preparing documents certifying the readiness of such missiles and said he decided to speak out because military leaders were pushing the weapons too far and his protests were being ignored.

Western analysts and policymakers have long debated the dangers of Russia's elderly strategic missile forces. Russian officials have denied that there are safety problems.

Mr. Balashov's comments follow a still unexplained incident aboard a Rus-

sian nuclear-missile submarine in the Barents Sea on May 5. According to a Western source, the stricken nuclear-powered sub sent an emergency call for help and had to be escorted to its base on the Kola Peninsula in northern Russia.

At the time, panic swept the northern cities of Murmansk and Severomorsk, Russian press agencies reported. Schools were closed, and residents bought iodine to counter the effects of a possible radiation leak. Two days later, officials said there had been no accident and there was no reason for panic. Vice Admiral Mikhail Barskov said "regular planned exercises" were taking place.

But the Western source called the "exercises" a cover story to disguise the fact that there had been a leak or explosion in the fuel tank of one of the missiles aboard the submarine. The source said that there was no radiation leak but that the missile was damaged, apparently by its highly toxic fuel.

Alexei Tarasov, the Izvestia correspondent who interviewed Mr. Balashov, said the Federal Security Service, the domestic agency that succeeded the KGB and monitors military establishments, had prohibited Izvestia from publishing the precise designation

of the missile. The description, however, fits the SS-N-18, which is a NATO designation for the 47.8-foot, 77,836-pound submarine-launched rocket that the Russians call the RSM-50.

Mr. Balashov said he was moved to speak out by a statement made recently by the head of the land-based strategic missile forces, General Vladimir Yakovlev, who said that 62 percent of Russia's strategic rockets and 71 percent of the guidance systems were beyond their guaranteed service life while their combat readiness had not decreased.

He said that the rockets use volatile fuel that can explode if the canister is broken and fuel comes into contact with water. Enamel paint applied to the rockets in the 1970s and 1980s had blistered and peeled and that the thin walls of the missiles — two millimeters thick — were scraped repeatedly to remove the paint. "Can the guarantee period of this rocket be extended?" he asked.

"Let's say a rocket explodes in its storage site," Mr. Balashov said. "Near it are other rockets which will also explode. You can't hide the fact that nuclear warheads are also kept not so far away. We can end up with hundreds of Chernobyls."

Russia Tightens Nuclear Sales

Export-Control Monitoring Units to Be Set Up in Companies

BILL HYBELS
SENIOR PASTOR

THE PRESIDENT HAS SEEN
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April 28, 1998

President Clinton
c/o Nancy Hemreich
White House
1600 Pennsylvania Avenue
Washington DC 20500-2000

Dear Bill:

I felt very good about our time together yesterday. Your prayer moved me. There is so much good that God still wants to do in you and through you! I will continue to pray fervently that all of that will be achieved.

I hope I can hear back from you soon regarding Bob Seiple and Lee Strobel. These appointments would be so timely. Please, please don't let our discussion move to the back burner. We must give people of faith a solid reason to believe that you can still provide moral leadership. And time is of the essence.

I asked Nancy Hemreich to fill me in on the gospel concert you referred to. Who is there and how you are portrayed in this context can help a bit too.

Hillary is doing a great job here in Chicago. She's a classy lady.

I'll be sending you a cleaning bill for what Buddy did to my suit.

God's best,

Bill

Bill Hybels

WILLOW CREEK COMMUNITY CHURCH

307 EAST ADAMS STREET, CHICAGO, ILLINOIS 60601 (847) 765-3000 FAX (847) 765-3011

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**Helping America's Many New Immigrant Children
Get the Best Education Possible**

THE PRESIDENT HAS SEEN
5-25-98

As we look to the future of American education one of the most important new developments is the growing number of immigrant children that we must educate. According to the latest census data nearly 20% of all children in our nation's schools -- one out of five -- are immigrants or Americans born children of immigrants.

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According to a new study by the Russell Sage Foundation there are 13.7 million children under 18 who are either immigrants or the American born offspring of immigrants, and they are the fastest growing part of our student population. These children come from over 150 nations with the largest number coming from Mexico, the Phillippines, Cuba, and Vietnam.

Some say that these children are a liability but I welcome these children, just as the Statue of Liberty or the Golden Gate Bridge has welcomed them for years. They are a great source of strength and hope for the future of America and we want them to be full participants in the American experience as children and as they grow up.

These young people, just like generations of immigrants who have come before them, can grow up to be patriotic Americans who will add their voices to our democracy and help us expand our economy in this new global environment if we educate them to the best of our ability and treat them as we would like to be treated.

Indeed, the Russell Sage Foundation report, the largest survey ever conducted of immigrant children, found that these young people had higher grades and a lower school drop-out rate than other American children and overwhelmingly preferred to speak English by the time they were teenagers.

And I can see why when I visit schools throughout this great nation. Their parents have come to America because they believe in the American Dream. They have stood in long visa lines, uprooted their families, left relatives behind, changed careers, often accepted menial jobs and --in many cases now work two jobs for one great purpose --to give their children a better life here in America. Surely we can meet these people half-way by giving their children the best education possible so that they can make their contribution to the American mainstream.

Teaching these young people English is one of the great tasks of nation-building that falls to our public schools and where we need to begin. There are school districts in almost every part of our country -- from Boston to Seattle to Miami -- where children speak more than 40 languages. Arlington, Virginia -- just across the river -- is a school district that is a shining example of this increasing diversity.

Today there are growing questions about the best way to teach these young people English. I want to focus my attention on this timely issue. Here, it is so important to recognize that these immigrant children and their parents have a passion to learn English. They know that overcoming the language barrier is the first great step they need to take to become full participants in the American experience. So our task is not to persuade them to learn English but to give them the tools they need to learn to speak English.

In California, concerns about how to teach these young people English center around Proposition 227, the Unz Amendment, which would effectively eliminate bilingual education and require that all children to learn English in one year.

I recognize that the decision to vote for or against the Unz Amendment this coming June is ultimately a decision that is up to the voters of California. I know that there are many well-intentioned and concerned citizens on both sides of this issue and that the people of California are taking this issue seriously. I also understand the frustration many parents in California have about the progress their children are making in learning English.

But I must tell you that Proposition 227 is not the way to go. In my opinion, adoption of the Unz Amendment will lead to fewer children learning English and many children falling further behind in their studies. There are five major reasons why I believe that the Unz Amendment is counter productive to a quality education for all of our children.

First, the "one year" time limit to learn English flies in the face of years of research that tells us that children learn in different ways and at different speeds. A recent National Academy of Sciences study released last month tells us that, "hurrying young non-English speaking children into reading in English without ensuring adequate preparation is counterproductive." The report recommends that children with no English proficiency are best taught to read English by first being taught reading in their native language, if teachers and instructional materials in their native language are available.

Thus, while an "English only" approach may be effective for some limited English proficient children, it is likely to be ineffective for others. I do not oppose "English only" classes. In fact, about 25% of our current federal bilingual funds support this type of instructional approach. What I question is the arbitrary one year time limit and the demand that only this approach is the right approach to help young people learn English.

The approach taken by Prop 227 simply ignores the individual needs of each child and certainly is an educational straightjacket for teachers and parents. Good teaching starts with the child's needs and moves the child along in a timely and responsible manner.

If we adopted the approach suggested by the Unz Initiative to help children learn to read, it would be a disaster. Some children are already good readers when they come to kindergarten and others learn by the end of the first or second grades. Other children need extra help even in third grade and beyond.

Second, the Unz Amendment limits the discretion of teachers to choose the approach that is best suited for the children they teach. Some children may learn best in an English only class, others may learn faster in a bilingual class or some other proven approach but teachers are given no option to use their professional judgement.

Third, Proposition 227 would subject teachers, school board members, and educational administrators to personal liability in litigation by parents if they fail to comply with its requirements in educating children. I find this aspect of Proposition 227 both punitive and threatening. This is not the way to build parent-teacher cooperation -- a key to student success.

Fourth, the Unz Initiative would strip from local school boards the ability to make educationally sound decisions about how to meet the needs of the children they teach. This is a direct attack on local control of education. The Unz Initiative would not be a helping hand for language instruction, but rather the heavy hand of overregulation. I am surprised that so many outspoken advocates of local control have chosen not to take issue with this fundamental flaw in the Unz Initiative.

Fifth, the Unz initiative will in all likelihood result in problems under federal civil rights laws. In the seminal case of *Lau v. Nichols*, the Supreme Court interpreted Title VI of the Civil Rights Act to require school districts to take steps to ensure that national origin minority students with limited English proficiency can effectively participate in the regular educational program.

Similarly, the Equal Educational Opportunity Act requires public educational agencies to overcome language barriers that impede student participation in their instructional programs. Limiting special language development instruction to one year and preventing a school from providing bilingual instruction to students, despite the judgment of teachers and the school principal that children in that school need bilingual instruction to progress, are likely to result in violations under these laws.

I join all Americans who believe that children who come to school ought to become proficient in English as quickly as possible. This is the primary purpose of bilingual education -- to teach children English even as we maintain high academic standards. I also understand the frustration of some parents who worry that their children are not learning English as fast as they should.

Nevertheless, the one-size-for-all approach that defines the Unz Initiative fits better on a bumper sticker than it does in a classroom. The Unz initiative is simple, it is easy to understand, and it is wrong. Prop 227 may satisfy some people's sense of frustration but ultimately it is counter-productive to our common goal of making sure children learn English.

So what is the proper alternative to the status-quo and the narrow and restrictive Unz Amendment?

I believe that we should consider setting a three year goal as we strive to teach children to learn English. Individual differences and circumstances will cause some children to take longer but a goal of learning English within three years is similar to our goal of making sure that every child learns to read by the end of third grade if not earlier.

Now, a goal is not a mandate, a command or a legal requirement. And a goal is certainly not a one year educational straight-jacket that limits the ability of teachers to do what is best for each child. Some children may learn English in one year or two and others may need three years or even more. The focus should be on the individual needs of each child and not on some artificial and arbitrary time frame.

Setting a three year goal is also consistent with language in our 1998 Appropriations Act, which provides, "...That the Department of Education should only support instructional programs which ensure that students completely master English in a timely fashion (a period of three to five years) while meeting rigorous achievement standards in the academic content areas."

I also believe strongly in local flexibility; no one approach is by definition better than others. Local flexibility to choose the approaches that work best for their students should not be constrained by a mandate for one approach over the other. The purpose is to help children master the English language while they are learning to high academic standards, and any school district should be choose the approach that works best for them based on sound research.

I also recognize that bi-lingual education must be improved and we must do a much better job of meeting the demand for more well-trained teachers. Some bilingual programs are excellent, some need to improve and are improving, and some really are not doing the job they should be doing and need to get fixed quickly. The demand for bilingual education currently exceeds the supply and that is particularly true in California where the number of LEP children has nearly doubled in less than a decade to reach 1.3 million.

One of the biggest problems we confront is the shortage of qualified bilingual teachers. The California State Board of Education estimates that there is a shortage of 21,000 bilingual teachers in that state. This, I suspect, is one of the root causes and real reasons why some parents have become frustrated. This is why I have asked for a doubling of federal funds, from \$25 million to \$50 million, to meet the increasing demand for fully certified bi-lingual teachers and English-as-second-language teachers.

. Finally, I believe every child in America should learn two languages. It is the way of the world. There are young people all over Europe who are easily fluent in three languages and I see no reason why American children should not be their equals. Our children are just as smart and some come to school already able to speak two languages. We should build on this talent and recognize that our nation will be all the better for it in the new global environment.

I just returned from Chile where I joined President Clinton at the second summit of the America's. Improving education in the America's was a central part of the dialogue at this summit and I was struck by the fact that several nations begin teaching their children two languages beginning in the first grade. Surely we have the same capacity and the same ability to educate our children. This is why I strongly encourage and support any school district that seeks to make sure that every one of its high school graduates speaks two languages fluently.

In conclusion, I urge the voters of California to consider all these educational ramifications of the Unz Initiative. They should not be satisfied with the status quo by any means and I support their sense of urgency and desire to make sure their children are full participants in the American experience. At the same time, I urge them not to let their sense of frustration get the best of them and do something that is counter-productive to our common goal of helping all of our children learn English.

Thank you.

86 Todd Stern - fig - BK

THE PRESIDENT HAS SEEN

5-25-98

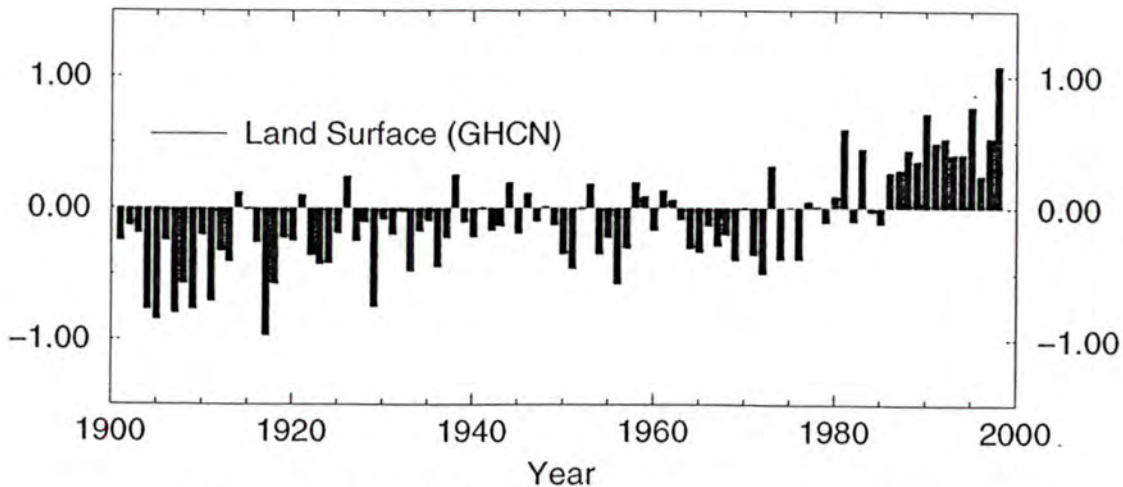
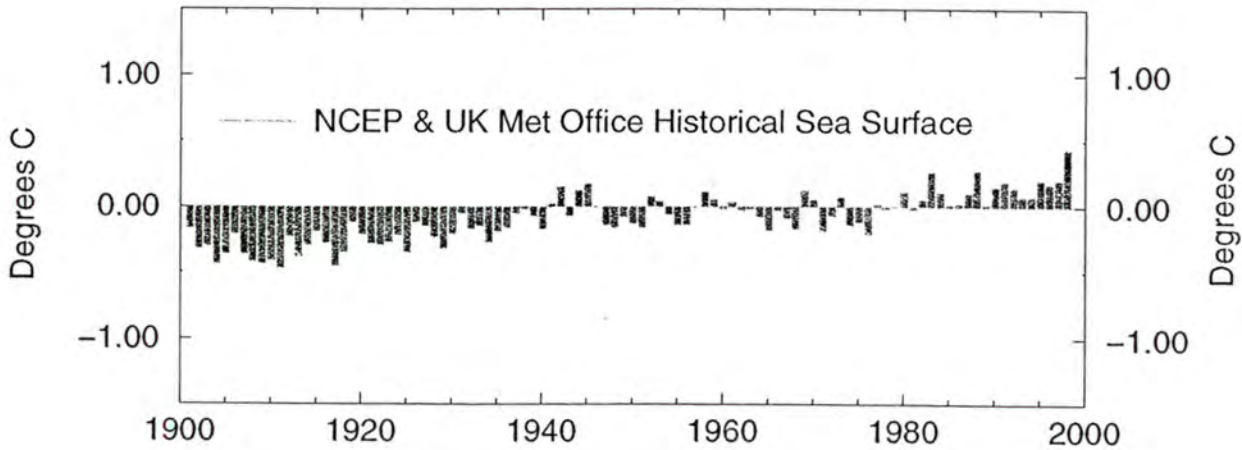
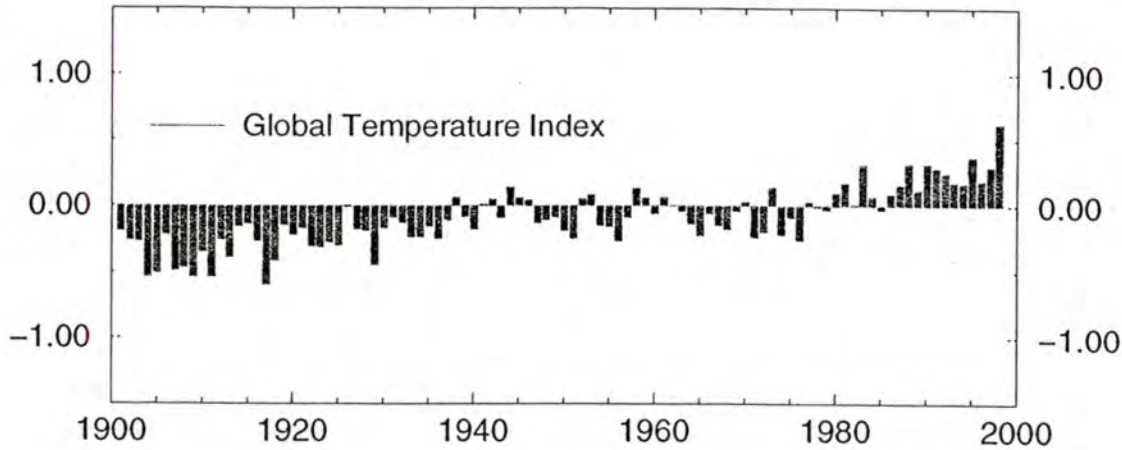


Jan-Apr Global Surface Mean Temperature Anomalies

National Climatic Data Center / NESDIS / NOAA



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January-April Global Land and Sea Surface Mean Temperature Anomalies

The period January-April 1998 was the warmest of the century according to the National Climatic Data Center. This conclusion was based on separately examining preliminary land data using the Global Historical Climatology Network, ocean data using the National Centers for Environmental Prediction (NCEP) - Reynolds Sea Surface Temperatures (SST) blended with the United Kingdom Meteorological Office Long Term SST analysis, and a global surface temperature index that combined the ocean and land data. The final ranking may change due to inclusion of new areas of the world not currently represented. However, even with additional data, the land surface, sea surface, and global surface temperatures for January-April 1998 will remain among the warmest on record. Each of the anomaly time series is based on its respective 1961-1990 mean

5-25-98

Iran's whiff of liberalism

Sandy Fye - R

TEHRAN

A new moderate spirit is abroad in Iran. But it is faint and easily blocked

IT IS almost a year since Muhammad Khatami was elected president on a promise to make Iran a more democratic and pleasant place. And, indeed, the country has opened up since he assumed office nine months ago. Debate on almost any subject is now tolerated, including ones that have long been taboo, such as relations with the arch-enemy, America. The new, tentative freedoms have given hope to people—intellectuals, women, the young—who felt suffocated by the Islamic republic's ideological, self-righteous years. But greater liberty has brought uncertainty and insecurity. Above all is the fear: are the new freedoms here to stay?

The right to speak out—albeit so far to little effect—is probably the public's biggest gain from the new government. The press is much freer than it was. The interior minister has risked his job by allowing the opposition to hold public demonstrations—though hardliners in parliament have hit back by demanding the impeachment of two of Mr Khatami's most liberal-minded ministers.

Young people are allowed more breathing-space. Couples going about their business are less likely to be harassed by the police or Islamist bully-boys. One commander of these Islamist militiamen has told his forces not to arrest young couples in public. Cultural centres and cafés are allowed to attract young customers with livelier programmes. Even the conservative-run television station is showing censored versions of ten-year-old Hollywood movies, which had been shunned until now as decadent western culture.

The new spirit extends as far as hardline fundamentalists, who now pay lip service to the principles of freedom and democracy—though they interpret these concepts very much in their own way. But the government has so far introduced no institutional reforms

and Iranians are acutely aware that the changed atmosphere could be transient, a passing phase dependent on their rulers' attitudes. "The regime appears to be experimenting with the new situation and testing the limit. It reckons it can clamp down whenever it feels threatened," observes a political analyst.

The commander of Iran's elite Revolutionary Guard, General Yahya Safavi, recently provided a savage response to the "threat" of liberalism. Complaining that dissidents were jeopardising national security, and that some Iranian newspapers were carrying the same subversive material

as American newspapers, he promised in bloodthirsty fashion to root out anti-revolutionaries and silence dissent.

Nobody is more aware of the risks—and the power of the conservative opposition—than Mr Khatami himself. He is treading extremely cautiously. His popularity remains intact, but he uses it sparingly, and has not tried to form a political movement. As head of state, he has only limited powers, dwarfed by those of the supreme leader, Ayatollah Ali Khamenei. Parliament is dominated by his conservative opponents, who were elected two years ago under less-than-fair circumstances. And the judicial system takes its orders from Mr Khamenei.

When Tehran's liberal-minded mayor, Gholam-Hossein Karbaschi, was arrested in early April in connection with a corruption scandal in city government, Mr Khatami's men were convinced that the arrest was political. After exerting unusual pressure—a political confrontation that developed into battles in the streets of Tehran—they managed to secure the mayor's freedom after 12 days. This was a victory for the moderates, though Mr Karbaschi still faces trial.

Parliament seems determined to fight the new liberalism. In the past few weeks it has passed a string of measures to enforce Islamist rules. The latest measure lays down that women in hospital must be treated by female staff only. A week earlier, parliament, against the government's objections, banned the publication of any pictures of women with uncovered heads. The ban came in response to a wave of tabloid-like magazines: the culture ministry closed one of them after it ran pictures of women alleged to have had sex with Bill Clinton.

In the end, despite the public's thirst for freedom, the government's survival depends on its economic performance. And, so far, it has had little success in this field. It has not been able to revamp an economy weakened by inefficiency, corruption, sanctions and falling oil prices. Several of Mr Khatami's advisers call for bolder political reform to pave the way for economic recovery. But the president has only limited scope. In particular, he has no mandate to open an official dialogue with the United States, and thus attend to a relationship that will have to be



INTERNATIONAL

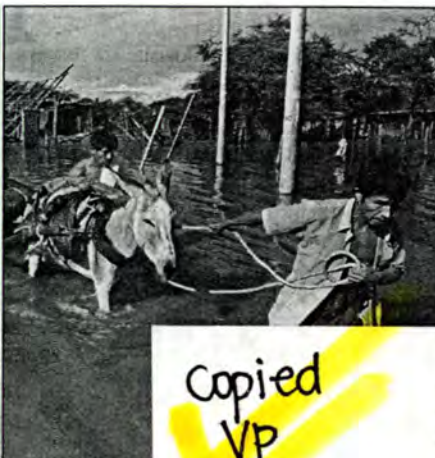
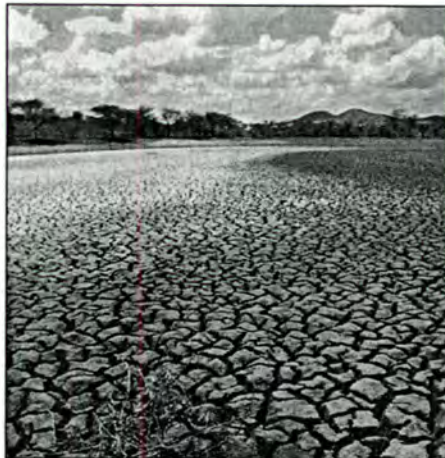
mended if Iran is to have full trade relations with other countries.

The president is torn between his allegiance to the revolution and his commitment to the people who voted for him. He has tried to reconcile the two by promising a "civil society" guided by Islam's more

democratic teachings. But before long, people will ask for more solid results. "Mr Khatami is in office but he still has to prove he is in power," wrote *Iran Daily*, a newspaper sympathetic to the president, recently. "So far people are not very impressed. Good intentions don't put food on the table."

THE AMERICAS

THE PRESIDENT HAS SEEN
5-25-98



The season of El Niño

At last, the El Niño of 1997-98 is returning to its cradle, after scarring Latin America with drought and fire, storm and flood. But it is not over yet, and the fall-out, economic, social and political, will not be cleared up for many months or even, in some places and activities, for years

IT SWEEPED away roads and bridges, homes and farms, lives and livelihoods. It created a vast lake in a north Peruvian desert, and ruined the fisheries of Chile. It battered Mexico's Pacific-coast resort of Acapulco, and lowered water levels, enforcing draught restrictions on ships in the Panama canal. Across stretches of northern Brazil, Guyana and Suriname, even in the island of Trinidad, it dried up vegetation and—often with human help—burned up forests. It parched crops too, bringing Brazil's always dry north-east food shortages that had the president scurrying there this week to see relief efforts. Farther south, it swelled the mighty Parana river to eight metres above its normal height, flooding millions of hectares and driving hundreds of thousands of people from their homes in Paraguay, Uruguay and Argentina.

Overall, it killed at least 900 human beings and livestock by the hundreds of thousands. It hit economies for perhaps \$20 billion, much of that still to be paid. And, in many countries, it exposed governments to harsh tests and harsher criticism.

