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THE PRESIDENT HAS SEEN
6-23-99

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Interesting
We do need
good follow up

THE WHITE HOUSE

WASHINGTON

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June 15, 1999

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Podesta
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MEMORANDUM FOR THE PRESIDENT

CC: John Podesta, Sandy Berger, Jim Steinberg, Tony Blinken, Gene Sperling

From: Sidney Blumenthal SB

Subject: Reconstruction

Success in the war will be marked, in great part, by the building of a new Europe. Reconstruction in the Balkans should be analogized to the Marshall Plan. Through reconstruction we will integrate the Balkans into Europe, insuring that the sources of strife that produced the war are replaced by a foundation for peace. The fact that this task will prove difficult should be embraced; it should not be a cause for hesitation. Even emphasizing the hard nature of the work ahead would underline the Administration's momentum and forward-looking direction.

The President should put himself at the head of the reconstruction efforts. The declaration of the foreign ministers and our insistence that the bulk of the funds come from the Europeans should not in any way prevent the President from being decisive in his initiative or his statements. (It's worth recalling and stressing to our Allies that while the U.S. investment in the Marshall Plan was sizeable, 80 to 90 percent of the capital formation in its first two years came from Europe itself.) The reconstruction effort provides an unparalleled occasion for an articulation of the President's larger vision of the post-war West and placing that vision within his foreign policy as a whole. The President should not allow announcements or gestures by others, or even joint declarations that include the U.S., to preempt his broader statements. To the public, not only in the U.S. but across Europe, these events make a faint impression until the President identifies himself with them.

The President should be the one to announce the Stability Pact and the Donors Conference, even if news about them is floating around. Only a few people will be aware of them; it is the President who will give them drama and significance. The relaunch will be, in effect, the launch.

Reconstruction will offer concrete substance to our other motives for fighting the war. It will not be an abstract principle. The funds will ground the moral cause and demonstrate our ultimate seriousness. Just as the war has been cast as the final war of the 20th century, ushering in a new era in the 21st, the President should cast reconstruction as completing the work of Wilson,

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Roosevelt and Truman while setting a new direction. It would be apt for the President to refer to Wilson's dream of a democratic Europe, of international cooperation and of an internationalist U.S.; of FDR's Four Freedoms—the Kosovo war, it can be rightly claimed, was dedicated to fulfilling freedom from fear; of Truman's revitalization of a democratic western Europe through the Marshall Plan and of his defense of the West through NATO. In each of the three great world struggles of the 20th century, American presidents had a progressive conception of the peace. Now, at the end of the Kosovo war, those American ideals can be more realized than ever. It would also be appropriate to note that extreme partisanship after World War I prevented a U.S. role in the international arena and was a contributing factor to World War II, while responsible bipartisanship made possible the positive U.S. role in the world after World War II and led to the spread of prosperity and democracy. Today, too, the stakes of the future are high. Once the President is advocating reconstruction, he cannot say often enough that the national interest must be put above any short-term partisan interest.

The President's statements in Europe are likely not to get the full resonance they deserve. This is the usual fate of remarks made on foreign trips. No one should count on a sudden historical understanding among the media to remedy their routines. Though a reconstruction package is likely to be proposed months from now, it should begin to be treated as an immediate issue. The natural instinct, upon coming home from the trip, will be to turn instantly to domestic issues. Of course, the President should engage them as energetically as possible. He might even consider asking for a joint session of Congress to launch his post-war domestic program. But the President should not miss the opportunity now of setting the reconstruction issue in place properly. He should consider giving at least two speeches upon his return—one laying out his vision of the West in the 21st century and how reconstruction will make that possible; another would explain how our international objectives in reconstruction mesh with our domestic priorities, especially in terms of the budget. The President must repeatedly point out that the money we put in will be returned manifold and he should cite the Marshall Plan as the precedent.

How the President deals with reconstruction will be seen as an integral aspect of how he conducted the war. Further, the elites will watch the President carefully on this issue. If he takes the lead, he can rally them to his banner of new internationalism and turn them against Republicans who do not act like the post-World War II bipartisan icon, Senator Arthur Vandenberg. Beginning with the G-8, foreign policy will be analyzed in the most influential editorial pages through the reconstruction question. Paradoxically, the greater the static the more those pages will take the side of the President. This controversy will feed a general view of the uncooperative Republicans and has the potential of becoming early on a central issue in the presidential campaign—an issue that gradually polarizes to the Democratic advantage. Reconstruction is the resolution of the point that we are the natural guardians of stability, national security and global prosperity.

While the Administration has wisely contained itself from celebrating the victory before the Kosovars return to their homes, we will have a national celebration in any case—July 4th. Would it be untoward to invite contingents of the air forces from Britain, France, Germany, the Netherlands, and Italy to join the U.S. Air Force in an extended air show over Independence

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Mall before the fireworks? It would not be inappropriate for the President to have as guests any of the NATO leaders, or simply Secretary-General Solana, who might choose to watch with him from the Truman Balcony.

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Blumenthal
Podesta

MONDAY, JUNE 21, 1999

Sandy/Jim/SRB

## EDITORIALS/OPINION

Fyi — Interesting Op-ed

# First, Serbs Need to Acknowledge the Ugly Truth

By Fred Hiatt

WASHINGTON — To save an 82-year-old grandmother huddled alone in her house in Pec, one rare Serbian soldier who had not lost his own humanity posted an eloquent sign on her front door: "A person lives here."

But most of his comrades apparently had learned to see Naxhie Salilu as something less than a person. Despite the sign on the door, Serbian soldiers set fire to her house. And when she managed to douse the flames, they tried again, and then a third time, according to an account by Washington Post reporter R. Jeffrey Smith. Only the arrival of NATO troops and the withdrawal of the Serbs saved her life.

Many others were not saved, how many we still do not know. Ten thousand, one British official guesses, but the estimate will probably rise. Every village, it seems, has its mass grave, its bloodstained cellars, its scraps of clothing and bones poking above hurriedly shoveled earth.

How could Serbian soldiers, some of them hardly more than boys, loving sons in many cases, try to burn an 82-year-old grandmother alive, and joke about eating her once she was cooked? How could they shoot old men, throw grenades into rooms packed with women and children, decapitate and mutilate and torture?

As after the Holocaust, Cambodia's killing fields and Rwanda's genocide, it will not be enough to say that these atrocities are inexplicable.

They were, it is important first to note, planned and deliberate. Slobodan Milosevic's campaign to force most ethnic Albanians to leave Kosovo was carefully organized, highly complex and astonishingly efficient. It relied on terror — on "demonstration killings," as Kenneth Roth of Human Rights Watch said last week — as a motivating force.

Although most deportees are now likely to return, it would not be accurate to say that Mr. Milosevic's campaign entirely failed. NATO did well to stand up to Serbian aggression, but that does not mean that, as President Bill Clinton said on Friday, "We have reversed it."

Kosovo is laid waste. Everything of value, from washing machines to medical equipment to children's doll collections to German marks, has been looted and carted back to territory that Mr. Milosevic still controls. The once lively market town of Pec, like other Kosovo towns and cities, is in ruins.

Virtually every family has lost a loved one or suffered in some other way. Far from being "reversed," the damage that Serbian forces inflicted will reverberate down through generations.

But if Mr. Milosevic had a plan, that does not explain how he found so many people willing to carry it out. Here, too, there are answers of a sort.

They start, as always, with a dictatorship using a closed and manipulated press to dehumanize its intended victims. Neil Kressel, author of "Mass Hate: The Global Rise of Genocide and Terror," notes that Nazi Germany made movies alternating footage of rats gnawing through granaries with footage of Jews working in German businesses. Rwandan Hutu referred to Tutsi as "insects." In Serbia, Kosovo Muslims were dehumanized as backward, overbreeding infidels and demonized as rapists of Serbian women.

The next step is authorization, the apparent granting of legal and moral approval from someone higher up. Finally comes routinization.

It is not yet clear how many of the worst atrocities were committed by the army and police, how many by local Serbian civilians and how many by paramilitary thugs such as those led by the war criminal Arkan. Such thugs often develop a strong sense of identification with their groups, psychologists say, so that when an order comes to kill or rape, refusing becomes too painful a repudiation of identity.

Rebels in Sierra Leone have taken that to its extreme, seizing pre-adolescent boys and forcing them to kill their relatives or villagers so that the criminal band becomes their only family.

A principal motive for the paramilitaries in Kosovo, according to Branimir Anzulovic, ~~was~~ plunder. "You can find such criminals in any society," said Mr. Anzulovic, author of "Heavenly Serbia: From Myth to Genocide." "But then there is another question — the silence of most Serbs, their failure to express any outrage."

A few brave and honest Serbs have spoken out, but Serbia's institutions work against such voices. The media are controlled. The Serbian Orthodox Church, even as it called for Mr. Milosevic's resignation last week, could summon indignation only about the Serbian exodus from Kosovo, not about the atrocities committed against the Muslim Kosovars.

For neither side can there be rapid repair. Many Kosovars, euphoric now at going home, will soon enter "a period of real recognition of the extent of their loss and the difficulty of recovery," said Dr. Jennifer Leaning, who has worked with Kosovars in association with Physicians for Human Rights.

In the long run, though, it may take Serbian society even longer to heal, since even the first step, acknowledgment of its crimes, seems so distant.

*The Washington Post.*

GNUS - What about this? 6-23-99



## OPINION/LETTERS

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# Global Economy Needs Better Shock Absorbers

By Roger C. Altman and C. Bowman Cutter

WASHINGTON — Financial markets have painfully short memories. With the Dow hovering above 10,000, last year's near-meltdown has been forgotten. As a result, the movement for international financial change, so strong just a few months ago, has dissipated. The key nations are stalemated over reform.

On Friday in Germany, the Group of Seven nations and Russia will convene for their annual economic summit meeting. Their immediate preoccupation likely will be Kosovo, but they should also break the economic reform logjam because it carries far greater risks than does instability in the Balkans.

Everyone has heard about the political difficulty of world financial reform. But that is like Los Angeles learning that a major earthquake is imminent yet being told its City Council cannot agree on a preparedness plan.

The system is rickety and must be strengthened before the next crisis. Necessary steps include dramatically enlarging the International Monetary Fund, straightening out its role relative to the World Bank, strengthening the medium-sized currencies and installing a real financial early-warning system. With leadership, these steps can all be taken.

There should be little doubt about the inevitability of renewed financial crisis. Remember Mexico in 1994, Asia in 1997 and Russia in 1998. The recent Brazilian crisis was especially sobering.

Six months ago, the Asian financial crisis abated, and world markets were temporarily calm. In this environment, the IMF painstakingly assembled a $42 billion precautionary credit line for Brazil's economy. This was a new approach, a standby financing so big as to deter a currency crisis in the first place, not just clean up after one had already struck. But without warning, almost before the ink was dry on the IMF loan documents, markets blew right through it.

Confidence in Brazil suddenly ebbed. Its currency plunged 40 percent in three weeks, capital poured out of the country, interest rates rocketed and recession set in. All global markets were shaken amid fears of renewed contagion. It seemed the world economy was headed back to the precipice.

All except the unfortunate Brazilians ended up dodging this bullet. But these recurrent near misses signal danger. The Brazil case reveals that the world financial system's shock absorbers are still not strong. Frequent trips to the edge of the cliff eventually result in a plunge.

Right now, world markets are beyond the reach of any regulator or nation. They will probably stay that way. But that does not mean we simply cross our fingers, hoping against a global crash. Or just wait for the next regional collapse. It is folly to stick with an international monetary architecture that worked for the 1960s but is defenseless now.

Here is what should be done. First, the IMF is the emergency lender to governments, and the system needs this bulwark more than ever. But in financial terms, the Fund is too small for the crises that nations will face in the new financial order.

Indeed, until its modest multilateral replenishment last year, IMF resources had dwindled to approximately $50 billion. That would have bailed out only one medium-sized developing country. Even now, at $300 billion, the International Monetary Fund is undercapitalized.

The resources available to the IMF should be doubled, to roughly $600 billion, and simultaneously indexed to an agreed upon, global economic growth rate. This could be done without any new money from national legislatures. Indeed, a moderate leveraging of the IMF balance sheet would work. This could mean that the Fund, whose credit rating is impregnable, would borrow from private markets. Or it could guarantee borrowings by member nations in distress.

Second, the wasteful overlap between the IMF and the World Bank should be ended. In the future, the IMF would be the only handler of emergency financing. It would withdraw from shaping longer-term economic recovery programs. In contrast, the World Bank's main role would return to overseeing all sectoral reform, particularly for banking systems, and all financing for social safety nets. It would no longer serve as another short-term emergency lender.

Third, the current exchange rate system for semi-industrialized countries needs modification. Among the big three currencies — the dollar, the euro and the yen — trading relationships are fine. But certain currencies of semi-industrialized nations, including the Mexican peso or South African rand, are far more vulnerable to sudden capital overflows, as was evident in Mexico in 1994 and Indonesia in 1997. Some need greater protection.

The currency board systems of Hong Kong and Argentina, while not identical, are relevant here. They stood out like lighthouses during the recent international financial crisis. Despite currency collapses all around, these currencies maintained their values. The key was an iron linkage to the U.S. dollar, supported by large dollar reserves maintained by the currency board.

Washington, in particular, should encourage adoption of such "hard" dollar-based systems. The most obvious immediate candidate is Mexico, then perhaps Brazil. Such approaches do not apply universally, however. A monetary system as weak as Russia's, for example, could not sustain it.

This is a natural moment for the U.S. Treasury secretary-designate, Lawrence Summers, to take the lead in advocating such measures. The economic summit meeting this week is the right forum in which to press these ideas.

Fourth, the IMF should impose tough new standards for financial disclosure and banking supervision as conditions for membership. The international financial crisis exposed deep failures in these areas. Indeed, it was only when previous appearances of healthy banking systems and corporate balance sheets proved false in places like Thailand and Indonesia that the crisis became contagious.

Finally, the world needs a financial early-warning system to detect a nation's financial weakness before it collapses and drags others down with it. The right mechanisms involve the same combination of credible credit rating agencies and capital markets reacting to them, as operates so successfully in the United States.

The International Monetary Fund should require that its members cooperate with these agencies by providing full and timely disclosure.

Less than a year ago, the worst international financial crisis in 50 years still gripped the world. It took global finance to the edge of collapse. Since then, reforms of the financial system have been few and far between.

Achieving real reform is the responsibility of the leaders of the Group of Seven and Russia. The homework on potential improvements has been done. What is needed is the political will to produce an agreement. If they can remain united on bombing Yugoslavia for 11 weeks, they can deal with the bigger threat of a global crash.

*Mr. Altman served as deputy Treasury secretary during President Bill Clinton's first administration. Mr. Cutter served in the Clinton administration as deputy assistant to the president for economic affairs. They contributed this comment to the Los Angeles Times.*

TO THE EDIT

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# Chinese Espionage? Much Fuss About Not Much

By Flora Lewis

PARIS — A toxic cloud of speculation, exaggeration and some sheer falsehoods was released by the report of Chinese spying on American nuclear secrets. Sorting out information from feverish dramatization, nuclear strategy from political agitation, is complex and necessary.

The official U.S. intelligence "damage assessment" warns that China "probably accelerated its program to develop future nuclear weapons" as a result of a vast collection of espionage.

But it also says: "We cannot determine the full extent of weapons information obtained. For example, we do not know whether any weapon design or documentation or blueprints were acquired ... To date, the aggressive Chinese collection effort has not resulted in any apparent modernization of their deployed strategic force or any new nuclear weapons development."

In other words, as a veteran American atomic scientist points out, it is certainly not true that China "leaped" from a modest capability to reach a par of sophistication with the U.S. weapons program "by theft," as some commentators and politicians claim.

The Chinese have followed their own program and not copied American developments dictated by U.S. arms race strategy, although they probably benefited from finding out what not to do as they learned about American experimental dead ends.

The secrets of two very sensitive warheads which the Chinese are said to have stolen from the Los Alamos laboratory are not for weapons that they are likely to want to make, regardless of how much detail they may have acquired.

One, the W-70 thermonuclear warhead, the "neutron bomb," was developed by the United States for two kinds of weapons.

Although the Cox report on the spying (which contains a number of other errors) states flatly that the United States "has never deployed a neutron weapon," it did indeed. A tactical missile and an 8-inch (203-mm) artillery shell were deployed for the purpose of countering massive tank formations in Europe, to kill the troops by radiation without blasting the whole countryside.

Another version, the W-66, was deployed on Sprint anti-missile missiles as part of the Grand Forks, North Dakota, missile defense system.

The Chinese are not planning an outer-space missile defense, which is probably much too expensive even for the United States if it is feasible, and they have no reason to develop neutron bombs instead of the cheaper, more destructive ones they have.

The second special type is the W-88, a slim-nosed vehicle that tapers in a cone in order to give it maximum target accuracy regardless of winds. It matters for the United States, with a program of thousands of missiles, to be able to destroy enemy weapons in their hardened silos. China, with its small arsenal, cannot count on taking out protected missiles but can target cities and industrial sites just as effectively without the expensive refinements.

