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CONGRESSMAN BRAD SHERMAN
24TH DISTRICT, CALIFORNIA



SERVING THE SAN FERNANDO AND CONEJO VALLEYS,
LAS VIRGENES AND MALIBU

COMMITTEE ON BANKING
AND FINANCIAL SERVICES

COMMITTEE ON
INTERNATIONAL RELATIONS

*Samuel / J.S.
Meany / J.S.
R. J. / J.S.*

April 27, 1999

The Honorable William Jefferson Clinton
The President of the United States
1600 Pennsylvania Avenue, NW
Washington, DC 20500

Dear Mr. President:

I would like to take this opportunity to express my views on the ongoing conflict in the Balkans. As you know, I strongly support efforts to prevent mass murder, ethnic cleansing and other atrocities, through military action if necessary.

I am concerned, however, that in the process of pursuing this war, we may have adopted positions regarding the hostilities which make it impossible to resolve this conflict without heavy US and allied casualties or a protracted, months-long air campaign.

I have outlined a possible solution to this crisis. Attached please find two separate statements which describe a resolution which would provide for the return of the Kosovar Albanians to an autonomous Kosovo, under Yugoslav sovereignty, while giving the Yugoslav side assurances that their key interests will be secured.

I hope you can give this serious consideration.

Sincerely,

BRAD SHERMAN
Member of Congress

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Non-Partition: Two Peacekeeping Forces, Two Peacekeeping Areas, One Autonomous Kosovo

We should not rule out an agreement under which a NATO-led peacekeeping force controls most of Kosovo, and another peacekeeping force, more acceptable to the Serbs, occupies a smaller area containing the main sites of importance to the Serbian nation, all without prejudice as to the final status of Kosovo. Indeed we can and should reaffirm, as part of any agreement, ultimate Serbian sovereignty over all Kosovo, a position with which we firmly agree.

The largest difference in the stated positions of NATO and the stated positions of Serbia relate to the make-up of the peacekeeping force. Last week Serbia, through Russian mediation, suggested non-NATO peacekeepers under a UN mandate. NATO originally insisted on an all-NATO peacekeeping force, and now insists on a "NATO-led" force.

We should consider agreeing to two separate and distinct peacekeeping forces for two different geographical segments of Kosovo. "Region A" would be patrolled exclusively by Russian or other forces more favorably disposed to Serbia. Region A would consist of two or three areas, each geographically connected to Serbia or Montenegro. These areas would include the battlefield of Kosovo Polje, the Gracanica monastery, Pec (the original site of the Serbian Orthodox Church), and certain other monastery lands. Depending on negotiations, Region A might also include most of the lignite mines located in northern Kosovo.

"Region B" would be patrolled by a NATO-led peacekeeping force. It would consist of roughly 80% of Kosovo. All Serbian military and police forces would be required to immediately evacuate from Region B. Kosovar refugees would feel quite comfortable returning to Region B. (As a practical unacknowledged matter, refugees would probably not choose to return to Region A, but this need not be precluded by an agreement. Indeed the Serbian conditions of April 22 explicitly allow for the complete return of all refugees to their original home towns.) U.S. and European aid and trade concessions would be focused on Region B. This would more than make up for any farm lands or mines allocated to Region A.

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I would expect both sides to claim victory. Milosevic, faced with an alliance of 19 powerful nations including the world's only superpower, will claim victory because only friendly forces will occupy historically and religiously significant sites. He will have little difficulty arguing to his people that it is these sites which are the major reason why Serbia demanded to retain Kosovo. As long as the three or four most significant sites are in Region A, Milosevic will have little difficulty arguing that *all* the important sites are in Region A, and those left in Region B are unimportant. Furthermore, as a legal matter, all of Kosovo would remain part of Serbia -- though Region B would have an extremely high level of autonomy.

NATO would rightly claim a major victory. **All Albanian Kosovar refugees would be returned to the territory of Kosovo. All will be protected by a NATO-led peacekeeping force.** Due to trade and aid from the NATO allies, the Kosovars will be more prosperous than they were before the conflict began.

NATO will also claim victory on the issues of international law and legal status so important to its diplomats. Kosovo would remain legally a single entity entitled to a high level of autonomy, and part of Serbia -- the exact legal formula demanded by NATO. Of course this NATO victory would not include the immediate overthrow of Milosevic, just as Desert Storm did not remove Saddam Hussein.

It would probably be best if NATO required that all KLA weapons be turned over to NATO forces. (We should not be surprised if some KLA forces and weapons remain in Albania.) NATO forces should be deployed to prevent the fighters from crossing from Kosovo (Region B) into the Former Yugoslav Republic of Macedonia.

Any peace agreement should be brokered with the involvement of Russia. This will give the Serbs the assurances they need to make peace, and provide an important measure of pride and prestige to the Russians, with whom our relationship remains perhaps the most important in the world.

CONGRESSMAN BRAD SHERMAN

24TH DISTRICT, CALIFORNIA



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Kosovo: Additional Options Deserve Consideration

by Congressman Brad Sherman, member Committee on International Relations

Our actions in Kosovo are motivated by the highest level of idealism. We are willing to spend our treasure, and more importantly risk the lives of our men and women, to prevent atrocities and to assure Albanian Kosovars will be able to live in peace and autonomy.

Yet even in such a great idealistic undertaking, we must establish a realistic strategy. We must make sure our idealistic motivations do not cloud our judgement.

Realism vs. Idealism

In a more ideal world, Kosovo would be the only place of tragedy and atrocity. But realistically we should note that the government of Sudan has killed 2 million of its African citizens, and that killing continues; that 800,000 Tutsis were killed in Rwanda; and the continuing death toll is enormous in the Congo, East Timor, Myanmar and elsewhere.

In an ideal world we would easily restore Kosovo as a multi-ethnic and semi-autonomous region. Realistically it is unlikely that Albanians and Serbs will live in harmony in the absence of outside force; and it is unlikely that the Kosovars will renounce their goal of independence.

A blind idealist might see the world as pure good versus pure evil. Yet the Serbs were, just a few years ago, the victims of ethnic cleansing in Croatia, where 180,000 Serbs were expelled from lands they had lived in for centuries, while America said nothing and did nothing. And the Kosovar Albanians, the victims of today's mass-murders, are represented by the KLA (Kosovo Liberation Army), an organization that we describe as terrorists -- an organization that may have alliances with Iran, Osama Bin Laden and even drug dealers.

- more -

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Blind Idealism would cause us to state the maximum possible objective, and believe that we could achieve it with the minimum force. Yet realism requires us to adopt realistic objectives consistent with the future safety of the Albanian Kosovars, and to marshal the substantial force which may be necessary to achieve those objectives.

Proposed Actions

We should take three steps.

First, we should involve Russia in diplomatic efforts to the maximum possible degree.

Russia may be able to pull the Serbs to a negotiation position more realistic than the one they would be willing to adopt themselves.

Russian involvement in both the diplomacy and the peace keeping offers a face-saving method for Milosevic to make major concessions. And though there are a lot of those that think we should "dispose of Milosevic instead of negotiating with him," I would point out that we are still waiting for someone to dispose of Saddam Hussein.

Involving Russia is important beyond the events at hand. Ten years from now Kosovo may be almost forgotten, but Russia will continue to be a critical nuclear-armed state -- and treating Russia with respect now will be important to our relationship in the future. (Eighty-five years ago Russia mobilized its army in support of Serbia, and the result was World War I.)

Secretary Albright recently met with Igor Ivanov, the Foreign Minister of Russia, in Oslo. Hopefully this is the first step towards the maximum involvement of Russia in bringing peace to Kosovo.

Second, we should signal now that we are willing to reach peace on the basis that the Rambouillet agreement would apply to 80% of the Kosovo territory, rather than all of Kosovo.

No one denies that the Serbs have rights in Kosovo. They represent over 10% of the population. Kosovo has been part of Serbia for hundreds of years, and Kosovo is the religious and cultural birthplace of the Serbian nation. In fact, the Rambouillet agreement seeks to recognize Serb rights by saying that Kosovo would remain part of Serbia.

By leaving the Serbs in control of historically and religiously significant sites -- including the original seat of the Serbian Orthodox Church; the most important of the monastery lands; and the battlefield of Kosovo Polje, on which the Serbs fought the Turks in the 14th Century -- we can make an offer that the Serbs *can* accept.

Or rather, Russia can make an offer that all sides can accept. No Serb government, even without Milosevic, even after 20 days of bombing, could accept the current Rambouillet agreement which the Serbs, and many other observers, believe would end all Serbian rights in all of Kosovo.

The first step along these lines is to propose two separate peace keeping forces. The Russians could act as peace keepers in roughly 20% of Kosovo, particularly near the battlefield of Kosovo Polje, the monastery to Gracanica, the former seat of the Serbian Orthodox church in Per, other important monastery lands, and areas with large Serb populations. The second peace keeping force would occupy the remaining roughly 80% of Kosovo territory, would operate under an authorization by NATO (or even the United Nations) and would include American troops.

This offers a reasonable intermediate solution, meeting both the needs of Kosovars for a place to live and the need of the Serbs to avoid NATO occupation of the most important, historic and religious sites.

Certainly the Kosovar Albanians (who represented roughly 85% of Kosovo's population) could live far better in 80% of the Kosovo territory, protected by NATO troops, as compared to asking those same people to live in refugee camps.

Third, we should be training an army of Kosovar Albanians. This army should be independent of the KLA, and U.S. troops should control custody of the weapons while the training proceeds.

Milosevic may not believe that bombing can compel his departure from Kosovo, and he may not believe that NATO troops are willing to risk casualties on the ground. But if there is an Albanian army being trained, then he knows that a ground force willing to absorb casualties could be deployed in a matter of months. This may impel him to negotiate now.

The Administration asserts that bombing alone will bring Milosevic to his knees. If this is true, we can cease the training program and we will still have custody of the weapons (subject to a few guns being purloined.)

Deploying NATO Ground Troops

There are those who insist on the maximum objective -- Rambouillet for all of Kosovo -- with minimum involvement of the Kosovars themselves. They advise deploying NATO troops while not training the Kosovars.

This approach is not only dangerous for our servicemen and women, it is dangerous for our foreign policy. If we deploy NATO ground troops into hostilities and if the casualties rise to the point where the American public, or the German public, or the French public or the British public demand the withdraw of their soldiers -- then the NATO alliance may be broken, and Milosevic may prevail.

If that occurs, then every tyrant and mass-murderer in the world will feel that he can act with impunity. The Vietnam Syndrome, and the Somalia Syndrome, will return. We need another option -- the option of deploying a well-trained, well-armed force of Albanians, who are willing to take casualties because they are fighting for their homes.

Hopefully, by negotiating from strength, we can achieve an agreement that will eliminate the need to actually deploy combatant ground troops, NATO or Kosovar.

Conclusion

The American people have shown a willingness to commit their treasure, and more importantly the lives of their sons and daughters, to preventing atrocities and ameliorating tragedies. If we realistically define our objectives, and if we prepare to use all the tools at our disposal, we will secure a reasonable life for the Kosovars and we will inspire the American people to support limited, realistic efforts to stop atrocities in Sudan, Myanmar, the Congo, East Timor and elsewhere.

If instead we devote inadequate resources to an effort to achieve an absolute idealistic objective, we may fail -- and that would be a tragedy for those servicemen and women who die in the effort, for the Kosovars, and for the victims of atrocities around the world.

~~Tamara~~
~~(Cen)~~
~~PK~~
Sandy
Not for
my meeting
w/ Tony Blair
(think we can
most of his group)
PK

5-3-99

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AIR CAMPAIGN REQUIREMENTS

THE FOLLOWING ACTIONS ARE REQUIRED TO FULFILL THE FULL POTENTIAL OF THE AIR CAMPAIGN AND OPTIMIZE OUR OPPORTUNITY TO ACHIEVE OUR OBJECTIVES:

- **PROVIDE ASSETS TO GO TO 24-HR OPERATIONS**
- **OBTAIN AIR SPACE AND BASING RIGHTS FOR 360-DEGREE DIRECTION OF ATTACK**
- **APPROVE/ATTACK PHASE III-TYPE TARGETS TO CONVEY TO THE PEOPLE OF YUGOSLAVIA THEY ARE AT WAR. MUST INCLUDE:**
 - **ELECTRICAL POWER GRID**
 - **ECONOMIC TARGETS**
 - **MILITARY-INDUSTRIAL INFRASTRUCTURE**
 - **LINEs OF COMMUNICATION (INCLUDING WATERWAYS) THAT LINK YUGOSLAVIA TO THEIR NEIGHBORS**
 - **LEADERSHIP NODES -- CIVIL/MILITARY STRUCTURE IN BELGRADE AND THROUGHOUT SERBIA**
- **STREAMLINE/SPEED UP THE TARGET APPROVAL PROCESS**
- **INCREASE THE POLITICAL, ECONOMIC AND MILITARY ISOLATION ACROSS THE BOARD**
 - **CONDEMN HIS ACTIONS**
 - **ISOLATE MILOSEVIC POLITICALLY AND ECONOMICALLY:**
 - **SHUT DOWN PIPELINES/ROADS/FUEL DELIVERIES**
 - **SCREEN HUMANITARIAN DELIVERIES**
 - **DENY UNINSPECTED AIR PASSAGE**
- **RAISE COLLATERAL DAMAGE TOLERANCE (NEED TO TRANSITION TO LESS PRECISION MUNITIONS)**
- **TAKE THESE ACTIONS NOW ... OR BE PREPARED FOR A WINTER REFUGEE CRISIS IN FYROM AND ALBANIA, AND AN IDP PROBLEM IN KOSOVO**

How global aging will challenge the world's economic well-being

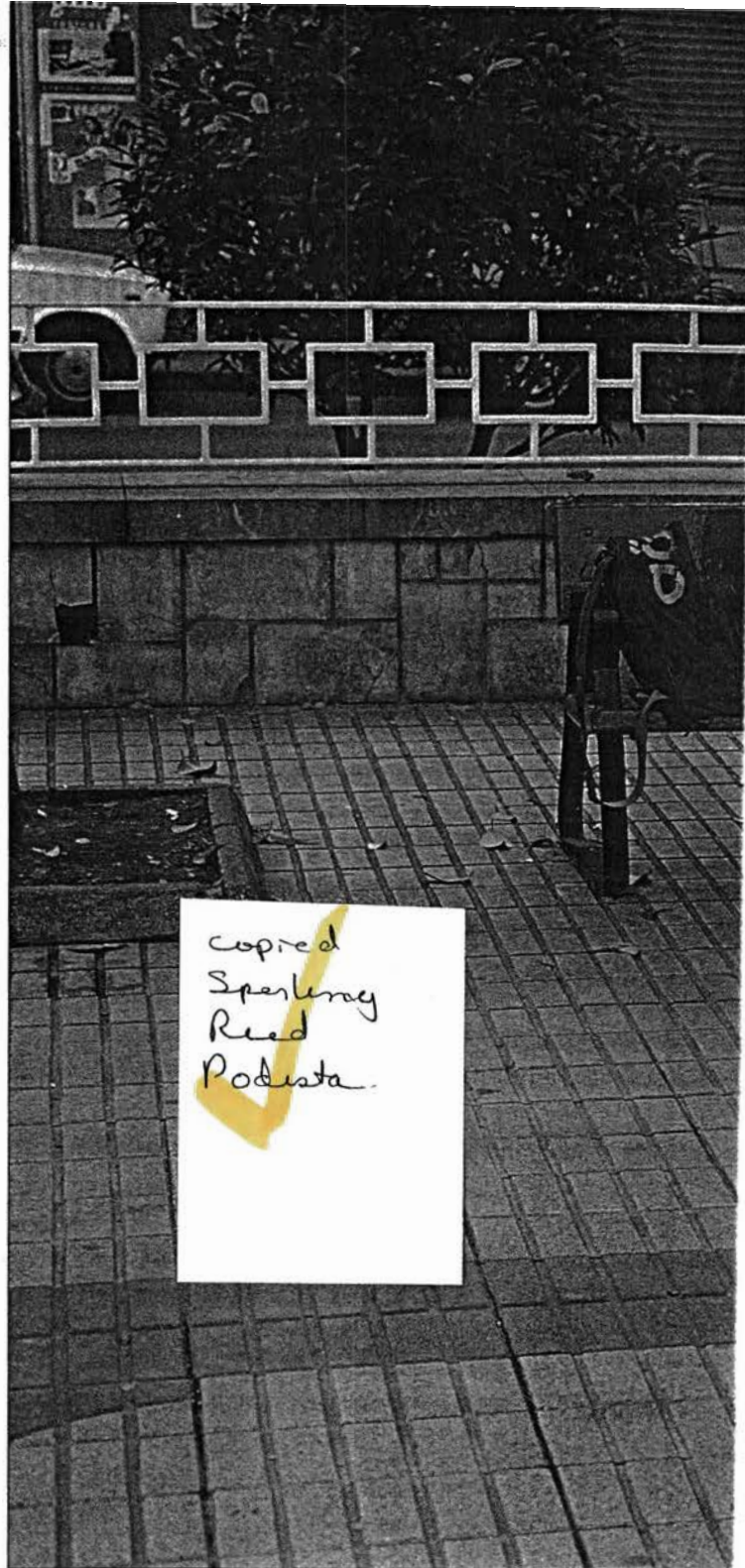
By PHILLIP J. LONGMAN

FROM HIS OFFICE HIGH ABOVE PARK AVENUE, Peter Peterson surveys a booming city of leveraged deals and paper profits that, almost every day, add to his bounty. As the Dow rallies once again beneath the fading winter sky to the south, this son of Greek immigrants can only count his blessings, which range from a summer home in the exclusive Hamptons whose inflating value he can scarcely believe, to a secure position as the chairman of the Blackstone Group, a prestigious New York investment bank.

Yet Peterson, 72, is worried about the future. These days, as most, he's thinking about aging—and not just his own. The world is going gray, and one day soon, the implications of that trend could unnerve today's boom psychology. "The scenario I see is that one or more developed countries, say Italy, is going to decide that the political cost of reforming their pension systems is just too high," says Peterson. "Then they will try running high deficits—much higher than limits set by the European Union's monetary authorities—in an attempt to finance their way out of the problem. When the financial markets wake up to this news, there will be a broad realization that we have a global aging crisis that is going to be unrelenting in its economic consequences."

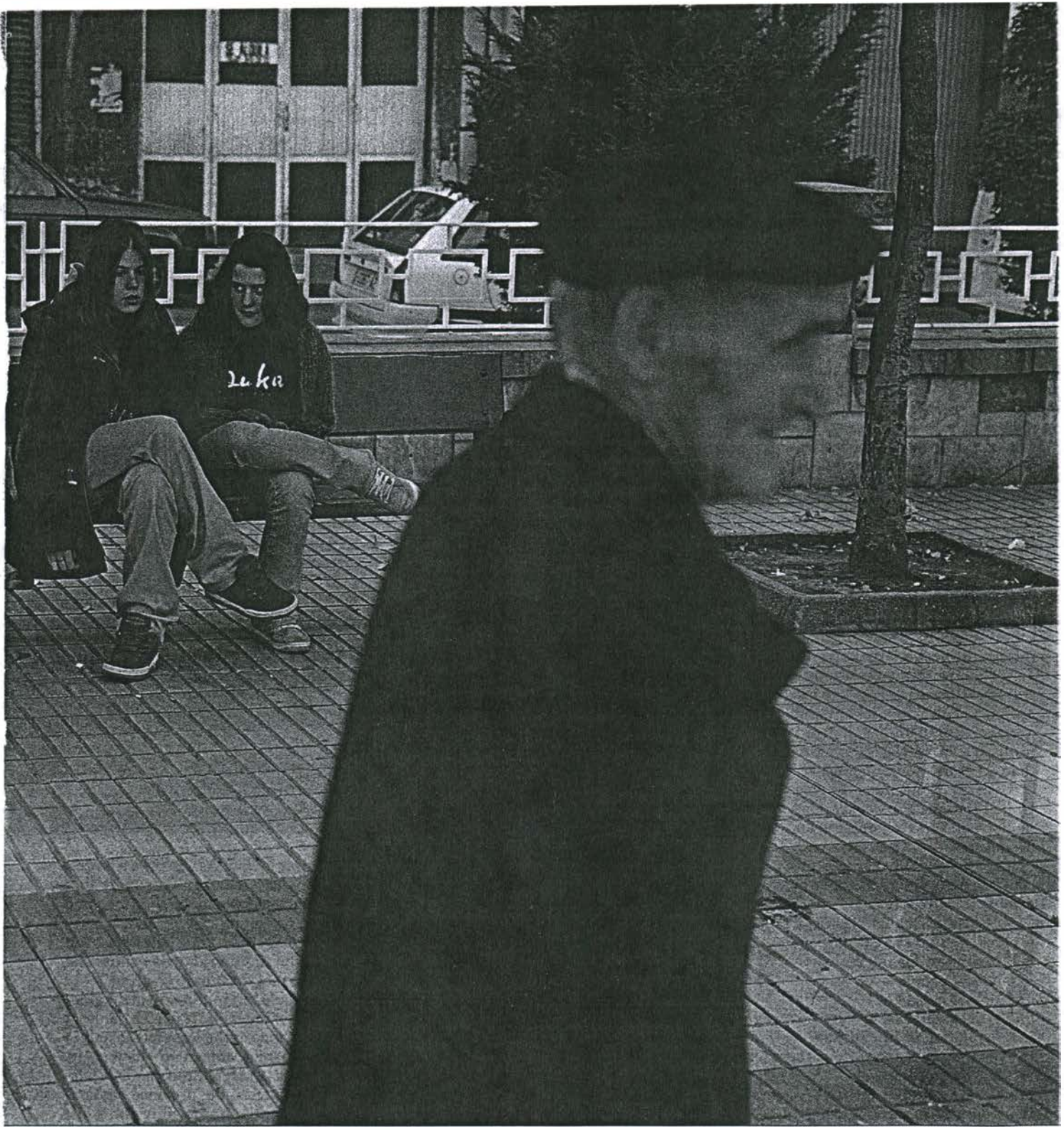
GROUND ZERO.
Spain has the world's lowest fertility rate, and Asturias is its least fecund province. There are more elderly around the globe and fewer young to support them.

The bull brought to its knees by too many Italian retirees? In some ways, the world should be so lucky. Not long ago, experts worried not about how to finance a world going gray but about a cresting wave of kids. And for good reason. Worldwide, as recently as 1972, a woman gave birth to an average of 5.6 children over her lifetime. Global population, as a result, was doubling every generation. Citing the trend,



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DEREK HUDSON—IPG / MATRIX FOR US&WP

orld Turns Gray

a hoary group of intellectuals known as the Club of Rome issued an influential study, titled "The Limits to Growth," that told what it all meant. The 21st century, said the club, would inevitably be marked by declining standards of living as human population exceeded the "carrying capacity" of the Earth, leading to mass famine and energy shortages.

But in the years since this Malthusian prophecy, a change has occurred in human behavior that is as revolutionary as it is unheralded: Around the world, fertility rates are plummeting. Today, women on average have just half the number of children they did in 1972. In 61 countries, accounting for 44 percent of the Earth's population, fertility rates are now at or below replacement levels.

That doesn't mean the Earth's population will fall anytime soon. Thanks to the high fertility rates of the past, a large percentage of the world's population is still of childbearing age. Life expectancy is also up. Globally, the average life span has jumped from 49.5 years in 1972 to more than 63 years. Consequently, according to projections by the United Nations, the world's population will slowly increase at an average rate of 1.3 percent a year during the next 50 years, and it could decline by midcentury if fertility continues to fall.

Birth dearth. So there is a new problem for mankind. Global aging. Next year, for the first time in history, people over 60 will outnumber kids 14 or younger in industrial countries. Even more startling, the population of the Third World, while still comparatively youthful, is aging faster than that of the rest of the world. In France, for example, it took 140 years for the proportion of the population age 65 or older to double from 9 percent to 18 percent. In China, the same feat will take just 34 years. In Venezuela, 22. "The developed world at least got rich before it got old," notes Neil Howe, an expert on aging. "In the Third World the trend is reversed."

And that means trouble. For one thing, the cost of supporting a burgeoning elderly population will place enormous strains on the world's economy. Instead of there being more workers to support each retiree—as was the case while birthrates were

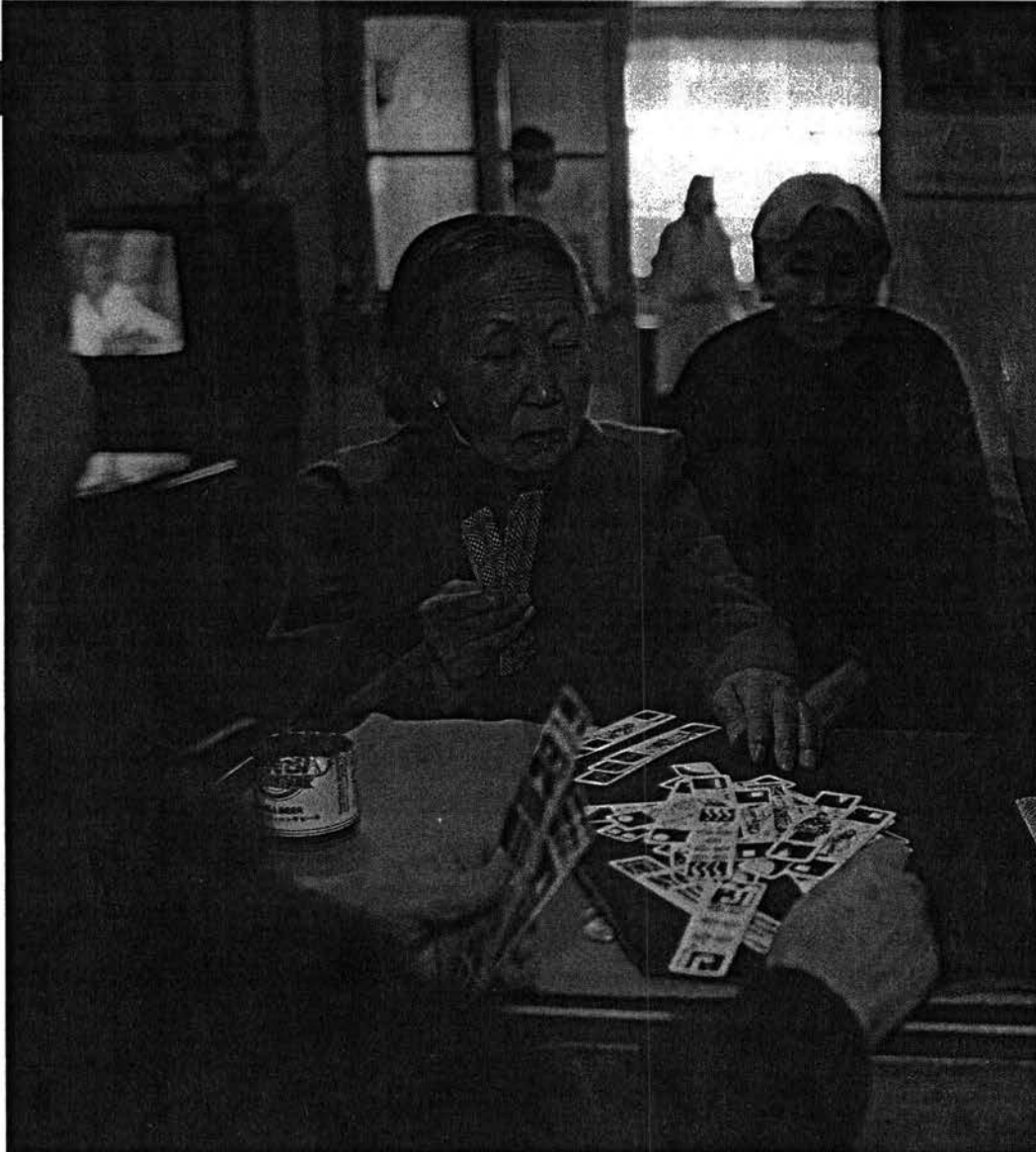
still rising—there will be fewer. Instead of markets growing, they will shrink, at least in large parts of the globe. Economists define a recession as two or more consecutive quarters of declining gross domestic product. Yet as Peterson points out in his new book, *Gray Dawn*, in the world's richest and most productive countries, the number of working-age people will be dropping well over 1 percent a year within 20 years. Even assuming healthy increases in productivity, such a continuing contraction in the work force could mean decades of declining economic output.

For Selina González, that world has already arrived. In her store in Mieres, a once prosperous town in northern Spain, González sells baby clothes at a discount,

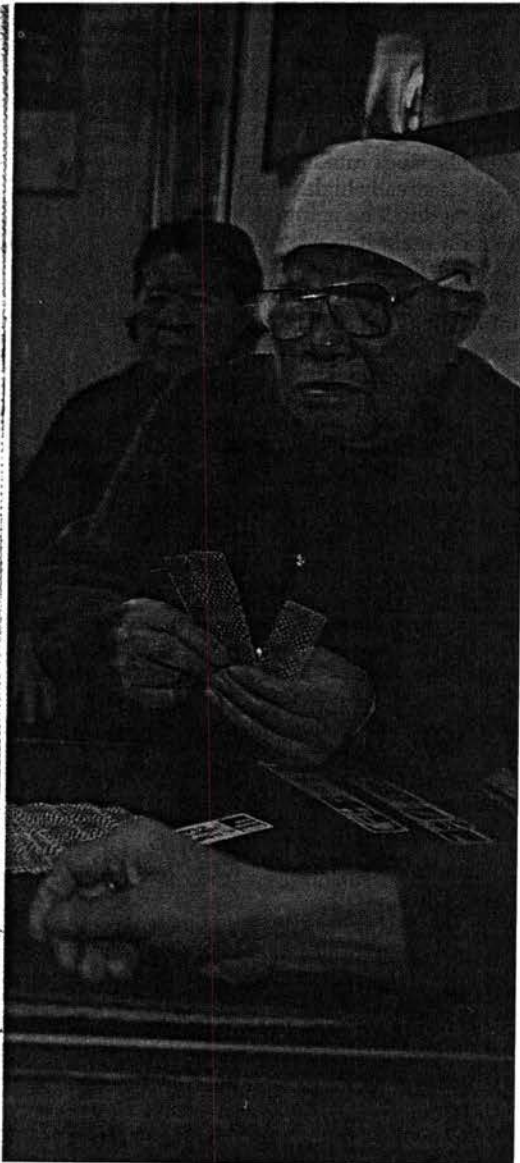
but turnover is slow. As she sews a button onto a tiny, lacy blouse, she admits that the garment has been in the shop for some time. "Many young people move away from here to look for work," she says. "And the ones who stay don't have any financial security, so they don't have children."

Mieres could be ground zero of the global aging phenomenon. It lies in the least fecund province of the least fertile nation on Earth. Spanish women now have an average of just 1.15 children in their lifetimes. In Asturias, the province containing Mieres, the lifetime fertility rate is just 0.79 children. The implications of the birth dearth are abundantly clear. After making allowances for premature death, at least 2.1 children per woman are needed to replace the population. This means that Spain's population will very likely shrink from 39 million to less than 30 million over the next 50 years in the absence of a dramatic increase in immigration.

Certainly a lackluster economy partly explains why young adults in this part of the world have suddenly become so wary



LOADED DECK. China is struggling with pension and health care bills it can't afford as the large generation born in the 1950s faces retirement age during the next two decades. At a nursing home in Changchun, the elderly wife away the hours playing cards. A nurse (below right) ministers to a resident.



DAVID BUTOW—SABA FOR US&W (2)

of parenthood. Spain's unemployment rate, long the highest in Europe, hovers around 20 percent. And Asturias, which has been buffeted by the decline of its coal-mining industry, has one of the highest jobless rates in Spain.

Productivity problem. Yet economics alone are not enough to explain people's reproductive behavior. After all, in general the world's highest birthrates are in the poorest countries. Teresa Castro, a fertility expert at the Spanish government's Superior Council for Scientific Research, points to diffuse cultural factors at work. In Spain, she says, the Roman Catholic prohibition against birth control is now widely ignored. The church, she says, "lost all influence in family matters years ago and now serves only as a setting for rites of passage," such as weddings, baptisms, and funerals. Another key factor is the incorporation of a majority of women into the work force. This change, says Castro, "has come about so rapidly that there are not enough day-care facilities for working women who would like to have children."

Spain may lead the world in its diminishing fertility, but there are plenty of runners-up. Italy is in the midst of a *bambini* bust that will cause it to lose more than half its native younger workers with each new generation. The Czech Republic, Romania, and Bulgaria all are producing children at a rate of just 1.2 per woman. Germany, Japan, Greece, Russia, Portugal, Hungary, and Ukraine have similar fertility rates. American women, though still not producing enough babies to replace the population, are fertility

Of course, there will be fewer children to feed and educate. But most experts agree that while aging societies may be able to divert some resources that now go to the young, the increasing cost of supporting the elderly is almost certain to consume these savings many times over. Throughout the developed world, total public spending per old person is two to three times as great as public spending per child. And in the future, that gap will probably widen. The elderly consume far more health care resources than do chil-

ASIA is aging rapidly. Japan, for example, will suffer a **25 PERCENT DECLINE** over the next decade in the number of workers under 30.