And still no one knows just why it happened. Every year, usually around December—hence the name El Niño, the Christ-child—a warm Pacific current flows east to the coasts of Ecuador and Peru. But at random intervals of years, this current becomes a flood. The mechanisms are known.

But the root cause is not. And though satellite observations and new weather buoys now enable a fierce El Niño to be foreseen months in advance—as the last big one, in 1982-83, was not—no one can be sure exactly in what form and where the extremes of weather that it brings will strike. Latin America and the Caribbean will not swiftly forget the El Niño of 1997-98.

Drought, flood and uncertainty

Of his two faces, El Niño this time broadly (see the map on the next page) showed drought to the north of the equator, flood—or at least torrential storms—to the south. But little was predictable.

Central America largely escaped the 1982-83 El Niño. This time most of it was hit by drought. So were Mexico's centre and south—but its Pacific coast was struck by hurricanes of wind and rain, rare on that side; the third of these in October smashed Acapulco. The Caribbean has been short of rain: Cuba recently had forest fires, and some east Caribbean islands have had to cut water supplies at night. Colombia has had half its normal rain, and the drought has stretched eastward across Venezuela into northern Brazil, Guyana, Suriname and down into Brazil's north-east.

In contrast, much of Ecuador and Peru have had downpours. It was Peru's Sechura desert, on its far-northern coast, that was

converted into a lake, of several thousand square kilometres at its largest, though it is now degenerating into a stagnant swamp. Peru's government had done much to prepare against the rains, building dykes, cleaning waterways and strengthening bridges. El Niño from January to March made light of its efforts, badly damaging 600 kilometres (370 miles) of Peru's main roads and 30 bridges along them. And mocked its forecasts too. The authorities had expected the normally dry south to grow drier still. Not so: a swollen river three months ago flooded the southern city of Ica, near the coast, and it was in the southern mountains that 20 people died when a village was buried by a landslide.

Bolivia for six months has had highland droughts and lowland floods, an unlikely mixture due to unusually high temperatures: what would normally fall as snow on the peaks fell as rain, and ran straight off to drown areas below. Chile had a week of fierce floods last June, midwinter there. Argentina now has floods in the south. But all these pale beside the floods that for four weeks now have swamped northern Argentina and parts of Paraguay and Uruguay, as several big rivers, headed by the giant Parana, have burst their banks. The 250,000 people of Resistencia, capital of Argentina's Chaco province, spent May day wondering whether the Parana, already eight metres above normal, would summon up the extra metre to overwhelm the dyke hurriedly built around their city. It did not; but, in all, some 80,000 square kilometres (31,000 square miles) of Argentina were under water this week—and that excludes areas flooded earlier but now starting to dry out.

Costs, short-term and long

The economic costs imposed by El Niño on the region have been huge. Most of the figures, of course, are heroic estimates, and many are heroic forecasts, at that. Cattle

THE AMERICAS

drowned can be crudely counted (140,000, says one estimate for Argentina's Santa Fe province, stretched along 800km of the Parana), and the loss of crops ruined by flood or drought can be reckoned, but the long-term effects may take years to show up.

Not all will be bad. As now in Argentina and Uruguay, one rancher's drowned beast is another's higher beef price, and, more widely helpful, today's disaster can be tomorrow's rebuilding, maybe for the better. There have even been one or two instant winners. Chile's 1997 skiing season was prolonged by abundant snow into October. Tourists have flocked to see its Atacama desert in bloom. June's flash floods there made 80,000 people homeless and hit some farmers, especially vegetable-growers. Later, excessive rains were too much for some crops. But both also filled reservoirs for the many Chilean farmers who artificially irrigate their land and had suffered three years of low rainfall. So they did for the hydro-power companies, which were within days of enforced electricity rationing. In many countries, road-builders and suppliers of concrete can look forward to a profitable year.

But these are the exceptions. The first to suffer were the fishermen on the Pacific coasts. Peru's boats as early as mid-1997 started finding the shrimps and lobsters usually caught in Ecuador's waters. The Peruvians' usual prey had swum south, looking for food in colder waters off Chile. Peru normally exports \$1 billion a year of fishmeal from *anchoveta*, the Pacific pilchard. That business has collapsed, and jobs at sea and in processing plants with it. Chile's jack mackerel in turn went farther south, cutting its catch by 40% in the first quarter of this year. In the fishing port of San Antonio, nine of ten fishmeal plants have closed, and the tenth is handling 20 tonnes a day instead of its usual 100. Only now are Peru's coastal waters starting to cool again.

Farmers' losses have been huge. Drought in Central America has cost Guatemala perhaps 10% of its grain and hard-hit El Salvador 30% of its coffee. Parts of central Panama have been reduced to a dustbowl, and thousands of cattle have had to be slaughtered (not wholly a loss: they were already helping to make the dustbowl).

In Colombia drought has parched 5,000 square kilometres of pasture and

2,000 of maize, sorghum and soya. Overall, says the ministry of agriculture, El Niño has cost 7% of normal output, with the cotton harvest cut by a quarter and milk currently 30% down. Pests have flourished in the coffee plantations east of Bogotá. In Brazil's north-east, SUDENE, the regional development agency, talks of drought losses above \$4 billion. Cattle have begun to die and the many subsistence farmers have seen their crops wither. Even in this area, not famous for its grain, 2½m tonnes of that are reckoned to have gone.

Argentina's economy ministry this

ate. Bolivia has seen its soya and cotton hit by floods. But even if their fields were untouched, growers of tropical fruit and vegetables—key crops in the government's efforts to wean farmers off coca-growing—have often seen their roads to market washed away. In the high *altiplano*, poor peasants depend for much of their water on the slow melting of snow. With snowfall lacking, many have lost their crops and will find livestock dying in the coming winter.

Floods can also do long-lasting damage to soil. They wash out nutrients. They may raise salt levels. Irrigation, especially during drought, can also have that effect. And in Guyana and Suriname, coastal farmers irrigating with water from river estuaries have had to stop: because of the rivers' weak flow, it was sea-water.

Roads, power and output

The losses, of course, extend much wider than farming. In Panama, famous for its tropical downpours, the big river Chagres shrank almost to a brook. Lack of rain not only meant draught restrictions on ships (and loss of toll revenue) in the canal. It has also brought power cuts: like most of Central America (except Nicaragua), Panama gets about 70% of its power from hydro-electricity. Several countries, taught by a sharp drought in 1994, have invested in thermal plants, avoiding what they suffered then. But the price, in capital and fuel costs, has been heavy. Colombia too has seen power suppliers struggling to keep up, and river transport, not least of oil, disrupted on its big Magdalena river, which runs north-south deep into the country.

Floods too do more than destroy and kill. Ecuador has been savaged by this El Niño, recording more rain—7,000mm (275 inches)—in the past 14 months than in 17 of the El Niño of 1982-83. It will have to rebuild 19 large bridges and repair 2,500km of roads, at a cost put at \$800m. Besides that, farmers have lost \$1 billion in output. But on top come the unquantifiable costs of disruption to transport. Lorries stand in interminable queues where roads and bridges have been washed away. So do pedestrians, waiting to pay to cross makeshift plank-and-rope bridges. As in much of Latin America, especially its many mountain areas, a road blocked is movement blocked: without an enormous detour, if at



week estimated the total costs of El Niño's floods at \$3 billion, almost 1% of GDP. Farming will bear much of that: cattle apart, perhaps 40% of the expected 1½m tonnes of cotton has been lost, 30% of the rice, 50% of the tobacco. This week the wheat and soya crops in the *pampa húmeda*, Argentina's breadbasket, west of Buenos Aires, were in danger. In the Andean region of Mendoza, home of the country's—rapidly improving and valuable—wineries, vineyards have been damaged by storms. Uruguay's cattle have largely escaped, but 10% of its main grain crop, rice, has gone.

Not all the losses are direct or immedi-

all, traffic simply has no way round.

That has been convenient for Bolivia's weekend travellers to the tropical valleys east of La Paz, who have found "landslide" a neat excuse for not being at the office on Monday morning. No complaint came—except from her father—when a young Ecuadorean was forced by a sudden flood to pass the night at the house of her boyfriend. But the economy has suffered, as raw materials or components (or workers) did not arrive, and goods (or crops or ores) could not be shipped out. Service industries too have lost, as telephones have gone dead and tourist trips been cancelled. The storm that smashed Acapulco spared its glossy hotels, but—even arriving in low season—menaced its \$1 billion a year and 150,000 jobs based on tourism.

The human cost

The heaviest cost, though not the most noticed, has been to human happiness, health and lives. Amid all the averages, many people, mostly poor ones, have lost everything: crops, jobs, homes and often hope. In Ecuador, some stand begging at the roadside, crying from shame as much as grief.

Peru has recorded nearly 350,000 people driven from their homes, Argentina 150,000. Some, though by no means all, have had their houses simply swept away. Many of Ecuador's 50,000 have taken refuge in schools left empty during the holidays. But many in all these countries have clung on to their homes, come what might, surrounded by polluted floodwaters; drinking and cooking with them too, with the predictable results—diarrhoea and other intestinal diseases, leptospirosis (caused by animal urine in the water), even cholera. Mosquito-borne malaria and dengue fever have multiplied.

Just how much is El Niño's fault is uncertain: dengue was already alarming Brazil. The death toll too is uncertain; a rough count says around 1,000. Peru blames 300 deaths on El Niño, Ecuador 250, with another 150 missing. Chile lost 20 in the June floods, Argentina about as many in the floods now going on, which were well signalled in advance. One landslide in a coastal resort killed 17 Ecuadoreans last weekend. The Acapulco hurricane cost Mexico 200-400 lives in a day, and at least 19 people died in a single tragedy there this week, when a forest fire—one of thousands that have burned more than 2,000 square kilometres—suddenly overwhelmed those fighting it. But South America's worst reported disaster happily never occurred: a Bolivian goldmine was indeed buried in a mudslide, but earlier flooding had already driven the 70-80 supposed victims to leave.

Yet the true toll is surely far worse. Drought and malnutrition, added to poverty, must have killed far greater numbers than any disaster, but leaving no record.

The natural world

Wildlife too has paid a price. Nature will quickly replace the starving sea-lions and gulls found on Peru's beaches. She will take longer with the burnt savannahs on the Venezuelan-Brazilian border, and far longer with the forests that have burned in so many drought-hit areas, not least the Amazon rainforest destroyed in Roraima state, in northern Brazil, when fires—often lit by farmers clearing land—spread from the savannahs. Even a swamp "of international importance" has burned in Trinidad.

It was the Amazon blaze, engulfing some 3,250 square kilometres of forest, that aroused the outside world, largely indifferent to human suffering, to the fact of El Niño. There may be more to come: the southern edge of the forest too is dry; and this is the area subject to logging and, from June on, to the yearly burning by migrant would-be farmers desperate for land. Yet big fires in any hilly region—as in southern Mexico, in Colombia, even in Trinidad—can do enduring damage. Today's treeless hillside is tomorrow's one lashed by tropical rains, and tomorrow's landslips, instant run-off of rain and flash floods.

Leaders put to the test

The authorities' response to warnings of El Niño, and to its arrival, has varied widely—and been widely, but not always fairly, criticised. Mexicans were quick to denounce the lack of precise forewarning of the Acapulco storm, and then the local theft of relief supplies. Yet action had been fast.

Brazil's rulers, local and federal, were accused of slow and inept response to the Roraima fires; and, more damningly, of ignoring months of drought warnings. President Fernando Henrique Cardoso rushed

to the north-east this week, having (correctly) blamed churchmen and the MST landless movement for encouraging raids on food stores (and being told, as correctly, that it was not they who invented hunger). The leading newsweekly, *Veja*, castigated him—the *Veja* that in a December story recommended this as just the year for a north-eastern holiday, with El Niño promising "an exceptional season, with lots of sun, blue sky, warm water and soft breezes".

Colombia's government—it has other worries—did little to prepare for El Niño, and even let farmers set fires across huge areas of land, supposedly to enrich the soil, before it banned the practice. Governments in Ecuador, Peru, Bolivia and Chile declared states of emergency in parts of their territory; not so Colombia's, which has been much blamed for that. Paraguay's electioneering politicians have largely ignored its floods; Ecuador's are vying in plans for reconstruction. Argentine politicians—and the public, truly Latin American in this, whatever else—have shown solidarity with victims of the floods, and President Carlos Menem is promising \$1 billion to clear up. But critics like Domingo Cavallo, once his economy minister, have damned the lack of advance precautions.

The true artist of El Niño has been Peru's President Alberto Fujimori. His government spent \$300m in advance (not all in the right places, but at least the ones that looked right at the time); and since El Niño struck he has rushed about frenetically taking personal charge of relief efforts, even rescue attempts. Too frenetically, say some critics, who claim presidential efforts are muddling those of people on the spot. Maybe, maybe not; but his poll ratings, 30% in mid-1997, now stand at 45%.



Fujimori, arm outstretched, shows the way

stick to America make it repeatedly turn a blind eye to its own most manly and hold in place. It is in the world's interest to see Russia has more interest than out of troubled regions, since Russia is only a failure to look bottom seeing the merits of up-

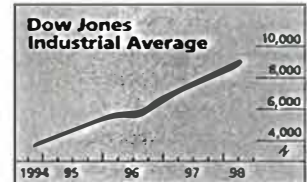
suggests it is more interested in shape the world. One casualty of the Russia Council. If Russia is leading a new security space in the world. The chances are, however, more spanners chucked in the world will be all the smaller for it.

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Spurling

Bubble and squeak

THE PRESIDENT HAS SEEN
5-25-98

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Further thoughts on America's bubble economy

THREE weeks ago, *The Economist* suggested that America is experiencing an asset-price bubble. The thought has provoked both debate and abuse. Now, the "B-word" itself risks falling victim to speculative excess. Over those three weeks Wall Street has fallen, then rebounded to a new high as fresh data appeared to show that America's economic miracle remains intact, then slipped again. Does this mean that we were wrong? Sorry to keep spoiling the fun, but no.

Our previous leader contained two arguments. First, that the explosion in share prices, the wave of mergers, rapid rises in property prices and an acceleration in monetary growth are all classic symptoms of a bubble, and the longer it inflates the more damage it will cause once it pops. Second, that the Federal Reserve should raise interest rates to let some air out of the bubble before asset inflation feeds through into consumer prices and does more damage.

In response, critics have claimed that share prices are not overvalued. It is true that some part of the rise in share prices

reflects better economic fundamentals, but there is no room for doubt that on standard, time-tested valuation measures, prices are way out of line. Only on the view that the old indicators no longer apply can you argue that the market is fairly valued. No one can be sure that the world has not suddenly changed. But to say that it has is to make a helluva bet—one that most people would be wise to make only with someone else's money. Some argue that the market is much more transparent than was Japan's in the late 1980s and therefore less prone than Tokyo was to a financial bubble. Yet many of the "new economy" factors said to be justifying higher Wall Street valuations—hopes that inflation is dead and that new technology is boosting growth—are far from transparent.

Others object, more reasonably, that America's economy is in sound shape: with no sign of inflation, there are no grounds for the Fed to act. It is true that recent economic data have been surprisingly good. In the first quarter of this year, GDP grew at an annual rate of 4.2%, inflation fell to its lowest

THE ECONOMIST MAY 9TH 1998

17

LEADERS

level for 34 years, and the rate of increase in labour costs slowed. Wall Street soared as fears of a rise in interest rates eased. Yet the Fed would still be wrong to relax.

Look closer at the first-quarter figures and they are not quite so rosy as they appear. With the economy close to full capacity and frequent reports of labour shortages, the risk of higher inflation remains real. Domestic demand grew by an annual rate of almost 6% in the first quarter. Moreover, although the growth in the total employment-cost index (ECI) fell, wages and salaries in the private sector have accelerated in the past year. There is good reason to suspect that the ECI is understating the upward pressure on labour costs. Thanks to a booming stockmarket, firms have been able to reduce their contributions to pension plans, thereby holding down employee benefit costs. The growth in stock options has also helped to restrain wages. This virtuous circle could quickly turn vicious. Add in the fact that broad monetary growth has been accelerating, and there may already be a case to raise interest rates now to prevent inflation rising, even if the bubble in equity prices is ignored.

But a more important argument is that, even if consumer-price inflation remains subdued, roaring equity prices can

still be harmful. The immediate, and for the Fed most relevant, danger is that asset inflation could feed through into broader goods and services markets. Nagging in its mind must also be the impact on financial and economic stability of a later and far bigger crash in asset prices. But there is already a strong case for the Fed to take account of asset prices in setting monetary policy (see page 78).

An unenviable task

This is not to underestimate the difficulties that the Fed faces. It is hard to decide how much to raise interest rates to check asset-price inflation. In the absence of rising consumer-price inflation, it is also likely to be politically unpopular, especially if it works. Investors, home-owners, bankers and politicians like the bubble economy: it makes them feel better off. They do not want higher interest rates, and they certainly do not want lower share prices, and they will certainly expect the Fed to slash rates if share prices collapse.

As the Fed's chairman, Alan Greenspan thus has one of the world's toughest jobs. Even so, the lesson from all previous bubbles bears frequent repetition: the longer asset prices continue to bubble, the louder the eventual bang.



Dealing with Microsoft

TIME is running out. Microsoft has declared June 25th as the release date of its new Windows 98 operating system, but next week it will begin shipping the product to PC manufacturers. Millions of advertising dollars are already being spent in preparation for the big day. The hopes of an entire industry—nay, the economy itself, if Bill Gates is to be taken seriously—are riding on this single event. Microsoft may not have a great many friends these days, but it does drag a long value chain behind it. The question that has been facing Joel Klein, America's top trust-busting lawyer at the Justice Department, is whether to rattle this chain, or even to slice through it. Should the launch of Windows 98 be halted? And, if so, has he both the evidence and the stomach to file a broad Sherman act antitrust case against the world's most powerful software company?

The answer is that if he has that evidence, he should act on it; indeed, 13 state regulators are also pursuing the Redmond company. Of the arguments against, the weakest is the potential harm from holding up the launch of Windows 98. Both Microsoft and its enemies exaggerate the importance of this event. Even Microsoft is reluctant to claim that it is much more than a "tune-up". Nor does Windows 98 require the kind of business-generating hardware upgrade that its predecessor demanded—so the boost to sales of PCs will be quite limited. Its enemies fret about the fact that Windows 98 fully integrates Microsoft's Internet Explorer Web browser with the operating system for the first time. But that no longer matters much: the browser war against Netscape that started the current fuss has in effect been won by Microsoft. Mr Klein's earlier interventions were too late and too little.

Some believe that it would be a mistake to put Microsoft

through the sort of ordeal that IBM underwent in the 1970s. Critics of antitrust law like to claim that a great company was brought low and no public good was served. While there was indeed much to deplore about the process inflicted on IBM, most of all its grotesque length, neither assertion withstands examination. As many of IBM's own people admit, the company's later difficulties were caused mainly by management failures, not by the investigation, however irksome it may have been. And, to the extent that IBM's travails helped spur the dynamic growth of the new disaggregated computing industry led by the likes of Intel, Compaq and Microsoft itself, some of its consequences may even have been benign.

Action or consent

The real question is whether Mr Klein has sufficient evidence to justify a full-scale antitrust action against Microsoft. There is nothing wrong with the fact that Windows is a monopoly—it was legally acquired and both the computing industry and its customers have benefited from the product's ubiquity and from Microsoft's commitment to keep improving it. However, there is plenty of evidence already in the public domain of the software giant's systematic use of its market power and vast wealth to destroy a competitor which fleetingly appeared to threaten the dominance of Windows. Netscape may have contributed to its own difficulties, but Microsoft reserves a special ruthlessness for any company that dares to take it on directly. It is a safe bet that the Justice Department and the 13 state regulators have gathered enough material to establish a *prima facie* case.

That said, there may be a better way. Few people are eager to contemplate breaking up Microsoft—the so-called Baby

LEADERS

Bills solution. Most remedies focus on modifying Microsoft's behaviour. If Microsoft is prepared to negotiate instead of fighting a drawn-out war of attrition, a new and more all-encompassing consent decree could be the welcome result. Among the points it might cover are an end to preclusive or prohibitive contracts of the kind Microsoft has imposed on computer-makers and Internet service providers; a surrender of space on the desktop to allow other services and content to be offered on the screen when a computer is first switched on; an undertaking on predatory pricing; greater openness with independent software companies over the placing of the vital "hooks" within Windows; and an end to Microsoft's at-

tempted balkanisation of the Java programming language.

The point on which Microsoft will find it hardest to compromise is its right to keep adding features to Windows—features that often start their life as another company's *méa* ticket. But it should be possible to draw up ground rules which enabled Microsoft to continue improving its operating systems without having to ask the government's permission each time. Just about all the things that Mr Gates says he wants to include in future versions of Windows, such as speech recognition and vision, offer such incontestable benefits that nobody would want to hold them back—as long as they are fairly offered. A deal might just suit everybody.

5-25-98

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Barry Diller leaves home

Could a new network built on local programming threaten Hollywood's hold on the television industry?

"HORRIBLE," grimaces Barry Diller, as he watches a young man flexing his pecs on a video. The young man's video joins a pile of rejects, and he is replaced by a blonde, who tells the camera that she's a Miami girl, and all she ever wanted to do was work in Miami. She sounds like the kind of girl Mr Diller wants for his big new project. "Nice," he says; and moves on to the next.

Barry Diller is not the most powerful man in the American media business, nor the richest, nor the most fashionable; but he is probably the most watched. Wall Street thinks that everything he touches turns to gold; and people in this fast-changing industry suspect that he knows more than anybody else about where it is all going.

The industry would not, of course, pay so much attention to Mr Diller were it not for his Hollywood pedigree. He was ABC's chief programmer at 26; head of the Paramount movie studio at 32; he then broke the three-network mould of American television by creating Fox for Rupert Murdoch. Fox's ratings are now creeping up to compete with the big three; and, compared with the others, its audience is enviably young (and therefore valuable, in terms of advertising dollars).

But now Mr Diller is turning his back on Hollywood. He has put together an odd-looking company, USA Networks, made up of a bunch of broadcast-television stations with the Home Shopping Network and Universal's television-production facilities. So great has been the excitement about what rabbit Mr Diller would pull out of this somewhat shabby hat that, without his doing anything much, the company's share price has more than doubled in a year.

Now Mr Diller's plan is at last becoming clear. He is, it emerges, going to do something that nobody has ever done before: he is going to build a national television network from the neighbourhood up.

While other television stations fill their hours with syndicated programming, interspersed with local news bulletins, Mr Diller is going to use mostly locally made programming. The shows will be made at 13 production facilities he is planning to build in different cities over the next three years. The first, in Miami, is now under construction; and the station should start transmitting in six weeks or so.

Mr Diller's concept is dangerously revolutionary. Programmes, in America, are made by creative people in Los Angeles, and scheduled by suits in New York. "We programme," they say, "for the people we fly over." Nothing good, everybody knows, ever came from the benighted backwoods in the middle of the country. But the networks' ratings are slipping, so that old assumption, like many of the other certainties in American television, is now open to doubt.

Mr Diller is a good pointer to the



weaknesses of the existing firms in the television business; because it is from those weaknesses that he hopes to draw strength. The paucity of local programming is, for instance, central to his plan. Americans mind about local stuff. According to Wilkofsky Gruen Associates, chief collector of figures in the media business, viewers rate local stations more by the quality of their local news than by which national network they are affiliated to. Yet local news is, by and large, dire; and, bizarrely, for a country the size and diversity of America, there is virtually no local programming other than news. There is clearly a gap in the market. One of the programme strands for USA's Miami stations will, for instance, be for and about Generation N—the Latino equivalent of Generation X—who express their existential discontent in a quite different way from the

twentysomethings of Seattle.

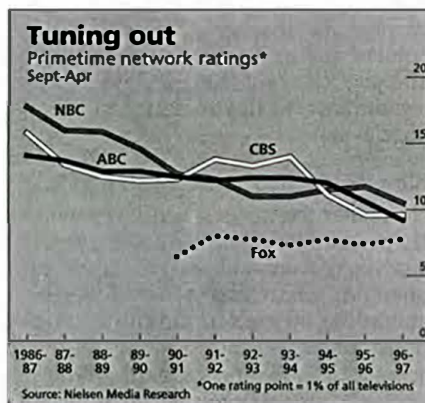
By putting together a part-cable, part-broadcast network, Mr Diller hopes to exploit the financial weaknesses of both broadcast networks and cable. The networks' problem is that their ratings are slipping, as those of cable grow. Cable's problem is that network advertising—which reaches the entire audience and not just the 67% covered by cable—commands a premium of 50% per eyeball: advertisers will pay more for the mass than they will for fragments. Mr Diller, with broadcast stations to supplement his cable network, will be able to reach something like 90% of the audience. He hopes, therefore, that he can claim some of the network premium.

