

CHRON

—



William T. Esrey
Chairman
Chief Executive Officer

P. O. Box 11315
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THE PRESIDENT HAS SEEN

12-16-96

December 12, 1996

The Honorable William J. Clinton
President of The United States of America
The White House
Washington, D.C. 20500

Dear Mr. President:

Congratulations on your great victory in November. I am proud to have been a part of that effort.

As you organize the Cabinet for your second Administration, I ask you to consider the appointment of Ms. Alexis Herman to succeed Robert Reich as Secretary of Labor.

Ms. Herman has helped build a constructive and productive working relationship between American business and your Administration. She has an extraordinary talent for forging a consensus and exhibits a keen understanding of the business community. She has been consistently fair and balanced, and it has been a pleasure to work with her.

A strong, constructive relationship among business, labor, and your Administration is critical to many of our common goals. I am confident that Ms. Herman can provide the necessary leadership to ensure that this relationship continues to grow.

Thank you for your consideration. I look forward to working with you on the Welfare-to-Work initiative, as well as any other matters with which I can be of help.

Best regards,

William T. Esrey

12-16-96
Too - we will
send this original
to Doakland for
reply once you've
seen



1850 M Street NW, 11th Floor
Washington, DC 20036

INSPECTED BY
1/25/97
2/2/97

First Class Mail

Via Messenger

Ms. Nancy Hernreich
The White House
- Northwest Gate -
Washington, DC

MAY ALSO BE OPENED BY: Janice Kearney

URGENT URGENT

Todd Stern
Staff Secretary To The Pres.
1600 Pennsylvania Avenue, N.W.
Washington, D.C. 20500
202-456-2461 - fax
202-456-7610

'96 DEC 16 PM5:10

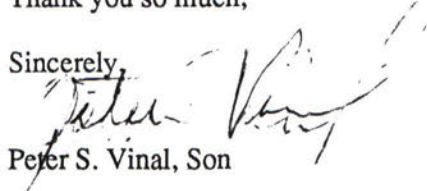
Dear Todd,

Enclosed you will find a letter from both past and present Congressman referencing Mr. Albert W. Vinal, whom gave his life to the USA as an inventor in advanced technology and Jim Dorskind's letter dated 3-27-95. Also a copy of the letter from the inventors Hall Of Fame. **Albert Vinal was called the present day Einstein, He died June 6, 1994. Enclosed is an extensive package on his accomplishments in terms of his incredible technological breakthroughs for the USA. He designed the memory for the Astronomical Observatory, Gemini, Apollo, he increased the U.S. defense radar by a factor of two in the 70's, while in the service. The list goes on - over 100 single author Patents. Maybe more single author patents, inventions than anyone in history in the electronic field.**

He had more single author patents than anyone in the history of IBM, he then retired and continued on back out of retirement to accomplish another 25 patents in totally new high speed technology putting the USA about 60 years ahead of the world in technology. He worked night and day, 7 days a week and didn't take a vacation for 10 years until he collapsed in our arms at the hospital with a stomach aneurysm, we waited 2.5 hrs for a surgeon, he didn't make it, Cary, N.C. June 1994. We would love to see him be bestowed the MEDAL OF FREEDOM by President Clinton and would please like to know the status of this.

His widow, Mrs. Vinal is disabled and we would love to see her receive this medal on his behalf and with honor before she is no longer with us. You have a very substantial package of his achievements that is sent to Jim Dorskind previously by the Congressman, physisists, Governor, etc. I sent you another one so you can read it. Please give me a call or write. There isn't much time. Thank you so much,

Sincerely,


Peter S. Vinal, Son

12110
To Dorskind to
handle
yes no
S

The Invention (Just one of his 117 Inventions)

This invention is a new Field Effect Transistor (FET) which is called the Fermi-Threshold Field Effect Transistor or Fermi-FET. In contrast, Albert W. Vinal used his knowledge of basic physics to invent a new FET which provides increased performance without the need for exotic devices or manufacturing techniques. Exa. The Pentium class processor by Intel, can have upwards to 5-8 million transistors, the transistors performance contributes to the processors performance. The Fermi-FET is compatible with current transistors, it offers better performance in terms of higher Idsat and lower capacitance over convention tech. Many companies have resorted to exotic materials or manufacturing techniques, increased Channel lengths. Channel Lengths are approaching .25 microns, .18 microns at an estimated cost of \$10 billion dollars/ adv. fabrication facility to achieve these lengths. The Fermi-FET technology will enable semiconductor manufacturers an alternative by jumping one generation of process technology in performance capability using their current linewidth fabrication technology, hence saving billions, higher profit / part, and still deliver much much higher performance.

A few other Inventions, memory system for the Gemini, Apollo, Astronomical Observatory, Defense System, Magnetics, Semi Conductors, more single author patents than anyone in the history of IBM.

1) - Fermi- FET 4,984,043 2) Twin Track Vertical Read-Write Head Structures - major sales for IBM 3) - Fermi- FET with reduced Gate and Diffusion Capacitance 5,369,295 4) Self energized magnetic keys - used in most IBM computers 5) SRAM including Fermi- FET transistors, 100 plus more.

The Inventor

Upon completion of his Bachelor of Science in Electrical Engineering at MIT, graduating at the top of his class. Mr. Vinal's career had been interrupted by being called to serve his country in the US Army, in 1954, Mr. Vinal was assigned to serve in the Signal Corps, where he designed strategic radar capabilities that doubled it's effectiveness in detecting enemy advances. He received special commendations and rank, Specialist first class. Mr. Vinal then joined IBM in the federal systems in Owego, N.Y. in 1956. While with the federal systems he invented, the Memory systems (4 U.S. Patents), encoding schemes (4 U.S. Patents), read/write heads for magnetic disk drives (7 U.S. Patents) and many new ferrite, thin-film and other storage technology patents too numerous to list here. His successful track record and insight into memory systems allowed IBM to be competitive and ultimately successful in acquiring many lucrative NASA contracts for IBM including the invention and construction of the entire memory system for the **Orbiting Astronomical Observatory(OAO)** and the **Gemini** space Program. Mr. Vinal was transferred to head up IBM's RTP site in N.C. in 1973 where he pursued research in the field of advanced magnetic (hard disc) data storage technology for the emerging personal computer industry. He generated some of the basic technology for semiconductor and magneoresistive read/write heads and invented IBM's basic read/write head that produced data densities of 100,000,000 bits /sq. in. Which help lead the charge for IBM. He also invented IBM's self energizing magnetic keys, High speed logic and memory family using ring segment buffer. to name just a few.

During his tenure, he was responsible for 72 U.S. Patents and authorized numerous papers and other ground breaking publications also in IEEE, He was asked to re-write the physics books at NCSU, He is reportedly the most patented (Single author) engineer in IBM's history. He had a broad variety of interests, including his family and restoration of classic auto's including ford mustangs, Mercedes and Thunderbird's. Upon his retirement in 1987 from IBM, he continued pursuing his own interests and became intrigued with a new idea of a transistor design now known as the Fermi-FET. His Fermi-FET theory predicted that the USA semiconductor industry could benefit with a transistor that offered higher drive currents and lower capacitance than the conventional transistors. Knowing that he had more to offer the scientific community, he sold his prize thunderbird's to start a small comp. Thunderbird Technologies, Inc. to develop and commercialize this new technology. Mr. Vinal had applied for over 25 patents covering Fermi-FET and others, he was awarded all of these patents and foreign coverage is now starting. Mr. Vinal lived to see the first prototype of the Fermi-FET device work and produce the advantages he predicted with his advanced mathematics and 25 patents issue. On all of his patents he had written, My ambition is to help make the U.S.A. be the most technologically advanced in the world.

Nominee's

Dr. James D. Meindl-(404)853-9416

Georgia Institute Chair of Microelectronics, previously, V.P. - Provost of Rensselaer Institute, Stanford-professor of E.E. Assoc. Dean for research, director of integrated circuits. CO-founder Telesensory systems. Etc. See attached

Dr. James R. Fiebigler,(602) 443-1810 B.S., M.S., and PHD in E.E. University at Berkley. Texas Instruments, R&D engineer, development, manager of bi-polar circuits, Pres. & Ceo of VLSI.

Dr. William G. Howard, Jr. (602) 391-0039 Senior Fellow, National Academy of engineering. Motorola, managed Linear Integrated Circuits.

Ivan Sutherland, Sun Labs- (415) 336-3298 MIT PHD, pioneered computer graphics, head mounted display anticipating virtual reality. He sits on many boards, member of National Academy of Engineering, National Academy of Science, ACM, IEEE.

Nino Masnari, (919) 515-3083 Center of Advanced Electronic Materials Processing.

Dr. Ronald J.G. Goossens, (408) 721-2420 National Semiconductor, Manager of Device modeling, Analog Process Development. Semi conductor Physics, Semiconductor processes and devices. B.S. in Physics, Mathematics and Astronomy, a double M.S. in Physics and Astronomy, PH.D. in Physics.

Mr. Robert Ames (401) 351-1070 NASA, many Advisory boards, Director/President of American Research & Development, Vice Chairman, Board of Governors. National Technology Priorities Project. Etc.

Bell, Seltzer, Park & Gibson legal firm - **Mitchell S. Bigel, Esq.** 919-420-2200 Patent attorney

THE WHITE HOUSE
WASHINGTON

July 15, 1996

Mr. Peter S. Vinal
1322 Airlie Road
Wilmington, North Carolina 28403

Dear Mr. Vinal:

Thank you for your recent letter and the information you enclosed reaffirming your recommendation of your father, Albert W. Vinal, for the Presidential Medal of Freedom.

On behalf of the President, thank you again for your continuing interest. You may be assured that your father remains on the list of those under consideration and that your endorsement of your father has been noted. We are keeping your materials on file, as well.

Sincerely,



James A. Dorskind
Special Assistant to the President
Director of Correspondence and
Presidential Messages

THE WHITE HOUSE
WASHINGTON

March 27, 1995

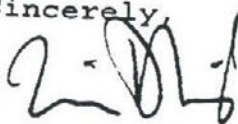
Mr. Peter S. Vinal
2110-424 Paces Forest Court
Raleigh, North Carolina 27612

Dear Mr. Vinal:

On behalf of President Clinton, thank you very much for recommending Albert W. Vinal for the Presidential Medal of Freedom.

I hope you will be pleased to know that your father has already been recommended to the President for consideration for the Presidential Medal of Freedom, the highest civilian award given in our nation. You may be assured that the nomination of your father and your special endorsement will be given careful attention.

Sincerely,



James A. Dorskind
Special Assistant to the President
Director of Correspondence and
Presidential Messages

DAVID PRICE
4TH DISTRICT
NORTH CAROLINA

COMMITTEE ON APPROPRIATIONS
COMMITTEE ON THE BUDGET



CONGRESS OF THE UNITED STATES
HOUSE OF REPRESENTATIVES
WASHINGTON, D.C. 20515

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SUITE 202
CHAPEL HILL, N.C. 27514
(919) 987-8500

October 28, 1994

Mr. Frederick Ziesenheim
c/o Webb, Burden, Ziesenheim, and Webb
700 Koppers Building
Pittsburg, PA 15219-1818

Dear Mr. Ziesenheim:

I am writing in support of the nomination of Albert Watson Vinal to the National Inventors Hall of Fame. Enclosed please find the application and extensive list of his accomplishments as an inventor. Albert Vinal was a creative and productive member of the research scientists' community in the Research Triangle Park and an incredible, practical man of rare genius. I encourage your careful consideration of this application.

Sincerely,

David Price
Member of Congress

DP:nh



**North Carolina
Department of Commerce**

**James B. Hunt Jr., Governor
S. Davis Phillips, Secretary**

**William Arnold
Director**

July 17, 1996

**Mr. Peter Vinal
1322 Airlie Road
Wilmington, North Carolina 28403**

Dear Pete:

This is to acknowledge receipt of your letter and the material on your father.

I'll do everything I can to help this along, and get word to you if there appears to be some progress developing.

**I hope you're well and that your projects are coming together as planned.
Talk to you again, soon, I hope.**

Cordially,


**William Arnold
Director**

WA/lb

BELL, SELTZER, PARK & GIBSON

A PROFESSIONAL ASSOCIATION

ATTORNEYS AT LAW

310 UCB PLAZA

3605 GLENWOOD AVENUE

P.O. DRAWER 31107

RALEIGH, N.C. 27622

919-420-2200

FACSIMILE 919-881-3175

INTELLECTUAL PROPERTY LAW
(PATENTS, TRADEMARKS, COPYRIGHTS
& TRADE SECRETS); LICENSING;
ANTITRUST; UNFAIR TRADE PRACTICES;
TECHNOLOGY AND COMPUTER LAW

CHARLOTTE OFFICE
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P.O. DRAWER 34009
CHARLOTTE, N.C. 28234
704-331-8000
FACSIMILE 704-334-2014

CHARLES B. PARK, III
FLOYD A. GIBSON
SAMUEL G. LAYTON, JR.
JOELL T. TURNER
CHARLES B. ELDERKIN
JOHN L. SULLIVAN, JR.
JOHN J. BARNHART, III
RAYMOND O. LINKER, JR.
JAMES D. MYERS
MICHAEL D. MCCOY
BLAS P. ARROYO
PHILIP SUMMA
MITCHELL S. BIGEL
KENNETH D. SIBLEY
DICKSON M. LUPO
STEPHEN M. BODENHEIMER, JR.
F. MICHAEL SAJOVEC
JOHN H. THOMAS
MARTHA G. BARBER
LARRY C. JONES
PAUL F. PEDIGO
MICHAEL S. CONNOR
WILLIAM M. ATKINSON
GEORGE M. TAULBEE
ERNEST B. LIPSCOMB, III

FRANK BURKHEAD WYATT, II
MELISSA B. PENDLETON
TIMOTHY J. O'SULLIVAN
ROBERT W. GLATZ
JAMES R. CANNON
GRANT J. SCOTT
JEFFREY S. WHITTLE
GUY R. GOSNELL
VIRGINIA C. BENNETT
JASON P. COOPER
CHRISTOPHER C. DREHMANN
BRUCE J. ROSE
LORIE ANN HERINGTON
THOMAS C. MCTHENIA, JR.
SCOTT C. HATFIELD
JOHN P. HIGGINS
J. RICK TACHÉ
ROBERT J. SMITH
SARA M. CURRENT
NEEDHAM J. SCODIE, II
ALBERT P. ALLAN
RACHEL M. HEALEY
D. RANDAL AYERS
SOROJINI J. BISWAS
RICHARD M. McDERMOTT

May 18, 1995

OF COUNSEL
PAUL B. BELL

Mr. Jim Dorskind
Director of Presidential Correspondence
1600 Pennsylvania Avenue
Washington, DC 20500

RE: Albert W. Vinal, Jr.

Dear Mr. Dorskind:

I heartily nominate Albert W. Vinal, Jr., posthumously, for the Medal of Freedom. Mr. Vinal's inventive career spanned over 35 years, with well over 50 U.S. Patents and a number of applications still pending.

After aiding the war effort with the U.S. Army, Mr. Vinal joined IBM. He applied basic physics to numerous inventions in the fields of magnetic memories (U.S. Patents 3,141,155; 3,231,871; 3,576,552; 3,680,064), data coding (U.S. Patents 3,947,662; 3,959,626; 3,978,319; 4,096,378), read-write heads for magnetic disk drives (U.S. Patents 4,485,419; 4,613,915; 4,626,946; 4,668,913; 4,698,711; 4,782,415; 4,816,947), and other diverse areas.

As founder of Thunderbird Technologies, Inc. after retiring from IBM, Al Vinal invented the Fermi-Threshold Field Effect Transistor of U.S. Patents 4,984,043 and 4,990,974 and other patents issued and pending, a unique memory architecture (U.S. Patents 5,304,874 and 5,305,269 and other patents issued and pending), and other diverse technologies.

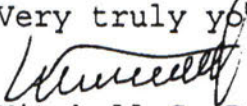
From the early days of his youth with the U.S. Army, throughout his career at IBM and until the day he died as founder of his own company, Albert W. Vinal, Jr. was concerned with using

BELL, SELTZER, PARK & GIBSON

Mr. Jim Dorskind
May 18, 1995
Page 2

basic scientific principles to improve the competitiveness of the United States electronics and semiconductor industry. As his patent attorney for the last six years, I believe Mr. Vinal's contributions merit the honor of the Medal of Freedom.

Very truly yours,


Mitchell S. Bigel

MSB:sef:11530

Enclosures

cc: Mr. Peter S. Vinal (w/o enclosures)

In Memory Of
(12-18-28 to 06-06-94)

ALBERT W. VINAL JR.
(Inventor, Scientist)

Section 1 - Nominee's and their Resume's

Section 2 - Albert W. Vinal's beginning as an inventor in the U.S.Army in 1955 (4 Patents), then his incredible 50 plus inventions (Patents) reaching incredible plateau's while employed at IBM. After retirement he founded Thunderbird Technology generating New Technology, with another 30 plus incredibly significant Single Author Patents with dreams of enabling the United States to be light years ahead of the world in this technology, enclosed at the end will be a copy of just one of many significant Patents.

1605 Long Leaf Hills Dr
Wilmington, NC 28409



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20500

U.S.
WILM
DE

Todd Stern
Staff Secretary to the President
1600 Pennsylvania Ave. N.W.
Washington, DC. 20580

THE WHITE HOUSE
WASHINGTON, D.C. 20500

DATE: 12/17/96

TO: John Angell

FROM: Staff Secretary

FYI

THE WHITE HOUSE
WASHINGTON, D.C. 20500

Recommended Telephone
Call to Senator Moynihan
Regarding CPI

DATE: 12.16

TO: Leon Panetta
Ron Klain

FROM: Staff Secretary

I recall some & concan
expressed at a 7:30 meeting
last week about POTUS
talking to Moynihan re the
CPI. ~~Are~~ you OK with
this phone call being made?
Red

cc: Gene Sperling

THE WHITE HOUSE
WASHINGTON

December 13, 1996

RECOMMENDED TELEPHONE CALL

'96 DEC 16 PM2:24
'96 DEC 16 PM2:25

TO: Senator Daniel Patrick Moynihan

DATE: As soon as possible

RECOMMENDED BY: Office of Legislative Affairs 1H

PURPOSE: To discuss the Consumer Price Index (CPI) with Senator Moynihan.