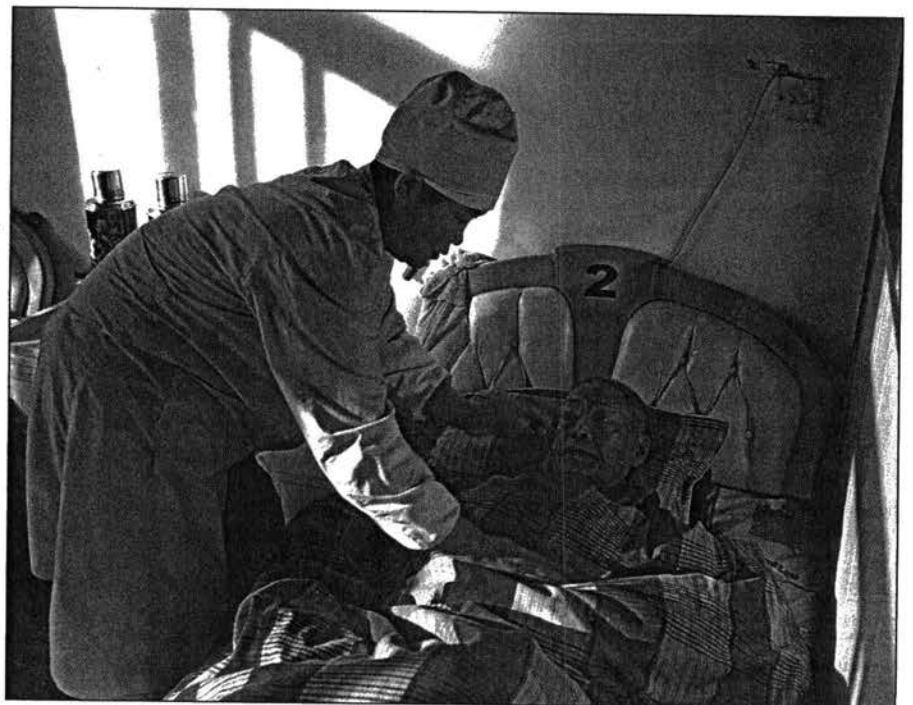
goddesses by comparison, with a lifetime average of two children each.

For the developed world, fiscal consequences of these trends are dire. Over the next 25 years, the number of persons of pensionable age (65 and over) in industrial countries will rise by 70 million, predicts the Organization for Economic Cooperation and Development (OECD), while the working-age population will rise by only 5 million. Today, working taxpayers outnumber nonworking pensioners in the developed world by 3 to 1. By 2030, absent increases in retirement ages, this ratio will fall to 1.5 to 1. In Italy and other places, it will drop to 1 to 1 or lower.

dren, and new technologies to extend life are bound to escalate health care costs.

Who will pay the bills? One option is to raise taxes on the diminishing number of workers. But according to official projections, doing so would require increasing the total tax burden on workers by the equivalent of 25 to 40 percent of their taxable wages, an unthinkable prospect in industrial countries, where payroll tax rates already sometimes exceed 40 percent. Another option would be to cut benefits, but given the political and ethical obstacles, this approach is likely to be put off for as long as possible.

That leaves borrowing. As aging na-



tions attempt to avoid hard choices, they are likely to rack up mountains of debt. And, at some point, that could destabilize the world economy. For example, with neither tax increases nor benefit cuts, Japan will have to increase its public-debt levels from a little more than 20 percent of gross domestic product today to over 100 percent by 2050, according to OECD. In Europe, public indebtedness would have to rise from under 60 percent of GDP to nearly 110 percent.

The United States faces less of a challenge, thanks mostly to its comparatively high fertility and immigration rates. But the nation is still woefully unprepared for the coming age wave. Despite today's talk of budget surpluses, the OECD forecasts that population aging will force the United States to increase its national debt from just over 40 percent of GDP today to 70 percent by the mid-21st century. The long-term debts of America's public pension systems come to about \$10 trillion.

With a savings rate near zero, the United States is already highly dependent on foreign capital. The aging of its population will only make it more so.

Look to Brazil. But will the world's investors continue to pour money into aging nations with mounting pension debts? A forewarning comes from Brazil, which is currently undergoing a financial meltdown so perilous it periodically scorches Wall Street. "There are important lessons to learn from what's been going on in

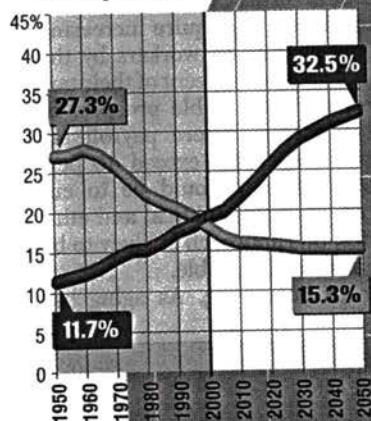
An aging world

Richer countries aging fastest

The whole world is aging, but the trend is most pronounced in developed countries, where elders will outnumber youths next year.

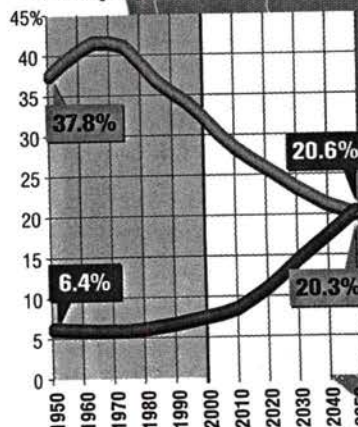
- Percentage 14 and younger
- Percentage 60 and older

Developed countries**



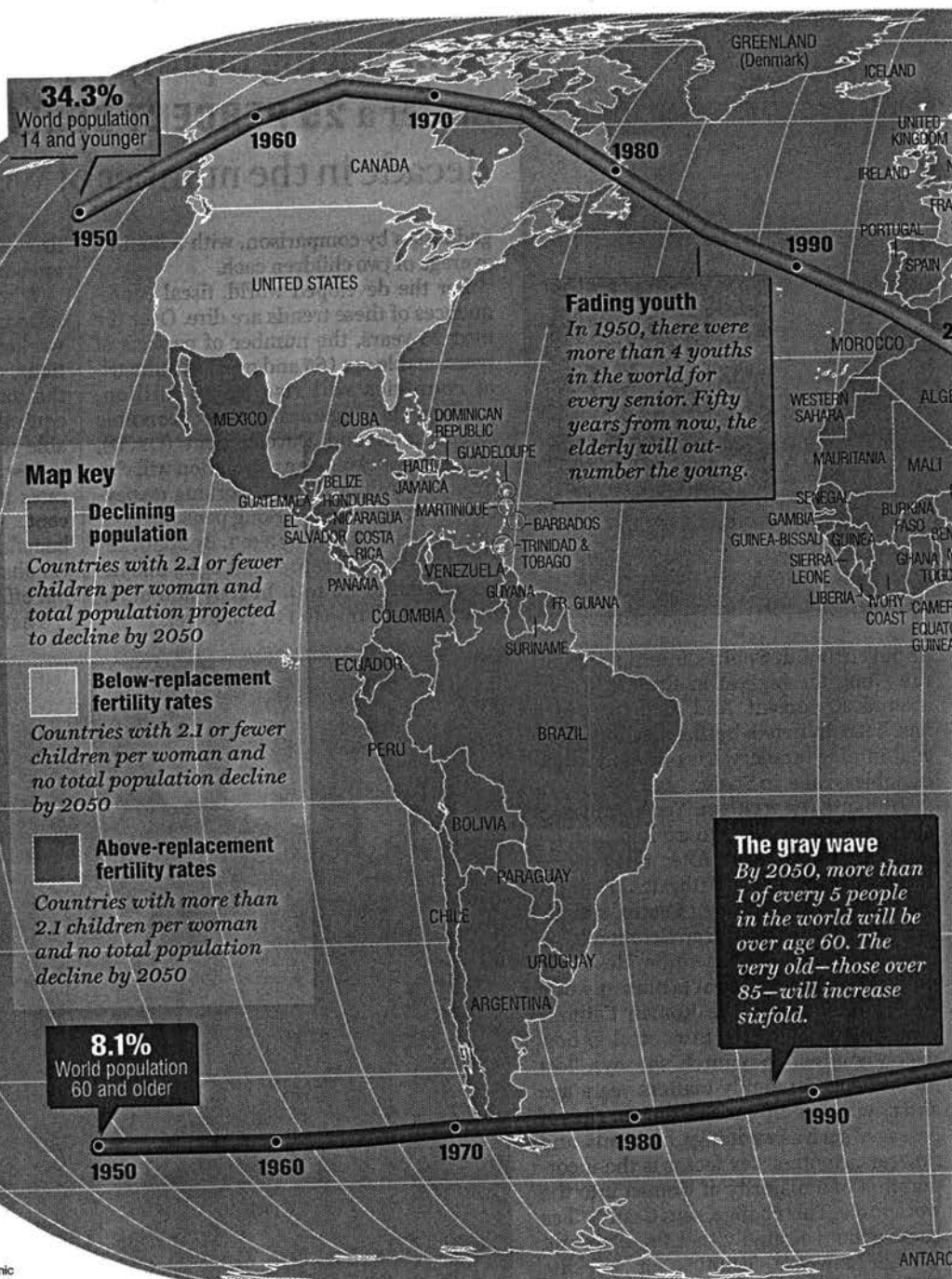
* (includes North America, Japan, Europe, Australia, New Zealand)

Developing countries**



** (includes Africa, Latin America, the Caribbean, Asia minus Japan, Melanesia, Micronesia, Polynesia)

Sources: U.N. Population Division, Organization of Economic Cooperation and Development, International Monetary Fund



Brazil," says Bradley Belt of the Center for Strategic and International Studies in Washington. "Quite frankly, a large chunk of their fiscal distress right now is attributable to an overgenerous, one might even call lavish, public pension system."

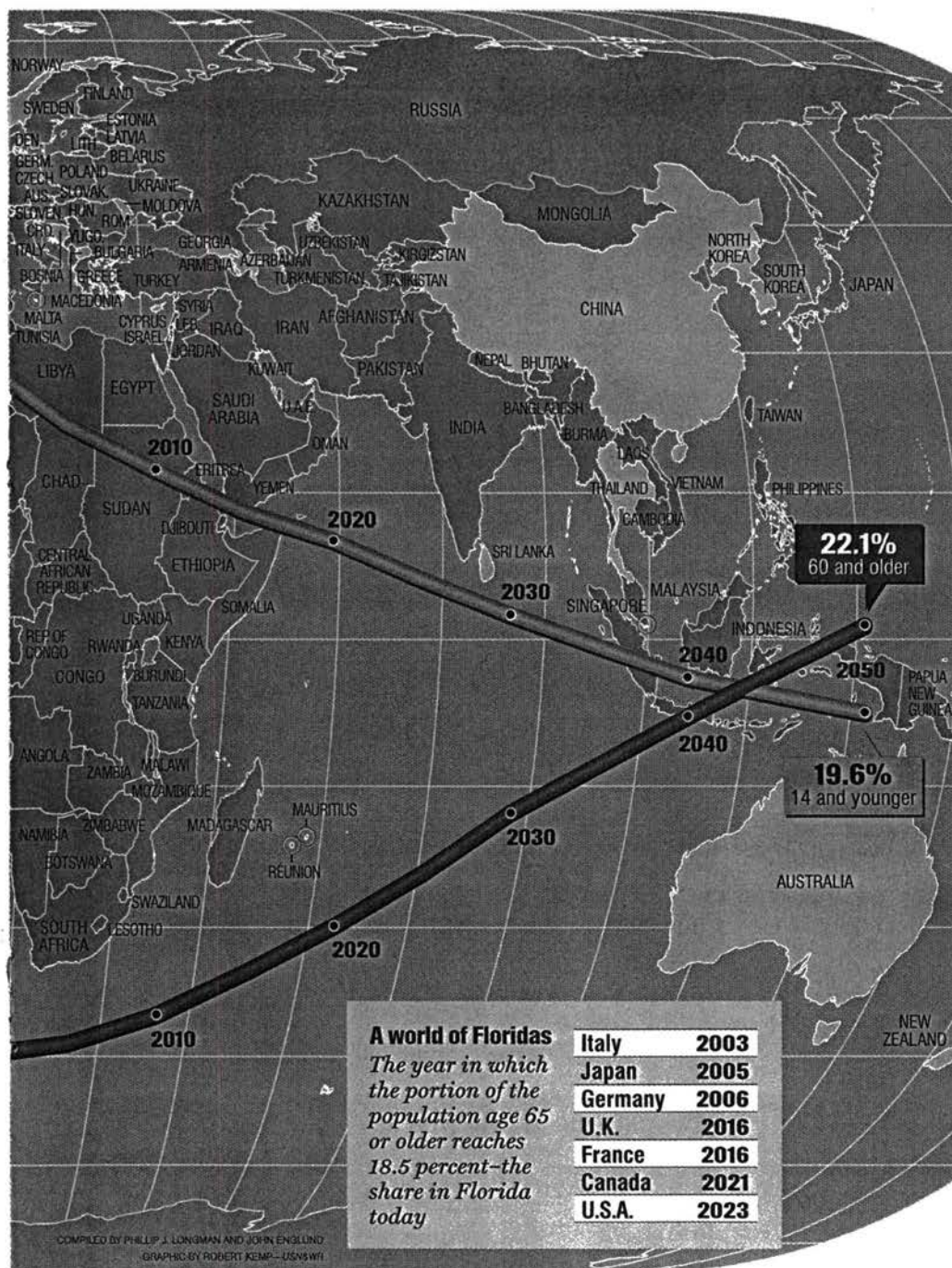
The last time most Americans bothered to look, Brazil was a youthful nation whose most pressing social problem appeared to be a growing army of glue-sniffing street urchins. But a recent report by

the Ministry of Social Security concludes that the aging of the population is now the nation's most important challenge, and that if the government doesn't take urgent action, "we may be faced in the coming years with the problem of street elders without having solved the problem of street children."

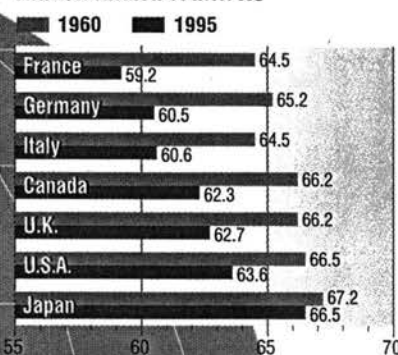
Like all Latin American countries, Brazil has seen a dramatic decline in its fertility rate over the last generation. In 1960, a Brazilian woman on average had

more than six children over her lifetime; today, her counterpart has just 2.3 children. As a result, in a land once known for its celebration of dental-floss bikinis and youthful *carnaval* exuberance, pension debt has become the public's central preoccupation.

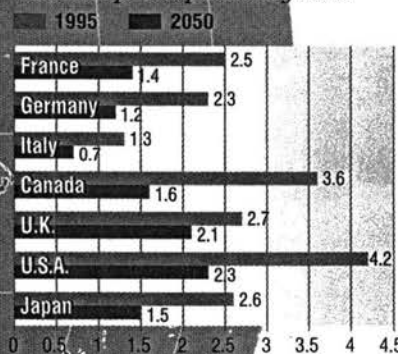
The growing ranks of the aged have rendered the cost of Brazil's once generous public pensions far higher than the country can afford. "Our social security system was planned for a young country,"



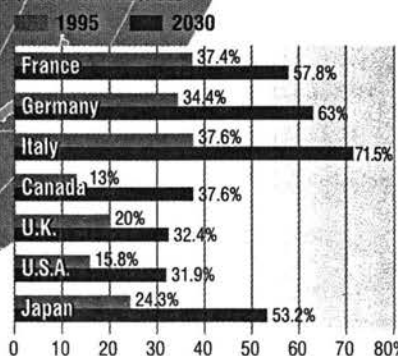
Workers have been retiring earlier... Average age of retirement for men in industrialized countries



...but fewer workers will be supporting retirees in the future... Average number of contributors per retiree in public pension systems



...which could lead to higher taxes Projected payroll tax rates needed to cover all retirees



says Luiz Roberto Ramos, head of the geriatrics department at the Paulista Federal University in São Paulo. "Now it has become unfeasible."

Global capital markets couldn't agree more. Under pressure from the International Monetary Fund and other creditors, Brazil recently increased the age at which most Brazilians become eligible for benefits and raised contribution rates. Yet the country still faces huge dislocations as it adjusts to its new status as an aging nation. Says Ramos: "The public-health system is not equipped to deal with the problems of the aged, which tend to be chronic illnesses, often involving sophisticated and expensive procedures."

China also is struggling with pension and health care bills it can't afford. The large generation born in the first half of the 1950s (when Chairman Mao Zedong urged citizens to help build the country by having babies) will become elderly within the next two decades. Yet because of China's one-family/one-child policy, begun in the late 1970s, the number of workers is shrinking dramatically. Increasingly, the typical family pattern in China today is the "one-two-four household," with one child supporting two parents and four grandparents.

Pension protests. As in Eastern Europe and the former Soviet Union, the failures of communism go a long way toward explaining the dismal plight of today's Chinese elderly. Thousands lost their pensions in recent years when state-sponsored enterprises folded. In some cities, such as Changchun, demonstrations by outraged elders are now a daily occurrence. But even if China succeeds in building a more market-based economy, unfavorable demographics will still hobble the country's productive potential.

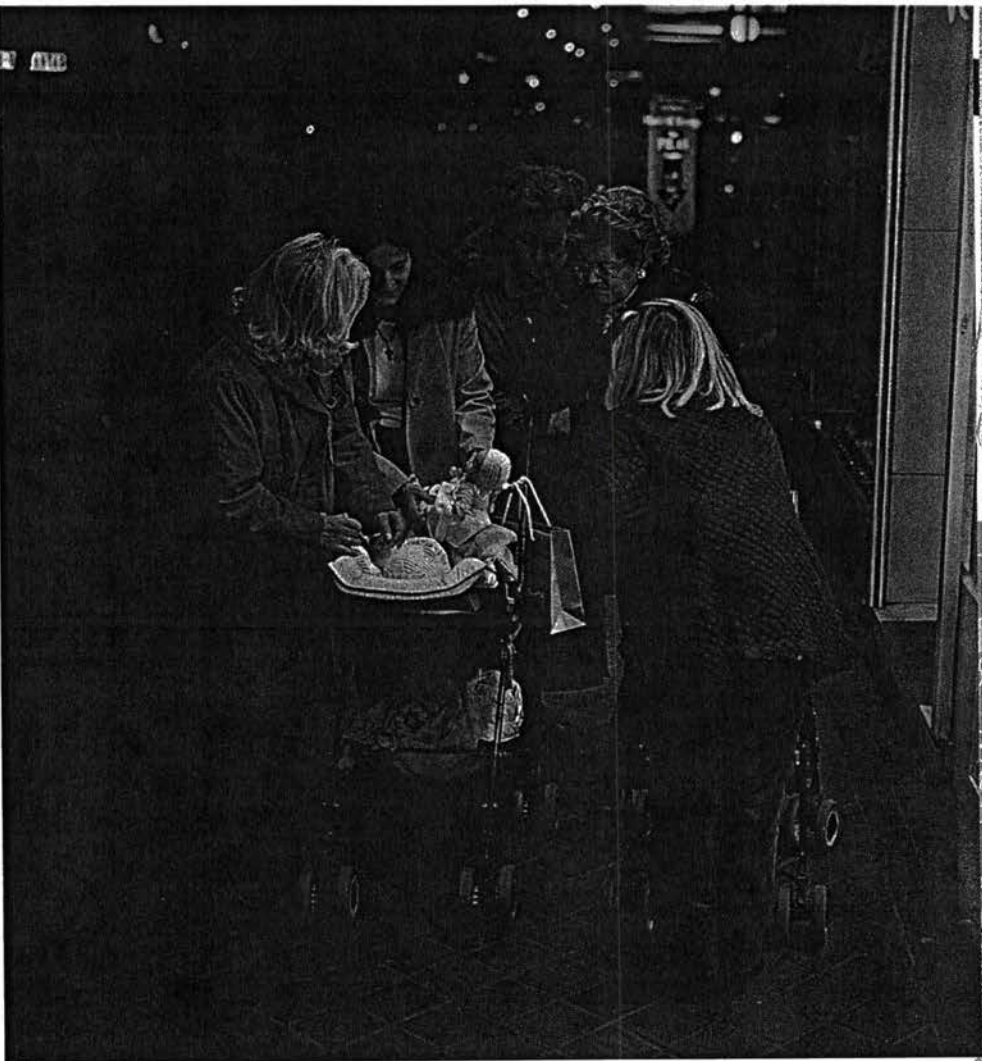
For example, last year the government established a new pension plan designed to force workers to contribute to their own retirement. But that still leaves the problem of how to find the money necessary to pay off today's retirees. To quell protests by pensioners, municipal governments have assumed some of the pension debts of defunct state-owned enterprises, but the central government has refused to bear responsibility for the mess. Increasingly, China's elderly aren't even able to count on care from their children. Says Li Yanhua, a nursing home operator in Changchun, "It's a market economy now, and people have no time to take care of their parents."

Other parts of Asia are aging even faster than China. Over the next decade, Japan, for example, will suffer a 25 percent drop in the number of workers under age

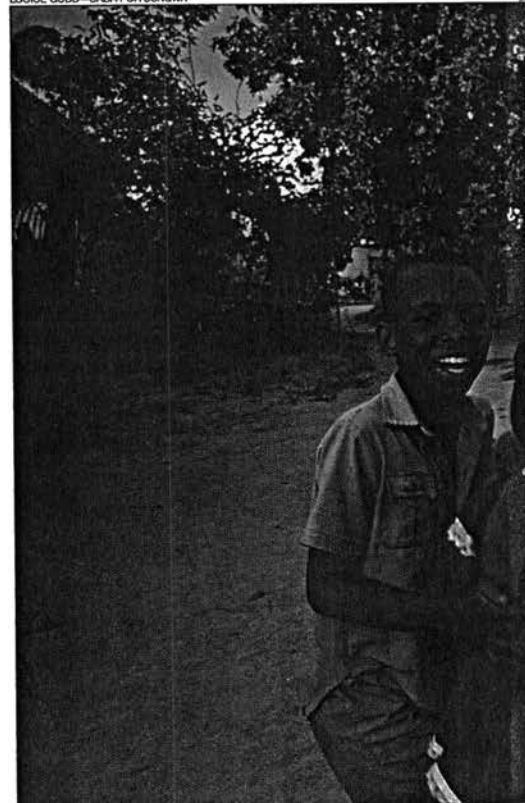
TIPPING THE SCALES. In Zimbabwe (right), where AIDS and falling birthrates have tilted the balance between young and old, Grace Ngondo cares for children orphaned by the disease. In Spain (above), young mothers find themselves a dwindling minority.

30. In 1985, only 28 percent of the world's elderly lived in Asia; by 2025, Asia's share will increase to 58 percent. Though many other factors are at work, Asia's current economic woes stem in part from inadequate consumer demand, which is itself largely a function of population aging. Not only is the working-age population growing more slowly, but consumer demand also is constrained by high levels of retirement savings by a middle-aged generation that knows time is running out.

Aside from the Muslim countries of North Africa and the Middle East, it's hard to find any part of the world that isn't aging. For many Third World countries, the challenge of supporting a growing elderly population is compounded by huge out-migrations of younger people. The nations of the Caribbean, for example, have lost 5.6 million mostly working-age citizens to emigration since 1950.



LOUISE GURB—SABA FOR USN&W





DEREK HUDSON—IPG / MATRIX FOR USN&WR

This trend, combined with falling fertility rates and increasing life expectancy among the elderly, has given countries like Martinique, Barbados, and Aruba populations that are nearly as old as that of the United States.

Even Africa, the world's youngest continent, is more and more burdened by aging issues. Indeed, because of migration and the ravages of the AIDS epidemic, the number of working-age persons in sub-Saharan Africa available to support each elder is shrinking, causing enormous societal strains.

The plight of Grace Ngondo provides a good case study. Sitting in her thatched-roof, rondavel hut along a dusty road in Epworth, Zimbabwe, Ngondo reflected recently on the good life she had expected in old age. When her late husband, a farm worker, first retired, Ngondo counted on her children for the same reverence and support she had once given her own aging parents, and for a while she received it. Her eldest son provided clothing and food. There was chicken stewing in the pot

babwean government has asked rural headmen in some areas to set aside one plot of land to be farmed jointly by the community. Private charities, such as HelpAge Zimbabwe, are also trying to set the elderly up with small businesses and collective farms. Outside Ngondo's hut is a chicken coop where she and 11 of her elderly neighbors jointly raise up to 50 chickens at a time, a cooperative business started with a HelpAge grant. Every six weeks, when the chickens have been fattened and sold, the group splits its profits of as much as \$9.

Abandoned elders. Even when they are fortunate enough not to lose their children to AIDS, many Zimbabwean elders nonetheless find themselves abandoned. Says Madi Mitchell, one of Ngondo's elderly neighbors: "When we were looking after our children, we gave them good manners, thinking they would look after us one day, but now it's nothing like that. Either they die or they run away from you." In days gone by, the ties between the generations were strengthened through *kupira mudzimu*, a ritual of ancestor-pleasing. "If you did not look after your parents, you could be cursed by your ancestors; you might lose your job," explains Edwell Kaseke, who heads the University of Zimbabwe's School of Social Work. But with the widespread acceptance of Christianity, says Kaseke, the threat of such



The developed world at least became **RICH** before it became old. The Third World will become **OLD** before it becomes rich.

and meat hanging from a long wire. "I lived like a white person in those days," she recalls.

But now the wire is rusty and bare, and like millions of aging Africans these days, Ngondo must work to eat. Two of her sons have died of diseases Ngondo says had AIDS-like symptoms. A third son has moved away. Following the death of her husband and a brother-in-law, Ngondo now finds herself responsible for supporting more than a dozen grandchildren, nieces, and nephews. To make ends meet, she toils in the fields until the heat of the day overcomes her. Then she walks to the local school to sell ice cream to the departing children.

In Zimbabwe alone, a country of 12 million people, AIDS will leave behind an estimated 910,000 orphans by the year 2005. Most will be raised by their grandparents. To help these grandparents cope, the Zim-

baabwean government has asked rural headmen in some areas to set aside one plot of land to be farmed jointly by the community.

Accommodating the new realities of 21st-century aging will take a lot more than ritual incantations; even hocus-pocus trust-fund accounting won't pay the bills coming due. Most senior citizens in the West probably won't have to hoe weeds or raise chickens to make ends meet in the next century. But like their African counterparts, the elderly in even the richest countries will most likely be called upon to work much later in life and to take more of a role in rearing the next generation. That may dash some people's dreams of an early retirement to the golf course or fishing hole, but in exchange for longer lives in a less crowded world, it may be a fair price to pay.

With Elise Ackerman, Don Boroughs in Zimbabwe, Bay Fang in China, Daniela Hart in Brazil, and Bill Myers in Spain



In a Turkish prison, Turkish flags flank the nation's most hated enemy, Abdullah Ocalan.

The joy of the Turks, the fury of the Kurds

U.S. spies help nab a long-sought rebel leader

BY THOMAS OMESTAD,
DAVID E. KAPLAN, AND STEFAN LOVGREN

For Turks, the videotape was electrifying: There he was at last, Turkey's No. 1 enemy, Kurdish rebel leader Abdullah Ocalan. Blindfolded and handcuffed, strapped by Turkish commandos into an airplane seat, Ocalan no longer seemed the fearsome agent of terror and mastermind of the Kurds' 14-year war for autonomy in southeastern Turkey. Instead, he is seen telling his captors he was misunderstood. "If the truth needs to be told," he insists, "I love Turkey and the Turkish nation, and I want to serve it." A commando responds: "Welcome to your country. You're our guest now."

Turkey's mood was jubilation—"the realization of a great national dream," as Alan Makovsky of the Washington Institute for Near East Policy put it. But the reaction among Kurdish expatriates was fury. Ocalan's arrest by Turkish agents in Nairobi touched off riots across Europe. The main targets were embassies and consulates of Greece, Kenya, and Israel—three nations the Kurds believe helped the Turks. Three Kurds were shot to death storming Israel's consulate in Berlin.

Turkey placed its new guest in an island prison in the Sea of Marmara, 35 miles from Istanbul. There seems little doubt that Ocalan will be convicted of terrorism and murder. The more relevant question is whether his sentence will be death—with its attendant risk of martyrdom.

Another uncertainty centers on the cir-

Terrorism's top 10

Groups committing the most terrorist attacks, 1988 to 1998

	ATTACKS
1. PKK , Kurdistan Workers Party	3,575
2. Armed Islamic Group , Algeria	2,067
3. National Liberation Army , Colombia	1,817
4. Islamic extremists , Algeria	1,794
5. Shining Path , Peru	1,364
6. FARC , Colombia	1,329
7. ETA , Spain	1,140
8. Irish Republican Army , Britain	1,125
9. Dev Sol , Turkey	530
10. Tupac Amaru , Peru	446

USNS&WR—Basic data: State Department

cumstances of his capture. No country, save Turkey, wants its fingerprints on the snatch operation. And for good reason: Ocalan's Kurdistan Workers Party, or PKK, vowed to press attacks on Turkey and other "enemies." Although Ocalan had been hiding in the Greek embassy in Nairobi, Greece denied any role in his arrest. The Greeks claimed he left against their advice. Kenya's foreign minister, Bonaya Godana, told *U.S. News* he ordered Ocalan out of Kenya after seeing photos that proved his presence. A guard outside the embassy claimed that Ocalan was whisked out by Kenyan agents. But Godana said it was "Greek authorities" who took Ocalan to the Nairobi airport.

U.S. role. The Clinton administration denied any "direct involvement in Ocalan's hand-over to Turkey." But *U.S. News* learned that U.S. intelli-

gence tracked Ocalan's movements by electronic eavesdropping and gave Turkey its findings. Unlike its pursuit of other terrorists, Washington is not anxious to take credit. "These guys are unpredictable," says one counterterrorism official.

Over the past 10 years, the PKK was responsible for more terrorist acts than any other group in the world. In its quest for a Kurdish homeland, the PKK has assassinated political figures, bombed schools and hospitals, kidnapped foreigners, and slain hundreds of villagers, according to U.S. government and human-rights reports. Turkey in turn has forcibly evacuated villages, leaving hundreds of thousands of Kurds homeless. The conflict, Ocalan once said, is the "dirtiest and cruelest in the world."

The PKK's money comes from drug dealing, extortion, and smuggling refugees to Europe, as well as donations from Kurdish exiles. British officials say the PKK has raised millions of dollars by shaking down immigrants in London. Berlin's domestic security agency says racketeering provides much of the annual \$12 million the PKK gets in Germany. "This is not your traditional liberation movement," says Larry Johnson, a former deputy director at the State Department's Office of Counterterrorism. "This is a criminal organization."

In the past, the PKK avoided targeting Americans. But the State Department is now warning U.S. citizens traveling abroad to exercise extra caution.

For more information, see *U.S. News Online* (www.usnews.com).

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Not in the army now

Keeping the ranks filled is fast becoming a losing battle

BY JOSEPH L. GALLOWAY

Where have all the young men gone? Certainly not for soldiers every one—and that suddenly is a major problem for the leaders of the Army, Navy, and Air Force who worry that their personnel woes may run far deeper than competition from a hot economy and a vibrant civilian job market.