Fear and loathing in Los Angeles

Most important, though, is escaping from Hollywood. The costs of making programmes there are silly—because of the huge payments to the stars, the salaries of technicians, the overmanning. "That's just the way LA is organised," says Mr Diller. "Here, there is no organisation, so we can make the rules." He reckons that he can make a half-hour drama that would cost \$500,000-600,000 in Hollywood for \$80,000-90,000 in Miami. By screening nationally some of the locally made product, he can put together a plausible business plan that needs only a small share of America's advertising to succeed.

Mr Diller's fellow moguls will fall about laughing when they hear of his plans. Local television is a joke in America: everybody knows that talent goes straight to Los Angeles. Even Mr Diller's people admit that it will be tough finding people to run a television studio in Miami. Hollywood is not just the home of America's biggest egos: it is also a critical mass of creativity.

But remember: it was not so long ago that all of America's cars were made in Detroit. Motown became lazy, and people started making cars in Japan. Nothing in Detroit was ever the same again.



GORE'S COSTLY

His plan to plug classes into the Internet was a hit until critics started calling it the Gore Tax

By KAREN TUMULTY and JOHN F. DICKERSON WASHINGTON

WHAT KEEPS AL GORE UP AT night? A few months ago, the Vice President was literally jolted awake at 3 a.m. by the idea of a continuous, live Internet image of this planet, an all-earth-all-the-time website. Within weeks, NASA was scrambling to put up the satellites to make his dream come true. Last July 4 he skipped the fireworks so he could stare for five hours into his office computer as it downloaded Pathfinder's first images from the surface of Mars. Another Gore brainchild—he calls it "digital earth"—would allow students with computers to zoom in on any spot of an onscreen planet to learn everything they possibly want to know about it.

It sometimes seems as if Gore views the world through his modem—and would like everyone else to do as well. His staff jokes that the quickest way to get his attention is by e-mail. But Gore is serious in his belief that technology educates and democratizes. It is both the hallmark of his vice presidency and the organizing principle of his presidential campaign.

But these days, not everyone is on the Vice President's bandwidth. His biggest high-tech achievement to date is a program to wire every classroom and library in the country. He has heralded it as "a turning point that [will] transform the shape of America." But right now, the program is under assault from Congress as an out-of-control entitlement engineered by an out-of-control bureaucracy. Which does not do much



for Gore's reputation as the architect of reinventing government. Even more ominous is another threat: starting this summer, phone companies that were ordered to pay for the program are threatening to add a new charge to the long-distance bills of residential consumers. Critics are already calling it the Gore Tax.

What once seemed an unassailable idea is now ensnared in presidential politics, the byzantine workings of phone deregulation and the design flaws of a funding scheme that camouflages the costs of a huge new federal program by putting it on people's phone bills. Only 75 days into the first round of applications for the program's money, about 30,000 schools and libraries have rushed in to claim \$2 billion, far outstripping the \$625 million the Federal Communications Commission has collected from the phone companies. This has left the commission with the unpalatable option of scal-

ing back its promises or collecting more from the phone companies and their customers. And it doesn't help the commission's political predicament that the quasi-private corporation set up to administer the program was deemed illegal by the General Accounting Office, or that it was paying \$200,000 a year to its chief executive, former White House aide Ira Fishman.

Higher phone bills and overpaid bureaucrats are not easy things for lawmakers to defend in an election year. "We did not vote to have the FCC set up a giant bureaucracy headed by someone paid as much as the President," thunders Democrat John Dingell, ranking minority member of the House Commerce Committee. "The era of Kings in this country ended when we kicked out George III."

Dingell's criticism is particularly searing in view of his liberal credentials and the fact that he was chairman of the committee

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HIGH-WIRE ACT



LINKING UP

The Vice President helps wire a classroom in Dysart, Iowa. By January 2000, he wants every school in the U.S. to be Web-connected

CRITICAL CHORUS

Conservative Tauzin, left, and liberal Dingell rarely agree. But with schools filing requests for billions, they share a cause

when a promising young member named Al Gore was selling the intriguing concept of an "information superhighway." But Dingell is far from alone. Commerce Senators who have reviewed the thousands of grant applications pouring in complain that schools are attempting to use the program to buy everything from carpeting and paint to computers that exceed the power of those at NASA. What's more, lawmakers grouse, why should the Federal Government pay for something many schools would do on their own?

The blame inevitably finds its way to Gore, whose hand many see in virtually everything the FCC does. Its past chairman, Reed Hundt, goes back so far with Gore that the two of them saw the Beatles' first U.S. concert together. And Gore hand-picked its current chairman, William Kennard. Gore is also closely linked to the inner workings of the industry, where sev-

eral of his former aides have found lucrative and powerful positions. Complains Louisiana Republican Billy Tauzin, chairman of the House telecommunications subcommittee: "The FCC is an independent regulatory authority, yet we continue to see the Vice President exercising an extraordinary amount of influence over it."

It was Congress, of course, that passed the law authorizing the program, or at least authorizing something. A modest three sentences of the massive Telecommunications Act of 1996 told the FCC to expand an existing industry-funded program that provides low-cost telephone service in rural areas and inner cities into one that would hook up schools and libraries. "We gave them much more of an opening than we have in the past," says John McCain, chairman of the Senate Commerce Committee. "They did what bureaucrats do when you give them money and power."

But what Congress gives it can also take away. So the FCC is scrambling to answer the most pointed complaints. It promised earlier this month to revamp the bureaucracy it built around the program and to cut Fishman's salary by \$50,000. It is considering scaling back its initial spending. And Kennard vows that schools will not be allowed to use the money to buy computers, software or other ineligible items, and that poorer schools will see their applications handled first.

That's the easy part. Appeasing the phone companies will be harder. "While we support the goal of wiring classrooms," says MCI spokesman Brad Burns, "we don't think we should be put in the position of playing fee collector for the Federal Government." The long-distance companies have already begun collecting the surcharge from their business customers, adding as much as 5% to their bills. In July, they warn, they'll place a line-item charge on residential users as well. Phone companies, which are trying to outdo one another by offering service for pennies a minute, claim the surcharge is the only way they can keep their rates competitive. But the FCC argues that in exchange for picking up the tab to wire these institutions, it has lowered other fees the long-distance companies pay. The commission also says carriers stand to gain part of the business generated from this new market.

The debate is likely to get lost on the consumer. "You can call it what you want," says Paul Harman, a Georgia accountant who complained to the FCC after his company noticed the charge. "It's just another form of taxation. The consumer pays in the end." Lawmakers have begun to hear similar complaints. At a hearing in February, Congressman Ed Bryant, a Tennessee Republican, waved a copy of a telephone bill sent him by a constituent who was confused and angry over the \$4 surcharge his company was having to pay. "How shall I explain this tax to my constituent?" Bryant demanded. "Do I tell him I voted to place that tax on him to support schools and libraries on the other side of the continent?"

Gore and his allies, backed by considerable polling, say taxpayers are more than

willing to pay a small amount each month to guarantee their children a place in the digital economy. "If they want this fight, bring it on," says a Gore aide with a taunting schoolyard wave. "Politicians who are against this are going to seem like they are against the library or the telephone."

For all their bravado in public, however, Administration officials were scrambling

behind the scenes last week to head off anything that might be called a Gore Tax, and they hinted that a deal is in the offing. On Friday the Commerce Department called on the FCC to do what it could to assure that any charge the residential consumer sees would not be more than \$1 a month per telephone line. "I am totally happy to have a debate over whether or not it's worth \$1 a

month to wire the schools," said Ron Klain, the Vice President's chief of staff.

And the program is not without its powerful supporters, both in and out of the classroom. Silicon Valley, whose executives Gore is ardently courting, is particularly enthusiastic about the idea of wiring the vast, untapped market that Andrew Blau of the Benton Foundation, a nonprofit group that

SHOULD SCHOOLS BE WIRED TO THE INTERNET?

Vice President Al Gore

Yes—It's Essential to the Way Kids Learn

AS TIME WROTE LAST OCTOBER, "ALL KIDS, NOT JUST ONES from families that can afford a home computer, should grow up with a mouse in their hand." The President and I could not agree more. Access to the basic tools of the information age is no longer a luxury for our children. It is a necessity.

Today communications and information technology are transforming our economy and our society, changing the way we live, the way we work and the way we relate to one another. In recent years, information technology has been responsible for more than one-quarter of real economic growth. Jobs in information technology pay significantly more than nontechnology jobs. By the year 2000, 60% of all jobs will require the technology skills that only a fraction of Americans now have.

But technology skills become important long before people look for jobs. They become important as soon as children begin to learn. In a decade-long series of studies, the Education Department reports that students in classes that use computers outperform their peers on standardized tests of basic skills by an average of 30%. And a 1996 study showed that students with access to the Internet not only presented their final projects in more creative ways but also turned in work that was more complete and had better syntheses of different points of view. Numerous other studies show that children in technology-rich learning environments showed more enthusiasm, had higher attendance rates, developed better writing skills and displayed a greater capacity to communicate effectively about complex problems.

That's why the President and I have worked so hard to enable all of our schools and libraries to have affordable access to telecommunications and information technology. The E-Rate program, for instance, gives crucial discounts to schools and libraries, with the steepest discounts going to the neediest communities. Through this tailored program, we are committed to helping ensure that all children—regardless of race, income or geography—can have an equal chance to learn and succeed.

Without such help, technology is yet one more hurdle for poor and rural communities struggling to keep up with richer ones. Already, America is sharply divided between those with

access to computers and the Internet and those without it. Only 13% of classrooms in schools with a high percentage of minority students are connected to the Internet, compared with 27% of classrooms overall.

Some critics view the new technology as a frivolous tool of education. But more and more, computers are at the very heart of how schools teach and children learn. Other critics are worried about the changes they imagine the new technology may bring. Over the course of history, progress often spurs anxiety. When Greek merchants began importing Egyptian paper into Athens, Socrates condemned it, complaining that the use of paper would, according to writer Nicholas Allard, depersonalize interactions, disrupt human ties and "replace public discourse with less desirable and potentially dangerous private communication."

Still other critics say we are diverting needed resources away from other, more pressing educational priorities. But we need not limit ourselves to investing in one or the other. We can do both, and we must.

Since 1993, we have worked hard to improve education from preschool to postgraduate level. We expanded Head Start, created Goals 2000 to help states set high academic standards, expanded charter schools, focused Title I funds more on low-income children, while setting the same standards for those children as for all others, and made college affordable to everyone through grants, loans, scholarships and tax benefits.

In the President's balanced budget, which he sent to Congress in February, we propose to build on those accomplishments by expanding those key investments while also paying for 100,000 new teachers, providing tax incentives to accelerate new school construction or renovation and investing more in education technology.

All parents want to help prepare their children for the future. Today that challenge means helping them grow up in a world in which information and communications technology dominate the economy and shape our society. We must give our children—all our children—the chance to succeed in the information age, and that means giving them access to the tools that are shaping the world in which they live.

"Children [with computers] developed better writing skills and greater capacity to communicate."



CYNTHIA JOHNSON FOR TIME

studies the social impact of technology, describes as "like China within our borders." To enlarge this new customer base, companies have offered seminars, free software and help with the applications that schools must make to receive the funding. Industry sources have estimated that \$2 billion spent on wiring schools produces as much as \$6 billion in sales of computers and peripherals.

But Republicans see this as nothing less than a stealth campaign to enhance Gore's presidential prospects. "This was not to be a political cash-grant program so that Al Gore can run for President," Tauzin complains. Gore's allies insist it is the Republicans who are playing politics. "This is a Clinton and Gore signature item," says former FCC Chairman Hundt. "The divi-

sive, partisan, do-nothing Congress would rather not see something succeed than see it succeed on terms that would be regarded as positive for the Democrats."

All of which leaves Gore with an important lesson as he approaches his 2000 campaign: cyberpolitics isn't the safe territory he might have thought it was. That's one more thing he can start to lose sleep over.

David Gelernter

No—Learn First, Surf Later

QUACK MEDICINE COMES IN TWO VARIETIES: "IRRELEVANT but harmless" and "toxic." The Administration's plan to wire American classrooms for Internet service is toxic quackery. Four-fifths of U.S. schools have Internet access already; instead of wiring the rest, we ought to lay down a startling new educational directive: First learn reading and writing, history and arithmetic. Then play Frisbee, go fishing or surf the Internet. Lessons first, fun second.

I've used the Internet nearly every day since September 1982. It's a great way to gather information, communicate and shop. And in one sense, the Internet is good for the American mind. Up through the early '90s, everyday written communication seemed to be dying out. Thanks to e-mail and fax machines, writing has come back. In this respect, the Internet could be a fine teaching tool—a way to share good, scarce writing teachers. One teacher could manage a whole district of students if they were all connected electronically.

But the push to net-connect every school is an educational disaster in the making. Our schools are in crisis. Statistics prove what I see every day as a parent and a college educator. My wife and I have a constant struggle to get our young boys to master the basic skills they need and our schools hate to teach. As a college teacher, I see the sorry outcome: students who can't write worth a damn, who lack basic math and language skills. Our schools are scared to tell students to sit down and shut up and learn; drill it, memorize it, because you must master it whether it's fun or not. Children pay the price for our educational cowardice.

I've never met one parent or teacher or student or principal or even computer salesman who claimed that *insufficient data* is the root of the problem. With an Internet connection, you can gather the latest stuff from all over, but too many American high school students have never read one Mark Twain novel or Shakespeare play or Wordsworth poem, or a serious history of the U.S.; they are bad at science, useless at mathematics, hopeless at writing—but if they could

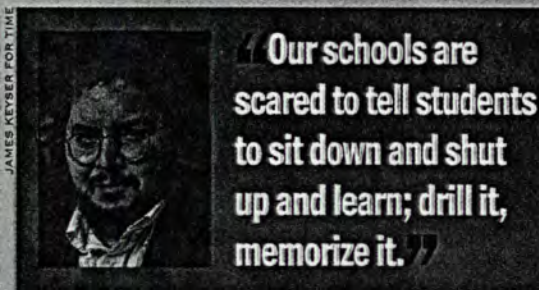
only connect to the latest websites in Passaic and Peru, we'd see improvement? The Internet, said President Clinton in February, "could make it possible for every child with access to a computer to stretch a hand across a keyboard to reach every book ever written, every painting ever painted, every symphony ever composed." Pardon me, Mr. President, but this is demented. Most American children don't know what a symphony is. If we suddenly figured out how to teach each child *one* movement of *one* symphony, that would be a miracle.

And our skill-free children are overwhelmed by information even *without* the Internet. The glossy magazines and hundred-odd cable channels, the videotapes and computer CDs in most libraries and many homes—they need *more* information? It's as if the Administration were announcing that every child must have the fanciest scuba gear on the market—but these kids don't know how to swim, and fitting them out with scuba gear isn't just useless, it's irresponsible; they'll drown.

And it gets worse. Our children's attention spans are too short

already, but the Web is a propaganda machine for short attention spans. The instant you get bored, click the mouse, and you're someplace else. Our children already prefer pictures to words, glitz to substance, fancy packaging to serious content. But the Web propagandizes relentlessly for glitz and pictures, for video and stylish packaging. And while it's full of first-rate information, it's also full of lies, garbage and pornography so revolting you can't even describe it. There is no quality control on the Internet.

Still, imagine a well-run, serious school with an Internet hookup in the library for occasional use by students under supervision who are working on research projects; would that be so bad? No. Though it ranks around 944th on my list of important school improvements, it's not bad. But in reality, too many schools will use the Internet the same way they use computers themselves: to entertain children at minimal cost to teachers. If children are turned loose to surf, then Internet in the schools won't be a minor educational improvement, it will be a major disaster. Another one. Just what we need.



Gelernter is a professor of computer science at Yale. His 1991 book, *Mirror Worlds*, predicted something like today's Web.

TO GeneS (Bob Rubin - Good piece - BK

THE PRESIDENT HAS SEEN
5-25-98

BY BRIAN BREMNER

If only Japan would listen. That sentiment, in one form or another, has been a favorite among foreign governments, executives, and commentators for years. In the 1970s, as the Japanese created the world's most dynamic automobile industry, Americans urged them to curb their exports. When Japan rode a wave of prosperity in the 1980s, Western governments demanded that the country open up its restricted markets. And today, as Japan staggers into recession, finance ministries around the world are begging the government of Prime Minister Ryutaro Hashimoto to spend, spend, spend. Cut taxes, Mr. Hashimoto. Prime the pump by tapping Japan's \$10 trillion in savings. Just act, and you can kick off a recovery in Asia that will prevent a global slowdown and end the region's crisis.

In recent weeks, the chorus from the world's money-men and heads of state has grown louder. Michel Camdessus of the International Monetary Fund, Treasury Secretary Robert Rubin, and Prime Minister Mahathir Mohamad of Malaysia, among others, have called on Japan to act. President Clinton plans to have a stern talk with Hashimoto at the upcoming G-7 conference in Britain. Japan has responded in its grudging fashion, offering tax cuts of \$34 billion over two years and making pledges to boost a public-spending program that already dwarfs the U.S. defense budget.

The market, which had wanted \$120 billion in tax cuts over three years, drove the Nikkei down. The gloom deepened. If Japan would only listen.

Yet the world's leaders may want to consider that their calls for a tax cut represent dangerous wishful thinking. A tax cut to put some life into the economy would certainly give a temporary lift to Japan. Yet fiscal stimulus, however deep, may not do much to resolve the Japanese crisis at this point. The challenges facing Tokyo are far more multifaceted than simply putting more money in the pockets of Japanese consumers. Japan faces a debt trap of its own making that involves the banks, households, and corporations of the whole nation. Japan must dismantle this trap. Otherwise, its struggles could weaken the yen further and destabilize the world economy, forcing other Asian nations to devalue and eventually hurting U.S. exports. A dysfunctional Japan could slow global growth for years.

NEW LIGHT. The problem is not just the reported \$600 billion in bad loans that plague the nation's banks. It involves hundreds of billions of dollars of debt that lurk off the balance sheets of government bodies and corporations. It includes millions of families struggling to pay off mortgages on houses that have lost 70% of

PRAYING AT A SHRINE

Ordinary Japanese are anxious about their job security, living standards, and retirement savings



JAPAN'S REAL

Cover Story

KAKU KURITA / GAMMA-LIAISON

CRISIS

Until its hidden-debt mess is cleared up, no recovery is possible

Japan's Debt Trap

PUBLIC DEBT

OFFICIAL LEVEL

About 100% of GDP, or \$4.5 trillion. That's on a level with such highly leveraged Western countries as Belgium, Canada, and Italy.

PROBABLE LEVEL

Actual public debt could be as much as 250% of GDP, making Japan the most indebted nation in the industrialized world. To reach that number, analysts throw in the debt of *Zaito*, an off-balance-sheet government lender.

NONPERFORMING BANK LOANS

About \$600 billion. The government has recently admitted to that much after claiming for years that it was only about \$200 billion.

More like \$770 billion, according to the ratings firms. The extra \$120 billion is bank declared nonperforming but probably not being serviced by distressed corporate borrowers.

CORPORATE LIABILITIES

Debt exceeds equity by an average of 4 to 1 in the corporate sector. That level is forcing companies into bankruptcy at a record rate.

The situation is likely to be worse, since poor accounting does not reveal borrowings overseas or pledges to cover the debt of corporate affiliates. Private pension plans totaling \$600 billion are underfunded by as much as 40%.

PROPERTY PRICES

Official Level. Japan's commercial and household real estate is still valued at \$17.5 trillion.

A markdown of 10% to 30% is probably necessary. That means households with mortgages are sitting on \$250 billion in paper losses.

THE BOTTOM LINE

ACTUAL PUBLIC DEBT:

\$11 trillion

ACTUAL PROBLEM LOANS:

\$1 trillion

DATA: BUSINESS WEEK

SAFES FOR SALE

Many Japanese may be stashing yen at home. Banks pay only 1% interest, so why risk a collapse?

tions. And a steady flow of capital to the equity and bond markets of America and Europe could aggravate the crisis.

Taken together, the liabilities cast a new light on the Japanese problem. Despite the country's \$800 billion in overseas assets and \$200 billion in foreign exchange reserves, Japan's troubles may run a lot deeper than even the pessimists may realize.

Cover Story

were growing briskly. Canada, for example, has sizable public debt, but its economy is sound, so concern about these liabilities is minimal. In the U.S., once regulators resolved the savings and loan crisis, the economy rebounded, and many of the problem debts were eventually paid off.

Yet Japan is not growing. Instead, a crisis of confidence has gripped the nation. In the midst of the financial fog, no one in

their value. It encompasses billions of dollars in pension liabilities that no one wishes to acknowledge and \$700 billion in offshore liabilities of Japan's banks and corporations. The opacity of Japan's accounting compounds the problem, since not even the most skilled financiers can measure the depth of Japan's obligations.

Perhaps the size of the debt would not matter if the country

Japan knows the full extent of the problem, no one can predict where the bottom is, no one knows which bank will fold next, and no one can guess whether the market will ever clear. France and Germany have high debt levels and pension crises, too. But no Western nation needs to grapple with the problem of hidden, unmeasured debt in the way Japan does. "The debt is a time bomb," says Clyde Prestowitz, a veteran Japan watcher and president of the Economic Strategy Institute. "The crazy thing is that the Japanese could take care of it, but they aren't doing anything."

Now, analysts and executives are openly talking about what could go wrong. According to Kunji Okue, an analyst at Dresdner Kleinwort Benson, the government is earmarking 46% of its effective tax revenue for servicing the debt. If interest rates rise again, the government's borrowing costs will jump, and its ability to cover expenses would deteriorate. Okue figures that if long-term rates were at 1990 levels of 7% or so, the cost of debt servicing would make it impossible for the government to cover its payroll. The government may also have to handle more debt than it bargains on, since it has made implicit guarantees to cover much of the bad debt in the bank system. "DEMORALIZING." This scenario has compelled Moody's Investors Service to put Japan's sovereign debt on Credit Watch. "Japan could become like the Latin American governments of the 1980s, when debt service ate up expenditures," says Moody's senior analyst Thomas Byrne. Although Japan is far

richer than the Latins, it has little room left for further tax hikes, which would lead to slower growth and even more deflationary pressure on assets. And to keep capital at home, Japan may have to raise rates, since deregulation makes it easier for Japanese to put their money in investments overseas.

The situation is unstable. Banks dare not lend any more, and corporations are desperate for credit. Yes, Japan is immensely rich, and it can still resolve its crisis, given its deep pool of talented workers, its tradition of sacrifice, and a history of remaking itself. But at this point, its liabilities would strain a country far better governed than it is. "When the economic history of this century is written, one of the great stories will be Japan's mishandling of its own economy," says Jay W. Chai, chief of Itochu International Inc., a subsidiary of the big Japanese trading house. "It's a sad, demoralizing tale."

A MONSTER. To get a sense of how bad things are, look at institutions that get little mention in the papers. In Japan, there's a sprawling shadow budget that few outside the country ever hear about. It's called the Fiscal Investment & Loan Program, or *Zaito*. But it's a monster, with spending that approaches two-thirds of government outlays. Over the years, it has been a stealthy source of financing for favored enterprises of bureaucrats and the Liberal Democratic Party. Funding for the projects has come from Japanese savers, through public pension assets and the vast state-owned Postal Savings system. All told, *Zaito*'s loans come to some \$2.8 trillion, all backed by the government. The suspicion is that perhaps 9% of these loans, some \$250 billion, are invested in useless projects that aren't generating enough return to pay back the debt.

The shadow *Zaito* budget, controlled by the Ministry of Finance, steers lending into nearly 50 government-linked entities. These include the National Forest Service, the Japan Development Bank, public companies such as Japan Highway Development Corp. and Japan National Railways, and local governments and special firms such as Kansai International Airport Co., which is underwriting the Osaka airport. Environmental Hygiene Financial Corp. has extended \$7.6 billion in loans, mostly to restaurants and bars, for cockroach control and other public-health matters. At least 5% of these loans are in trouble, since many restaurants have folded during the stagnant 1990s.

Zaito also supplies low-interest loans to the Housing Loan Corp. (HLC), which holds 40% of all mortgages. The HLC claims to have only \$1.4 billion in questionable loans. Yet that may be understated, given the blowout in the property market and the fate of the *jusen*, the seven private housing-loan corporations that needed a \$6 billion bailout three years ago. *Zaito* loans are also indirectly propping up many local governments. Kleinwort Benson's Okue thinks a dozen municipalities are effectively bankrupt and rely on *Zaito* funds to cover debts and payroll.

It's only a matter of time before the problem loans of the localities and the govern-

ment corporations end up on the central government's books. One big hit will come in October, when the government assumes \$213 billion in loans from the now-defunct Japan National Railways Settlement Corp. That was a special outfit set up to manage assets and debts left over from the privatization of Japan Rail in 1987. The plan was to pay off the debts by selling off some of Japan Rail's real estate. Yet when the bubble burst, there weren't many takers, and the debt has lingered. "We already have a debt crisis in the private sector," says Schroders Securities Japan economist Andrew Shipley. "The next bomb that will hit will be a debt crisis in the public sector." Eventually, the central government will have to write this debt off, at a huge cost to taxpayers.