BACKGROUND: Senator Moynihan has asked to talk to the President to discuss the report released by the Boskin Commission, which reported that the CPI, the measure the government uses to calculate the increase in the cost of living, overstates the rate of inflation. This issue is of particular importance to Senator Moynihan as he has been involved with it since he served in the Department of Labor under President Kennedy. He would like the opportunity to share his views on the matter with the President.

TOPICS OF DISCUSSION: In June, 1995, the Senate Finance Committee (Senator Moynihan is the ranking member) commissioned a group of distinguished economists, chaired by Stanford University professor Michael Boskin, to examine the CPI. Last Thursday, the Boskin commission reported that the CPI overstates the rate of inflation by 1.1%. Further, the commission projected that reducing the CPI by 1.1 percentage points would cut the federal deficit in the year 2008 by \$202 billion, as well as reduce the accumulated debt by \$1.1 trillion. The amount that many benefits, including Social Security, are increased each year is based on CPI measurements. Senator Moynihan believes the Boskin Commission's report confirms his long standing view, that in overindexing federal spending programs and features of the tax code, the federal government is paying more in benefits and collecting less in taxes than it should.

CONTACT PERSON AND
TELEPHONE NUMBER:

White House Signal Operator

DATE OF SUBMISSION:

December 13, 1996

THE PRESIDENT HAS SEEN
12-17-96

for H. C. ...
cc: [unclear] / [unclear] / [unclear] / [unclear]
Rahm
we need to discuss
with the [unclear]

DISTRICT OF COLUMBIA
AREAS OF POSSIBLE FEDERAL INTERVENTION

I. Relief from State functions

- St. Elizabeths
- Prison System
- University of District of Columbia (and Law School)
- Medicaid

II. Development of the Economy and Tax Base

- A. No effective economic development organization**
- Multiple development authorities
- B. Create a CDFI in District (coordinate a South Shore role)**
- Support it with a lending consortium of area banks
- C. Slow the exodus of federal facilities to the suburbs**
- Federal "contracting out" practices are reducing federal employment of D.C. residents
 - Preferences to vendors employing D.C. residents
- D. Identify and support diversified employment sectors**
- Tourism: hotels, restaurants, Convention Center, MCI Arena, Opera Center, Monument care
 - Bio-medical: hospitals, medical schools, federal research
 - Multi-media: printing, communications, international services
 - Training for appropriate skills

- E. Streamline D.C. business services into a one-stop center**
 - Permits, taxes, licenses
 - Small business assistance and incentives
- F. Intensify the federal role in development**
 - Enterprise community
 - Brownfields redevelopments

III. Employment and Wage Opportunities

- A. Bridges-to-Work models: connections to the growing jobs in the suburbs (transportation, placement)**
- B. Youth Build model: training for construction and rehabilitation for young people on a major scale**

IV. Schools and Youth

- A. School rehabilitation and construction assistance.**
- B. Charter Schools**
- C. Youth mentorship: Urban League model**

V. Encouragements to the Middle-Class to Stay

- A. Taxes are too high; insurance and costs of living are high; basic services are declining**
- B. Create a mortgage subsidy to offset costs of homeownership**
- C. Focus on improving basic services: police, fire, schools**

- D. Create Homeownership Zones (i.e., Ft Lincoln project with HUD)**

VI. Public Housing

- A. Intensify efforts to support the court-appointed receiver**

VII. Governance

- A. The First Lady can play a major coordinating role (Melanne Verveer)**
- B. A new force in the community-based leadership is the Washington Interfaith Network (IAF)**

To Larry Summers
Fyl

BC

THE PRESIDENT HAS SEEN
12-17-96

Bank?—but it does not act as a centre-piece for a broad difference of opinion over economic or other policies. Remember, after all, that this is the one issue that unites Labour's old socialist maverick, Tony Benn, with John Redwood, darling of the Tory right-wing. Having the sovereignty is one thing; agreeing what to do with it is quite another.

Despite this, EMU could still split the party, for it has become a visceral issue, playing more to emotion than to reason. The irony is that such a split, especially one so plainly

displayed before the general election, could bring about exactly the large Labour majority that offers the only serious prospect that Britain could join EMU in 1999. The longer-term probability is that if a split occurs a new Tory party, almost certainly a Eurosceptic one, will then spend several parliaments in the political wilderness. It will emerge only once it has shed its greatest weakness: that its unity is provided by a negative proposition, being against EMU, rather than by agreement about what the party is for.

Let East Timor vote

The only way to decide who should govern East Timor is to hold a referendum

EVER since Indonesia invaded East Timor in 1975, President Suharto's government has been hoping that time and the world's forgetfulness would gradually erase opposition to Indonesian rule. But the problem of East Timor, a former Portuguese colony, just will not fade away. The Indonesians seem closer neither to winning the loyalty of the territory's population, nor to winning other countries' acceptance of their right to rule there. Instead, they have had to squirm this week as the world watched the Nobel peace prize being awarded to two of the staunchest critics of their occupation. International diplomacy over the fate of the territory has reached a dead-end (see page 34). There is now only one way out: a referendum must be held to settle who should rule this unhappy demi-island.

Indonesia will have many objections to the idea of letting East Timor vote. The first line of defence is that the Timorese have already cast their ballots for integration with Indonesia, in 1976. But that vote took place in such dubious circumstances that it has carried no weight internationally. The second objection is that reopening the question of East Timor's future will lead to civil war. But such an argument simply underlines how far Indonesia is from securing popular assent to its rule. The spectre of the referendum turning nasty could anyway be averted by UN supervision of the vote.

Indonesia's real objections to a referendum are more complicated and discreditable. It fears that if the Timorese were allowed to vote for independence, the rest of the Indonesian empire might begin to unravel, from Aceh in the far west to Irian Jaya in the remote east. That is certainly possible; but such concerns do not negate the right of the Timorese to jus-

tice and self-determination. Nor do they take due account of East Timor's unique international status. Indonesia's claims to East Timor, unlike those over Aceh and Irian Jaya, have never been internationally recognised.

The Suharto government's deepest worry must be that allowing the outside world in to supervise a referendum would expose, once and for all, the full terrible story of what has happened in East Timor. The Indonesians vehemently deny the figure—cited by Bishop Carlos Belo in his Nobel address this week—of 200,000 dead out of a pre-1975 population of 700,000 or so. But, in unguarded moments, even Indonesian officials have admitted to over 100,000 deaths. Many died in fighting or from famine, events for which the Indonesian government bears a heavy responsibility. It has also often been reported, with on one occasion corroboration on film, that Indonesian troops have killed unarmed civilians. That most of the killing took place over a decade ago will not dispel Indonesia's fear of further revelations. Yet, in the long run, allowing East Timor to decide its own future may be the only way to begin to clean up Indonesia's reputation abroad.

There is one objection to a referendum that deserves greater respect. That is that the likely result—a vote for East Timorese independence—would lead to the creation of a state that could not be viable. With a population still under 900,000 and few educated people, an independent East Timor would undoubtedly struggle. But, after so much bloodshed, the Timorese might still prefer to go it alone. There are plenty of other small states dotted around the Pacific Ocean which manage to survive. If the people of East Timor want to break free, they should be allowed to.



The UN's next boss

A man for all seasons, all countries and an organisation like no other

SO AMERICA has its way, Boutros Boutros-Ghali is to go and the United Nations is to get a new secretary-general. What sort of person should he be?

It is a question above all for the Clinton administration, which has set so much store by Mr Boutros-Ghali's departure,

and especially for Madeleine Albright, the American ambassador to the UN whose success in forcing him out has helped to propel her, Senate willing, to the job of secretary of state. But the operation has had a price for America. After such an indelicate expulsion, its influence on choosing a successor



will be limited. And when powerful countries veto candidates for top jobs, they sometimes end up accepting someone else with many of the same characteristics.

One such, in this instance, will be the characteristic of being an African. Mr Boutros-Ghali is an Egyptian. Africans reckon they have a claim on his second term and, unless it wants to make the diplomatic mess even worse, the United States is unlikely to deny it to them. Thus the principle of Buggins's turn is likely to be reinforced.

That seems absurd. Serious organisations like the United Nations deserve to be run in a serious way, by the best candidate available, regardless of nationality. That no government dares say so suggests a worrying readiness to let the UN drift towards unseriousness. It also shows what a peculiar place it is, and what a peculiar post its boss has to fill.

The UN suffers from much the same difficulties as that oft-invoked outfit, the "international community". Both the UN and the international community are expected to step in and sort out the world's ghastliest messes when no one else can. Both get no credit when things go right, and plenty of blame when they go wrong. The difference, however, is that, whereas no one holds the post of secretary-general of the IC, there is a mug whose title is secretary-general of the UN.

Most governments take a reasonably sophisticated view of this state of affairs. The Clinton administration, however, has cravenly pandered to the numberless demagogues and lunatics among its electorate who say the UN is responsible for every ill that afflicts the planet—and, since many of them also believe in aliens, probably for every ill that afflicts the entire solar system. In America, poor Mr Boutros-Ghali has

become a hate figure for nutters and right-wingers.

A similar fate awaits his successor unless the administration starts to educate its voters. Some may say this is a job for the secretary-general. But Mr Clinton and Mrs Albright would be foolish to neglect it, because they may find they need the UN just as much as the secretary-general needs them: sometimes only the UN can do the things that America wants done. Moreover, they will then wish that the UN were slimmer, more efficient and better organised. Yet, paradoxically, the task of reforming it has been made considerably harder by America's refusal to pay its dues: an organisation on its uppers—thanks in large measure to America's failure to fork out the \$1.5 billion it owes—cannot afford to pay off its supernumerary staff or modernise its management.

And don't forget to say it all in French, too

So the qualities required by the UN's new boss become clearer. He—or she—must embody the lofty principles of the UN charter. But he must also be a thrifty administrator; a dedicated reformer; a sensitive diplomat able to accommodate or rebuff 185 members, five of them with vetoes; and a discriminating judge of international disputes who will prevent the organisation being lumbered with hopeless missions but bravely fight to get it involved in those it can pull off.

Like the boss of a big company, he must remember his shareholders, because he can do nothing without them: he has no right to tax, and no troops. But he must remember too that the most powerful shareholder is the company's biggest debtor. As for its subsidiaries, the countless UN agencies, he has no power over them. Good luck, Mr Buggins.

A false choice

American experts are reluctant to get the government out of the business of paying pensions. They shouldn't be

ALMOST before it got under way, the debate over reforming America's Social Security pension system has run into a wall (see page 27). This week, a commission appointed to examine the scheme's future split publicly over whether, and how, to move from a tax-financed, pay-as-you-go system run by the government to one in which individuals would have more control over their pensions. Many of the commission's members think that privatisation would expose people to greater risk, and bring lower-income workers an impoverished retirement. They are wrong on both counts.

To many, Social Security is the crowning achievement of America's welfare state. It has stretched a safety net beneath every American family and, thanks to annual benefit increases tied to increases in the Consumer Price Index, drastically reduced poverty among the elderly. For many Americans, it has also proved an exceptional deal. Eugene Steuerle and Jon Baraka of the Urban Institute, a think-tank in Washington, DC, reckon that a typical one-earner, low-income couple retiring in 1980 had paid a total of \$26,511 (in 1993 dollars) into Social Security over the years. They could expect, before their deaths, to receive benefits (also in 1993 dollars) of \$149,945. No wonder there is no rush to change the system.

But change it must. Popular fiction holds that every

worker pays taxes into a personal account in a Social Security "trust fund", which later pays his pension. In fact yesterday's workers are supported by today's. A tax of 12.4% of the first \$65,400 of each worker's earnings covers current benefits and, for now, generates a surplus. But in about 15 years' time, the baby-boom generation will begin moving into retirement. By 2030, about 50 people will collect Social Security for every 100 active workers. Finding a way to finance the ageing of America was the task of the ill-fated commission.

One option is to change the way in which Social Security invests its money. At present any surplus is held in government bonds. The returns are predictably meagre. If part of this money was put into funds based on stockmarket indexes, the increased returns might be enough to finance the future pensions of the baby-boomers. But this idea fails on at least two counts. It still relies on a payroll tax which falls hardest on low-wage workers. And it stops short of turning Social Security into a properly funded retirement scheme in which benefits are linked either to contributions or to investment performance. A prolonged bear market would leave the government to make up huge shortfalls.

A better alternative is to replace Social Security, over time, with personal retirement plans. This approach, which was



pioneered by Chile and since followed, to varying degrees, by Argentina and Peru, requires each worker to place a percentage of his earnings with a private fund manager. These funds would have to invest in diversified, relatively low-risk portfolios; nobody would be allowed to bet his retirement on Russian bonds. Workers could move their money between competing funds. They could not withdraw it before retirement.

Many questions, but many answers

Social Security's defenders are up in arms against what they label "go-it-alone individualism". They have valid concerns: How will a private system treat the poor? What about workers who have paid Social Security taxes for decades? But these worries do not scotch the case for privatisation. The questions it raises have many possible answers. The government could put extra money into the accounts of low-income workers or, as in Chile, guarantee a small pension to retirees whose per-

sonal accounts have run out. Still-active workers could be reimbursed for the taxes they have paid over the years. People who are already retired would continue to draw their benefits. And the transition could be financed with long-term bonds so that no single group—neither today's elderly nor today's active workers—would have to bear all of the costs of moving from a state system to a private one.

Is privatisation worth the trouble? By moving America from a pay-as-you-go pension scheme to a properly funded one, it would stand a good chance of increasing the savings rate, which would help eventually to speed economic growth. That benefit could be large, but it is uncertain. Far more dependable is the fact that privatisation would lighten the demographic cloud which threatens to bring vastly greater federal budget deficits. Without reform, Congress will one day either have to raise taxes or penalise millions of pensioners. Neither is exactly a vote winner.

After Thomson

The long, slow death of Colbertism in France is being accompanied by worrying bouts of xenophobia and indecision. But it is dying nonetheless

OFTEN, just before an *ancien régime* crumbles, it administers one final, panicky exhibition of its power that, for all its anachronistic cruelty, also reveals most of the reasons why that old order is finally disappearing. That may seem like the most optimistic explanation to put on the French government's disastrous handling of the privatisation of Thomson, a big defence and electronics company. However, it also looks like being the right one.

France has an unusually tight-knit political-commercial establishment: the heads of nearly half its top 200 companies went to the same small civil-service school, the *Ecole Nationale d'Administration*, that has also trained many of its political leaders and bureaucrats. At first sight, the Thomson affair seems a perfect example of three of the problems that this establishment still has to overcome: *dirigisme*, *chauvinisme* and sheer *indécision*. First, rather than selling Thomson on the open market, the French government decided to hand it across to the Lagardère group in a slightly mysterious deal where the conglomerate paid just FF19 (19 cents). Then, earlier this month, the privatisation commission suspended the sale on the grounds that Lagardère was passing on Thomson Multimedia (which mainly makes TV sets) to Daewoo Electronics, a South Korean company.

Since then, the French government has tried to be all things to all people: promising the South Koreans that France is still open for business (translation: "please don't let our xenophobia stop you buying our high-speed trains"), promising the financial markets that it still intends to sell Thomson, and promising the unions that it will pump \$2 billion into the company anyway. This week, the government said it would privatise Thomson in two parts, the defence business first and the multimedia one later. Coming as it does, straight after the government's surrender to France's lorry drivers and in the midst of a good deal of EMU muddling, *l'affaire Thomson* seems to be proof of the government's spinelessness.

All these things are true—and deplorable. Yet consider the

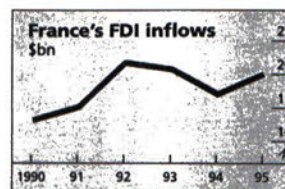
view from a defender of the *ancien régime*. If Jean Baptiste Colbert were alive, he would find little comfort today. To begin with, as Thomson shows, privatisation is well under way. France has already sold assets worth \$40 billion; another \$10 billion-worth is in the pipeline. As for *chauvinisme*, the principle that French assets should remain French has been broken. This week, the government quietly surrendered Air Liberté, a loss-making airline, to British Airways.

Against this background, the French government's *indécision* matters—though less than it might. France's future would look brighter if, as several commentators have urged, there was some Gallic Margaret Thatcher forcing her compatriots to open up more markets. However, the gales that such firm political leadership would whip up are already gathering around French business. For instance, no matter how much money the French government pumps into Thomson Multimedia, it is clear that the company will perish if it does not make better television sets.

That 1788 feeling

Indeed, arguably the real significance of *l'affaire Thomson* is that, for all its ghastliness, it is something of an irrelevance. French industry is changing. Jacques Calvet of Peugeot and Louis Schweitzer of Renault may not make as much noise about shareholder value as Jürgen Schrempp, the vociferous boss of Germany's Daimler-Benz, but they have been trying to create it with equal enthusiasm. Meanwhile, there are the first signs of a new breed of smaller French firms, such as Business Objects, a New-York-listed software company that takes its lead from Silicon Valley not the Elysée Palace.

Globalisation does not mean that *dirigisme* is harmless; nor can it excuse xenophobia. But France's leaders have a straightforward choice: to encourage the largely healthy revolution that is already beginning to refashion French commerce, or to resist it—and watch it happen anyway.