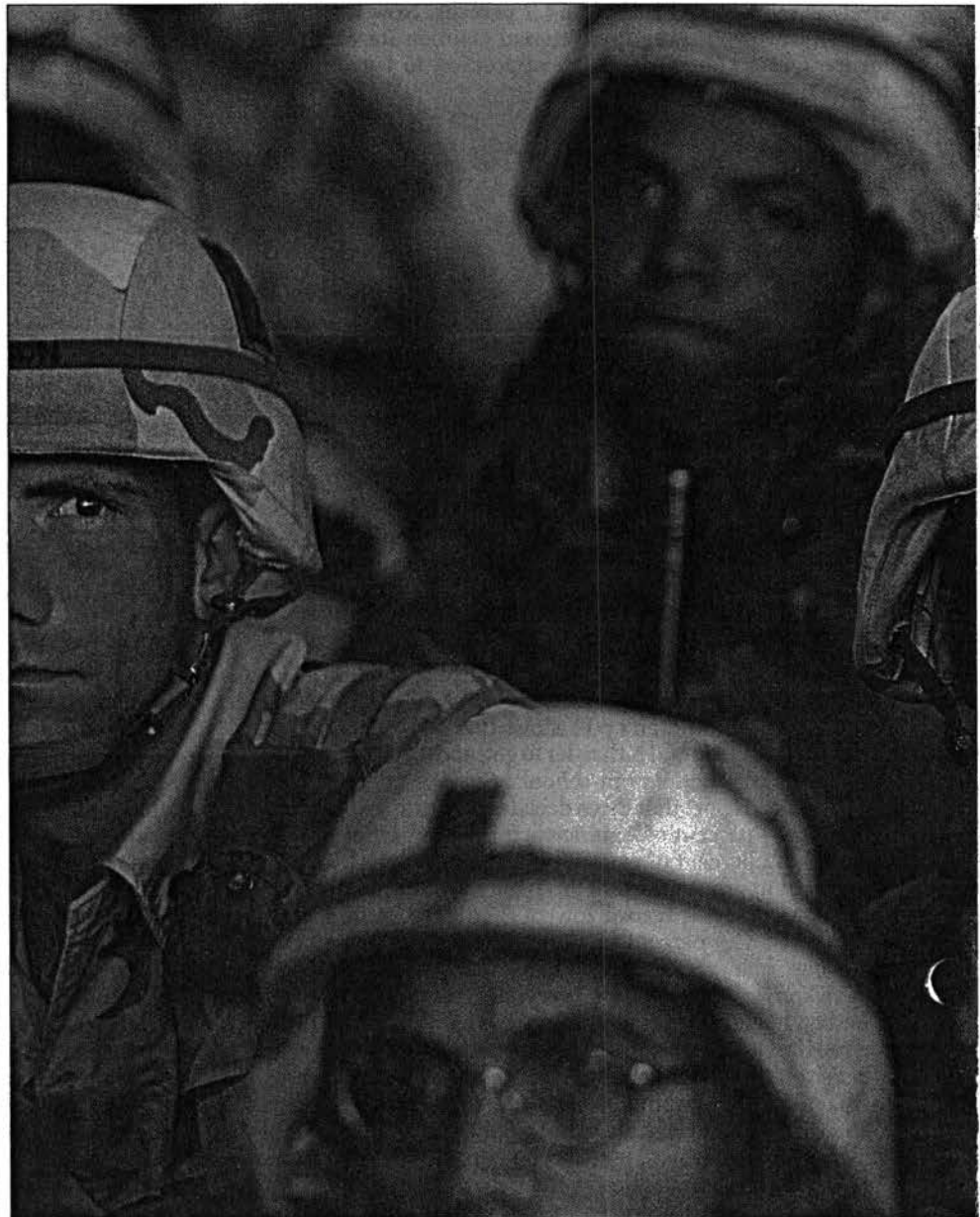
This year the Army will need 74,500 new soldiers; the Navy will need 53,234; the Air Force 33,800; and the Marines 35,000. Except for the Marines, they're going to have a hard time making it, in spite of unprecedented advertising, an army of new recruiters taking the field, the promise of big pay raises, and enlistment bonuses calculated to make an 18-year-old high-school graduate's dream of a new red sports car seem almost real. The trouble, experts say, is that most young Americans don't think "Army" or "Navy" when they think about what they want to do with their lives and there are far fewer role models out there who have ever worn a uniform for their country.

Downward drift. From the recruiting sergeants who haunt the high schools and malls and McDonald's across America to the generals who count bunks and beans, there is a growing concern that generational and demographic changes have overtaken the ideals of military service. Said one Army official: "When we go around to high schools, the students say, 'Yeah, my grandfather served.' Not my parents. It is almost a generation removed. We have become disconnected from the people we serve." Brig. Gen. Peter Sutton, commander of the Air Force Recruiting Service, notes that fewer than 6 percent of Americans under age 65 have served in the military, and in Congress itself the proportion of veterans has dwindled from two thirds to barely one third.

In recent years, only the Marines have met their recruiting goals. The Navy is "cautiously optimistic" it will get the re-

cruits it needs this year, says Vice Admiral Dan Oliver, chief of naval personnel. But the Army projects it may fall short by between 7,000 and 10,000 recruits, and sources say the Air Force could come up short by several thousand. Even tougher is

keeping trained people already in uniform, especially in an era when a much-reduced American military is increasingly called on to police a troubled world, from Bosnia to Somalia to Haiti. With every new deployment, overuse burns out sol-



SHORT-TIMERS? Low re-enlistments leave the Army struggling for even more recruits.

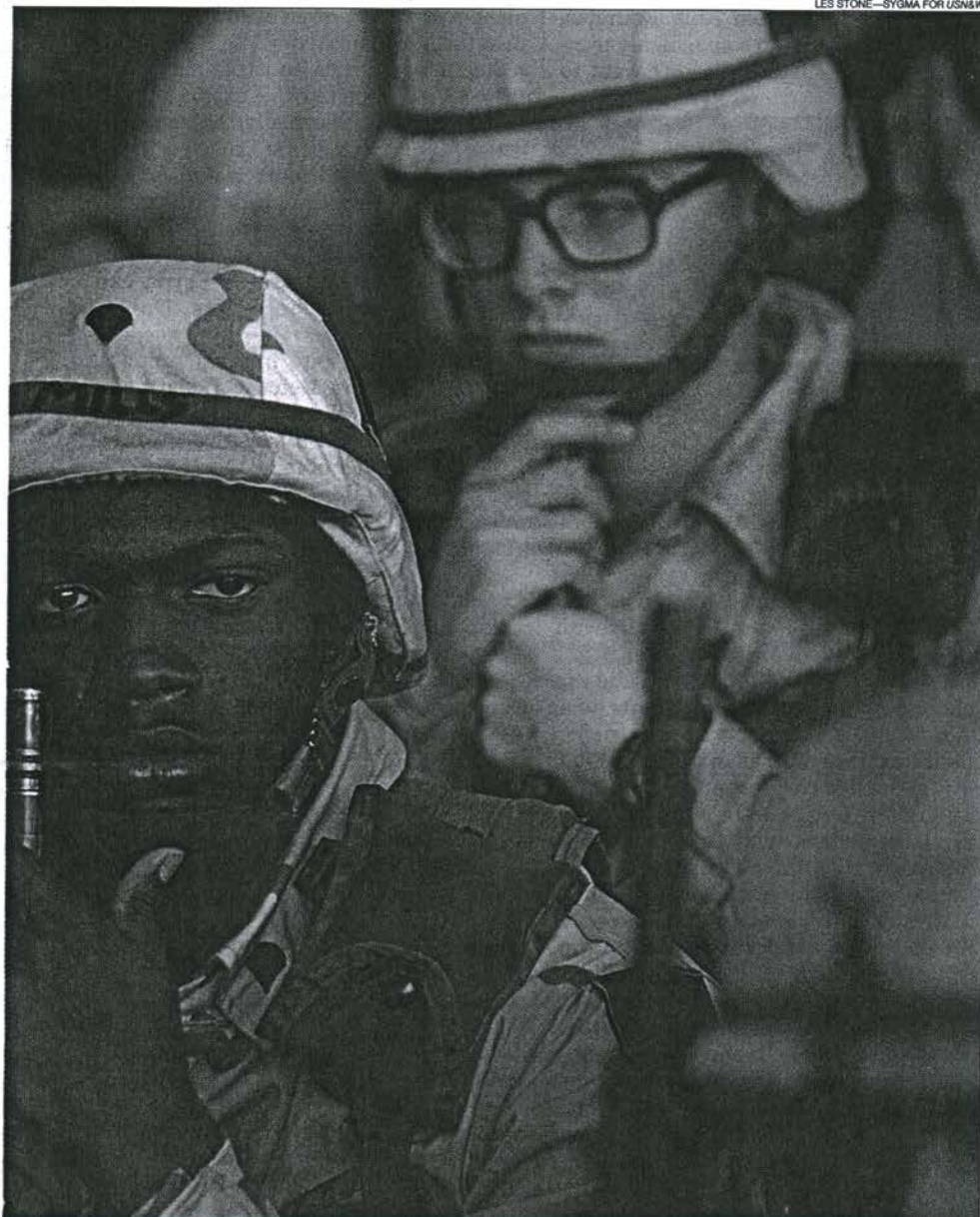
diers, and their families at home, just as it wears out equipment and weapons.

All the services are throwing serious money at the dual problems of recruiting and retention and asking Congress to budget billions more for military pay raises and retirement-pay reform—without any assurance that money alone will solve the problem. The Senate will vote this week on a 4.8 percent military pay raise in the next fiscal year, followed by annual raises a half-point higher than the average private-sector pay hikes. For the first time ever, the Air Force is buying TV ads—\$17 million worth this year, growing to \$37 million next year. All services are adding new recruiters—in the Navy's case, more than 1,000 to man 200 reopened stations.

The shortfalls persist in spite of sweet financial offers. The Army will pay a new enlistee a bonus of up to \$12,000 for certain specialties, help build a college savings account of up to \$50,000 or pay off college loans of up to \$65,000. To keep trained specialists, the Navy offers reenlistment bonuses of as much as \$60,000.

All of the services are working to develop ways to share the burden of peacekeeping deployments. Unending missions, like policing the no-fly zone over Iraq, wear down air and maintenance crews as well as the planes themselves. The Air Force is creating a new Expeditionary Force in an effort to make such deployments at least more predictable.

LES STONE—SYGMA FOR USN&W



WHY THEY LEAVE

Adventure and duty vs. rules and boredom

ABOARD THE USS PRINCETON, IN THE PERSIAN GULF—If there's any adventure left on the high seas, Lt. (j.g.) Ted Nunamaker has found it. Wrapped in body armor and wearing a 9-mm pistol on his hip, he is leading a team of 13 sailors up a rope ladder onto a rusting Romanian freighter off the coast of Iraq to search for contraband. This is exactly why Nunamaker joined the Navy. But it may not be enough to keep him. While he loves his job, the bespectacled 24-year-old says he's getting fed up. It's not being at sea that bugs him. It's the other part of his gig he dreads. Life in port "seems like a continuous stream of inspections, with somebody always telling you you're not doing something right," he says.

Nunamaker is just the kind of young officer the Navy is desperate to hang onto. But that's no easy task these days. Recruits have been bailing in record numbers, leading to a sudden dearth of troops. Some say the military can't compete with the high salaries being paid during these robust economic times. Not so, says Nunamaker: "No amount of money will ever determine whether I stay or go."

So then what's the problem? Officers say it's a combination of back-breaking workloads, bureaucratic insensitivities and a vague sense of purpose (read: major ennui between deployments).

Despite the gripes, though, not everyone is ready to bolt. The Navy has powerful allure among its young officers, even those weighing whether to stick around. "When I visit college friends from JP Morgan crunching numbers for their overlord," says Ens. Jonathan Scherck, "I compare that with what I've been doing, launching missiles at a tyrant and a despot," to quote Margaret Thatcher. That kicks the pants off of sitting at a desk in New York City." —Richard J. Newman

Lt. Gen. David Ohle, the Army's deputy chief of staff for personnel, says the Rand Corp. did a recent study that found one long deployment is good for a soldier's morale. "The trouble comes with those who have pulled a second or third long deployment," Ohle says. "When operational tempo is too high, you burn out the families. You enlist the soldier, but you re-enlist the family."

Adm. Jay Johnson, Chief of Naval Operations (CNO), told *U.S. News*, "In the Navy, we need to fix the nondeployment part of our lives. On cruise, everyone works hard and expects to work hard. But when you come home, it is time to see the family, recharge and retrain—and we have simply been working everyone too hard then. We are cutting away 25 percent of those requirements and giving that time to the unit commander to better focus on what is really needed. I have faith that is going to make a difference."

Hiring dropouts? Although he immediately raised hackles, Army Secretary Louis Caldera this week suggested that the Army recruit 2,000 high-school dropouts who have GED certificates, as a test program. Caldera told *U.S. News* that a Department of Defense rule that limits to 10 percent the proportion of recruits who can be non-high-school graduates closes off an important avenue of advancement for Hispanic Americans. "This is not lowering enlistment standards," Caldera said. "We need to take the cream of the crop of the GED market—and that most certainly is not the same as recruiting Category Fours [people scoring in the lowest quarter on qualification tests]."

In a Congress that hasn't yet figured out what to do with the problem, Caldera's idea quickly drew fire from Sen. John McCain, Arizona Republican, a Navy veteran, and from Rep. Curt Weldon of Pennsylvania. Weldon called it a ludicrous plan in an age of "digitized soldiers" and said it would send the wrong message to young Americans that they can "quit school and the Army will pick you up."

In all of the talk, from the White House to Congress to the Pentagon, the one subject uniformly avoided by all is the question of reinstituting mandatory military service, either the old version of Selective Service phased out of American life a quarter-century ago, in 1973, or some new wider National Service program that would include military service as one option. Said a White House spokesman: "We're convinced that a volunteer military is the way to go, and we're committed to making it work."

With Warren Strobel and Mike Tharp

Is the right stuff in the wrong hands?

A sheik gets an OK for top-flight F-16s

BY BRUCE B. AUSTER

The hottest fighter jet in the world three years from now could be flown not by American top guns but by pilots from a tiny Middle Eastern sheikdom. The plane is the F-16, the pilots are those of the United Arab Emirates, and the situation is, to some, highly troubling. "As a war fighter, I don't want to

with this radar will be the Air Force's F-22 Stealth fighter in 2005.

■ An infrared targeting system twice as capable as those on U.S. fighters. American jets will not carry this new forward-looking infrared device until 2002.

■ A new engine design that will make the plane both more powerful and more agile than fighters in use today.

■ Stealthy materials and coatings found on few U.S. export jets.

Normally, the Pentagon would be expected to resist export of a plane this good. Indeed, when Boeing applied to sell similarly equipped F-15s to Saudi Arabia, Egypt, and elsewhere, the United States denied the sale. But despite internal protests, top Defense Department officials approved the F-16 sale. A sensitive 1997 letter obtained by *U.S. News*, signed by then Deputy Secretary of Defense John White, offers to the top military officer in the UAE



A U.S. Air Force F-16 Fighting Falcon on a training exercise

face this stuff," said one Navy officer who formally objected to arming an ally with aircraft better than America's own.

Not long ago, the United States did not sell aircraft more advanced than its own, even to allies. The fear was that friends could turn into foes, as did Iran in 1979, or that supersecret technology could be captured by Iraq or Iran. But, pressed by warplane makers who have seen their U.S. market dry up, the Clinton administration has relaxed many of the old rules.

Whistles. This case, however, is special. The 80 F-16s that Lockheed Martin Corp. wants to sell the UAE as early as 2002 for \$8 billion will have equipment not expected to enter the U.S. arsenal for at least five years. Among the bells and whistles:

■ A radar system that will permit the fighter to target objects on the ground the size of a yardstick. The Navy recently won approval to develop the system for its new carrier-based F/A-18s, but it is expected that the first U.S. aircraft to be equipped

"a firm U.S. government commitment" to equip the F-16 with the latest systems. Why this happened is not entirely clear. Some say the sale may be a trade to ensure U.S. access to bases in the UAE. Others believe the Air Force wants to keep Lockheed Martin's F-16 production lines open for the next generation fighter.

Clearly, industry considerations played a role: The UAE was eyeing a competing jet being marketed by France, and Vice President Al Gore, in announcing the deal, projected that 30,000 workers nationwide would work on the project.

The Defense Department insists that the sale will not alter the military balance in the Persian Gulf. Signing of a final contract, however, is delayed because the UAE, not satisfied with the promised top-of-the-line electronic-warfare hardware, wants access to secret software codes that have never been given to a foreign nation. That matter is now in the hands of top American military officials.

Ready, aim, fire

A new gun plan triggers a war between the feds and the NRA

BY CHITRA RAGAVAN

RICHMOND, VA.—The stark black-and-white billboard says it all: "An illegal gun gets you five years in Federal Prison." Posted along Interstate 95—the "Iron Pipeline"—the sign serves as a warning to anyone even thinking about running guns here. It also symbolizes one of the most successful, yet controversial, efforts in a sharply escalating federal war on guns—a war that is being fought on Capitol Hill as well as in the streets.

The billboard is part of "Project Exile," a two-year-old federal experiment that is designed to stem violent crimes—in this case, the high number of murders in Virginia's historic capital city. The strategy: Instead of prosecuting gun-related crimes using state laws that can be weak, move them into federal jurisdiction. There are several tough laws on the federal books that deny bond to convicted felons caught with guns and to those arrested on drug-related gun offenses. The laws also specify long mandatory sentences. "The idea was simple," says James Comey, a federal prosecutor in Richmond. "Let's do a hell of a lot of gun cases, let's do them in federal court, and scare the pants off the bad guys."

It's been a big hit here: Federal and city officials credit the program in large part for a 36 percent drop in the number of fatal shootings in Richmond since 1997. "We used to drive around in our squad cars and see gunfire flashing all around," says Michael Zohab, a Richmond police sergeant, adding that these days when a drug dealer is asked why he's not packing weapons, his response is often: "I don't want to be 'Exiled.'"

Legislation looming. The program's success has also set the stage for a heated confrontation between the Clinton administration and gun-law opponents.

With the administration poised to send a sweeping new crime bill to Congress, the National Rifle Association vows to wage a vigorous fight against the proposed legislation—using Project Exile as its main weapon. The NRA will try to persuade Congress that the administration should put its resources into federal prosecutions of gun crimes and not into new laws con-

priorities. It wants Congress to put up \$100 million to start Project Exile clones in every major U.S. city. Summarizing the NRA's position, Executive Vice President Wayne LaPierre said: "When you confront a felon with a gun, you take him off the street. I mean every cop who walks the street knows that. Yet you have this never-ending debate about gun control."



Police in Richmond, Va., are happy to have federal muscle behind their door-busting antigun campaign.

trolling the sale and possession of guns.

The irony is that Attorney General Janet Reno actually agrees with the NRA on Project Exile's promise—but not its exclusivity. She will soon issue a directive to federal prosecutors around the country urging them to consider implementing new programs in their districts like Project Exile. But the administration's new crime package will include only \$5 million for such efforts. Among the other new provisions are background checks for buyers at gun shows, a lifetime ban on gun possession by juveniles convicted of certain violent crimes, and child safety locks on all guns.

Not surprisingly, the NRA has different

Fearing it may get trapped by its own success, the administration is girding for a showdown. Says Deputy Attorney General Eric Holder: "The notion of earmarking funds and putting us in a straitjacket and telling us we have to use one concept around the country is fundamentally wrong."

And that's just the opening volley. The NRA is aggressively pushing legislation—set to be introduced as early as this week by Rep. Bob Barr of Georgia—that would bar cities from suing gun manufacturers. The Justice Department is closely monitoring several lawsuits filed by cities against gun makers to decide whether to file one of its own.

International Business

Plans for reform are screeching to a halt as it enters a year of economic peril

We will prevail. That was the message Chinese Premier Zhu Rongji sent to the world a year ago, when the National People's Congress unveiled a \$1.2 trillion, three-year plan to keep the Asian crisis at bay. The public-works spending would keep China's millions employed and the economy expanding by 8% annually. Meanwhile, Zhu would tackle the thorny tasks of shutting down profitless state factories, curbing corruption, streamlining a bloated bureaucracy, cleaning up the banking system, and privatizing housing. With China still growing, Zhu thought the country could absorb the shock of reform.

He was wrong. Instead of embarking on a year of triumph, China is entering a year of peril—its worst in a decade. When Zhu set his plan in motion, he underestimated how out of control the economy already was; he miscalculated its frailty and the impact of the crisis. Now, millions of unemployed are clogging the cities. Protests occur almost daily. Consumers have stopped consuming. Housing privatization has stalled. State factories still churn out billions of dollars in unwanted goods.

INVESTOR FATIGUE. Meanwhile, many foreign investors, burned by Beijing's policies, are rethinking their commitment to China. "We are wondering if this is a government we can trust," says a Western banker in the southern city of Guangzhou. China has always been a tough place to do business. The threat this time is that investors will shift to more lucrative, more easily managed markets just when China needs outside capital most. As investor fatigue deepens, foreign investment could drop from \$45 billion in 1998 to \$30 billion this year, according to some government estimates. China cannot afford to lose investors' favor.

Beijing policymakers are deeply worried. China could fall into the same

trap that snared Japan: The government tries to reignite spending, but the banks, riddled with bad loans, stop lending. Deflation becomes unstoppable, and the consumer economy grinds to a halt. To get at least some growth, authorities are forced to devalue the yuan. Meanwhile, social unrest could pose a serious threat. This year marks the 10th anniversary of the bloody night at Tiananmen Square, as well as the 50th anniversary of the founding of the People's

Republic. Celebrants can easily turn into demonstrators if they are angry enough and poor enough.

With these threats looming, Zhu has quietly set aside much of his politically destabilizing reform plan. He is also engineering a crackdown on the provinces, shutting down heavily indebted, corrupt investment trusts, and sealing the exits for any Chinese company that wants to ship money out of the country. There's some merit to the crackdown: China

CHINA'S SLIDE INTO CRISIS

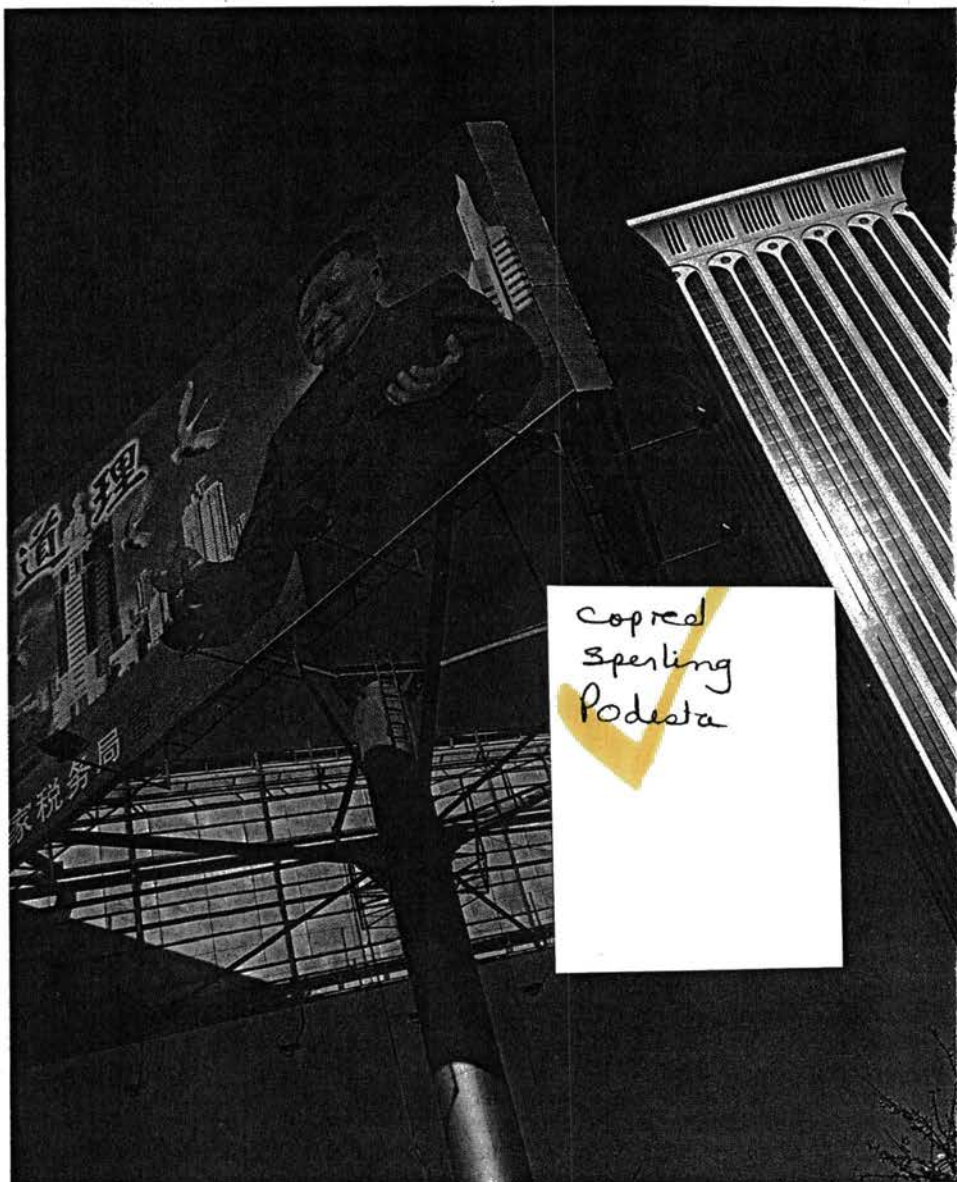
MARCH 1998 Premier Zhu Rongji vows to slash bureaucracy, spend \$1.2 trillion, end subsidized housing, and reform state enterprises.

JUNE Exports grow at a mediocre 7.6%, a third of 1997's levels.

SEPTEMBER Officials crack down on unauthorized foreign exchange dealings to stem billions in capital flight and set

minimum prices for 21 industries. Housing reform slows dramatically. Consumer confidence wanes. Zhu backs away from aggressive reform of state companies.

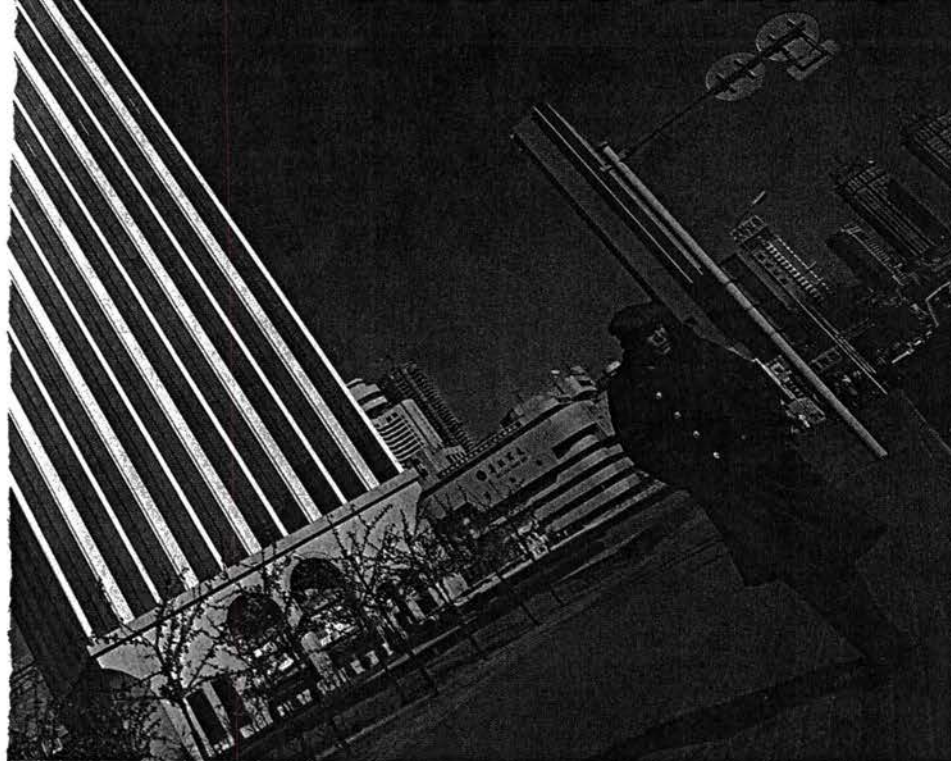
OCTOBER Zhu intensifies anti-



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CHINA

WHAT'S GOING WRONG



needs a better regulated and less corrupt economy. But the moves show Zhu is as much a party cadre intent on control as he is a reformer. And while Zhu in the past used the levers of state power to curb inflation and promote growth, this time his policies seem likely to lead to even more stagnation.

Zhu and his advisers were supposed to avoid this mess. They knew the economy was starting to slow a year ago. But they figured Keynesian stimulus

was a tried-and-true formula for growth. The spending did boost growth for much of 1998, but then the economy started to cool in the fall. Too much of the money was siphoned off by corrupt officials, and too many of the projects' were unable to trigger new economic activity. Workers got spooked as state enterprises continued to shut down, and consumer spending evaporated. The central government, suddenly frightened, pulled back from closing state factories.

smuggling campaign to recover \$20 billion in lost customs revenues. The central bank abruptly closes Guangdong International Trust & Investment Corp. Deflation accelerates.

DECEMBER People's Bank of China cuts interest rates for the third time in a year. Authorities crack down on political dissidents, sentencing four activists to long prison terms.

Other reforms ground to a halt, especially housing reform. The plan was that the middle class would buy the homes they rented from the government and so create a spending boom, with banks issuing mortgages and new

homeowners refurbishing their flats. But the middle class hesitated to spend their savings on apartments they had been renting cheap, and the banks shied at the risk of lending to buyers. The expected housing market never materialized.

Chinese authorities hoped that cheap, skilled labor could keep exports humming. Instead, the coastal export zones began faltering in the second half of 1998, after the Asian crisis wiped out China's markets in neighboring countries. Suddenly, instead of buying Chinese goods, South Koreans were undercutting Chinese steel and petrochemical prices on Chinese soil.

WASTED CASH. Then, late last year, authorities discovered companies and government agencies on the coast were anticipating even tougher economic times ahead—and trying to smuggle money out of the country as a result. More than \$45 billion is believed to have gone missing. As officials tried to stem the outflow, they started examining the books. To their horror, they discovered that many companies had taken on far more hard currency debt than regulators realized. Many international trust and investment corporations (ITICs)—set up initially to trade with the West and raise foreign capital—were awash in debt. Much of the cash was wasted. According to a local

UNREAL ESTATE

Shells of unfinished buildings, such as Hyundai's, haunt Dalian streets

official, the Guangzhou city ITIC sunk most of a \$10 million Japanese loan into lavishly redecorating one of its buildings.

So in September, Zhu imposed draconian controls on foreign exchange dealings. At the same time, he started putting the squeeze on one investment trust after another. But the unintended damage has been huge. Legitimate businesses find themselves encumbered by the heavy documentation needed to obtain hard currency. In Shanghai, an American maker of steel beams is so frustrated with forex controls that he wants out of his joint venture. And Procter & Gamble Co. is considering delaying new investments in southern China because of them, according to a Guangzhou city official. P&G denies this but says regulations are slowing payments to suppliers.

The consequences of Beijing's actions keep multiplying in coastal provinces. In Guangzhou, the crackdown on smuggling and corruption has struck fear into the hearts of entrepreneurs, scaring many of them from new investments. One city

International Business

official now predicts only 3% growth in exports and foreign investment in 1999, half the levels of last year. "We have suffered a serious negative impact," says city official Weng Wenxiang. Guangzhou city's ITIC may also be shut down, if an ongoing investigation finds serious financial mischief. That could spell trouble for the city government, which parked pension funds for the police force in the trust, according to a well-connected Chinese lawyer.

PRICE PINCH. It's not just the high-flying South feeling the pain. In the northeastern port of Dalian, once a hot growth area, Korean and Japanese companies are freezing new investments worth \$2 billion per year. The city is now littered with half-constructed buildings started by companies such as Hyundai Group. The local government has ordered that all building exteriors be finished to mask the extent of the real estate bust.

While the economy slows, Zhu is resorting to other expedients. Deflation is ravaging Chinese enterprises. These companies, most of them state-owned, have accumulated hundreds of billions of dollars in unused inventories. The solution: price minimums in 21 industries, including steel, glass, autos, and electronics. Tottering state factories may get a reprieve, but price floors create weird distortions. The manager of a Western chemical factory near Shanghai complains that local suppliers of polyester chips, a

CRACKDOWN

A corruption probe could shut Guangzhou's investment trust

key component for his products, have hiked prices to nearly 75% above world market rates, even though they all faced a glut. "It's

definitely a cartel," he says. "No matter what the order is, the price is always the same." Not surprisingly, his plans for a second production line are on hold.

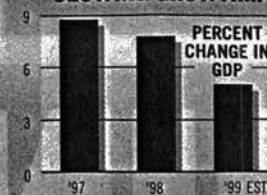
Even more egregious are new protectionist moves. Late last year, Beijing announced it would curb operations of foreign telecom companies such as Sprint Corp. and Siemens, allowing China's main provider, China Telecom, and small rival Unicom more time to reap profits and cement control over the telecom sector. And Beijing has pushed a "buy local" policy requiring provincial authorities to steer clear of foreign telecom and power equipment.

In Dalian, drugmaker Pfizer Inc. is posting only 5% revenue growth rather than the expected 27% because Beijing is limiting hospitals' purchases of drugs made by joint-ventures, which benefits Chinese producers. "Of course they're going protectionist," says the head of another Western company. "Beijing knows 1999 is not going to be an easy year."