This information, and a good deal more, is contained in a letter from Richard Garwin, a physicist who has been closely involved in the U.S. nuclear program since 1950, to the journal Arms Control Today. Other scientists have written in various places about other aspects of the catastrophe claims, which they reject.

None suggest that America does not need to do a better job of protecting those secrets that it really needs to keep. But there are serious arguments about which secrets matter and why there are advantages to being more open, and how much damage may actually have been done. It is not at all as cut-and-dried as published accounts suggested.

So it seems that something else is going on here. One veiled target is the Comprehensive Test Ban Treaty, signed in 1996 but still impounded without ratification in the Senate. There are critics who insist that a $4.5 billion annual "stewardship" program is necessary to keep American force reliable if there are no more tests, and critics who just want to kill the treaty, which is considered an enormous help to blocking nuclear proliferation.

There is a general, scatter-shot anti-China campaign which hops from military warnings to trade objections to diplomatic attack, seemingly more concerned with promoting China to the status of new first enemy than with any specific issue to take up with Beijing. This is not to say that there are not good reasons to be wary, but rather that wariness without specifics is a weak, self-harming policy.

And then there is just plain partisan politics, gearing up for the presidential election.

Espionage makes lurid headlines, but it usually has much less effect than is supposed. The several scientists who challenge the implications of the Cox report suggest that some healthy skepticism is in place here. Don't believe all you read, or all you hear from a congressional committee.

Flora Lewis

# In Kosovo, Another Setback for the Multiethnic Ideal

By Steven R. Weisman

NEW YORK — The long-term stability of Kosovo's status may well depend on Albanians and Serbs being walled off from each other.

Since the beginning of the crisis in Kosovo, there has been a debate among intellectuals, historians and policymakers over whether the violence results from ancient ethnic hatreds or modern manipulations by ruthless politicians. Bill Clinton recently made an extraordinary apology for once believing that the Balkans were a place of "centuries-old animosity" impervious to change.

Now, "after a great deal of time in these last six years reading the real history of the Balkans," he said he regretted "more than I can say" having once felt that way.

The president's current view is that although ethnic tensions have long plagued the region, the murderous warfare in Kosovo has been fomented by Slobodan Milosevic. On June 10 he again appealed indirectly to the Serbs to overthrow their leaders, who he said "could have kept Kosovo as a part of your country without driving a single Kosovar family from its home."

The nature of ethnic hatred in the Balkans is relevant to the kind of nation-building on which NATO and the United States have embarked.

At Versailles, Woodrow Wilson and the European allies supported the creation of a Slavic state encompassing various ethnic groups. Today's wars involve Serbs, Croats and Muslims, all trying to redress long-standing grievances. The vision of Mr. Clinton that people of differing ethnic groups can live with each other is appealing to Americans, but it might be a case of imposing an unworkable image on an unwilling populace.

While no one doubts Mr. Milosevic's ruthlessness, the notion that Balkan hatred will subside without his manipulations is hard to accept. Reports of longtime neighbors raping, murdering and expelling their neighbors suggest that old hatreds lie so close to the surface that it may not take much to bring them into the open.

In the last 10 years of Balkan turmoil, people who have felt that the hatreds will never go away tend to oppose intervention. Bismarck's famous comment in the 19th century that the Balkans were "not worth the healthy bones of a single Pomeranian grenadier" is echoed by the statement attributed to Secretary of State James Baker in the early 1990s that "we don't have a dog in this fight."

There is no consensus on the issue of ethnic hatreds in the dozens of books and articles published in the last few years, and Mr. Clinton is not the only one to have changed his mind. Books by journalists traveling among the people tend to emphasize the deep-seated nature of the hatreds, while books focusing on politics and history tend to emphasize the responsibility of leaders.

As David Remnick points out in The New Yorker, Mr. Clinton was influenced first by "Balkan Ghosts," by Robert Kaplan, published in 1993, a powerfully written work of reportage that pays homage to Rebecca West's "Black Lamb and Grey Falcon," published in 1941 and hailed by Mr. Kaplan as "this century's greatest travel book."

But in his diplomatic memoir "To End a War," Richard Holbrooke criticizes Mr. Kaplan and Ms. West for implying that "nothing could be done by outsiders in a region so steeped in ancient hatreds." He laments the influence of the Kaplan book on Mr. Clinton and others.

These days, the president's favorite Balkan expert is said to be the British journalist and scholar Noel Malcolm, who in "Kosovo: A Short History" asserts that all the talk about "ancient ethnic hatreds" is "grossly misleading" because of the history of harmony among Muslims, Catholics and Orthodox Christians.

The outcome in Kosovo will be another chapter in the conflict between two appealing ideas: self-determination and the principle that ethnic groups can live together peacefully.

Self-determination has allowed the number of members of the United Nations to grow from 156 to 185 in the last 10 years. The risk of applying the principle of self-determination too broadly is that the number could grow by scores or even hundreds in the years ahead.

*The New York Times*

# Now Rebuild Kosovo's Communications for a New Kind of Society

By David Webster

WASHINGTON — NATO bombing has effectively destroyed the communications systems of Serbia and Kosovo. When the time comes to rebuild, a matter to be discussed at the meeting of Group of Seven countries this week, it will be American and European money that does it.

That may give the West some leverage and a historic opportunity not only for open communication but also to push the region's integration into the wider European community.

Slobodan Milosevic ruthlessly used the old system of traditional broadcasting as an instrument of control in the largely receptive Serbian state. The people of Serbia saw what he wanted them to see. And he also controlled strictly the pictures allowed out of the country of what was happening during the NATO bombardment.

In Kosovo, as new national politicians gain power, there will be a natural tendency for them, too, to use the communications system to create not an open and free society but a mirror image of Serbian control — just one with a different story.

There is a different path: minimizing central control. You cease worrying about controlling the content of broadcasting. (With the Internet, you can't control it.) You create the opportunity for many voices to be heard. New media technology offers opportunities to diffuse control.

The West should encourage this development and use its influence and economic power to promote a more open society. It will not mean following an American model or a traditional European model. This will be a leap into the future.

Take telephones. The centralized system, with its old-fashioned lines and switches, has been destroyed. Good. Let's not offer to replace it with similar antiquated technology (whatever the profit margin for the Western manufacturers). Let the money from the NATO countries create a system that is not dependent on wires and massive terrestrial switches. It will be much cheaper.

The mobile phone industry in Europe has flourished largely because of the inefficiency and poor quality of the traditional hard-line systems. Community mobile telephone and Internet centers and cybercafés could be established. Then, if purchasing power improves, people can have their own individual mobile phones and computers.

As for television, which Mr. Milosevic has used in Yugoslavia to such evil effect, a traditional centralized structure would lead to a perpetual struggle for control. It would be better and cheaper to go for cheap multiple-diffused outlets, such as low power radio and independent local television based on new distribution technology, subject to minimal regulation.

We need to think about low elliptical orbiting satellites, airborne nodes of transmission and other unorthodox methods, all of them aimed at a multiplicity of opinions and not under centralized control.

To help fund this, one could turn to the Western computer industry and take its backlog of outdated chips (as loss leaders to help the technology, and a future market, take off) to help build the new systems. Let private venture capital, which has been so successful elsewhere, take the lead to establish new markets and get away from direct government funding. Poland has gone from a Communist economic ruin in 1990 to $6 billion of direct foreign investment in 1998.

The Balkans will be very difficult and on a smaller scale. But you don't have to wait in Kosovo (or, in the case of Serbia, wait to be rid of Mr. Milosevic or his clone) in order to take incremental steps to encourage the new communications society. You could quickly establish models that could infect other countries in someplace like Slovenia, an open and thriving part of the former Yugoslavia, to test the systems and undertake a cost-benefit analysis.

The Finns, honest brokers to the Balkans who are not members of NATO, are becoming a highly advanced information society and could be the leaders in this initiative.

There are many obstacles. In Kosovo and Serbia the economy has been devastated, and there will be little disposable income. We have to contend with bureaucracy, widespread corruption and a passion for control. The economic and social environment does not support cooperation or entrepreneurial drive.

There will have to be carrots to encourage this drive, particularly among the young. Imaginative, private but government-encouraged investment funds in communications have the potential to bring dramatic social change. This is an opportunity to apply emerging technology — much of it already in use by the NATO forces that will be occupying Kosovo — and to stimulate new diffused democratic communications for an open society.

*The writer is chairman of the Trans-Atlantic Dialogue on Broadcasting and the Information Society, a private group of some 80 communications industry executives and government officials from both sides of the Atlantic. He contributed this comment to The Washington Post.*

# The Winner in the Balkans Is the KLA

By Richard Cohen

WASHINGTON — The real winner in the Balkans is the Kosovo Liberation Army. The KLA has won the war and, in the bargain, Kosovo itself. It has known from the start precisely what it wanted.

In May 1998, I spoke in Istanbul to a KLA leader. His business card said he was the prime minister of the Republic of Kosovo and he was a physician named Bujar Bukoshi.

At the time, Kosovo was under the Serbian boot and hardly anyone's idea of a republic. But all that would change, Dr. Bukoshi said. He has been true to his word.

The KLA had a simple but effective plan. It would kill Serbian policemen. The Serbs would retaliate, Balkan style, with widespread reprisals and the occasional massacre. The

For NATO, the average Serb was not the enemy.

The KLA thinks differently. In the first place, it lost men, plenty of them. It effectively comprised NATO's ground troops. Its fighters were volunteers, Kosovars and expatriates from all over the world who were animated enough by the specter of independence to risk their lives. They hate Serbs. They have always hated Serbs. If possible, they now hate them even more.

Consider for a moment Palestine before 1948 and the creation of the state of Israel. That part of the world and that era are often mentioned nowadays because, once again, a war has produced a large Muslim re-

Even if some KLA leaders agree to be reasonable and patient, there is bound to be a core of dissidents who, through terror, will articulate their dissent. In short order, Kosovo may be for NATO what Palestine once was for Britain, which could not wait to get out.

The nightmare for Europe — especially for Russia — is that of breakaway provinces. That is why everyone insists that Kosovo remain within Yugoslavia. To say otherwise produces a diplomatic dilemma, even a crisis.

But who's kidding whom? The KLA did not come this far to settle for anything other than independence.

Maybe NATO thinks all will be well if and when Mr. Milosevic becomes a pensioner or — such a sweet thought — an

## IN OUR PAGES: 100, 75 AND 50 YEARS AGO

### 1899: Electric Century

VIENNA — The Fremdenblatt says: "A congress has just been opened in Vienna devoted to the most modern branch of popular science. The century of steam is drawing to a close and already

don a month ago. During his visit he admitted that his life had been threatened. He also declared that grafting among Fascists had become shameful. No criticism is made here of Signor Mussolini, except that his drastic methods to obtain power were

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In May 1998, I spoke in Istanbul to a KLA leader. His business card said he was the prime minister of the Republic of Kosovo and he was a physician named Bujar Bukoshi.

At the time, Kosovo was under the Serbian boot and hardly anyone's idea of a republic. But all that would change, Dr. Bukoshi said. He has been true to his word.

The KLA had a simple but effective plan. It would kill Serbian policemen. The Serbs would retaliate, Balkan style, with widespread reprisals and the occasional massacre. The West would get more and more appalled, until finally it would, as it did in Bosnia, take action. In effect, the United States and much of Europe would go to war on the side of the KLA.

It worked.

Now that same KLA is supposed to be demilitarized — stripped of its weapons — as the province it fought for is administered by NATO and its juvenile sidekick, the Russians.

NATO lost not a single soldier fighting the Serbs. It fought a war against a single man, Slobodan Milosevic, apologizing all the while to the Serbian people for the bridges, power plants and other quasi-military targets it was urban-renewing. For NATO, the average Serb was not the enemy.

The KLA thinks differently. In the first place, it lost men, plenty of them. It effectively comprised NATO's ground troops. Its fighters were volunteers, Kosovars and expatriates from all over the world who were animated enough by the specter of independence to risk their lives. They hate Serbs. They have always hated Serbs. If possible, they now hate them even more.

Consider for a moment Palestine before 1948 and the creation of the state of Israel. That part of the world and that era are often mentioned nowadays because, once again, a war has produced a large Muslim refugee population. But rather than focus on the creation of the Palestinian diaspora, it might be more instructive to talk about the Irgun and the Stern Gang, terrorist Jewish organizations which fought not only the Arabs but also the British who then ruled what became Israel.

Jewish terrorists wanted to make it impossible for the British to stay. Once they left, the Arabs would be taken care of.

Now it is NATO that might be in the same position as the British were in Palestine. It will never fully disarm the KLA. The Albanian border, rough and porous, is not all that far away. Handguns and rifles are easy to smuggle, easier still to hide.

Even if some KLA leaders agree to be reasonable and patient, there is bound to be a core of dissidents who, through terror, will articulate their dissent. In short order, Kosovo may be for NATO what Palestine once was for Britain, which could not wait to get out.

The nightmare for Europe — especially for Russia — is that of breakaway provinces. That is why everyone insists that Kosovo remain within Yugoslavia. To say otherwise produces a diplomatic dilemma, even a crisis.

But who's kidding whom? The KLA did not come this far to settle for anything other than independence.

Maybe NATO thinks all will be well if and when Mr. Milosevic becomes a pensioner or — such a sweet thought — an inmate in a prison for war criminals. But the KLA has a different agenda. It wants independence.

If the past is indeed prologue, Kosovo will become independent, maybe united with Albania, maybe not. The KLA is the one element in the entire Balkan mix that has had a clear fix on its goal and absolutely no reluctance to spill blood to achieve what it wants.

If NATO were half as realistic, it would plan for how to achieve an independent Kosovo while avoiding yet another Balkan war. Otherwise, it will be (with apologies to James Baldwin) the fire next time.

*The Washington Post.*

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nist economic ruin in 1990 to $6 billion of direct foreign investment in 1998.

The Balkans will be very difficult and on a smaller scale. But you don't have to wait in Kosovo (or, in the case of Serbia, wait to be rid of Mr. Milosevic or his clone) in order to take incremental steps to encourage the new communications society. You could quickly establish models that could infect other countries in someplace like Slovenia, an open and thriving part of the already in use by the NATO forces that will be occupying Kosovo — and to stimulate new diffused democratic communications for an open society.

*The writer is chairman of the Trans-Atlantic Dialogue on Broadcasting and the Information Society, a private group of some 80 communications industry executives and government officials from both sides of the Atlantic. He contributed this comment to The Washington Post.*

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## IN OUR PAGES: 100, 75 AND 50 YEARS AGO

### 1899: Electric Century

VIENNA — The Fremdenblatt says: "A congress has just been opened in Vienna devoted to the most modern branch of popular science. The century of steam is drawing to a close and already the century of electricity bulks large on the horizon. The force of steam placed in bonds by science has revolutionized the world and placed human labor on a new basis. The tireless progress of science has placed the lightning flash in subjection and has achieved wonders which are far from being at an end."

### 1924: Fascist Censors

LONDON — That the disappearance of Giacomo Matteotti, the Italian Socialist leader, is due to the fact that he had documentary evidence incriminating Fascist leaders, was revealed here to-day [June 17], Signor Matteotti having been in London a month ago. During his visit he admitted that his life had been threatened. He also declared that grafting among Fascists had become shameful. No criticism is made here of Signor Mussolini, except that his drastic methods to obtain power were bound to breed contempt for the law. Although the Mussolini Government denied that censorship existed, the correspondent of The New York Herald was informed that no Italian newspaper reporter or foreign correspondent dared write anythin critical of the existing régime.

### 1949: Book Purge

WASHINGTON — In i search for Communism ar Communist influence the Hou. Un-American Activities Cor mittee is now going into the fie of education. The committee l picked about a hundred scho at random and asked for a lis their textbooks in general u

We know what our opportunities are, esp. in Africa — BC

# First Step Toward Peace Is Eradicating Hunger

**By Jimmy Carter**

Copied
Sperling
Berger
NSC ww Desk
Podesta

WASHINGTON — When the Cold War ended 10 years ago, we expected an era of peace. What we got instead was a decade of war.

The conflict in Kosovo is only the latest to embroil the international community. Conflicts have raged in Latin America, Europe, Africa and Asia in the 1990s, often involving the entire international community in costly relief operations and peacekeeping missions, frequently under hostile conditions. These conflicts — mostly civil wars — have been extraordinarily brutal, with most victims being children, women and the elderly.

Why has peace been so elusive? A recent report sponsored by Future Harvest and generated by the International Peace Research Institute in Oslo examines conflicts around the world and finds that — unlike that in Kosovo — most of today's wars are fueled by poverty, not by ideology.

The devastation occurs primarily in countries whose economies depend on agriculture but lack the means to make their farmland productive. These are developing countries such as Sudan, Congo, Colombia, Liberia, Peru, Sierra Leone and Sri Lanka — places with poor rural areas where malnutrition and hunger are widespread. The report found that poorly functioning agriculture in these countries heightens poverty, which in turn sparks conflict.

This suggests an obvious but often overlooked path to peace: Raise the standard of living of the millions of rural people who live in poverty by increasing agricultural productivity. Not only does agriculture put food on the table, but it also provides jobs, both on and off the farm, that raise incomes. Thriving agriculture is the engine that fuels broader economic growth and development, thus paving the way for prosperity and peace.