AMERICAN SURVEY

story), are both conservative investment bankers. To cap it all, the president has let it be known that he has let Clinton appoint Republicans to his cabinet.

If Mr Clinton ground, the Republican policies may lose finance, for example declared his support for candidates free tele for voluntary spend control the flood of. The Republican le scoffs at this bill, pre crats' fund-raising f bill is sponsored, an John McCain, a res this issue, voters i credit for reaching e Republicans played

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on's support. In- stead of one activist government, America might just get two of them.

To ~~sub~~

THE PRESIDENT HAS SEEN

12-17-96



The Economist
like you (maybe
and the cartoonist)

BC

they allow him to accuse them of reckless obstruction.

Because of this, the Republicans may not stick to their waiting game for long.

Thrills, no; discipline, yes

WASHINGTON, DC

ALL presidents tend to develop a growing sense of the importance of good management. As an aide to President Kennedy once said, "Everybody believes in democracy until he gets to the White House, and then you begin to believe in dictatorship, because it's so hard to get things done." Jimmy Carter at first thought he could get by without a chief of staff, but discovered the hard way that he was wrong. From the contrast between Mr Clinton's first chief of staff (his old Arkansas friend Mack McLarty, a nice man but a Washington novice) and his second (Washington-wise Leon Panetta, a huge success), Mr Clinton has had a clear lesson in what a vital post it is.

So vital that the president chose as his first post-election task the replacement of Mr Panetta, who wants to return to California. With some effort, Mr Clinton persuaded Erskine Bowles, a banker who learnt his trade with Morgan Stanley, to drop his new banking venture in North Carolina and return to Washington. The choice drew a warm reaction even from two usually hostile Republicans, Senators Jesse Helms and Lauch Faircloth of North Carolina. They respect Mr Bowles not only for his business acumen, but also for his pedigree: his wife, Crandall, is from a prominent local textile family and his father grew up with Mr Helms in Monroe,

North Carolina.

Mr Clinton met Mr Bowles only four years ago, when Mr Bowles was raising money for the 1992 campaign. They quickly bonded, not least on the golf course. Appointed to head the Small Business Administration, Mr Bowles set about reducing the voluminous paperwork for SBA loans to a single sheet. Then, as deputy chief of staff, he reorganised the president's schedule to allow more time for thinking. Even after he left the White House last January, Mr Clinton still turned to Mr Bowles for delicate tasks such as handling the resignation of Dick Morris, the president's political consultant, in the midst of a sex scandal.

"Businesslike" and "focused" are the words used to describe Mr Bowles by people who have worked with him. You will not hear from him any dreamy talk of bridges to the new millennium. Instead, in a deliberate southern drawl, you hear the sort of phrases found in business textbooks: "I believe in having an administration that has clearly defined goals, objectives and time lines such that it and its people can be held accountable." The Bowles regime promises few thrills and much discipline.

Which is how it should be. Without the prospect of an election to concentrate the presidential mind, the need for disci-



pline in the White House is all the greater. Bowlesian management should help with agenda-setting, too. For the past two years, Mr Clinton has proved himself to be brilliant on the counter-attack against a Republican Congress. But now the policy initiative is back with him.

Unlike Mr Panetta, Mr Bowles does not have years of experience on Capitol Hill to help him in the delicate task of dealing with Congress. But he does have a keen sense of time-management, at a stage when time is precious. To put it in the language of the new administration, Mr Clinton's stock is now up, but typically the bull market for second-term presidents does not last long.

AMERICAN SURVEY

Clinton II: The Strategy

WASHINGTON, DC

TWO days after the election, Bill Clinton slept the relaxed sleep of the victor, waking up past noon. He had proclaimed a mandate for the "vital centre" of American politics; his Republican opponents, newly reconfirmed in their control of Congress, had said they would be delighted to serve the centre too. On all sides, there was talk of bipartisan co-operation. Then, on the third day, the president rose up and gave a press conference. The Republicans pounced.

The press conference, and the reaction to it, suggest how different this transition is from the one that followed Mr Clinton's election four years ago. Then, Mr Clinton had issued a list of large campaign promises—a tax cut, a stimulus package, more jobs, more health insurance, welfare reform—with little thought given to how these could be implemented: Mr Clinton was agonising over his priorities right up until inauguration day. This time, however, Mr Clinton has won election on a more modest programme, and has few doubts about his priorities. But, in contrast to four years ago, he faces a Congress controlled by the opposing camp.

Both at the press conference, and again in a television interview two days later, Mr Clinton declared that balancing the budget is at the top of his agenda; spreading tertiary education, making a success of welfare reform, extending health insurance in small increments and cleansing campaign finance follow. Already, reducing the deficit from \$290 billion to \$107 billion stands out as the big achievement of his first term in office. Other presidents have ended slavery or vanquished foreign dictators. Mr Clinton wants to be the first president since 1969 to balance the government's books.

There is more than a little irony in this. Until just over a year ago, Mr Clinton disdained Republican calls to eliminate the deficit. He then changed course, seeing political advantage in fiscal virtue; but he nonetheless spent much of the election campaign denouncing Republican

budget cuts as too harsh. Now, smiling genially, he marvels at how little difference there is between Republican proposals and his own. He declares that a budget-balancing deal could be done in "next to no time"—indeed, that it is "easily achievable" next year.

Republicans will come to relish these comments if Mr Clinton fails. And the obstacles are daunting. For one thing, the impressive progress on the budget in Mr Clinton's first term is due mainly to the tax increases of 1990 and 1993 and to the strong economy. Mr Clinton is not going to raise taxes again, and the economy is unlikely to remain robust for ever. In the ab-



Next trick: balanced budget!

sence of bold spending cuts, the deficit will grow rather than disappear.

And politics will make cutting tricky. Mr Clinton wants to laugh off his campaign assault on the cuts proposed last year by the Republicans, but the Republicans are not amused. On November 12th Mr Clinton invited the leaders of Congress to the White House, hoping to mark out common ground on the budget. But the Republicans conceded nothing. Having borne the brunt of Mr Clinton's attacks, they are determined that he should take the responsibility for suggesting cuts this time—cuts that Republicans can denounce at the next election. "We're in this boat together and we have to paddle it together," the president had pleaded earlier in the day. You steer, was the Republican reply.

This exchange may set the pattern of the next few months: the president longing for congressional Republicans to join him in policy-making, the Republicans politely coy. The Republicans hope that, if Mr Clinton is forced to take the lead, he will damage his reputation as much as he did during his first years in power, when his crusade for a tax increase and for health reform cost his party control of Congress in the 1994 election. Yet the Republicans' waiting game may not work much better than the president's genial smiles. For there are big differences between now and 1993-94.

Unlike four years ago, there are few signs that Mr Clinton will veer to the unpopular left after his election. Rather than mulling a tax increase, he is committed to tax cuts. Rather than seeking a dramatic increase in the federal government's role in health care, he is set on modest advances. A month ago, it seemed possible that the trade unions' contribution to the Democrats' congressional campaign might force the new administration leftwards. But the unions' ads proved less effective than many had expected, freeing Mr Clinton to ignore their ideas.

This is reflected in Mr Clinton's choice of second-term officials. Several of his more leftish advisers are on their way out: Robert Reich, the labour secretary; George Stephanopoulos and Harold Ickes, two White House officials; and possibly Henry Cisneros, the housing secretary. Meanwhile Mr Clinton's treasury secretary, Robert Rubin, and his new chief of staff, Erskine Bowles (see next

AMERICAN SURVEY

story), are both conservative investment bankers. To cap it all, the president has let it be known that he hopes to appoint Republicans to his cabinet.

If Mr Clinton stays on the centre ground, the Republicans' refusal to support his policies may look petty. On campaign finance, for example, Mr Clinton has declared his support for a bill that would offer candidates free television ads in exchange for voluntary spending limits, and would control the flood of cash to national parties. The Republican leadership, by contrast, scoffs at this bill, preferring to attack Democrats' fund-raising for foreigners. But the bill is sponsored, among others, by Senator John McCain, a respected Republican. On this issue, voters may give Mr Clinton credit for reaching across party lines while Republicans played politics.

The other issues on Mr Clinton's agenda may draw similar verdicts. It will be hard for the Republicans to block the president's education plans without looking mean. Nor can they object to incremental health reform; one law of this sort, to which many sound objections could have been raised, passed the Senate unanimously this

summer. Even welfare, once a good issue for Republicans, may yet embarrass them. In the past, Republicans could attack Mr Clinton for blocking schemes that would make the supposedly indolent poor earn their own keep. Now that the new welfare law requires poor mothers to get work, Mr Clinton is demanding only that jobs should be found for them. Republicans can hardly object to that.

In the end, all the squabbles over these parts of Mr Clinton's second-term agenda will matter less than the big one on the budget. Yet here, too, the Republicans may be on weaker ground than they suppose. If they wait for Mr Clinton to propose his own budget cuts, they will undoubtedly get ones that promise progress on the deficit, but which nonetheless preserve the president's claim that he is less harsh than his adversaries. The Republicans will then be faced with a tough choice. If they pass the budget, they will allow the president to claim victory for his plan; if they block it, they allow him to accuse them of reckless obstruction.

Because of this, the Republicans may not stick to their waiting game for long.

They will strive, instead, to come up with their own agenda for a second term, and to push it in parallel to the president's. This may bring them some success. On November 11th the Republicans let it be known that, by their count, the election had given them the votes to pass a constitutional amendment to balance the budget. This had an immediate effect: the next day Mr Clinton softened his old opposition to the measure. Their appetites whetted by this easy victory, Republicans may soon be pushing other schemes.

All of which suggests a paradox. A week ago, when the election results came in, Americans seemed to have voted for gridlock. They had not liked either party's schemes, and so they had sought to block both sides by dividing power between them. And yet, if the Republican waiting game does backfire, the opposite of gridlock may transpire. Mr Clinton may find that his policies sail through Congress; the Republicans may find that many of their ideas win Mr Clinton's support. Instead of one activist government, America might just get two of them.

Thrills, no; discipline, yes

WASHINGTON, DC

ALL presidents tend to develop a growing sense of the importance of good management. As an aide to President Kennedy once said, "Everybody believes in democracy until he gets to the White House, and then you begin to believe in dictatorship, because it's so hard to get things done." Jimmy Carter at first thought he could get by without a chief of staff, but discovered the hard way that he was wrong. From the contrast between Mr Clinton's first chief of staff (his old Arkansas friend Mack McLarty, a nice man but a Washington novice) and his second (Washington-wise Leon Panetta, a huge success), Mr Clinton has had a clear lesson in what a vital post it is.

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Happily investing

(unlike in the second plan) they would be entirely responsible. Upon retirement, the worker would get the guaranteed benefit plus an annuity large or small, depending on the skill of his investment strategy.

Each plan has its strengths and weaknesses. The idea that the government should own a large chunk of the stockmarket through its trust fund raises thorny prob-

lems (see box). On the other hand, private retirement accounts hold risks, notably that unsophisticated investors will fall prey to sharp practices. Britain experimented with personal pensions in the 1980s, and found that salesmen often pocketed a large share of novice investors' savings. In America, Prudential Insurance has recently offered more than \$400m by way of apology for a sales scam that cheated millions of savers of their money. To prevent this kind of thing a private-account system would have to be regulated toughly, which would involve some expansion in government activity.

The commissioners have little idea what will become of their proposals. Bill Clinton has worried out loud about raising the Social Security tax, which burdens weaker firms: unlike other taxes, it must be paid whether or not a company is making profits. The president has also worried about pushing back the retirement age: this might be cruel to manual labourers. Unwilling to raise taxes or cut benefits, the president presumably favours anything that might improve investment returns. So far, however, he has not endorsed stockmarket investment publicly.

Whatever the president decides, the debate on the commission's report will at least reveal the change in attitudes to Social Security. It used to be said that no politician could propose big changes to the system and survive. Now all support some kind of reform to it. The retired people's lobby, which used to pounce on anyone proposing change, is now balanced by the popular conviction that only big change can ensure that Americans will have pensions in a few years' time. Black helicopters do, surprisingly, have their uses.

Latinos in California

The next Italians

LOS ANGELES

MANY white Californians instinctively identify Latinos with poverty and its pathologies. The media focus on marauding gangs; academia is fixated on barriers to Latino mobility and assimilation. Summing up this orthodoxy, Celia Dugger, of the University of California, Los Angeles, recently described Latinos as "a

Social securities?

NEW YORK

IS IT a good idea to invest Social Security trust funds in the stockmarket? All the members of the Social Security commission think so. On December 6th, however, Alan Greenspan, the chairman of the Fed, expressed some reservations.

Reformers want the trust funds to be tied more closely to the real economy. They have good reason. At present, the Social Security system is run on a "pay as you go" basis: as current workers pay Social Security taxes, the proceeds are passed directly to retired people. This causes two problems. First, although the government collects more money than it needs to pay current pensioners (creating a so-called "surplus"), it collects less from current workers than it promises to pay them in the future. The programme is therefore underfunded.

The second problem is that the "surplus" Social Security funds are placed in "trust funds" and then "loaned" to the federal government, which simply lumps the money into current spending. The trust funds make the federal deficit appear smaller than it actually is. In the financial year that ended on September 30th, surplus Social Security funds contributed \$66 billion to the budget, helping to bring the announced deficit to a mere \$107 billion.

The trust funds' assets are dependent on the government's future ability and willingness to raise taxes to meet its obligations to the funds. As it happens, the government bonds in which the trust funds are invested are notably secure instruments. But reformers want the trust fund to invest in shares because the returns would be higher, and might put the system on more solid financial ground.

This idea makes sense, but it is not without risks. The surplus Social Security funds are, in effect, used by the government as a cheap and reliable source of money. If the government had instead to borrow the same amount in the open market, it would probably have to pay more for its debt. Mr Greenspan is also worried that, without some broader changes in domestic savings patterns, investments in equities by the trust funds would simply transfer some of the investment return from private pensions schemes to the public system.

Investing the funds might also be difficult. Should investments be made in a broad-based equity index such as the

Standard & Poor's (S&P) 500, an index of America's biggest traded companies, or in a broader index, such as the Wilshire 5000? Is the goal to reduce risk (in which case, perhaps a quarter of the portfolio should be in non-American shares), or is it to achieve higher returns on the assets?

If the latter, then presumably the funds should invest in everything from corporate high-yield debt to private equity deals and commodities. Yet the sheer size of the funds' portfolio (projected by the Social Security Administration to be worth \$1 trillion in today's money by 2014) might make the funds an overwhelming presence in the market; and there would also be a natural temptation to use Social Security fund investments as an arm of public policy, directing holdings, perhaps, towards particular sorts or sizes of company.

There is a way round these problems: let individuals make their own investment choices for at least a portion of their Social Security contributions. This would not remove all risk. But it would modify the unsettling effects of a giant government investor in the stockmarket, would encourage savings, and would set the whole system on a steadier footing.

Ouch

Number of current workers per Social Security beneficiary

Year	
1940	159.1
1950	16.5
1960	5.1
1970	3.7
1980	3.2
1990	3.4
1995	3.3
2000*	3.2
2010*	2.9
2020*	2.4
2030*	2.0

*Estimates
Source: Sternbusiness

To Be Read

Fy

BC



Loved and lost. Photos of those who died young adorn the altar steps at the vigil at South Boston's Gate of Heaven Church.

White-style urban woes

Why violence and social problems are taking their toll in South Boston

It could have been a vigil for those who have died young in almost any urban slum in America. Except that a teenage girl read a Gaelic blessing and a man in a kilt played "Amazing Grace" on the bagpipes. Unlike more familiar victims of inner-city violence and poverty, the dead honored at this vigil—Jimmy Noonan, John Pozniak, Stephen Dizoglio and others—shared one unexpected trait: Irish, Italian, Lithuanian or Polish—all but a handful were white.

Last month, some 200 people lined the center aisle of South Boston's majestic Gate of Heaven Catholic Church for a memorial service that never made the nightly news. One by one, they lit candles at the altar,

then invoked the names of lost loved ones. Mothers with infants cradled in their arms, young fathers wearing New England Patriots jackets, and children barely tall enough to reach the microphone recited a roll call of young victims, about half of whom had died from gunshot wounds, beatings, drugs or suicides, with the rest dying of accidents and illnesses.

Paul Rakauskas told the gathering about the agony of losing his only son,

The victims remembered at the vigil shared an unexpected trait: Irish, Italian, Lithuanian or Polish, all but a handful were white.



15-year-old P.J., to a drug overdose. The 6-foot, 290-pound biker, clad in a black leather jacket, confessed in a quavering voice: "Gone are the dreams of finally seeing someone from my end of the family 'make it out of the depths.'"

Climbing out. In South Boston, one way to climb out of the depths is to leave behind the public-housing projects on the southern tip—"the lower end." Two years ago, *U.S. News* identified 15 white underclass city neighborhoods, areas where most residents were non-Hispanic whites, 40 percent or more lived in poverty, and many children were raised by single parents. Topping the list, with the highest share of white families headed by a single

U.S. NEWS

mother of any white slum, was a section of South Boston's lower end. (In 1990, that figure was 73 percent.) Many of the vigil's victims came from the two housing projects, Old Colony and the Mary Ellen McCormack Homes, that dominate the neighborhood.

America has long been home to mil-

school, given up looking for work, become dependent on public aid (table, Page 51) and been stricken by violence.

These social ills reflect the loss of manufacturing jobs and migration of low-wage work out of inner cities as well as a surge in family breakdowns and out-of-wedlock births among whites. The national economy expanded after the 1990-91 recession, and last year poverty

in-the-dark stars, or he would flex his skinny biceps and tell his father, "That's a real man, Dad." A few weeks before he overdosed, his parents gave him his first Schick razor and a can of shaving cream for Christmas.