To his credit, Zhu has backed a new securities law to improve the quality of China's bourses. He has helped convert the central bank into a Federal Reserve-type system that reports to Beijing—not to reckless local officials. He is also supporting constitutional changes to give more recognition to private enterprise. And he is trying new taxes

THE GRIM NUMBERS

SLOWING GROWTH...



...LOWER EXPORTS...



...FALLING PRICES



DATA: MERRILL LYNCH & CO., DRESNER KLEINWORT BEUSON

and enforcement to increase the provinces' contributions to central coffers.

But anti-Beijing feeling on the coast is rising rapidly, and could make it tough to reignite growth. A source close to the Guangdong ITIC insists the central authorities were gunning for the company when they shut it down, though he admits to weak management. According to this insider, GTIC had sufficient money to cover its debts, but Beijing authorities prevented the company from converting this to foreign exchange. "Beijing wants to pull in the

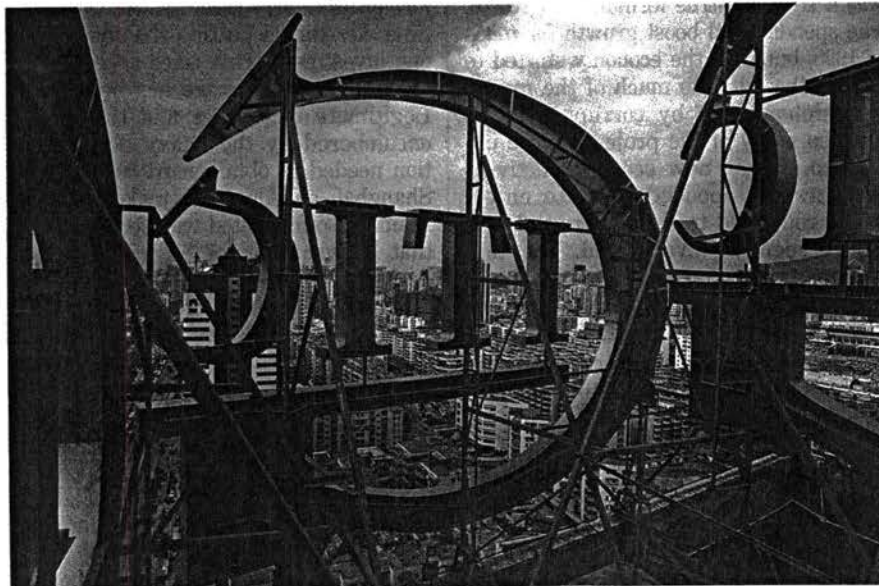
reins and show who's in charge," says Laurence Lipsher of the American Chamber of Commerce in Guangdong.

China's lost momentum for reform creates a twofold risk. The first is that China drifts along. While it relies on ad hoc measures and the old tools of central planning to stave off unrest, it loses time transforming itself into a market economy. The second is that multinationals' enthusiasm for China seriously weakens, leaving China without new technology and management and ultimately further behind the West.

Chinese authorities know foreign investors are hurting. They are doing little about it, hoping a recovery in 2000 will compensate. But it's a gamble. The U.S.-China Business Council recently found that 80% of its members are affected by the new forex regulations. More than 50% of them are delaying new investments in China in response. "The side effects of these immense assaults by the regime on business as usual are proving very painful," says Robert A. Kapp, president of the Council. "At the end of the day, American companies have business decisions to take. Some will say, 'Let's go home or cut back.'"

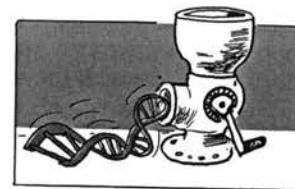
It would be tragic if China put reform on hold for too long. The country has traveled a long and hard road to its present level of prosperity. And a stagnating China would pose a serious threat to Asia's recovery as well as the global economy. Zhu's biggest challenge is just beginning.

By Dexter Roberts in Guangzhou, Joyce Barnathan in Hong Kong, Jonathan Moore in Shanghai, and Sheri Prasso in New York



PHOTOGRAPH BY DAVID MCINTYRE/BLACK STAR; CHARTS BY ERIC HOFFMANN/BW

Frankenstein foods



Genetically modified foods can deliver great benefits. It would be wrong to slow their development

THE sight of the British press in a fit of moral panic is rarely edifying. But over the past few days, with headlines about "Frankenstein foods" gracing the front pages of even supposedly highbrow newspapers, the country has witnessed a particularly dispiriting example.

Those who oppose genetically modified organisms (GMOs) are often unthinking in their arguments. Solutions devised for one failing are attacked for making another worse. Put a gene into a plant to make it infertile, so the change is incapable of "escaping", for instance, and you are accused of stopping seed-planting for next year. Or make a plant insect-proof, and you are damned for encouraging a more resistant strain of insect. These issues are too important, many appear to believe, for logic and science to play a part. That said, the intelligible objections to GMOs need to be addressed, not merely dismissed. They are mainly of two kinds: the claim that GMOs are bad for the environment and the claim that they are bad for human health.

If GMOs are bad for the environment, it is likely to be in the same ways as normal agriculture. They may tip the balance of nature further in farmers' direction by allowing them to capture the maximum amount of sunlight falling on fields, and then to keep most of the resulting plant material for their own use. That means less for wildlife—and so less wildlife. Yet, although preserving wildlife is a laudable aim, it is better done explicitly, and not by expecting farmers to act against their interests. Besides, many GMOs require less in the way of pesticides and herbicides, which should bring significant environmental benefits.

As for human health, the hooah in Britain obscures the fact that there is simply no good evidence that the technology used to create GMOs is damaging in any way (see page 75). That does not mean that individual products will never be unhealthy. But it does mean that GMOs should be approached on a case-by-case basis. There may be scope for giv-

ing people more information through labelling; and it would help if genetically modified food offered more obvious advantages to consumers than a redder tomato. But blanket bans or moratoriums would be harmful, for even the limited range of genetically modified crops that is now available is starting to offer real and concrete advantages.

The panic in Britain has also obscured something else—that the really important story about GMOs is being played out in Colombia. Delegates from 170 countries met in Cartagena this week to work out an international "Biosafety Protocol". Their aim is to create guidelines that make trade in GMOs (mainly crops) possible, but also sensitive to justified concerns about safety and the environment. The underlying conflict in these talks is economic: between those who wish to promote agricultural industries by fostering trade, and those who wish to protect farmers by inhibiting it.

World trade rules stipulate that safety measures affecting trade must be based on science, not on popular fears. That is a good principle, but it is being flouted. Europe's ban on hormone-treated beef from America is an early, worrying, example. The World Trade Organisation has ruled against the ban on the ground that there is no scientific evidence that the hormones are dangerous; yet the EU is showing little sign of lifting it. A way needs to be found to stop scientific or pseudo-scientific differences from poisoning the global trade system.

One encouraging sign from Cartagena is that delegations are not falling into traditional rich- and poor-country camps. Argentina and Mexico are lining up with America in favour of free trade. Though they are poor by western standards, they see advantages in embracing GMOs. Other poor countries should remember the "green revolution" of the 1950s and 1960s, itself based on new botanical technologies. Claims that GMOs may mean a second green revolution are exaggerated. But history suggests that new agricultural techniques do more good than harm; hindering their adoption would be foolish.

Causing offence

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Spelling
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Talk about missile defences is a symptom of East Asia's tensions, not the cause

ARE America and China heading for another bust-up? The "strategic dialogue" inaugurated by Presidents Bill Clinton and Jiang Zemin has been shrilly interrupted, this time by Chinese concern about America's discussions with Japan and others of possible missile defences in East Asia, and by American worries about Chinese missiles pointed at Taiwan (see page 37). The row threatens to sour preparations for the visit to America in April of China's prime minister, Zhu Rongji. Handled sensibly, the missile tiff need not produce a crisis. Yet it goes to the heart of what divides China from America

and most
at times

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however,

rial score... it makes plain that it intends to recover sovereignty over Taiwan, to extend jurisdiction over almost all the rocks and reefs of the South China Sea, and ultimately to displace America as East Asia's most influential power.

Until recently, events had seemed to be moving China's way. Recognising China's extreme sensitivity on the Taiwan



China's pursuit of power by

ver to rival America. It is, ional power, with territorial

5-3-99

THE WHITE HOUSE

WASHINGTON

April 26, 1999

'99 APR 26 AM 9:57

MEMORANDUM FOR THE PRESIDENT

FROM: Larry Stein *KS*

SUBJECT: Meeting with Democratic Leaders

We are providing a choice between two groups for the meeting you requested with Hill Democrats. To get an authoritative discussion about legislative objectives, we will have to have the Leaders and Whips from each body in either case. Beyond that, there are two principles of selection suggested here. The first group would simply be the core leaderships adjusted slightly to assure full diversity. The second would be a more imaginative, and perhaps more representative, selection that draws, in the House, on freshmen, sophomores, the Campaign Committee and "tight races." We have assumed an upward bound of 12 or 13 in order to allow for a real discussion.

We should keep in mind that any selection subjects us to criticisms from those who are not invited. The second group, because it would leave out people like Martin Frost, will perhaps open us up to more vigorous complaint. On the other hand, the second group also offers a greater opportunity for freshness and diversity of view.

Leadership Group

Dick Gephardt
David Bonior
Martin Frost
Bob Menendez
Rosa DeLauro
John Lewis
Chet Edwards

Tom Daschle
Harry Reid
Barbara Mikulski
Byron Dorgan
Dick Durbin

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5-3-99

Second Group

Gephardt
Bonior
Patrick Kennedy (Chair of the Campaign Committee)
Brian Baird (Chair of the Freshman Caucus)
Jim Davis (Sophomore Class)
Ellen Tauscher (Tight Race)
Rosa DeLauro (Message Leader)
John Lewis

Daschle
Reid
Bob Torricelli (Chair of the Campaign Committee)
Jeff Bingaman (Class of 2000 and Chair of Social Security Task Force)
Barbara Mikulski
Dick Durbin (Message Leader)

ACTION:

Invite Leadership Group _____ Invite Second Group _____ Need to discuss ☒

I'd say ask them
all - it's only 5 min
but she said 15 min. Help caucus
not too many.

~~Sunday~~
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5-3-99

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Essay

WILLIAM SAFIRE

The Deadliest Download

WASHINGTON

During President Clinton's watch, America's most vital nuclear secrets — guarded intensely for five decades — have been allowed to spill out all over the world.

Five weeks ago I surmised that what now worried our scientists most was the possible theft of the "Lagrangian codes" from our national laboratories. These are the supercomputer programs that — when fed secret data "benchmarks" from all our nuclear tests — enable foreign scientists to simulate our explosions and erase our lead.

We are now informed by The New York Times's Pulitzer-Prize-winning investigative team that the codes — "legacy codes," as they are known at Los Alamos — were allegedly downloaded by Wen Ho Lee in 1994. Our nuclear genie is out of the bottle.

"The People's Republic of China is the number one proliferator," said Representative Chris Cox, chairman of the select committee on China-gate. "Now the secrets are out there in the stream of commerce, and probably on to Iran and North Korea and Libya."

The hemorrhage is horrendous. How did it happen? The Senate Select Committee on Intelligence is grilling F.B.I. Director Louis Freeh today in secret, but here are some facts:

Stealing the Lagrangian codes.

Suspecting Lee at Los Alamos to be a spy for China, F.B.I. agents in 1997 alerted the White House and went to the Department of Justice's Office of Intelligence Policy Review to request application to a special court for a wiretap under the Foreign Intelligence Surveillance Act. But Acting Director Gerald Schroeder and his aide Alan Kornblum decided the evidence was insufficient and refused to apply.

The F.B.I. then went over Schroeder's head to the office of Deputy Attorney General Eric Holder, and was turned down again. The F.B.I. never returned with new evidence to Schroeder.

Did Director Freeh appeal to Janet Reno about "over-lawyering" in a national security case, or was he too browbeaten to try? The bureau learned that when it comes to China, Reno Justice assigns only its most incompetent operatives and penalizes prosecutors who target Asian financing of the 1996 election.

Consider: Justice makes some 700 court applications a year for taps under that surveillance law. Maybe once or twice a year, says a Justice intelligence official, it finally refuses the F.B.I.'s request that it apply. This case, involving an embarrassment to China when Clinton was proclaiming "strategic partnership," was the one.

Moreover, Congress should examine the ultra-gentle prosecution of a Los Alamos nuclear simulation scientist, Peter Lee, who was let off with a year in a halfway house. The sentencing judge was never told all Justice knew of his spying.

With his Chinese chickens coming home to roost, Clinton has been desperately trying to keep a lid on Chinagate. His first reaction — that it happened back in the 80's and had nothing to do with him — has been overtaken by eventful truth.

For 10 weeks he ducked a meeting with Cox and Norman Dicks of the House committee seeking security clearance of their 1,000-page report on China's penetration of our scientific and political worlds. Last week they met in a "sober" session; Cox expects his slightly sanitized report to be made public by May 15.

Two weeks after that, we'll see what the President's Foreign Intelligence Advisory Board comes up with. Its chairman, former Senator Warren Rudman, was incensed by a prediction in this space of a white-wash: "It will be a hard-hitting report about security at the labs," he insists.

Rudman has hired nine new investigators and may come up with recommendations about locking the barn door now that the secrets of almost every nuclear test we have undertaken are on their way to Baghdad or Pyongyang via Beijing.

As the dangerous duping of this Administration unfolds, keep in mind Beijing's grand design: Use Asian fund-raisers to influence White House policy to sell China advanced computer and missile technology. Simultaneously, use spies to steal both the secret codes to program those supercomputers and to steal the data benchmarks enabling them to simulate our nuclear tests.

Thanks to the downloading of our secrets, American cities will be less safe in two years than they were at the height of the cold war. We owe it to ourselves to find out who let it happen and why. □

The New York Times

THURSDAY, APRIL 29, 1999

5-3-99

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Spy, Counterspy and a Splitting Atomic Headache

Energy Aide's Testimony Seems To Undercut GOP

By WALTER PINCUS
AND VERNON LOEB
Washington Post Staff Writers

It was midsummer 1995. Notra Trulock peered at a thick, seven-year-old Chinese nuclear report just handed to the CIA by a walk-in spy. Going from page to page, the Energy Department intelligence chief saw his worst fears confirmed: Somehow back in 1988, China had learned the size and shape of the newest nuclear warhead designed at the Los Alamos National Laboratory.

The evidence was fragmentary at best; some CIA analysts were unsure it spelled espionage. But Trulock was convinced. He set on a quest to crack the troubling case and plug what he saw as a decades-long series of security leaks from the nation's nuclear weapons laboratories.

Full of mystery and intrigue, the story of Trulock's crusade has exploded into a classic political controversy in Washington, where Congress already was sensitive to the issue because of previous charges China was snatching classified satellite launching technology from U.S. companies while the Clinton administration winked. Leading Republicans seized on Trulock's campaign as yet more evidence that President Clinton and his national security aides played down leakage of nuclear information to China to protect their broader engagement policy with Beijing.

Senate intelligence committee Chairman Richard C. Shelby (R-Ala.) led the charge, questioning whether the White House "reacted to possible breaches in security in a timely manner." The accusation from him and others aimed notably at the long gap between April 1996, when national security adviser Samuel R. "Sandy" Berger was briefed on Trulock's suspicions, and February 1998, when Clinton issued an order to tighten security at Los Alamos and other nuclear labs.

"What is ... incredibly disturbing is apparently the administration didn't take the charges seriously" at first, said Sen. John McCain (R-Ariz.), an Armed Services Committee member and now a presidential candidate.

Several GOP lawmakers picked up the sound bite that originated with a retired CIA official that if, as reported, Beijing pilfered secrets about eight U.S. warheads, the losses were worse than those suffered when the Rosenbergs aided the Soviet Union. Sen. Robert C. Smith (R-N.H.), a key member of the Armed Services Committee and another presidential contender, said that if news stories proved true that Berger withheld information on Chinese espionage from Congress, "he should be fired."

But Trulock, in his first public testimony last week, offered a version that seems to undercut many of the Republican charges.

Trulock said that, once the White House moved, Clinton aides overruled recalcitrant bureaucrats at the Energy Department and forced the nuclear laboratories to put in place a counterintelligence program that some congressional committees, the General Accounting Office and the FBI had been recommending for 10 years.

On the issue of foot-dragging, Trulock testified he and other Energy Department officials "made a good start" on implementing counterintelligence reforms at the labs from 1995 to early 1997. Trulock noted that Berger, after listening to his early findings in April 1996, encouraged him to brief Congress, which he did in mid-1996.

However they feel about the question of how long the administration took to establish the new rules, Republicans and Democrats on the Senate Armed Services Committee who listened to Trulock and other Energy Department officials seemed somewhat satisfied that reforms have finally been put in place, thanks in large measure to Trulock's persistence.

"I think this is an important issue, and we need to make sure that some of these suggestions are actually carried out," said Sen. Jeff Sessions (R-Ala.). "I think that's the challenge."

Now what remains for a host of other congressional panels to sort out in the weeks and months ahead—nine are looking into the matter—seems as much a matter of intense bureaucratic infighting within the Energy Department as White House recalcitrance.

A CIA review of Trulock's concerns, headed by retired Adm. David Jeremiah and expected to be released today, reportedly confirms the initial CIA analysis that, although classified U.S. data were obtained and probably aided Chinese nuclear programs, the overall impact "is a lot more uncertain than some people—including Trulock—admit," according to a source familiar with the study.

The Jeremiah study also notes that any damage assessment must recognize that China traditionally has had a nuclear deterrent strategy, not an offensive strategy. China's seeking to develop over the past decade a small, mobile intercontinental ballistic missile to guarantee a second strike capability is not surprising. Trulock said his problems began in 1997 when Charles Curtis, a deputy energy secretary who had been highly supportive, left the department and was replaced by Elizabeth A. Moler. Trulock's chief antagonist inside the government, Moler was so intent on mollifying scientists at the nuclear laboratories, Trulock testified, that she and other senior officials talked then-Energy Secretary Federico Peña out of implementing rigorous counterintelligence reforms in the summer of 1997.

But the setback proved short-lived. Trulock testified that he and his assistant, CIA officer John Bloodsworth, overcame Moler's resistance with an end run to the National Security Council. Rand R. Beers, the NSC's senior director for intelligence policy, grasped the gravity of the Los Alamos case and referred the matter to a national policy board on counterintelligence issues, he said.

Work then began in the fall of 1997 on a presidential decision directive that Clinton issued in February 1998 as PDD-61. This directive doubled counterintelligence spending, created high-level counterintelligence and intelligence offices at the Energy Department reporting directly to the secretary and gave them direct control over security at the labs.

On the issue of the administration's broader China policy, Trulock testified that the matter came up twice as he worked on the Los Alamos case and pushed for a new counterintelligence program.

The first mention, he testified, occurred when Gary Samore, the NSC's top official on nuclear non-proliferation, told him that the administration's policy of using the nuclear labs to engage Chinese scientists in arms control matters should not be allowed to stand in the way of his counterintelligence efforts at the nuclear labs. When Sen. Smith, a leading administration critic, asked Trulock whether Samore ever implied that "you shouldn't take any action that would threaten the administration's policy of engagement," Trulock responded, "I did not interpret it that way. No, sir."

Not satisfied, Smith asked whether Trulock could recall any similar statement made directly to him by Berger, Moler or other officials. Trulock replied, "No, sir."

But Trulock said Moler raised China policy in a conversation last July when she was serving as acting energy secretary, just as the issue of improper satellite technology transfers to China was heating up in Congress. In their discussion, Trulock said, he asked Moler for permission to brief the chairman of the House Permanent Select Committee of Intelligence, Rep. Porter J. Goss (R-Fla.), who wanted an update on the

Los Alamos case.

"She denied my request," Trulock testified. "I can only tell you that Secretary Moler told me that she believed that they—and by 'they' I believe she was referring to the House Permanent Select Committee on Intelligence—was only interested in harming the president on China policy."

Moler denied making the statement and said Trulock never asked her about briefing Goss.

Trulock told the senators he had written a memo to Moler asking permission to brief Goss, and that the memo later turned up in Moler's safe after she left the department in October.

Sessions leapt at Trulock's account. "I think this document found in her safe corroborates the testimony of this witness and indicates a lack of concern with matters of important national security," he said.

But Trulock's claim was disputed by other witnesses. Paul Richanback, the Energy Department official who emptied Moler's safe, testified he found no memo from Trulock inside, and Trulock later conceded, under questioning by Sen. Carl M. Levin (D-Mich.), that he had only a third-hand account of where the document had been found.

Richanback also denied hearing Moler tell Trulock that he could not testify before the Goss panel because it only wanted to hurt Clinton's China policy; Trulock had cited him as a witness in a recent memo to Senate investigators.

Any final assessment of the Energy Department's response to the Los Alamos case is complicated by the fact that its highly fragmentary evidence is still being debated by intelligence analysts.

Trulock testified there are "very few areas of disagreements" between his analysts at the Energy Department and those at the CIA on alleged Chinese espionage at Los Alamos.

But Curtis, who championed Trulock's cause, cautioned senators that trying to interpret scraps of evidence about secrets that may have been passed in conversations more than a decade ago "is not a science—it's an art form. As this committee well knows, it involves reading tea leaves."

The Washington Post

WEDNESDAY, APRIL 21, 1999

is this true?

CHINA STOLE DATA ON ATOM WARHEAD U.S. REPORT FINDS

NEW, FIRMER CONCLUSION

Intelligence Officials to Report to Congress Today on Spy Problem at Los Alamos

A1 By JAMES RISEN
and JEFF GERTH

WASHINGTON, April 20 — A comprehensive new analysis by United States intelligence officials has concluded that China stole design information related to America's most advanced nuclear warhead from a Government nuclear weapons laboratory, Government officials say.

The intelligence report is expected to be presented to the Clinton Administration and Congress on Wednesday. Previously the White House, citing other intelligence reports, had said that the evidence of Chinese atomic espionage was less conclusive.

Although Energy Department officials have raised alarms about evidence of Chinese espionage at the national weapons labs since 1996, a 1997 report by the Central Intelligence Agency was cited by the White House in playing down the Energy officials' conclusions in the matter, American officials say. President Clinton also said as recently as last month that, "It is my understanding that the investigation has not yet determined for sure that espionage occurred."

In the new assessment, the intelligence community reports on damage done to national security from what it says is Chinese nuclear spying. The report examines a key finding of a select Congressional committee that has investigated allegations of illicit transfers of high technology to China.

That committee, chaired by Rep. Christopher Cox, Republican of California, embraced the findings of Energy Department intelligence analysts who concluded that China stole design data from the W-88 warhead from Los Alamos in the 1980's and that the theft was critical to Beijing's development of a modern, miniaturized nuclear warhead.

American officials said the new intelligence analysis includes a broad examination of the development of China's nuclear weapons capabilities during the last few decades. It determined that Beijing benefited from espionage through the theft of W-88 design data from Los Alamos. But it also found that China obtained some sensitive nuclear data from nonsecret sources, including academic exchanges and inadvertent leaks of information by scientists. It is difficult to determine which source of information was the most important to the Chinese in their development of an advanced nuclear warhead.

The new study comes in the midst of a furor over the Administration's early response to reports of Chinese atomic espionage. Department of Energy intelligence analysts initially detected the theft in 1995, and senior White House officials, including Samuel R. Berger, now the national security adviser, were first briefed on the matter in April 1996.

But the White House did not move to increase security at America's national laboratories until nearly two years later. After receiving more detailed evidence of Chinese spying in the summer of 1997, the National Security Council sought a quick, narrowly focused analysis from the Central Intelligence Agency and used it to cast doubt on the troubling conclusions reached by Energy Department analysts, officials said.

Gary Samore, a senior National Security Council official, relied on that C.I.A. analysis in September 1997 as the basis for his report to Mr. Berger that the evidence of Chinese espionage was less conclusive than the Energy Department had said, a White House official said.

At the time, Mr. Samore and Mr. Berger were deeply involved in planning the agenda of a United States-China summit meeting. President Clinton and President Jiang Zemin of China used the meeting to elevate the relations between the two nations.

In recent weeks, the White House itself has examined whether Mr. Samore accurately portrayed for Mr. Berger the findings of the 1997 reports from the C.I.A. and Energy Department, officials said. Mr. Berger has been told that Mr. Samore overstated the degree to which the 1997 C.I.A. analysis cast doubt on the Energy Department findings, according to an Administration official.

A spokesman for the National Security Council, David C. Leavy, said Mr. Berger had the utmost confidence in Mr. Samore's abilities, but Mr. Leavy declined to discuss the nature of the discussions between Mr. Samore and Mr. Berger in 1997. "The N.S.C., from Mr. Berger on down, viewed this as a very serious matter then, and we view it as a very serious matter now," Mr. Leavy said. "Mr. Berger believes Gary Samore is an enormously dedicated professional who has spent his entire career on nonproliferation issues and enhancing the security of the American people, and whose integrity is unquestioned."

But senior intelligence officials now say that, while there were differences, the 1997 C.I.A. and Energy Department reports came to generally similar conclusions about the damage done by Chinese nuclear spying.

Notra Trulock, an Energy Department intelligence official who was in charge of analyzing the espionage evidence, told the Senate Armed Services Committee last week that a "even a cursory reading of the products of both agencies will show that in fact there are very few areas of disagreements." He added that "these supposed differences have been magnified by N.S.C. and D.O.E. officials in an effort to spin down the potential implications of this case."

Now, the new American intelligence community study has looked at the issue more thoroughly at the urging of the Cox committee, which has written a still-secret report that includes information about the theft of the W-88 design. The details of the intelligence community's damage assessment could not be determined in advance of Wednesday's scheduled release. Moreover, much of the study will remain classified. Officials would not say today whether the report addresses evidence that China has stolen other American nuclear designs more recently.

The damage assessment, which was coordinated by Robert Walpole, the National Intelligence Officer for strategic and nuclear programs, was independently reviewed by an outside panel headed by retired Adm. David E. Jeremiah.

Evidence of Chinese nuclear spying has prompted a series of investigations in both Congress and the executive branch. The Senate and

House intelligence committees are examining how the Clinton Administration handled the evidence, while other committees are investigating security at the national weapons labs, and whether senior Energy Department officials sought to restrict congressional notification on the case. On Tuesday, General Accounting Office officials told a House Commerce subcommittee that the national laboratories had showed "a lack of attention" to grave security risks despite years of warnings.

The New York Times

WEDNESDAY, APRIL 21, 1999

WEEKLY ECONOMIC BRIEFING OF THE PRESIDENT OF THE UNITED STATES

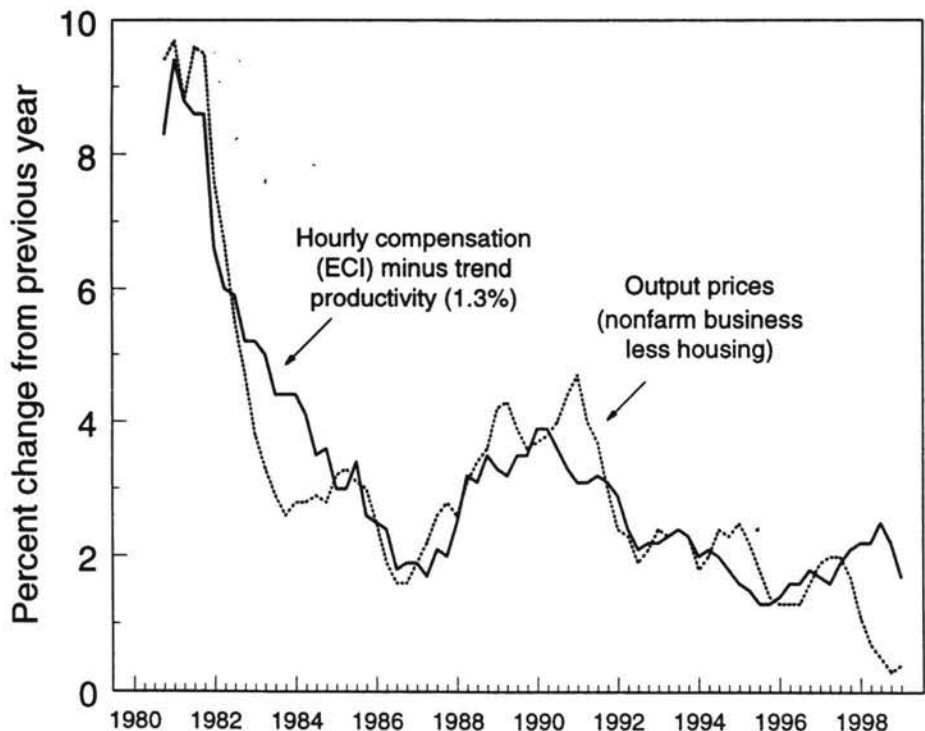
Prepared by the Council of Economic Advisers
with the assistance of the Office of the Vice President

April 30, 1999

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entire report
Yellen/Podesta
Pg 2:
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Reed/Podesta

CHART OF THE WEEK

Inflation and Trend Unit Labor Costs



In the long run, the rate of business price inflation tends to gravitate toward the rate of increase in trend unit labor costs (measured in the chart using the employment cost index minus the estimated 1.3 percent trend rate of growth of productivity). Over the past year, however, a gap has existed between trend unit labor cost increases and price increases. Actual productivity growth has been strong recently, but unless trend productivity growth has risen substantially higher than 1.3 percent per year, the historical pattern suggests that some combination of higher inflation and slower wage growth will eventually narrow the gap between trend inflation and trend unit labor costs.

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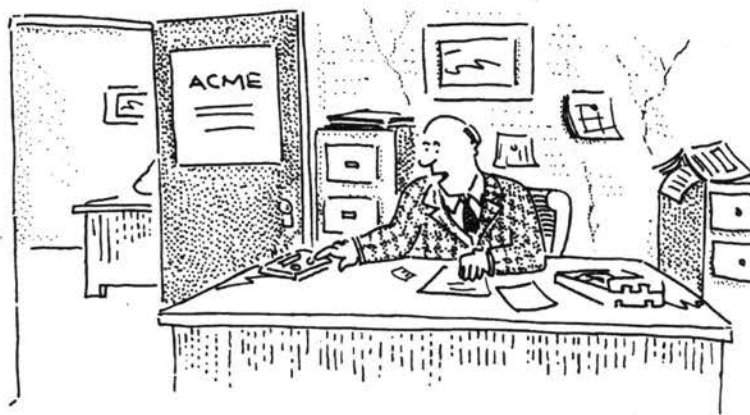
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"Miss Davis, bring me everything we've got on turning a two-bit hole-in-the-wall operation into a multinational juggernaut."

CURRENT DEVELOPMENT

GDP Scorecard: First Quarter 1999

Real GDP is estimated to have increased at a 4.5 percent annual rate in the first quarter of 1999, about the same as the average pace during the four quarters of 1998. Large gains in personal consumption, homebuilding, and computer investment were only partly offset by a decline in net exports. Inflation remained subdued, with the GDP price index up just 1.0 percent from the same quarter a year ago.

Component	Growth [*]	Comments
Total consumer expenditures	6.7%	Perhaps reflecting continued stock market gains, consumption exceeded income and the saving rate fell to -0.5 percent.
Producers' durable equipment	10.5%	Almost all of the growth was in computer-related equipment. Purchases of industrial equipment have been flat during the past year.
Nonresidential structures	-0.1%	Declines in oil-well drilling have held down this category during the past year.
Residential investment	15.6%	The sixth consecutive quarter of large increases in homebuilding reflects gains in real income and a decline in mortgage rates during most of the past 2 years.
Inventories (change, billions of 1992 dollars)	\$45.2	Stockbuilding is estimated to have been about the same pace as in the fourth quarter. Inventories remain lean with respect to sales.
Federal purchases	-0.7%	Federal purchases have been stagnant for several years.
State & local purchases	7.3%	The jump reflects a huge increase in highway construction that is probably partly weather-related but may also reflect the 1997 transportation legislation.
Exports	-7.7%	Exports of aircraft, which had taken off in the fourth quarter, fell back.
Imports	11.7%	Some of the strong demand for consumer goods and equipment investment was met with imports.
[*] Percent real growth in the first quarter at annual rates (except inventories). This advance estimate is subject to substantial revision—especially for exports, imports, and inventories, where the estimates are based on only 2 months of data.		

SPECIAL ANALYSIS

Measuring the Benefits of Educational Grants

From 1965 to 1985, the Social Security student benefit program helped millions of students pay for college. A new study evaluating the program indicates the potential benefits of this kind of aid.

*copied
Reed
Podesta*

The program. The Social Security student benefit program provided benefit payments to children of deceased, disabled, or retired Social Security beneficiaries. Open to 18 to 22 year-olds who were attending college full time, the program was far-reaching and generous.