The economies of Europe, the United States, Canada and Japan were built on strong agriculture. But many developing countries have shifted their priorities away from farming in favor of urbanization, or they have reduced investments in agriculture because of budget shortages. At the same time, industrialized countries continue to cut their foreign aid budgets, which fund vital scientific research and extension work to improve farming in developing countries.

Unfortunately, much of the farming technology developed in industrialized nations does not transfer to the climates and soils of developing nations. It is not a priority for agricultural giants in affluent nations to focus on the poor regions of the world or to share basic research advances with scientists from poor nations.

This neglect should end. Leaders of developing nations must make food security a priority. In the name of peace, it is critical that both developed and developing countries support cultural research and improved farming practices, particularly in nations often hit with drought and famine.

For example, the report finds that India, one of the world's largest and poorest nations, has managed to escape widespread violence in large measure because the Indian government made food security a priority.

Beginning in the 1960s, farmers in India were given the means to increase their agricultural output with technology packages that included improved seeds, fertilizers, irrigation and training. Today India no longer experiences famines as it did in the first half of this century. India's food security contributes to its relative political stability.

While food is taken for granted in industrialized countries, many parts of the world — sub-Saharan Africa and large parts of Asia, for example — suffer serious food shortages. Today, per capita food production in sub-Saharan Africa is less than it was at the end of the 1950s. The report concludes that new wars will erupt if the underlying conditions that cause them are not improved.

The message is clear: There can be no peace until people have enough to eat. Hungry people are not peaceful people. The Future Harvest report is a reminder that investments in agricultural research today can cultivate peace tomorrow.

*Former President Carter is chairman of the nonprofit Carter Center, which seeks to advance peace and health around the world. He contributed this comment to the International Herald Tribune.*

THE PRESIDENT HAS SEEN
6-23-99

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Podesta
Sperling
Streett

## DRAFT MAJORITY RECOMMENDATION FOR MEDICARE REFORM PLAN

The majority of your advisors have agreed on the Medicare reform plan outlined below. It would make Medicare more competitive and efficient; modernize the program's benefits, including the provision of a long-overdue prescription drug benefit; and dedicate 15 percent of the surplus to strengthen Medicare. By constraining Medicare growth and dedicating a portion of the nation's surplus to help finance its demographic challenges, the proposal extends the life of the Trust Fund through at least 2027.

### REFORM PROPOSALS

- **Smoothing Out Provider Savings in the Balanced Budget Act:** The plan would implement administrative actions and dedicate a 10-year, $7.5 billion set-aside to moderate the BBA provider policies. This would not be allocated to specific providers; rather it would serve as a placeholder for policies developed in consultation with Congress and as evidence of problems is strengthened.

- **Managed Care Competition and Private Sector Purchasing Tools for Traditional Medicare:** The proposal would inject true price competition between managed care plans and the traditional fee-for-service program. Both options would offer a defined and updated benefit package -- including prescription drug coverage -- and compete over cost and quality. However, unlike the premium support proposal recommended by Senator Breaux, beneficiaries staying in the traditional fee-for-service program could do so without an increase in premiums.

  **Reducing Out-Year Growth in Provider Spending.** Beginning in 2003, the Medicare actuary and CBO project Medicare growth to return to high rates as most of the policies in the BBA expire. This plan would extend but moderate some of the BBA policies; it would not extend growth rate reductions in home health, disproportionate share hospital (DSH) and nursing home payments.

  **Rationalizing Cost Sharing:** This proposal would eliminate cost sharing for all preventive services, removing an important barrier to using these important services. It would also add 20 percent coinsurance to clinical laboratory services, one of the few Part B services without cost sharing. This would help cut down on unnecessary use and fraud.

- **Income-Related Premium:** The plan would reduce from 75 to 50 percent the Medicare premium subsidy to beneficiaries with income of $100,000 or more ($120,000 for a couple). This would affect approximately 1 million beneficiaries (less than 3 percent of all beneficiaries).

### PRESCRIPTION DRUG BENEFIT

- **Base Package: No deductible, 50% copay up to $4,000 limit:** Medicare would provide an optional drug benefit that would cover half of all drug costs up to $4,000 when fully phased in. The policy would assure that beneficiaries choosing this option would benefit from the estimated 13 percent discount obtained through bulk purchasing of prescription drugs by private sector pharmacy managers. This premium would cost about $24 per month in 2002, $36 in 2006 when fully implemented. Low-income beneficiaries would not pay premiums and cost sharing, as under current Medicaid protections

- **Catastrophic Option:** Any and all funds produced from the Justice Department Medicare law suit would be explicitly allocated to providing coverage for expenses above the $4,000 limit.

### SURPLUS

- The plan would dedicate 15 percent of the unified surplus to Medicare. It would lock away at least the same amount that was dedicated for solvency in the President's budget. Less than 10 percent of this amount (about $35 billion of the over $350 billion over 10 years) would help offset the cost of the prescription drug benefit. $35 billion is less than half of the drop in Medicare baseline spending between January and June alone, indicative of the major contribution that Medicare has made towards no deficit and increasing prosperity. The remaining surplus, in combination with the savings, will guarantee that the Medicare trust fund is solvency through at least 2027.

# SUMMARY TABLE: DRAFT RECOMMENDATION

| POLICIES | SAVINGS/SPENDING |
|---|---|
| **Savings:** | |
| Managed Care Competition | -7 |
| Modernize Traditional Medicare | -20* |
| Provider Savings | -47 |
| - Set-aside for BBA moderations | +7.5 |
| Eliminate Preventive Copays | +3 |
| Add 20% Lab Copay | -10 |
| Income-Related Premium: $100/120,000 phased down to 50% subsidy | -8* |
| Interactions/Premium offset | +7 |
| **Subtotal:** | **-$75 billion** |
| **Drug Benefit:*** No deductible, 50% cost sharing up to $4,000 limit in 2006 Premiums: $24/mo in 2002; $36/mo in 2006 | **+$110 billion** |
| **Surplus:** | **-$35 billion** |

*** Rough estimates/ waiting for official scoring.**

## OPTIONS TO SUPPLEMENT THE MAJORITY RECOMMENDATION

The majority recommendation is a solid, defensible policy. Its primary shortcoming may be that its drug coverage policy will be viewed as excessively modest. Because of the fiscal constraints we are rightly imposing on ourselves, there are not many more dollars available to liberalize the benefit. However, for a relatively modest $13 billion over 10 years, it would be possible to raise the coverage limit from $4,000 to $5,000. About 900,000 people have more than $4,000 in drug costs. Raising the limit does, however, raise the premium if the subsidy is held at 50 percent.

It may be possible to pay for the $13 billion needed to raise the limit to $5,000 through: (1) scoring of an employer maintenance of effort for prescription drugs; (2) re-scoring of the traditional program modernization policies; (3) adjusting the income-related premium; and/or (4) adding the Part B deductible adjustment. We assume that we are carrying the first two policies regardless. The latter two, while recommended, would require additional guidance from the President and you. As a note, we think that it is important to carry the maintenance of effort policy, even if it does not produce much savings, because the unions, Federal retirees, and business community want incentives to keep their current coverage.

**INCOME-RELATED PREMIUM.** Savings from this policy could be increased by phasing down the subsidy at a faster rate and lowering the income thresholds for the payment.

| Begins Subsidy Phase-Down | Full Subsidy Phase-Down | Number of Beneficiaries Affected | Savings 2000-04 2001-09 |
|---|---|---|---|
| $90,000 for Singles<br>$115,000 for Couples* | $100,000<br>$125,000 | 1 million | $8 billion / $22 billion |
| $80,000 for Singles<br>$100,000 for Couples | $100,000<br>$125,000 | 2 million | $9 billion / $25 billion |
| $50,000 for Singles<br>$75,000 for Couples** | $100,000<br>$150,000 | 4 million | $15 billion / $40 billion |

down to 10 B

*Health Security Act; ** BBA

**History of catastrophic coverage.** This benefit, implemented in 1989 and repealed in the same year, had a deductible between $600-700, indexed so that 16 percent of beneficiaries would always have access to coverage. This benefit, plus the catastrophic cost sharing protections, were funded in part through an income-related premium. This premium was based on tax liability – for every $150 in tax liability, beneficiaries would pay an extra $22.50 per year, with a maximum payment of $800. If this $800 were trended to 1999, it would be equivalent to about $1,110 per year, or $92 per month. This is roughly equivalent to reducing the Part B premium subsidy from 75 to 50 percent, as is proposed in this policy.

**PART B DEDUCTIBLE.** The Part B deductible is set at $100 a year. It is less than most private indemnity insurance plans. The deductible has been increased only three times since Medicare began in 1966, when it was set at $50. In relation to average annual per capita charges under the SMI program, the deductible has fallen from 45 percent in 1967 to about 3 percent (projected) for 1999, according to CBO. Indexing the deductible to inflation does not really increase it, but maintains its current value of $100 in future years. It would rise by about $3 per beneficiary per year ($135 in 2010). Relative to other cost sharing proposals, it is the most evenly spread change since virtually all Medicare beneficiaries meet their Part B deductible in a year. It has been supported by organizations like the Congressional Budget Office and analysts like Marilyn Moon.

Gene & Chris

Jason Woods

First →
8-2-98

6-23-99
To political for
Reply
yes ✓
no

Write her
a thank
She was at
event 6/15

THE PRESIDENT HAS SEEN
6-23-99

THE WHITE HOUSE
WASHINGTON
June 15, 1999

Back to Podesta

MR. PRESIDENT:

Here's the reworked lamb memo you requested.

Copied
Podesta
Sperling
Berger
Tramontano
Siewert

**Background.** As you know, the domestic lamb meat industry has been hit by rising imports from Australia/New Zealand. The ITC found a *threat* of serious injury, though not *actual* injury. Senator Baucus and PM's Howard/Shipley are very concerned with our response.

**Action.** The ITC agreed on adjustment assistance, but split over remedies; your advisers present these options: **Option 1 – Tariff Rate Quota at Current Levels Plus a Prohibitive Tariff.** Like the ITC's plurality, this option would impose a multi-year rate tariff quota, set at '98 levels and growing modestly thereafter, with a 40% tariff (dropping later) on imports over that level. *Berger, Lew, Yellen, State,* as well as *New Zealand/Australia* could live with this; but the industry and Baucus would view it as unacceptable. This option could be toughened by basing the quota on the first three quarters of '98, omitting a 4th quarter import surge. The effect would be a slight import rollback from 78 to 73.5M lbs., though the industry would still want more. **Option 2 – All of Option 1 Plus a Modest In-Quota Tariff.** This would enhance Option 1 by also imposing tariffs on imports *within the quota* at a level low enough (9% dropping to 3%) to avoid a rollback but high enough to give some price relief to the U.S. industry, which likes the idea in principle. *Podesta favors Option 2 and believes you'd have to call Baucus first if you went with Option 1; USTR/USDA* support Option 2 and think it'll hold up in the WTO. *Gene/Lael* support it to strengthen your hand on the steel quota bill. *Berger, Lew, Yellen, State, Treasury and Commerce (and New Zealand/Australia)* oppose it.

Option 1 __ (w/ slight rollback__) Option 2 __ Discuss __

Sean Maloney

# REVISED

'99 JUN 15 PM1:02

THE WHITE HOUSE

WASHINGTON

June 14, 1999

ACTION

MEMORANDUM FOR THE PRESIDENT

FROM: GENE SPERLING GBS
SAMUEL BERGER

SUBJECT: Decision on Safeguard Action on Lamb

Purpose: To decide how to respond to an International Trade Commission (ITC) recommendation to provide import relief and adjustment assistance to the lamb meat industry.

Background

State of the Industry: The domestic lamb meat industry has been challenged by rapidly growing imports. The market share held by imports has more than doubled in the last 5 years, rising from 11 percent in 1993 to 23 percent in 1998. Australia accounts for 60 percent of overall lamb imports and New Zealand accounts for another 34 percent. The domestic industry is small and diverse with roughly 70,000 sheep operations and annual revenues of roughly $500 million. The recent import pressures come on top of difficult domestic challenges faced by the industry earlier in the decade, including the 1993 decision to phase out federal payments under the Wool Act and a sustained decline in domestic demand over the period 1993 to 1996.

Congressional Interests: Although the sheep industry is small and internally divided, Congressional and industry interests are intense on this issue. Senator Baucus has made clear his intense interest in this issue through communications with you and with most of your key advisers on this issue. He has vowed to make this a test case of our resolve on Safeguards Section 201 relief, and has indicated he sees a direct connection to the steel quota debate. Over 31 of his Senate colleagues have signed on to his letter advocating a strong response. Senators Daschle and Johnson and Representative Stenholm also have shown strong interest in the issue.

Diplomatic Interests: Lamb is a flagship export for Australia and New Zealand. Prime Ministers Howard and Shipley are personally engaged; both have sought to speak with you twice and have written you to underscore their deep concern. We can expect a stiff WTO challenge from both Australia and New Zealand if our remedy is not carefully crafted, and sheep farmers will likely come out in strength during your visit to New Zealand later this year. Moreover, Australia and New Zealand will be key allies – especially on agricultural liberalization – in the run-up to the Seattle WTO ministerial. (As you know, we are supporting former New Zealand Prime Minister Mike Moore to be the next WTO Director General.)

cc: Vice President
Chief of Staff

ITC and Industry Recommendations

The ITC found unanimously that imports of lamb from New Zealand and Australia pose a *threat* of serious injury, although they did not find actual injury. The Commission was unanimous in recommending adjustment assistance, but split three ways on the recommended trade remedy:

- Tariff-Rate Quota (TRQ) at Current Import Level: The plurality recommendation (from three of the six Commissioners), which under U.S. statute is the ITC's official recommendation, is a four-year tariff rate quota (TRQ), set at the level of imports in 1998 in the first year (and growing modestly thereafter), with a 20 percent tariff on imports over this level in the first year (and declining thereafter).

- Straight Tariff: Two other Commissioners recommended an increase in tariffs on all lamb imports to 22 percent (from current minimal levels) in the first year and declining to 10 percent by the fourth year.

- Quota Roll Back: The final Commissioner's recommendation is a four-year quota starting with a roll back to 52 million pounds in the first year (from the current level of 78 million) and increasing to 70 million pounds by the fourth year.

The domestic industry believes the Commission's plurality recommendation is inadequate. They propose a much stronger position, combining elements of the three USITC recommendations: a quota rolling back imports to 52 million pounds in the first year, tariffs on the amount covered by the quota beginning at 22 percent in the first year, and tariffs on amounts above the quota beginning at 42 percent in the first year. Short of that, they have signaled they would welcome the straight 22 percent tariff remedy above.

Agency Recommendations on Import Relief

There is considerable concern that any remedy that explicitly rolls back imports could face a successful WTO challenge, since the USITC found *threat* rather than actual injury. In addition, all agencies agree that our trade remedy should not extend beyond three years because the WTO requires compensation be paid for any safeguards lasting beyond three years. Within these constraints, agencies are split:

1. TRQ at Current Level plus Prohibitive Out-of-Quota Tariff: All agencies agree that at minimum we should follow the plurality recommendation, imposing a TRQ (separate for New Zealand and Australia) starting at 1998 import levels in the first year and growing modestly thereafter, but lasting only three years in total. There is also agreement we should go beyond the plurality in setting a prohibitively high tariff level on imports above the quota in the first year (and dropping progressively thereafter). In order to demonstrate our willingness to provide strong protection on a transition basis under 201, there is general agreement that an initial tariff of 40 percent would be prohibitive, effectively turning the TRQ into a straight quota. This is also close to the industry's recommendation of 42 percent. USTR and USDA believe this enhancement is critical to make our response minimally

credible. Sandy Berger, Jack Lew, Janet Yellen, Treasury, Commerce and State are willing to support it. New Zealand and Australia have signaled their very reluctant acceptance. As a fallback, we could establish the quota based on annualizing imports for the first three quarters of 1998, rather than the full-year figure (which includes the fourth quarter surge). This option would yield a roll back from 78 to 73.5 million pounds. This approach has the benefit of being close to the ITC plurality recommendation. Given a case against us in the WTO, the closer we are to the plurality recommendation, the stronger the case we will have.

However, the industry and Congressional supporters view both Option 1 and the fallback as minimally responsive and completely unacceptable because they believe that Option 1 and the fallback parallel closely with the most conservative of the ITC recommendations. Industry and Congressional supporters also point to the fact that the ITC recommendations commanded support from only half the Commissioners, even though the plurality recommendation is the official ITC position. John Podesta, Gene Sperling, Lael Brainard, USTR and USDA are concerned Option 1 and the fallback will be touted by opponents as a demonstration of the inadequacy of our Safeguards 201 law and a strong argument in favor of the steel quota bill.

2. TRQ at Current Level plus Prohibitive Out-of-Quota Tariff plus Modest In-Quota Tariff: USTR and USDA recommend enhancing this proposal further by also imposing tariffs on imports *within the quota* at a level low enough that they believe a roll back from 98 levels is unlikely, but high enough to provide some price relief to domestic producers. They recommend setting the tariff at 9 percent in the first year and declining sharply to 6 percent in the second year and 3 percent in the third.