But P.J. also drank, smoked pot and cut school when he could. He got picked up by the cops when he attacked his sister's boyfriend with a broken bottle after

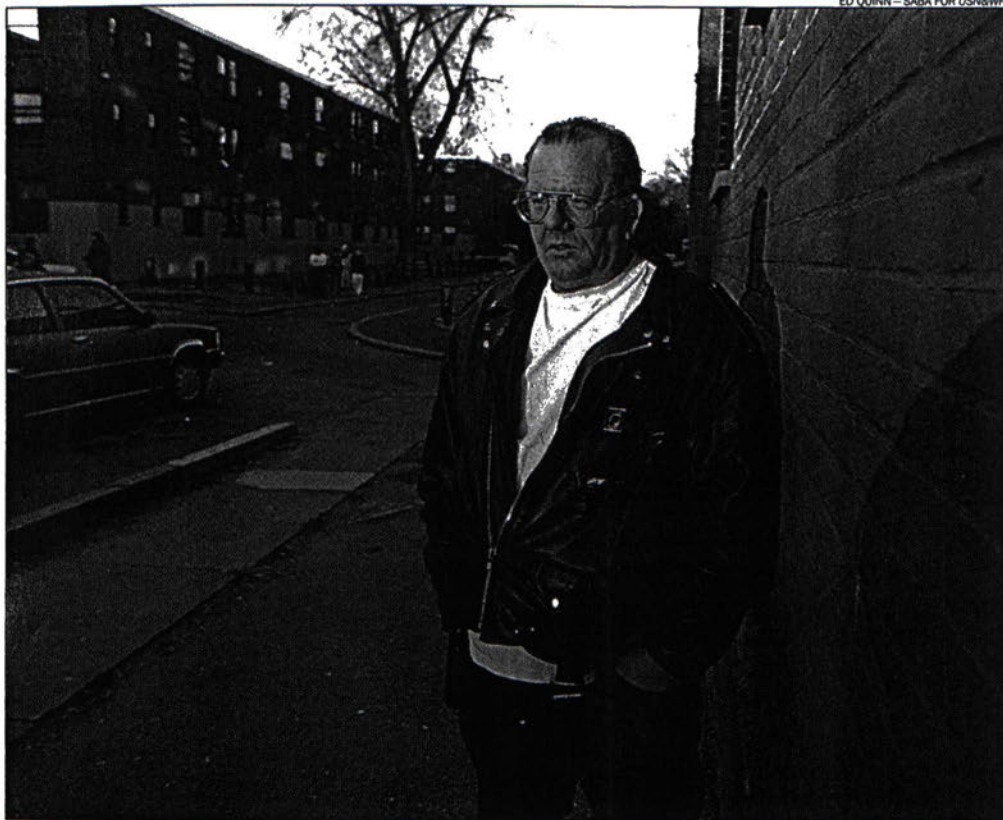
the man beat her. His father's own battle with addiction exposed P.J. to drugs at a tender age. Paul is a recovering IV-drug user and has been clean for nine years. Though he never sold to kids, Paul sometimes peddled drugs to pay for his habit. Paul was later horrified to discover that when P.J. was a little boy, he had sometimes secretly watched through the keyhole of the bedroom door as Paul shot up.

Boredom. "Not long ago I asked him to describe a typical day," Paul recalls. "He said he and his friends would hang out in the hallway [of the project entrance] and start getting bored. Someone would pull out a joint or go buy one, and they would just sit there and smoke." The Rakauskas looked into moving to a safer part of Southie but couldn't get a mortgage because of Paul's drug-related debts and his modest salary as a chemical mixer in a factory.

One night last January, P.J. and some friends obtained a cache of Xanax pills from someone in the Mary Ellen McCormack development. A relative of P.J.'s purchased a bottle of vodka for the group. P.J. imbibed too many shots and downed too many pills, went home and passed out on his bed. No one noticed when he started turning blue. But when foam bubbled on his

lips, his mother called an ambulance. By the time it arrived, P.J. had inhaled his own vomit and fallen into a coma. He died a few days later.

"P.J. was a well-liked kid who got caught up in this s---storm out here," says his father, as he wipes back tears. Most days from his second-floor apartment, Paul can watch "drug deals happening outside our windows. There are kids talking about what store to hit so they could boost [sell stolen goods to buy drugs] that morning—kids with schoolbooks under their arms at the bus



"Drug deals [are] happening outside our windows. . . . kids talking about what store to hit so they could boost that morning—kids with schoolbooks under their arms."

Paul Rakauskas on the perils of the streets at the Old Colony projects. His 15-year-old son, P.J. (left), died this year from an overdose of Xanax and alcohol.

lions of poor whites, from the Okie migrants of the 1930s to the Appalachian families of the 1960s. Yet poor whites have usually not been crowded into impoverished neighborhoods that resemble well-publicized black ghettos. While the country has more poor whites than poor blacks, more blacks than whites live in city slums. The Urban Institute reports that in 1990, 4.2 million blacks lived in black ghettos, compared with 1.6 million whites in white slums. Nonetheless, in white slums, as in black ones, many residents have dropped out of

dropped among most groups, including the black inner-city poor. But the number of poor central-city whites rose by at least 183,000, according to the Center on Budget and Policy Priorities. In urban areas, the small white underclass appears to be growing.

Like the lives of other kids in South Boston's projects, P. J. Rakauskas's was marked by a mix of vice and innocence, of abrupt violence and cocoonlike calm. In the days before he died, P.J. would lie back on his bed to admire his initials, which he spelled out on a wall with glow-

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"My heart broke for these people
[whose kids had been shot]. I never
thought I would be one of them. . . .
I thought, 'they can't be talking
about Brian.' "

Cathy Havlin, in a park across from the Mary Ellen McCormack Homes,
still mourns her son Brian (right), who was gunned down.



stop. It's so hard to see their faces be-
cause what you're looking at is yourself."

Last year, police received more re-
ports of aggravated assaults at Old Colo-
ny, or O.C. as it's sometimes called, than
in any housing development in the city.
And O.C. had the second-highest total
of burglaries, larcenies and car thefts.
Welfare dependency is the rule. Roughly
85 percent of the project's families are
on public aid.

Drug use seems to be spreading as
well. Heroin use at O.C. has become far
more brazen as the drug has become
more accessible. Teenagers can avoid
the stigma of needle tracks on their arms
by snorting heroin, available in a 10-bag
"bundle" for \$70. Strung-out junkies
sometimes pester residents for money.
A few dealers occasionally peddle their
wares in the projects' courtyards. Mean-

while, alcoholism, fueled by a throng of
local bars, continues to be a neighbor-
hood bane. South Boston has the sec-
ond-highest death rate from alcohol and
drug use of any city neighborhood,
topped only by a nearby area with many
homeless shelters.

One obstacle to remedying the lower
end's problems is that many residents
refuse to acknowledge them. After his
son overdosed, Paul Rakauskas posted a
letter to the community in the local gro-
cery store that read: "As much as we
would like to be able to say drugs and al-
cohol [were] the only reason[s] for
[P.J.'s] death, we cannot. P.J. was killed
by ambivalence, tolerance and a general
'it can't happen here' attitude."

Cathy Havlin had a fateful lesson that
it can. A divorced mother who also
spoke at the church vigil, Havlin is no

PHOTO COURTESY OF THE HAVLIN FAMILY

U.S. NEWS & WORLD REPORT, DECEMBER 9, 1996

naif. She brought up her four children in the Mary Ellen McCormack development for more than 20 years. She and her only son, Brian, knew the neighbors whose teenage son was beaten to death with a baseball bat outside a Southie bar. They knew that the dead youth's younger brother later hanged himself in the family's apartment and left a farewell note for his dead brother under the family's Pietà statue. And Havlin and her children also knew of neighbors who died from overdoses.

At times, Brian struggled himself. He dropped out of high school in 10th grade, was later convicted of drunken driving and fathered a child out of wedlock. "Brian was his own worst enemy, but he wasn't a punk," his mother recounts. "People liked him—he just wanted to live life and have a ball."

To Havlin, the tragedies that befell her neighbors were aberrations in an otherwise safe place. For most of the past decade, Havlin handled patient accounts at Boston Medical Center, the city hospital, asking patients about their health insurance carriers and where to send their bills. She often spoke with desperate parents as they waited to see if their children would live or die from gunshot wounds. "My heart broke for these people," Havlin says. "I never thought I would be one of them."

"Shots fired." Then last July, Havlin found herself in the waiting room at the hospital. The night before, Brian had helped a girl move out of an apartment in Mary Ellen McCormack after she complained about drug use taking place there. James Joyce, another Southie man who had been convicted of firearms violations and cocaine use, picked a fistfight with Brian. Several hours later, according to Boston's district attorney, Joyce stopped Brian in a courtyard of the project, shot him nine times and was bent on running over Brian's body with his car until witnesses stopped him. (Joyce has pleaded not guilty.) Riding with a police officer to the hospital, Havlin listened to chatter on the scanner—"nine or 10 shots have been fired"—thinking over and over, "they can't be talking about Brian." Her son died without regaining consciousness. He was 25.

For all the problems in the lower end, some inner-city nightmares—open-air drug markets, roving youth gangs and murderous crack dealers—are virtually absent from the projects. As a whole, South Boston has less violent crime than

Poor neighborhoods, in white and black

White and black slums, on average, had these features in 1990:

	White	Black
People living below poverty line . . .	53%	53%
High school dropouts . . .	18%	20%
Men not in the labor force . . .	58%	61%
Total unemployed . . .	14%	23%
Families headed by single women . . .	38%	69%
Families receiving welfare . . .	17%	34%

Note: White and black slums are made up of census tracts where a majority of residents are of one race or another (and not Hispanic) and at least 40 percent live below the poverty line. USN&WR—Basic data: Ronald Mincy, in *African American Economic Thought: Vol. 2, Methodology and Policy* (1997)

many parts of the city. The homicide rate in the largely black neighborhood of Roxbury is four times that of South Boston. And the area does not suffer from housing segregation and the flight of middle-class families, which isolate many poor black neighborhoods. Southie residents, most of them Irish, grow up together, go to school together, marry among themselves and put shamrocks on their friends' gravestones. That familiarity makes the streets secure enough that elderly women are not afraid to walk their dogs late at night.

Yet whatever the differences between black and white slums, both liberals and conservatives argue that the emergence of a white underclass is an important, little-noticed phenomenon that proves their theories about what makes people poor. Conservatives such as Charles Murray contend that welfare programs have "lifted the economic penalties of having a child without a husband," enabling poor whites as well as blacks to bear children out of wedlock with scant social stigma. Liberals assert that the rise of a white underclass proves that low-income whites, in addition to blacks, have been hurt

by changes in the economy that cut the number of comparatively well-paid, low-skill manufacturing jobs in cities.

The debate over the roots of the urban underclass is an old one. What's new is that poor whites are now included. It's unlikely that the white underclass will soon eclipse the black one, in size or visibility. Yet as many families at the South Boston vigil can attest, living in a white slum exacts its own harsh price. It can sometimes mean dying young. ■

BY DAVID WHITMAN



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Divided against itself

The Republican Party: Can its five factions ever find happiness again?

What next for the Republican Party? It is fragmented and splintered, with no one clear leader. Republicans have lost the presidency twice in a row, winning just 37 and 41 percent of the vote. But they have held onto both houses of Congress this year and maintained most of their 1994 gains in the states; 75 percent of Americans have Republican governors.

Over their long history, Republicans have done best when they were united around a central faith, even if those core beliefs were angrily rejected by some segments of the nation. In Abraham Lincoln's time the faith centered on opposition to the spread of slavery and on government help for homesteaders, railroad builders and state colleges. In Theodore Roosevelt's time the central faith was in hard money at home and active engagement abroad. In Ronald Reagan's years the party was united around the opposition to high taxes at home and communism abroad.

But now there is no set of beliefs holding the party together. Communism is gone and no one is talking about raising taxes. The party is facing a time when decisions are being decentralized from Washington and when its own leadership is fragmented. For the presidential race in 2000, Republicans have no one candidate with the seniority Ronald Reagan, George Bush and Bob Dole brought to the last five presidential contests. One can think of 30 Republicans, and by 2000 there could easily be more, who might plausibly seek the nomination.

There are many crosscurrents of disagreement among key Republican constituencies. Analytically the party can be divided, as Dole campaign pollster Tony Fabrizio has suggested, into five groups. This is a look at who these Republicans are and what they want:

■ **Economic conservatives.** They believe that free markets work better than government bureaucracies and want lower taxes—in some cases, no taxes at all. Tax cuts have been the glue that has held the Republican Party together ever since Jack Kemp

sold every House Republican and presidential candidate Ronald Reagan on the 30 percent Kemp-Roth income tax cut in the late 1970s. The one plank of 1994's Contract With America that appealed to moral conservatives was a tax cut—the \$500-per-child tax credit.

But it seems unlikely that the tax issue can unite Republicans again soon. Dole's 15 percent tax cut proposal in 1996 met a tepid reaction from voters and activists.

In the past, voters didn't necessarily take Republicans' promises on tax cuts at face value, but they believed that they at least would not raise taxes and Democrats would. But after the stunning rebuke of Democrats in 1994, most Democratic leaders have given up on tax increases, so voters don't need Republicans to keep them from happening. That's why Bill Clinton won a robust margin this year even in hyper-anti-tax New Hampshire—the state where Clinton ran farthest ahead of Michael Dukakis's 1988 percentage.

Also, Republicans don't have

THE LOSING TEAM

Bob Dole, an old-fashioned conservative, tried to unite the party by embracing economic conservative Jack Kemp. But Bill Clinton pre-empted them on many issues.



MORALISTS

The Christian Coalition's Ralph Reed is a leader of this faction; it's the prime GOP activist constituency.

a party-unifying tax plan handy. House Majority Leader Dick Armey favors a flat tax; Ways and Means Chairman Bill Archer wants a national sales tax. Moreover, it's very hard for any party to rally around a detailed tax plan without the bully pulpit of a president behind it.

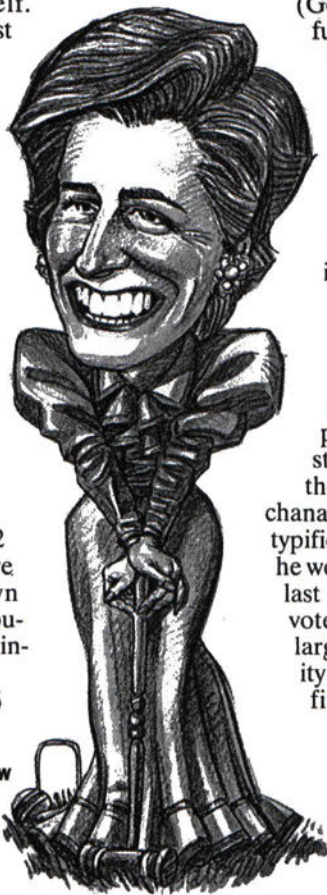
■ **Moral conservatives.** They are the heart and soul of the party, providing the vast share of its activists, an increasing minority of its officeholders, a surprisingly large number of its contributors—just as cultural liberals do for the Democrats. But like all groups who enter politics for moral concerns, they must decide how much they will compromise with workaday politicians. The Christian Coalition's Ralph Reed, for example, is under attack from some believers for smoothing Dole's way to the nomination. But even Reed could not deliver religious conservatives by himself.

Moral conservatives must also struggle to raise issues in ways that will enthrall activists but not turn off ordinary voters.

Republican moral conservatives, like Democratic cultural liberals, have a mixed record for getting the correct balance. Recently, they have come up with some stands that have wide appeal among voters, but none seems capable of carrying the party to victory. Some examples: Dan Quayle's 1992 attack on popular culture in his Murphy Brown speech proved widely popular—so much so that Clin-

COUNTRY CLUBBERS

This faction has some well-known officeholders, like New Jersey Gov. Christine Todd Whitman, but didn't do very well in the last election.



ton has joined in: no partisan contrast here.

There is a case to be made against government aid for illegal aliens and, though it is weaker, aid for legal immigrants as well. But Republicans ran so disastrously among Hispanic voters in 1996 that they aren't likely to make that case again. Racial quotas and preferences are unpopular with voters, as Californians showed when they approved Proposition 209. But universities, the press and corporations are strong supporters of preferences, and that is a tough combination to beat.

In the past, Republicans have scored on moral issues when Democrats have taken stands that are not just unpopular but hard to defend, such as Dukakis's support over 11 years of furloughs for prisoners sentenced to life without parole. But Bill Clinton and Al Gore have

adroitly avoided such stands (Gore criticized Dukakis on furloughs in 1988). So it will be hard to unite Republicans around moral issues.

■ **America firsters.** Embodied by Patrick Buchanan, these Republicans believe that abandoning free-market policies and foreign policy internationalism can win the party votes from erstwhile Democrats. Buchanan's "conservatism of the heart" included trade restrictions, attacks on plant closings and even restrictions on feedlot size. But the ferocity with which Buchanan wages his culture wars, typified by the gunslinger outfit he wore campaigning in Arizona last February, puts off many voters. He has proved there is a large—though not a majority—constituency of America firsters among Republican voters, and that a few of the dwindling number of Democratic blue-collar workers can be won over by his views. But aside from Buchanan, who is writing a book

on trade, few prominent politicians—no more than a dozen or two House freshmen and sophomores plus a few scattered others—back America-first ideas. ■ **Country clubbers.** Compared with America firsters, this group has a larger roster of well-known officeholders in big states, like Govs. Pete Wilson of California, William Weld of Massachusetts and Christine Todd Whitman of New Jersey. They are or have become fierce opponents of higher taxes, scourges of crime, determined partisans; but they dismiss with the same tones of contempt heard from liberal Democrats the stands of moral conservatives on abortion and gay rights.