- **Reach.** About 850,000 or one in every 10 college students aged 18 to 22 received aid from the program at its peak in 1977.
- **Generosity.** The average annual payment in 1980 was \$5,200 (1997 dollars), compared with \$1,700 for the average Pell Grant at the time.
- **Scale.** When Congress voted to eliminate the program in 1981, outlays were \$3.3 billion. (The Pell Grant's \$3.8 billion was the largest among college-related grant programs.)

Getting there and staying in. The new study confirms earlier research showing that aid encourages students to start college in the first place, rather than merely subsidizing those who are already college-bound. Indeed, the new study finds a particularly strong response. Whereas other studies found that a grant of \$1,000 raised the probability of attending college by 2.5 to 4 percentage points, the new study finds an increase of 5 percentage points. The new study is also one of the first to find that grant aid increases the number of years of college that a student will complete. In particular, reducing schooling costs by 10 percent increased educational attainment by the same 10 percent. That is, a grant of \$5,000 raised the average number of years completed by 1 full year.

Are the results too optimistic? One explanation for the study's relatively strong findings may be that the Social Security student benefits were not means-tested. Previous estimates based on means-tested programs, such as Pell Grants, show weaker effects of grant aid on college attendance rates, possibly because the low-income students targeted by those programs have larger non-financial barriers to starting college than the more random selection of students served by the Social Security program.

Yet there is still Hope. Another reason for the study's strong results may be the relative generosity of the Social Security benefits, suggesting that the extra financial aid provided by the Hope Scholarship program during the early years of college can help risk-averse or borrowing-constrained students overcome the potentially high fixed costs of starting college.

ARTICLE

A Changing Market for Corporate Control in Japan?

Although the market for foreign direct investment in Japan has long been officially open, as a practical matter it has been exceedingly difficult and rare for foreign investors to acquire significant ownership or control of Japanese enterprises. Recent developments offer hopeful signs that this could change if the Japanese are serious about restructuring their economy.

Past barriers. Typically, foreign firms making direct investments in Japan have entered on their own rather than through acquisition of domestic companies, even though acquisition would generally have provided major benefits such as local contacts and established distribution networks. Japanese securities laws that are unfriendly to foreign acquisitions have been partly responsible. Other barriers have been tied to the *keiretsu* system in which groups of firms have substantial cross-holdings of each others' stock, making it hard for an investor outside the *keiretsu*—whether foreign or domestic—to purchase controlling shares.

A merger boom (by Japanese standards). One sign that the times may be changing is an increase in corporate merger activity. In 1998, there were about 900 mergers in Japan. This number is minuscule compared with over 11,000 in the United States last year, but it is more than double the figure for 1993 and 35 percent more than that in 1997. Merger growth in Japan is significant because it indicates that corporate managers are more willing than in the past to respond meaningfully to economic forces. This would mark a change in a corporate culture that has been characterized as one of inaction, driven by face-saving, the suppression of bad news, and consensus requirements. It also suggests that the cross-ownership of firms is becoming a less stringent constraint on corporate restructuring. Nevertheless, the obstacles the *keiretsu* pose to mergers and foreign direct investment in Japan remain substantial. More than 40 percent of corporate stock is in the hands of other companies, often friendly banks or suppliers, making it difficult for significant shares to be purchased by an outsider. But the restructuring of Japan's banks and changes in Japanese securities laws that make them more amenable to merger activity may help to reduce the barriers posed by such cross-ownership relations.

Significant acquisitions by foreign firms. Two recent events provide further examples of a liberalizing corporate system in Japan. The most significant is Renault's purchase of a substantial (but not controlling) 36.8 percent of the Japanese car manufacturer Nissan. Such a stake by a foreign owner in one of Japan's major companies, and in one of its most important industries, would previously have been virtually unthinkable. During the global merger boom of the late 1980s, for example, Japanese companies acquired foreign ones by the hundreds, while foreign firms acquired an average of only about 20 Japanese firms per year. Also, for the first time, a Japanese firm trying to acquire another Japanese firm is in a high-profile battle with a foreign firm. This challenge from Cable and Wireless to Nippon Telephone and

Telegraph's effort to acquire International Digital Communications may be further evidence that the old rules are becoming less binding on Japan's corporate culture.

Less refuge for underperforming firms. A third harbinger of Japanese corporate restructuring may be a more tough-minded approach by parent companies towards weak subsidiaries. Press reports have cited plans by the new CEO of NEC to spin off unnecessary businesses and a statement by the new president of Hitachi that he plans to divide the enterprise into 10 companies, each of which must post profits or be closed. A new emphasis on profitability, as opposed to market share, has been driven by the heavy losses suffered by Japanese industry in the past 2 years. It also suggests that the market for corporate control is likely to become more active and more open.

Conclusion. The anecdotal evidence of more openness toward corporate restructuring and toward foreign participation in Japanese companies is suggestive but not conclusive. Whether the events described above are an anomaly or a trend remains to be seen. But so far, the signs of change are substantial and suggest that, as Japanese firms continue to face economic pressure, more reform at the firm, *keiretsu*, and regulatory levels will follow.

5-3-99

EYES ONLY

BUSINESS, CONSUMER, AND REGIONAL ROUNDUP

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Clark Medal Awarded to Shleifer. Andrei Shleifer, a Harvard University economist who immigrated to the United States from Russia as a teenager, was chosen this week as the winner of the American Economic Association's John Bates Clark Medal. The prize, considered by many the most prestigious in economics short of the Nobel, is awarded every 2 years to an outstanding economist under 40 years old. Shleifer, 38, was honored for his research into corporate and institutional finance and economic growth, particularly in countries making the transition from socialism to a market economy. Much of his recent work has sought to explain how strong legal protection for investors helps to determine the long-term development of securities markets. Past winners of the Clark Medal include Deputy Secretary of the Treasury Lawrence Summers and former CEA Chair Joseph Stiglitz.

Census Reports on Child Support. Nearly 30 percent of children (22.8 million) lived with only one of their parents in April 1996, 85 percent of those with their mother, according to a new study from the Bureau of the Census. Almost 60 percent (8.0 million) of custodial parents had child support awards, and roughly seven of every 10 of these parents received at least a portion of the amount they were owed in 1995. Average child support received was \$3,700, and total child support payments amounted to \$17.8 billion of the \$28.3 billion due in 1995. The number of custodial parents who received the full amount of child support owed to them increased from 2.3 million (34 percent) in 1993 to 2.7 million (39 percent) in 1995. Custodial parents who received none of the payments they were owed had a poverty rate of 32 percent, compared with a poverty rate of 22 percent for those who received at least some payment. Overall, noncustodial parents who owed child support were much more likely to have made payments if they had joint custody or visitation rights.

Reed
Podesta
"Study"

In-School Teacher Training Gets Good Grade. Extra in-service teacher training improved children's reading and mathematics achievement in a set of Jerusalem elementary schools, according to a recent study. The training, given to teachers in 10 schools beginning in 1995, was in pedagogy, not subject content, and was based on widely used pedagogical strategies developed in the United States. The study tracked students in these schools for a year and a half, while also tracking outcomes in schools that did not receive the extra training. By 1996, teachers in the "treatment" schools were receiving considerably more hours of training than in "control" schools: 11 more hours per week in math and 8 more hours in reading. The result, according to the study, was an improvement in test scores among students in the treatment schools. The study estimated that, at least in this case, teacher training (which cost \$12,000 per class) provided a less costly means of increasing test scores than reducing class size or adding school hours.

Reed
Podesta

INTERNATIONAL ROUNDUP

World Trade Growth to Hold Steady, at Best. World merchandise exports in 1999 will grow no faster than 1998's 3.5 percent, according to a new report from the World Trade Organization. In fact, for trade growth in 1999 even to match that of 1998, recovery in Asia would have to offset slowing output growth in Western Europe and the United States. The volume of world merchandise exports grew 10.5 percent in 1997 after averaging 6.0 percent growth from 1990 to 1995. The sharp reduction in 1998 largely reflected continued economic contraction in Asia. Performance differed widely by region: imports into Asia fell by 8.5 percent, while expanding by 7.5 percent in Western Europe and by 10 percent in North America, Latin America, and the transition economies. Export growth was strongest in the transition economies (10 percent) and Latin America (6.5 percent), while increasing only marginally in Asia. Western Europe's export growth was 4.5 percent, while North America's was 3.0 percent.

Prospects for the World's Poor May Be Declining. After a generation of falling poverty, rising longevity, and better health for millions of the world's poorest people, efforts to improve key areas of human development are in danger of stalling, according to the World Bank's latest annual compilation, *World Development Indicators*. Although strong growth in developing countries (5.3 percent per year from 1991 to 1997 in countries excluding the former Soviet Union) encouraged expectations that living standards would continue to rise around the world, those expectations have not been realized in crucial regions. In Sub-Saharan Africa, for example, hard-won increases in life expectancy have been wiped out by HIV/AIDS, while foreign aid levels are at their lowest level in 50 years. In Eastern Europe and the countries of the former Soviet Union, millions have seen their living standards deteriorate sharply during the difficult transition toward market economies. In East Asia, the fallout from the 1997 financial crisis will likely prevent the region from reducing poverty by half by 2015, as had been expected as recently as a year ago.

"Grease Money" May Just Mean More Sand in the Gears. Some political scientists and economists have noted that, under certain circumstances, corruption may improve economic efficiency. One theory holds that bribery allows firms to bypass excessive red tape; another describes how bribes could function like an auction, allowing better firms to buy less red tape. If the "efficient grease" hypothesis is correct, then efforts against corruption could be counterproductive. However, this conclusion assumes that the burden of red tape is independent of the existence of bribery and corruption. Recent research suggests, to the contrary, that red tape distortions may in fact be created by or aggravated by opportunities for bribery. One new study using firm-level data consistently finds a positive correlation between bribery and measures of official harassment. Furthermore, it finds no evidence to support the notion of "Asian exceptionalism"—that the official corruption which has long been part of Asian culture does not hamper business there. Indeed, it finds that bribery induces corruption to at least the same extent in Asia as in the rest of the world.

RELEASES THIS WEEK**Gross Domestic Product******Embargoed until 8:30 a.m., Friday, April 30, 1999****

According to advance estimates, real gross domestic product grew at an annual rate of 4.5 percent in the first quarter.

Employment Cost Index

The employment cost index for private industry workers rose 3.0 percent for the 12-month period ending in March.

Advance Durable Orders

Advance estimates show that new orders for durable goods rose 2.0 percent in March, following a decrease of 3.9 percent in February.

Consumer Confidence

Consumer confidence, as measured by The Conference Board, rose 0.9 index point in April, to 134.9 (1985=100).

MAJOR RELEASES NEXT WEEK

NAPM Report on Business (Monday)
Leading Indicators (Tuesday)
Employment (Friday)

U.S. ECONOMIC STATISTICS

	1970- 1993	1998	1998:3	1998:4	1999:1
Percent growth (annual rate)					
Real GDP (chain-type)	2.7	4.3	3.7	6.0	4.5
GDP chain-type price index	5.4	0.9	1.0	0.8	1.4
<u>Nonfarm business (NFB) sector:</u>					
Productivity (chain-type)	1.5	2.7	2.5	4.6	N.A.
Real compensation per hour:					
Using CPI	0.6	2.5	2.3	1.7	N.A.
Using NFB deflator	1.3	3.7	3.4	3.4	N.A.
Shares of Nominal GDP (percent)					
Business fixed investment	10.9	11.0	10.9	11.0	11.0
Residential investment	4.5	4.3	4.4	4.5	4.6
Exports	8.2	11.3	11.0	11.3	10.8
Imports	9.2	13.0	12.9	13.1	13.1
Personal saving	5.2	0.3	0.1	-0.0	-0.4
Federal surplus	-2.7	0.9	1.1	0.8	N.A.
	1970- 1993	1998	Jan. 1999	Feb. 1999	March 1999
Unemployment Rate (percent)					
	6.7**	4.5**	4.3	4.4	4.2
Payroll employment (thousands)					
increase per month			217	297	46
increase since Jan. 1993					18176
Inflation (percent per period)					
CPI	5.8	1.6	0.1	0.1	0.2
PPI-Finished goods	5.0	-0.1	0.5	-0.4	0.2

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

New or revised data in **boldface**.

GDP and related data for 1999:1 **embargoed until 8:30 a.m., Friday, April 30, 1999.**

FINANCIAL STATISTICS

	1997	1998	Feb. 1999	March 1999	April 29, 1999
Dow-Jones Industrial Average	7441	8626	9323	9754	10878
Interest Rates (percent per annum)					
3-month T-bill	5.06	4.78	4.44	4.44	4.39
10-year T-bond	6.35	5.26	5.00	5.23	5.22
Mortgage rate, 30-year fixed	7.60	6.94	6.81	7.04	6.93
Prime rate	8.44	8.35	7.75	7.75	7.75

INTERNATIONAL STATISTICS

Exchange Rates	Current level April 29, 1999	Percent Change from	
		Week ago	Year ago
Euro (in U.S. dollars)	1.059	-0.1	N.A.
Yen (per U.S. dollar)	119.3	-0.5	-9.7
Major currencies index (Mar. 1973=100) (trade-weighted value of the U.S. \$)	95.51	-0.4	-0.9

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	4.0 (Q1)	4.2 (Mar)	1.7 (Mar)
Canada	2.8 (Q4)	7.8 (Feb)	0.8 (Feb)
Japan	-3.0 (Q4)	4.7 (Feb)	-0.1 (Feb)
France	2.8 (Q4)	11.4 (Jan)	0.3 (Feb)
Germany	1.8 (Q4)	^{2/} 7.2 (Feb)	0.2 (Feb)
Italy	0.9 (Q4)	12.3 (Jan)	1.4 (Feb)
United Kingdom	0.7 (Q1)	6.3 (Dec)	2.1 (Feb)

U.S. GDP data **embargoed until 8:30 a.m., Friday, April 30, 1999.**

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 was 9.0 percent.

Tab A - Entire Report: Yellen/Podesta
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Tab C - Reed/Kagan/Podesta

Tab D - Sperling/Podesta

Tab E - Frampton/Podesta

Tab F - Lake/Stern/Podesta

Tab G - Stern/Podesta/Burkhardt (for reply)

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Tab J - Cahill/Podesta

Tab K - Johnson/Podesta/Burkhardt

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Tab O - Mackay/Podesta

Tab P - Moore/Podesta
Pg. 3 Burkhardt/Podesta

(L) Intergovernmental

(M) Indian Country

(N) Cabinet Affairs

(O) Envoy for the Americas

(P) Political Affairs

Phil Caplan *Phil*
David Goodfriend

5-3-99

THE WHITE HOUSE
WASHINGTON

May 1, 1999

MR. PRESIDENT:

Attached are the following weekly reports:

- (A) **Weekly Economic Briefing**
- (B) **Update on Global Markets**
- (C) **DPC**
- (D) **NEC**
- (E) **CEQ**
- (F) **OSTP**
- (G) **Climate Change**
- (H) **Legislative**
- (I) **Communications**
- (J) **Public Liaison**
- (K) **Race Initiative**
- (L) **Intergovernmental**
- (M) **Indian Country**
- (N) **Cabinet Affairs**
- (O) **Envoy for the Americas**
- (P) **Political Affairs**

Phil Caplan 
David Goodfriend

WEEKLY ECONOMIC BRIEFING OF THE PRESIDENT OF THE UNITED STATES

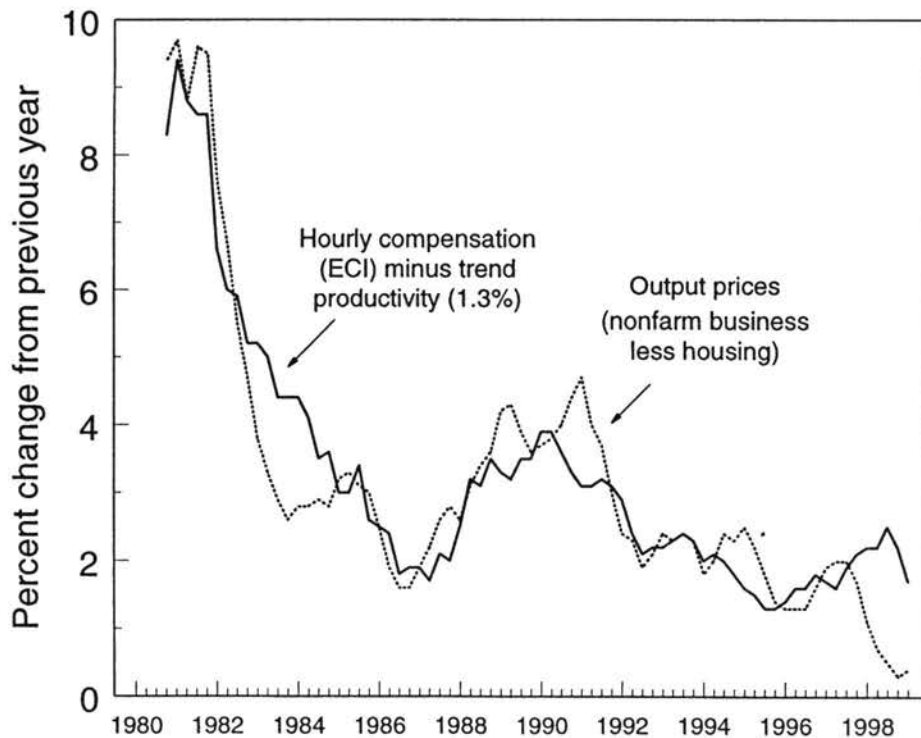
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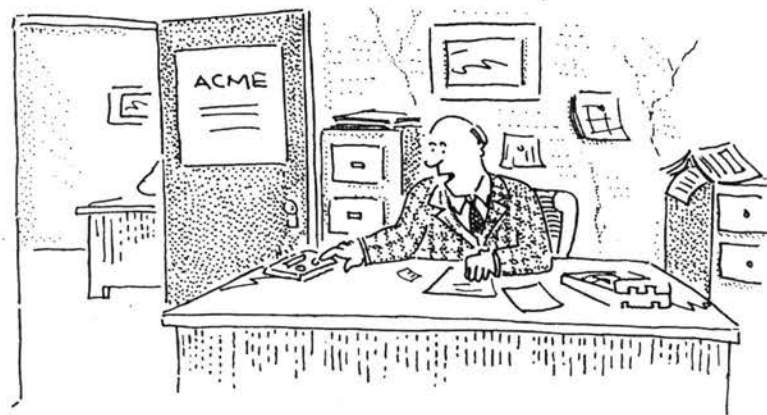
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A merger boom (by Japanese standards). One sign that the times may be changing is an increase in corporate merger activity. In 1998, there were about 900 mergers in Japan. This number is minuscule compared with over 11,000 in the United States last year, but it is more than double the figure for 1993 and 35 percent more than that in 1997. Merger growth in Japan is significant because it indicates that corporate managers are more willing than in the past to respond meaningfully to economic forces. This would mark a change in a corporate culture that has been characterized as one of inaction, driven by face-saving, the suppression of bad news, and consensus requirements. It also suggests that the cross-ownership of firms is becoming a less stringent constraint on corporate restructuring. Nevertheless, the obstacles the *keiretsu* pose to mergers and foreign direct investment in Japan remain substantial. More than 40 percent of corporate stock is in the hands of other companies, often friendly banks or suppliers, making it difficult for significant shares to be purchased by an outsider. But the restructuring of Japan's banks and changes in Japanese securities laws that make them more amenable to merger activity may help to reduce the barriers posed by such cross-ownership relations.

Significant acquisitions by foreign firms. Two recent events provide further examples of a liberalizing corporate system in Japan. The most significant is Renault's purchase of a substantial (but not controlling) 36.8 percent of the Japanese car manufacturer Nissan. Such a stake by a foreign owner in one of Japan's major companies, and in one of its most important industries, would previously have been virtually unthinkable. During the global merger boom of the late 1980s, for example, Japanese companies acquired foreign ones by the hundreds, while foreign firms acquired an average of only about 20 Japanese firms per year. Also, for the first time, a Japanese firm trying to acquire another Japanese firm is in a high-profile battle with a foreign firm. This challenge from Cable and Wireless to Nippon Telephone and

Telegraph's effort to acquire International Digital Communications may be further evidence that the old rules are becoming less binding on Japan's corporate culture.

Less refuge for underperforming firms. A third harbinger of Japanese corporate restructuring may be a more tough-minded approach by parent companies towards weak subsidiaries. Press reports have cited plans by the new CEO of NEC to spin off unnecessary businesses and a statement by the new president of Hitachi that he plans to divide the enterprise into 10 companies, each of which must post profits or be closed. A new emphasis on profitability, as opposed to market share, has been driven by the heavy losses suffered by Japanese industry in the past 2 years. It also suggests that the market for corporate control is likely to become more active and more open.

Conclusion. The anecdotal evidence of more openness toward corporate restructuring and toward foreign participation in Japanese companies is suggestive but not conclusive. Whether the events described above are an anomaly or a trend remains to be seen. But so far, the signs of change are substantial and suggest that, as Japanese firms continue to face economic pressure, more reform at the firm, *keiretsu*, and regulatory levels will follow.

BUSINESS, CONSUMER, AND REGIONAL ROUNDUP

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Reed
Podesta

Clark Medal Awarded to Shleifer. Andrei Shleifer, a Harvard University economist who immigrated to the United States from Russia as a teenager, was chosen this week as the winner of the American Economic Association's John Bates Clark Medal. The prize, considered by many the most prestigious in economics short of the Nobel, is awarded every 2 years to an outstanding economist under 40 years old. Shleifer, 38, was honored for his research into corporate and institutional finance and economic growth, particularly in countries making the transition from socialism to a market economy. Much of his recent work has sought to explain how strong legal protection for investors helps to determine the long-term development of securities markets. Past winners of the Clark Medal include Deputy Secretary of the Treasury Lawrence Summers and former CEA Chair Joseph Stiglitz.

Census Reports on Child Support. Nearly 30 percent of children (22.8 million) lived with only one of their parents in April 1996, 85 percent of those with their mother, according to a new study from the Bureau of the Census. Almost 60 percent (8.0 million) of custodial parents had child support awards, and roughly seven of every 10 of these parents received at least a portion of the amount they were owed in 1995. Average child support received was \$3,700, and total child support payments amounted to \$17.8 billion of the \$28.3 billion due in 1995. The number of custodial parents who received the full amount of child support owed to them increased from 2.3 million (34 percent) in 1993 to 2.7 million (39 percent) in 1995. Custodial parents who received none of the payments they were owed had a poverty rate of 32 percent, compared with a poverty rate of 22 percent for those who received at least some payment. Overall, noncustodial parents who owed child support were much more likely to have made payments if they had joint custody or visitation rights.

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In-School Teacher Training Gets Good Grade. Extra in-service teacher training improved children's reading and mathematics achievement in a set of Jerusalem elementary schools, according to a recent study. The training, given to teachers in 10 schools beginning in 1995, was in pedagogy, not subject content, and was based on widely used pedagogical strategies developed in the United States. The study tracked students in these schools for a year and a half, while also tracking outcomes in schools that did not receive the extra training. By 1996, teachers in the "treatment" schools were receiving considerably more hours of training than in "control" schools: 11 more hours per week in math and 8 more hours in reading. The result, according to the study, was an improvement in test scores among students in the treatment schools. The study estimated that, at least in this case, teacher training (which cost \$12,000 per class) provided a less costly means of increasing test scores than reducing class size or adding school hours.

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Podesta

INTERNATIONAL ROUNDUP

World Trade Growth to Hold Steady, at Best. World merchandise exports in 1999 will grow no faster than 1998's 3.5 percent, according to a new report from the World Trade Organization. In fact, for trade growth in 1999 even to match that of 1998, recovery in Asia would have to offset slowing output growth in Western Europe and the United States. The volume of world merchandise exports grew 10.5 percent in 1997 after averaging 6.0 percent growth from 1990 to 1995. The sharp reduction in 1998 largely reflected continued economic contraction in Asia. Performance differed widely by region: imports into Asia fell by 8.5 percent, while expanding by 7.5 percent in Western Europe and by 10 percent in North America, Latin America, and the transition economies. Export growth was strongest in the transition economies (10 percent) and Latin America (6.5 percent), while increasing only marginally in Asia. Western Europe's export growth was 4.5 percent, while North America's was 3.0 percent.

Prospects for the World's Poor May Be Declining. After a generation of falling poverty, rising longevity, and better health for millions of the world's poorest people, efforts to improve key areas of human development are in danger of stalling, according to the World Bank's latest annual compilation, *World Development Indicators*. Although strong growth in developing countries (5.3 percent per year from 1991 to 1997 in countries excluding the former Soviet Union) encouraged expectations that living standards would continue to rise around the world, those expectations have not been realized in crucial regions. In Sub-Saharan Africa, for example, hard-won increases in life expectancy have been wiped out by HIV/AIDS, while foreign aid levels are at their lowest level in 50 years. In Eastern Europe and the countries of the former Soviet Union, millions have seen their living standards deteriorate sharply during the difficult transition toward market economies. In East Asia, the fallout from the 1997 financial crisis will likely prevent the region from reducing poverty by half by 2015, as had been expected as recently as a year ago.

"Grease Money" May Just Mean More Sand in the Gears. Some political scientists and economists have noted that, under certain circumstances, corruption may improve economic efficiency. One theory holds that bribery allows firms to bypass excessive red tape; another describes how bribes could function like an auction, allowing better firms to buy less red tape. If the "efficient grease" hypothesis is correct, then efforts against corruption could be counterproductive. However, this conclusion assumes that the burden of red tape is independent of the existence of bribery and corruption. Recent research suggests, to the contrary, that red tape distortions may in fact be created by or aggravated by opportunities for bribery. One new study using firm-level data consistently finds a positive correlation between bribery and measures of official harassment. Furthermore, it finds no evidence to support the notion of "Asian exceptionalism"—that the official corruption which has long been part of Asian culture does not hamper business there. Indeed, it finds that bribery induces corruption to at least the same extent in Asia as in the rest of the world.

RELEASES THIS WEEK

Gross Domestic Product

****Embargoed until 8:30 a.m., Friday, April 30, 1999****

According to advance estimates, real gross domestic product grew at an annual rate of 4.5 percent in the first quarter.

Employment Cost Index

The employment cost index for private industry workers rose 3.0 percent for the 12-month period ending in March.

Advance Durable Orders

Advance estimates show that new orders for durable goods rose 2.0 percent in March, following a decrease of 3.9 percent in February.

Consumer Confidence

Consumer confidence, as measured by The Conference Board, rose 0.9 index point in April, to 134.9 (1985=100).

MAJOR RELEASES NEXT WEEK

NAPM Report on Business (Monday)
Leading Indicators (Tuesday)
Employment (Friday)

U.S. ECONOMIC STATISTICS

	1970- 1993	1998	1998:3	1998:4	1999:1
Percent growth (annual rate)					
Real GDP (chain-type)	2.7	4.3	3.7	6.0	4.5
GDP chain-type price index	5.4	0.9	1.0	0.8	1.4
<u>Nonfarm business (NFB) sector:</u>					
Productivity (chain-type)	1.5	2.7	2.5	4.6	N.A.
Real compensation per hour:					
Using CPI	0.6	2.5	2.3	1.7	N.A.
Using NFB deflator	1.3	3.7	3.4	3.4	N.A.
Shares of Nominal GDP (percent)					
Business fixed investment	10.9	11.0	10.9	11.0	11.0
Residential investment	4.5	4.3	4.4	4.5	4.6
Exports	8.2	11.3	11.0	11.3	10.8
Imports	9.2	13.0	12.9	13.1	13.1
Personal saving	5.2	0.3	0.1	-0.0	-0.4
Federal surplus	-2.7	0.9	1.1	0.8	N.A.
	1970- 1993	1998	Jan. 1999	Feb. 1999	March 1999
Unemployment Rate (percent)	6.7**	4.5**	4.3	4.4	4.2
Payroll employment (thousands)					
increase per month			217	297	46
increase since Jan. 1993					18176
Inflation (percent per period)					
CPI	5.8	1.6	0.1	0.1	0.2
PPI-Finished goods	5.0	-0.1	0.5	-0.4	0.2

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

New or revised data in **boldface**.

GDP and related data for 1999:1 **embargoed until 8:30 a.m., Friday, April 30, 1999.**

FINANCIAL STATISTICS

	1997	1998	Feb. 1999	March 1999	April 29, 1999
Dow-Jones Industrial Average	7441	8626	9323	9754	10878

Interest Rates (percent per annum)

3-month T-bill	5.06	4.78	4.44	4.44	4.39
10-year T-bond	6.35	5.26	5.00	5.23	5.22
Mortgage rate, 30-year fixed	7.60	6.94	6.81	7.04	6.93
Prime rate	8.44	8.35	7.75	7.75	7.75

INTERNATIONAL STATISTICS

Exchange Rates	Current level April 29, 1999	Percent Change from Week ago	Year ago
Euro (in U.S. dollars)	1.059	-0.1	N.A.
Yen (per U.S. dollar)	119.3	-0.5	-9.7
Major currencies index (Mar. 1973=100) (trade-weighted value of the U.S. \$)	95.51	-0.4	-0.9

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	4.0 (Q1)	4.2 (Mar)	1.7 (Mar)
Canada	2.8 (Q4)	7.8 (Feb)	0.8 (Feb)
Japan	-3.0 (Q4)	4.7 (Feb)	-0.1 (Feb)
France	2.8 (Q4)	11.4 (Jan)	0.3 (Feb)
Germany	1.8 (Q4)	^{2/} 7.2 (Feb)	0.2 (Feb)
Italy	0.9 (Q4)	12.3 (Jan)	1.4 (Feb)
United Kingdom	0.7 (Q1)	6.3 (Dec)	2.1 (Feb)

U.S. GDP data **embargoed until 8:30 a.m., Friday, April 30, 1999.**

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 was 9.0 percent.

SPECIAL ANALYSIS

Measuring the Benefits of Educational Grants

From 1965 to 1985, the Social Security student benefit program helped millions of students pay for college. A new study evaluating the program indicates the potential benefits of this kind of aid. *copied Reed Podesta*

The program. The Social Security student benefit program provided benefit payments to children of deceased, disabled, or retired Social Security beneficiaries. Open to 18 to 22 year-olds who were attending college full time, the program was far-reaching and generous.

- **Reach.** About 850,000 or one in every 10 college students aged 18 to 22 received aid from the program at its peak in 1977.
- **Generosity.** The average annual payment in 1980 was \$5,200 (1997 dollars), compared with \$1,700 for the average Pell Grant at the time.
- **Scale.** When Congress voted to eliminate the program in 1981, outlays were \$3.3 billion. (The Pell Grant's \$3.8 billion was the largest among college-related grant programs.)

X **Getting there and staying in.** The new study confirms earlier research showing that aid encourages students to start college in the first place, rather than merely subsidizing those who are already college-bound. Indeed, the new study finds a particularly strong response. Whereas other studies found that a grant of \$1,000 raised the probability of attending college by 2.5 to 4 percentage points, the new study finds an increase of 5 percentage points. The new study is also one of the first to find that grant aid increases the number of years of college that a student will complete. In particular, reducing schooling costs by 10 percent increased educational attainment by the same 10 percent. That is, a grant of \$5,000 raised the average number of years completed by 1 full year. *X*

Are the results too optimistic? One explanation for the study's relatively strong findings may be that the Social Security student benefits were not means-tested. Previous estimates based on means-tested programs, such as Pell Grants, show weaker effects of grant aid on college attendance rates, possibly because the low-income students targeted by those programs have larger non-financial barriers to starting college than the more random selection of students served by the Social Security program.

Yet there is still Hope. Another reason for the study's strong results may be the relative generosity of the Social Security benefits, suggesting that the extra financial aid provided by the Hope Scholarship program during the early years of college can help risk-averse or borrowing-constrained students overcome the potentially high fixed costs of starting college.

5-3-99

EYES ONLY

BUSINESS, CONSUMER, AND REGIONAL ROUNDUP

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Podesta

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Stiglitz

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THE DEPUTY SECRETARY OF THE TREASURY
WASHINGTON

5-3-99

99 APR 30 PM 5:14

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Summers
Podesta

April 30, 1999

MEMORANDUM FOR THE PRESIDENT

FROM: Lawrence H. Summers 
SUBJECT: Update on Global Markets
The Week Ending April 30, 1999

Better format
Planned

This week we present a new format that includes more analytic and policy content, leaving the details of market moves to the attached table.

Markets have been dominated by a continued increase in confidence in Europe, emerging markets, and, to a lesser degree, Japan, spurred in part by the ongoing strong performance of the U.S. economy and the strength of the U.S. dollar.

- European markets continue to strengthen in the wake of the ECB's rate cut. However, while inflation has been low in the "core" Euro countries -- 0.4% y/y in Germany and France -- higher price gains in Spain and other countries have made the interest rate cut less welcome.
- Japanese officials continue to take an upbeat view of Japan's economic prospects, despite data releases this week (e.g. March unemployment of 4.8%, up 0.2% from February) that do not seem to support their claims that the economy has bottomed out.