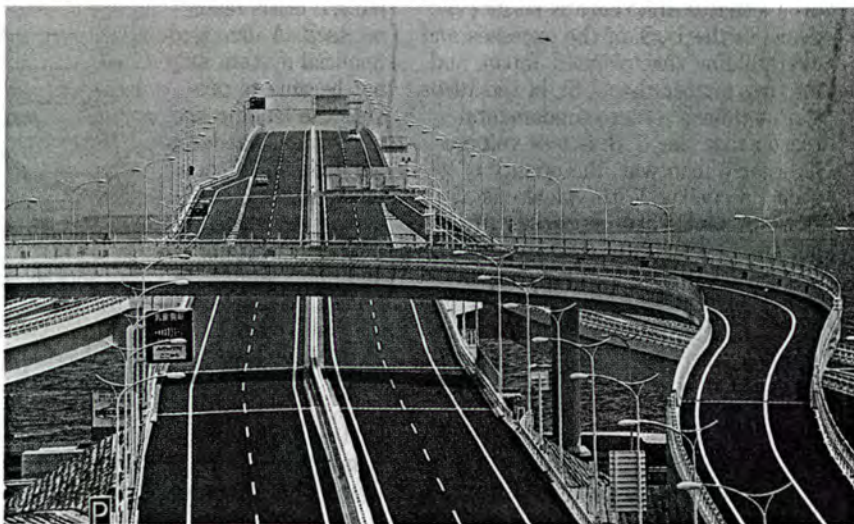
SCARY MATH If outstanding loans to government-funded entities, such as airports and railroads, are included, Japan's public debt may be \$11 trillion, or 250% of GDP

The math gets scary pretty fast. Official statistics already place the gross debt of Japan's central and local governments at about 100% of gross domestic product, or \$4.5 trillion. That's one of the highest in the industrialized world. Yet the real debt may equal 250% of Japan's output, or \$11 trillion, figures Oxford University's David L. Asher, who co-wrote a study on Japan's debt mess. Asher reaches that number by figuring in liabilities buried in *Zaito* and other government-controlled corporations, and adding unfunded public-pension obligations, which come to 100% of GDP.

Clearly, the Japanese are masters at running up deficits, and Asher takes a dim view of foreign policymakers who prod Japan to keep spending. "That's like telling a heroin addict to take another fix," he says. Ordinary Japanese and the corporate sector love their debt, too. Corporate balance sheets are burdened with debt levels that run at four times equity, compared with 1.5 times in the U.S. Mitsubishi Motors has \$15 billion in debt, four times its equity. It can service that debt only because it has forgiving banks that are tight with the Mitsubishi *keiretsu*. Meanwhile, Daiwa Research Insti-

TOKYO'S BAY BRIDGE

The LDP has spent billions on public works projects. Many doubt they will pay off



tute has scanned the data of 24 big companies that list their unfunded pension liabilities. Extrapolating from the data, Daiwa figures 40% of pension plans are underfunded.

Among ordinary consumers, thanks to a 70% meltdown in property prices since 1992, households are probably sitting on \$250 billion in paper

losses. And amazing as it seems, land prices and the already depressed Nikkei index may have to fall much further before they accurately reflect the true value of property and corporate assets. Such drops could wipe out an additional \$3 trillion in wealth, on top of the \$10 trillion that already has been va-

porized in the past decade. No wonder consumers refuse to spend. "These days, if you have 100,000 yen [\$760], you contemplate carefully what to spend the money on," says Yoko Ishikawa, a homemaker and mother of three in the Tokyo suburb of Chiba. "In the past, we would jump on things without giving a careful thought."

PIGGY BANKS. These hidden liabilities help explain why Hashimoto and his LDP are wary of tax cuts. Cuts are a sop to the foreign crowd, because few in Japan think tax breaks will boost consumer spending. "Tax breaks aren't as effective as most people think," says LDP Secretary General Koichi Kato. Ordinary Japanese are so anxious about job security, living standards, and retirement that they probably would just save

Cover Story

COMMENTARY

By Michael J. Mandel

WHY AMERICA WON'T BE NEXT

It could happen in America, too. That's what some observers are saying about the U.S. economy, which has some disturbing resemblances to Japan's in the late 1980s. In both cases, a substantial boom was propelled by a single leading sector—manufacturing in Japan, high tech in the U.S. Both countries evinced an overflowing confidence. And not least, the stock market in both countries soared to astounding heights. At its 1989 peak, the Nikkei Index was five times its level in the first quarter of 1982. The U.S. market is even hotter—it's up tenfold from the same point (chart). To pessimists, the message is clear: Since Japan saw its bubble burst, the U.S. could easily suffer the same fate.

Pessimists overlook some crucial differences, though. U.S. companies and individuals are less dependent on leverage and debt than the Japanese were. U.S. execs are still downsizing, restructuring, and investing to boost productivity. And there is scant evidence in the U.S. of the excesses and overbuilding that plagued Japan, and for that matter the U.S., in the 1980s.

But there's a more fundamental reason that the U.S. is less vulnerable than Japan was: the quality of its economic policy. With valuations at sky-high levels, it's impossible to rule out the possibility of a sharp decline in U.S. stock prices. But in recent years, U.S. policymakers such as Federal Reserve Board Chairman Alan Greenspan have shown that they understand how to limit the damage of a financial crisis. By contrast, Japan's central bankers, politicians, and bureaucrats still pretend that the economic lessons of the past 70



FED CHAIRMAN GREENSPAN

years—learned at great cost by the U.S. and Western Europe—don't apply to them. That's an important reason why the long decline of the Nikkei sent the Japanese economy into a tailspin.

By itself, a crash is not a disaster. Certainly, financial firms suffer, and consumers cut back. But after a crash, the productive muscle of the economy—factories, human capital—are still there.

The long-term danger arises when a financial crisis feeds on itself. A damaged financial system may not be able to provide the lending and investment needed for growth. In the most extreme case, people stop trusting financial institutions, and financial institutions stop trusting borrowers.

That's what happened in the Great Depression. Based on that disaster, and 70 years of subsequent experience, there's a clear rule book for a central banker faced with a stock market crash or other financial crisis in an otherwise healthy economy.

First, flood the economy with money, because in a crisis liquidity dries up and sound institutions go under when everybody gets scared. Most economists now believe the Federal Reserve's reluctance to open the monetary spigots turned the crash of 1929 into the Great Depression. Second, get the financial system functioning again by closing insolvent institutions and taking bad debt off the books of the private sector.

U.S. policymakers have shown they understand these lessons. After the 1987 crash, the Fed pumped large amounts of money into the economy, guaranteeing that large brokerages and banks would not go under. And the savings-and-loan bailout of the 1980s effectively freed up the banking system for the boom of the 1990s.

The same cannot be said of the Japanese. The Tokyo stock market started slumping at the end of 1989, but policymakers kept a tight rein on money growth until well into the 1990s—the same mistake made in the U.S. in 1929. Subsequent inaction allowed this financial crisis to damage the real economy in ways that are difficult to reverse.

Stock markets can dive—that's a normal part of any capitalist economy. Banks can make loans and lose money. But the key is whether policymakers can address the problems—and that's where the U.S. has Japan beat, hands down.

Mandel is economics editor.

ONE BUBBLE OR TWO?



the money from a tax cut. Consumers are already shifting their savings out of banks and into the Postal Savings system, aggravating the problems of private institutions. Judging from the brisk sales of home safes, they also may be lugging suitcases of yen back home. With bank deposits yielding less than 1% in interest, why park your savings in a bank that could go under?

Cash is also disappearing into foreign bonds and equities. Last year, Japanese purchases of overseas equities surged by 77%, to \$13 billion, and, save for a collapse of the bull market overseas, the Japanese should keep up that pace in 1998. But if the outflows grow large enough, the yen could weaken

to 150 to the dollar, from 130 now.

The impulse to hoard or invest abroad

Cover Story

could slowly bring the consumer economy to a stop. Retail sales at department stores are falling by 15% or so a month. "Japanese citizens have the money, but they don't use it because they can't see a future," says outgoing Honda President Nobuhiko Kawamoto. Like other auto makers, Honda is coping with double-digit declines in domestic sales. Meanwhile, personal bankruptcies shot up 21% in 1997, to about 71,299 households. Because of the social stigma of filing, one bankruptcy lawyer, Kenji Utsunomiya, thinks the figure is closer to 500,000.

While consumers stay scared, the banks are unwilling or unable to lend further. Fear is growing that the banks, which have acknowledged \$600 billion in sour loans, are sitting on an additional pile of nonperforming assets. Analysts think many small and midsize companies are just not servicing their loans. Companies sometimes cannot collect debts, either. After Shimizu Corp., a big construction outfit, announced a write-off of \$360 million in doubtful debt, analysts concluded that other construction companies faced a similar crisis.

HARD SLOG. The destructive cycle is reinforcing itself. Many banks are cutting off credit to companies they were once willing to keep afloat. The aggregate debt of bankrupt companies, at 3% of GDP, is higher than the U.S. had during the Great Depression. "This is the worst credit crunch Japan has ever experienced," says Richard Koo, an economist at Nomura Research Institute Ltd. It will get worse. According to some estimates, about \$250 billion in loans is technically sound—but only because banks have lowered interest rates to practically zero to keep customers paying. A chunk of these loans could slip into default at any moment, boosting nonperforming loans to an estimated \$770 billion.

The tax code is contributing to the crisis. High marginal rates encourage companies to report as little profit as possible. Companies borrow heavily to invest more than they should, so they can get rapid depreciation on the equipment they buy and earn big interest deductions on the loans they take out. This system works fine in a rising economy. But

when a crunch comes, the near-total absence of profits turns these companies into debt disasters.

Meanwhile, staggering amounts continue to flow into public works of questionable value. How else to describe a state-funded German-theme park in tropical Okinawa? Or the special roads and airstrips built just for farmers to transport vegetables around Japan? In Fukui Prefecture, the government has spent \$346 million to build a harbor to accommodate 5.9 million tons of cargo a year. Today, it's largely empty, and wags call it "the 10 billion-yen fishing pond."

A WAY OUT? In the months to come, Japan's recession will show how much damage the dysfunctional economy can inflict on the world. A recent Morgan Stanley Dean Witter & Co. report figures that a recession in Japan will clip 2.5% off the region's GDP. It's time, then, for foreign businesses and policymakers to imagine a global economy in which Japan—the world's biggest creditor and Asia's most important player—spends perhaps a further five years in the wilderness searching for a solution to its problems. That means living with a much weaker yen and securing the global banking system against the shocks of Japanese financial failures.

The Japanese can still work their way out of this trap. But it will take a sustained effort at overhauling the banking sector, letting equity and land markets finally hit bottom, and shaking out a largely unproductive domestic economy that will cause plenty of short-term pain (table). Japan's bureaucrats also need to adjust their world view. For years, the Ministry of Finance has been plotting a strategy to ease Japan into a new era as a pension state. The idea was to supply a graying population with income and security by investing Japan's savings in dynamic economies such as the U.S. and Asia, to make up for slower growth at home.

That strategy is now in tatters with Asia's slump and the domestic debt debacle. Indeed, one big reason policymakers are afraid to write down Japanese assets and debt is

What Needs To Be Done

FIX THE BANKS The banks must submit to independent audits to determine the true extent of their bad loans and mark them to market. Regulators must shut down or sell insolvent banks. A trust fund must sell off bad loans at a discount and auction off distressed real estate.

CHANGE THE ACCOUNTING To determine the true quality of assets and profits, Japanese companies must adopt international accounting standards. That means consolidated balance sheets, pricing assets according to their market value, and opening up books to independent auditors and credit agencies.

REWRITE THE TAX CODE Japan's tax system encourages excessive investment and borrowing by corporations to mask profits. So corporate taxes need to be lowered to international levels.

AUDIT THE GOVERNMENT The government must disclose the true level of off-book liabilities contained in the so-called *Zaito* budget controlled by the Finance Ministry. Bad debts should be disclosed quickly and dealt with.

STOP THE MARKET RIGGING The government must stop using postal savings and pensions to prop up the stock and property markets. Only then will prices accurately reflect the actual value of assets.

DATA: BUSINESS WEEK

that it would wipe away a big chunk of the principal on Japan's retirement savings. Paralysis results.

As Japan seeks a way out, a current TV hit offers insight on the public mood. Every week, millions tune in to watch a historical drama on the downfall of the Tokugawa shogunate in the 19th century. It's the saga of a military dictatorship done in by indecision, rebellious barons, and the threat of U.S. warships off the coast. The costumed actors act out the unraveling of the old feudal order and the rise of modern Japan.

Some commentators suggest the show's popularity is a clue to a public yearning for some sort of event that will do away with the old ways. A few politicians even talk of the need for a great upheaval on the order of the Meiji Restoration of the 1860s, or the arrival of U.S. occupation troops in 1945. Japan certainly has been able to reinvent itself through crisis. But no one seems ready to inflict the kind of shock the country needs now. □

COMMENTARY

By Robert Neff

WHY JAPAN WON'T ACT TO SAVE ITSELF

From the ashes of World War II, Japan built the world's second-largest and arguably most competitive economy. It seemed unstoppable, and books such as Ezra F. Vogel's *Japan as Number One: Lessons For America* fueled the fear that Japan Inc. would conquer all.

Now, students of Japan are busy figuring out the puzzle of how it has stumbled into crisis and why it seems unable to dig itself out. Some of the best explanations come from the "revisionists." These theorists first explained how the Japanese political economy, operating by different rules from orthodox free-market economies, is incompatible with global free trade. Their ideas explained why Japan would resist all moves to open its markets. Today, revisionists point to how Japan's uniqueness has gotten the country into trouble.

Probably most telling is the argument put forth by Dutchman Karel Van Wolferen. In his seminal *The Enigma of Japanese Power*, published in 1989, van Wolferen says that Japan's government lacks any center of accountability. Conflicting bureaucracies contend for power. Meanwhile, politicians remain toothless. One reason is that parliamentarians can afford only about three staffers each, vs. dozens for a U.S. congressman. Even the Prime Minister's staff is on loan, mainly from the bureaucracy.

This means that in a Confucian tradition where bureaucrats count the

telligence on economic affairs, in effect, from a vested interest. Since the Ministry of Finance (MOF) is devoted to fiscal discipline, its bureaucrats have repeatedly advised Hashimoto to raise taxes. Lacking staff advisers to hammer out an alternate policy, he took the MOF's advice. The resulting

less politicians and vote in a government that stands up to the bureaucrats. But Japan's uniqueness gets in the way here as well. Voters don't cast ballots according to issues. Instead, they vote according to longtime personal contacts. At least 25% of Japan's Diet members are second-, third-, or fourth-generation holders of the same seats.

They get votes because of who their ancestors were, not their positions on issues.

POOR VISION. What's more, the Japanese are preternaturally conservative. Even while the signs of financial distress mount, they lack the sense of crisis that might provoke some action. Since they sit on top of the world's largest household-savings trove of \$10 trillion, that may not be surprising—even though the debt crisis worsens every day. Besides, opposition parties haven't offered a much better vision than that of the long-ruling Liberal Democratic Party, so an increasingly apathetic and risk-averse electorate continues to vote for it.

The web of personal connections in politics is reproduced in corporate practices. In the notorious *keiretsu* system of cross-shareholdings, related companies hold shares in each other, propping up stock values. Banks belonging to the *keiretsu*

keep lending to weak members. Letting these banks fail would cause such a shock that the MOF is terrified of letting that happen.

Politicians who cannot rule. Bureaucrats who cannot regulate. Voters who do not care. Corporations that do not change. It looks pretty dismal for Japan. "There are differences among capitalist systems that are not trivial and that under the right circumstances can blow the system apart," says Chalmers Johnson, one of the leaders of the revisionist school. Japan's uniqueness is now turning into a dangerous liability.

Contributing Editor Neff covers Japanese politics and finance.



tax hikes stopped Japan's growth in its tracks last year.

The MOF's devotion to fiscal rigor is in general a fine guiding principle. The trouble is, the MOF has another, unofficial priority: protecting the financial industry it is meant to regulate. So the banks' disclosure requirements remain minimal. And, in return for being wined and dined, MOF bureaucrats forewarn the institutions under their care of impending audits. The result: Learning the true state of bank balance sheets is almost impossible. And the MOF has hesitated to disclose the size of the bank problem or release funds to solve it. So the debt crunch just gets worse.

Surely, voters could throw out gut-

Cover Story

most, politicians suffer an information deficit. *Asahi Shimbun*, Japan's most influential daily newspaper, recently did a study showing that Prime Minister Ryutaro Hashimoto met more often during the last fiscal year with the finance vice-minister than with anyone else. The implication: Hashimoto is getting most of his in-



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Clinton Exclusive:
'We won't give up on peace'

COVERING ISRAEL, THE MIDDLE EAST & THE JEWISH WORLD

Clinton's Intriguing Kinship with the Jews

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The Kinship

Bill Clinton feels an affection for the Jewish people wholly unprecedented among even the most supportive of U.S. presidents. From personal friends to professional appointments, he is an insider and admirer — a fact that underlies his stance on Israel as well. His inspiration for this warmth: the Bible.

Netty C. Gross Washington

IN FEBRUARY 1996, THE PRESIDENT of the United States penned a thank-you note to his good friend, Menachem Genack, an Orthodox rabbi and Democratic party activist.

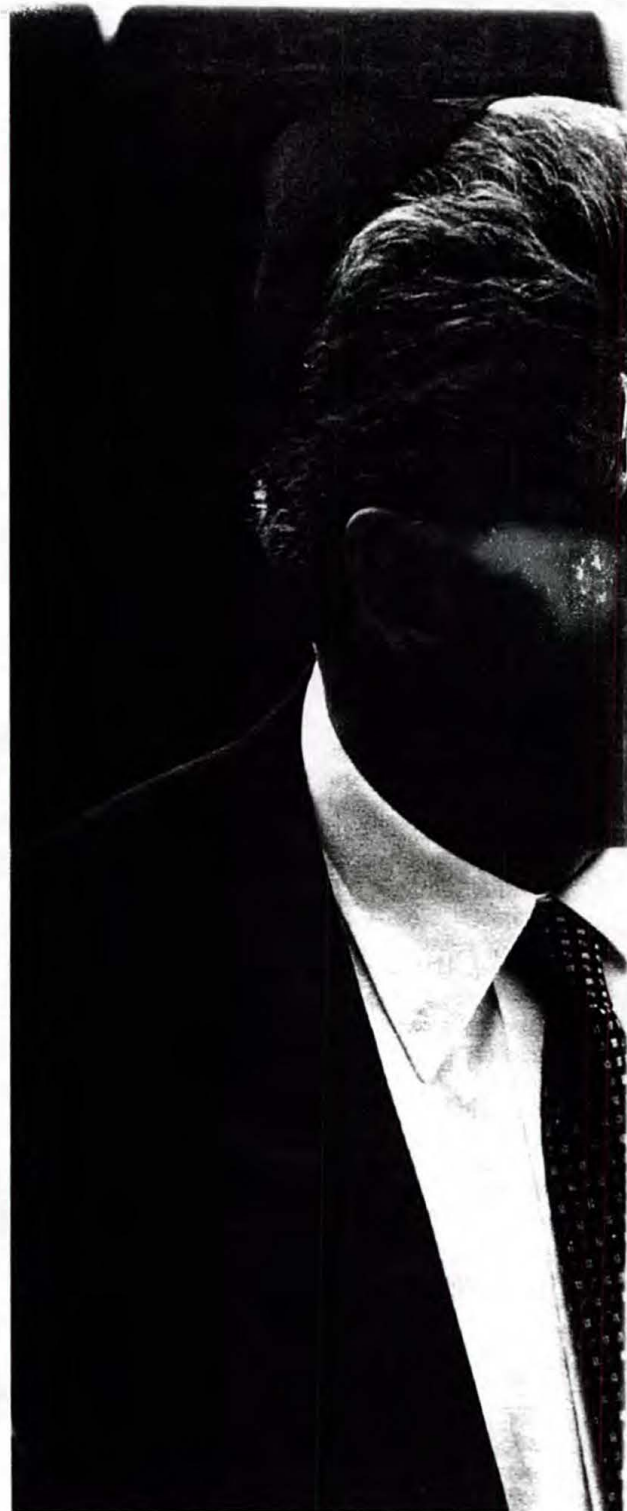
The men had struck up a friendship during Clinton's 1991 campaign after Genack, who heads the kashrut division of the Union of Orthodox Congregations in America, was tasked with introducing Bill Clinton to a group of Jewish Democrats at a New Jersey fundraiser. Genack doesn't recall his exact words at the event, but says that he "undoubtedly made some reference to the Bible." Bill Clinton, the Southern Baptist governor of Arkansas, evidently liked what he heard.

After the election, Genack, an affable father of six, became a frequent guest at White House events, one summer even traveling directly from a Catskills bungalow colony to the White House. "I left the very day my little son Moishele's bike was stolen," he recalls. "I remember how he stood with his Barney under his arm and shouted, 'Abba, don't forget to tell the president about my bike.' I did. The president was going through a rough time with the issues of homosexuals in the military and health-care reform. I told him, 'Mr. President, there's at least one little boy in America who thinks you're omnipotent.'"

Genack is a personal friend — but has

subject of Judah and Joseph. It was nine months before the November election and, much like today, a beleaguered Clinton was preoccupied with assorted controversies, including Republican accusations of his waffling on policy issues. In response, Genack raised the following textual riddle: "Why," he wrote, "does Jacob bequeath royalty to Judah and not Joseph, who is perfect in every respect, does not succumb to temptation... is resolute and rules with brilliance and magnanimity over Egypt?" One possible answer, wrote Genack, was provided by the late theologian Rabbi Joseph Soloveitchik, who "suggested that Judah is chosen for kingship because he is able to admit a mistake. According to the Talmud, Judah is chosen by God to be the forbear of the Davidic dynasty and the messiah when he admits to his relationship with Tamar (Genesis 28:26)... the name Judah is derived from the Hebrew 'to admit.'"

The critical element of leadership, Genack went on, is the



'If Bill Clinton were Jewish, he'd be a talmid hochom'

BROOKLYN CITY COUNCILMAN NOACH DEAR

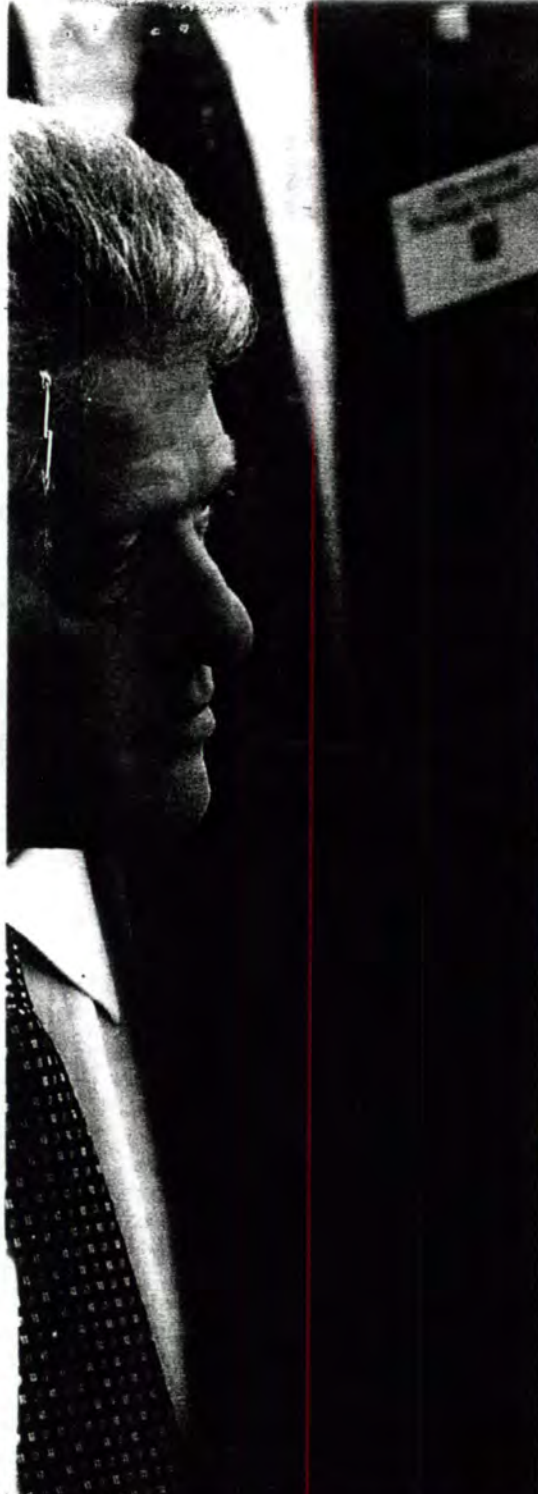
also became something of a rabbinical Jiminy Cricket to the president, always proferring, in their private moments of conversation, bits of Biblical exegesis.