Their problem at the moment is that



AMERICA FIRSTERS

Patrick Buchanan is their hero. It's a big GOP constituency, but it cannot claim many elected officials in its ranks.

their formula for winning, which had served them well in the past, didn't work in 1996. Weld lost his Senate race, and Whitman-like Republican Dick Zimmer lost for the Senate in New Jersey. Whitman could face serious opposition from "new Democrat" Rep. Rob Andrews in 1997, and Weld and Wilson are lame-duck governors with Democratic legislatures. A big part of the media pundit class is sympathetic to country clubbers' views and speculates that this group would produce the strongest presidential candidates. But nominees who reject the deepest beliefs of their party's core constituencies don't win national elec-

tions, and they can stimulate third-party candidacies or massive outmigrations of voters, as Barry Goldwater did in 1964 and George McGovern did in 1972.

■ **Old-fashioned conservatives.** The party has often turned to those whose roots go back to Richard Nixon or even before—men like George Bush and Bob Dole—who adapted uncomfortably to the new central faith of Ronald Reagan. That is what they did with Bush and Dole, with unhappy results in 1992 and this year. In fact, there are few old-fashioned conservatives left in high office—a dozen or two in the House, a few scattered governors, some cabinet veterans. The Main Street that is their main habitat has mostly closed down, while the economic conservatives' Wal-Mart buzzes; their old mainline churches have emptied out, while the moral conservatives' enormous new churches are bursting with activity.

In this splintered universe, it is hard to see how any faction can produce the tenets of the next central faith of Republicans. The two largest blocs are economic conservatives and moral conservatives. Many share one another's beliefs and together they have the makings of a majority party. But they are deeply divided about what matters most. America firsters, country clubbers and old-fashioned conservatives disagree on many ideas, and the elevation of one of their factions could easily drive backers of the other factions away.

The new Republican central faith is also not likely to emerge soon from Senate Majority Leader Trent Lott or House Speaker Newt Gingrich. They are hunkered down after being battered for closing down the government and cutting Medicare (even though technically it was Clinton's veto that shut down the government and the Republican Medicare plan that increased spending). In several states, governors could be building Republican majorities where none existed before, as George W. Bush seems to be doing in Texas. But nationally, power is too fragmented and voters' attention too intermittent for any central faith to emerge.

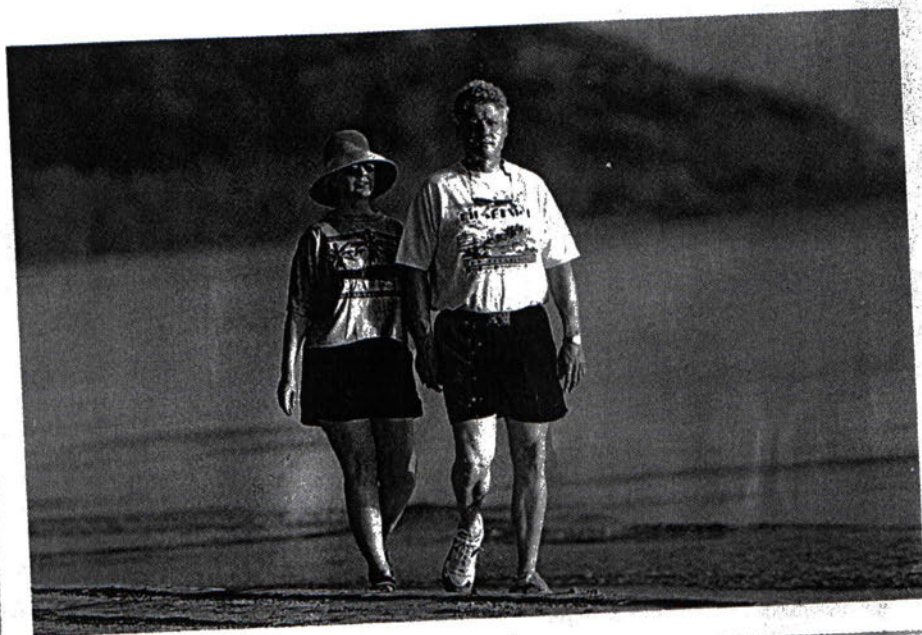
A new unifying Republican central faith will come only from a presidential nominee who can unite the party as Ronald Reagan did, just as Franklin Roosevelt united long-feuding Democratic factions in the 1930s. But it's not clear who such a candidate might be or whether the jury-rigged presidential selection process can be counted on to produce one. ■

BY MICHAEL BARONE

■ U.S. NEWS

Micro-man; giant clams; mad media

Insights from travels with the first couple



Nothing energizes Bill Clinton so much as the chance to be crisis manager. It blends especially well with his tendency to micromanage. So he was seriously stoked on his recent trip to Asia and Hawaii when his military aide told him at 11 on a Sunday morning in Oahu that the U.S. Space Command feared a Russian space probe might crash into Canberra, the Australian capital. Virtually all his predecessors would have let their subordinates handle the matter, but Clinton picked up the phone and called Australian Prime Minister John Howard to pass along the warning. The president felt a special obligation to become deeply involved because he was scheduled to visit Canberra that week. Howard dutifully announced on television that he had mobilized his country's military and civil defense forces.

Then, instead of playing golf or relaxing on the porch of his posh retreat, as planned, Clinton spent the day meeting with aides like deputy national security adviser Sandy Berger and consulting by telephone with government experts

about the prospects for a disaster. At one point, Clinton ordered White House Chief of Staff Leon Panetta out of Sunday mass in Washington to follow the space probe's trajectory. Vice President Al Gore headed to his office in the White House West Wing to lead a "crisis team" that monitored the errant spacecraft. There were many phone calls by Gore and others to Gen. Howell Estes III, commander of the U.S. Space Command in Colorado Springs.

After four hours of high-level hubbub, Clinton got definitive word from a military aide that the would-be Mars probe would miss the Australian mainland. At that point, the president authorized Berger to convey the final information to the Australian government. Ten minutes later the spaceship splashed harmlessly into the Pacific.

Late that afternoon, the president complained in frustration to staffers that the false alarm had absorbed much of his vacation day. It was, however, a crisis of his own making.

The episode was the most remarkable



Next stop — Kingdom. Clinton does the wave with Taiwan economic official Koo Chen-Fu (left) and Thai Prime Minister Banham Silpa-Archa.

example of Clinton's micromanagement that has come to light recently. White House aides are reluctant to talk about other examples because of fears that Clinton may be compared to Jimmy Carter, another notorious micromanager.

Liberation — not. This Asian trip has revealed a central truth about Clinton's upcoming second term that rebuts the chatter of the political clerisy that a re-elected Clinton would be an elated, liberated Clinton. As he proved in the spaceship episode, Clinton is often the agent of his own confinement. But this 11-day tour abroad has also made clear the many ways both Bill and Hillary Clinton think they continue to be constrained by outsiders.

Yammering reporters will never leave them alone, and they hate it. Aides note that Clinton feels hemmed in by a Republican Congress, tough-negotiating trade competitors and, most of all, investigators at home. Thus, his outburst in the Philippines, when Clinton compared himself to Richard Jewell, the Atlanta security guard wrongly implicated in the Olympic bombing. Asked

Time off. The president envies Hillary Clinton's freedom to escape pomp and circumstance, as in Chiang Rai, Thailand.

by a reporter whether he was trying to "stonewall" allegations about possibly illegal contributions to the Democratic Party, Clinton said: "One of the things I would urge you to do—remembering what happened to Mr. Jewell in Atlanta, remembering what has happened to so many of the accusations over the last four years made against me that turned out to be totally baseless—I just think that we ought to . . . just get the facts out and they should be reported."

Hillary Clinton was blunter. After her pabulum-only period during the campaign, she complained that her critics back home were trivializing her by focusing on her changes in hairstyle and wardrobe. The only way to avoid criticism as a first lady, she declared, is to announce that you have no opinions and

"perhaps have a bag over your head." She added: "Perhaps we should form some kind of organization, 'Women of the World United Against Hair and Costume Comments.' I think the only answer is to be who you are and do what you do . . . and wait for the first man to hold the position and see how that turns out."

Downtime. While Clinton, like his wife, regularly expresses displeasure with media coverage, on this trip he also had more pedestrian concerns. It turns out, for example, that he suffers from tourism envy. He complains to aides that he can't press the flesh with locals and that his wife gets to see more tourist spots than he does. So, when he could break away, he delighted in his playtime.

The tourist in chief made his debut floating languidly in the azure waters of the Great Barrier Reef. As the first lady swam at his side, Clinton snorkeled happily over a kaleidoscopic scene: acres of coral fans and staghorns, pillars of brown and green sea anemone, and hundreds of orange, yellow and blue fish that darted about him. He even spotted a 4-foot-wide giant clam 20 feet below. And he snapped two rolls of underwater photos with a small, plastic-encased camera as Secret Service agents, wearing snorkel masks and fins, bobbed around him.

In addition to the swim in the reef about 30 miles northeast of Port Douglas, he visited a rain forest, inspected a strangler fig tree, petted kangaroos, cradled a perplexed-looking 10-month-old koala named Chelsea, played golf with Aussie pro Greg "The Shark" Norman, and visited some of the most spectacular sites in Bangkok, including the Grand Palace and the Temple of the Emerald Buddha.

"This is the Bill Clinton of the second term, more laid back and willing to have a good time," a senior White House aide said as he waited for the president to mingle with well-wishers in Manila. "At least we all hope so." ■

BY KENNETH T. WALSH WITH
THE PRESIDENT IN ASIA



PHOTOS: (TOP) DAVID LONGSTREATH — AP; (BOTTOM) PAUL J. RICHARDS — AFP

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Strange bedfellows in Asia

MANILA AND BANGKOK

ASIA, we are told, is to be at the heart of American foreign policy during President Clinton's second term. Some Asian leaders have mixed feelings about this. They welcome the recognition of their growing economic and political clout, and the American commitment to regional security. But they heard much the same noises out of Washington four years ago. They saw the policy that ensued as an uneasy mixture of crusading zeal and cynical about-turns, of posturing and pragmatism. And they believe that, in this respect at least, Mr Clinton will be consistent.

So the idealistic pronouncements made during his trip this month to Australia, the Philippines and Thailand were always likely to be dismissed as masking American self-interest. And Mr Clinton did little to counter that impression.

Even the way the Americans harped on the "symbolism" of his trip smacked of expediency. They stressed how, just as he had made his first overseas foray in 1993 to Japan and South Korea, so now—after his re-election—Mr Clinton was visiting other democratic treaty partners in the region. But, as everybody knew, the timing of this foray into Asia was actually dictated by the annual summit on November 25th of the Asia Pacific Economic Co-operation (APEC) forum in Manila.

Once in town, the American delegation proceeded to hijack the summit with a debate about an issue that hitches American commercial ambitions to an idealistic wagon: free trade. The United States wanted the backing in the World Trade Organisation (WTO) of the 17 other APEC members for a firm time-table for the elimination of tariffs in the trade in information

technology. It did not disguise the domestic benefits of such an agreement, which would cover American exports expected to reach \$100 billion this year. But American officials also portrayed this as a "win-win" deal which would benefit the many other APEC partners with computer industries.

Some APEC members, notably Malay-



sia's prime minister, Mahathir Mohamad, were not convinced. So the Asian fondness for a face-saving, woolly consensus won out over the American desire for unambiguous clarity. APEC's leaders agreed to the American target date of 2000 but made the target itself more indistinct. Their joint statement called for a WTO agreement that would "substantially" eliminate tariffs, but recog-

nised "the need for flexibility". One American spokesman asserted that "substantially eliminate is tradespeak for zero." It was the Asians who had quietly to point out that words usually mean what they say, even in the WTO.

If Asian governments are sceptical of the motives behind America's push for free trade, its political rhetoric is seen as downright hypocrisy. In Manila, Bill Clinton committed the United States to "a shared vision of community" in the Asia-Pacific. In Bangkok he expressed pride at America's support for "democracy's march across Asia". But for the governments of South-East Asia and of China, an integral part of "the shared vision" is the refusal to meddle in, or even comment on, each other's internal politics.

To be sure, Mr Clinton was a long way from John Kennedy's promise to "pay any price, bear any burden" for liberty. He insisted he did not "seek to impose our vision of the world or any particular form of government on others." But he did take on those, like Singapore's Lee Kuan Yew, who have argued that too much freedom and not enough discipline are bad for emerging economies. Mr Clinton argued that "free market democracies" have economic advantages. He singled out the new democracies of Taiwan, South Korea, the Philippines and, especially, of his hosts, Thailand, for particular praise.

By praising these four countries, and not mentioning Singapore or Malaysia, which also claim to be democratic countries, he implicitly rebuked the main spokesmen for "Asian values". Some Thais were even slightly embarrassed by the president's effusion about the peaceful transfer of power in their country following elections on November 17th. The campaign was, by common consent, the most corrupt and violent for years. Mr Clinton did not spell out why he prefers a messy free-for-all, like the Thai elections, to the much more orderly elections in Singapore or Malaysia, which invariably return the ruling party. By implication, how-

ever, he was pointing out that those systems have yet to survive a change of government.

Asian critics argue that Mr Clinton's vision of Asia is highly selective. It is not just his determination to accentuate the positive in Asia's new democracies. They also point to the different ways in which the Clinton administration treats China and Myanmar. In Bangkok, Mr Clinton railed against the generals ruling Myanmar for their failure either to honour their pledge to move to multi-party democracy, or to curb the drugs trade.

In Manila, on the other hand, Mr Clinton and Jiang Zemin, China's president, appeared on good terms. They even agreed to an exchange of state visits—the first since the Beijing massacre in 1989. Yet few would argue that China's respect for civil liberties has improved much (if at all) since Mr Clinton made it an election issue in 1992. America's new China policy is described as one of "comprehensive engagement". In other words, no one of many areas of disagreement—human rights, Taiwan, nuclear proliferation, trade—is to be allowed to derail the overall relationship. A common Asian interpretation of all this is that Myanmar—a country of no great economic significance to America—can be bashed. But China has become too rich and important to be pushed around.

In practical terms, the Asian perception of American hypocrisy does not matter very much. Most countries in the region welcome the American military presence as an insurance against regional instability, and especially against Chinese adventurism. They understand American politics, and know that, even when he is speaking in Asian capitals, the president's most important audience is at home. If they do not like what he says, most are prepared to shrug their shoulders and dismiss it. That is the price paid for the fuzziness of Mr Clinton's Asian vision.

Hong Kong Subversive laws

HONG KONG

NEARLY 155 years into colonial rule, and with a mere 216 days to go before it hands Hong Kong back to China, Britain has taken steps to ensure that the government of Hong Kong is not subverted or overthrown. On November 26th the Hong Kong government declared that it will, for the first time, put laws against subversion and secession before the colony's legislature. The existing law on sedition is also to be tightened. (Even so, Queen Elizabeth may still have cause for concern: it will no longer be a treasonable offence physically to assault the sovereign.)



Commemorating Tiananmen; for the last time?

The new proposals are, of course, being framed with Hong Kong's future under Chinese rule in mind. The mini-constitution that China has drawn up for Hong Kong after next June 30th, called the Basic Law, will prohibit "any act of treason, secession, sedition, subversion against the Central People's Government." This is found in the notorious Article 23, which many people in Hong Kong fear might be used to suppress free speech, or peaceful dissent. By defining subversion narrowly now, the British authorities hope (probably in vain) to make it harder for China to use its own sweeping definition.

Chinese officials are furious. They emphasise that the Basic Law stipulates that it is for the future Hong Kong government to enact laws under Article 23, and that enacting them unilaterally is yet another example of imperial sabotage. In the stock threat used by Chinese officials, the British side will now "have to bear all the consequences of its actions".

The crucial part of the new British law says that sedition, subversion and secession cannot be deemed to have been committed in Hong Kong in the absence of an act of force. It is by now clear that the Chinese leadership has a far broader interpretation of the terms in mind. Article 23 was inserted into the draft Basic Law only after the Tiananmen Square anti-government protests in Beijing in 1989. At the time, a million Hong Kong people marched in support of the mainland students. Ever since there have been commemorations in Hong Kong each year on the anniversary of the Beijing killings.

More recently two events have alarmed many in Hong Kong, and convinced the British that they are honour-bound to protect, however feebly, Hong Kong's existing freedoms. In an interview with the *Asian*

Wall Street Journal on October 16th, China's foreign minister, Qian Qichen, confirmed that future commemorations of the Tiananmen killings would be banned in Hong Kong, as would "personal attacks on the Chinese leaders"—however defined. Then, on October 30th, China put one of the best-known leaders of the Tiananmen protests, Wang Dan, back in jail for 11 years for subversion. Any number of Hong Kong people have voiced views just as outspoken as those that landed Mr Wang behind bars.

Rita Fan, a senior member of China's Preparatory Committee, the body overseeing the transition, insists that it is not certain that China will want the new anti-subversion laws to be repealed by the incoming government. But Miss Fan admits that Britain's move does increase the chances that the Beijing-appointed "provisional" legislature for Hong Kong will draw up its own definition of Article 23 before the handover. Britain's move might then seem counter-productive. But it was made at least partly to fulfil a promise to the liberals in the current legislature, and so to allow the colonial power to quit Hong Kong with an easier conscience.

Taiwan Mob rule

TAIPEI

TAIWAN, said its minister of justice, Liao Cheng-hao, on November 16th, is in danger of becoming "another Sicily". Grisly confirmation of this came five days later, when gunmen walked into the house of Liu Pang-you, head of the Taoyuan county government, bound and blindfolded him and eight others, then shot

Latin America's backlash

A MALAISE is abroad in Latin America. In Mexico, guerrilla groups pop up in dirt-poor rural parts. Argentina's trade-unionists take to the streets against plans to cut welfare and ease labour laws. Brazil's landless clash with its trigger-happy police. Peruvians lose faith in their tough and reforming president; Ecuadoreans elect a proclaimed populist as theirs. Almost everywhere both rich and poor feel less secure, as drugs, guns and violent crime take an ever-stronger hold on the shanty towns that ring so many cities.