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Many emerging markets showed gains. Asian markets were particularly strong, boosted by Moody's upgrade of four large banks in Thailand, increased foreign investment in Indonesia, and progress in bank restructuring in several countries. Latin America's markets showed little change this week. Bond yields rose slightly across Latin America after \$4B in new bond issuances from Brazil, Chile, Columbia, Argentina, and Mexico in the past 2 weeks. Russia's markets strengthened on news of an agreement with the IMF.

Despite this positive sentiment, there is still ample evidence of risks to global markets. India faces ~~heightened political uncertainty due to upcoming general elections~~. Russia may have difficulty meeting the terms of its IMF program. Other countries, such as Ecuador, Ukraine, and Romania continue to face difficulties with their balance of payments.

Weekly Market Indicators for Week Ending April 30, 1999

	Exchange Rates		Equities		Bond yield	
	level /1	% change /2	level	% change	level /3	bp change
Japan	119.4	-0.10	16,702	-1.3	1.44	-12
Euro	1.058	-0.35				
Germany			5,393	3.8	3.91	8
UK			6,552	1.9	4.60	5
France			4,405	3.4	4.00	4
Italy			36,791	0.8	4.09	-2

	Exchange Rates		Equities		Bond spread	
	per US\$	% change /2	level	% change	spread /4	bp change
Korea	1184	0.5	753	0.2	220	2.2
Indonesia	8175	4.9	495	4.6	752	39
Thailand	37	0.9	459	14.5	214	-1
Hong Kong	7.75	0.0	13,333	3.3	n/a	n/a
Brazil /5	1.67	1.2	11,085	0.5	732	40
Argentina /5	1.00	0.0	514	-0.4	522	33
Mexico /5	9.3	0.1	5,517	0.8	386	5
Russia /6	24.2	1.9	92	10.9	2563	-4
India	3,326	-2.4	43	0.5	n/a	n/a
Turkey	390,350	-1.0	5,354	3.4	9400	200
South Africa /5	6.10	0.0	7,045	3.8	268	10

1. Yen/\$ as of noon Friday. \$/Euro as of 3PM Friday.
2. Percent change vs. US\$
3. Yield on 10-yr bond.
4. Spread versus U.S. Treasuries.
5. Thursday to Thursday.
6. Bond spread is Thursday to Thursday.

'99 MAY 1 PM 12:45

THE WHITE HOUSE
WASHINGTON

April 30, 1999

MEMORANDUM FOR THE PRESIDENT

FROM: Bruce Reed
Elena Kagan

SUBJECT: DPC Weekly Report

5-4-99

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Reed
Kagan
Podesta

1. Health Care -- Bicameral Meeting of Democrats on Medicare Reform:

Congressman Gephardt and Senator Daschle hosted a meeting on Wednesday between House Democrats (e.g., Dingell, Rangel, Stark, Waxman, Pomeroy) and moderate Senate Democrats (e.g., Breaux, Conrad, Graham, Lieberman) to discuss Medicare reform. The Senate Democrats insisted on the need for a viable reform proposal; the House Democrats objected on both political and policy grounds to most of the Senators' ideas. Although the meeting was somewhat confrontational in nature, it concluded with an agreement to work with each other and the Administration to evaluate a number of competitive models and determine whether any consensus is possible. We are encouraged by this development, but will have to find a way to ensure that participating in these discussions does not limit your own options and/or risk problematic leaks.

2. Health Care -- Report on Importance of Medicare to Women:

The Vice President will join the Older Women's League (OWL) on Monday to release a new report showing that women disproportionately depend on the Medicare program. The report will show that three-fifths of the Medicare population at age 65 -- and two-thirds of the Medicare population at age 85 -- are women. The report also will document how much money older women spend on health care (27 percent of their income by age 85), how many chronic illnesses they face (three of four have two or more chronic conditions), and how much they rely on prescription drugs (eight of ten take prescription medications regularly, with most of the costs paid out-of-pocket). At the event, OWL will indicate its support for the approach the Administration is taking to address the challenges facing the Medicare program. In particular, the group will endorse your proposal to dedicate part of the surplus to Medicare, your commitment to provide prescription drug coverage, and your opposition to increasing the eligibility age in the absence of a policy to prevent this change from leading to a larger uninsured population.

3. Health Care -- Asthma Initiatives:

The First Lady will visit Draper Elementary School in Washington, D.C. on Tuesday to announce a new legislative proposal to fight childhood asthma and to help launch a new asthma screening program run by the American College of Allergy, Asthma, and Immunology. The nationwide screening program will identify children with asthma and educate their parents about appropriate treatment. The

5-4-99

legislation will authorize a new \$68 million initiative to: (1) invest in research to determine the causes of asthma and to develop ways of reducing children's exposure to asthma triggers; (2) assist states and providers to implement effective disease management strategies -- including school-based programs that teach children how to manage their asthma -- to reduce asthma-related hospitalizations, emergency room visits, and deaths; and (3) conduct a new public information campaign to reduce children's exposure to asthma triggers.



4. **Health Care -- CHIP Program:** The Senate Finance Committee held a very positive hearing on Thursday to discuss the progress that HCFA has made in implementing the Children's Health Insurance Program (CHIP). Senator Roth opened the hearing by saying that the members were there to "focus on a success story." In her testimony, Nancy Ann Min DeParle noted that CHIP enrolled almost 1 million children in its first year and is on target to enroll 2.5 million children by the year 2000 -- a large step toward our goal of covering an additional 5 million children through both Medicaid and CHIP. She also said that the new toll-free number for children's health outreach (1-877-KIDS NOW), which you and the First Lady launched in February, already has received over 40,000 calls from parents interested in learning about free or low-cost health insurance options for their children. Witnesses from the Center for Budget and Policy Priorities and state Medicaid departments also praised the Administration for its implementation of the program and its record of initiating and supporting outreach efforts

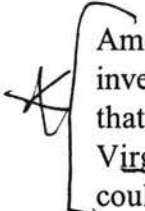
5. **Drugs -- Arrestee Drug Use:** The Department of Justice's National Institute of Justice released on Thursday a report on drug use among arrestees in 1998. The study found that marijuana was the most commonly found drug in tests of male arrestees, with use particularly high among young male arrestees (aged 15 to 20): more than half of such youths tested positive for marijuana. Cocaine remained the most commonly found drug among female arrestees; although cocaine use declined slightly among male arrestees nationwide, in more than half of the sites surveyed for the study, more than one-third of adult male arrestees still tested positive for cocaine. High rates of methamphetamine use remained largely confined to Western cities, with over 20 percent of both male and female arrestees testing positive for this drug in San Diego, Las Vegas, Spokane, Sacramento, and Salt Lake City. Finally, opiate use remained stable nationwide, with nearly 70 percent of confirmed heroin users also testing positive for cocaine. While opiate use remained very low among juvenile arrestees nationwide, heroin use among these youth increased significantly in New Orleans, Philadelphia, and St. Louis.



6. **Tobacco -- FDA Rule:** As you know, the U.S. Supreme Court agreed last week to review the decision of the U.S. Court of Appeals for the Fourth Circuit striking down the FDA's tobacco rule. The Court is expected to hear arguments this fall and decide the case sometime prior to the summer of 2000. Options available to the Court include (1) agreeing with the Fourth Circuit that the FDA has no statutory authority to regulate tobacco products or advertising; (2) agreeing with the district court that the FDA has statutory authority to regulate tobacco products, but not the advertising for those products; or (3) holding that the

5-4-99

FDA has statutory authority both to regulate tobacco products and tobacco advertising. If the Court finds that the FDA has statutory authority to regulate tobacco advertising, litigation will continue in the lower courts regarding whether the advertising restrictions imposed by the FDA are consistent with the First Amendment. (No court has yet ruled on this issue, and the Supreme Court is very unlikely to address it.) While the Supreme Court considers the case, the only part of the rule that will be in effect is the requirement that retailers check photo identification of any tobacco purchaser who appears to be under the age of 27. Interestingly, however, we may begin to see some voluntary decisions to refuse tobacco advertisements: the New York Times last week became the first major newspaper to announce that it would no longer run such advertisements.

 **7. Tobacco -- Recoupment Issue:** The Campaign for Tobacco Free Kids and the American Heart Association issued a report on Thursday highlighting how few states are investing tobacco settlement funds in programs to prevent youth smoking. The report found that only nine states -- California, Florida, Maryland, Massachusetts, Montana, Oregon, Virginia, Washington -- are currently using funds for this purpose. Although other states could choose to join these nine in the future, the report found that at least 25 states are not now considering any proposal to use settlement funds to reduce youth smoking. We issued a statement expressing disappointment that so few states are devoting settlement funds to youth tobacco prevention programs, and reiterating our refusal to waive federal claims to the funds without a commitment from the states to support such programs.

8. Education - Class-Size Study: Secretary Riley joined Senator Patty Murray and various education leaders on Thursday to announce the most recent findings of Project STAR -- the Tennessee study that has tracked the performance through high school and beyond of a group of students taught in small classes (with 15 to 18 students) in grades K-3. The study's findings show that these students had higher grade-point averages in high school, better graduation rates from high school, and a higher probability of attending college.

THE PRESIDENT HAS SEEN

5-4-99

99 MAY 1 PM 2:59

THE WHITE HOUSE

WASHINGTON

April 30, 1999

Copied

Spierling
Podesta

MEMORANDUM FOR THE PRESIDENT

FROM: GENE SPERLING

SUBJECT: NEC WEEKLY REPORTS

cc: JOHN PODESTA

Budget and Appropriations: This past Thursday (4/29), the House Appropriations Committee completed its markup of the military items in the supplemental appropriations bill. The Committee voted down attempts to add domestic items. Amid concerns that the Majority was not benefiting from the appearance of loading up the bill, the Senate Appropriations Committee postponed and will likely cancel its markup previously scheduled for next Tuesday, choosing instead to address Kosovo items directly in the existing conference committee. The full House rescheduled its consideration of the bill to next Thursday (4/6), rather than next Wednesday (4/5) as previously expected. Speaker Hastert and Senator Lott hope to get the bill to you by May 14. After dealing with the supplemental bill, the Appropriators will turn to making the allocations to their subcommittees.

Social Security: On Wednesday (4/28), Chairman Archer and Representative Clay Shaw introduced their plan for Social Security reform, known as the Social Security Guarantee Plan. Their plan allows for a tax cut of 2 percent of covered earnings to be deposited into an individual account. These accounts will be a mix of 60 percent stocks and 40 percent corporate bonds. Individuals will be able to choose from a number of funds and these funds will be selected and supervised by a board to be appointed by the Social Security Trustees. The plan also eliminates the Social Security earnings test. Reps. Jennifer Dunn, Robert Portman and Phil English were also present at the press conference.

On Thursday afternoon (4/29), Chairman Archer held another press conference releasing the Social Security Actuaries memo which showed his plan eliminated the long term deficit and creates 75 year solvency of the Social Security program. While the conference was open to press only, we have heard that reporters did ask some pointed questions on double counting. Archer claims his plan does not double count; it just follows the same budgetary procedures that have been used in the past. In addition, many of the reporters criticized Archer for creating a plan that does almost everything he and other Republicans have criticized your plan of doing, i.e. double counting, using general revenues and not changing the date where Social Security's benefits exceed the income it takes in. As you know, the current date when Social Security benefits are to exceed its income is 2014. Under the Archer/Shaw plan, this date is pushed back by only one year to 2015. On Friday morning (4/30), Senate Republicans' second attempt to invoke cloture on the Abraham/Domenici Social Security Lockbox amendment failed, 49-44 (60 votes being required to invoke cloture).

5-4-99

Financial Modernization -- CRA: Senator Gramm's Financial Modernization bill will be the primary legislation before the full Senate this week. Minority Leader Daschle will ask Democrats to show party unity on three votes: (1) vote yes for a CRA amendment to (i) strip the bill of the small bank exemption, (ii) strip the bill of the CRA "safe harbor" for banks with satisfactory ratings at their last examination; and (iii) add the requirement that banks "have and maintain" a satisfactory CRA rating to engage in insurance and securities activities; (2) vote yes for a Democratic alternative to the entire bill; and (3) vote no for Senator Gramm's version of the bill. It is not clear how well the Democrats will hold together. The last vote, especially, will be very hard for Democrats who support modernization, if the first two fail as expected. The NEC will hold coordination conference calls each morning to ensure that the White House is providing the Treasury Department as much support as possible.

Russia-IMF Deal Announced: The economics team has been closely monitoring the Russia-IMF negotiations. On Tuesday, April 27, Lael Brainard and Jim Steinberg co-chaired a deputies meeting that reviewed the status of the discussions, analyzed the likelihood of success of the program, and considered the risks even if the deal is implemented. On Thursday, April 29, it was then announced by IMF Managing Director Camdessus that the Fund staff and the Government of Russia had agreed to a program that would give the Russians about \$3 billion in the first 12 months. (World Bank and Japanese bilateral loans, and Paris Club debt rescheduling would also be "unlocked" by such agreement.) The IMF has demanded a number of "prior actions" (demonstrated progress in areas such as revenue collection and banking sector reform) before its Board of Executive Directors will formally approve the package, maybe in late June. Even if money starts to flow in late June, it will only flow into a type of escrow account where it will be used to help meet the Russians' existing 1999 IMF debt repayments. The economics team is concerned that even if the program is approved, the Russians may miss quarterly performance targets, which would force the program to be terminated. We will continue to monitor developments on an ongoing basis.

"Dolphin-Safe" Labeling Change for Tuna: The decision to adopt a new labeling standard was publicly released Thursday (4/29), one day prior to the congressionally-mandated deadline. Under the new standard, tuna may be labeled "dolphin-safe" if tuna are caught in the presence of dolphins provided no dolphins are actually killed or seriously injured during the catch. Previously, only tuna caught when no dolphins were present qualified for the dolphin-safe label. The decision will be revisited by the end of 2002 after further data collection and study by the National Marine Fisheries Service. Congressional briefings were held prior to the announcement and COS was informed as well. Regulatory changes are also underway to end the import ban on Mexican tuna.

EU Regulation on Aircraft Noise: The EU aircraft noise issue was satisfactorily resolved this week, at least for the time being. Friday (4/30), the EU Council voted to adopt its aircraft noise regulation but to delay implementation for one year. During that time, the U.S. and the EU will work within the International Civil Aviation Organization to develop and introduce a next-generation noise standard. Although industry trade groups said publicly that they were unhappy that the regulation was even adopted, privately, Northwest Airlines and other affected companies congratulated us on our victory. Prime Minister Blair was particularly helpful in bringing about this outcome, as were the German and French governments. On our team, Secretary Slater and Commerce Undersecretary Aaron were dogged and effective. The NEC coordinated the interagency effort, ensuring that the Administration maintained a very tough negotiating posture.

5-4-99

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No-Cost Transfer of BRAC Property for Economic Development: Although your event in Austin, Texas was cancelled last week, the White House and the Defense Department nevertheless released a progress report on military base reuse and called for the legislative authority to transfer former base property to local communities at no cost if they use it for job-generating economic development. Dorothy Robyn on my staff wrote the report and worked closely with DoD to craft the policy proposal. This proposal expands on your 1993 initiative, which allowed for the transfer of property for job creation – through Economic Development Conveyances (EDCs) – at below fair market value. Although the Services have provided many of these EDCs at a discount, the need for an appraisal and the lengthy, often adversarial negotiations between the military and the community have delayed property transfer and redevelopment. A policy of no-cost EDCs will eliminate these time-consuming steps. Senior officials in DoD are genuinely supportive of the approach, and we believe it has a good chance of passage.

Food Sanctions Policy Change: The Administration announced this past Thursday to exempt food and medicine from future unilateral Executive Branch sanctions regimes and existing sanctions, to the extent we had discretion. As foreseen in POTUS decision, follow-up work on what items are included in term “agricultural commodities and products” begins next Tuesday with an interagency meeting. Consultations with Senate Foreign Relations Committee reveal that they want the term only to cover edible items and not any “dual use” inputs such as fertilizer or centrifuges.

Beef Hormones: If no labeling compromise is reached (discussions will continue – we await more formal proposal from the EU) in this dispute by late May, we would proceed with publishing our final retaliation list and asking for WTO authorization. We have discussed these timetable issues with the EU in order to avoid the acrimony and procedural maneuvering that occurred during the banana dispute. In a related development, the EU threatened to extend their ban to all U.S. beef starting June 15 -- based on their recently completed study (of U.S. beef only) indicating that 12 percent of so-called “Hilton Beef,” allegedly hormone-free, imported into the EU in fact contains hormones. Technical discussions continue among testing officials on this matter.

Y2K Liability Reform: Lott brought to the floor Sen. McCain's bill with the support of Wyden, Feinstein, and Lieberman. Hollings objected to cutting off debate, so Lott filed a cloture petition. All of the Democrats stuck together on the cloture vote to protect the party's prerogative to offer amendments. Cloture failed 52-47 (with 60 votes needed). The Democrats were joined by three Republicans who oppose the bill. (Two more Republicans supposedly would have voted no on the underlying bill.) Meanwhile, Dodd got McCain and Wyden to drop three provisions, winning his support. But, there was no opportunity to vote on McCain-Wyden, as amended by Dodd. And Lott is unlikely to bring the bill up again until there is a deal.

Even with the Dodd amendment, the bill still raises serious concerns for the Administration. It would federalize all Y2K class actions (which previously provoked an AG veto recommendation), it fails to carve out claims by consumers or claims under the securities law (which are already subject to special rules under the 1995 and 1998 Acts), and it would create disincentives to remediation. We support an effort by Senators Kerry and Robb, working with some in the high tech industry and the trial lawyers, to develop a more limited alternative. The

key for the high tech industry will be some protection from joint and several liability. Kerry was initially reluctant, but will relent early next week. The Administration is working behind the scenes to influence Kerry-Robb so that it can win the support of key members of the high tech industry, while meeting our concerns. Most Senators agree a more public role would be counterproductive.

Bankruptcy: The bankruptcy bill will go to the House floor this coming Wednesday. When we reiterated our veto threat from last year, Representative Nadler agreed that his objective was to provide an alternative that would give Democrats cover sufficient to allow them to vote no on the underlying bill. However, the only alternative that Nadler has offered is a bill that is to the left of the Senate bill last year and does not appear to the Administration to be a credible alternative. On Friday, NEC and other Administration officials met with staff for Minority Leader Gephardt (who voted for the conference report last year) and Representatives Conyers and Nadler. Nadler believes that Gephardt agreed that he would rally Democrats around a credible alternative and urge them to vote against the Judiciary Committee bill, although Gephardt's staff have not confirmed with him that he made that commitment. We discussed whether Nadler or some other Democrat should offer an alternative that makes a modest number of key changes to the Judiciary Committee bill, including incorporation of a "mean test" amendment offered by Chairman Hyde, which ultimately failed in Committee. Hyde's imprimatur on the means test should add credibility to the package. We await Nadler's response.



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

1999 APR 30 15:27

April 30, 1999

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MEMORANDUM FOR THE PRESIDENT

CC: JOHN PODESTA

FROM: GEORGE T. FRAMPTON, JR. *GTFJ.*

SUBJECT: CEQ WEEKLY REPORT

PROTECTING COMMUNITIES FROM TOXICS

Food Quality Protection Act

Earlier this week, environmental and consumer representatives on a pesticide advisory panel resigned in order to protest EPA's failure to restrict pesticide use more aggressively under the Food Quality Protection Act (FQPA) of 1996. The panel members charged that EPA is not meeting the law's requirements to re-assess the riskiest pesticides and that the agency is "allowing agricultural and chemical industries to hijack" the law. These groups include the Consumers Union, the Natural Resources Defense Council, and the World Wildlife Fund.

The panel, jointly overseen by EPA and USDA, was created at the direction of the Vice President a year ago as part of an effort to broaden public participation and ensure a reasonable transition process for farmers as EPA implements a law that inevitably will require major changes in domestic pesticide use. The Vice President's directive responded to broad fears in the agriculture community that EPA was poised to make sweeping decisions to ban the most widely-used pesticides with little or no input from farmers.

* EPA remains on schedule for meeting the deadlines and legal requirements in the FQPA. Nonetheless, environmental groups have long been critical of the review panel as a sop to industry and the source of delays. These groups also complain that EPA is meeting its deadlines largely because many pesticide registrants have voluntarily withdrawn products rather than defend them under the new law. The panel, however, has been strongly supported by Democrats with agricultural constituencies as well as by farmers, ranchers, and nurserymen. The USDA's participation also has been extremely useful in refining the risk assessment process and ensuring that EPA's risk assumptions reflect actual practices in agriculture.

5-4-99

On May 12, I am convening the disaffected groups with Deputy Secretary Rominger and Deputy Administrator Robertson to hear their views and discuss what we can do to respond. In the meantime, Democrats on the House Agriculture Committee will be sending a letter supporting the work that EPA and USDA have done through the panel and pledging their help in addressing the concerns of the environmental groups.

RESOURCE STEWARDSHIP

Tuna/Dolphin

The Commerce Department announced this week that it found "insufficient evidence" to conclude that tuna-net encirclement has a significant impact on dolphins and that the "dolphin safe" label on tuna cans can be used no matter how it is caught, as long as dolphins are not killed or seriously harmed. Previously, only tuna caught when no dolphins were present qualified for the dolphin-safe tuna label on products imported to the United States. The decision stems from 1997 legislation that lifted the ban on imported tuna caught using the encircling nets. The legislation requires that the National Marine Fisheries Service continue to conduct research through 2001 before issuing a final decision in 2002.

Environmental groups are not in agreement on this issue; some support the new standard arguing that it encourages foreign fishermen to follow dolphin safe practices and continue the decline in dolphin mortality (from over 133,000 dolphins in 1986 to about 1,900 dolphins in 1998). The major U.S. companies have said that they will continue to use tuna that would be classified as dolphin safe under the previous standards.

SUSTAINABLE COMMUNITIES

National Town Meeting for a Sustainable America

This Sunday in Detroit, the President's Council on Sustainable Development (PCSD), a Federal advisory committee, will kick off the "National Town Meeting (NTM) for a Sustainable America." The NTM is the last major action of the PCSD. Created in 1993, the PCSD is our domestic response to international commitments on sustainable development made at the 1992 Earth Summit in Rio. The PCSD will make its final recommendations to you when the meeting concludes on Wednesday.

The NTM's local host committee includes Governor Engler, Mayor Archer, Wayne County Executive Edward McNamara, and General Motors Vice Chairman Harry Pearce. The Vice President will deliver the keynote address on Tuesday. Secretaries Slater and Daley, and Administrators Browner and Alvarez also will speak during the event and Governor Whitman and Senator Bond will address the conference by video tape.

We are expecting over 3,000 participants at the Detroit event including presentations from a bipartisan group of experts on the economic, environmental and social implications of sustainable

development. In addition, the meeting will be linked to over 100 communities nationwide via satellites and the Internet. The web site for the event has had almost a million hits since April 1.

We expect the NTM to catalyze 2,000 commitments to a sustainable future from individuals, businesses, government, and civic organizations by the end of the year. In addition, the Administration will announce approximately 60 commitments from Federal agencies.

OTHER

Hearings

My confirmation hearing was on Wednesday before the Senate Environment and Public Works Committee. I also testified on Thursday before the Senate VA/HUD Appropriations Committee concerning CEQ's appropriations. Both hearings went as expected with very few problems. My Senate confirmation markup is scheduled for next week.

On May 11th, I will testify before the Senate Energy Committee regarding our land conservation efforts. We suspect that some committee members will use this hearing as an opportunity to raise additional concerns about my confirmation.



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

99 APR 30 PM 5:15

April 30, 1999

MEMORANDUM FOR THE PRESIDENT

FROM: NEAL LANE *neal*
CC: JOHN PODESTA
SUBJECT: OSTP WEEKLY REPORT

5-4-99

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CBO Releases Initial Report on IT² Initiative

The Congressional Budget Office yesterday (4/29) released a report on current investments in information technology research. The CBO report was requested by Rep. Sensenbrenner, Chairman of the House Science Committee. Rep. Sensenbrenner, in a press release yesterday characterized the report as showing "inconsistencies in the Clinton Administration's information technology policies and inadequacies in its new technology initiative." The inconsistencies and inadequacies cited by Sensenbrenner are simply the lack of outyear numbers in the FY 2000 budget. He then went on to state that he "anticipates continued bipartisan work to address these issues and strengthen the federal role in information technology." OSTP is working closely with the NEC to intensify our amplification/validation efforts for IT² as the Appropriations Subcommittees begin their markups.

Senators Warming to Global Change?

*new summary
of this
bill
4/29/99*

Senator Murkowski and five other Republicans, along with Sen. Byrd as the lone Democrat, introduced legislation (S. 882) on Tuesday (4/27) that purports to be an alternative to the "flawed" Kyoto protocol. The bill would achieve greenhouse gas emission reductions through a "long-term, technology-based, global effort" and voluntary action. The bill is remarkable in its implicit acknowledgment that human activities may contribute to global climate change, and that stabilization of atmospheric greenhouse gas concentrations must be a long-term, global effort. The bill calls for \$2 billion in additional funding over 10 years for climate technology R&D in many of the same areas targeted for increased funding by your Climate Change Technology Initiative, and we will work closely with Todd Stern on developing a position on the bill.

The US Global Change Research Program held a Hill briefing last week (4/20) on Arctic sea ice that was well attended. The briefing featured an introduction from Alaska Senator Ted Stevens, who expressed concern over what might be happening in Alaska and the Arctic, especially on behalf of Native communities, and said that he strongly supported the continued funding of research efforts. I have been working with the USGCRP to make sure that Alaskan changes are included in our first National Assessment of the Consequences of Climate Change for the U.S., and have endorsed efforts by the CIA to make additional data on Arctic conditions available to the research community.

Cloned Goats Produce Human Anti-Clotting Protein and Other Cloning News

Researchers reported on Monday (4/26) that they had successfully cloned three female goats that had been genetically engineered to produce a human anti-clotting protein (antithrombin III) in their milk. Antithrombin III has the potential to treat heart attacks and strokes, and to prevent blood clots in patients who are attached to heart/lung machines during surgery. It is currently in the last stage before possible FDA approval. This is an important step forward for agricultural biotechnology and the biopharmaceutical industry, where the cost-effective production of cloned animals that have been genetically engineered to produce complex pharmaceuticals in breast milk is highly desirable. Isolating human proteins from goat's (or cow's) milk is much simpler and cheaper than isolating them from natural sources, and is free from the risk of contamination with human viruses such as HIV or hepatitis. The work is reported in the May 1 issue of *Nature Biotechnology*.

This is the first report of a goat being cloned; while the researchers report an increased cloning efficiency over that achieved to clone sheep, it is still far too low to suggest that human cloning has become more likely. In fact, a scientific report in the May 1 issue of the British journal *Lancet*, tells of the death of a six-week old cloned calf that was found to have immune system defects and severe anemia. This and other reports of deaths in cloned animals document the high possibility of introducing defects when cloning is used for reproductive purposes.

Martian Tectonics

The discovery of magnetic strips across the face of Mars suggests the barren planet once had geology like that of Earth, with a torrid interior spurting molten rock and massive plates drifting on the surface. Instruments aboard NASA's Mars Global Surveyor have detected magnetic striations that closely resemble the magnetic signature of crustal spreading and continental drift on Earth, researchers report in the journal *Science*. This may mean the very young Mars resembled the very young Earth, but that Mars ran out of its internal energy sources and became a geologically dead planet early in its history. Scientists previously believed that continental drift occurred only on Earth because studies had shown the process did not take place on Venus, the planet nearest Earth's size. Scientists believe that if early Mars did in fact have plate tectonics, it would increase the likelihood of life on Mars -- further increasing the interest in getting sample rocks back and looking for the possibility of early microbial life on Mars.

Parasite May Be Deforming Frogs

Observations of deformities in frogs and declines in populations of many species have received much attention recently. Hypotheses for the cause of widespread deformities have focused on ultraviolet radiation and chemical pollution. But two new studies published in today's edition of the journal *Science* conclude that defects found in frogs throughout the West may be caused by a trematode, a simple parasitic flatworm whose complex life cycle includes infecting the developing legs of tadpoles. The worm infection causes the tadpoles to grow multiple hind legs, a severe malformation that dooms the animal when it grows to a mature frog. Even though trematodes are found throughout North America, the parasite is unlikely to be the single cause for a worldwide decline in frogs and other amphibians first noticed two decades ago. The increased deformities caused by the parasite could be part of a natural biological cycle. However it is too early to hold humans blameless, as fertilizer runoff may have promoted increases in a water snail that is a key host of the parasite.



THE WHITE HOUSE
WASHINGTON

5-4-99

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FROM: TODD STERN 

SUBJECT: Climate Change Weekly Report

Agriculture. Late next week or early the following week, USDA will release its economic analysis of the costs and benefits for U.S. agriculture of meeting our Kyoto target. This analysis was prepared in response to a long-standing request by the Senate Agriculture Committee. We have worked closely with USDA and other agencies on the final preparation of the document. The analysis concludes that (1) the impacts on American farmers would be quite modest based on the permit price of carbon projected in CEA's own analysis, and (2) even if much higher permit prices were assumed, the impact on farm income would be far less than claimed by the principal analyses used to attack Kyoto in the farm sector. We are also working with USDA on a draft op-ed by Secretary Glickman to run in conjunction with release of the analysis.

Semiconductors. On Tuesday, Motorola announced its intent to cut its worldwide emissions of PFC (a potent greenhouse gas) fifty percent below 1995 levels (the relevant base year for PFCs) by the year 2010. This pledge follows an announcement by the World Semiconductor Council last week to reduce PFC emissions ten percent below 1995 levels.

New York meetings. Last week in New York, I participated in a ministerial level climate change meeting of around 30 countries, including virtually all of the main ones. Discussion focused on the schedule and agenda for future meetings, including the next full conference of parties to the climate treaty ("COP-5") this October in Bonn. Several countries proposed that the Bonn meeting include high-profile presentations of domestic actions to reduce emissions. This is partly intended as a dig at us, since our advocacy of international trading rights leads many countries to believe we're not doing anything at home. In fact, we should use Bonn as an opportunity to prove these doubters wrong and showcase our vigorous domestic efforts.

It is increasingly likely that no conference of parties to the climate treaty will be held during the year 2000; both the UK and New Zealand pressed in New York for the 2000 meeting to be put over until the first part of 2001-- late winter or early spring. In part, this reflects a desire on the part of many countries to hold COP-6 after release of the next major international report on the science of climate change, which has now been scheduled for February 2001. Of course, holding COP-6 anytime in late 2000 would be difficult here -- holding it before the Presidential election

5-4-99

would present obvious challenges, while holding it during a transition would be problematic as well. Ron Klain, George Frampton, Jim Steinberg and I agree that, all things considered, it makes the most sense for us to support the proposal by New Zealand and the UK for a 2001 date.

During the New York trip, I also joined Under Secretary of State Frank Loy and others for a number of bilateral meetings. We saw modest progress with several developing countries, including Chile, South Africa and Korea. But the developing country issue remains very tough. The Europeans were difficult too, especially on the issue of seeking a cap on emissions trading.

Indianapolis Sinks Workshop. The United States hosted an international workshop this week in Indianapolis on carbon sinks -- in particular, on technical issues relating to the question of whether additional categories, such as agricultural soils, should be added to the Kyoto Protocol. While we won't be able to get out in front of the science on this issue -- e.g., there needs to be adequate consensus that carbon absorption in ag soils can be accurately measured before this category could be added -- we also know that carbon sequestration is a matter a key issue to the ag sector and farm state Senators like Lugar, Harkin, Kerrey, Baucus and Roberts.

Congress

Murkowski/Hagel Bill. Senators Murkowski and Hagel introduced a climate change bill this week with 10 original cosponsors including one Dem -- Senator Byrd. In essence, it authorizes \$200 million/year for long-term R&D, to be run out of a new Climate Change Office at DOE, and tightens up requirements for the voluntary reporting of greenhouse gas emissions by companies. The bill seems intended to present an alternative both to Kyoto and to the Chafee/Lieberman/Mack early credit bill, which the anti-Kyoto crowd opposes out of fear that it could help create a business constituency for Kyoto (since companies holding early credits could only cash them in under a regime to control carbon).

That said, the bill as introduced isn't nearly as bad as it was in earlier drafts. Senator Byrd, after consultations with us, negotiated a substantial toning down of the anti-Kyoto rhetoric in the bill's findings and a clarification that the \$200 million/year authorization for long-term R&D is supplemental to existing programs. Our talking points on the bill welcome the sponsors' recognition that climate change is a serious problem and their focus on technology, while underscoring that the bill shouldn't be seen as a substitute for the range of activities, domestic and international, that need to be pursued. We also emphasize that the Kyoto Protocol is a signature achievement, though still a work in progress that isn't yet ready for Senate ratification.