Industry representatives and their Congressional allies have indicated they would welcome an in-quota tariff if accompanied by the substantial assistance described below – although they have indicated a strong preference for a tariff "in the double digits." Moreover, USTR believes there are fair prospects this proposal could be successfully defended in the WTO, which provides sufficient ambiguity on the appropriateness of remedies, especially because it does not clearly roll back imports. And since we are proposing relief of lesser duration than the ITC recommendations, "stronger" import relief can be justified within the shorter window. John Podesta, Gene Sperling, Lael Brainard, Charlene Barshefsky and USDA support this recommendation. Gene Sperling and Lael Brainard prefer Option 1 on the policy merits, but they believe that Option 2 puts you in a much stronger position to defend your record on vigorous enforcement of Safeguards Section 201 relief, which in turn will be helpful on the key trade policy priority of defeating the steel quota bill in the Senate.

New Zealand and Australia have voiced strong objections to any tariffs on imports within the quota, alleging they will result in a roll back of imports and go well beyond what is necessary to prevent injury (the WTO test). It is very possible they will initiate a WTO challenge on these grounds and they may be able to muster a solid economic case. Howard and Shipley have worked to inoculate their publics in the hopes of minimizing the political fall-out associated with Option 1, but the addition of an in-quota tariff would be viewed as especially inflammatory. It will sour atmospherics in the lead-up to APEC and your state visit. For these reasons, Sandy Berger, Jack Lew, Janet Yellen, State, Treasury and Commerce oppose this enhancement.

Adjustment Assistance

OMB has worked with USDA to put together a generous adjustment assistance package. Although the details will be worked out over the next few weeks, we anticipate that the initiative would total about $50 million in the first year in mandatory and appropriated funding not yet released. To place this in context, the Administration has announced nearly $300 million in various forms of assistance to the hog industry since last November. Hog revenues are expected to be about 20 times larger than lamb, implying that a comparable level of assistance for the lamb industry would be less than $20 million. Industry representatives view this level of assistance as generous, although their ultimate assessment will also depend on the accessibility of the resources and the availability of follow-on resources in years two and three.

The program would include: 1) a revitalized National Sheep Improvement Center that uses up to $20 million to fund a market promotion program, along with loans and grants to improve grower productivity; 2) an emergency "scrapie eradication" initiative by USDA's Agricultural Marketing Service that uses up to $10 million in the first year; and 3) a new "productivity improvement program" for growers. We will be reviewing other initiatives as well.

RECOMMENDATION

Approve

_____ TRQ at Current Level plus Prohibitive Out-of-Quota Tariff: Sandy Berger, Jack Lew, Janet Yellen, Treasury, Commerce and State support this option.

_____ TRQ at Modest Roll Back Level plus Prohibitive Out-of-Quota Tariff (Fallback)

_____ TRQ at Current Level plus Prohibitive Out-of-Quota Tariff plus Modest In-Quota Tariff: John Podesta, Gene Sperling, Lael Brainard, USTR, and USDA support this option.

THE PRESIDENT HAS SEEN
6-23-99

Copied
Berger
Podesta

To the PRESIDENT
AND WIFE
OF USA
B. CLINTON

Sandy
NSC – pls
have someone
who [illegible]
look into
allegations
here –
BC

PLEASE READ these
PAPER-WORK ARE VERY
IMPORTANT. We had spend
money to try to change
the AGREEMANT.
I did not give up.
I have hope on it.
I'll write for answer
Peck

Para: Bryant FERRERO

my address
is on the
BOTTOM OF
the letter
Thank you

1°

THE PRESIDENT HAS SEEN
6.23.99

TO: MR. PRESIDENT OF U.S.A. OF AMERICA

operator # 69787

**DEAR PRESIDENT SIR,**

who is writing is the italian lady that, when you came to Italy at the **AVIANO AIR FORCE BASE** to promote **Col.** to **Bgr. General** before to go to **BOSNIA**, you have shaked my hand and in those few minutes I said to you:" **Sir I rappresent an Association for the right of the military children living in Europe whom cannot work in a military installation because since 1992 they have the right to keep the duel citizenship.** The **NATO** Agreement deny the possibility, to these children to work on these installation.

This is a International matter which involved thousand and thousand of young people. We think is time to look in to this problem and give the right to this new generation, which is more suitable to work in an American Military Base, (then someone else), been half American and half Italian or German or Spanish or Greck or.............

I attach to this letter fotocopy of the regolation and the letter. Thankyou for your time and this time I really hope that you will let me know samething about this matter.

20 SET. 1996

#1°/1 Operator # 69787

DISCRIMINATED DUAL NATIONALS (US-ITALIAN) COMMITTEE
AVIANO, ITALY

Sir,

we would like to bring to your attention a discrimination case, caused by Title 5 of the U.S.C.and by the CPCC members unable to interprete and read the SOFA Agreement.

As you well know, during all these years of US Military service overseas, a situation of extreme friendship between US members and local nationals was created in many, many cases. Friendships that brought to many mixed marriages. From these marriages many dual nationals (US-Italian, US-German, US-UK etc..) children were born.

You would now think that these children would be, in many situations, advantaged by such situation but instead these children when they grow up, they find themselves to be discriminated upon by the US Government in Italy because of their dual nationality, and I'll explain how:

when a dual national (US-Italian) attempts to apply for a job on a **US Base** such as Aviano, Vicenza, Naples, Sigonella, they are turned away because they are dual nationals. (Dual Nationals can work for the country they live in, without any problems)

Civilian personnel excuse is the SOFA Agreement, but there is nothing in the SOPA Agreement that prevents the hiring of a dual national **as a local national employee** (paid in local currency), but there is a statement that prohibits the hiring of American citizens unless connected to the military service personnel. In turn Title 5 f the U.S.C. states that every American citizen will be paid in dollars. So the SOFA Agreement says they cannot be hired as US citizens and Title 5 says they **must** be paid in dollars. **Easy way out**: we will not hire them at all and solve the problem. This was a unilateral decision made by the CPCC in Europe.

Sir, we can honestly say we feel **discriminated** and we will not stop fighting for our rights until we have the strength to do so!We have now turned to lawyers, we wrote to the Italian Ministry of Foreign Affairs and we will go to the Newspapers and TV if nothing will happen after all these attempts!

Sir, we are also turning to you, and we ask you to please intervene and solve this discrimination problem, Title 5 can be changed to say: "every US citizen will be paid in dollars unless:..."?

Again Sir, we appreciate the fact you read this letter (if you did) and we will appreciate any action you will take in order to solve this matter and we sincerely thank you!!

Signed by the Dual Nationals (In Italy) Committee Representative


Dolores Anne Distefano
DOLORES ANNE DISTEFANO
Via C. Percoto, 23
33074 FONTANAFREDDA (PN)
Italy
TEL. NO. 0039-434-997359

Jessica Garcia
~~JESSYCA MICHAEL~~ GARCIA
Via Venere,1/5
33074 **FONTANAFREDDA (PN)**
**Italy**
**TEL. NO.** 001-39-434-565135
03384261109

2° - 202 395 1232 69787


OFFICE OF THE ASSISTANT SECRETARY OF DEFENSE
4000 DEFENSE PENTAGON
WASHINGTON, DC 20301-4000


13 NOV 1996

ENT

Ms. Paole Bryant
PSC 54, Box 127
APO AE 09601

oplrotor # 69787

Dear Ms. Bryant:

Thank you for your letter of September 27, 1996, to President Clinton concerning current problems in employing individuals on U. S. military installations in Italy because of their dual citizenship status. As the individual responsible for overseas civilian personnel policy, your letter has been forwarded to me for response.

The hiring of dual national citizens with the Department of Defense in NATO countries has been an issue for many years. As you know, the NATO Status of Forces Agreement (SOFA) precludes from civilian Component membership individuals who are nationals of the host country. Since individuals with dual citizenship are nationals of the host country, they cannot be a member of the civilian Component and, therefore, cannot be hired into a U.S. DoD position.

That same individual is precluded from being hired into a DoD Italian position. This is because the Classification Act of 1949, requires that American citizens employed by U.S. government agencies in appropriated fund positions be employed and compensated under the U.S. employment system. Since individuals with dual citizenship are American citizens, they cannot be employed in DoD Italian positions which must be paid under the Italian compensation system.

Decisions similar to this have been affirmed by our General Counsel and the Office of Personnel Management. As a matter of policy, the European Command and the tri-service Civilian Personnel Coordinating Committee have extended the prohibitions of the Classification Act to nonappropriated fund positions in Italy, thus precluding employment in Italian nonappropriated fund positions.

The combination of the SOFA restriction, U.S. law, and European Command policy precludes the employment of such citizens with the U.S. Forces in Italy. I understand your frustration in this matter and regret that a more favorable response could not be provided. Please understand that this issue deals not only with U.S. laws, but agreements, and policy decisions reached between the NATO countries and the U.S. forces in Europe.

Sincerely,

John L. Schrader
Director, Compensation and Requirements
Civilian Personnel Policy

DEPARTMENT OF THE AIR FORCE
UNITED STATES AIR FORCES IN EUROPE

FROM: 401 MSSQ/MSCM
UNIT 6125, Box 65
BASE AREA
33081 Aviano (PN)

17 Feb 94

commesso/
addetto cassa

SUBJECT: Status of Application for the Position of Sales Store Checker, U-2091-07

TO: DOLORES DISTEFANO
VIA CARDUCCI, 80
FONTANAFREDDA
(PN) 33074

1. With reference to your application for employment for the above position.

Your application has been carefully and thoroughly reviewed by a highly qualified personnel specialist. The review process included a detailed comparison of the requirements of the jobs you've applied for and your past experience, as you have described it. As a result:

--X- (a) You have been found qualified and eligible for the above position. Your name has been added to the appropriate Applicant Supply Roster and you have been referred to the selection supervisor of the organization. If you are not selected for the position your name will remain on the roster and your application placed in the Applicant Supply File for one year. You will continue to be referred from the Applicant Supply Roster when, and if a vacancy with the same, title, series, and grade should occur. If you are not selected for a position within the time frame of a year you must notify this office if you wish to continue to be considered for position vacancies in order to retain your application for an additional 12 months. If you fail to notify this office of your continued interest in employment your application will be placed inactive.

---- (b) You did not meet the qualification requirements because your application did not show that you have the kind or amount of experience and/or education required by the U.S. Office of Personnel Management for the above position(s).

--X- (c) You were not eligible to apply for the above position.

--X- (d) Other: See below

2. Thank you for your interest in employment with the U.S. Air Force in Italy. If you leave the area or are no longer interested in employment, we would greatly appreciate notification. We can be contacted at Tel. No. 0434-652444 or 0434-652468.

J. Del Tedesco
J. DEL TEDESCO
Personnel Staffing Specialist

FL-18

Due to your dual citizenship US/Italian you are unable to be referred for employment purposes. If the status of your citizenship should change or a new policy implemented we will then take you into consideration for future employment with the U.S. Forces in Italy.

DEPARTMENT OF THE AIR FORCE
UNITED STATES AIR FORCES IN EUROPE

FROM: 401 MSSQ/MSCM
UNIT 6125, BOX 65
BASE AREA
33081 Aviano (PN)

Oggetto: Domanda d'Impiego per la posizione di ------------------
------------------

TO:

1. In riferimento alla Sua domanda d'Impiego per la posizione in oggetto La informiamo che uno specialista del personale, altamente qualificato, ha analizzato accuratamente i dati in essa contenuti e li ha confrontati con le qualifiche richieste per la suddetta posizione.

2. Da questa analasi e' risultato:

----(a) che Lei e' stato/a dichiarato/a idoneo/a per la posizione per la quale ha presentato domanda. Il Suo nominativo e' stato incluso nell'elenco dei candidati ed inviato al Capo Reparto della Sezione interessata per la selezione finale. Cio' non implica assolutamente una assicurazione d'impiego. Nel caso non venga selezionato il suo nominativo rimarra' nei nostri archivi per un anno e verra' automaticamente incluso nelle liste di concorso per posizioni future d'uguale titolo e grado. Se dopo il periodo di un anno Lei non dovesse essere stato/a assunto/a per una posizione, dovra' informarci se e' ancora interessato/a ad un impiego in modo da permetterci di utilizzare la Sua Domanda di Impiego per ulteriori 12 mesi. In mancanza di una conferma da parte Sua la Sua Domanda di Impiego sara' archiviata.

----(b) che Lei e stato/a dichiarato/a non idoneo/a per la posizione per la quale ha presentato domanda in quanto dalla stessa non si evincono i necessari requisiti d'esperienza lavorativa e/o titolo di studio.

----(c) quanto qui' di seguito specificato:

3. Grazie per l'interessamento dimostrato e cogliamo l'occasione per invitarLa a notificarci ogni cambiamento d'indirizzo o recapito telefonico in quanto l'impossibilita' di contattarLa La escludera' automaticamente dalle liste dei candidati.

4. Per ulteriori chiarimenti ed informazioni Lei puo' rivolgersi a quest'ufficio telefonando al 0434-652444 oppure 0434-652458

J. Del Tedesco
J. DEL TEDESCO
Personnel Staffing Specialist
FL-18

DICHIARAZIONE

TO WHOM IT MAY CONCERN

I hereby certify that I am not also a US citizen. I understand that the American/Italian dual citizenship entitles me to consideration for overseas employment program within the US Government only in US citizen categories.

Distefano Dolores Anna 5 NOV 1993

SIGNATURE DATE

---

A CHI DI COMPETENZA

Con la presente dichiaro di non essere anche cittandino americano. Sono edotto del fatto che la doppia cittadinanza, americana/italiana, mi da' diritto ad essere considerato solo per le posizioni americane nel programma d'assunzione oltremare del governo USA.

Distefano Dolores Anna 5 NOV 1993

FIRMA DATA

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# Colombia's trembling peace

BOGOTA

**President Pastrana and his controversial peace initiative are increasingly isolated. Even if the forthcoming peace talks are broadened to include a second guerrilla group, the president can ill afford further concessions**

THAT most Colombians desperately want an end to their country's 30-year guerrilla war has never seemed clearer. A vigorous promise to seek a peace deal with the leftist guerrillas was a main factor in the election to the presidency last year of Andres Pastrana, a Conservative whose victory followed 12 years of rule by the Liberal Party. Yet the past month has been a testing one for Mr Pastrana's peace initiative. Gone is the enthusiastic public and political support he once commanded. Instead, he has faced setbacks on all fronts.

First, concessions granted by Mr Pastrana last month in an effort to revive the stalled talks-about-talks with the Revolutionary Armed Forces of Colombia (FARC), the largest guerrilla group, prompted a threat of mutiny in the army and the resignation of Rodrigo Lloreda, the defence minister. Then, on May 30th, the National Liberation Army (ELN), a smaller leftist group, seized 143 worshippers during a mass in a church in a prosperous district of Cali, Colombia's third city, prompting national outrage. Some escaped, but the guerrillas holed up in nearby mountains with 55 of the hostages, surrounded by 3,000 troops and police. Then, on June 7th, a bill that would have given Mr Pastrana sweeping powers to grant political concessions—including an amnesty for convicted guerrillas—was defeated in a committee of Colombia's Congress.

Some of the president's difficulties stem from his decision to give priority to the search for a deal with the FARC, whose leader Manuel ("Sureshot") Marulanda he visited in a jungle hideout on the eve of the election. In November, Mr Pastrana boldly agreed to the FARC's demand to withdraw 2,000 government troops from a large area in southern Colombia. Yet many analysts doubt the FARC's interest in a peace deal. It has turned the "demilitarised zone" into its own mini-state—and, say its critics, a haven for its kidnapping and drug-trafficking operations, and forced recruitment from among the 90,000 civilians in the area.

By contrast, Mr Pastrana ignored calls from the ELN for it to be granted a similar demilitarised zone, although the FARC's smaller cousin has for some time seemed almost desperate to give up its war. The ELN has responded with mass kidnappings aimed at forcing its way to the negotiating table. As well as those from the Cali church, its hostages include two dozen from a domestic flight hijacked in April, and a group of sports fishermen seized this week. Talks with jailed ELN leaders to secure the hostages' release are said to be close to success. It has emerged that two senior ELN leaders have visited the Vatican, to apologise for "sacrilege" and to enlist church mediation.

But Mr Pastrana's room for manoeuvre has narrowed. The appetite among his colleagues, both military and political, for more concessions has been diminished by their apparent failure to produce results with the FARC. Last month the government gave a pledge to the FARC that its zone would remain "indefinitely" demilitarised. That prompted Mr Lloreda to resign; 200 army officers (including 17 of Colombia's 30 generals) threatened to go with him. To persuade them to stay, Mr Pastrana tacked: the FARC zone would be demilitarised for only six months, and a retired general was included in the negotiating team for the talks with the guerrillas, due to start on July 7th.