Not all these troubles share a common cause: Colombia's guerrillas, far more numerous and nasty than Mexico's, have been active for 40 years. Yet one thread runs through them all (see pages 19-21). A decade of democratic regimes broadly committed to low inflation, free economies and open trade has not, except in Chile, brought sustained growth; and, while laying the groundwork for that, it has both made old woes more visible and added some new ones. The region stuck to its chosen path through the buffeting of Mexico's 1994-95 currency crisis. But the rewards are still fairly meagre: it may grow by only 3% this year, and, with luck, by 4-5% next. And little of such growth as there is finds its way to the poor. For many, the wrenching changes brought by privatisation, trade opening, and monetary and fiscal prudence have meant bankruptcy, unemployment or the loss of state handouts.

So is the region on the brink of a populist or authoritarian upheaval? Probably not. There is growth, after all: both Mexico and Argentina are recovering from recession. Income distribution has improved a bit—not before time—in Brazil, with the defeat of hyper-inflation. Ecuador's president, once elected, is forgetting some of his wilder promises. In Paraguay an attempted army coup last April was quashed. A recent poll region-wide found only 27% of respondents judging their own country's democracy as working well; yet 61% still see that as the best form of government. The voices of discontent have been unable to articulate more persuasive ways forward.

Yet they cannot be ignored. Discontent springs from huge social needs. Sustained growth will in time do much to meet these. That means sticking firmly to market-opening. But there is much else to do on the long road from here to there.

The ways ahead

The challenge is to make both governments and markets more efficient. Beneath the impressive technocrats now managing most Latin American economies, most government agencies remain what they were before: overstuffed and undercompetent bureaucratic disaster-zones. In the creation of wealth, businessmen—and especially would-be businessmen, until they too learn who best to bribe—face networks of



red tape. Over-regulation of labour markets hits job-seekers. Employment taxes hit employers, workers and would-be workers alike. Speedy, honest and open civil justice is needed both to ensure the enforcement of contracts and so—perhaps even more important—the confidence that they can be enforced; in practice, nearly all courts are slow-moving and too many corrupt.

In the communal use of wealth, the bureaucrats' work would often be better handled by the private sector: pensions, say, or the upgrading of infrastructure. Outright privatisation has brought a rush of capital into telecoms; private concessions can—and in

some countries do—improve ports, railways and (though Mexico mishandled its attempt) busy parts of the road system. But in poor countries most of such core areas as education, health care, water and drainage will remain, unavoidably, government's job. The trouble usually is not that it spends too much, but that it provides little value for money. Many tasks now done centrally should be devolved to lower levels of government (provided, notably in Argentina and Brazil, that these are subject to fiscal discipline). Devolution can go far: some Brazilian states have handed budgets directly to schools and parents—and got better education. In partnership with government, the region's multiplying self-help community groups can improve anything from primary health care to housing to environmental protection.

Alongside such practical matters, Latin America badly needs to build confidence in the institutions of public life. It is trying to combine democracy with market economics in deeply unequal societies. That can never be easy. It is made harder still by widespread, and often justified, cynicism. The immediate winners from privatisation are usually the well-off; bad enough, in the public eye, but still worse if they are also the president's cronies. Police forces and law courts will seldom be popular; much worse if everyone knows that crime will go unpunished (or be committed) because their officials can be bought. The world, rightly, will never believe in the purity of politics; but at least parties and politicians need not be left free to prove blatantly how right that cynicism is.

Habits and institutions cannot be transformed overnight: look at the opposition Mexico's president has faced in his steps away from one-party rule. Some countries' rigid constitutions, born as they rediscovered democracy but not yet market forces, make change even harder: Brazil's almost dictates bureaucratic inefficiency and fiscal laxity, while encouraging an anarchic party system that leaves law-making easy prey to special interests. But politicians and the powerful can be subjected to independent scrutiny. Outside Mexico, autonomous electoral bodies and free media have made most Latin

American voting surprisingly fraud-free. The appointment of judges, enforcement of human rights, auditing of public accounts, conduct of privatisations and subsequent regulation—all can be improved by similar means.

A populist reversal of Latin America's course is far from

imminent, but the malaise is real. It should put governments and politicians under notice: they must complete their macroeconomic revolution, and complement it with speedy microeconomic and institutional reform, or risk seeing their hard-won gains eroded by cynicism and discontent.

A very political chancellor

Kenneth Clarke's budget offers a taste of things to come

THIS is a budget for the next five years, not the next five months, insisted Kenneth Clarke. An improbable boast, but because it came from the chancellor, who has a splendid line in charming irrepressibility, it succeeded—a moment of defiance in an impressively rousing budget speech. What seems to have escaped wider notice is that, in a sense not intended by the chancellor, the boast was actually true.

What makes it "a budget for five years" is not that Mr Clarke expects with any confidence to be in office next summer: on this, one assumes, he is as realistic as the next man. Nor is it that he has put Britain's public finances on a secure medium-term footing, as he also meant to imply. What makes it true is that this can be thought of as, in effect, Labour's first budget. That is no accident. To design such a budget was Mr Clarke's aim—not because he is a closet New Labourite, but because he is doing his tactical best to keep the Tories in power.

Blair's first budget

Mr Clarke's great strength as a politician is to seem apolitical. He has a capacity to surprise, to speak disarming truths. Mr Clarke is the chancellor who said he hadn't got round to reading the Maastricht treaty, who told the Tory party conference that taxes should not be cut faster than spending (quite an insight), who surprised the City last month by raising interest rates (fractionally, and long after he should have done) even though no crisis was forcing his hand. Each of these "apolitical" acts helped his political standing a good deal.

True to form, this week's intensely political budget was judged "sober, all things considered", "prudent under the circumstances", and so on. Rest assured, if Mr Clarke had calculated that he could have tax-bribed the electorate into voting Tory at the next election, he would have done it. He calculated—and he was surely right—that a budget which cut taxes sharply would fail politically, either because voters felt they were being conned, or because the financial markets would force interest rates immediately higher, or both. He was exactly as "prudent" as politics, in his judgment, required.

So the budget was close to neutral in its effect on demand in the economy (see page 49). It used small tax increases that people may not notice (airport tax, insurance tax) to help pay for small tax cuts that they will (a penny off the basic rate of income tax, a bigger-than-inflation rise in income-tax thresholds). Never mind that the budget deficit remains far too large for this stage in the economic cycle. Never mind that inflationary pressure was building before the budget and will continue to do so after it. The chancellor did roughly what the City expected (leaving the stance of fiscal policy unchanged)

rather than what he should have done (tighten it firmly). The outcome was a political success, but hardly an economic one.

In its overall budget judgment, any Labour government will have to strike the same bargain with public opinion and the markets as did Mr Clarke. But the similarities go further. Mr Clarke, it appears, asked himself how to make Labour's task in presenting its own budget policies more difficult. One course might have been to go for a markedly Tory budget, concentrating on lower income-tax rates. Had he done so, with other increases here and there, he could have cut the basic rate to 20%. Or he could have abolished inheritance tax and capital-gains tax. Or, remembering that this was a budget for five years, he could have promised to do all of the above and more, paying for it with bold reform of the welfare state.

Instead of a radical budget designed to contrast with Labour's thinking, he presented a timid one that anticipated it. Instead of saying "vote Tory because our brave ideas are better than Labour's puny ones", his budget says "vote Tory because our ideas are harmless and Labour hasn't any at all."

Give due weight, when cutting taxes, to the interests of the low-paid? That is already Tory policy; the government has more-than-indexed allowances and broadened the lowest-rate band of income tax. End the tax-break for profit-related pay, which benefits the better-off disproportionately? Done that; Mr Clarke is phasing it out. Raise revenues by closing loopholes and cracking down on evasion? Release resources by curbing benefit fraud and other leakages? Done that too; Mr Clarke announced a "spend to save" programme costing £800m (\$1.4 billion) over three years, purporting to save £6.7 billion. That free-lunch machine, along with the windfall tax on privatised utilities, promised to be Labour's only big new source of revenue, consistent with its sort-of promise not to raise taxes. Now Mr Clarke has grabbed it for himself.

Much the biggest thing wrong with this budget, however, is its medium-term projection for public spending—and this has New Labour stamped all over it. Apart from "spend to save", the government is offering no big new ideas for curbing public spending. Instead it blithely assumes that spending will grow over the next four years more slowly in relation to national income than it has for decades, except in times of unsustainable boom. This is patently incredible—but it is certainly not an assumption that Labour will want to challenge. Abandon it, and the implication is that a Labour government will eventually have to plan for higher taxes, higher borrowing or "savage" spending cuts, rendering most of its pledges null. It is a Tory lie all right, but one that Labour is only too happy to affirm. Oh brave new world...



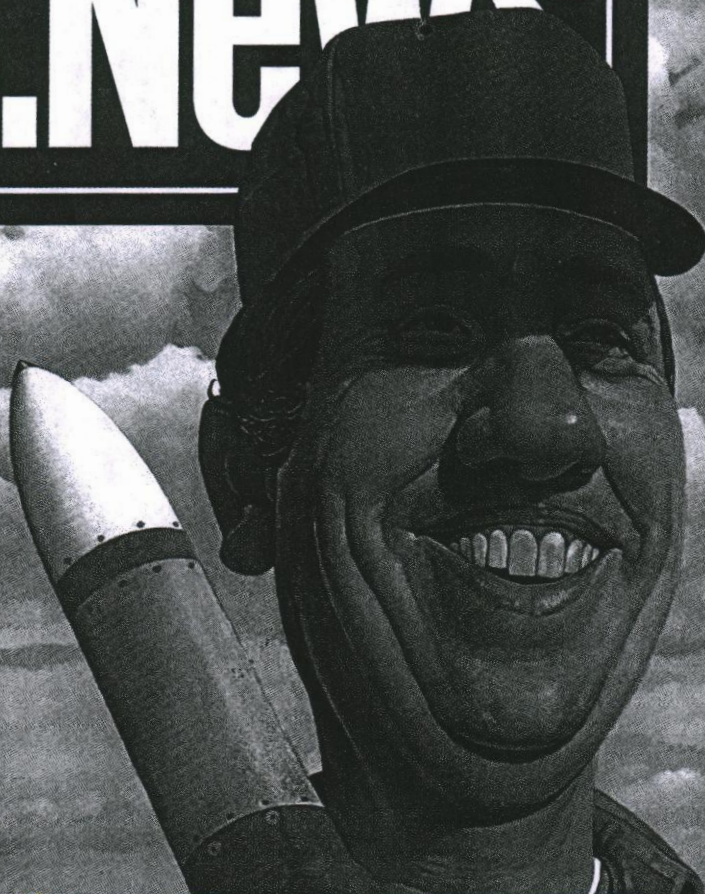
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U.S. News & World Report

DECEMBER 9, 1996 / \$2.95

Weapons BAZAAR

SPECIAL REPORT: How the U.S. military is selling off high-tech arms to foreign agents and people like you



To VP

THE PRESIDENT HAS SEEN
12-17-96

Cover story detailing
should talk to Perry, Cohen
about it

Is this a Rego project?

BC





WEAPONS BAZAAR

This Cobra attack helicopter was built from surplus parts. The Pentagon sells millions of them a year. Many fall into the wrong hands.

To the uninitiated, "military surplus" generally conjures up images of old web belts, clanky canteens and threadbare fatigues sold in funky stores at the edge of fading Army bases. But to a sophisticated few, it means something very different: aircraft, weapons and weapons parts worth billions of dollars. Most taxpayers don't know it, but every year the Pentagon declares all kinds of equipment—attack helicopters, rocket launch-

ers, even Stealth fighter parts—"surplus," or unneeded. Then, through a little-known network of sales offices at military bases, the stuff is offered for purchase to the highest bidder.

A three-month investigation by *U.S. News* in collaboration with CBS's *60 Minutes* has documented serious problems with the surplus sales program. Relying on internal Pentagon records, Customs Service documents and interviews with scores of federal agents and officials, the inquiry identified thousands of instances where weapons and parts that should have been rendered militarily harmless before sale were not, where weapons that should have been designated for destruction were not and where key weapons parts that should have been prevented from reaching foreign buyers were not. This system "on its best day is morally embarrassing to the government," says William Portanova, an assistant U.S. attorney in California heading a Justice Department task force investigating the program. "And it never has a best day. It is absolutely a disaster of the highest magnitude."

No Pentagon officials responsible for this program were willing to be interviewed on the record. These are the principal findings of the *U.S. News-60 Minutes* inquiry:

■ Foreign buyers are purchasing many of the Pentagon's high-tech surplus military parts and shipping them overseas, hiding them in seagoing containers under tons of metal scrap, seizure records show. Customs officials say Iran and Iraq are active buyers, but by far the biggest customer is China. Among the items seized from Chinese "scrap dealers" were fully operational encryption devices, submarine propulsion parts, radar systems, electron tubes for Patriot guided missiles, even F-117A Stealth fighter parts. Many of these parts, sold as "surplus," were brand new.

■ So overloaded is the Pentagon's surplus sales system that some offices responsible for disposing of the materiel have suffered significant breakdowns. At an Air Force base in Georgia, the Pentagon's surplus sales office lost track of \$39 million in materiel. Today, no one can say where the stuff went.

■ The sheer volume of surplus materiel generated by the Pentagon's downsizing is one reason for the system overload, but the modern Pentagon's insistence on profitability is another. Last year, the surplus sales system generated \$302 million, and it is one of the few Pentagon programs capable of covering its own costs. A Pentagon E-mail message written in April 1994 illustrates clearly the premium placed on profits by senior military officials. Authored by a top-level official and addressed to all surplus sales directors on the East Coast, the memo is blunt: "The work priorities at your sites as I see them are: 1. Profits. 2. Profits. 3. Profits. 4. Profits," the official wrote. Priority No. 6 on his list was "accountability." No. 7 was rendering lethal weaponry harmless.

■ Surplus Pentagon weapons are regularly traded away by Army and Navy museums scattered around the country, and some have been responsible for questionable if not illegal activities (story, Page 39). A federal law allows the museums to trade tanks, jet fighters, and attack helicopters to private citizens for other vehicles or "services." Two museums are under federal criminal investigations for such activities.

Within the cloistered world of the Pentagon, the problems of properly disposing of surplus weapons are nothing new, although the public has been kept largely in the dark. Surplus weapons sales are overseen by a Pentagon office called the Defense Logistics Agency, which manages all the military's supplies and equipment. The DLA has

■ SPECIAL REPORT

spent much of the past two decades trading barbs with the four military services about how to fix the surplus sales system. Progress has been virtually nonexistent. Nearly a decade ago, an internal memorandum signed by William Taft, then the deputy secretary of defense, leveled a startling charge. "A joint U.S. Customs-[Pentagon] investigation [has] confirmed," Taft wrote, "that the defense disposal system is a source of supply for arms traffickers." Since then the number of surplus weapons and critical parts has increased, and the problems have only worsened.

Guns and money. How much Pentagon weaponry is getting into the wrong hands is impossible to know, but it is happening, law enforcement officials say. When a Hell's Angels methamphetamine lab was raided in California last year, police also found military weaponry: three working machine guns and an M-79 grenade launcher. The grenade launcher was traced to a Pentagon surplus sales outlet in Crane, Ind. That same outlet had sold 70 of the launchers in 1989. Pentagon documents certified that the launchers had been

prosecutors who take on inquiries involving illegal surplus-weapons sales say they find the criminal justice system unable or unwilling to cope. "Whenever we tried to do something bold or aggressive, the bureaucracy at the Justice Department said 'No,'" said Jim Wiggins, a former U.S. attorney in Georgia who investigated surplus-weapons sales.

In theory, the system for surplus disposal is simple. Whether it is a part from a jet fighter or a pair of socks, once an item is designated as surplus, it is trucked to a warehouse-cum-sales lot known as a Defense Reutilization and Marketing Office, or DRMO. There all surplus items are checked in and sorted. Then they are offered free to other government agencies and to museums and nonprofits. What's left after that is sold to the public at auctions where buyers must submit sealed bids.

Before that can happen legally, however, weapons and weapons parts must be "demilitarized," or rendered militarily harmless. Machine guns, for instance, are "demilled"—the Pentagon term of art—by being cut into six pieces, reducing them to scrap metal. Many electronic parts are demilled by crushing or chopping—again, reducing

FLY AWAY HOME. Mike Nocton, a retired Navy captain, got this fully flyable A-6 Intruder for free and towed it to his Indiana hometown for display. Investigators question whether such giveaways should not be more closely monitored.

cut into scrap; in fact, only their firing pins had been filed down. In 1992, in Illinois, a man was sentenced to 41 months in prison for illegal possession of 10 unregistered machine guns; the man had bought the weapons through Pentagon surplus sales and welded them up to make them work. The weapons should have been mutilated so they could never work.