Clinton's 1996 note to Genack acknowledged a missive the rabbi had sent on the

capacity to "admit a mistake... That was King David's greatest strength as opposed to Saul. Lincoln, our greatest president... exhibited extraordinary flexibility," changing commanding generals, for instance, until he found "Ulysses Grant whom he supported."

The rabbi summed up the missive by refuting Republicans' charges of indecisiveness: Clinton's ability "to adjust to new circumstances... while remaining true to his vision is the mark of real leadership."

In retrospect, given the disclosures of recent months, it's impossible to know what in Genack's confident analysis hooked Clinton. But the president — whose longtime friend Sara Ehrman, twice Clinton's election adviser on the Jewish vote, says he knows both the Jewish Bible and New Testament "practically by heart" — was suf-



ARIEL JEROZOLIMSKI

A SPECIAL SENSIBILITY:

From Hanukkah dreidl games at the White House to his Scripture-studded speeches, Clinton openly displays a remarkable warmth toward Jews



AP / J. SCOTT APPLEWHITE

"like Lincoln, this president is totally devoid of prejudice or bias, simply a man who likes people, a real shmoozer, who sees the Divine spark in each person. He's a very tolerant human being."

At the same time, Genack, like many close associates of Clinton, says he believes Clinton has a special sensibility for Jews unprecedented in a U.S. president. In this light, even perceived White House hostility to the Israeli government and Benjamin Netanyahu's lack of enthusiasm for the peace process falls into perspective.

"You see his sensitivity on a policy level and an emotional level," says Genack in his office in midtown Manhattan. Though the rabbi himself is more dovish on Israeli politics than many Orthodox Jews, he stresses: "Fact is, the president is *not* pressuring Israel. I attended a dinner in February in a private home and the president talked about having sleepless nights over Israel. I don't recall George Bush ever saying this."

Prof. Gary Tobin, director of Brandeis University's Cohen Center for Modern Jewish Studies in San Francisco, puts it another way. "Bill Clinton," he says, "is probably the first, openly warm, philo-Semitic president in the White House. Other presidents have been supportive of Israel, have made Jewish appointments, but Clinton's connection to Jews is a remarkable statement about

where Jews are today. It simply could not have happened 30-40 years ago. As U.S. Jews approach the end of this century, they have reached a level of integration that is historic. Clinton reflects that."

Indeed, other U.S. presidents have had their 15 minutes of fame in the Jewish community, mostly measured by their support of Israel. Harry Truman cast The Vote for Jewish statehood in the U.N.; Nixon sent The Planes in the Yom Kippur War. Ronald Reagan was considered the great hope of wealthy conservative Jews, the man who, so goes the old Republican saw, will get Jews to quit "voting like Puerto Ricans while living like Episcopalians." But then there was the visit to the SS cemetery at Bitburg, the AWACS to Saudia Arabia and, more crucially, his hand-picked successor George Bush's unflattering comment about being one "lonely man on Capitol Hill against a thousand Jewish lobbyists." And, admits one prominent Republican Jew, the Christian Right's growing domination of the GOP has virtually finished off Republican appeal to Jews.

Clinton, however, has, in the eyes of many Jews both in the U.S. and Israel, stretched his 15 minutes into a spectacular six-year spree. He has close friendships with many Jews; regularly delivers emotional, Scripture-studded speeches to Jewish audi-

ficiently soothed or intrigued by Genack's words to go back and read the scripture himself, discovering, to Genack's embarrassed amusement, that the rabbi had erred: The reference to Tamar and Judah is in Genesis 38, not 28, Clinton wrote to Genack.

FOR GENACK, THE INCIDENT REFLECTS what is so special about Clinton's relations to Jews: the openness, the deep personal investment, the religious foundation.

Genack prefaces his remarks on the subject of Clinton and the Jews by saying that



AP/GREG GIBSON

◀ THE PRESIDENT'S CIRCLE:

National Security Adviser Sandy Berger and the numerous other Jewish staffers could become a liability

ences; beamingly lights Hanukkah candles in the White House; and has made three trips to Israel as president. And then there are the small, crucial gestures: He endorsed granting permanent residency in the U.S. to Union Bank of Switzerland security guard Christoph Meili, who stopped the shredding of Holocaust records; went jogging in an "I met [Israeli cancer-stricken teen] Yoni Dotan" T-shirt; is said to particularly cherish Hebrew-engraved gifts given to him by Jewish friends.

And in the Unforgettable Image department, nothing can diminish the pathos of Clinton's "Shalom, Friend" eulogy for Yitzhak Rabin, which, historians say, will be quoted forever as part of his legacy to the Jewish people and Israel. "I don't think the president has had a closer, more intimate relationship with a world leader than he had with Rabin," says former AIPAC president and current Democratic National Committee chairman Steve Grossman.

Grossman recalls being an overnight guest in the White House in April 1995 when, at 2 a.m., Clinton stood outside the Yellow Oval Room on the second floor of the White House and pointed to four gifts presented him to mark the Israel-Jordan peace treaty: from Ehud Olmert, Ezer Weizman, King Hussein and a tray engraved with a Psalm from Leah and Yitzhak Rabin. Clinton, says Grossman, "looked at the tray and said of Rabin: 'I admire that man, a great man, a hero. I so, so admire him.' I mean, it was two in the morning. There were no reporters there. He didn't have to say anything."

The love is mutual. Despite their own internal divisions, America's Jews support Clinton overwhelmingly: 84 percent voted for him in the last election. Political insiders

say that even Jews who vote Republican in state elections are solidly behind Clinton. Strikingly, he has a particularly warm relation even with those among the Orthodox community who are uncomfortable with the peace process he has sponsored. Nor has he been hurt by his refusal to adopt positions very popular among Jews — like freeing Israeli spy Jonathan Pollard, or moving the U.S. Embassy to Jerusalem.

CLINTON'S JEWISH APPOINTMENTS record is also revealing in its breadth. He has put two Jews — Stephen Breyer and Ruth Bader Ginsburg — on the Supreme Court. At the peak, in 1996, he had five Jewish cabinet members. He has unhesitatingly (some say as a deliberate counterpunch) dispatched Jewish ambassadors to hot spots around the globe, including Madeline Kunin to Switzerland — where she promptly found her mother's name, Renee May, on a list of dormant Swiss bank account holders — and Daniel Kurtzer to Cairo, where, as both the first Jew and the first Orthodox Jew to be United States ambassador to any Arab country, he's encountered a wrath of Arab anti-Jewish prejudice. Most recently Jack Lew, also Orthodox, was tapped to be director of the Office Management and Budget.

There is also a sizable contingent of Jewish women, many of whom started out with a Hillary connection, in the most senior echelons of the White House, including Communications Director Ann Lewis, White House Director of Public Policy Maria Echaveste (see box, page 32), and Lynn Cutler, deputy director of White House inter-governmental affairs. "I want to write a story on the other Jewish women at the White

House," says Susan Weidman Schneider, editor of the Jewish feminist magazine *Lilith*, alluding to Monica Lewinsky.

And while Echaveste — who says she often has to work Saturdays, but did get Yom Kippur off — says there is "no minyan at the White House or anything remotely resembling that," there are, in fact, more Jews working in key White House positions now than ever before. Ira Forman, director of the National Jewish Democratic Council, tells of one Jewish staffer friend who balked at handling the White House Christmas decorations but was told he had to do it "because, heck, everyone else here is Jewish, too."

White House access has also changed dramatically in the Clinton years to include those not part of the Jewish Mt. Rushmore set. "Before this administration," says Ehrman, "if a Jewish group wanted access, it was through one avenue: Max Fisher," the auto-parts mogul and key Republican *mach-er*. "Under Clinton and Gore, there are countless avenues." Both are extremely friendly with corporate American Jews (like Detroit Pistons owner and Federation honcho David Hermelin, now serving as U.S. ambassador to Norway), who have, according to insiders, reciprocated the president's warmth by opening their wallets to the DNC as never before.

The Oval Office guest list has included, for instance, 85-year-old Rabbi Zelig Epstein, an ultra-Orthodox yeshivah head in Brooklyn, and his wife, who met privately with the president prior to the 1996 election. Earlier, the vice president made a courtesy call to the Epsteins' Boro Park home. Both visits were arranged by Brooklyn City Councilman and congressional hopeful Noach Dear, who is close to both Clinton and Gore, and, like Genack, dispatches Biblical missives to the president. "If Bill Clinton were Jewish," says Dear, "he'd be a *talmid hochom*. The guy's brilliant, forgets nothing."

Dear recalls that he persuaded Gore to visit Epstein, a revered sage in his ultra-Orthodox neighborhood, after jokingly assuring the vice president that at least two politicians he knew had benefited by receiving blessings from rabbinic elders: New Jer-

Continued on Page 32

'It Was God's Will'

The Jerusalem Report's Netty Gross recently posed several questions to President Bill Clinton about his special relationship with the Jewish people and the Jewish state. While choosing not to discuss such issues as the role of the Bible in his life, Clinton did elaborate on the inspiration for his deep commitment to Israel:

There is a sense among Jews that you have a real affection for Jewish people and Israel. What does this stem from?

“I have told the story before about visiting Israel with my wife before I became president, on a religious mission with my pastor. During the course of the trip, I formed a bond with my pastor. Later, when he became desperately ill, perhaps thinking that I might someday become president, he said more bluntly than any prime minister would, ‘If you abandon Israel, God will never forgive you.’ He said it was God’s will that Israel, the Biblical home of the people of Israel, continue forever and ever.

I, like all Americans of every faith, have through five decades shared Israel’s struggle to survive. In the character and history of the Jewish people, we admire your strength and ability to overcome adversity, enduring centuries of exile and persecution, including, in this century, the Holocaust.

The people of the United States share an extraordinary bond with the people of Israel. Your struggle has become our struggle and we are proud to be partners in a process that we hope will bring a lasting and secure peace to the Middle East.”

What message do you have for Israelis, anxious about their future in the Middle East?

“Two of my proudest moments as president were when my close friend prime minister Yitzhak Rabin and Chairman Arafat resolved to end their conflict on that brilliant day on the White House lawn, and the magnificent ceremony in the Arava, on the ground at the Patriarch’s Walk, when Israel and Jordan made peace after 46 years.

So, we know the desire for peace in the Middle East grows stronger and stronger. Yet, as we have seen, the circle of peace is not yet closed. The closer we come to achieving that peace, the more desperate and fanatical become the enemies of peace.

For that reason, a constant in the relationship between the United States and Israel has been our unwavering commitment to Israel’s security and well-being. Just as Israel is committed to taking risks for peace, our role is to help Israel minimize the risks of peace. This dual commitment is the only sure path to security for today’s citizens of Israel and their children.

What I want every Israeli citizen to know is that we must all continue to work for peace. The journey has been long, hard and frustrating. We can make the dream of a comprehensive peace in the Middle East a reality for all of our children. We can’t give up. We won’t give up. America will stand with you now and always.”

Your “Shalom, haver” eulogy touched the heart of all Israelis. Did you coin that? What was your inspiration?

“My first reaction when I heard the awful news that prime minister Rabin had died was, I’ve lost a friend. He was someone I looked up to and deeply admired, a man who had dedicated his life to defending Israel and gave his life in the pursuit of a lasting and secure peace. I wanted what I said to reflect the fact that I felt his loss not only as a leader losing a colleague, but as a man who had lost a real friend. And when someone is taken so suddenly, there is no real opportunity to say goodbye. “Shalom, haver” expressed what I wanted to say as a human being, not a president: a goodbye to my friend.”

AP DENIS PAQUIN



‘Your struggle has become our struggle’



Clinton stood outside the Yellow Oval Room at 2 a.m. and said of Rabin: 'I admire that man. I so, so admire him.'

Continued from Page 30

say Senator Frank Lautenberg who, says Dear, received a blessing from the Klausenberger Rebbe and went on to win his first election; and Shimon Peres, who, Dear claims, told him that a blessing he received from the great rabbinic authority, the Hafetz Haim, at age 3 in Poland, "saved his life."

Gore, also a deeply religious Bible-studying Christian, is standardly mentioned by Jews in the same breath as the president. The vice president is so plugged in, says Dear, that "he jokes about how Jewish people are always asking, 'Is it good for the Jews?'"

Sara Ehrman confirms that Clinton likes Orthodox rabbis. "He is very respectful of all clergy. But I think he likes the Orthodox because, simply, he recognizes them" — they look authentic. Ehrman escorted a group of rabbis to the Oval Office the day a light plane crashed on the White House lawn. In the shock, "they stood there with many Jewish members of the White House staff. Some people prayed. It was surreal."

The "Jewish thing" is shared by Hillary Rodham Clinton, whose own staff is also

heavily Jewish. When she was a young lawyer working on the Hill during the Watergate hearings, she lived for 11 months with Sara Ehrman, forging a lasting friendship. Hillary's interest in children's issues has brought her together with countless liberal Jewish women. And in 1986, when Clinton was Arkansas governor, she brought a Hebrew University-developed early-childhood education program to that state, pioneering its use in the U.S. She has told Rabbi Genack that she would like to begin studying Talmud — not a standard part of Methodist practice.

All this presidential warmth toward Jews could become a liability. Arabs have repeatedly complained that the United States has not acted as an honest broker, citing, as an example, the number of U.S. diplomats with key roles in the peace effort who are Jews or have Jewish roots: Secretary of State Madeleine Albright; Sandy Berger, the national security adviser; Martin Indyk, the assistant secretary of state for Near Eastern affairs; Dennis Ross, Clinton's special envoy to the Middle East, and Aaron Miller, Ross's assistant.

BUT NO HANG-UPS ARE EVIDENT on the presidential level. On the contrary. In his interview with *The Report* (see page 31), his attachment is clear: He speaks of "an extraordinary bond with the people of Israel" and of his "admiration for the Jewish people's strength and ability to overcome adversity."

Where does this affection come from?

Bill Clinton is a white, Christian male from Arkansas — not the usual profile of an American with loads of Jewish friends. But his intellectual and emotional comity with Jews is in part a generational issue, a function of being a baby-boomer "and having done things," says Lilith's Schneider, "that a lot of Jews do, like go to Yale Law School, attend civil rights demonstrations."

The DNC's Grossman explains the leveling factor at work as well: "Both he and Al Gore are of a generation where merit, not station in life, not someone's last name or skin color, prevails. What's true on Wall Street in terms of finding the best man for the job is also true in American politics."

Still, this does not fully explain Clinton's Jewish enthusiasm. Ehrman dates

Religious Makeover

MARIA ECHAVESTE, 43, ASSISTANT to the president and director for public liaison, sits at her West Wing desk. Whisking through conversations on her telephone headset, Echaveste, who manages a staff of 20, simultaneously sorts through faxes, opens mail, studies charts. Her office has two aims: to measure popularity of administration policies and programs, and to drum up support for the president's initiatives.

Echaveste, who is known among insiders as the Jewish staffer with the most unusual background, jokes that she had her last cheeseburger "about 15 years ago" — when she was still Catholic.

The eldest of seven children, she was born in 1954 to poor Mexican migrant workers on a Texas farm; her family later

moved to Oxnard, California. From there, she went on to Stanford University, and law school at UC Berkeley.

In 1982, around the time Echaveste became friendly with Hillary Clinton, through a shared interest in children's rights, she also met Stuart Schlein, a Jewish lawyer and Democratic activist from New York. "Within three weeks," she recalls, "we were talking about getting married. He asked me to convert. I found myself in a crisis of faith. As a modern woman, I had a hard time with the Catholic Church, but I couldn't quite take the plunge into Judaism. We agreed that I'd raise our children in the Jewish faith."

But by 1989, though not yet married, Echaveste had a change of heart. "It occurred to me that if I was going to have Jewish children, I had better know what the religion was all about. I started taking

classes in Torah and history at (Manhattan's modern Orthodox) Lincoln Square Synagogue, among other places. By the end of my search... I wanted to convert."

"What I love about Judaism," she goes on, "is its inherent optimism. My feeling is that Judaism is about the present, about this life, right now... As a Jew, it's how you behave in this world, this life, which is most important."

Echaveste sought an Orthodox conversion. "I wanted my conversion to be accepted by everyone from Reform to Orthodox," she says. "Also, I read Genesis and was struck by the fact that there really is a contract between God and the Jewish people. Perhaps the Orthodox aspect appealed to me because, as a lawyer, I respected the idea of contractual relationship."

In 1991, Echaveste converted, married Schlein and heard that Bill Clinton had declared his candidacy. She volun-



'He turns to the Bible frequently for inspiration, comfort, ideas'

LONGTIME FRIEND SARA EHRLMAN

Clinton's friendship with Jews back to Hot Springs, Arkansas, where he was born and raised — the site, she says of the first B'nai B'rith TB sanitarium. "So from the time he was in diapers, he's known Jews; his pediatrician was Jewish. And people have this misconception about Arkansas. Jews there are political junkies."

And Clinton's own religious beliefs, believes Ehrman, have shaped his feelings for Jews. "He's a Southern Baptist and believes the Jews are the people of the Book. He turns to the Bible frequently for inspiration, comfort, ideas; he always has. He loves preachers and the cadence of a good religious sermon."

But Genack takes it further. There are important Jewish influences in the margins. "The built-in Jewish commitment to justice and education," he says, ticking off a list.

teered to work for the campaign, eventually being charged with getting out the Latino vote.

The Clintons, relates Echaveste, were stunned to learn of her conversion. "You did *what*, Maria?" she laughingly recalls them saying. "They are both very spiritual people who look at life through the prism of faith. I think the concept of conversion was hard for them to understand, but they were totally intrigued."

Echaveste, who visited Israel in 1993, does not believe that Clinton has any special feeling for Jews.

His openness, she suggests, springs from his personality. "He's a person who cares about making things better for people, who learns about issues in a fundamental way."

N.C.G.

"Admiration for the fact that many Jews are self-made. Commiseration with the tragedies that have befallen the Jewish people. Yes, of course, the Bible is a key thing. And Jews," adds Genack wryly, "do make an appearance or two in the Book."

A comparison between Clinton and Jimmy Carter, another intensely religious, Southern Bible-thumping president, helps illuminate the bond. Though Carter engineered the Israel-Egypt peace treaty, he never warmed to the Jewish community.

According to Ira Forman, "he had absolutely no affinity, no natural closeness for Jews. It's unclear why. I mean he was governor of the state of Georgia, which had a larger Jewish population than Arkansas. It could have been his personality."

Carter's personality — and, perhaps, a parochial Christian view of the world, where everyone must be "saved." In contrast to Clinton's view, in Carter's eyes there was no Jewish historic claim to the Land of Israel. Some Jewish Democratic activists go so far as to suggest that lurking in Carter's psyche was the notion that both Jews and Arabs had

sinned by rejecting Jesus, had to be banished, punished and ultimately redeemed and brought to peace by a great Christian leader like himself.

Clinton, says one non-Jewish friend who asked that he not be named, "is simply a different kind of Christian. He brings to the table a tremendous amount of respect for Judaism, a feeling that the older religion is on equal footing."

If so, Clinton's view reflects a shift in American Jewish-Christian relations.

"These days in the U.S.," confirms Prof. Tobin, "there is a great deal of reverence and respect for Judaism from perfectly observant, dedicated Christians."

ON A SUNLIT MORNING IN LATE February, leaders of the National Council of Jewish Women are standing in a chilly, windowless room in a Washington, D.C. hotel, waiting to greet President Clinton, who will address an assembly of 700 in the adjacent ballroom. A door swings open and Clinton emerges, escorted by Ehrman, Ann Lewis, Maria Echaveste, Lynn Cutler and Debbie Mohile, White House liaison to the Jewish community. It's a powerful moment. All these women are Jewish. Clinton steps into the ballroom to a reception which is nothing short of overwhelming.

The president opens with a reassurance for those who "have relatives in Israel," quotes Talmud ("Every blade of grass has an angel that bends over it and whispers, 'Grow, grow'"), indulges a 14-month-old toddler who breaks loose from his mother's arms and tries to clamber onto the podium. A year before, the mom, who had earlier undergone a "partial-birth abortion," was part of a pro-choice delegation to the White House to thank the president for vetoing a bill to ban the procedure.

It's the sort of position that conservative Jewish groups, like their Christian counterparts, do not support. In fact, there are many issues on which Jews do not agree. Most significant of those issues is Israel: The Jews with whom Clinton is so friendly are bitterly divided on the peace process — including the hawkish Orthodox Union colleagues of presidential pal Rabbi Genack. And that's not the only argument. With public anger over Israel's conversion law, and the equally vociferous debate over whether "pressure" on Israel is good or bad, there is no shortage of disputes in the Jewish community. Clinton allows himself to joke about it. Leaning back in his swivel chair, scrunching up his nose, he once asked Ehrman in a syrupy Southern twang, "Sara, why you people always fightin'?" It was the kind of question that only the closest friend would allow himself to ask.



COURTESY THE WHITE HOUSE

▲ MARIA ECHAVESTE:
'The Clintons are both very spiritual people'

5-25-98
and watered-down Thatcherism are far more of style than of substance. But to say this is not to criticise the government. Look, in politics, presentation really matters. Tiresome as the third-way nonsense is to curmudgeons such as *The Economist*, its success as a marketing device is not in doubt. Voters

LE
are happy, leading thinkers are happy, everyone's bewildered souls who believed in Old Labour is happy. Thatcherism's main defect was that it was badly aimed, it needed it, and knew it needed it, but never much. Britain likes New Labour, and so far there is little n

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China's coming recession

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Far from thriving amid the turmoil, China has already caught a dose of Asian flu

IT IS surreal, but a winner is deemed to have emerged from Asia's financial chaos. Three cheers for China! While beggar-thy-neighbour devaluations tore through the region late last year, China's communist leaders stoutly ensured that their currency, the yuan, remained rock-solid. Since then, though other Asian leaders seemed to lose their heads and blame it on each other or else outsiders, China's statesmen have unveiled a seemingly breathtaking array of reforms to the country's socialist banks and enterprises, which have been given three years to shape up. An axe is to be taken to the unwieldy, but hitherto untrimmable, government bureaucracy. Government and business are to be separated, and 4m civil-service jobs lost. All this, and China's leaders have tossed out a further promise: growth of 8% this year. "China", one evangelist lauds, "pulls away from the pack."

The euphoria is dangerously misplaced. Far from having escaped the Asian flu, China has already been smitten by a virulent strain. In order to counter looming deflation, China's political leaders are now planning to stimulate demand on a massive scale. It is far from obvious that such a stimulus can successfully stave off a short-term slump. Even if it does, it poses a threat to the new commitment to reform.

Before the Asian crisis had a chance to infect the country, deflationary forces in China's own economy were already apparent. These stemmed partly from four years of austerity imposed after the boom of the early 1990s. Annual economic growth fell from a peak of 14% in 1992 to 8% (by official, optimistic reckoning) last year. By the end of 1997 prices in China's cities were falling.

The Asian shock has added to these deflationary pressures at home. True, exports are still increasing, at over 12% in the first quarter of this year. But such year-on-year growth has fallen by half since last June. Two-fifths of China's exports are to other parts of Asia, so the export figure might soon actually begin to shrink. Moreover, the growth in foreign investment in China—well over three-fifths of which comes from within the region—looks certain to stall this year.

Stagnant domestic demand and a grim situation abroad are beginning to take their toll. Last week it was announced that year-on-year profits at state companies fell by over 80% in January and February. First-quarter GDP growth slumped to 7.2%, the lowest quarterly figure in at least six years. At a time when state enterprises are furiously sacking workers in an attempt to reform, every percentage-point fall in growth creates 2m-4m more unemployed. Last week the head of the World Bank in China gave warning that growth below 5% would have serious consequences for social stability.

Any normal country would deal with falling demand by

loosening monetary policy. China is denied that option, because its quasi-socialist central bank still lacks the monetary levers that western central banks use to influence short-term interest rates. The government's only choice, then, is to increase spending. Li Lanqing, a deputy prime minister for the economy, talks of a \$750 billion infrastructure programme. In all likelihood, that figure is meaningless. But the government is probably looking for \$60 billion-70 billion of extra public-works spending, equivalent to over 6% of GDP. The budget deficit this year, however, is due to shrink by nearly a fifth, to roughly \$6 billion. Unless this is breached, fresh money for spending must therefore come from one of two sources: raising the arbitrary taxes and fees that fall under the banner of "extra-budgetary" revenues; or, alternatively, further directing the lending of state banks.

With ordinary Chinese fearing for their jobs, such a stimulus could well fail. Meanwhile, the recent promise to let the market allocate capital looks in danger of being compromised. And not just temporarily. The prime minister, Zhu Rongji, who is disliked in China's provinces for his bluntness, relies upon sheer momentum to push his reforms forward. Recommitting the state to capital-allocation now will make it that much harder to carry through reforms later.