His supporters argue that Mr Pastrana has emerged from all this with a stronger grip over the army. In this view, the discontent in the barracks was stirred mainly by a government crackdown on officers with links to right-wing paramilitary groups—and the hardliners' bluff has now been called. Perhaps so, but military morale, lifted temporarily by Mr Lloreda, has sunk again.

For much of the past three decades, the army managed to confine the guerrillas to remote jungles and mountains, where they impinged little on the economy and national life. That changed during the government of Ernesto Samper, Mr Pastrana's predecessor, who was weakened by the hostility of the United States (which accused him of links to drug traffickers). The FARC grew to number 15,000 fighters, and took the offensive, leading some guerrilla commanders to believe they were winning the war.

Mr Lloreda began rebuilding the army—a task complicated by its record of brutality and contempt for human rights. The defence budget has doubled this year to 2 trillion pesos ($1.2 billion), augmented by $289m in American aid (though all but $40m of that is for the anti-drug police). In March, the army even managed a successful offensive, which left 50 guerrillas dead.

Luis Fernando Ramirez, the new defence minister, is a loyal sidekick of the president's. But even if Mr Pastrana now has a closer hold on the armed forces, his political strategy is in disarray. His political reform bill failed only narrowly, and officials said that some of its proposals (they include electoral and campaign-finance reform, as well as amnesty powers) may be put to a referendum. But it was the government's first big legislative defeat. It undermined Mr Pastrana's claim to broad national backing in his dealings with the guerrillas. Conceivably, just conceivably, these multiple setbacks are the prelude to real progress towards a lasting peace. But that looks an increasingly threadbare hope.

## Brazil

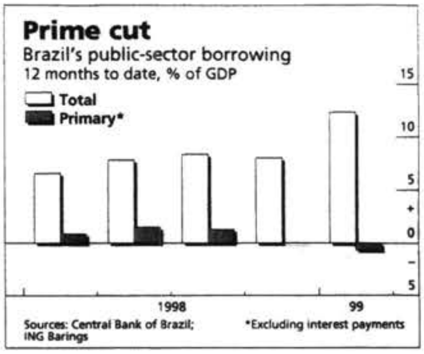
# Matters of tax

SAO PAULO

WHILE his officials were seeking to convince a visiting team from the IMF that Brazil had qualified for the next slice of its $41.5 billion rescue loan, President Fernando Henrique Cardoso suggested this week that his country might not actually need the money: such has been the speed of Brazil's turnaround since the currency crisis in January. But celebration is premature. Although inflation has been remarkably subdued, and output may fall by only 1.5% rather than the 4.5% once forecast, the government's main challenge remains its own shaky finances.

On paper, these have shown a big improvement. In the three months to March, the government managed a primary surplus (excluding interest payments on public debt) of 9.2 billion *reais* ($5.2 billion), easily beating the IMF target of 6 billion *reais*. But this success was partly thanks to some windfalls, such as (ironically) 1.4 billion *reais* in taxes from investors who had gambled sucessfully on the devaluation. Achieving the target of a 30 billion *reais* primary surplus for the whole year, and an even larger one in 2000, will be harder.

That is partly because one-off revenues may fall, and privatisation plans are behind schedule. But the main danger is that some of the revenue the government is counting on, resulting from reforms pushed through Congress in the wake of the devaluation, will be delayed or could even be cancelled by the courts. The government is already hinting that it expects to lose an action in the Supreme Court aimed at overturning an increase in pension contributions for both working and retired civil servants. The new contribution rates were fixed at 11-25%, according to income.




Approval of this measure in Congress in January had seemed to signify that Brazil was at last prepared to take on cosseted vested interests. But one interpretation of Brazil's constitution holds that higher rates for higher earners can be imposed only through the income tax. If the government has to backtrack, and charge only the minimum proposed pension contribution, it could lose 2.6 billion *reais* in revenue in a full year. Sizeable sums are also at stake in legal challenges to three other revenue-raisers: the widening of

# Sweet-'n'-sour politics

SAN MIGUEL DE TUCUMAN

TUCUMAN is not untypical of Argentina's poor north-west. It has an old-established and protected sugar industry which struggles to compete in the world market. It has reasons for hope, in booming citrus farms, which have made the province of 1.1m people the world's leading lemon producer. And its politics has more in common with the old Argentina of *caudillos* (strongmen) than the modernised democracy that is preparing for a closely fought presidential election in October.

Since the return of democracy to Argentina in 1983, Tucuman has seen the arrest of one governor (and the jailing of two of his ministers for corruption); a period of direct rule by an administrator appointed by Buenos Aires; chaotic government by Ramon "Palito" Ortega, a local hero who rose from obscurity as a child sugar labourer to fame as a syrupy pop singer; and a steady rise in poverty, unemployment and the province's debt. In 1995 its voters turned to Antonio Domingo Bussi, a former general who was Tucuman's military ruler at the height of the 1970s "dirty war" against the left-wing guerrillas. His role in the bloody repression of their supporters has made him the target of several international arrest warrants.

This time, too, Mr Bussi's rule has been controversial: he was suspended for 52 days last year in connection with allegations of corruption and tax evasion. He likes to display a revolver on his desk—a habit quite in keeping with the Wild West quality of local politics, which has earned the province the name of "Tucson" among its youth. Even so, some locals view Mr Bussi as less bad than his predecessors. Since Tucuman's constitution bars a sitting governor from seeking re-election, Mr Bussi's son Ricardo ran in his stead this year.

Despite being a near-stranger to the province, Mr Bussi junior topped the opinion polls and did well enough in the election on June 6th to claim initially that he had won. (The general himself was easily elected to the provincial legislature.) But, unexpectedly, the final tally gave victory (by under 3,000 votes) to Senator Julio Miranda, the candidate of the Peronist party of President Carlos Menem. Fraud, cried Mr Bussi. A check is under way.

**It's famous for its lemons**

If Mr Miranda's victory is confirmed, has Tucuman voted for reform? He hints that his predecessor will not be assured automatic immunity from prosecution. But sceptics note that Mr Miranda has a poor attendance record in the national Senate, and has risen with striking speed from being an oil-workers' leader to become a rich local landowner (the happy consequence of cheap land, lucky harvests and his son's agricultural studies, he counters).

Perhaps the man with most to celebrate in the result is Mr Ortega. He is now the running-mate of Eduardo Duhalde, the Peronists' leading presidential candidate. Mr Miranda is Mr Ortega's man (he complained that Mr Menem's aides were covertly backing Mr Bussi). And to complete a good week for Mr Duhalde, his only declared rival for the Peronist nomination withdrew on June 7th.

But Tucuman is natural Peronist territory, thanks to the subsidies and protection for its sugar introduced by General Peron himself back in the 1950s. And there was a drop of sweetness this week for Argentina's opposition alliance, too, whose candidate picked up a respectable 23%. Tucuman, however, shows few signs, unfortunately, of becoming a paragon of good government.

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schemes, but ended up pleasing no one—least of all the Iraqis. Even the relatively simple matter of sending a team to dismantle UNSCOM's abandoned laboratory in Baghdad caused a kerfuffle in the Security Council. With Kosovo taking centre-stage, there is little diplomatic capital to expend on Iraq. Even if there were, the American view (no let-up in the pressure on Saddam Hussein) and the Russian, Chinese and French line (that the crippling nine-year embargo must be eased) seem irreconcilable.

Indeed, America wants to tighten the screws. Its planes have bombed Iraq on average every three days since January, ostensibly because of Iraqi infractions of the two "no-fly zones" that America and Britain have declared in the north and south of the country. In practice, the Americans welcome any chance to weaken Mr Hussein's army. They still hope, Iraqi opposition groups say, that eight years and five bombing campaigns after the Gulf war, the Iraqi armed forces will turn on their master.

The Americans insist that internal dissent—as evidenced by the bomb attack that killed several members of a Baghdad-based Iranian militia on June 9th—shows that Mr Hussein's police state is weaker than outsiders imagine. Congress has long wanted to arm and train Iraqi opposition groups to help them topple Mr Hussein, and last year authorised the administration to do that.

But the administration has dragged its feet, arguing that the opposition is weak and divided, and none of Iraq's neighbours is willing to support it. In late May it agreed to hand out some fax machines and photocopiers for the war effort—but no guns. The main opposition group, the Iraqi National Congress (INC), has smartened itself up, dropped its unpopular president, Ahmad Chalabi, and recruited representatives from the most powerful Kurdish, Shia and Sunni factions. This revamped INC plans to hold a much-hyped meeting next month, hoping to turn decision-makers' heads.

In the meantime, an exceptionally hot, dry summer has withered nearly three-quarters of this year's crops. The Tigris in Baghdad is reduced to a third of its normal level, disease-ridden livestock are dying of hunger, and worse is still to come. The oil-for-food programme, whereby Iraq is allowed to sell some oil to pay for humanitarian imports, has been hit by low oil prices and run-down Iraqi infrastructure; in the past six months, it raised $3 billion, $2.2 billion less than projected. In the two years that the scheme has run, Iraq's rates of malnutrition and disease have stabilised, but education, agriculture and electricity-generation have deteriorated. The Security Council has allowed Iraq to pump more oil but America and Britain veto many contracts for new oil equipment. And appeals for extra aid for Iraq's 20m people have fallen on deaf ears. ■

**South Africa**

# A famous, and dangerous, victory

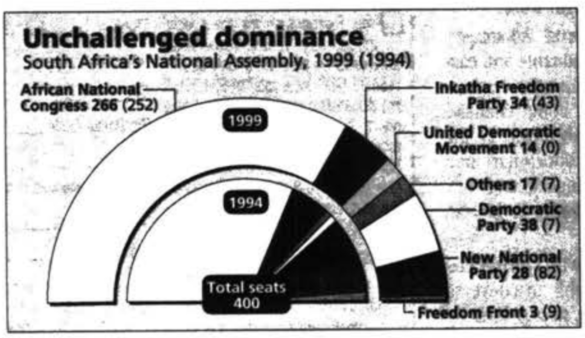
JOHANNESBURG

ALL over South Africa, colourful, cardboard-backed posters are coming down. Squatters use them to insulate their shacks; children slide down grassy slopes on them; tourists pinch them as souvenirs. That party banners are being torn down only after the polls closed illustrates how much gentler South Africa's second all-race election was than the first, five years ago.

In 1994, canvassers who ventured into areas controlled by rival parties risked death. This year's vote, on June 2nd, passed without a single political killing. Logistical foul-ups stretched the 1994 election over three days, and the vote-counting was delayed by justified allegations of local fraud. By contrast, this year's results, announced on June 7th, were quickly accepted by all the major parties. The ruling African National Congress (ANC) won handsomely, finishing one parliamentary seat short of the two-thirds majority that would have enabled it to change the constitution. "The people have spoken," exulted Thabo Mbeki, the ANC's leader, now certain to succeed Nelson Mandela as South Africa's president.

The next parliament promises to be livelier than the last. The ANC has an overwhelming mandate to accelerate Mr Mbeki's programme of "transformation", intended to correct the country's racial imbalances. But it will face sharper criticism in parliament. The largest opposition party in 1994 was the National Party, the party of apartheid, now renamed the New National Party (NNP). Burdened with an odious past and an ineffectual leader, Marthinus van Schalkwyk (nicknamed "Shortypants" for his boyish demeanour), the NNP never managed to put forward a principled alternative to the ANC's policies. The party lost two-thirds of its 1994 tally of seats, and is probably doomed to extinction.

It is replaced as the official opposition by the Democratic Party (DP), a liberal lot whose chief, Tony Leon, has proved to be the most able critic of the ANC over the past five years. With five times the number of DP members in the new parliament, bumbling ministers can henceforth expect to get a roasting.




A free and peaceful election, a hugely popular government, and a sparky opposition to keep it on its toes—South Africa has much to celebrate. But, in other ways, the election results augur ill. The total number of opposition MPs has shrunk slightly, and the DP, with 38 of parliament's 400 seats, is only half as strong as the National Party was in 1994. It can point out flaws in proposed laws, but it cannot block them.

With 266 seats, the ANC can do much as it pleases. If, as seems likely, Mr Mbeki buys the support of the Zulu-nationalist Inkatha Freedom Party (IFP) by offering the deputy presidency to its leader, Mangosuthu Buthelezi, he could command a three-quarters majority, enough to abolish most guarantees of real democracy. Not that the ANC wants to do so, but its power is nonetheless disturbing. In the Western Cape, the one province where the ANC is to be excluded from government, its trade-union allies have threatened mass disruption. The party also includes some unsavoury characters. Mr Mbeki has promised to expel them, but he spent much of the campaign publicly hugging one of the worst: a convicted kidnapper, Winnie Madikizela-Mandela.

Still more worrying, the election result was evidence of enduring racial polarisation in South Africa. Few whites voted for the ANC. Few blacks, apart from Inkatha-supporting rural Zulus, voted for anyone else. For many, the vote was an expression of ethnic solidarity, rather than an endorsement of a set of policy ideas. As long as past wrongs are remembered—and politicians can ensure that they are—race will outweigh other issues. The old National Party inflamed historical grievances, both against the British and against black South Africans, to foster Afrikaner unity and to keep itself in power.

Nelson Mandela, by contrast, called for reconciliation. Mr Mbeki echoes those calls, but with emphasis on the need for white South Africans to share their wealth with blacks. On June 3rd, he promised to move faster to "build a non-racial and non-sexist society". By this he meant, among other things, promoting racial preferences for blacks—as popular among most South Africans as the old apartheid laws were loathed. Racial appeals often win votes, but discrimination, positive or otherwise, rarely does much for race relations, or for prosperity. ■

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# Sudan loses its chains

**Oil exports and squabbling neighbours are making life a lot easier for Sudan's once-isolated Islamist government**

AT THE beginning of last year, Sudan seemed to be firmly under lock and key in solitary confinement: besieged by its neighbours, attacked by increasingly confident rebels, the target of United Nations sanctions for sponsoring terrorism, and—apart from a few rogues—friendless. That has all changed. With luck, and skilful diplomacy, Sudan's Islamist government has begun to end its isolation and to win back the political initiative in the country's long civil war.


The luck was in oil and foreign wars. Sudan is expected to export its first ever oil at the end of this month, cutting its import bills by a quarter. Sudan's neighbours, Eritrea, Ethiopia and Uganda, which were, with American help, supporting rebels in Sudan, are now fighting: Eritrea and Ethiopia with each other, and Uganda in Congo. Both Eritrea and Ethiopia are now trying to make peace with the government in Khartoum. And the government, a clique of military officers and Islamist politicians who have ruled Sudan for ten years, has seized the chance to improve its image and is trying to lure leading opponents back from exile.

The regime has a lot of ground to make up. For years its militant Islamist agenda infuriated neighbours and complicated the civil war in the south by encouraging different ethnic and religious groups to fight each other. In the north, the government brutally suppressed dissent, driving the leaders of even traditional Islamic parties out of the country and into the arms of the rebel movement, the mainly southern Sudan People's Liberation Army. Farther afield, it was accused of supporting terrorism. The UN imposed sanctions, urging members to reduce contact with Sudan's government.

A new constitution, promulgated a year ago, lifted a ten-year ban on multi-party politics; now the government is urging its opponents to come back and join in. The country's former dictator, Gaafar Numeiri, has already accepted the offer and was welcomed home from 14 years in exile last month. More significant was last month's meeting in Geneva between Hassan Turabi, the regime's ideologue, and Sadiq el Mahdi, an ousted prime minister who is now the opposition's leading light. They are reported to have agreed on a framework for a political settlement. Sudan's vigorous foreign minister, Mustafa Osman Ismail, has also been busy, charming European diplomats in Khartoum. They, in turn, have helped persuade the UN Human Rights Commission, usually hostile to the Sudanese government, to praise the political changes, although it has repeated its usual condemnation of Sudanese bad behaviour.

There is a rethink under way in Washington too. America's attempts to isolate Sudan as a "sponsor of terrorism" have been set back by the bombing last August of the Al Shifa medicine factory, which the United States claimed was a chemical-weapons plant. A recent order from the White House to unfreeze the assets of the factory's owner was seen as a tacit admission that its output was not as lethal as the CIA had thought. Discreet, unofficial contacts are taking place between America and Sudan.

American policy was already failing because its three local allies, Eritrea, Ethiopia and Uganda, had become embroiled in wars. They had been putting pressure on the Sudanese government, through support for the southern rebels. Now commercial flights between Ethiopia and Sudan have resumed, and President Omar el Bashir of Sudan has had a chat with the Ethiopian prime minister, Meles Zenawi, in Djibouti in May. Eritrea has signed an accord with Sudan that may lead it to evict the National Democratic Alliance, the umbrella opposition group that has so far been allowed to use the Sudanese embassy in Asmara, the Eritrean capital.

The government in Khartoum has also sought to repair the damage done to relations with Egypt by a Sudanese-sponsored assassination attempt on President Hosni Mubarak in Ethiopia in 1995. The prospect of secession by southern Sudan worries Egypt: it fears that a new political actor on the Nile might disturb the river's flow, Egypt's lifeline. All parties to Sudan's civil war have endorsed a referendum on self-determination for the south, but Egypt is determined that the country should stay in one piece. A recent announcement by President Bashir, that he preferred southern secession to war, seems to have galvanised Egypt into patching up its differences with Sudan and encouraging reconciliation meetings between Sudanese officials and northern Muslim opposition politicians in Cairo.