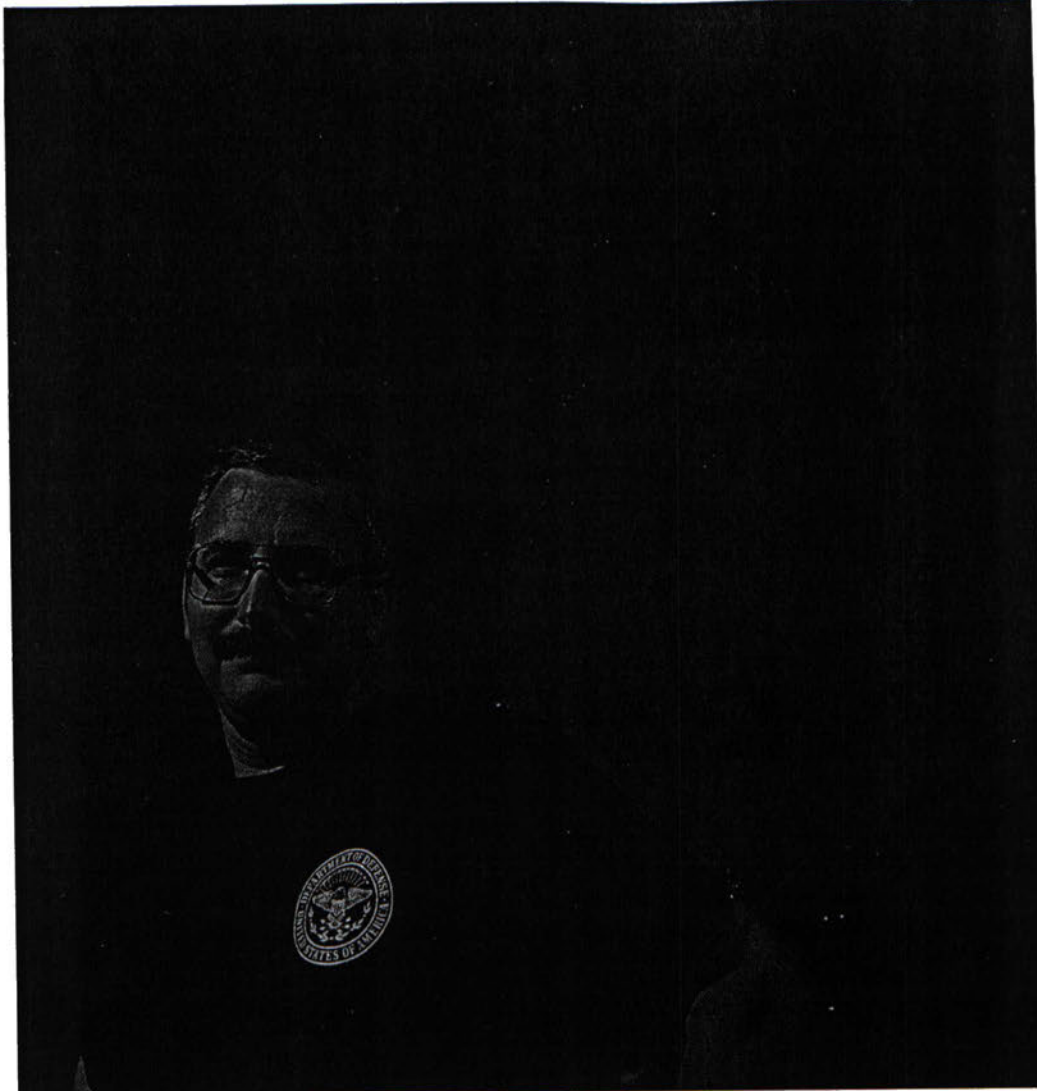
Smuggling is an even bigger concern. A 16-month Customs Service investigation that ended earlier this year resulted in the interception of surplus military parts worth \$157 million. Foreign countries can use these parts to resupply their own armies, to find out how American weapons work or to build their own weapons, avoiding years of costly development.

Despite a handful of successes prosecuting those who abuse the Pentagon's surplus sale system, federal officials who have tried to plug the holes in it are frustrated and angry. A few Pentagon officials have found themselves demoted or reassigned for being too aggressive. Federal task forces have been quietly disbanded with few results while

them to scrap. Some items—radios with military-channel crystals, for instance—can be demilled by removing key parts. In such instances, buyers get a functional piece of equipment but one that has no military application. Many items, like desks, require no demilitarization. Other things, like parts of military aircraft that have commercial use, can be sold in the United States without being demilitarized, but buyers must obtain licenses to ship them overseas.

How or whether something should be demilitarized is determined by its "demil code," which is normally assigned when a piece of equipment is purchased by the Pentagon. In theory, the codes should reflect how militarily sensitive an item is, and the code for a specific item should rarely be changed. Theory, however, has little to do with practice. Three years ago, for instance, a team of nine demilitarization experts went to Battle Creek, Mich., the home of the Defense Reutilization and Marketing Service. That office is the headquarters of the surplus sales program, responsible for the operation of the 170 DRMOs around the country. In Battle





THE INVESTIGATOR. Dave Barrington tried repeatedly to get his superiors in the Defense Logistics Agency to implement reforms in the surplus sales system, but despite the reams of evidence he amassed, his pleas were ignored. Barrington finally resigned in disgust.

Creek, the team reviewed the demilitarization codes on 2.6 million pieces of equipment in the 14 million-item inventory. The team found that 45 percent of the demilitarization codes were wrong and that about half the items were coded too leniently. This meant that weapons and weapons parts that should have been rendered militarily harmless before being offered for sale were not. Some .38-caliber revolvers, for instance, were coded demil "A"—the same as tables and chairs. Other, far more sensitive equipment was similarly miscoded, the team found. Electronics that guide bombs and aircraft gunnery, sensitive communication and navigation gear, cryptographic equipment, even hardware that allows U.S. fighter jets to jam anti-aircraft missiles—in those categories, the team found between 80 per-

cent and 90 percent of coding was wrong. In nine tenths of the errors discovered in this instance, the codes applied were too lenient.

Such mistakes have consequences. When Pentagon investigator Dave Barrington checked a DRMO outlet at Fort Benning, Ga., for example, he found three complete TOW antitank missile systems for sale. They were assigned a code allowing them to be bought by anyone in the United States. Says Barrington: "You can build yourself an army out of this stuff that's miscoded."

Defense Department officials blame the military services for the miscoding, since the services assign the codes. The services don't make coding a high priority because anything dealing with "surplus" is a far cry from their main mission, warfare.

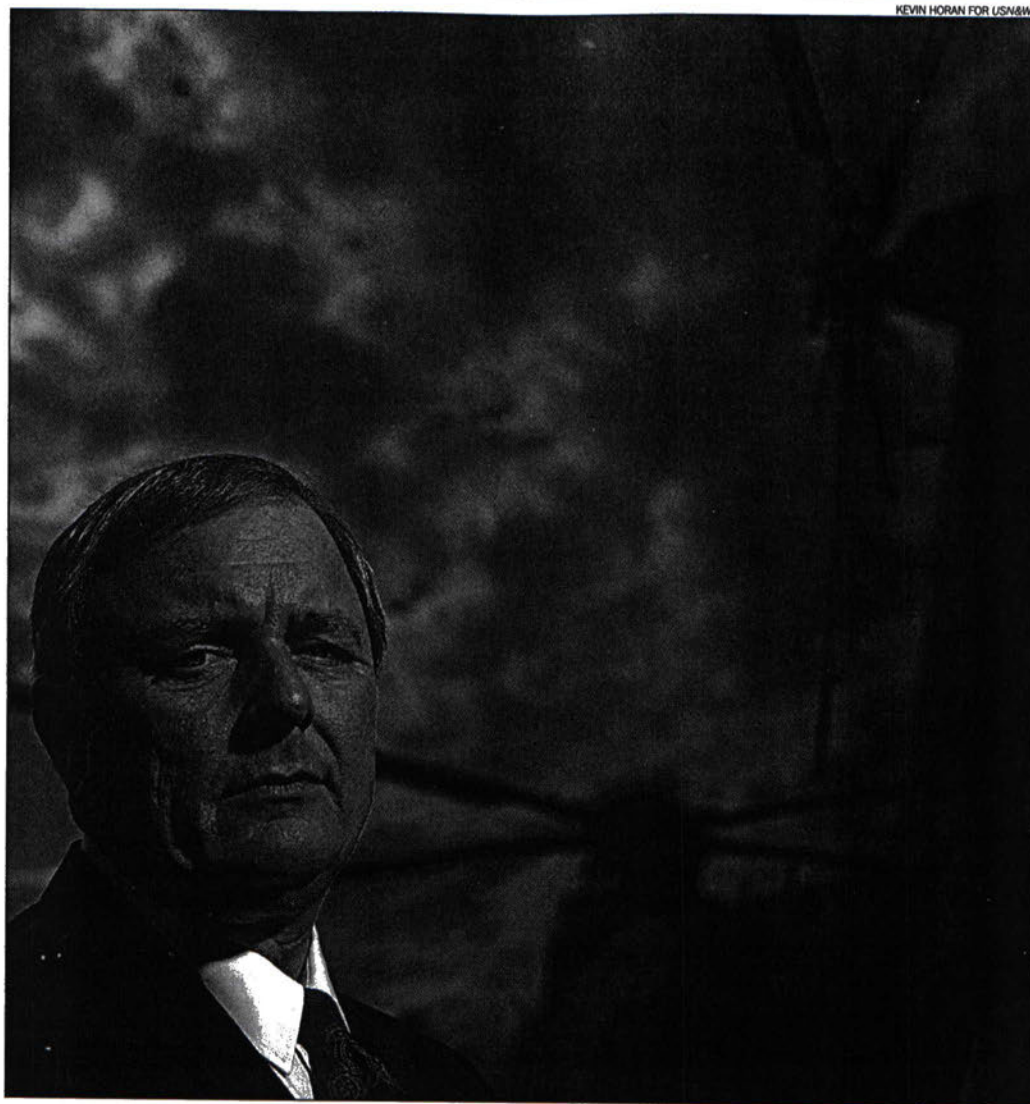
The profit motive is also a factor. The more fully-operational weapons the Pentagon sells, the more money it makes. And the Pentagon is interested in selling. To encourage sales, in fact, the Defense Department has set up a Web page on the Internet (www.drms.dla.mil) listing every piece of equipment that has entered the surplus inventory. Anyone with a computer can call up the listings, type in "missiles" or "bombs" or other hardware and see what's available.

U.S. News did just that. After browsing the Web site at length, a reporter gave Defense Department experts a lengthy inventory of items listed and asked them to verify that the demilitarization codes for each were correct. The experts found that dozens of items had been wrongly coded. "Bomb, gen. purpose," for instance, had been given the same demilitarization code as a desk chair—"A." Similarly miscoded were "sight, rocket launcher," "controller, missile," and "missile guidance set." All should have been coded "D"—for destruction. "This is the computer memory for a Tomahawk [cruise] missile!" one of the Pentagon experts exclaimed, pointing to one item on the re-

porter's shopping list. "This should be classified! This is the brains of the missile!"

Even when the Pentagon codes are correct, there is no guarantee that weapons and weapons parts will be demilitarized properly. Curt Murphree, a former Pentagon investigator, recalls one visit to a DRMO near Texarkana, Texas, where he watched a worker trying to cut through the gun barrel of an M-60 tank. "The poor kid had a cutting torch," Murphree recalled, "that couldn't cut hot butter."

System overload. At the Defense Reutilization and Marketing Offices around the country, workers and managers say they have been so overloaded with equipment from the massive military drawdown—in recent years, the DRMOs have taken in more than \$20



THE PROSECUTOR. Jim Wiggins served as the top federal prosecutor in the middle district of Georgia, where he investigated abuses of the Pentagon's surplus sales. "The way we handle this stuff so recklessly," he complains, "it's hard to pin anyone down or hold them liable."

billion worth of materiel annually—that the demilitarization process was bound to have problems. Easily the biggest occurred at Robins Air Force Base near Macon, Ga. So much property came into the DRMO there three years ago that the system collapsed, and workers lost track of \$39,784,198 in surplus equipment—about one fifth of their inventory. "The DRMO lost total accountability of . . . surplus property," an investigative board's report concluded.

Investigators assigned to examine the problems at Robins found that the Pentagon's DRMOs had developed what they called an "expedited processing" program. To speed things up, a Robins DRMO manager told investigators, she falsified demilitarization statements, registering weapons and other equipment as scrap that was later

made available for sale fully intact.

The problems at Robins raised alarms. One day in 1994, an Air Force investigator jogging on the base saw a surplus-parts dealer named Hobart Burton carrying an electronic device from the DRMO to his truck. The investigator looked into the truck, jotted down the stock number of the item and checked it later. He found that the device should have been demilitarized but had not been. Not long after that, a team of Air Force and Pentagon agents visited the Burton Electronics warehouse in nearby Montezuma, Ga., where they found more electronic weapons parts that had not been demilitarized. The agents retrieved a pile of weapons pieces and aircraft parts that had cost the government \$40 million when new. Burton said he had

bought most of the materiel from other dealers; investigators believe much of it was sold by the Robins DRMO as scrap—for 16 cents a pound. It is not illegal to buy surplus materiel that was improperly demilled, and Burton was not charged with any crime. He is now trying to get his money back.

The episode resulted in some surprising leads. Investigators discovered that a Chinese-owned scrap company was legally buying surplus materiel from Burton and from the Robins DRMO. Further inquiries revealed a score of Chinese dealers operating from coast to coast. Although no proof developed that they acted as agents for China, that did raise concerns. In a memo to his Chinese boss in California, the buyer in Georgia called Robins "the candy store." The base, he wrote, "will fill our needs into the next century," according to an investigator who has seen the note.

The Robins case had all kinds of reverberations. It led investigators to the discovery of a commercial listing service that offers thousands of military surplus weapons and weapons parts. The listing, called the Inventory Locator Service or ILS, is used worldwide by dealers in aircraft parts to advertise their inven-

tories. Surplus dealers also use it to advertise weapons and weapons parts, all of which is perfectly legal too.

Fallout. The echoes from the Robins case would eventually be felt clear across the country, in Montana, of all places. Ron Garlick is a straight-talking businessman who runs a thriving helicopter-repair business about 40 miles south of Missoula. Garlick had modified UH-1 Huey helicopters for logging and construction use. Since the Cobra was a sleek and powerful follow-on to the Huey, he thought it would make a good logger. Garlick obtained an FAA license to build one for logging, firefighting or movie-making purposes.

When armed, the Cobra is one of the deadliest military attack vehicles ever invented. Before it is sold as surplus, it must be demilitarized. The demilitari-

How codes control weapon sales



1. "DEMIL CODE" ASSIGNED

All items and their parts in the U.S. military inventory are assigned demilitarization (demil) code letters when they are purchased. The demil code determines what must be done to the item before it can be donated or sold to the public. The demil codes on weapons and parts are generally overseen by the military services.

2. ITEM SENT TO SURPLUS

Excess or outdated weapons and parts go into the surplus sales system. They are first offered to other government agencies and museums, then are sold at auction to the public.

3. THE CODES

An item's demil code should dictate the condition in which it is sold. Here are the possibilities:

CODE: A NO DEMIL
Items are sold "as is" to the public.

CODE: B NO DEMIL IN THE U.S.
License is needed to ship or sell overseas.

CODE: C KEY POINT DEMIL
Sensitive parts are removed; remaining item may be usable.

CODE: D TOTAL DEMIL
Item must be destroyed and sold only as scrap.

CODE: P CLASSIFIED ITEM
Classified parts must be removed or item destroyed.



USN&WR—Basic data: Defense Department's Defense Demilitarization Manual

once, I can rebuild it, and no one can stop me."

In September 1994, a flatbed truck pulled into the DRMO at Robins carrying three Cobra bodies that looked as if they had not been properly demilled. Air Force investigators questioned the truck driver, who said the Cobras had been purchased at a DRMO in Groton, Conn., and were headed for a warehouse in Joshua, Texas, owned by a man named Alan Sparks. "I don't know why you are so excited," the man reportedly said. "Sparks has 60 or 70 of these things."

Original crates. Sparks actually had 88 Cobra fuselages, which he hoped to use for logging. He also had

zation manual states that Cobra bodies must be cut into at least three parts and that their "airframe [must be] mutilated by destroying attaching structure by cutting, chopping, tearing, shredding, crushing or smelting to the degree that

aircraft will be unfit for repair or flight." Garlick and other helicopter builders, however, knew that usable parts were plentiful, even at DRMOs. Says Garlick, who has amassed a huge store of Cobra parts, "If they were built

the parts to go with them—the rotor blades, rocket tubes, gun pods, missile launchers, and weapons controllers, according to Pentagon records. "None of the items were demilled correctly," a Pentagon memo states. "Some items

DOLLAR DAYS

Missiles by mail

Buy a high-tech weapon or weapon part through the mail? It seemed crazy, but we thought we'd try. We first obtained a printout from a former Pentagon investigator of the weapons and weapons parts listed on the Inventory Locator Service, a subscriber-only computer database of equipment that aircraft parts dealers have for sale. While most of the 30 million things on ILS are airplane parts, it is possible to search the listings for weapons. Our search found more than 1,100 weapons-related items.

Using a non-U.S. News letterhead and a rented post office box, we wrote to 32 companies asking for price quotes on such things as Maverick antitank missiles, Sidewinder air-to-air mis-



WISH LIST. A computer database of aircraft parts also lists more than 1,100 U.S. weapons parts for sale.

siles, GBU-10 guided bombs, 40-mm grenade launchers, and flamethrowers. We also asked for quotes on high-tech parts, such as cruise-missile antennas, Hawk missile-launcher parts, night-vision scopes and cryptographic equipment.

Some of the items we asked for had been sold at Pentagon surplus sales. Some were listed as classified. All should have been demilitarized and most destroyed.