Compete or crash

A stimulus would also hide the deeper fact that China's "gradualist" approach—of which the new reforms proposed under Mr Zhu are merely an accelerated kind—has probably run its course. Fully 20 years since China began to loosen central controls on the economy, two-thirds of the country's investment spending remains state-directed. The big four state banks that hog the country's savings are technically insolvent. They are being exhorted to become more efficient. Yet they face no serious competition, the most important tool for knocking them into shape (see page 65). There is no question of their being privatised. Ruled out, too, is any suggestion that China's 500-odd biggest companies be sold or allowed to fail. "Privatisation" is still a dirty word in China.

Meanwhile, the development of capital markets is thwarted by the state banks' control of resources. Proper capital markets—and in particular corporate bond markets—would allow China's most deserving companies to get their hands on the country's savings. Markets are essential if China is to solve a growing pension crisis as the population ages. Most of all, it is upon market-allocated capital that China's growth and job-creation will depend. Until China learns this lesson, it does not look a winner under anybody's rules.

LETTER FROM JERUSALEM

THE OUTSIDER

Can Benjamin Netanyahu overcome the complexity of his own family history and make peace with the Palestinians?

BY DAVID REMNICK

IF Paris is the City of Light, Jerusalem is the City of Opinion. Here it rains opinions. The desert blooms on the moisture of harangue. The rarest phrase in the fifty-year-long history of Israel is "No comment," and certainly no one has ever uttered the following sentence: "I have no comment on Bibi."

Left or right, everyone refers to the Prime Minister, Benjamin Netanyahu, by his childhood nickname, though familiarity in his case has not bred affection. The strangest thing about Netanyahu is that although he commands support—his stalling tactics on the peace process have won him a center-right majority—he commands little respect. One afternoon, I went to see David Bar-Illan, a former concert pianist, who is among Netanyahu's closest aides and very few friends. On matters of policy, Bar-Illan is a spinmeister extraordinaire, the fellow who happily goes before the camera crews to defend the latest action of the Prime Minister. And yet when we were talking about Bibi's attempts to win over the ultra-Orthodox vote despite his own ultra-secular habits, even his admission of adultery, Bar-Illan rolled his eyes and spoke on the record in a way no Washington equivalent ever would.

"Finessing his being secular was nothing compared to other things, like adultery," Bar-Illan said. "One thing is to have an affair with a shiksa—but a married woman! With a shiksa, even the rebbes do it. But a married woman! Now Bibi'll go to synagogue on Rosh Hashanah, Yom Kippur, maybe he's gone to the Western Wall, or he'll say the phrase 'With God's help.' But he's not fooling anyone."

The rhetoric of Israeli democracy has always been noisier than the American brand, but talk about Netanyahu is unhinged. One of the first things I did on arriving in Jerusalem was to call Yitzhak

Shamir, the previous Likud Prime Minister. Shamir picked up his phone on the first ring, as if he'd been waiting for the call all week. "Bibi?" Shamir said in his exhausted Old World accent. "He is not a very trustworthy man."

There was a long pause at the other end of the line, as if Shamir felt he had said quite enough to cover the subject. In his view, after all, Bibi concedes *too much* to the Arabs and has diluted the Likud Party. "He's too egotistical. I personally have no contact with him," Shamir went on. "He's a man who is not very popular. He's a talented, successful man. He made it at a young age. He had many advantages. But people don't like him. I wouldn't say he is admired. I don't believe he believes in anything. He has a huge ego. People don't like such people. I don't like him."

And so on. After Shamir had unburdened himself, I called Shimon Peres. Running on a platform of moving quickly on the Oslo peace accords with the Palestinians, Peres lost the 1996 election to Netanyahu, who captured the support not merely of the hard right but also of many Israelis who thought Yitzhak Rabin and Peres had gone too far, too fast. Peres also picked up on the first ring. He was leaving for China in five minutes, he said, but he managed to take ten to tear a hole in his successor. "We've lost so much, and for nothing," Peres said wearily. "Netanyahu's only consideration is his own coalition. He's always worried about losing power—that is always his first priority. In the meantime, we've lost the trust we built up, we've lost the Arab world, we've lost the respect we won throughout the rest of the world. All this makes it appear that we are a bizarre nation. To achieve peace and not follow through is bizarre."

Netanyahu, who is forty-eight, is the first Israeli Prime Minister to have been born after the founding of the state. As

a result, perhaps, many Israelis sense in him a distinct lack of gravitas. He often strikes people as a younger man trying to make an impression, and only suffering for it. When I went to interview Netanyahu, in his office, he began the session by lighting up a big cigar, a Davidoff. You knew it was a Davidoff because he left on the ring. Nor did he offer one to his guest: Bad manners? Low supplies? He then proceeded to fill the room with so much smoke that his young press aide, a friendly fellow from Dubuque named Michael Stoltz, reacted as if he'd been trapped in a garage with the car running. Stoltz could have died a slow death, I thought, and Netanyahu would not have stopped his pompous puffing.

The riddle of Netanyahu is that so many Israelis find him personally insufferable, and yet if there were an election tomorrow he would almost certainly defeat the Labor standard-bearer, his old military commander and role model, Ehud Barak. The Orthodox know all about Bibi's secular indiscretions—the pandering, the philandering. The far-right nationalists cannot yet decide whether he wants to kill the Oslo peace process (as they would like) or not. Both the Russian émigrés and the Sephardim know that he is not one of them. Nevertheless, these outsider constituencies believe that Bibi is better for their interests than the Ashkenazic élites of the Labor Party.

The left, of course, cannot bear Netanyahu. In their view, Bibi has "killed the peace," eradicated the historical chance symbolized by the 1993 and 1995 Oslo accords with the Palestinians. Bibi's enemies see him as an incompetent, unimaginative, and cynical politician with a singular gift for staying in office. "Netanyahu knows very well what he wants," Uri Savir, who had been Rabin's chief negotiator in Oslo, told

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The Prime Minister photographed by Arnold Newman in the Knesset in April, 1998. "The real Middle East is not this lovely palette of lovely colors," Netanyahu says. "There is a battle on for the soul of this Islamic Arab civilization."



This page, clockwise from far left: The future Prime Minister and his father; Bibi, left, with his brother Jonathan, who was killed in the 1976 raid at Entebbe; Netanyahu's parents, Benzion and Cela. Opposite page: Bibi and his wife, Sara. Their shaky marriage has been a source of amusement for Israeli newspapers.

me, "and the main thing is to steer Israel in the direction of a mutual-deterrence policy, because he does not really believe in real peace. He does not believe in a new quality of relations. He also sees everything through the eyes of a political animal and he wants to be reelected. Everything he does is to play to his right-wing constituency. To appeal to them, he uses the buzzwords that appeal to their ghetto mentality."

There are still many on the left who blame Netanyahu for helping to whip up an atmosphere of hatred that led to the Rabin assassination. Nevertheless, Bar-Illan insists that one day soon all Israelis will end up marvelling at Netanyahu's guile and ideological agility. "Bibi wants to out-Begin Begin," Bar-Illan told me, meaning that he will do something even more shocking than Menachem Begin did when he signed the Camp David accords, in 1978, promising to give the Sinai back to Egypt and bringing about peace between Israel and its most powerful neighbor.

Israel is celebrating its fiftieth year as a state. It is amazing to realize that Zionism has outlasted the two great

threats of the twentieth century—Fascism and Communism—and yet the celebration is halfhearted. No small part of this is the sense that the country's leadership is thoroughly uninspired. Almost universally, left and right, Netanyahu is seen as a slippery pol—and not particularly adept at that. During the 1996 campaign, Bibi promised the Orthodox that he, the most secular of men, would be the avatar of the Jewish state. He went to see the spiritual leader of the Sephardim, Rabbi Yitzhak Kaduri, and whispered in the rabbi's ear, "Leftists have forgotten what it is to be Jewish. They think they will put security in the hands of the Arabs—that Arabs will look out for us." Israeli Radio's microphone picked up these remarks.

During his two years in office, Netanyahu has become known for a series of flubs and fast ones. After winning the Likud nomination largely through a new, open electoral process, he supported the repeal of that process. He courted scandal by nominating an attorney general whose main qualification was a tight connection to Shas, the Sephardic party. He defied his own intelligence chief and ordered the as-

sassination of a Hamas leader, Khaled Meshal, in the Jordanian capital of Amman; when the plot to poison Meshal failed miserably (more Inspector Clouseau than 007) and became public, King Hussein was infuriated, and Israelis were bewildered. As Foreign Minister, David Levy said that he had a commitment from Netanyahu on social spending in Sephardic towns, and then resigned when Netanyahu reneged. The right wing remain furious about the redeployment of Israeli forces from the city of Hebron, in the West Bank.

Netanyahu's circle feels persecuted by the press. His defenders point out, for example, that he has not turned out to be militarily aggressive or ideologically unbending. Again and again, they mentioned "one of the few exceptions"—a long article by Ari Shavit published last December in the liberal daily *Ha'aretz*, headlined "THE YEAR OF HATING BIBI." Shavit is a liberal intellectual who wrote that his own circle has been unduly vicious about Netanyahu. When I began reporting this story, Netanyahu's own father gruffly told me that I would invariably quote only his son's enemies, "the left-wingers." I invited him to give



me a list of people I should call, and he did. Naturally, some on the list were ardent supporters, but others, while they said they supported Netanyahu's policies, admitted that they could barely stand the man.

One such was Yoash Tsiddon-Chatto, a reserve Air Force colonel and former Knesset member on the right, who went with Bibi to the Madrid peace talks in 1991. "Something about Bibi's personality creates an anti-rapprochement," Tsiddon-Chatto said. "I didn't ever think he would dodge and manipulate and weave and dodge the way he has as Prime Minister. I doubt if his father is so happy with the way his son has carried out his policies."

THE father. Everywhere I went in Jerusalem, when I asked about Netanyahu the same answer came back: "To understand Bibi, you have to understand the father." But while the Israeli press regularly describes Benzion Netanyahu as deeply conservative in his views and harsh in character, he is nearly a legend, a kind of secret. Benzion does not exactly hide from the world—he is a controversial scholar who has published

a cascade of extraordinary books and papers on the Jews of fifteenth-century Spain—but he studiously avoids journalists. Like Bibi, Benzion Netanyahu and his wife, Cela, both regard the Israeli press, which is almost uniformly pro-Labor, with unconcealed contempt. "Bolshevik" is the term they use. They are not a great deal fonder of the American press. The *Times'* coverage of Israel, Benzion told me, "often seems to me unbalanced and slanted toward the leftist side of Israel's public opinion." I was able to spend time with Benzion mainly because we share a book editor, a friend.

When the nation of Israel was founded, Benzion Netanyahu was on the fringe of its political life. Now he is its patriarch. His eldest son, Jonathan—Yoni—is a martyr of the Israeli Defense Forces, whose name is known to every Israeli schoolchild; the middle son, Benjamin, is the leader of the Likud Party and Prime Minister; and the youngest son, Iddo, is both a novelist and (someone had to be) a radiologist.

Benzion, who is eighty-eight, is possessed of a clear mind, good health, and a forbidding personality. A cross word

from him scatters the sparrows from the trees. After his son the Prime Minister makes a speech, Benzion sometimes calls to correct a grammatical mistake. "Bibi's Hebrew has gotten far better in recent years," he allows. Benzion is a secular man, and yet his judgments of Israel and history and much else are often so dark, so unforgiving, that he sometimes sounds like the harshest of Old Testament prophets. His views on everything from modern America to the ideological weaknesses and failings of various Israeli politicians, past and present, are often despairing.

Benzion's range of disapproval is breathtaking. Fifty years ago, at the time of Israel's birth, his politics were already on the edge, the outer feathers, of the right wing. As a young man, he was an aide to Ze'ev Jabotinsky, the leader of the hard-line Revisionist movement. Among the early Zionists, the Revisionists were the underground fighters who argued that the Laborites, led by Ben-Gurion, were giving up too easily on territory that is now well beyond Israel. Benzion was part of a movement that saw Israel as laying claim to an area en-

compassing much of present-day Jordan. The pro-Jabotinsky hymn at the time went, "The Jordan has two banks: this one is ours, the other one, too." His vision, perhaps, is an anachronism and yet it is the vision that the current Prime Minister of Israel was raised on. Benzion looms above his son no less than Joseph Kennedy loomed above his clan, and his views are at the root of Bibi's sense of a menacing world.

When you meet Benzion, he does not seem so forbidding: he has little white tufts of hair and weary, narrow eyes, the eyes of a Chinese scholar. On the day Bibi was sworn in as Prime Minister, at the Knesset, in 1996, Benzion sat in the audience. Ari Shavit, of *Ha'aretz*, remembers seeing the old man and noticing that he betrayed no outward signs of pride or joy. "I was watching it on TV, and thought, My God, to be the son of this man, even if you become Prime Minister you can never satisfy him. This is really the key," Shavit said. "There is this person who pushes himself to the end, demanding the impossible, and even achieving it. It's like a constant internal tyranny. You can never stop. There is no celebration."

To say Benzion has no faith in a peace accord with the Palestinians or with any Arab nation is to state the obvious. Such treaties, to him, are the stuff of fools and naïfs. "Jewish history is in large measure a history of holocausts," Benzion told me, "carried out by anti-Semitic leaders and factions that managed to take over whole countries or regions in times of anarchy, civil war, or rebellion. In the areas that fell under their control, all Jewish communities were wiped out. Hitler differed from them primarily in having become the sole, undisputed ruler of his country and in controlling a much larger area, which allowed him to murder many more Jews."

To a considerable degree, Bibi Netanyahu's internal struggle as Prime Minister is a struggle between an inherited ideology and the tug of political contingencies. His dilemma is always to what degree he can, or should, remain true to the ideals, the stubbornness, of his father. He may not always act on his father's imperatives, but he believes strongly in his father's rightness; both

men share a keen sense of insular self-confidence, of being right when all others around them are innocent, bogus, mistaken. When I met with Bibi at his office, he fondly recalled to me how, in 1956, his father went to Ben-Gurion and told him that the Israelis, having just captured the Sinai, had to devise a strategy to keep it. Ben-Gurion had said that he would keep it for a thou-



sand years. Why was Benzion worried about losing it? "Because the U.S. will force you to," Benzion told him.

"Of course, he was right, unfortunately," Bibi said. "That was the first and last time an Israeli Prime Minister succumbed to an American diktat." It is not hard to imagine this anecdote playing in the Prime Minister's head when American diplomats like Dennis Ross and Madeleine Albright sit with him in negotiations.

Both the Israeli left and the White House would argue that Bibi has slowed down the peace process so much that the Palestinians and such Arab states as Jordan and Egypt have lost hope. In recent weeks, Clinton Administration officials have urged Netanyahu to agree to withdraw from a full thirteen per cent of the West Bank in exchange for Palestinian guarantees on terrorism. Netanyahu has balked at that figure, though he has indicated a willingness to pull back from nine per cent of the disputed territory (perhaps even eleven per cent). The point, he insisted late last week, at talks in Washington with Ross and Albright, was that any accord must preserve what he called a "territorial buffer" against Palestinian terrorism. Netanyahu, to be sure, continued to face intense pressure at home: Palestinians demonstrated against *al nakba*—"the catastrophe"—of the founding of Israel; riots broke out, and several Palestinians were killed by Israeli troops. And it is far from certain that Netanyahu's right-wing Cabinet, especially the influential Infrastructure Minister, Ariel Sharon, would agree to a settlement resembling the American plan.

Netanyahu's over-all argument is that the left's dream of a New Middle East, of peaceful relations and open markets in a region of Arab dictatorships, is fantasy. "The real Middle East is not this lovely palette of lovely colors," he said. "There are some very dark streaks there. More than streaks—large swaths of fun-

damentalism and dictatorial regimes. There is a battle on for the soul of this Islamic Arab civilization. I don't write them off. I think we can influence it, but first of all not in a major way and, in any case, in a way different from the way the left thinks. They think that if we make more concessions we'll defuse the time bomb, the mechanism that keeps this going. But this is much bigger than the battle with Zionism. It's a battle with modernity."

For the extreme right wing, however, Bibi has not always been firm enough with the Arabs. The Prime Minister's decision last year to cede authority over Hebron to the Palestinian Authority was, in their eyes, a betrayal of the 1996 campaign, and of Revisionist principles. Bibi's brother-in-law, a settler named Chagi Ben-Artzi, told me, "Bibi grew up in a family in which the principle of keeping the land, the entire land, in Jewish hands was a holy principle. . . . I've heard Bibi's father be very critical about the Hebron agreement. He said it is absolutely not justified. He didn't see any good reason to give Arafat more land before he carried out one single commitment included in the Oslo accords." Benzion denied that he had argued with his son about Hebron or Oslo in general; when Ben-Artzi made public his own opposition to his brother-in-law's policy, their relations soured.

Reflecting on his son and Oslo, Benzion later said, "What I can gather from the deeds and the statements of the Prime Minister is that he is struggling to obtain, within the limits of the Oslo agreement, and through the implementation of the commitments on the part of both sides, arrangements that are vital for the security of Israel and will minimize the outbreaks of large-scale terrorism and wars."

Bibi, for his part, dismisses all talk of paternal influence as "psychobabble." His friends and colleagues who have known him for decades do not. Natan Sharansky, one of Netanyahu's current ministers and closest advisers, told me, "Look, there's no doubt that the father is crucial to Bibi, especially historically, in Jewish history and world history. In his day-to-day activities, it helps Bibi to somehow stay in focus. He gets caught up in the daily struggles, but he always has this view of history in mind."

What will Bibi do, then, in the com-

ing months and years? Will he listen to the call of history and try to come to an agreement with the Palestinians? Or will he listen to the right-wing constituencies that will keep him in office? "I think Bibi is divided and sometimes paralyzed by the difference between his heart and his head," said David Makovsky, who covers diplomacy for *Ha'aretz*. "His visceral reactions are ideological, like his father's, but intellectually he's come to see that his visceral reactions are not always correct. The result is paralysis. Motion without movement in the peace process."

BENZION and Cela Netanyahu reared their sons in a spacious house, on Haportzim Street, in the Old Katamon district of West Jerusalem. They still live there. There was little wealth in Jerusalem in those days, and the Netanyahus felt themselves quite nearly rich. Their car was American—a Henry J—and they had one of the few telephones in the neighborhood. Benzion edited the enormously popular *Encyclopedia Hebraica*. "And for that," he told me, "I got the highest salary in Jerusalem!" The house is now worth around a million dollars.

Benzion Netanyahu is known in scholarly circles around the world for his book "The Origins of the Inquisition in Fifteenth Century Spain." In medieval studies, his thesis is considered revolutionary. The Jews were oppressed in Spain even after they had become converts to Christianity. Netanyahu challenged the traditional view that the Spaniards persecuted the *conversos* because many of them continued to practice their original faith in secret. Netanyahu's work contends that the long-held notion of the *conversos* as "secret Jews" is a romantic delusion. He argues that in fact only a very few of the New Christians practiced Judaism, and that the Inquisition was actually a historical moment in which the Christian monarchs developed a theory of racial hatred designed to uproot and demolish a perceived

threat to their social and political order. Netanyahu writes that after two massive waves of conversion, in 1391 and in 1412, these New Christians began to assume powerful positions in politics and the Church. Since the Spaniards could no longer attack the *conversos* on the basis of religious faith, they devised tracts describing the *Jewish people* as an inherently polluted, contaminated race. For the first time, Netanyahu writes, a society devised a racial theory of Jewish inferiority which laid the foundation for the Inquisition in Spain just as surely as the Nuremberg laws were the precursor to the Final Solution. After fourteen hundred pages, one is led to the darkest conclusion possible: that even if Jews go as far as to convert, and even if that conversion is thorough and official, it will not matter; the resentment of the Jews as a people will persist, even to the point of forced exile and mass murder.

I called on the Netanyahus on a fine spring morning. Cela Netanyahu let me in and then quickly went off to get her husband. Cela studied law at Gray's Inn, in London, but never practiced. Instead, she raised her three sons and, above all, was her husband's wife. She guarded him against distraction and travelled with him in the United States when

there were no academic posts available in Israel. In all, Benzion and Cela lived in America for more than twenty years—first from 1940 to 1948, to work for the Zionist movement, and then from 1963 to 1977, to teach at various colleges and work on his books.

While I was waiting for Benzion, I walked over to the dining room. When the boys were growing up, the dining room was their father's study, the nexus of the house. "When you went over there, you made sure not to disturb the old man," one family friend said. "That was the inner sanctum." Now a bust of Yoni dominates the room. Yoni was the only Israeli soldier killed during the commando raid on the airport in Entebbe, Uganda, in 1976.

Over the years, the Netanyahus have cultivated a sense of uniqueness about their family. "Their perception of themselves is as a major family in the history of Israel," one of Bibi's friends said. "The father is the great scholar and wise man. The eldest son, Yoni, is the martyred soldier. The middle son is the Prime Minister and savior of Israel. The youngest, Iddo, is the writer, who also practices medicine. Bibi's said that he thinks Iddo is 'Israel's new Hemingway.' No matter that Israel has *truly* great writers—A. B. Yehoshua, Amos Oz,



"Have ye seen a whale that matches this swatch?"

Aharon Appelfeld, Meir Shalev. That's the way they think."

Finally, Benzion came in and sat down in an armchair. For a while he talked about his father, Nathan Mileikowsky, a rabbi who was born in Lithuania and helped run the famous Krinsky *Gymnasium*, in Warsaw. As a leading Zionist orator, Nathan toured Europe and America making speeches in support of a Jewish state. When he brought his family to Palestine, in 1920, they came ashore in a small boat in Tel Aviv and changed their name to Netanyahu—God-Given.

Time and again in conversation, Benzion talked about the persistent spectre of the left in Israel. He said much of the press in Israel is worse than *Pravda*, because in the old Soviet Union at least readers *understood* that their press was frequently lying. This, in modified language, is a familiar theme in Bibi's conversation.

Benzion studied medieval history at Hebrew University. Later, he was co-editor of a literary monthly, *Beitar*, and then of the Revisionists' daily newspaper *Ha-Yarden*. His contemporaries remember him as being extraordinarily intelligent and charming and, at the same time, arrogant and nearly seething with resentments and contempt. Even now, he radiates the same qualities, at once spinning a fascinating tale of old Jerusalem for his visitor and then talking with acid condescension (at best) about various constituencies and politicians in Israel. In his view, Arab fundamentalism and Asian nuclear power are the order of the future. He is a man of numerous and ferocious opinions, but is very wary of publicizing them—not least, perhaps, for fear of embarrassing his son.

It's hard to replicate the old man in print. For one thing, he is both fierce and irresistibly alive; for another, he insisted that our talks were "friendly chats," not a formal interview. But what comes through, so often, is a man who resents what he sees as the folly of others.

"There was always a strong myth of persecution in that family, always a grievance," I was told by Shalom Rosenfeld, a contemporary in the Revisionist movement who was later the editor of the leading newspaper *Ma'ariv*.

"There is a feeling of rejection by the

academic establishment, which was dominated by the left and denied Benzion a decent job, and, as a result, the Netanyahus were forced to emigrate, which was very painful," Chagi Ben-Artzi, Bibi's brother-in-law, said. "Part of the background of the determination of Bibi to change Israel, to make it a more democratic society, to push the process of privatization, stems from that old resentment, because the left used the economic structure of the country to dominate Israel ideologically—anyone who was not politically correct was denied economic chances. That resentment is still there. It's not something for them that belongs to the past."

Ben-Artzi's facts are only partly correct. It's true that Benzion did not get a job at Hebrew University, but the university was tiny in those days, and there were hardly any positions available to anyone. For work, and for superior libraries, Benzion accepted jobs at Dropsie College, in Philadelphia, and at Cornell, in Ithaca, New York.

The family's sense of outsidership has more to do with real politics than with academic politics. Some of Jabotinsky's followers, including Begin and Shamir, took to the underground, carrying out military missions against the British and the Arabs. Netanyahu was among the ideologues, the campaigners. In early 1940, he went to the United States to

help Jabotinsky lobby American politicians on behalf of the Zionist idea. Jabotinsky died later that year, but Benzion stayed on for eight years, as director of the New Zionist Organization, meeting with such influential figures as General Dwight D. Eisenhower, Secretary of State Dean Acheson, and key members of Congress. "When we came with Jabotinsky, people laughed at us at first," Benzion said. "No Jew was dreaming of a Jewish state. 'Who will create it?' they said. 'The English will create it? The Arabs are against it! Even Chaim Weizmann declared that it was impossible, that it was no more possible to create a Jewish state in Israel than it was in Manhattan.'"

When Benzion and his family returned to the new state in 1948, he took up the Encyclopedia and moved out of politics. Bibi's eventual rivals for the Likud leadership—the Jerusalem mayor Ehud Olmert, the former Finance Min-

ister Dan Meridor, and Ze'ev (Benny) Begin—all come from right-wing political legacies. They are known as Likud "princes." Bibi was never grouped with the princes, because his father had made his life, finally, in academe. "I don't think my father would ever have been in politics," the Prime Minister told me. "He's not temperamentally suited."

But when I asked Bibi if he considered himself an outsider in Israel and in Israeli politics he did not deny it.