Hearings. This week the House Small Business Committee held another hearing on the economics of Kyoto. Janet Yellen testified for us and did her customary good job of defending the reasonableness of our economic analysis.

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Press

Introduction of the Murkowski/Hagel bill on Wednesday received fairly limited coverage, with *Reuters* filing the only national story. The plan by environmental groups to have Earth Day 2000 center on climate change was covered by the wires. An opinion piece by Senator Chafee on credit for early action ran in *Roll Call* and *Time Magazine* ran a piece on the Vice President that focused on his history on the issue. The *Boston Globe* ran an editorial last Saturday praising environmental groups grassroots approach to the Kyoto Protocol, which they reportedly call "implementation without ratification" -- a bumper sticker that wouldn't go over well on the Hill.

On Sunday, *Reuters* reported that the American Insurance Association says the potential impacts of climate change on its industry are overblown. The Association called hurricanes the real threat. Last week, *AP* ran a story on a study published in the journal *Nature*, concluding that El Niño-like conditions could settle permanently by 2050 if global warming is "unrestrained." Coverage of the climate change research being conducted in the Arctic continues, with stories in the *Pittsburgh Post-Gazette* and in the *Anchorage Daily News* this week.

Science

The Sky Really Is Falling. Scientists have long known that an increase in greenhouse gases will warm the surface of the Earth and the lower atmosphere, but at the same time lead to a cooling of the upper atmosphere. (This happens because the increase in GHGs "traps" heat lower in the atmosphere, leaving less heat to warm the upper atmosphere.) In an article in *New Scientist*, scientists reported that the observed cooling of the upper atmosphere is greater than expected -- as much as a degree (Centigrade) a year for the past 30 years or so. As the atmosphere cools, it also shrinks: thus, scientists have suggested that the "sky is falling" -- as much as 8 kilometers over the last 40 years. In addition, a cooler upper atmosphere is expected to delay the recovery of the ozone hole, as colder conditions lead to increased ozone destruction.

cc: Vice President
John Podesta
Sandy Berger
George Frampton
Leon Fuerth
Ron Klain
Neal Lane
Jack Lew
Joe Lockhart
Gene Sperling
Jim Steinberg
Janet Yellen

THE WHITE HOUSE
WASHINGTON

April 30, 1999

5-4-99

MEMORANDUM

TO: THE PRESIDENT
FROM: LORETTA UCELLI
Subject: Communications Weekly Report

*to Ucelli
Participants*

*Copied
Ucelli
Podesta*

Colorado School Shooting

We are working with the Vice President's office, the First Lady's office, DPC and other White House offices on responses and a proactive strategy to deal with the issues raised by the shooting at Columbine High School. We are developing plans for the May 10 strategy meeting on children, violence and responsibility and developing other forums to communicate related Administration initiatives.

We also worked with the Vice President's office to update a fact sheet summarizing your efforts to address culture of violence issues since your 1993 speech to Hollywood executives. Ultimately, we would like to use the summary for the upcoming May 10 strategy meeting.

Kosovo

We are continuing to work daily with the NSC, Press office, Outreach offices, Cabinet Affairs and Legislative Affairs, to develop events and other communications vehicles regarding developments in Kosovo and humanitarian relief efforts. Next week, you will be traveling to Germany where you will visit American pilots participating in the NATO air campaign, interact with refugees and visit NATO headquarters in Brussels.

We are working with the Press office to identify and focus media attention on refugees and their stories. Early next week, we will be working to identify refugees arriving in the US, who have compelling stories to share with the press and the American public. The goal is to demonstrate the humanitarian reasons for our involvement in Kosovo.

Your statement following the Congressional Meeting on Wednesday was distributed to Jewish and religious organizations, state and local elected officials, Cabinet members and House and Senate Leadership.

Gun Legislation Event

Your gun announcement on Tuesday was covered by all the major networks. Additionally, we

updated the fact sheet on the Administration's overall record of accomplishment on the issue of reducing gun violence. The fact sheet, along with talking points and your remarks were distributed to distributed to reporters and columnists, 100 Hispanic organizations, 600 Asian Pacific American groups, 200 children's groups, over 1,000 civil rights, education and women's organizations and leaders , elected officials, Cabinet members and House and Senate Leadership.

Ed-Flex Bill Signing

A fact sheet, talking points and your remarks were distributed to 100 Hispanic organizations and leaders, 600 education groups, 200 children's groups, women's groups, state and local elected officials, Cabinet members and House and Senate Leadership.

THE WHITE HOUSE
WASHINGTON

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April 30, 1999

MEMORANDUM FOR THE PRESIDENT AND THE VICE PRESIDENT

FROM: MARY BETH CAHILL *MB*

SUBJECT: OFFICE OF PUBLIC LIAISON WEEKLY REPORT (April 22 - 30)

ACTIONS SUPPORTING PRESIDENTIAL INITIATIVES

KOSOVO

Religious delegation in Belgrade may be disappointed. Despite Sandy Berger's request, the religious delegation proceeded to Belgrade where the results appear to be as predicted – no prisoner release but propaganda for Milosevic. The delegation of "leaders" which Revs. Campbell and Jackson have assembled is, in fact, more "free lancers" than leaders. We are told that once the International Red Cross President had seen the prisoners, members of the group seriously questioned the wisdom of the trip. However, Jackson and the Orthodox Christians strongly urged that it go forward. Campbell was under considerable pressure from her Orthodox communions to participate. However, she is acting on her own initiative and not at the request of the NCC Board. The American Muslim Council representative understood that they, more than any of the others, could be misused but decided that they could not pass up a delegation of this kind.

LITTLETON

Civil rights organizations vocally support your position on gun violence. NAACP, NUL, SCLC, LCCR and other organizations praise your quick response pushing for new gun legislation.

Many groups seek involvement in your initiatives against violence. OPL will include leading children's, education, religious, and other groups in the upcoming summit.

SOCIAL SECURITY

Women's groups are concerned about White House commitment to Social Security reform. Although women's groups have been among our most active supporters, their engagement in the issue shows signs of weakening in light of press reports that the Republican leadership won't consider legislation and what ~~the groups perceive has been a less than forceful response~~ to the

Republicans from the Administration. Members of the Social Security Task Force of the National Council of Women's Organizations are writing to request meetings with Gene Sperling, the First Lady, and Cabinet officials. The letters were prompted in part by the Wall Street Journal article alleging that we might link USA Accounts more closely to Social Security.

Senior groups need White House assurance that Social Security is a priority. Seniors are expressing concern and displeasure over the Wall Street Journal's allegations and Senator Lott's remarks. They would like the Administration to make a forceful response to the Republicans and would like to meet with Gene Sperling to get assurance about our commitment.

MEDICARE REFORM

Senior leaders are concerned about future of Medicare reform. The groups met with OPL and DPC and believe that although the Administration is moving forward, Medicare reform may be stymied in Congress.

CHINA/WTO

Engaging the agriculture and business communities on US-China trade. OPL hosted another discussion with business representatives invested in China trade. In this latest in a series of meetings, Larry Stein, Chuck Brain, Lael Brainard briefed twenty members of the business and agricultural representatives on the status of the negotiations as well as the Administration's legislative strategy. 65 agriculture groups recently sent a coalition letter to both Agriculture Committees and have organized to target the Hill, grassroots and media on this issue.

CONSTITUENT OUTREACH AND OTHER ISSUES

AGRICULTURE OUTREACH

29 of the nation's diverse farm groups forge a strong consensus. In a St. Louis meeting, they came to agreement on critical issues facing family farm agriculture, including farm safety net, risk management, industry concentration and trade.

Food Sanctions. The groups are very pleased with the recent news that the Administration will allow U.S. agricultural products access to sanctioned foreign markets.

ASIAN PACIFIC AMERICAN OUTREACH

Imminent executive order will be central to your legacy for Asian Pacific Americans. Groups are eager for you to sign an executive order to increase the participation of APAs in federal programs in which they are underserved. OPL has been working with groups for close to 2 years to ensure that your order incorporates the insight of diverse groups of APAs so that the EO will be an historic initiative to close opportunity gaps, especially in regards to health. OPL is requesting an Oval Office

signing to amplify the EO's tangible benefits during May's APA Heritage Month festivities.

Nightline expected to do a show on how the Los Alamos spy allegations have affected APAs. The show will likely include coverage of Secretary Richardson's comments to a prominent group of Chinese Americans who recently met with John Podesta.

BUSINESS OUTREACH

Albuquerque Chamber of Commerce briefed on New Markets and other initiatives. OPL hosted a briefing on business issues for fifty members of the Albuquerque Chamber of Commerce on Tuesday. Mickey Ibarra gave an overview of the Administration's legislative and policy agenda and Lisa Green, NEC, gave a briefing on the New Markets Initiative.

ETHNIC OUTREACH

Greek leaders ask for the end of forcible division in Cyprus. 113 Greek American leaders wrote to you requesting that we intervene in Cyprus and that NATO make a firm statement against Turkey's current occupation in Cyprus. Tony Blinken and Ambassador Pickering, in a meeting with Greek leaders on Thursday, reaffirmed your commitment to ending the Cyprus status quo.

JEWISH OUTREACH

Statement on peace process relieves tension. While you were speaking about the crises in Littleton and Yugoslavia, American Jewish groups were relieved by the Administration statement regarding the Middle East peace process and the breathing room it provides to both parties in advance of the May 4 end date of the Oslo accords.

Controversy flares over State department official. For the past week, Jewish groups have been divided over the presence of Joe Zogby in Assistant Secretary of State Martin Indyk's office. The flap started when the Zionist Organization of America called on Indyk to remove Zogby based on his criticisms of Israel and some American policies. After initially disagreeing with his assistant's writings, Indyk this week defended Zogby and made clear that he had not been asked to leave (his post there was scheduled to end this month anyway) but had been offered a promotion to stay.

RELIGIOUS OUTREACH

Religious Liberty Protection Act moving. We expect action in May on Rep. Canady's bill. He has accepted previous DOJ suggestions, but there are still gay community concerns, which diminish support within the coalition. We are addressing these concerns.

Snag in plans for collaboration on demining. Following the dinner at Tom Downey's home, the President of the Humpty Dumpty Institute, Ralph Cwerman, wrote to you outlining possible ways that you could support their demining programs. However, a complication has arisen in

that one of their employees was recently fined by DOJ for an economic conflict while working in the demining office at State. He is also a former NSC employee. That situation combined with the possibility of our placing mines in Yugoslavia suggests that we put this issue on hold.

MR PRESIDENT:

I'll take care of this
Weekly Reader idea
with DRC.

Phil

THE WHITE HOUSE
WASHINGTON

5-4-99

April 30, 1999

MEMORANDUM FOR THE PRESIDENT AND VICE PRESIDENT

FROM: BEN JOHNSON

SUBJECT: OFFICE ON THE PRESIDENT'S INITIATIVE FOR ONE AMERICA
WEEKLY REPORT

Copied
Johnson
Podesta
Burkhardt
for
Weekly Reader
Message

ACTIONS

John
Weekly Reader: Since the Littleton incident, I have been in touch with a number of people regarding ways to get messages of tolerance to young people. Peter Bergen, President and CEO of the Weekly Reader Corporation has indicated that they would be pleased to participate in communicating a message from you to America's children. Due to the terrible tragedy, they are suggesting that we insert a letter from you in the September edition of the Weekly Reader to grades 4 and above in September. As one who grew up on the Weekly Reader, this office is strongly endorsing the idea. Please see a copy of the letter from Mr. Bergen attached to this memorandum.

Community Relations Service (CRS): We have been talking with DOJ's CRS office on the Littleton incident and aftermath. CRS is continuing their assessment, talking to government offices, community folks, parents and kids about what may be the racial dimensions. CRS indicated they had been in Littleton a few years back when there were racial tensions and bias incidents but that in this situation, it was premature for it to get directly involved until the community had an opportunity for more grieving and healing.

clear
Racism, Stop It! As a follow-up to a meeting I had with representatives from the Canadian Embassy, we convened a meeting with the Embassy and YWCA-USA to discuss "Racism, Stop It!", Canada's campaign to promote tolerance. We would like to establish a partnership between the US and Canadian governments and the two respective Y's. YWCA Canada is already engaged in the Canadian campaign and YWCA-USA was very excited about the potential for such an effort in the US.

Canada has requested an anti-racism statement from you, to join those from British Prime Minister Tony Blair and Canadian Prime Minister Jean Chretien on their "Racism, Stop It! Action 2000" website.

5-4-99

Asian American and Pacific Islander Executive Order : An Executive Order (EO) to increase the participation of and to reduce disparities faced by Asian Pacific Americans in federal programs is in the final stages of preparation. This EO is similar to others that addressed underrepresentation of African Americans and Latinos in federal education programs, but focuses more on health and human services programs.

May is *Asian Pacific American Heritage Month* and the announcement of this substantive EO, in addition to the annual symbolic proclamation, will be very well received by the community and particularly by the Congressional Asian Pacific American Caucus.

CONSTITUENT OUTREACH

CommUnity Religious Effort (CURE): I was the keynote speaker Sunday at the third annual CURE rally in South Bend, Indiana. The rally was organized by an interfaith and interracial group of religious leaders to curb violence and racism. The first rally was organized in 1997 after a series of local drug-related shootings. A dramatic event occurred when two clergymen -- one black and one white -- apologized to each other for prejudices they and members of their respective races have harbored.

Among those attending the rally were the parents of Cpl. Paul Deguch, a South Bend police officer slain in the line of duty. They joined in the healing effort for victims of violent crime. Featured at the rally was a giant pledge card with the names of residents pledging zero tolerance for violence and racism.

National Conference for Community and Justice (NCCJ): I was the keynote speaker at the annual meeting of the NCCJ in Miami. I addressed approximately 300 key leaders of the organization from over 35 states. Sandy Cloud, President and CEO is eager to join with us in promoting racial harmony and equality. Our One America message was very well received. They were especially pleased that we are pushing ahead with our education agenda and was very enthusiastic to learn that we are forging ahead to eliminate the nation's racial disparities in health.

CABINET RACE INITIATIVE WEEKLY REPORT

Department of Agriculture

Forest Service Employee Class Action: Following the latest round of mediation, on April 28, USDA reached an agreement in principle to settle the class action employee complaint alleging discrimination in the Forest Service's region 5, CA. The case was among those mentioned in an April 20 story in the Washington Post on equal opportunity complaints at USDA.

5-4-99

Joey ✓ **African American Farmers:** As of April 20, the facilitator overseeing the settlement of the class action discrimination case of African American farmers, had requested files on 2249 USDA borrowers in 28 states. USDA's implementation team is securing the material, and will forward it to the Department of Justice for further processing.

Department of Education

School Violence: DOEd's Office for Civil Rights (OCR) staff is working with school officials to address bomb threats and verbal threats to harm students at various suburban schools in the Kansas City area. OCR has supplied school officials with Department publications, including "Protecting Students from Harassment and Hate Crime," "Prevent Youth Hate Crimes: A Manual for Schools and Communities," and "Early Warning, Timely Response: A Guide to Safe Schools."

Social Promotion: On April 28, "Taking Responsibility for Ending Social Promotion: A Guide for Educators and State and Local Leaders" was delivered to Senate and House authorizing committee members. The guide offers promising examples and resources to help end the practice of social promotion.

Department of Housing and Urban Development

Work-Study Program: On April 22nd, Secretary Cuomo announced \$2.9 million in grants under a work-study program to help pay college expenses of more than 100 low-income and minority graduate students preparing for careers in community planning and development. HUD's Work-Study Program will fund two-year grants to institutions of higher education, and regional planning organizations. The grants will be used to provide up to \$15,000 per year in work stipends to individual students for two years to help pay for tuition, travel and books.

The grants will go to 24 colleges and universities and one metropolitan government organization. The Community Development Work-Study Program is administered by HUD's Office of University Partnerships. Established in 1994, the office is a catalyst for joining colleges and universities with their communities in a shared search for answers to pressing urban problems.

Department of Justice

Hopwood v. Texas: On April 19, the Justice Department filed a brief supporting the State's appeal of and petition for an initial hearing en banc on the court decision that barred consideration of race in admissions (5th Cir).

Small Business Administration

New Markets Initiative: As part of SBA's continuing efforts to reach out to untapped markets and further partner with the Black Ministers Association of York (PA), SBA hosted a "Pathway to Profits in the Millennium" economic workshop on April 26th. In addition, on April 29th SBA will brief the Heartland Conference comprised of 150 labor and financial leaders on the New Markets Initiative.

Business Information Centers: SBA held Business Information Center (BIC) training sessions from April 27th-April 28th for Hispanic & African American constituents. The Newark BIC targeted Hispanic Americans & included an SBA/bank loan workshop & and business plan workshop. The "Hands for Success" conference held in Syracuse, New York targeted African Americans and was sponsored by SBA & Chase Bank. A Y2K Matchmaker event is scheduled for April 28th at the Capital Business Resource Center.

President's Business Roundtable: SBA is working on the President's Business Roundtable tentatively scheduled for sometime in May on the New Markets Initiative. SBA drafted a proposed list of CEO's to attend the working roundtable with particular focus on Hispanic & African-American CEO's.

Department of Transportation

Buckle Up America Billboard Campaign: NHTSA prepared 4,000 posters featuring two ethnically and gender diverse children with the text, "He'll/She'll do what you do. Buckle Up," to be displayed on outdoor billboards. The Outdoor Advertising Association of America advertised the availability of the boards to its members and all the posters were ordered quickly. NHTSA is also printing a Spanish version of the poster. Donated billboard space and posting fees equal nearly \$6 million to date.

New Partnerships: DOT has entered into agreements with two national black sororities to promote equal opportunity in transportation-related careers, improve job access, provide job and transportation-related educational opportunities for those in economically disadvantaged communities, and advance transportation safety awareness programs. Alpha Kappa Alpha (AKA) Sorority, Inc., the nation's first Black sorority, entered into a formal agreement with DOT at a signing ceremony on April 22 with Secretary Slater and Norma Solomon White, AKA's National President and Delta Sigma Theta (Deltas) signed an MOU with Secretary Slater on April 26.

Secretary Slater also gave opening remarks at the Welfare-to-Work Forum co-sponsored by DOT, the Deltas and the DOL Women Bureau. Secretary Herman and Surgeon General Satcher participated in the ceremony.

PETER E. BERGEN
PRESIDENT
CHIEF EXECUTIVE OFFICER

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pbergen@weeklyreader.com

Mr. Ben Johnson
Director of the President's
Initiative for One America
White House
Washington, D.C.
20502

April 28, 1999

Dear Mr. Johnson,

It was a pleasure speaking with you yesterday. Weekly Reader would be pleased to participate in communicating the President's message to America's children.

Our suggestion would be to insert a letter from the President on White House stationery in the Weekly Reader "bundles" that go directly to classrooms. This letter could then be read by the teacher to the class or photocopied for distribution to all students. Due to the sensitive nature of the terrible tragedy in Colorado, our recommendation would be to insert the letter only for grades 4 and above.

Unfortunately, our publishing schedule for the current school year has already closed. Therefore, we propose inserting the letter in the first issue of the '99 - '00 school year in early September. This might be a particularly appropriate time to insert a positive message on the importance of communication between parents and children, the safety of schools, etc. Perhaps there could even be a suggestion to set up a welcoming committee so that new students wouldn't feel ostracized or isolated.

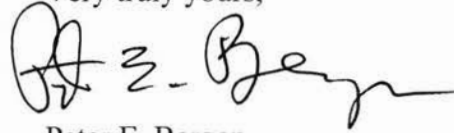
While it would be very difficult to get any print materials into classrooms before September, we would be happy to make our Web site (weeklyreader.com) available to the President. This could be done quite quickly. Students, teachers, and parents have access to the *Weekly Reader* Galaxy Web site daily and we would be happy to present a message from the President.

I'm attaching copies of the Weekly Reader publications whose audience we feel would be appropriate for the President's message.

Mr. Ben Johnson
April 28, 1999
Page Two

I'll be out of the office most of next week, but can certainly be reached by telephone.
Please let me know if you have any questions, or comments on how Weekly Reader can
be of service.

Very truly yours,

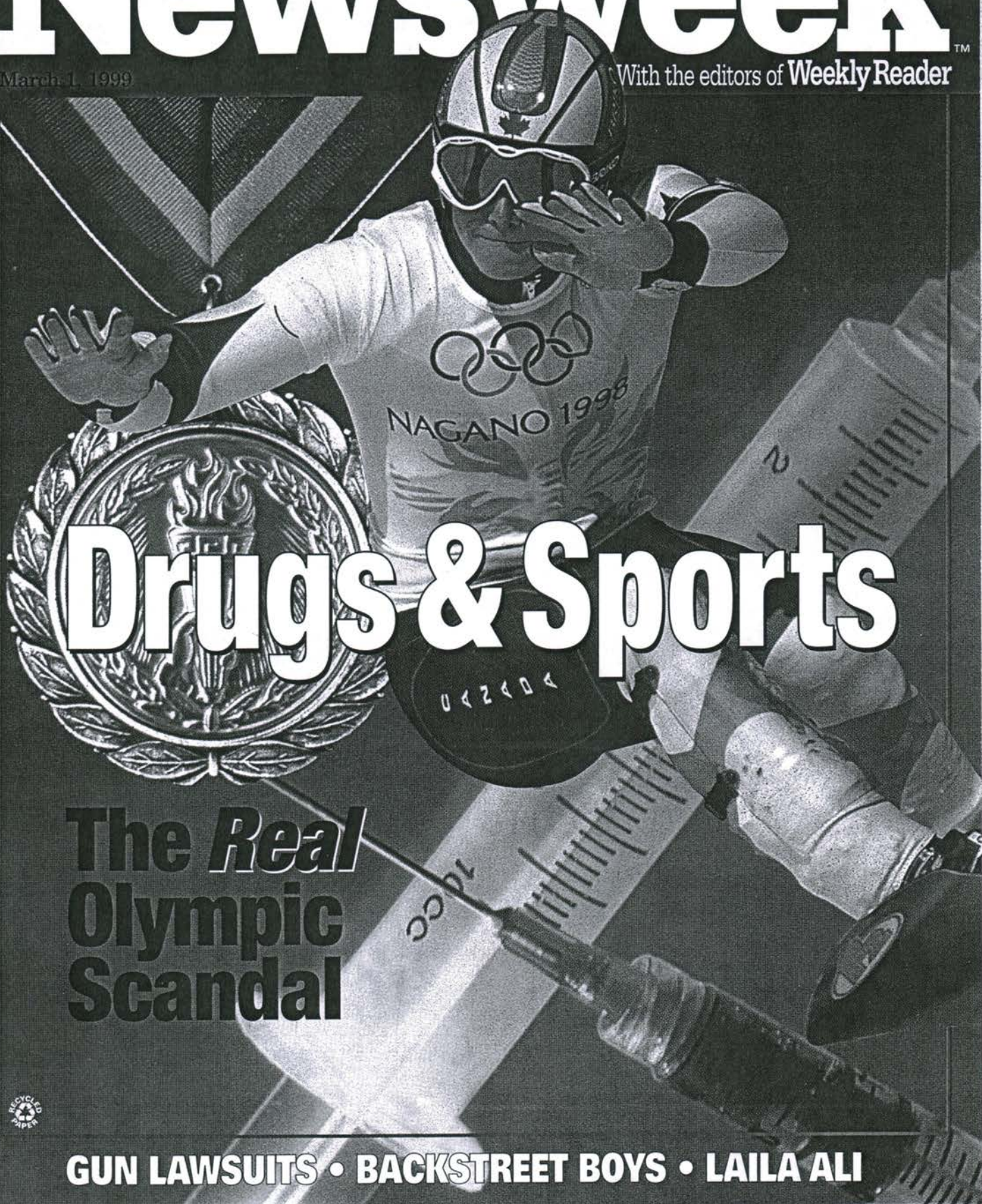
A handwritten signature in black ink, appearing to read "P. E. Bergen". The signature is fluid and cursive, with a long horizontal stroke at the end.

Peter E. Bergen
President / CEO

Teen Newsweek™

March 1, 1999

With the editors of **Weekly Reader**



Drugs & Sports

***The Real
Olympic
Scandal***

—Duomo/Paul Sutton: All Sport/Shawn Botwin/Custom Medical Stock



GUN LAWSUITS • BACKSTREET BOYS • LAILA ALI

THIS WEEK'S
UP

It's Finally Over!

What a relief! However you may feel about the outcome of the impeachment trial, it's safe to say most of us are just happy it's over.

The Senate found President Bill Clinton not guilty of perjury and obstructing justice, the charges in the

two articles of impeachment brought by the House of Representatives.

For more than a year leading up to the trial, the country endured a disheartening spectacle of scandals, lies, accusations, and shocking revelations.

At last, it's over. The country survived a serious constitutional crisis. The guidelines set down by the framers of the Constitution



—AP/Wide World Photo

200 years ago worked. The country is strong, and life will go on.

Planet Pluto



—NASA

Pluto fans, rejoice. The ninth planet from the sun is safe from "deplanetization."

The International Astronomical Union (IAU) recently considered reclassifying Pluto as a minor planet—one of nearly 10,000 minor planets or large asteroids at the edge of the solar system. Some scientists thought Pluto's very small size (smaller than Earth's moon!) and irregular orbit disqualified it from full "planethood."

But the IAU changed its mind after it was flooded with demands for Pluto to remain a planet. "There are a lot of people with an emotional attachment to Pluto," said Michael A'Hearn of the IAU.

web <http://nssdc.gsfc.nasa.gov/planetary/planets/plutopage.html>

Can't They Just Get Along?

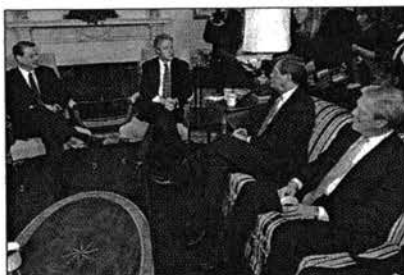
With the impeachment trial now behind us, voters want their elected officials to get back to work on the country's business. They want *bipartisanship*, or cooperation between the parties. They want legislation, not recrimi-

nation; knuckling down, not finger-pointing. Voters want Congress and the president to just get along.

But can they? In Con-

gress, the two parties are profoundly divided, distrustful of each other, and angry in a way that hasn't been seen since the 1974 Watergate scandal of Richard Nixon's presidency.

Clinton, for the remainder of his presidency, will have to deal with many in Congress who consider him a liar and an outlaw. In such a climate, can any work get done?



—AP/Wide World Photo

THIS WEEK'S
DOWN

2000 MILLENNIUM

Look Who's Talking Now!

Car... Start up. Open window. Turn on radio." "OK, Driver. Where are we going? You need gas."

Someday soon, you may find yourself talking to your car. Better yet, your car will talk back to you—and will do what you say.

Thanks to speech recognition technology, you may also soon be talking to your telephone, your TV, your oven, and your computer.

Experts predict speech recognition systems will change the way we interact with our machines.

"This [technology] could grow like the Internet, or even faster, because it doesn't require people in their homes to buy or learn anything new," said William Meisel, editor of *Speech Recognition Update* newsletter.

Until recently, speech recognition has been used mostly as a substitute for typing on home computers. By speak-

ing into a microphone, your words magically appear on your computer screen.

But now technology has



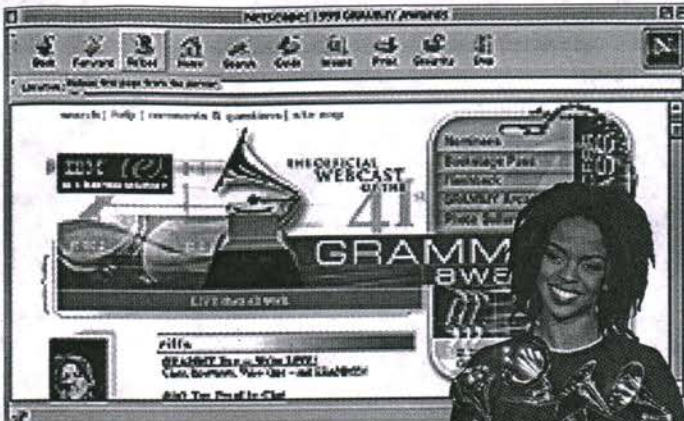
improved enough that manufacturers are putting speech systems in all sorts

of products. The new Jaguar S-type sedan, due out in May, will come equipped with voice-activated climate, audio and telephone controls (no voice-operated steering yet).

At last month's Toy Fair in New York City, at least half a dozen toys featured some degree of voice recognition.

But speech technology still has a ways to go. Computers often try to process a cough or a loud breath. And accents can be tricky. Still, if predictions are correct, the new millennium promises to be the chattiest ever!

—Stephen Kroninger



CYBERSCOPE

WEB WATCHING

Tired of watching TV? Maybe you'd like to watch the Web instead.

As computer technology advances, more and more groups are using Webcasts to deliver news, promote products, and entertain Web surfers around the world. A *Webcast* is a live broadcast transmitted over the Internet. Unlike TV shows,

Webcasts can go on for hours, with interviews and behind-the-scenes footage.

Last week, the National Academy of Recording Arts and Sciences held a two-day Webcast leading up to and including the Grammy Awards show. Viewers watched Lauryn Hill, above, accept her Grammy right on their computers.

—AP/Wide World Photo: http://www.grammy.com



Our Readers Speak Out on Issues in the News

Impeachment Trial

Dear *Teen Newsweek*,

I tried to watch some of President Clinton's trial on TV because I knew important history was happening. It was a little hard to understand, though. When I read your story, "Judgment Time," it helped me figure out the news much better. Thanks!

—Taneisha J.
El Centro, Calif.

Big Ideas

Dear *Teen Newsweek*,

I thought your story about the most important invention of the past 2,000 years was very interesting ("The Power of Big Ideas," Jan. 11, 1999). Maybe the printing press was the most important invention, but I have another suggestion for you. How about the camera? If it weren't for photography, we would still have to paint pictures of everything, and that takes time! I think the camera is very important because we can see what things look like in other parts of the world, or even on Mars!

—Taylor M.
Royal Oak, Minn.

Sanctions Against Iraq

Dear *Teen Newsweek*,

It's not fair that we aren't allowed to send things like dried fruit and powdered milk to people in Iraq (News Debate, "Iraq: Should U.N. Sanctions Be Lifted?" Jan. 11, 1999). Those people can't help it if Saddam Hussein is a bad dictator. They need our help!

—Melissa H.
White Plains, N.Y.

Mail Call

We want to hear your opinion about the articles in *Teen Newsweek*. Please write to us at

Teen Newsweek
200 First Stamford Place
PO Box 120023
Stamford CT 06912

Or E-mail us at

TN Dnevins@teennewsweek.com

Chew on This

For 75 years, Wheaties cereal boxes have featured the country's greatest athletes. This year, world heavyweight boxing champ Muhammad Ali finally



—AP/Wide World Photo

made it to the box. Now retired and disabled, Ali was at his prime in the 1960s. But his stands on civil rights and the Vietnam War made him a controversial figure.

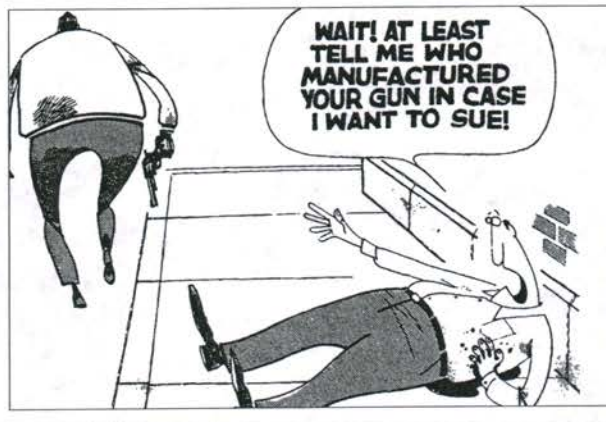
You can vote for your favorite Wheaties champ on the Wheaties Web site. At right are some of the top 20 Wheaties favorites.

web <http://www.wheaties.com>

GUNS DON'T KILL PEOPLE ...?

Is it right to sue gun manufacturers for gun violence? Some people are doing just that. But

others think the concept is ridiculous. What's the cartoonist's opinion? How can you tell?



—S. Kelley/San Diego Union Tribune/Copley

WHEATIES CHAMPS

ATHLETE	SPORT	YEAR ON BOX
Michael Jordan	Basketball	1988
John Elway	Football	1993
Mary Lou Retton	Gymnastics	1984
Jackie Robinson	Baseball	1996
Tiger Woods	Golf	1998



—Photodisc



Drugs and

The *Real* Olympic Scandal

Go for the gold! The Olympic Games celebrate the best values in sport—hard work, fair play, and the triumph of the human spirit.