But will Sudan's new engagement with the outside world help to end its long civil war? Probably not. Its root cause is the marginalisation of the black south by Islamic, Arabic-speaking northerners. The north-south split is now probably unbridgeable.

Moreover, the new regional truces are tactical, and likely to wither as old animosities resurface. Uganda supports the southerners and the Khartoum government will continue to support Ugandan dissidents. Eritrea, too, is convinced that Sudan supports its rebels as part of its Islamist agenda. Even reconciliation with the exiled northerners will not be easy. Mr Turabi presumably believes that, though the exiles may return and re-establish their political parties, he will somehow remain in control.

So will they come back? Mr el Mahdi wants talks with the government based on the principle of a democratic, secular state. But Mr Turabi does not care for secularism. He still wants Islamic law to prevail, at least in the north. A meeting of all opposition parties this week was racked with division over Mr el Mahdi's dealings with the government.

If he does open up politics, Mr Turabi may have trouble with some of the soldiers now in government who think the gun a better way of bolstering their power than political pluralism. Tension between Mr Turabi and the army is increasing. Sudan's complex political manoeuvres may indeed split the rebel alliance and broaden the government's base in the north, but they may also sharpen the division between north and south.

## Egypt

# Open economy, closed politics

CAIRO

PARCHED lands and the lush Nile valley, rich and poor, ancient and modern—the cliché about Egypt as a land of contrasts springs to mind. Now Egypt has a new one: as its economy grows ever more open, its political system becomes increasingly closed.

Last year, President Hosni Mubarak became Egypt's longest-serving ruler since 1850, surpassing even the 16 years of Gamal Abdel Nasser, leader of the 1952 revolution. Over the past few days, Egyptians have watched the almost pharaonic spectacle of various bodies—army chiefs, workers in the state broadcasting monopoly, bosses of the state-controlled labour unions—all publicly pledging allegiance to the president.

Mr Mubarak is standing for a fourth six-year term in September. It will be, in effect, a referendum. Egypt's constitution requires a poll to confirm parliament's choice of president and last week, at a clamorous session, parliament again chose Mr Mubarak as the sole candidate. The outcome of the vote was never in doubt: some 95% of the seats are held by Mr Mubarak's party and most of the tiny opposition meekly played along, either by abstaining or by failing to show up.

**He hears, but does Mubarak still listen?**

Mr Mubarak can claim a fair degree of genuine popularity. Egypt's more liberal economy has sustained growth rates of around 5% for the past few years, and the standard of public services and infrastructure has greatly improved. The private sector, once dwarfed by the edifice of state socialism, now accounts for 70% of GDP.

Other developments have been less welcome. During the 1990s, the challenge of an Islamist insurgency and social stresses created by urgent economic reform combined to make the government nervous of its grip on power. It extended emergency laws giving the police wide powers of arrest and detention, and the state declined to license new political parties. Strikes were banned, and the government used arcane rules to take over politically active trade unions.

Free speech has been similarly curtailed. Despite the general drive for privatisation, the information ministry has torpedoed attempts to set up private radio and television channels. A campaign against the "yellow press" has led to the closure of Egypt's most outspoken weekly; others have been cowed. In the past year the state censor has banned the American University in Cairo, a private institution that serves Egypt's elite, from importing 89 books, including works such as Khalil Jibran's "The Prophet" and Vladimir Nabokov's "Lolita", as well as "Egypt Under Mubarak", an innocuous academic study of modern Egyptian politics.

Yet this neatly stitched straitjacket is beginning to chafe. There are signs that instead of seeing political continuity as a positive virtue, Egyptians are becoming frustrated by the lack of change. There has, for example, been angry public reaction to a recent law on non-governmental organisations.

From providing micro-financing for the poor to defending human rights, such NGOs have become crucial to maintaining Egypt's social equilibrium. But they are also among the few forces still capable of challenging the dominance of the state. The new law was touted as meeting the organisations' demands for less regulation. Instead, the hastily enacted legislation raised fears that the government intended to keep the independent organisations under its thumb.

The government seemed shocked at the vehemence of the public response: dozens of organisations have petitioned the government, women activists have gone on hunger strike, and even the United States has rebuked the government. To soothe nerves and win goodwill in advance of a visit this week by the UN's human-rights commissioner, Mary Robinson, eight human-rights groups have been granted provisional legal status for the first time.

Yet the law bared deep mistrust of government. Enough to influence Mr Mubarak's re-election? Last time, in 1993, 94% backed him. He may need to offer more than good economic figures to match that next time.

## Iraq

# Forgotten

THE more paranoid Arab commentators insist that NATO's war with Yugoslavia is designed to distract attention from America's war with Iraq. Kosovo may have pushed Iraq out of the headlines but, for policymakers in Washington, diplomats at the United Nations and American and British pilots patrolling the skies over northern and southern Iraq, the battle continues, as fiercely and inconclusively as ever. And the plight of ordinary Iraqis worsens by the day.

Since a four-day bombing blitz last December, the UN Security Council has been split over Iraq. Inspectors from UNSCOM, the UN body charged with disarming Iraq, decamped to Bahrain to sit out the bombardment, and have not been allowed back. All the veto-wielding members of the council agree that some sort of arms-control regime must resume to winkle out Iraq's remaining biological and chemical weapons. But they disagree over what concessions to make to Iraq in return. Russia, China and France argue that the oil embargo should be suspended when Iraq allows inspectors to return. A British and Dutch proposal, backed by America, stipulates a four-month waiting period to ensure compliance with a new inspection regime. The Iraqis say they have no more banned weapons, and demand an unconditional end to sanctions.

A special UN panel was convened in March to find a way out of this deadlock, but it failed. A recent French proposal supposedly blended the Anglo-Dutch and Russian

Gene S – Fyl – BC

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# Latin lessons on pensions

**South America has pioneered a new approach to social security. The rest of the world should pay attention**

## ECONOMICS FOCUS

IT SEEMS increasingly unlikely that America is about to embark on a radical overhaul of its social-security (public pensions) system. The administration and Congress alike seem happy to give the issue a wide berth at least until after the next election. Politicians in other rich countries are just as timid. Ineluctable demographic trends, they know, mean that the challenge will have to be faced one day: the worsening ratio of contributors to pensioners is a familiar and uncompromising fact. But if the problem can be left, yet again, for some future lot of politicians to deal with, that's all right with the present lot.

Are governments right to regard radical reform of social security as impossible to sell, except as a response to imminent crisis? The experience of Latin America says otherwise. There, many countries have moved away from unfunded state-run pension systems (schemes that pay for pensions out of current taxes) to "privatised" funded individual pensions (where benefits are financed out of capital accumulated by each person during his or her working lifetime).

In more or less every case, these reforms were a response to a looming or actual fiscal crisis: in that sense, rich-country governments are merely following precedent in trying to delay the inevitable. But Latin America shows that the reforms can be politically successful as well as economically necessary. Especially if the other lessons from Latin America, concerning what went wrong as well as what went right, are borne in mind, the region's experience suggests that reform is both desirable in itself and potentially vote-winning.

A recent study by Monika Queisser for the OECD tells the story well*. Chile went first, in 1981, with mandatory individual retirement accounts administered by competing fund-management companies. It is a pity that Chile led the way: for many observers this proves that only an authoritarian government can abolish pay-as-you-go state pensions. But in the 1990s many other countries in the region, mightily impressed by Chile's success, followed with reforms of their own—Colombia in 1994, Argentina in 1994, Uruguay in 1996 and Mexico in 1997, to name but four. Brazil may soon do the same.

Funded individual pensions liberate citizens, especially the less well-off, from dependence on the state in retirement, and replace that dependence with financial self-determination. This is "popular capitalism" writ large. Beyond that, there are other possible advantages as well: a more efficient labour market (because the distorting social-security tax is replaced with saving explicitly linked to income in retirement); higher savings and so extra investment and faster growth; and faster development of modern financial markets.

So far, the schemes have been popular. Despite recent turbulence in the markets, returns in Chile over the 17-year life of the scheme have greatly exceeded the derisory returns implicit in the earlier pay-as-you-go system. In countries where affiliation is voluntary, take-up has been high. It is unclear whether saving has gone up (this depends in any case on how the transition to the new system is financed, of which more in a moment). But there is little doubt that the reforms have speeded the development of deeper and more efficient financial markets in the countries concerned. Overall, the reforms have been a success.

In rich countries, sceptics emphasise the difficulties of the transition. Today's taxpayers are stung twice, doubters argue: once to provide for their own retirement, and again to finance the pensions of those who worked all their lives in the pay-as-you-go regime. This double burden is why sceptics regard the idea as politically impossible. But Latin America shows that the transition can be managed in different ways. Its pace can be varied by setting cut-off ages for workers' participation; at one extreme, you could allow only new entrants to the workforce to opt out of the state system. Or you could combine a pay-as-you-go pension with a funded one. Considerations such as these determine the cost of the transition. Then that cost, small or large, can be financed in different ways—out of taxes (in which case the burden falls on today's workers) or out of extra government borrowing (which spreads the burden to more distant generations, albeit at the cost of eroding the added-saving benefit). In any event, Latin America shows that the transition is not insuperable.

The main problem with the Latin American schemes, Ms Queisser points out, is that the systems' running costs have been large (though in Chile's case not big enough to alter the fact that returns to investors have been high). Competition among funds has failed to curb their operating costs, which amount to a steep 3% of wages in some countries: instead of competing on price, the firms have spent heavily on advertising and sales agents. This is partly because funds are obliged to let investors switch managers almost as they please—which has led to "transfer wars". In Chile, 50% of contributors used to change funds every year; new rules have now cut this by half. Mexico too has put limits on transfers.

In rich countries, another solution is feasible—namely, avoid the single-purpose-provider approach of the Latin American countries and let many kinds of firms (banks, insurance companies, mutual funds) compete for the business. Fierce competition in sophisticated markets has driven costs down in these businesses. There is no reason why the same should not be true for pensions, although the need for adequate prudential and saver-protection regulation will clearly remain.

Radical reform of social security is the next great liberal reform, easily as significant a change as the privatisation of state-owned enterprises—also dismissed in its time as Utopian. On pensions, Latin America has led the way. Let the world follow.

* "Pension Reform: Lessons from Latin America". OECD Development Centre, Policy Brief 15.

Gene S / Lael FYI - 2 interesting pieces

# FINANCE AND ECONOMICS

THE PRESIDENT HAS SEEN
6-23-99

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Lael Brainard

# The price of uncertainty

**Attempts to measure and put a price on risk in financial markets may actually be making them riskier**

ONLY last autumn the world's financial markets were more volatile than ever before. The markets themselves expected more of the same. "Implied volatility"—the options market's best guess about how volatile markets will be in the future—shot up everywhere. The Chicago Board Options Exchange's volatility index, for instance, which had mostly traded between 20 and 25 in the first half of 1998, was double that level from August to October.

But those who saw risky times ahead were wrong. Since then, all markets have in fact become less volatile. Problems in Asia, Russia and Latin America have been almost forgotten. The CBOE volatility index is now back at around 23. Regulators can sleep at nights: the financial system seems to have weathered storms so freakish they should never have happened at all. It seems inconceivable that they will recur.

Or is it? In fact such shocks are becoming both more likely and bigger. And one reason for this is a paradox. Financial markets' attempts to measure and price risk, and the models that they use to do so, may actually be making markets riskier.

Financial crises seem now to happen with almost monotonous regularity. In the past dozen years there has been, first, the Wall Street crash of October 1987. A little more than two years later Japan's stockmarket bubble collapsed; Europe's exchange-rate mechanism had its debacle in 1992-93; the bond market crashed in 1994; the Mexican crisis occurred late in the same year; East Asia went into turmoil in 1997; and Russia's default and associated shockwaves shook the world last year.

Each of these events had been dismissed by those who were to lose pots of money as so improbable as to be safely disregarded. So something is clearly going on. That something might be the changing way in which financial firms manage their risks.

The starting point is an article published in 1973 by two financial economists, Fischer Black and Myron Scholes. With help from a third, Robert Merton, they developed a model to calculate the price of an option. Their model transformed modern finance. Although options are centuries-old, pricing them had been pure guesswork. The three developed an algorithm to do it instead.

Their work swiftly became important, because demand for options and derivatives in general soared in the 1970s. That was partly because the breakdown of the Bretton Woods exchange-rate regime, and two oil-price shocks, led to huge swings in the prices of financial assets. It may also have reflected growing market sophistication.

Of the main inputs to the Black-Scholes model, the most important is the estimate of how volatile the asset will be over the life of the option. Knowing this, an option seller can create offsetting positions in the underlying asset, protecting himself from loss. As the price of the asset rises and falls, he buys or sells as much of it as the model says, until the option expires. Unless they buy another option to offset the one they have sold, sellers must hedge their exposures dynamically—a process known as "delta hedging".

The difficulty in pricing the option is thus in knowing how volatile an asset will be in the future. The past is a poor guide, as the events of last autumn demonstrated. And many of the other assumptions that go into a pricing model—such as perfectly liquid markets—have also been found wanting too.

The first sign that all this theory might be part of the problem, rather than the solution, came in 1987. An advisory firm, Leland O'Brien and Rubinstein, had realised that if it worked, investors did not need to buy a put option from somebody else to protect their equity portfolios. They could cover their risks more cheaply by doing their own delta hedging. By 1987, some $60 billion-worth of equities were subject to such "portfolio insurance". Then came the crash. The stockmarket turned out to be both less liquid and more volatile than predicted. And—more ominously—attempts to sell huge amounts of equities by those who had used portfolio insurance pushed the market down further than it would otherwise have gone. An algorithm with volatility as its centrepiece had helped make markets more volatile.

Since portfolio insurance worked so badly in 1987, investors have largely shunned it. Instead, they have bought options—proper insurance—in ever increasing quantities from those, mostly banks, that are willing to shoulder the risks. But has this merely been passing the buck? Banks are more expert in buying protection (ie, other options) in the form of, for example, securities with embedded options in them, deeply out-of-the-money options (those worth almost nothing), or even volatility itself (one of the quirkier features of modern financial markets is the trade in pure uncertainty).

Crucially, however, unless there are enough "natural sellers" of options, dynamic

**Nakasone's private musings**

panies. Almost all, according to city officials, are losing money. In worst shape are two prominent property developments in the city's old industrial centre, the bay area—the Asian Trade Centre and the World Trade Centre. Because of their mountains of bank debt, their rents are exorbitant, and have kept occupancy rates low, despite efforts to fill the space with staff from other third-sector companies or public bodies. Equally ill-starred was the construction of a city-centre check-in counter for Osaka's new airport. The city has this year lent ¥9.7 billion to these three projects, and city officials say they will make new "investments" of this size for the next five to six years. After that, they say, the projects will return to health.

One problem has been timing. Mr Nakasone's drive to encourage public-private partnerships coincided with the puffing up of Japan's stockmarket and property bubbles. These drew local governments into speculative property development, a tendency encouraged by the 1987 Resort Act, which gave the green light to third-sector developments involving theme parks, hotel complexes and the like. Slow growth and recession in the 1990s have shot to pieces the forecasts of likely demand for these projects.

### Jobs for the boys

Yet the downturn cannot excuse shoddy management. As has become standard practice in Japan, the presidents of the third-sector companies that own the Asian Trade Centre, the World Trade Centre and the air terminal project are all city-government old boys, or "OBS", who are nearing retirement age and have been rewarded with cosy sinecures. In the worst cases, says Yoneko Matsuura, head of a local civic group, third-sector projects have sprung up precisely in order to create jobs for OBS. As she says, the rationale for the projects is "upside-down".

OB incompetence is exacerbated by moral hazard: management, private-sector partners and banks have (rightly) expected to be bailed out by the government when things go wrong. "A third-sector project should not go bankrupt," says an Osaka city official, tut-tutting at the local prefectural government's recent decision to pull the plug on one.

Underlying this is a more fundamental confusion about what third-sector projects are for: the public interest or private profit? Local governments in Japan seem inclined towards the former notion, yet the act of joint-stock incorporation creates expectations of the second.

A comparison with other countries sheds more light on Japan's problems. Various techniques have been adopted in a bid to increase efficiency in the public sector and reduce costs by transferring management control to profit-motivated private firms. They include privatisation, "build-operate-transfer" contracts (in which the private sector builds a project, runs it for a time to recoup costs and make a profit, and then transfers it to the public sector) and buying once-public services such as waste disposal or prison management from private companies. In Japan, however, the government has taken the lead in third-sector projects. So, perversely, the process has worked in reverse: it has resulted in an expansion of public-sector inefficiency, financed in part by the private sector.

Nor, sadly, is this the worst of it. One Osaka project, to build a Universal Studios theme park, has been dogged by allegations that the city has been helping one of its private-sector partners, Sumitomo Metal Industries, to avoid the cost of cleaning up the contaminated land on which the park is to be built. The city now says the site is clean but, since no independent inspections have been allowed, people suspect a botched job, with talk of dangerous concentrations of arsenic and cadmium underneath the spot set aside for the "Jurassic Park" feature. Two local residents recently filed a lawsuit to try to prevent construction work.