"You're damn right—outsider!" he said. "You don't have to psychobabble it!" Netanyahu could hardly have grown up with more privilege, and yet he is a Prime Minister elected by a coalition of outsider groups. His votes came from the Sephardim, the Orthodox, the settlers, the Russians—all groups who see themselves as excluded from the liberal Ashkenazic establishment. Like Ronald Reagan, Netanyahu successfully governs as an outsider: even as he wields power, he keeps complaining to his constituencies about the lopsidedly liberal press, the fearsome lefties in academe, all the while implying that *they* are the establishment, and that *they* hate you. It is a familiar, and familial, theme.

"I think the father is already within him—it's built in," one of Bibi's friends told me. "The father always talked about *They*. *They* don't understand a thing. *They* are naïve. *They* are fools. Always *they*, them."

ISRAELI political debate is almost invariably, at root, a clash of historical narratives. No argument or incident is too ancient for consideration. The evidence for this rushes at you every day. One afternoon, while I was drinking a cup of coffee at a café in the Muslim quarter of the Old City and reading the papers, I came across a letter to the editor in the *Jerusalem Post* from David Wilder, a spokesman for the Jewish community in Hebron, who was responding to an article by a well-known figure in Palestinian politics, Daoud Kuttab:

Sir,—Daoud Kuttab viciously attacked the Jewish community of Hebron in his article "At the boiling point" (March 1). Herewith is our reply to several of Kuttab's accusations: Kuttab refers to the "Ibrahimi mosque." This building is known to Jews as the Machpela Cave, the second holiest site to the Jewish people throughout the world. This site has served as a mosque only





"This is a nice restaurant. Turn your cap around."

since 1267. The building was originally constructed as a site for Jewish worship, built by Herod, king of Judea, 2,000 years ago.

The key phrase here, of course, is "only since 1267."

To celebrate the fiftieth anniversary of the state, Israeli television has been showing a twenty-two-part documentary on Sunday nights called "Tekuma," or "Rebirth." I happened to catch one of the most controversial installments—an overview of the early history of the Israeli occupation of Gaza and the West Bank and the rise of Palestinian nationalism and violence. To American eyes, it seemed fairly ordinary: interviews-plus-film-clips fare—the sort of thing you might see on A&E or the Discovery Channel. There was Golda Meir, in both English and Hebrew, denying the existence of the Palestinian people; there was the squalor of the refugee camps in Gaza; and there, too, were the terrorist attacks in Tel Aviv and Jerusalem, the slaughter of Israeli athletes in Munich, a mother remembering how her two children were killed when a terrorist tossed a grenade into the back seat of her car.

The filmmaker, Ronit Weiss-Berkowitz, said that even before her segment was shown on the air she began receiving

death threats. "They call my home," she said, "and say, 'We will burn you,' 'You fucking Arabs,' 'You stinking leftist, we know where you live.' . . . I wanted to show, step by step, the creation of the ideology behind terrorism—which I reject, which I don't identify with, but whose roots I understand. I wanted to show why and how a Palestinian starts thinking of terror as a solution. We Israelis think we have a monopoly on blood, tears, and pain, but, of course, this is not true. We know our side in this story. I wanted to present the other side—loudly."

For the right wing, including the Prime Minister, the documentary series was an attempt by the leftist press to dominate the national narrative, to wallow in the guilt of "original sin"—the Jewish displacement and subjugation of Palestinian Arabs. Yoav Gelber, one of the show's academic advisers, resigned and said that the segment belonged in a series marking "the fiftieth anniversary of the Palestinian Authority."

Bibi despises the men and women who run Israeli television—to him they are part of the leftist clique that has always dominated all cultural and media institutions in Israel—and when I asked him about "Tekuma" he waved in dis-

gust. "It's a joke!" he said. "It's a joke! It's agitprop, it's agitprop, the small segment that I've seen. It's just not the facts. The presentation of the Palestinian side, what I've seen, is skewed beyond belief. It's the facts that I'm dealing with. The facts can have diverse interpretations, but there cannot be diverse facts. That, I think, is important."

In my talks with Benzion, he made it clear that he thought that the Jewish people might never recover from the murder of the European Jews; he also saw intermarriage and assimilation as posing great threats to the survival of the Jews. He feels that even present-day Israel, including the occupied territories, is but a fraction of what was originally promised; and to give up more land to the Arabs is extraordinarily dangerous, especially because a future Palestinian state could ally itself with such countries as Iraq and

Iran—Israel's sworn enemies. "There is no doubt that many of the Arabs want to see the State of Israel destroyed," he said, "and they would end Jewish existence in the country if they had the chance to do it. Only the fear of retaliation keeps them back."

That is Benzion in conversation and it is Bibi in his 1993 book, "A Place Among the Nations," which gives the most embattled reading possible to the history of Zionism and the Israeli state. When I talked to Benzion, he protested the idea of familial unanimity, but he did say, "There was no generation gap at all. We didn't agree on everything—this is not a family of robots—but our family has a coherence to it." However, he added later, "I am not involved in any measure or degree in shaping or influencing the policies or activities of the present government of Israel."

In "A Place Among the Nations," Bibi's most sustained historical metaphor for the Israeli security predicament is Czechoslovakia before the Second World War; for him, the West Bank is the Sudetenland, the limited territorial pretext used by Hitler to overrun the entire country. When I asked Netanyahu about the compari-

son, he allowed that it was imperfect, but still one cannot read that book without sensing the author's parallel between the Germans and Arab aggression. The Czech metaphor is not one he indulges now as Prime Minister, but it has shaped his thinking since he was a young man.

IF there was someone who really knew Bibi well, who shared with him the world of the family and a view of the world, it was his older brother, Yoni. In deciding what course to take with the Palestinians or with Syria, he has to cope with the legacy of his brother, a symbol of Israel's conflicts with the Arab world.

Along with their parents, Iddo, Yoni, and Bibi moved to Elkins Park, a Philadelphia suburb, in 1963, and went to a local high school. Each of the sons, in turn, went back to Israel for his Army service while their parents stayed in the United States. Yoni was the first to go, and he stayed in close touch with his brother through hundreds of letters, like this one, which was mailed after Bibi had been in a punch-up:

In my opinion, there's nothing wrong with a good fistfight; on the contrary, if you're young and you're not seriously hurt, it won't do you real harm. Remember what I told you? He who delivers the first blow, wins.

After the Six-Day War, in which Yoni had been wounded in the arm, he wrote a letter to Bibi that evoked both the spirit of their father's toughness and a determination not to remain in America:

The recruitment of all these little terrorists only strengthens my consciousness as an Israeli. If they come to fight, we—or at least I in the Diaspora—must certainly do so all the more. My national consciousness is no doubt stronger than that of the Arabs, I'm a much better fighter than they are, and so are all Israeli soldiers.

In another letter to Bibi, Yoni wrote, "You're the only true friend I ever had."

Because the country is so small, Israeli soldiers often go home for weekends and vacations; each of the Netanyahu boys stayed with friends of the family while their parents remained in the States. "Yoni lived like a gypsy, and this was strange in Israel," Yoni's friend the scholar Avishai Margalit said to me. "To be a loner in Israel is unusual,

and all three of them were to an extent like this."

Bibi returned to Israel in 1967 and joined the elite reconnaissance unit Sayeret Matkal. In the unit, he was regarded as intelligent and diligent but not especially creative. He distinguished himself at a nighttime raid on the Beirut Airport in 1968 and in the rescue of hostages aboard a hijacked Sabena airliner in 1972. During the Sabena raid, Netanyahu was one of the commandos who went on board dressed as mechanics; he grabbed one of the hijackers, a woman, by the hair and slammed her into a bulkhead, demanding to know where to find the hostages.

Bibi returned to the United States in 1972 to study architecture and business administration at M.I.T. He raced home to his unit for the 1973 Yom Kippur War, but he made a life for himself in America, first as a student, then as a business executive in Boston. He gave right-wing lectures on Israel, lectures that rang very much of Ben-Zion. In 1973, he shortened his name to Ben Nitay. Netanyahu always denied to the Israeli press that he had legally changed his name, and when *Ma'ariv* published the legal documents recording the name change, filed in a court in Middlesex County, Massachusetts, the Prime Minister's spokesman, Shai Bazak, called the story "a malicious effort to contrive a sensational story."

The years in the United States did nothing to push Bibi to the left. He was very much for the war in Vietnam and deeply depressed by the conciliatory turn Israel took under his father's old comrade Begin. When Anwar Sadat came to Jerusalem, Avishai Margalit's sister-in-law threw a party in Cambridge and invited Bibi.

"When he arrived," Margalit recalled, "he was totally grim-faced and said, 'What's the celebration? Now we'll relinquish the Sinai and they'll be on our

border and there will be another war.' He was coming for a funeral, not a party."

NO event shaped Netanyahu's future more than the death of Yoni, at Entebbe. On July 4, 1976—the American bicentennial—Yoni Netanyahu led a team of commandos to Uganda, where Israelis had been taken hostage by Palestinian and German terrorists. As the commandos stormed the airport building where the hostages were under guard, Yoni was gunned down, either from the control tower or from within the building itself. Bibi was in Boston at the time, and as soon as he heard the news he drove to Ithaca to tell his parents. His mother, Cela, seeing Bibi, ran to the door and, before he could say a word, said, "He's dead, isn't he?"

Many friends and acquaintances of the family told me that Yoni was the son who seemed destined for great things, perhaps first in the military, and later in politics. Had he lived, they say, Yoni might have been a chief of staff or a government minister.

Bibi was devastated. "If it wasn't for Yoni's death, I'm not sure Bibi would have gone into politics," Netanyahu's friend Uzi Beller told me. "He loved the States, especially the economy, the whole idea of a free market. He could easily have slipped into becoming an American businessman and made a lot of money." Bibi could not eat solid food for weeks after the funeral.

"The brother was the one person he really loved. This is crucial and underlies his loneliness," said Ari Shavit, of *Ha'aretz*. "I think that on the other hand they were both in the same position. They were both committed to the father. The father was from turn-of-the-century ideology and politics, though, and they realized they had to swim in a contemporary environment. So on the one hand they had to be loyal to this unique father figure, on the other hand they had to go out into the world and function. Losing Yoni was worse than losing someone you love. Bibi lost the one person who could understand him."

At the same time, Bibi saw Yoni not merely as a personal loss but as a national event, a figure in history. He was determined to make sure this was so. At the shiva, Bibi, his parents, and Iddo accepted the condolence calls of many Israelis. One of Yoni's friends arrived at



the house and saw Bibi talking to Chaim Bar-Lev, a former chief of staff, then a Minister of Industry.

The friend recalled, "As soon as Bibi saw me come through the door, he left Bar-Lev, came to me, and, hardly saying hello, said, 'We've been at war for three hundred years with the Arabs and each generation needs a hero. Trompeldor fulfilled his role, and I'll make Yoni the hero of his generation.'" Josef Trompeldor was in the Tsar's Army and lost an arm in the war with the Japanese. After coming to Palestine, he was killed in a skirmish with Arabs in 1920 and became a hero, a legend of renewed Jewish heroism, especially for the right.

Because the Entebbe operation had been so spectacular, it was inevitable that Yoni's name would become a symbol. But, as Bibi had promised at the shiva, the family helped promote this. Bibi and Iddo edited a collection of Yoni's letters; more than sixty thousand copies have been sold in the Hebrew edition alone. Bibi also began a think tank called the Jonathan Institute, for the study of terrorism. To commemorate Yoni's heroism at Entebbe, Iddo wrote a book called "Yoni's Last Battle." One former commando, however, a prominent military man named Muki Betser, who was at Entebbe, has been hostile to the Netanyahu family and was outraged over Iddo's book, which he thought inflated Yoni's role and downplayed the bravery of the rest. "I'm not sure Yoni would have liked what his little brother wrote," Betser told the Israeli press. In the early nineties, when it became clear that Bibi was emerging as a possible candidate for Prime Minister, the press began publishing stories about Yoni—all unproven—implying that he had made crucial mistakes during the Entebbe mission.

Iddo Netanyahu remains Yoni's main champion. Several months each year, he practices in the United States as a radiologist, a job that earns him enough money to live the rest of the year in Jerusalem with his family and write fiction. I met with Iddo at his house, in the Jerusalem hills. Like his father, Iddo was wary of being quoted, but he is clearly pained by the attacks on the Netanyahus.

Recently, Iddo published a novel in Hebrew entitled "Itamar K." It can very easily be read as a thinly veiled political attack—and certainly the Israeli press

has done so. The hero is Itamar Koller, a young filmmaker who discovers how hard it is in Israel to have right-wing views and still win respect as an artist and an intellectual. In refusing to embrace left-wing ideology, Itamar is rejected by the Israeli cultural elite. Itamar wants to make a movie, but funding goes instead to a left-wing homosexual, and Itamar is left behind with "untapped potential, with no way of knowing whether or not he could have realized it." The novel features set pieces on two filmmakers who cower before a former terrorist who is now a member of the Palestinian Authority. Itamar meets a writer who is infuriated by the "smiles on the faces of our ministers as they hand Bethlehem, the city where David was born, over to the Arabs." And so, once more, there is this loneliness, this singularity to the family—the Netanyahus versus the cultural hegemony of the left.

WHILE Netanyahu's early family life is the stuff of Biblical, or at least Portnoyan, complexity, his family life in adulthood, along with his relationships beyond the family, has been a feast for the tabloids.

In the late seventies, Netanyahu married the first of his three wives, an Israeli woman named Micky, and they had a daughter, Noa. But in Boston Bibi met a woman named Fleur Cates, and when Micky learned of the affair she left him.

Netanyahu entered public life in 1982, when Moshe Arens made him

his No. 2 at the Embassy in Washington. Bibi made a name for himself on American television as the smooth Israeli who was everywhere, defending the Begin government's war in Lebanon. Later, Arens helped place Netanyahu as Israel's man at the United Nations, and there Bibi became an even more public figure with his support for Soviet Jewry and his attacks on Kurt Waldheim. Netanyahu went back to Israel in 1988 to win a seat in the Knesset and to be Arens's deputy at the Foreign Ministry. The marriage to Fleur, which was already troubled, fell apart once they were in Israel.

In 1989, Netanyahu was changing planes at Amsterdam's Schiphol Airport, and while he was on a moving walkway he spotted an El Al stewardess named Sara Ben-Artzi. "We were going in opposite directions," she once said, in an interview. "He looked at me until he had to turn his head backwards. Then, on the plane, he came to look for me."

Netanyahu married Sara in March, 1991, when she was already several months pregnant. According to reports in the Israeli press, Netanyahu postponed the wedding at least once but was finally brought to heel by Yisrael Meir Lau, then the chief rabbi of Tel Aviv.

The Netanyahus now have two children. It would be folly to guess at the details of their marriage, but it is, by every outward sign, another troubled union. The first of several disasters came

THE WISE

Who are the wise? Those heavy-lidded sages,
Lotus-positioned, meditative, calm
Extinguishers of our banked ancestral rages,
Serene as the Gautama's upturned palm?

Or are they the worldly-wise, the shrewdly knowing
Machiavels of the heart's computer chess,
Anticipating counterplot, bestowing
Strategic love, half nelson, half caress?

Are they, in eternal shelf-life congregated,
The calf-bound canonized authors of Great Books?
The quoted, the belauded, the much fêted?
Or we, the spouses of unrivalled cooks?

—ANTHONY HECHT

in January, 1993, while Netanyahu was in a struggle for the leadership of the Likud Party. Sara received an anonymous phone call telling her that her husband had a "thing" for his image consultant, a married woman named Ruth Bar; what was more, the caller said, there existed a videotape of Bar and Netanyahu in "compromising romantic situations." Netanyahu's reaction was to go on television immediately and admit to his infidelity and, without naming names (everyone knew he meant his rival, David Levy), accuse members of his own party of "Mafia methods." This was "the worst political crime in Israeli history, perhaps in the history of democracy," he told viewers. He added that his only debt—"if I have a debt and I have a debt on this matter"—was to his wife and children.

As it happened, no videotape turned up, and now Netanyahu had to apologize to Levy. For his part, Levy called Netanyahu "Napoleon," "liar," "eel," and refused to speak to him or utter his name until 1996.

The Israeli press has reported that the Netanyahu marriage is sustained now by a series of guidelines laid out by Sara and family lawyers. Sources close to Netanyahu have said that Bibi felt he could not afford yet another divorce and still claim leadership of a conservative and religious political coalition. Netanyahu deflects the subject with various formulaic phrases of contrition and renewal, but his close aide David Bar-Illan was anything but evasive with me.

"The confession of adultery, the Sara business, this all hurt him more than I would have expected," Bar-Illan said. "For years in Israel no one cared about such things. Moshe Dayan screwed half the women in the Army and even got into trouble over it, but we said we didn't care. Everyone knew all about it and about other politicians and their affairs. But the atmosphere changed. It's the

feminist thing, which is almost getting Victorian. When Bibi made his confession, it was not particularly subtle. It was hard to mistake what he meant, that he was accusing people in his own party. But it was a terrible mistake going on television and confessing to infidelity. The crime here is getting caught, and he wasn't caught."

SINCE he came to power, Netanyahu's marriage has remained a target for a hostile press. The tabloids have accused Sara of everything from plagiarizing work in graduate school to being a deranged "clean" freak. Her children's nanny, Tania Shaw, sued the family, accusing Sara of "enslavement" and mistreatment. A long report in the newspaper *Yediot Ahronot* featured such details as Sara's hurling shoes at her servants; in another account, Sara was described as bursting in on high-level government meetings and telling one of the Prime Minister's aides, a general, to get up,

"you're sitting in my seat." The over-all impression in the Israeli press is of a dim harridan who has her man by the neck. A member of the Knesset even declared that there should be legislation passed to restrain her.

Bar-Illan is supposedly a master of the press, but when I asked him about the marriage, on the record, with my pen and notebook out for all to see, he rolled his eyes and said, "Look, Sara is not the most stable woman in the world. . . . Now she only appears at the appropriate things, receptions for children, things for the retarded or the disadvantaged. And it works. It's O.K. Finally it's become boring to Israelis. Had she run half naked through the streets, it might have been something else, but it's under control."

Well, not exactly under control. Last year, Sara agreed to be interviewed on Israeli state television. She threw an incredible tantrum, accusing Knesset members of making passes at her, and said of Sonia Peres that just "because

USEFUL DEGREES

Bachelor of Waitressing (B.W.)



Bachelor of Grocery Arts (B.G.A.)



Bachelor of Clothing-Display Science (B.C.D.S.)



Bachelor of Lotto (B.L.)



Sonia is not educated, and she washes dishes and plays cards—that doesn't mean I also have to do that." Sara then turned on her interviewer and finally walked out. She agreed to resume the interview only if the first part was destroyed; the tapes are now in a vault at the studios, but, Israel being Israel, the material leaked almost immediately.

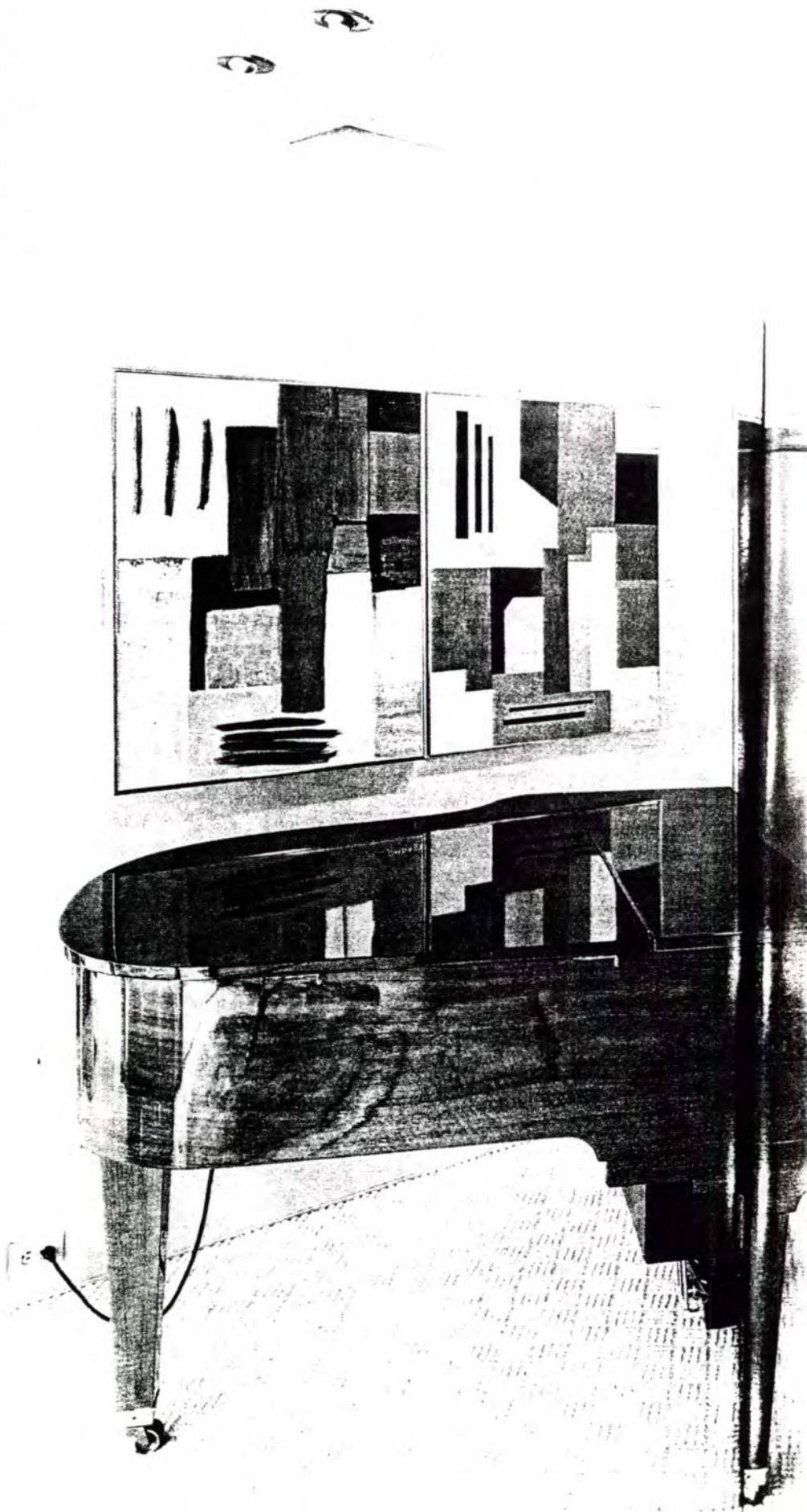
In another interview, Sara insisted that her marriage was genuine and not at all politically motivated. "They cannot accept that we really love each other," she said. "Every time we hold hands it's supposed to be a show. You should see how often we hold hands when we're alone. It's unbelievable."

In a crude form, Netanyahu's personal situation recalls Bill Clinton's, but the comparison is weaker than it seems. Unlike Clinton, who has many layers of friends, both inside the White House and beyond, Netanyahu does not. He has forced out so many aides and ministers in his nearly two years in office that he is left mainly with yes-men. Two of Netanyahu's oldest friends, Uzi Beller, who is a doctor, and Gabi Picker, a dentist, rarely see him or talk to him any-

FRANK'S PLACE

In one's imagination, at least, Frank Sinatra was architecturally unsituated after he left the Weegee streets of Hoboken—whiling away days at Aqueduct and the Polo Grounds, avoiding Jackie Gleason, bopping between swank hotel suites, romancing Ava Gardner. But by the time he was forty Palm Springs had become a headquarters. When he bought this Rancho Mirage tract house, in the fifties, the desert town's Martini cool was a pretty pure expression of Sinatra-ism. Before long, he had a compound: nine buildings, thirty-one bathrooms, a twelve-car garage. There are a few Rat Pack vestiges, but after Sinatra married Barbara Marx the place was redecorated in high-seventies style. (The nicest piece in this room, the cheerful abstract painting over the grand piano, is by Sinatra himself.) Since 1995, it has been a corporate retreat for a Canadian conglomerate, and that's probably its stylistic destiny. But every stick, they say, is "exactly as he left it."

Photograph by Robert Polidori



more. "Nobody sees Bibi a lot," Beller told me. "Any leader has a small circle of intimates, and Bibi just doesn't." Bar-Ilan said he considers himself one of Netanyahu's two or three closest confidants, but even he said, "Bibi is very hard to read emotionally. He's very closed. It's not possible to read what he feels, even with me. I never feel I know what's in his heart or mind. I don't know who does."

An Israeli journalist who has observed Netanyahu closely said, "It's a very difficult life he has. He is a prisoner in his office. The office is a very small room. With all that security, the moment he walks out, there are several guys at his side. Then he gets into a claustrophobic Cadillac. Wherever he goes, there are these really wild security arrangements. When he goes home, he goes to something worse. He actually has no place to relax, to unwind. All these problems—the press, his family, negotiations—all of it goes along with the idea that he has of the world as always hostile and him fighting everybody and everything all the time."