This year, however, some members of the International Olympic Committee (IOC) have admitted accepting bribes to select Salt Lake City as the site of the 2002 Winter Games. The bribery scandal has smeared the Olympic rings with shame.

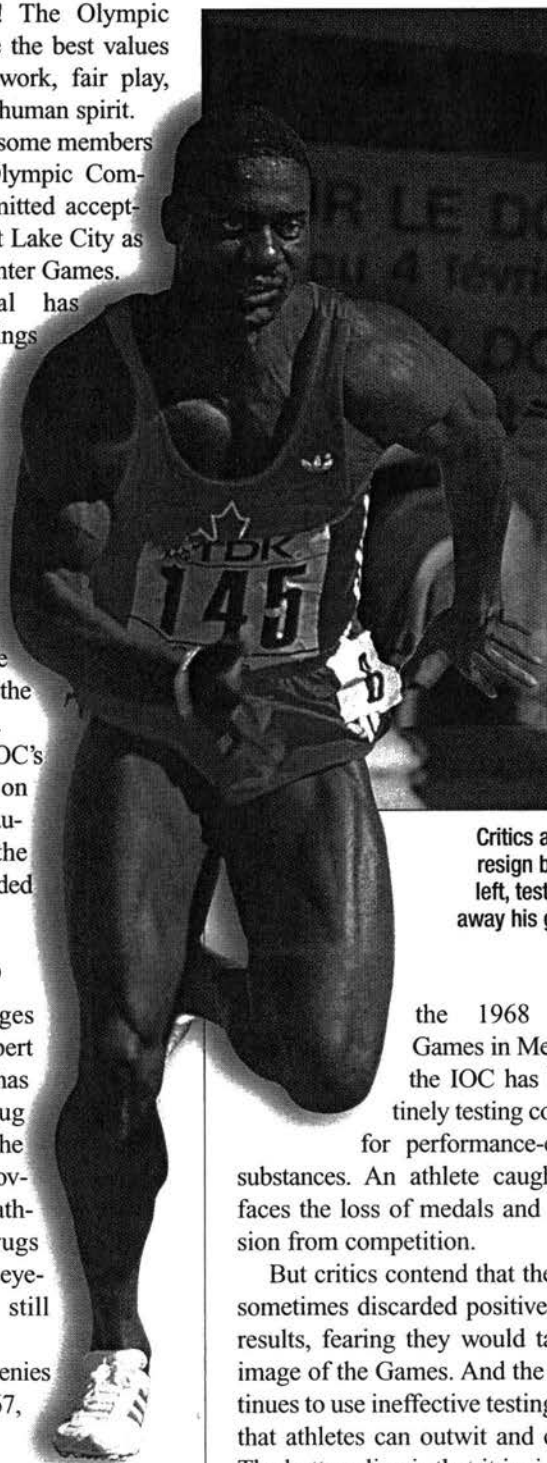
But the dishonesty doesn't end there. A far more disturbing and much more dangerous Olympic scandal is only now being exposed—rampant drug use among athletes, or *doping*, and the alleged willingness of the IOC to turn a blind eye.

Last month, at the IOC's World Conference on Doping in Sport in Lausanne, Switzerland, the shocking secret exploded into public view.

Doping Cover-Up?

"The IOC," charges Charles Yesalis, an expert on Olympic doping, "has known about the drug epidemic in sports for the last 40 years and has covered it up. ... [The athletes] could have drugs oozing out of their eyeballs, and the IOC still wouldn't call it."

The IOC flat-out denies the charge. Since 1967, the IOC has prohibited doping, and since



Critics are calling for IOC president Juan Antonio Samaranch, above, to resign because of the scandals. When Canadian sprinter Ben Johnson, left, tested positive for steroids during the 1988 Olympics, the IOC took away his gold medal. Zhang Yi, right, was one of four Chinese swimmers expelled from the 1998 World Championships for drug use.



—AP/Wide

the 1968 Summer Games in Mexico City, the IOC has been routinely testing competitors for performance-enhancing substances. An athlete caught doping faces the loss of medals and a suspension from competition.

But critics contend that the IOC has sometimes discarded positive drug test results, fearing they would tarnish the image of the Games. And the IOC continues to use ineffective testing methods that athletes can outwit and challenge. The bottom line is that it is ridiculously

easy to dope and not get caught—and the IOC knows it.

For instance, doping by East German athletes was an open secret for many years. East German secret police files show that many of that country's athletes were pumped full of anabolic steroids from at least 1969 on. Yet the IOC never once caught a single steroid-popping East German.

In the last ten years, 27 Chinese swimmers have tested positive at world meets for banned substances. The World Swimming Federation, regarded as tough on drugs, caught them. The IOC didn't.

Sports

At the 1996 Atlanta Games, several athletes tested positive for a banned substance. But the IOC took no action.

Risking Death

The newest doping agents can cause serious health problems and even death.

•**Stimulants** such as amphetamines, ephedrine, and caffeine provide a quick pop of energy. They are a favorite of sprinters, cyclists, and swimmers.

•**Testosterone** is a hormone that occurs naturally in the body. Men have more of it than women do. Some athletes, however, are boosting their testosterone level to artificially high levels, believing it will give them an edge. But there's a price to pay. Testosterone can give women beards, deep voices, and tough skin. It can make men's breasts swell and reproductive organs shrivel.

•**Anabolic steroids** build muscles. Almost all of them are made from the hormone testosterone and have similar effects.

•**Erythropoietin (EPO)** and **human growth hormone (hGH)** are substances that cannot be detected in urine and, therefore, don't show up in Olympic testing. EPO, by increasing the production of red blood cells up to tenfold, can turn blood the consistency of yogurt, making it too thick to flow. Many athletes believe hGH boosts energy. But hGH can also cause grotesque skeletal deformations by stimulating abnormal bone growth.

Clean It Up!

Why is the IOC willing to overlook the obvious? Because, critics say, doping makes athletes bigger and stronger and leads to record-breaking performances—all of which add up to Olympic excitement.

"So many Olympic records were made with the help of drugs, and people like to see records broken," says a former American rower. "In some sports, like track and weight lifting, it is considered practically impossible to break records 'clean.'"

Can the Olympics come clean? Or will life-threatening drug use be a part of sports forever?

web <http://www.olympic.org>

consider this....

How can drug-free athletes be expected to compete against Olympic records that were likely—but not proven to be—set by athletes using performance-enhancing drugs?

CONNECTIONS

The Road to Ruin

As Olympic officials work to clean up the modern games, it's interesting to note that similar corruption destroyed the original Olympics in ancient Greece.

The earliest records of Olympic Games in Greece date to 776 B.C., scholars say. The games were celebrated to honor Zeus, king of the Greek gods. Originally, the games were open only to male Greek athletes. (Non-Greeks were considered "barbarians." They were allowed to watch but not to participate in the games.) Women who were caught even watching the games faced a death penalty.

Bribery and Cheating

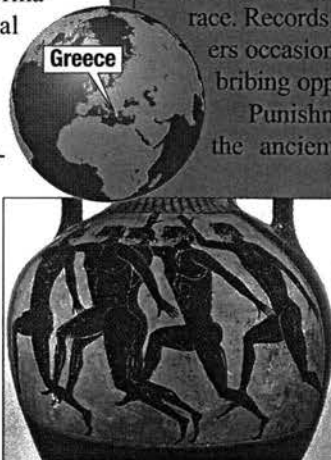
According to researchers, it was not uncommon for trainers to lend athletes large sums of money in order to bribe their opponents to lose the race. Records also show that boxers occasionally fixed fights by bribing opponents.

Punishment for breaking the ancient rules sometimes called for measures as drastic as whipping. A heavy fine, however, was a more common penalty. By the fourth century B.C., bronze statues of Zeus, paid for

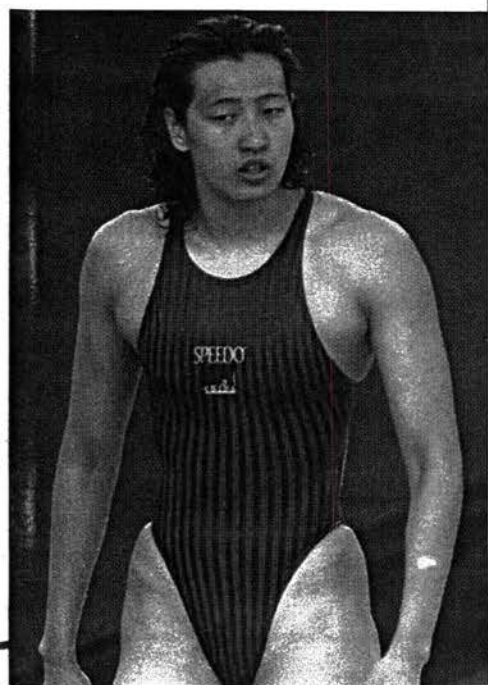
with fines paid by athletes, lined the road to the Olympic stadium.

In 146 B.C., the Romans took control of Greece, and the quality of the games significantly declined. Romans began competing as "honorary Greeks" and later forced slaves to compete for their lives against wild animals. By A.D. 393, the games had become little more than a professional circus. The following year, Emperor Theodosius I banned the Olympics, calling them a "pagan festival."

The modern Olympic Games began in 1896 in Athens, Greece.



Wide World Photos



—AP/Wide World Photos

—Granger

PEOPLE

BSB on a Roll

OK, so they didn't win a Grammy. (They were up for Best New Artist in last week's music awards cere-

mony.) But the Backstreet Boys are still on a roll.

The Boys—A. J. McLean, Brian Littrell, Howie Dorough, Kevin Richardson, and Nick Carter—are *only* the

hottest boy band on Earth (although competing band 'N Sync is certainly hot on their heels). BSB's mix of pop dance music sprinkled with a touch of hip-hop has fans feelin' the groove and shelling out the big bucks too.

Last year, their debut album was the nation's third best-selling album of the year, after

MOVIES

Young Darth Vader

Will "the force" prove its power yet again? Can *Star Wars Episode I: The Phantom Menace* sink *Titanic* as the top money-making film of all time?

Folks in the movie biz are wondering if the super hyped *Phantom Menace*, due to open May 21, will out-blockbust the 1997 hit *Titanic*.

The Phantom Menace is the first of three prequels to

the classic *Star Wars* trilogy. The new film tells the story of young Anakin Skywalker, the boy who grows up to become the



villainous Darth Vader—the father of *Star Wars* hero Luke Skywalker.

web <http://www.starwars.com>

the *Titanic* soundtrack and Celine Dion's album.

Skeptical music critics question whether BSB is a serious group with staying power. Are they just another cute boy band in a crowded field (Boyzone, 5ive,

C-Note, the Moffatts), enjoying their 15 minutes of fame?

No way, says Brian Littrell. "Unlike a lot of those other boy groups, we're more than just a bunch of pretty guys. We can sing."

SPORTS

Like Father, Like Daughter?

When Laila was born to Muhammad and Veronica Ali on December 30, 1977, her photo ran in a newspaper under the headline "Next Champ?"

Laila's dad, Muhammad Ali, is a champ—the former heavyweight boxing champion is often called "The Greatest." Now Laila, 21, wants to follow in her father's footsteps.

Laila runs a beauty salon as her day job but is working out daily and hopes to be ready for her first professional boxing

match this summer. Women's professional boxing is a growing sport but so far has produced no real stars. Laila has the name power, but can she "float like a butterfly, sting like a bee" (her father's famous motto)?

"Some people think I'm just trying to use my father's name," she said. "Right now it's just hype because people don't know whether I can box or

not. But when I get into the ring, it's really going to be a lot of hype when I'm knocking people out."



—Jill Connelly

Laila says her famous dad supports her decision—reluctantly—but told her,



blows to the head he received during his career in the ring.

"I don't want you to get hurt." The Greatest knows what he's talking about.

Muhammad Ali suffers from Parkinson's Syndrome, a degenerative, incurable disease of the brain that causes tremors and a stiffening of the muscles. He developed the disease at least in part because of the repeated

Guns on Trial

Should Gun Manufacturers Be Sued for Gun Violence?

If a person is shot, is the gunmaker at fault? That question is being asked in courtrooms across the country. Following the success of recent lawsuits against tobacco companies for tobacco-related health problems, some people are now suing gun manufacturers for injuries and deaths related to gun violence.

In New York City last month, a jury found 15 gun manufacturers guilty of negligent marketing and distribution practices in a case filed by seven families of shooting victims. In other words, since the guns in those shootings had been illegally obtained, the jury found the gun companies guilty of allowing those guns to fall into the wrong hands.

Several large cities are suing gunmakers in an attempt to recoup the huge amounts of money they have spent as a result of gun violence. New Orleans, for example, claims that guns have insufficient safety features. In Chicago, a lawsuit argues that the gun industry is flooding neighborhoods outside the city with guns, knowing that the guns will ultimately end up in the hands of criminals in the city. Chicago alleges that such practices are a public nuisance.

Chicago Mayor Richard Daley argued that "we hold polluters responsible for the environment, and liquor stores for selling to minors. Now we're holding the gun industry responsible."

Should the gun industry be held responsible for shooting deaths and injuries?



In a landmark case, a jury in New York awarded \$500,000 to gun-shot victim Steven Fox, right, and found 15 gun makers guilty.

No! Wrong Target!

Lawsuits against gunmakers are aimed at the wrong target, industry supporters say. Blame the criminals, not the companies, says the National Rifle Association. Such lawsuits are a "misguided effort to shift blame for the criminal or irresponsible use of our products," said Richard J. Feldman of the American Shooting Sports Council.

Some state officials agree. They are trying to pass laws that would block cities in their states from taking gunmakers to court. Georgia has already passed such a law.

"[In Texas] we're not going to allow frivolous lawsuits against legitimate business," said Texas state representative Suzanna Hupp. "A gun is a

tool that can be used to kill a family or it can be used to protect a family."

Yes! Take Responsibility

The gun industry must take some responsibility for the products it sells, say those who support taking gunmakers to court. It's time for the gun industry to help pay for the health and law enforcement havoc created by guns, they say.

In his new book *Making a Killing: The Business of Guns in America*, Tom Diaz charges that the gun industry is "contributing to a public health and safety disaster of epidemic proportions."

Today, unlike manufacturers of all other consumer products, such as toys and household appliances, the gun industry in the United States is exempt from federal health and safety laws. "We are trying to bring accountability and safety to this industry," said New Orleans Mayor Marc Morial.

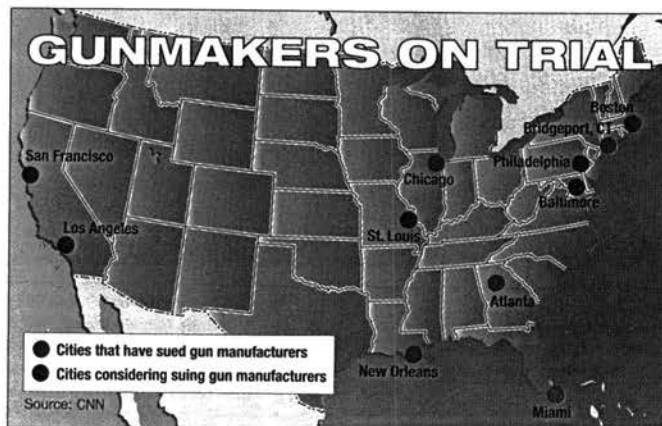
What do you think? Should the gun industry be held responsible for gun violence? Let us know!

Let us know!

Dnevins@teennewsweek.com

consider this....

The Second Amendment to the U.S. Constitution states: *A well regulated Militia being necessary to the security of a free state, the right of the people to keep and bear Arms shall not be infringed.* Does requiring the gun industry to bear some responsibility for gun injuries and deaths infringe on "the right of the people to bear arms"? Why or why not?



TOP MONEY-MAKING MOVIES

READ THE GRAPH

Place *T* in the blank if a statement is true.
Place *F* in the blank if a statement is false.

1. The top-grossing movie earned nearly twice as much money as the second highest-grossing movie.
2. *Return of the Jedi* earned about one-third of the money that *Star Wars* earned.
3. Of the top ten movies of all time, the oldest movie is *ET: The Extraterrestrial*.
4. More top-grossing movies were made in 1997 than in any other year.
5. Seventy percent of the top ten movies were made in the 1990s.
6. *Titanic* made more money than *The Lion King* and *Forrest Gump* combined.



Source: the-movie-times.com; AP Wire Photo

KNOW THE NEWS

Fill in the oval in front of the correct answer.

1. Pluto is officially designated as
 - ☐ A a minor planet.
 - ☐ B an asteroid.
 - ☐ C a planet.
2. The International Olympic Committee has been testing athletes for doping since
 - ☐ A the 1968 Summer Games in Mexico.
 - ☐ B the 1996 Summer Games in Atlanta.
 - ☐ C the 1988 Summer Games in Seoul, South Korea.
3. Artificially high levels of testosterone can lead to
 - ☐ A skeletal deformations.
 - ☐ B thick blood.
 - ☐ C beards and deep voices in women.
4. The Olympic Games in ancient Greece were originally conducted
 - ☐ A to force slaves to compete for their lives against wild animals.
 - ☐ B to honor Zeus, king of the Greek gods.
 - ☐ C to raise money for Emperor Theodosius I through bribery and fines.
5. Recent lawsuits against gun manufacturers are being patterned on previous lawsuits against
 - ☐ A the automobile industry.
 - ☐ B the tobacco industry.
 - ☐ C the liquor industry.

VOCABULARY

Circle the best definition for each word.

1. **rampant** (page 4)
 - secretive widespread dangerous
2. **tarnish** (page 4)
 - stain polish repair
3. **negligent** (page 7)
 - illegal ignorant careless
4. **recoup** (page 7)
 - get back cover up forget about
5. **frivolous** (page 7)
 - nasty expensive silly
6. **skeptical** (page 6)
 - doubtful enthusiastic stupid
7. **motto** (page 6)
 - poem slogan lyric
8. **recrimination** (page 2)
 - blame lawbreaking laziness

CRITICAL THINKING

Many athletes are willing to risk their health and even their lives for the glory and riches they can make as Olympic winners. But is it worth it? If you were a former Olympian whose body has seriously deteriorated due to doping, what would you say to today's athletes to persuade them not to use drugs? Use a separate piece of paper for your answer.

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THE WHITE HOUSE
WASHINGTON

April 30, 1999

5-4-99

MEMORANDUM FOR THE PRESIDENT

FROM: Mickey Ibarra



SUBJECT: Office of Intergovernmental Affairs Weekly Report - April 26 - 30, 1999

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p 2

COLORADO SCHOOL SHOOTING

- IGA continued contacting elected officials and prepared call sheets for your use to reach the parents of the victims of the Columbine High School shooting.

KOSOVO OUTREACH

- On Tuesday, IGA hosted a conference call between governors and Secretary Cohen regarding the call up of US Military Reserves for the Kosovo conflict. Twenty-three Governors participated on the call, including all eight governors from states directly impacted by the initial call up. Governors Davis (D-CA), Hull (R-AZ) and Thompson (R-WI) thanked the White House for the outreach effort.

TOBACCO RECOUPMENT

- IGA and DPC held a meeting with key Democratic governors' staff to discuss the possibility of finding an agreement on tobacco recoupment. We delivered a strong message and had both a frank and open conversation regarding our positions on the Hutchinson legislation. Governors Carper (D-DE) and Engler (R-MI) met with Rep. Young (R-FL) to reinforce the NGA position, while Governor Thompson (R-WI) received an assurance from Speaker Hastert (R-IL) that the House would recede to the Senate recoupment language.

ED-FLEX

- While Governor Carper (D-DE) was unable to attend the Ed-Flex bill signing ceremony, he was pleased to be recognized in your remarks and to have Delaware's Secretary of Education Dr. Iris Metts introduce you. Governors from both parties are supportive of the legislation.

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STEEL

- ✓ Governor Underwood (R-WV) called to request a meeting with you on steel. IGA arranged for Secretary Daley to meet with the Governor on Thursday, May 6. The Governor will be presenting 10,000 signatures from citizens in West Virginia urging the Administration to address the illegal dumping of steel and, "to make [the President] aware that this practice has cost hundreds of West Virginia workers their jobs and jeopardized the future of their families and communities."

TANF LETTER

- ✓ NGA Chairman, Governor Carper (D-DE) and Vice Chair, Governor Leavitt (R-UT) sent a letter thanking you for the changes that were made to the final TANF regulations. The NGA is pleased that they were able to work successfully with the Administration to agree on the definition of TANF assistance, the creation of separate state programs, and the continuation of waivers. Governor Thompson (R-WI) refused to sign the letter.

COMMUNITY REINVESTMENT ACT

- ✓ Today, we hosted a conference call with Gene Sperling for key mayors to alert them to efforts in the Senate that seriously weakens CRA. Participating mayors included: Patsy Jo Hillard (East Point, GA); Lee R. Clancey (Cedar Rapids, IA); Marc Morial (New Orleans, LA); James Perron (Elkhart, IN); Roy Bernardi (Syracuse, NY); Kenneth Barr (Ft. Worth, TX) as well as mayor's representatives from North Little Rock, Arkansas; Ft. Wayne, IN; Irvington, NJ; Tulsa, OK; Ft. Wayne, IN; and Detroit, MI. Mayors went on record opposing the Senate's financial modernization effort and are mobilizing support for CRA. Also joining the conference call was representatives from DPC and Treasury.

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YIELD BURNING

- ✓ The states and municipalities are big winners in the deal between the SEC and Lazard that was announced this week. The Lazard penalty of \$11 million does not include any liability for the issuers and as a practical matter, Lazard (and any other firm) will not chase the issuers for any liability claim. Now that the first case is settled, it is expected that other firms will reach similar settlements in the coming months.

FEDERALISM

- ✓ On Wednesday, April 28 we conducted a consultation session with the Big Seven organizations of elected officials. They provided us with written proposals in response to our concerns about the existing (Reagan) order. We will meet next week to respond. I am pleased to report that we are making good progress and are working cooperatively to resolve

our remaining issues.

AUSTIN VISIT

- Mayor Kirk Watson is delighted you were able to reschedule the Austin visit for Friday, May 7. You have not been there since 1995. You will be greeted by our elected friends and a large crowd of supporters. This will be an open public arrival.

OLYMPICS

- Thurgood Marshall, Jr. and I completed individual meetings with the Utah House delegation (Cook, Hansen and Cannon) this week. We also met with Salt Lake City Organizing Committee representatives. All were effusive in their praise of The White House Task Force for the Salt Lake Games and asked us to express their thanks to you for the support. We will begin a round of meetings with Senators next week to include McCain, Stevens, Hollings, Hatch and Bennett.

INSULAR AFFAIRS

- Puerto Rico Marine Bombing Accident: Governor Pedro Rossello (D) was sharply criticized for not pressing the Vice President to end the use of live ammunition in military target practice on the island municipality of Vieques. The Governor expressed hope you will agree to what appears to be a unanimous Puerto Rican request in this regard. Congressman Carlos Romero-Barcelo (D) said he and Rossello will never give up on the issue. The U.S. Attorney told the Navy he was disinclined to enforce a 1979 injunction against public access to the range as plans to increase the number of individuals sitting-in there increased. Representative Lincoln Diaz-Balart (R-FL) wrote you expressing concern about the safety of the residents and asking for consideration of their requests for ending live fire on the island and for Navy land. He also arranged for the Commonwealth party president to meet with House Speaker Dennis Hastert on the issue.
- Chinese Boat People: The Coast Guard intercepted another boat of Chinese trying to enter Guam and escorted them to the Northern Mariana Islands and agreed to send two large cutters to Guam to prevent further entries. We continued to work with NSC and other agencies on housing the over 1,000 illegal migrants in our western Pacific territories as well as on determining whether individuals should be granted asylum or repatriated to China.
- Puerto Rico Independence Crimes Prisoners: Puerto Rico Interagency Group Co-Chair Jeff Farrow joined Chuck Ruff and Janet Murguia in meeting with Congressman Carlos Romero (D) and Representatives Luis Gutierrez (D-IL), Jose Serrano (D-NY), and Nydia Velazquez (D-NY) to discuss their requests to release 15 Puerto Rican imprisoned for crimes committed to encourage independence for Puerto Rico in the early 1980s.

WEEK AHEAD

- On Monday, May 3, OPA and IGA are hosting a briefing for 50 California state legislators. They will also attend the Japanese State Arrival ceremony. Also on Monday, we will convene our bimonthly Department/Agency Directors meeting. I will be meeting with LA Supervisor Gloria Molina, Texas State Representative Domingo Garcia, Long Beach Mayor Beverly O'Neill, Forth Worth Mayor Kenneth Barr and CA Speaker Antonio Villaraigosa next week. On Thursday, May 6, we will be hosting a briefing for members of the Los Angeles County Board of Supervisors.

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THE WHITE HOUSE
WASHINGTON

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April 30, 1999

5-4-99

MEMORANDUM FOR THE PRESIDENT

FROM LYNN CUTLER *LYC*
THROUGH JOHN PODESTA

CC: MARIA ECHAVESTE

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Sacagawea Coin Event

- The event is being held on Tuesday with the First Lady to unveil the artwork for the new dollar coin for the Millennium, which features Sacagawea. We have invited every tribal chairman in the country, along with organization activists, historians, well-known Indian figures. There will also be ceremonial representation--a drum team, dancers, and an Indian color guard. LaDonna Harris will be one of the speakers.

Gaming Regulations

- There were three thousand attendees at the meeting of the National Indian Gaming Association in Arizona last week. I am told that there was universal applause and gratitude to you for sending forth the regulations on Indian gaming. We still face the threat of the Enzi amendment to the Kosovo supplemental. The amendment proposes to delay the final implementation of the regulations, which are scheduled to become final on May twelfth.

Draft Gaming Study Commission Report

- While we do not expect to see the final report until June, there was a draft given to the media this week that received a great deal of attention. Among other things, the draft is very critical of Indian gaming and maintains that there is inadequate oversight of Indian casinos. Indian country is ready to speak out on this issue. While the draft is hard on Indian gaming and suggests measures on state lotteries that the Governors will not like, it essentially takes a hands-off posture on all other casinos.

White House Interagency Working Group On American Indians And Alaska Natives

- The quarterly meeting, chaired by Secretary Babbitt, was held today, April thirtieth. I am

5-4-99

happy to report to you that we are seeing real progress in several of the agencies in their work with Indian country. First, the Department of Education is aggressively implementing the Executive Order on Indian Education that you signed last August at the economic development conference for Indian country. Tribes around the country are using your Executive Order to talk to their local school boards about the comprehensive approach that the federal government is taking.

- Next, Commerce has hired a woman from Indian country to work on tourism, global export opportunities and business opportunities in Indian country. She is also working with Indian owned firms. This is a first, and an important step. I asked her to help us with the New Markets Initiative work.
- The Corporation for National Service has created a Director of Native American programs.
- The Department of Defense has moved aggressively on their Indian outreach policy and is working to institutionalize the Indian program and policy initiatives.
- The Justice Department is working with all of their US Attorneys to sensitize them to Indian issues, and to encourage them to do tribal consultations.
- Finally, HHS is holding the first major consultation with leaders from Indian country on their budget for 2001. This is the first time that Indian country has been consulted on the entire HHS budget, rather than just the portion covering Indian Health Service.

Other

- I am meeting with Chairman Bill Kennard of the FCC this coming week to discuss the needs in Indian country. He has already begun to work on these issues, and is deeply committed to helping to get the technology reservations so desperately need to them. The report that you ordered the Commerce department to prepare on the needs for telecommunication infrastructure is almost ready. It will be powerful in demonstrating what has to be done.
- I've also been involved in discussions of the First Lady's next Treasures tour, which will take her to the Southwest. Some wonderful Indian events are under discussion.

THE WHITE HOUSE
WASHINGTON

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April 30, 1999

MEMORANDUM FOR THE PRESIDENT

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

SUBJECT: Summary of Cabinet Weekly Reports
April 24 - 30, 1999

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AMPLIFICATION OF PRESIDENTIAL INITIATIVES

- **Agency Response to Columbine School Shootings:** Cabinet Affairs continues to convene daily conference calls with DOJ, HHS, DOEd, and FEMA, which are the primary agencies involved in responding to the school shooting aftermath. The federal government continues to play a limited but important role in responding to the long term needs of the Columbine community. The Governor of CO created a task force through an Executive Order asking representatives from the federal government to help create an effective response over the next several weeks, months, and years. DOEd officials recently met with local school officials to request additional counselors and increased security presence. OPL is coordinating with agency counterparts to help channel offers of assistance to the appropriate agency contacts. On May 3, the National Youth Violence and School Safety Summit will take place in Jackson, MS, and will be attended by Bill Modzeleski, from DOEd's Safe and Drug Free Schools. The State of CO is planning to submit an application for a competitive School Based Partnership grant that may provide program money for long term costs.

DEPARTMENT OF TREASURY

- **Columbine CO Shootings:** ATF has 13 investigators and other experts assisting Littleton authorities with the ongoing investigation. In addition, ATF is involved in the tracing of the firearms used in the shootings, and sent a peer support team, including a chaplain, to provide assistance to the victims, witnesses, and investigators.
- **Kosovo:** On April 27, Secretary Rubin attended a joint IMF-World Bank meeting on international financial institution and donor approaches for assistance to the countries

DEPARTMENT OF EDUCATION

- **Columbine Shootings:** On April 30, Secretary Riley spoke about the Littleton shootings before an audience of about 100 people, mostly parents, at Walt Whitman High School in Bethesda, MD. The Secretary will discuss the shootings, interact with parents, and also discuss what the federal government is doing to curb school violence and help the people of Littleton.
- **Anti-Violence CD-ROM:** DOEd's Safe and Drug-Free Schools Program plans to join DOJ, the Music Television Network (MTV), and the National Center for Conflict Resolution Education to announce the release of "Fight for Your Rights: Take a Stand Against Violence," a CD-ROM guide designed to curb youth violence. After the announcement, tentatively scheduled for May 7 at MTV's studios in New York City, one million free copies of the CD-ROM will be available through an 800 number.
- **Safe and Drug-Free Schools Recognition Program:** On May 14, the Safe and Drug-Free Schools (SDFS) Program, will make final recommendations for the schools to be recognized for having developed exemplary SDFS programs. DOEd has not yet set the date for the recognition program ceremony.
- **DC/MD/VA Student Mediation Conference:** On May 21 and June 4, as they have done for the last seven years, the Fairfax County Public Schools and those in surrounding communities will provide an opportunity for elementary, middle, and high school students in the DC metropolitan area to attend a one-day conference on peaceful resolution of conflict. The conference, cosponsored by the George Mason University Institute for Conflict Analysis and Resolution, is expected to draw over 2,300 students and staff to its facilitated workshops.
- **NH School Funding Plan:** On April 22, NH took a major step in its efforts to pass a school funding plan that complies with the State Supreme Court's Claremont decision, as the House and Senate passed similar bills, which rely heavily on a statewide property tax, but vary in relatively minor details. Conferees are expected to send an acceptable compromise bill to Governor Shaheen that will resolve the differences in the two plans. One problem remains: a lawyer for the Claremont plaintiffs, five property-poor communities, claims that the two plans are unconstitutional.
- **FL Vouchers:** On April 28, FL's legislature was expected to pass the first statewide plan of state-paid tuition vouchers for children attending private schools. FL students in failing schools would receive vouchers of up to \$4,000 to transfer to public, private, and religious schools.

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THE WHITE HOUSE
WASHINGTON

April 30, 1999

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MEMORANDUM FOR THE PRESIDENT AND THE VICE PRESIDENT

FROM: KENNETH H. MACKAY, JR. *KHm*

SUBJECT: SPECIAL ENVOY FOR THE AMERICAS WEEKLY REPORT

Panama: At my request, State and NSC co-chaired an Inter Agency Working Group meeting to review issues related to the transfer of the canal in December. The working group was tasked with following up on certain unresolved issues. I will be travelling to Panama on May 6 to meet the president-elect (elections will be held on May 2) and get a first hand view of how the canal transfer is progressing and will provide a detailed report upon my return.

good Business Outreach: During my visit to Miami this week, I devoted time to meeting with business organizations including the Latin American Chamber of Commerce, the Florida International Bankers Association, the Business Network for Hemispheric Integration, and the Greater Miami Chamber of Commerce. I feel that engaging business is critical to achieving our hemispheric objectives.

Hurricane Relief: In Miami, Mayor Alex Penelas arranged a meeting with private organizations that participated in hurricane relief. On your behalf, I thanked the representatives for their participation in organizing locally based relief efforts following hurricanes Georges and Mitch. My staff will follow-up with appropriate agencies on ideas that were raised that may lead to better coordination between private organizations and relief agencies jointly responding to future natural disasters.

Central America Supplemental: At the request of Maria Echaveste, I attended a briefing for the Central American Ambassadors on the status of the Supplemental. The briefing was intended to reassure the Central Americans that the White House is fully committed to the passage of your reconstruction assistance package.