Last month, the ministry of home affairs at last published some guidelines for third-sector projects. These urge local governments to make sure that all parties to them clearly understand their risks and responsibilities; ensure value for money; react quickly when things go wrong; and consider asset sales, mergers and even bankruptcy proceedings as preferable to keeping bad projects in permanent intensive care.

Third-sector projects have shown, once again, that the public sector is run appallingly. For that reason, however, it would be a shame if Japan turned its back on public-private finance altogether. But it might be better in future to put private partners in the lead.

## Commercial banking

# Long live the loan

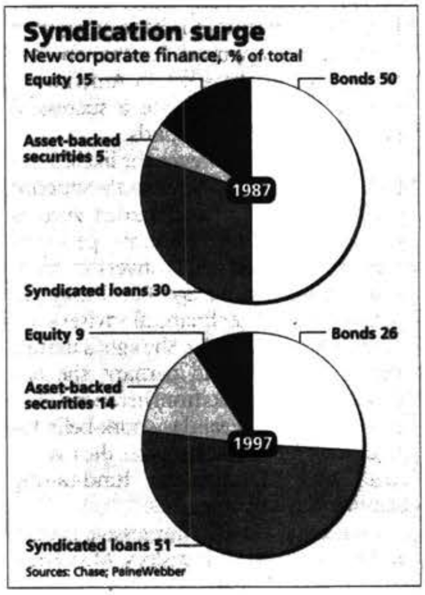
NEW YORK

REMEMBER how bank loans were fast becoming history? Financial markets were beset by "disintermediation". This implied the terminal decline of banks' traditional business—taking deposits and lending out the proceeds—as savers and borrowers consorted directly in the public capital markets. Well, the intermediaries have been fighting back. So much so, that the volume of syndicated loans, in which banks club together to lend money, now exceeds that of new issues of equity, corporate bonds and asset-backed securities combined. This is a remarkable turnaround from the market of just ten years ago (see chart).

Back in the 1980s, the expansion of public debt markets seemed to threaten the very future of corporate bank-lending. In particular, thanks largely to Michael Milken, the "junk-bond king", high-yielding corporate bonds seemed to provide a much cheaper way to raise money than bank loans, for all but the most blue-chip of borrowers.

But traditional lenders have learnt some of the risk-based pricing techniques of the public corporate-bond market. Previously, one or more banks would originate a loan, underwrite it and, often, hold it to maturity. There was little data on the performance of loans, so pricing often bore little relation to risk. Now, the banks originating the loans will typically be part of a syndicate (traditional single-bank lending is genuinely dying out) and sell on a loan to other investors, such as pension funds. This has helped to make loans much more competitive.

As a result, according to a study by Ruchi



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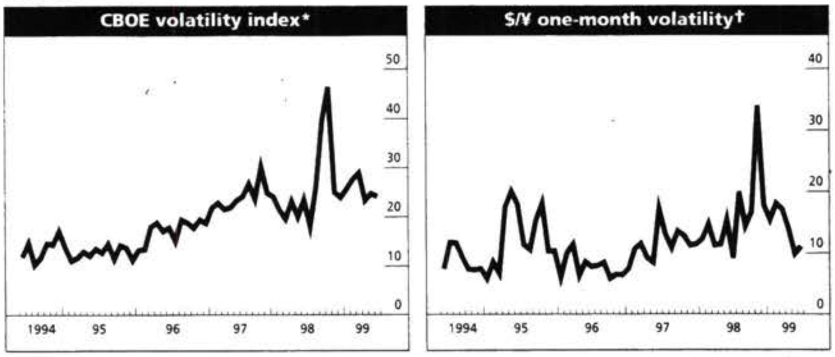
**Model behaviour?**




Sources: Chicago Board Options Exchange; J.P. Morgan

*Weighted average of the implied volatilities of eight equity options †Actual

hedging has the potential to turn a problem into a crisis. Natural sellers are those willing to sell options without hedging them. A fund manager, for example, happy to sell a share at a certain price, might write an option struck at that price and in addition collect a fee, or premium, for selling the option.

If there are enough natural sellers, it is relatively easy for banks to cover themselves by buying options. If there is a shortfall, then scrambling around for protection will drive up volatility. The trouble is that there are few natural sellers in developed markets—and hardly any at all in emerging ones.

### VARiety is the spice of life

Options are not the only way in which financial firms attempt to price volatility, and so not the only market in which they must hedge dynamically. Volatility is central to firms' overall risk-management models. So-called value-at-risk (VAR) models rely on two things: the volatilities of assets and the correlation between them (in effect, the uncertain relationships between lots of uncertainties).

VAR models are now ubiquitous, but by far the most active users are institutions such as banks and, to a lesser extent, hedge funds that are highly leveraged—ie, that have borrowed heavily to finance their investment bets. Little wonder: although leverage magnifies gains, it also magnifies losses. More sophisticated risk-management is meant to protect capital and, by stabilising profits, to make it cheaper to raise more.

But the more these models are used, the more likely it is that markets will suffer in the way that they did in 1987—and not just in one market but in many. The models are profoundly affected by rises and falls in volatility. Less volatile markets mean a lower VAR, implying that for the same apparent risk, banks can pile up more assets. But if markets become more volatile, VAR goes up by at least a proportional amount (and much more if an institution has sold masses of options). The bank is then faced with two choices: put in extra capital or reduce its positions, whatever and wherever they may be. This is what happened last autumn.

But what made that crisis especially acute was that it produced a vicious circle. As banks dumped assets, markets fell further and volatility rose, forcing them to sell still more. As the head of risk at one bank told a meeting at the Federal Reserve shortly after last year's crisis: "The recent market turmoil has highlighted a 'generic' form of dynamic hedging which all option participants know tends to amplify the direction and speed of market change."

Regulators themselves may have contributed to the problem. By international agreement, banks put capital aside for risks on their trading books, but are allowed to use their own models to calculate how much. Banks feed into these the prevailing levels of volatility. Since volatility rises and falls, so does the VAR. So in a crisis, to comply with capital requirements, banks must unload risky positions when the markets are at their least liquid. It might be better, some argue, to make banks use a consistently high, but stable, level of volatility in their models.

Dynamic hedging is not the sole culprit. Advances in information technology have also speeded up capital flows. IT makes information about prices in markets more widely available, more quickly than ever before. In theory, better information should result in less volatility. But when it is fed into banks' risk models—as regulators demand that it should be, on a daily basis—the opposite can happen: shocks are amplified because firms know at once how much the value of their positions has been affected.

In the aftermath of the latest crisis, many banks made noises about relying less on models and more on people's judgment. "Stress testing"—looking at the impact of extreme events—became the buzz-phrase. But such tests are only as good as their inventors' imaginations. And the more complex financial institutions and the instruments in which they deal become, the harder it becomes to do other than rely on models—perhaps even to use them as an early warning of worse to come. "If I'd been in three theatre fires, I'd sit by the door," says one risk manager. But since his competitors are presumably fighting for the same seat, this attitude hardly promises calmer times ahead. ■

Japan

# The third way

OSAKA

**Business partnerships between the public and private sectors sound like a good idea. They have not proved so in Japan**

THE Japanese public sector is notoriously hidebound, and is certainly not known for speedily and zealously embracing market forces. Some officials would no doubt prefer it to stay that way, citing past experience. What little the government has done to introduce private entrepreneurship into public business has had, at best, mixed results. One experiment in particular—the creation of "third-sector" companies, jointly financed by public and private owners—has been disastrous. With most of these companies now in the red, third-sector projects have become a byword for mismanagement, corruption and the abuse of bureaucratic power. Belatedly, the government is trying to clean up the mess.

It is a worryingly large one. According to a 1996 government survey, the latest available, Japan has 9,344 third-sector companies, employing 210,000 people. Their public capital comes mostly from local governments, which among them have invested ¥3.8 trillion ($32 billion). Local governments have been able to invest in these projects for years. But the third sector really took off in the early 1980s, when Yasuhiro Nakasone, then prime minister, launched a programme of privatisation and deregulation, inspired by Britain and America, to import into government "the vitality of the private sector."

Unfortunately, influence seems to have flowed the other way. Of the 3,000-odd third-sector companies that have been set up under the commercial code, for example, more than two-thirds are loss-making. Yet only a handful have gone bankrupt—suggesting that local governments are compounding their mistakes by propping up duff projects, which then become a serious and permanent drain on the public purse.

That certainly seems to be the misfortune of the residents of Osaka, Japan's second-biggest city, where the municipal government (annual spending: ¥4.2 trillion) has invested ¥107 billion in 26 third-sector com-

THE COMMISSIONER OF SOCIAL SECURITY
BALTIMORE, MARYLAND 21235

May 28, 1999

President and Mrs. William J. Clinton
The White House
Washington, DC 20500

'99 JUN 22 PM2:10

Dear Mr. President and Mrs. Clinton:

At a recent Holocaust Memorial Observance Program held here at the Woodlawn Headquarters of the Social Security Administration, we were deeply moved by the remarks of the keynote speaker, Mr. Samuel R. Harris. Mr. Harris survived a harrowing childhood in prison camps until his liberation at age 9½. The unofficial theme of this Observance was a reading, "We Remember Them" and his powerful message helped to ensure just that.

Mr. Harris has asked that I forward a signed copy of his book, *Sammy: Child Survivor of the Holocaust*, to you along with his personal letter. He is a man to be recognized and honored for his courage, perseverance, and his heart.

Respectfully,

Kenneth S. Apfel

Kenneth S. Apfel
Commissioner
of Social Security

Enclosure

Send to Burkhardt for reply?

yes ✓

no ___

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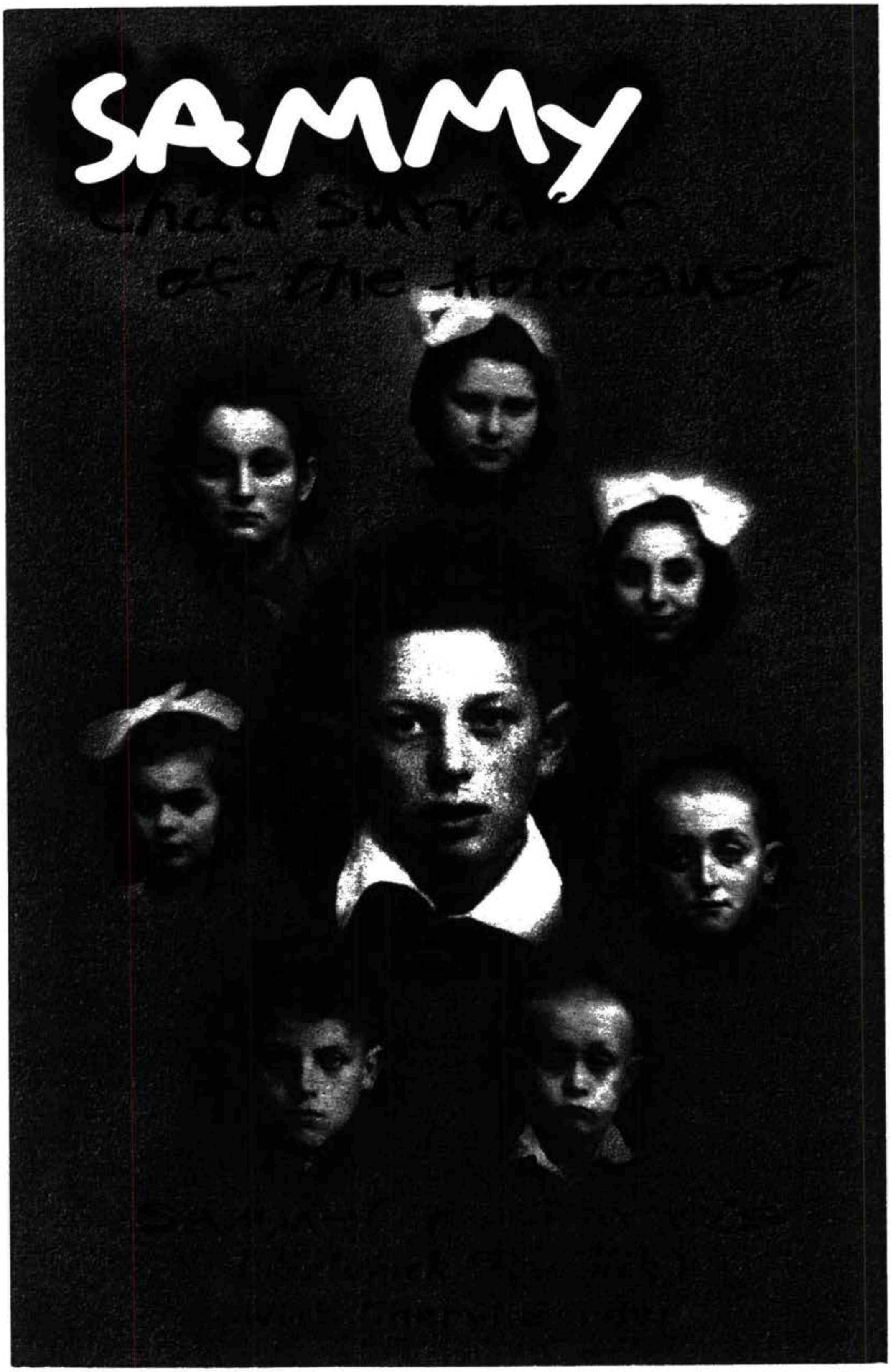

SAMMY

**SAMUEL R. HARRIS**
98 Manchester Dive, Buffalo Grove, Illinois 60089
Telephone (847) 808-8018

5-20-'99

Dear President and Mrs Clinton

"Days of Rememberence" a program Presented by the Social Security administration in Baltimore was the finest event of its type I have ever attended. I was honored to be the keynote speaker.

As a child survivor I was moved by all the participants and the attentiveness of the audience. I was especially moved when commissioner Apfel made so many touching remarks.

The Clinton administration is doing much to soothe the wounds of the few holocaust survivors.

Thank you

Samuel R. Harris

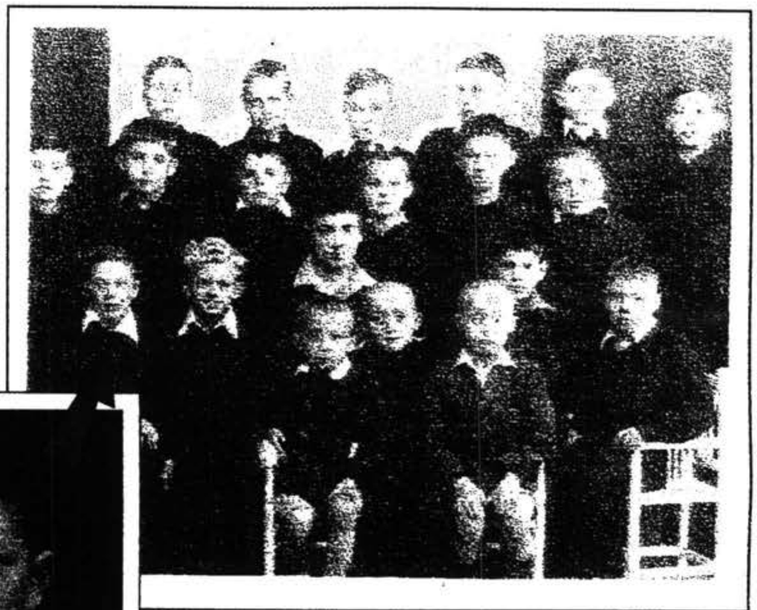
P.S. I wish that I could vote for you a third time.

# Holocaust Memorial Observance

# April 11 - 18, 1999

Guest Speaker
Samuel R. Harris

9 years old



Sam in an orphanage
Lublin, Poland

## Program:

## Monday, April 12 - 10:30 AM

## Altmeyer Auditorium

**Days of Remembrance:**

**"HIDDEN CHILDREN OF THE HOLOCAUST"**

Social Security Administration
Office of Human Resources
Office of Civil Rights and Equal Opportunity

SOCIAL SECURITY ADMINISTRATION
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THE WHITE HOUSE
WASHINGTON

June 17, 1999

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MEMORANDUM FOR THE PRESIDENT

FROM: GENE SPERLING
MARIA ECHAVESTE
STEPHANIE STREETT

SUBJECT: PRESIDENTIAL TRIP TO AMERICA'S NEW MARKETS

**BACKGROUND**

In response to the issues you raised in our meeting on Tuesday, June 15, we are providing additional information regarding possible locations for the trip you will take the week of July 5. The current options allow you to visit a broad range of communities that reflect the cultural and geographic diversity of the country. We have also provided more detail on the demographics of each community and indicated how each location amplifies your New Markets Initiative. As an attachment to this memorandum we are providing a full schedule outlining your itinerary. In contrast to our original proposal, the trip would now begin in Appalachia and end in Los Angeles/ Anaheim.

This memo provides additional information and options, which you requested in our meeting.

**APPALACHIA, DELTA AND MIDWEST LOCATIONS**

In response to the questions you raised regarding proposed sites in Appalachia, the Delta and the Midwest, we provide the following information.