Netanyahu's few pleasures include good food (he has gained nearly fifty pounds since taking office), but while he likes luxury he does not like paying. He is notorious for rarely picking up a check. The left-wing newspaper *Kol*

Ha'ir has reported that Netanyahu, in the past, tried to use his name to get discounts on goods and services. Even Netanyahu's most characteristic pleasure, his Davidoff cigars, seems to have exploded in his face. In April, the papers discovered that the government was spending some three thousand dollars a month on cigars that cost thirty dollars each. Netanyahu's spokesmen initially claimed that cigars had always been bought for foreign guests, as a kind of welcoming amenity, but then past Prime Ministers and their aides rushed in to deny it. Shamir, Netanyahu's ostensible colleague in the Likud, said the only niceties he ever offered foreign guests were a cup of tea "and maybe a cracker to go with it."

NETANYAHU is certainly an outsider, too, in his relationship with Washington, for the White House is, in no small measure, a shrine to the memory of Bibi's shadow, Yitzhak Rabin. In Clinton's view, Rabin was the definition of gravitas, of historical risktaking. There are pictures of Rabin both in the Oval Office and in the upstairs residence. Hillary Clinton prizes a crystal dove given her by Rabin, and in the White House solarium there is the phrase "Shalom, Chaver" in tiles. The President has kept his *kippa*, his

skullcap, from the funeral, and some sand from Rabin's grave is to be seen on a plate in his study. "It's almost a cult of Rabin here," one high-ranking White House official told me. "There's no one the President admired more or misses more."

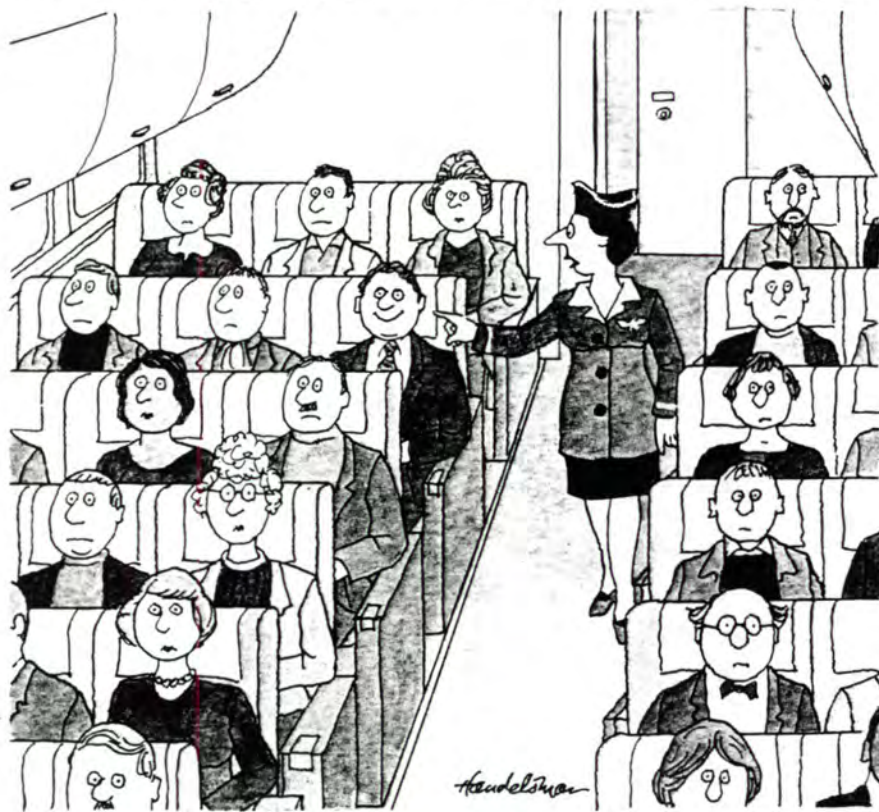
When Bill Clinton came on the political scene, the great lions of the late-Cold War era were gone or were fading—Gorbachev, Thatcher, Mitterrand—and the statesman he came to look up to was Rabin. Their first meeting was at the Madison Hotel in Washington, during the 1992 Presidential campaign. In the realm of foreign affairs Clinton was a neophyte, and when Rabin uncorked a lecture about Middle East politics which consumed fifty-five minutes of their allotted hour Clinton was not insulted or bored; he was grateful. From then on, Clinton gravitated to Rabin as to a kind of father figure.

"It looked to me that Clinton saw Rabin as mentor," said Eitan Haber, one of Rabin's closest aides. "They spoke on the phone constantly, coordinating every step before anything became a problem, even the smallest step. Even their agreement not to kiss or hug Arafat onstage at the White House—to make it just a handshake—was coordinated."

Rabin's assassination, in 1995, was devastating for Clinton, and he responded by going to the funeral and spending hours with the Rabin family. (By contrast, when Netanyahu went to embrace Rabin's daughter, Dalia Pilosof, whom he had known as a student, she said, "Not now. Please, not now." Rabin's widow, Leah, made it plain that she preferred the condolences of Yasir Arafat.) With Shimon Peres now the Prime Minister, the relationship with the White House remained politically close yet personally more remote. Peres was more the ideologue—cool, Francophile, aloof.

In the 1996 Israeli election, however, Clinton made no secret of his preference for Peres over Netanyahu. The major factor, of course, was that Peres favored pushing the Oslo process ahead; Netanyahu's platform consisted of his alarm about Oslo and his resistance to American pressure.

American television viewers had come to know Netanyahu as "Americanized"—an M.I.T.-educated Israeli politician with a perfect American accent and a feel for CNN and "Nightline." But Netanyahu's America was an-



"This is coach class. Let's lose the smile."

tithetical to Clinton's: it was Ronald Reagan's America. Netanyahu's political friends were Richard Perle, Ronald Lauder, and Jeanne Kirkpatrick. The journalists he favored were, of course, the ones who favored him: A. M. Rosenthal, William Safire, Charles Krauthammer. He yearned for the rise in Israel of the sort of neoconservative movement that had backed Reagan. He let Republicans on Capitol Hill know that he was one of them, a kind of Israeli Republican. And so while he spoke American, he was, and remains, deeply suspicious of the Clinton White House. *Of course* Clinton loved Rabin, he tells everyone. The Americans always love us when we are giving away everything and getting nothing in return.

When Netanyahu came to Washington for the first time as Prime Minister, he appeared determined to show everyone that there was a new man in office, one who would not be pushed around. Itamar Rabinovich, the Israeli Ambassador in Washington at the time, told me, "What I would have told Bibi to do on his first trip—not that he ever would have asked—is to have gone into the White House and said, 'Let's let bygones be bygones. I know you supported Peres in the election, but there are no grudges.' Instead, when they met, in July, 1996, Clinton came out of the meeting saying that Netanyahu behaved and spoke in a tone that didn't seem to let on that he knew that Clinton was the President of a friendly superpower and that Netanyahu was the leader of a small nation who needs the superpower's support." In short, Clinton felt he had been dissed by the leader of a country smaller than Vermont that gets three billion dollars in aid every year.

One Administration official described the personal chemistry between Clinton and Netanyahu as the same as that between the White House pets, Buddy and Socks. When Air Force One and Netanyahu's plane were parked next to each other in Los Angeles last November, Clinton decided he didn't have time for even a brief meeting. Of the relationship, one Administration official later said, "We're treating him like the President of Bulgaria. Actually, I think he"—Clinton—"will go jogging with the President of Bulgaria, so that's not fair."

Netanyahu began a trip to the United States last January by accepting the

hospitality of a group of Christian evangelicals—including Jerry Falwell, who'd been selling videos that accused the President of murder. Clinton was furious, but the next morning when he met with Netanyahu he jokingly suggested, "Now we're even." Both Netanyahu and David Bar-Illan told me that they had had no idea that Falwell was attacking Clinton so ruthlessly, and Bar-Illan tried to fall on his sword, saying that he had been encouraged by a Jewish contact in New York to meet with the evangelicals because of their support for Israel. Considering how closely Netanyahu and Bar-Illan follow the American scene, their protestations of innocence are hard to believe.

"The relations have never been more tense," a senior Israeli diplomat told me. "The ironic thing is that after Bibi came back from America having not accepted things, he became a hero to his people, like Saddam Hussein withstanding American pressure."

Norman Podhoretz, the former editor of *Commentary*, mainly supports Netanyahu's hard line with the Palestinians but admitted he was shocked at his performance. "He's done amazingly poorly, and I wouldn't have expected that of him," Podhoretz said. "He used to be able to seduce anyone. . . . But as a friend he's not a reliable person. It's like the Kennedys. If he makes a promise or appointment, he doesn't necessarily keep it. Then he'll depend on his charm, like Clinton. And the magic has gone out of that trick."

WHEN I asked Netanyahu to characterize his relationship with Clinton, he took a long drag on his cigar and blew smoke through his smile. He is a bearish presence with a broad smile, and he never seemed more satisfied than now.

"It's correct," he said. "On a personal level there are interesting moments of affinity, because I think he has tremendous grasp of certain things that probably eluded his immediate circle. First of all, because he's probably a much better politician than any of them. So he understands certain things from reading the lay of the land. He understands our political situation better than his people, especially those who led him to take the mistaken view of trying to influence the elections. . . . I have to tell you, person-

ally, I like him. It's very hard not to like him. I wouldn't tell you we've developed warm and cozy relations. It's not true. It's possible. It just hasn't happened."

What Netanyahu has inherited from his father is a keen notion of Us versus Them, a sense that only fools can fail to see what he sees, that Jewish history is in perpetual danger of ending completely, and that Jewish history, considering the role of assimilation in the

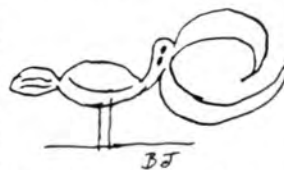
Diaspora, is in the hands of Israel and, in no small part, its Prime Minister.

"The Jewish people have had a history unlike any other people's because

they lacked the elements of national survival," he said to me. "On the other hand, they didn't perish completely. They perished *mostly*. They were about ten per cent of the Roman Empire at the time of the birth of Christ, so by any calculation they should be about a hundred and twenty million and not twelve million. The fact that we are ten per cent of what we could be is based on many forces, but it is the inability to live in a coherent place with a coherent culture."

"It is not the idea of a diaspora. Other peoples have their diasporas. The Chinese have a diaspora, a far-flung diaspora, but they have a coherent center. We lost the coherent center and were dispersed. Normally what happens to a dispersed people is that they conquer new lands or they disappear. We didn't conquer new lands, but nor did we disappear, so we were always in the twilight of our existence. Between annihilation and assimilation, you could pretty much predict that the Jewish people would not survive the twenty-first or twenty-second centuries. What happened after the worst catastrophe in our history is that we somehow amassed the national will to reforge a vital center for Jewish life here in Israel. I now think we have a Jewish future, here in Israel. It's true that, for the first time, the majority of Jews will be here in Israel sometime in the next decade. It'll happen, maybe even under my watch, I'm not sure. . . .

"You have to protect yourself. This is what the Jews didn't have. They didn't have the means to protect themselves against evil, the baser impulses of mankind. And they paid a price unlike any other people. We now have the means to protect ourselves." ♦



THE WHITE HOUSE
WASHINGTON

Date 5/25

To: Glyn Davies

From: The Staff Secretary

Does NSC have any
comment / edit to this letter
written by the President's
personal correspondence shop?
Phil

THE WHITE HOUSE

WASHINGTON

May 27, 1998

The Honorable Christopher Ashby
Ambassador
United States Embassy Montevideo
APO AA 34035

Dear Kit:

Thanks for your letter of May 9, and I'm sorry I'm only now responding.

I appreciate your words about the summit in Santiago. It is too bad the Cuba proposal was defeated, but we'll keep working. I know you're doing a good job for us in Uruguay. It's great news that the Women in Democracy conference will take place there.

Thanks for translating that article for me -- it's always nice to read supportive commentary.

I guess I'll be seeing you before you receive this letter. I'm looking forward to it!

Sincerely,

President Bill Clinton
The White House
1600 Pennsylvania Ave. NW
Washington, D.C 20500-2000
May 9, 1998

Handwritten: Reply
CE STORE v5/21

✓
Dear Bill,

First of all, let me congratulate you on the summit in Santiago. It was a big winner. I especially thank you for singling out President Sanguinetti. He called me when he returned and passed on your "recuerdos." He also was quoted in the press that he was pleasantly surprised by the summit, and that it had been much more substantive than he had expected. I know from private conversation that he was most flattered that you quoted him in your final speech.

Unfortunately, all of this good effort was not able to keep him from changing his vote at the UNHRC, and helping defeat our proposal on Cuba. In hindsight, it is too bad that you were not able to visit. That would have surely kept them in our camp, which, as it turned out, would have moved Uruguay out of their traditional position of maintaining Latin American solidarity. But you cannot visit every country before every vote. That's what you have the rest of us for. I continue to believe that Uruguay can be made into a positive force on our behalf in this part of Latin America. I have not yet been able to accomplish that in the first three months, but I still have a while to go.

Handwritten: N
I was very please to hear that Uruguay was chosen as the site of the upcoming conference on Women in Democracy. I know that Hillary wants to come, and I hope it works out. Uruguay had women's suffrage before we did, and have been far ahead of their Latin neighbors in legal protection for women. Like so many other things, they have so far been unwilling to take a leadership position in this area. Hopefully this conference will give the confidence needed to be more aggressive.

I am including a translation I did of an article in a local paper. It is rather long and a bit rambling, but I thought it would give you a feel for how the Ken Starr's efforts appear from here. This is not a one off, it is a consistent view.

All goes well for Amy and me and the family. Anson will join us for his summer (our winter) vacation, which we are all looking forward to. I will be at the reunion, and hope to get a chance to talk to you at some time during the trip.

Handwritten: Best Regards
Kit

Handwritten: US Amb
USEmb Uruguay
APO AA 34035



'98 MAY 22 PM4:50

Office of Senator Frank Murkowski
Fax Transmission

Fax: (202) 224-5301 • Voice: (202) 224-6665

TO: Honorable William Clinton
ATTN: Mr. Phil Caplan

FROM: Frank H. Murkowski

PAGES: 5

MESSAGE: Please deliver to President Clinton. Original to follow.

Congress of the United States

Washington, DC 20515

May 21, 1998

The Honorable William Jefferson Clinton
President of the United States
1600 Pennsylvania Avenue, NW
Washington, DC 20500

Dear Mr. President:

We remain committed to achieving fair access to the Japanese insurance market for American insurance companies. We commend you for your continued efforts on this front, but also feel that much more needs to be done to increase American insurance opportunities in the lucrative Japanese market.

In the last four years, the United States has successfully negotiated two insurance market access agreements with Japan. The goal of these agreements is to level the playing field so as to allow American companies an equal opportunity to compete with their Japanese counterparts. Despite their strong international competitiveness and substantial efforts to penetrate the Japanese market, however, American insurance companies have had limited successes in Japan.

Pursuant to these agreements, the Japanese Ministry of Finance will soon report to the United States on the progress achieved thus far with regard to the deregulation of the primary insurance markets in Japan. We anticipate that this report will conclude that substantial deregulation has been achieved, thereby triggering the July 1, 1998 start of the two-and-one-half year market access time frame. We feel that such a conclusion would be unjustified and premature, and urge you to reject any such determination until the Japanese government provides irrefutable evidence that substantial deregulation has in fact been achieved and the terms of the agreement have been fulfilled.

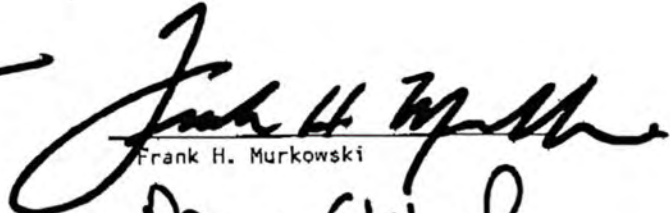
Japan's two largest insurance sectors (life insurance, and property and casualty) constitute 95% of the total market, but they remain largely closed to international participation. Entry into the third sector (cancer, medical, travel and accident) by large Japanese insurance companies was prohibited by the agreement until and unless free and fair competition was permitted for all U.S. companies in the primary sectors. While further Japanese insurer access to the third sector was to be limited under the terms of the 1996 agreement, American companies have found a reluctance on behalf of the Japanese government to abide by these agreements and preclude Japanese insurance companies from entering this sector, resulting in a violation of the agreements. Mr. President, we are deeply concerned that a premature finding of substantial deregulation would simply allow this trend to continue, and would have dire consequences for the long-term efforts of American insurance companies to conduct business in Japan.

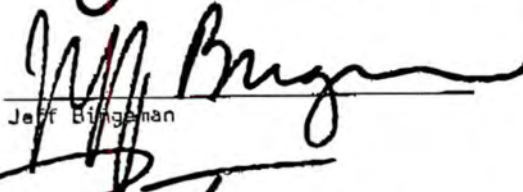
The Honorable William J. Clinton
May 21, 1998
Page 2

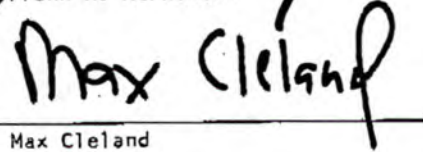
We would urge you to reject any premature finding by the Japanese government that substantial deregulation of the Japanese insurance market has already been achieved. Furthermore, we would request that your administration confirm that substantial deregulation of the industry has in fact been achieved before any such finding is mutually accepted.

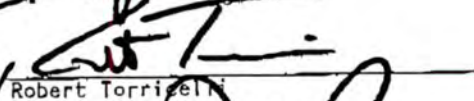
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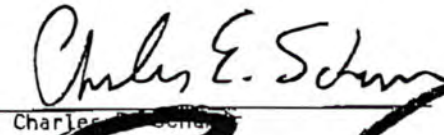

Alfonse D'Amato

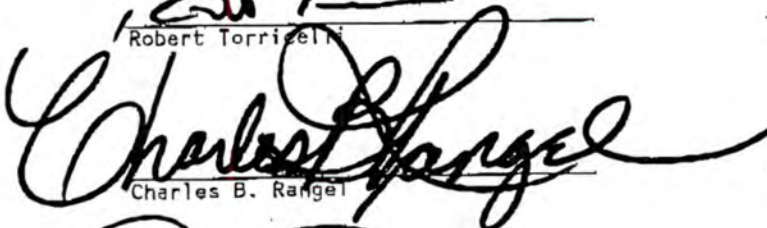

Frank H. Murkowski

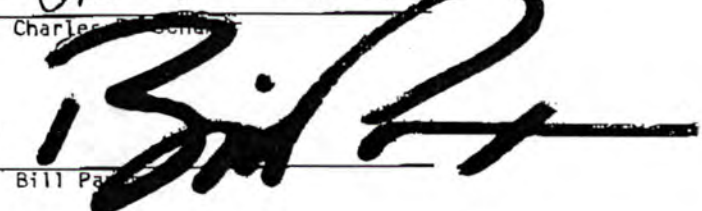

Jeff Bingaman


Max Cleland


Robert Torricelli

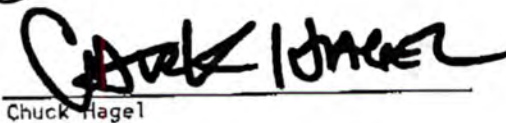

Charles E. Schumer


Charles B. Rangel

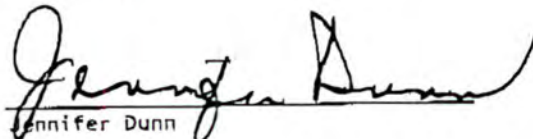

Bill Paxon

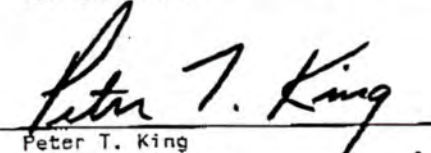

John Breaux

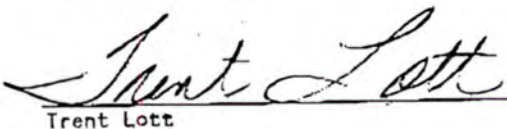

Chuck Grassley

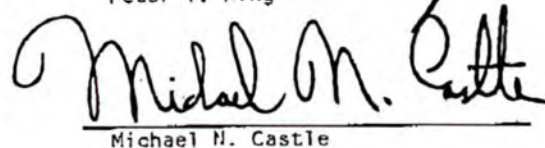

Chuck Hagel


Bill McCollum


Jennifer Dunn

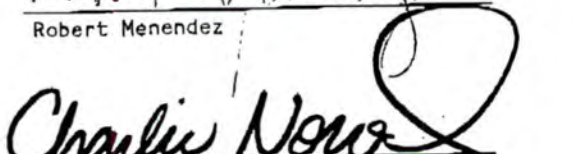

Peter T. King

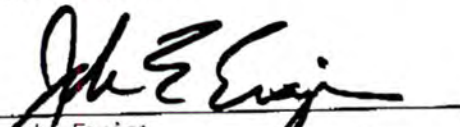

Trent Lott

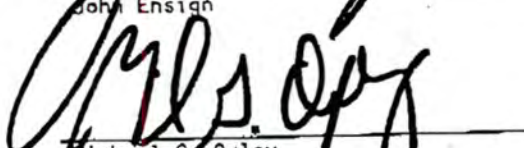

Michael N. Castle

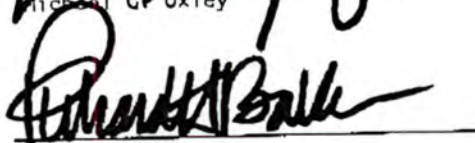
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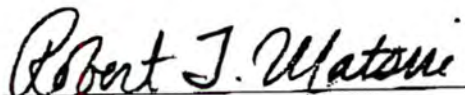

Robert Menendez


Charlie Norwood

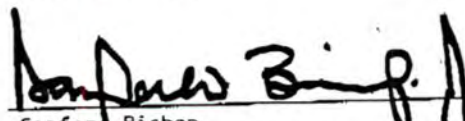

John Ensign

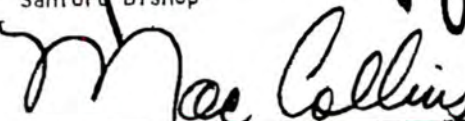

Michael G. Oxley

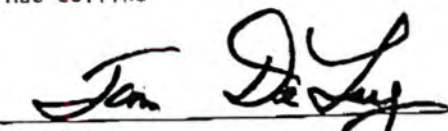

Richard Baker

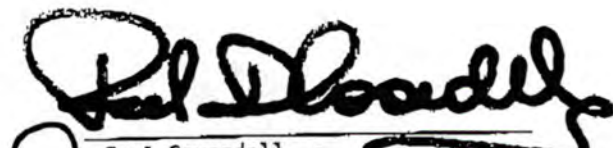

Robert T. Matsui

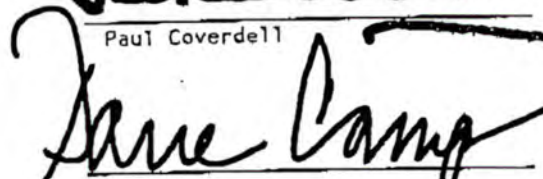

Richard Shelby

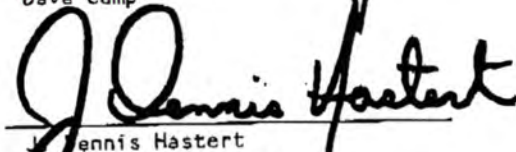

Sanford Bishop


Mac Collins


Tom DeLay

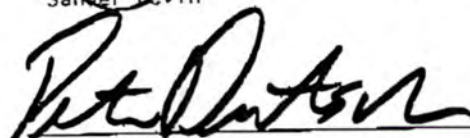

Paul Coverdell

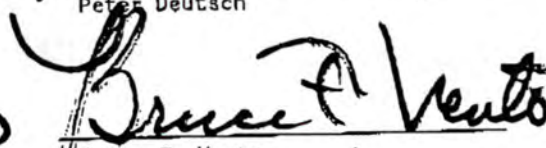

Dave Camp


J. Dennis Hastert

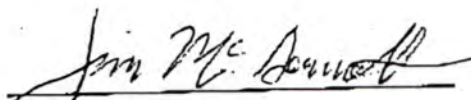

John Tanner

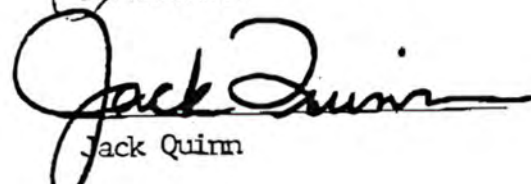

Sander Levin


Peter Deutsch

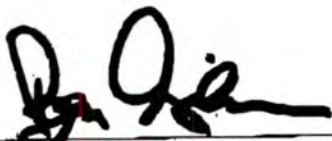

Bruce F. Vento


Bob Smith


Jim McDermott


Jack Quinn

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Ben Gilman



Max Baucus



Jay Rockefeller