1. **Mississippi Mid-Delta**

*Focus:* Investment in the Delta and Rural New Markets
*Summary Recommendation:* We have explored several locations in Mississippi including Greenville, Greenwood, and Clarksdale as alternatives to our original proposal to land in Jackson. We recommend Clarksdale as the strongest option.

- ***Clarksdale, MS:*** Clarksdale is close to the Arkansas border and Secretary Slater strongly recommends it as a good place for your Delta stop. The town is located in Coahoma County which is 63% African-American and has a poverty rate of 45.5%; nearly 20% of the housing does not have public sewers. However, there are economic success stories in Clarksdale, as a result of financing provided by the Enterprise Corporation of Delta (EDC), a CDFI headed by an African-American that we hope to highlight on our visit to the Delta as a successful example of New Markets economic activity. Information on businesses that we might visit is contained in the attached appendix. Coahoma County is not located in the Mid-Delta Empowerment Zone.

- *Greenwood, MS:* This community is located within the Mississippi Delta Rural EZ which has a 46% poverty rate and is 69% African-American. Greenwood is approximately one hour from Clarksdale. It is a slightly larger town than Clarksdale but has similar demographics. A visit to Greenwood could include stops at businesses in the Mid-Delta EZ, including the Viking Range Corporation and Heartland Catfish Company, both of which employ EZ residents, many of whom have moved from welfare to work.

## 2. Appalachia

*Focus:* Investment in Appalachia and Rural New Markets
*Summary Recommendation:* After exploring possible Appalachia sites in more detail, we recommend Kentucky Highlands, KY as our strongest option. Some concerns have been expressed regarding steel issues in Ohio, which might result in controversy over a stop in Athens County. It is particularly important that the press stay focused on the New Markets message on this stop since we are recommending that the trip begin in Appalachia.

- ***Kentucky Highlands, KY:*** Kentucky Highlands is a rural Empowerment Zone consisting of Clinton, Jackson, and Wayne Counties; the poverty rate for each county exceeds 30% as compared to an overall poverty rate of 20% for the State of Kentucky. Wayne and Jackson Counties are the state's poorest, and have populations that are 98.7% white. The lead EZ entity is the Kentucky Highlands Investment Corporation (KHIC), one of the premier community development venture capital funds in the nation. We would potentially visit one or more business in the Kentucky Highlands EZ that have benefited from financing from KHIC such as Mid-South Electric, a small company which has grown to 800 employees and is now completing a $5 million expansion that will add 100-150 additional employees. Please note the additional information on businesses and potential stops in the appendix.

- ***Athens County, OH:*** Athens County is 97.1% white and one of the poorest counties in the state. The largest municipalities in Athens County are the town of Athens (where Ohio University is located) and Nelsonville, which is approximately 15 miles away. We have identified several potential new announcements that would be made related to Enterprise Development Corporation (EDC), a CDFI that covers a 30-county, largely rural region of Appalachian Ohio. Bank One is prepared to announce a commitment to make a loan to EDC through the SBA microloan program. Please note the additional information on businesses and potential stops in the appendix.

## 3. Midwest

*Focus:* Investment in Urban EZs and the Inner Cities
*Summary Recommendation:* Our goal in the Midwest is to highlight urban poverty and the changes that are occurring in urban, inner-city communities.

- *East St. Louis, IL:* East St. Louis is an extremely economically distressed community and part of an Urban EZ with unemployment rates in excess of 20%, a poverty rate of 42%, and a 98% African-American population. You could visit the Jackee Joyner Kersee Community Center -- financed in part by the private sector -- which is currently under construction in a neighborhood that was formerly an Enterprise Community and is now part of the EZ. Other potential stops include the construction site of the largest shopping center to be built in East St. Louis since 1950. Additional corporate involvement in the community is outlined in the attached appendix.

- *Chicago, IL:* A visit to Chicago, which is an Urban EZ, could focus on a very poor neighborhood such as the West Side where the poverty rate is 26% and the population is 66% African-American. This area also includes the downtown business district and would present a stark contrast between the haves and the have-nots. We might visit sites connected with the Illinois Facilities Fund, a CDFI that finances nonprofit facilities supporting low income people in Chicago and elsewhere in Illinois. There are also several business announcements that could be made here, by companies such as Bank of America, Ameritech and SBC Communications (see appendix for more information). Lastly, a visit to Chicago allows you to announce The BusinessRoundtable's decision to open BusinessLINC chapters in Chicago, New York, Dallas, and Boston. You should note that that you are scheduled to travel to Chicago on June 30 and August 3.

**REQUEST AND RECOMMENDATION**
Based on our meeting on Tuesday June 15, we will proceed with plans for the New Markets trip to include stops in Los Angeles/Anaheim, South Phoenix, and Pine Ridge Indian Reservation (see appendix for detailed information). We recommend the following additional stops:

**1. Appalachia: Kentucky Highlands** ✓ **Agree** ____ **Disagree**

**2. Mississippi Delta: Clarksdale, MS** ✓ **Agree** ____ **Disagree**

**3. Midwest:** ____ **East St. Louis** **OR** ____ **Chicago**

**RECOMMENDED ITINERARY**
If you concur with the above recommendations, your itinerary would be as follows, departing from Washington, DC on Monday, July 5 and returning the evening of Thursday, July 8.

| | |
|---|---|
| July 5 | Kentucky Highlands, KY |
| July 6 | Clarksdale, MS<br>Chicago, IL or East St. Louis, IL |
| July 7 | Pine Ridge, SD<br>Phoenix, AZ |
| July 8 | Los Angeles and Anaheim, CA |

# TRIP OF THE PRESIDENT TO AMERICA'S NEW MARKETS

*July 5-8, 1999*

**Note: Per your request, we have included OTR Time in each city which will give you the opportunity to meet with the local residents.**

## MONDAY, JULY 5th

| | |
|---|---|
| | **MORNING OFF** |
| 11:30 am | Depart AAFB en route Kentucky [flight time: 1 hour, 15 minutes] |
| 12:45 pm | Arrive Kentucky |
| 2:00 pm-3:15 pm | **EVENTS TBD** *Kentucky City TBD* |
| 3:30 pm-4:30 pm | **OTR TIME** |
| 4:40 pm-5:40 pm | **POSSIBLE INTERVIEWS** |
| 6:50 pm ET | Depart en route Memphis, TN |
| 7:10 pm CT | Arrive Memphis, TN |
| | ***EVENING OFF*** |
| **RON** | **MEMPHIS, TN** |

## TUESDAY, JULY 6th

| | |
|---|---|
| 8:15 am | Depart Memphis via Marine One en route Clarksdale, MS |
| 9:15 am-10:45 am | **EVENTS TBD** *Clarksdale, MS* |
| 11:00 am-12:00 pm | **OTR TIME** |
| 1:05 pm | Depart en route MidWest City |
| 2:20 pm | Arrive MidWest City |
| 3:00 pm-4:15 pm | **EVENTS TBD** *MidWest City* |
| 4:20 pm-5:20 pm | **OTR TIME** |
| 6:05 pm CT | Depart en route Ellsworth AFB, SD |
| 6:50 pm MT | Arrive Ellsworth AFB, SD |
| | ***EVENING OFF*** |
| **RON** | **SOUTH DAKOTA** |

## WEDNESDAY, JULY 7th

| | |
|---|---|
| 8:15 am-9:45 am | **EVENTS TBD** *Pine Ridge Indian Reservation* |
| 10:00 am-11:00 am | **OTR TIME** |
| 12:35 pm MT | Depart en route Phoenix, AZ [flight time: 2 hours, 10 minutes] [time change: -1 hour] |
| 1:35 pm PT | Arrive Phoenix, AZ |
| 2:15 pm-3:30 pm | **EVENTS TBD** *Phoenix, AZ* |
| 3:45 pm-5:15 pm | **OTR TIME** |
| 6:00 pm | Depart en route Los Angeles, CA [flight time: 1 hour, 10 minutes] |
| 7:10 pm | Arrive Los Angeles, CA |
| | ***EVENING OFF*** |
| **RON** | **LOS ANGELES, CA** |

## THURSDAY, JULY 8th

| | |
|---|---|
| 9:00 am-10:30am | **EVENTS TBD** *Watts, CA* |
| 10:45 am-11:30 am | **OTR TIME** |
| 12:00 pm | Depart en route Anaheim, CA |
| 12:15 pm | Arrive Anaheim, CA |
| 12:45 pm-1:45 pm | **REMARKS TO CEO CONFERENCE** *Anaheim, CA* |
| 3:00 pm PT | Depart en route The White House |
| 10:50 pm ET | Arrive The White House |
| **RON** | **THE WHITE HOUSE** |

*as of June 17, 1999 (11:49AM)*

# APPENDIX

## 1. Mississippi Delta

*Clarksdale, MS:* There are several businesses located in Clarksdale that you may want to visit:

- Computers, Inc. is a computer servicing and retail business that serves 15 counties of the Delta region. The company employs six people full time and has revenues of $1 million. They are an authorized Apple Computer Dealer and also provide sales and services to a number of schools and academies in the area, which we might visit. The owners, Nita Brooks, is a graduate of the FastTrac entrepreneurial training course, sponsored by ECD and administered locally by Delta State University.
- Waterfield, Inc. is a Tennessee corporation doing businesses in Clarksdale. The company produces cabinets and employs 200 full-time employees many of whom have moved from welfare to work.
- Delta Laundry is based in Clarksdale and provides commercial laundry and linen service to hospitals, restaurants, and casinos. The company employs 25 people, 15 of whom moved from welfare to work.

In addition we could travel through the community which is very characteristic of the Mississippi Delta and make stops in places like the first predominantly black community college in Mississippi, which is located in Coahoma.

*Greenwood, MS:* There are several businesses in Greenwood that you could visit on a stop here.

- Viking Range Corporation is headquartered in Greenwood and employs 500 people, most of whom live in the EZ. The company manufactures Viking ranges, the premiere brand for commercial grade ranges, and has a tremendous success story to tell about their decision to locate in an EZ.
- A visit to Greenwood could also involve a tour of local neighborhoods and a visit to a business located there. One such business is Heartland Catfish, Inc., which received a USDA business and industry loan guarantee to help open a new processing plant that will provide jobs for 150 people.

## 2. Appalachia

***Kentucky Highlands, KY:*** There are several business throughout the Kentucky Highlands EZ that have benefited from financing from KHIC including:

- Mid-South Electric is a small company which has grown to 800 employees and is now completing a $5 million expansion that will add 100-150 additional employees. Mid-South is located in Jackson County where the poverty rate was 34.8% in 1995. The plant is located in an industrial park that includes several other successful ventures that have hired individuals from the EZ.

- Fantasy Custom Yachts is a custom manufacturer of luxury houseboats, located in Wayne County, Kentucky where poverty rates were at 32% in 1995. The startup of the business in 1995 was aided by KHIC and the company now has sales approaching $10 million.
- Because KHIC has been very involved in the start-up of several of the Ohio entities described below, it is possible that we could make some of the corporate announcements listed below in Kentucky.

***Athens County, OH:*** We have identified the following potential new announcements that would be made related to Enterprise Development Corporation (EDC).

- Bank One would announce a commitment to make a loan to EDC through the SBA microloan program. The closing event is scheduled to take place in Athens or Nelsonville. We could also hold a roundtable with some of the micro-entrepreneurs and businesses that have benefited from EDC financing.
- Several groups, including KHIC and ACE-Net (Appalachian Center for Economic Networks), are involved in the formation of the Appalachia Ohio Development Fund, which will provide technical assistance to small businesses in southern Ohio. Because this is a new fund, there are no businesses that have received any financing yet.
- However, Pat Fresca is a small, minority woman-owned business that manufactures specialty foods, was nurtured by ACE-Net, and has benefited from some of the local programs. The owner received venture capital financing as a result of the Second Appalachian Economic Roundtable held in Southern Ohio which was organized by Rainbow/Push in collaboration with local organizations like ACE-Net.

3. **Midwest**

***East St. Louis, IL:*** Potential site visits in East St. Louis include:

- Bank of America is also prepared to make a significant announcement in East St. Louis about a national program related to your New Markets Initiative. This could be done at a local neighborhood branch.
- A ribbon cutting for the Jackee Joyner Kersee Community Center which is now under construction and is located in a neighborhood that was formerly an Enterprise Community and is now part of the EZ. A number of corporations have contributed to the center, including Enterprise Rent-A-Car, May Department stores, and NationsBank. Twenty jobs will be created.
- Walgreens will locate an anchor store in the largest shopping center to be built in the area since 1950. The $3 million store is part of a planned $10 million shopping center to be located in a very poor community. You could potentially announce the execution of new leases for State Farm and Hollywood Video at the site of the planned shopping center.

***Chicago, IL:*** We might visit the following types of businesses or community sites:

- You might visit a daycare center connected with the Illinois Facilities Fund, a CDFI that finances nonprofit facilities supporting low income people in Chicago and elsewhere in Illinois. The IFF has previously received funding from the CDFI Fund, and focuses largely on financing day care centers, health care clinics, and other critical facilities that improve the availability and quality of essential human services. At the daycare center, you could announce a significant corporate investment in IFF.

- There are also several private companies interested in making significant announcements in Chicago. We could visit with entrepreneurs or workers involved in one or more of the following activities:
  (1) Ameritech is developing a partnership with African-American entrepreneurs selling cable door-to-door.
  (2) SBC Communications is involved in several hiring programs in the Hispanic community. We could potentially coordinate a workforce investment announcement.
- A visit to Chicago allows you to highlight a significant BusinessLINC (Learning, Information, Networking and Collaboration) initiative. The BusinessRoundtable is prepared to announce that it will open BusinessLINC chapters in Chicago, New York, Dallas, and Boston. BusinessLINC, as you know, is a program designed to encourage large businesses to work with small business owners and entrepreneurs. You could visit a small business that has benefitted from this initiative. There could be simultaneous event in New York, Dallas, and/or Boston highlighting the BRT's new effort.
- Bank of America is also prepared to make a significant announcement in Chicago about a national program related to your New Markets Initiative. This could be done at a local neighborhood branch.

**4. <u>Los Angeles and Anaheim, CA</u>**

We would visit a number of potential sites as part of the Los Angeles and Anaheim stop.

- Several corporate CEOs, including Shell Oil, Northrup Grumman, and McDonnell Douglass; a number of celebrities such as Denzel Washington, Shaquille O'Neal, Lauryn Hill, and Sidney Poitier; and the LA Chamber of Commerce will join together to announce programs hiring inner city youth. One site is a center where former gang members, single parents and other out-of-school youth are learning basic computing skills.
- Sandy Weill, Chairman and CEO of Citigroup, will be meeting in Anaheim with over 200 business leaders and others to highlight the efforts of the National Academy Foundation (NAF), a non-profit organization supporting intern sponsorships that help to prepare high school students for work. NAF and Weill have announced formal partnerships with the Departments of Treasury and Commerce.

**5. <u>South Phoenix, AZ</u>**

Businesses and organizations we could visit in the Phoenix area are described below.

- This visit to South Phoenix would allow you to highlight the Arizona Multibank Community Development Corporation, which has provided $12.5 million to 200 projects throughout Arizona, including a home-based day care business.
- MultiBank is currently trying to raise $5 million from major banks for its new Low and Moderate Income (LMI) SBIC. You could announce that this is the first SBIC to apply to the SBA to become an LMI SBIC.

- We could also visit a business financed by MultiBank. For example, Corella Electric, which was the SBA1986 Minority Small Business of the Year received working capital from MultiBank in its early years. This company now has contracts with AT&T and is so successful that they gave a supplemental payment to MultiBank to make microloans to aspiring small businesses in South Phoenix.
- MicroIndustry Credit Rural Organization (MICRO), based in Tucson, was a Presidential Award winner and has received funds from the CDFI Fund. MICRO is a non-profit loan fund and technical assistance provider that is one of the oldest Hispanic development organizations in the nation. We could potentially visit with one of MICRO's entrepreneurs. There are also several companies considering major investments (up to $1million) in MICRO that could be announced.

6. **Pine Ridge Indian Reservation, SD**

This community is the first EZ on a reservation where you could participate in several announcements and activities.

- You could announce with Frank Raines and Sen. Daschle that Fannie Mae is making a significant commitment to South Dakota, including the reservation. The Fannie Mae investment plan will involve a $400 million statewide commitment as well as the opening of a new Partnership Office in Sioux Falls.
- The Federal Housing Finance Board and the Mortgage Bankers Association of America have committed to bring lenders interested in mortgages (including commercial mortgages) and economic development loans to reservations.
- IBM and American Online have spoken with HUD about developing an e-commerce system that could be used to market products produced on reservations. In Pine Ridge e-commerce would be applicable to distribution arts and crafts products. An infrastructure investment announcement could be coordinated with the release of the Commerce report about the dearth of telecommunications access on reservations.
- A HUD conference on economic development will draw 500 tribal leaders from across the U.S. You could announce the establishment of the Board of Directors for the first-ever Empowerment Zone on an Indian Reservation. According to HUD, no sitting President since Taft has visited a reservation.