Eighteen of the companies responded with price quotes. We received no quotes on bombs and rockets—investigators told us that arms sellers typically prefer dealing with foreign governments or arms dealers. One company said it had bomb arming devices and a control box from an A-4 fighter. The company said it had bought the weapons at surplus sales but wanted to

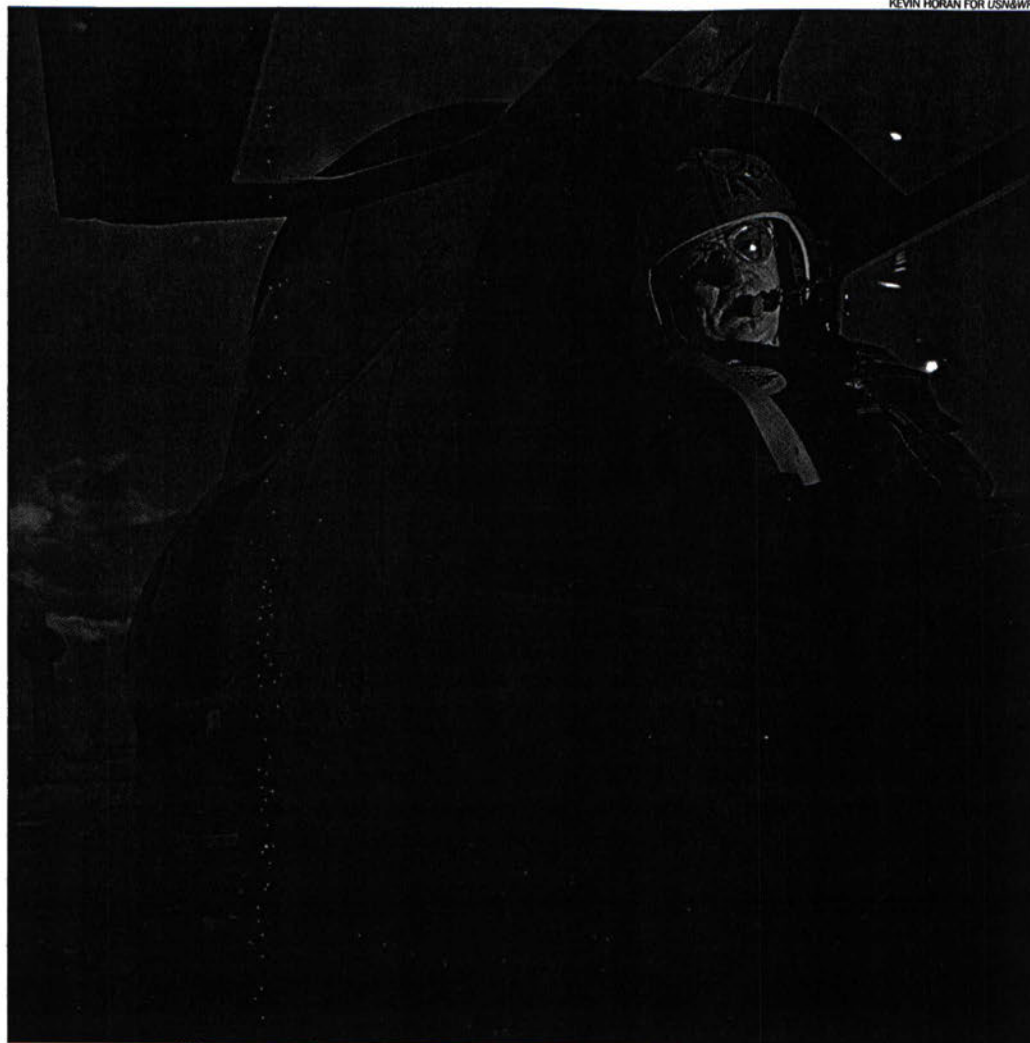
know more about us before selling. The company offering grenade launchers asked how many we wanted. When we said only one or two, they said, "Sorry, no price quote." A flamethrower we sought was for sale for \$5,000, but it was World War II era. We wanted something newer.

Our luck was better on the high-tech weapons parts. We got price quotes for 35 items. An antenna for a Harpoon cruise missile was \$9,625. A

bomb arming device could be had for \$375. A Cobra attack helicopter weapons controller was \$2,500 new, \$1,500 used. Tomahawk cruise missile parts were also available. The key part for a night-vision weapons scope, the image intensifier, was \$1,100. An electronic countermeasures test set, classified "confidential," could be had for \$9,780.

In the end, we ordered the night-vision image intensifier, the bomb arming device, an A-4 Fighter navigation circuit card and a missile navigation part that the Pentagon says should definitely be destroyed, not sold. Most arrived courtesy of UPS within a week. We bought the Hawk missile voltage controller over the counter in Texas for \$325 in cash, while we chatted with the clerk about that night's high school football championship game. As we left, the woman wished us a pleasant day.

BY PETER CARY



THE CHOPPER JOCK. Ron Garlick is building this Cobra in Montana from surplus parts. The FBI has identified 23 AH-1 Cobras in private hands around the country, but after seizing 88 Cobra fuselages in Texas, the Justice Department decided the law was too murky to go after the rest.

[were] in original packing crates."

Word of Sparks's covey of Cobras shocked Jim Wiggins, the top federal prosecutor for the middle district of Georgia, where Robins is located. A tall, sandy-haired man with a deliberate manner, Wiggins had won a Silver Star in Vietnam for piloting a Cobra gunship in a hazardous rescue mission. At the time of the Sparks discovery, Wiggins was overseeing something called the Middle Georgia Task Force, which consisted of military investigators and special agents of the Customs Service and the FBI. The task force had been set up after the \$40 million retrieval of property from Hobart Burton.

The other person upset by Sparks's Cobras was Ron Garlick, in Montana, who telephoned the Pentagon to see what was going on. The call was lateraled to investigator Dave Barrington. Garlick was concerned over the Sparks

seizures, he said, because he, too, was building Cobras—and he saw no reason to give his up. According to Barrington's notes, Garlick said he "had a significant amount of intact weapons and weapons systems." Garlick confirms this. "Mine was fully armed," he says of his chopper. "I had rockets on it and machine guns. I was out there shooting coyotes with them."

Garlick didn't want trouble. The government could have his Cobra weapons, he said, if they "want to buy them." Barrington finished scribbling his notes, thanked Garlick and hung up.

The fate of the Cobras would hang in the balance for months, as a bitter wrangle ensued inside both the Pentagon and the Justice Department. Investigators, federal agents, demilitarization officers and prosecutor Wiggins pushed for seizure of the Cobras. But the Army, which owns most of the chop-

pers, resisted, as did Col. Charles Masters, who was in charge of surplus disposal. Feelings ran so high that Wiggins hauled Masters before a grand jury. Masters says: "Quite frankly, I thought I was close to being charged. With what, I have no idea." Ultimately, Wiggins prevailed, and the government seized the helicopters and parts from Sparks. But as agents began to plan raids on Garlick and other owners of Cobras, the Justice Department brought all such seizures to a halt. The law that might authorize them was just too murky. On September 25 of this year, the FBI sent a letter to the Pentagon advising that 23 Cobras belonging to private citizens had been "discovered during several FBI investigations." (*U.S. News* has located two more.) Should the Pentagon choose to take "corrective action," the FBI letter advised, that would be agreeable to local U.S. attorneys. One senior Pentagon investigator calls this the FBI's "Pontius Pilate" letter. "They're washing their hands of the whole thing," he says.

Security threats. As worrisome as the Cobras may be to law enforcement,

agents say that the greater threat to national security is the shipping of weaponry overseas. In September 1994, about the time the flatbed-truck driver with the three Cobras was pulling into Robins, Pentagon investigator Curt Murphree got word that a California company named Cal Industries was loading 14 seagoing containers at the Pentagon DRMO in San Antonio. The contents were listed as 240 tons of electronic scrap. Murphree, who knew that the base processed lots of sensitive weapons equipment, got Customs Service agents to stop the containers and pry them open. What they found were thousands of top-secret encryption devices, hard-cased field computers used for sending coded communications, as well as classified radio transmitter-receivers. None had been properly demilitarized. There was also a pile of banged-up Wang computers, but many



THE ROAD WARRIOR. Investigators worry that small military museums may serve as improper conduits for surplus Pentagon weapons. Mark Sunday runs one such museum in Kenosha, Wis., and he says the worries are unfounded. He has purchased and rebuilt several U.S. tanks.

still had their hard drives, and two had 5¼-inch floppy disks in them. One disk was marked "Classified SCI" (special compartmented information). The other was marked "Top Secret, SCI. Contains Special Intelligence." Murphree checked and found that the equipment had come from the most secure sector of Kelly Air Force Base, known as "Security Hill." "None of this material," Murphree said, "should have ever left the DRMO." The equipment's intended destination was Hong Kong, a common transshipment point for goods bound for China. Kelly Air Force Base took it all back. No charges were filed against Cal Industries, which had bought the stuff legally. "Candidly," says former U.S. Attorney Wiggins, "the way we handle this stuff so recklessly, it's hard to pin anyone down or hold them liable."

For 16 months, U.S. Customs ran an

investigation that targeted surplus smugglers, says John Hensley, the special agent in charge of Customs Service investigations in Los Angeles. Dubbed "Operation Overrun," the investigation resulted in nine seizures of \$157 million worth of parts bound for China, Hong Kong, Vietnam, the Philippines, Taiwan and elsewhere. None of the items seized had been licensed for export. Included in their overseas-bound shipments were radar systems, electronic-warfare black boxes, and some bizarre items—10,000 new chemical-warfare-protection suits headed to Ukraine.

In one case, records show, 28 boxes of tank and howitzer parts, valued at \$800,000, were found buried inside a container beneath automotive parts. In another, bound for Shanghai, agents found 37 separate inertial guidance devices for the F-117A Stealth fighter and F-111 bomber. New, the devices had cost

the government \$21,759,400. The two Pentagon employees who were identified as responsible said they could not explain how the devices had been sold intact.

Of the many countries pursuing Pentagon surplus weapons, China is clearly running hardest. "China is the most aggressive country worldwide in the acquisition of military hardware," says customs agent Hensley. "Anything that seems to us to be mid-tech, or slightly out of date, is high tech to them. They can leapfrog R&D costs. They either reverse-engineer this stuff, or if they get enough, they just use them."

Operations. Customs agents are now convinced that a Chinese surplus-smuggling operation began as many as 15 years ago, when a flood of Chinese men and women entered the United States, established themselves as residents and then set up shop. Operating with little more than a fax machine and a bank account, they apparently form the lowest tier of the Chinese espionage network, agents say.

The buyers hunt surplus sales outlets for military electronic parts. When they find what they want, they bid high enough to be sure they get it. Bids of \$50,000 or \$100,000 for scrap are not unusual. Sometimes they buy huge

piles of scrap knowing that valuable pieces of electronics equipment are included, or they share purchases with legitimate scrap dealers. One dealer with Chinese affiliations, says investigator Barrington, "was the high bidder on every piece of scrap electronic equipment on the East Coast."

In a year and a half of intense investigation of these buyers, the Customs Service has never found a smoking gun—a written shopping list from overseas, or anything that could link particular Chinese scrap buyers to Beijing or its defense agencies. "I think the reason for that, besides good intelligence tradecraft, is that they don't need to communicate directly," says a customs agent. "These people have been doing this for 15 years. They know exactly what their country wants."

Last March, after 16 months of dogging leads, the Customs Service aban-

SPECIAL REPORT

done Operation Overrun. The agency had run out of time and money; the investigation had not been a spectacular success. Besides the \$157 million in seizures, only two criminal cases had been brought. A man named Richard Li had been intercepted smuggling sensitive electronic gear to Hong Kong and pleaded guilty to smuggling. A second man is currently under arrest, and his partner is on the run. Customs Agent Hensley says the investigation clearly put pressure on the network of Chinese traffickers. But he also is certain that once the pressure is off, the smugglers will resume their operations. "We definitely think they'll spring up again," he says. "The Chinese can get up to speed to buy the stuff again, and the U.S. is the biggest warehouse in the world."

One of the biggest listings of warehoused arms and arms parts can be found on a system called the Inventory Locator Service. ILS is a business located in Memphis. ILS offers a computerized classified listing to paid subscribers. About 3,000 aircraft-parts sellers and users worldwide subscribe to it, for a fee of several hundred dollars a month. The sellers list their inventories on the system, and buyers can scan the inventories as they browse for purchases. ILS President Bruce Langsen says the computer system is queried about 26,000 times each day.

Heavy-duty stuff. Pentagon investigator Barrington remembers vividly the first time he tapped into the ILS database. A former police officer and Army Criminal Investigations Division agent who won a Bronze Star in the gulf war, Barrington went to work for the Defense Logistics Agency in 1994. Back then, he thought he had a pretty good sense of the international arms market, but the stuff he saw listed in the ILS database disabused him of that. "I ran weapons, machine guns, flamethrowers and components of guided bombs," he says. "And immediately, I was getting hits!"

A printout Barrington made from his ILS visits is an eyepopper. It runs 26 pages, single spaced, and lists such items as AIM-9 Sidewinder missiles, GBU-10 guided bombs, Maver-

ick missiles, machine guns and grenade launchers. Virtually everything on the list should have been demilitarized, and probably destroyed—but it was all available for sale.

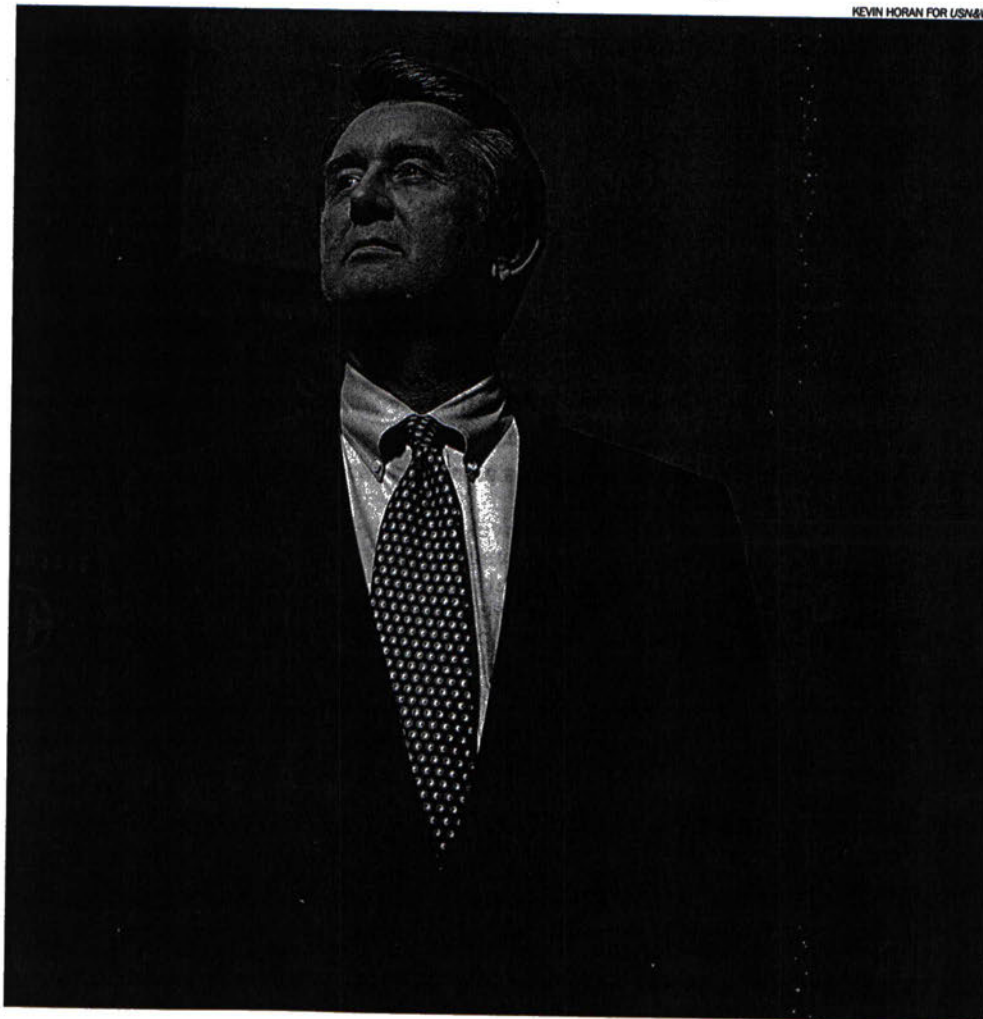
Curious to figure out where the stuff came from, Barrington began to check those items against sales at DRMOs. Checking more than 100 weapons parts advertised on ILS, he found that one fifth had been sold to surplus dealers in just the past three years. All were available in the United States. With more research, he came to believe that the heavy-duty weapons, the bombs and rockets and missiles, had probably been sold legally by the Pentagon to foreign governments, which then sold them as surplus. Brokers using ILS then offered them for sale.

Langsen, the ILS president, says he has provided law enforcement agencies access to his company's computer listings, but he did not know the details of

their investigations. Because there are 30 million items listed on the inventory, Langsen contended that searching for weapons is not easy. But when *U.S. News* gave him the stock number for a grenade launcher, Langsen was able to find it pretty quickly. "From what I have learned in the past 48 hours," he said, "we are going to need to find a better way of combing the database. We are not an armaments database, and we don't want to become an armaments database."

The *U.S. News* test of the ILS system shows how easily surplus weapons and weapons parts can be purchased by the public. Using a dummy letterhead, the magazine sent letters to many of the companies listing weapons parts on ILS, requesting price quotes and availability for a variety of weapons and parts. The sellers responded with price quotes for 35 items, ranging from bomb-arming devices to circuit cards

KEVIN MORAN FOR USNEWS



THE CUSTOMS MAN. In the course of a 16-month investigation, the U.S. Customs Service intercepted more than \$150 million in improper surplus weapons shipments. John Hensley, the top customs investigator in Los Angeles, says the Chinese are the most accomplished smugglers.

for nuclear submarines' targeting systems to the key components of night-vision scopes. *U.S. News* even bought some, and, with *60 Minutes*, went undercover to talk with surplus dealers. Several dealers said that in buying aircraft parts at DRMOs they often scooped up a lot of other hardware, such as weapons parts. They said they listed it all on ILS hoping that someone would spot it and buy it.

Some dealers said they wouldn't sell weapons or parts to people who seemed shady. Others admitted that the system had almost no controls. "I could sell this to you," one weapons dealer ex-

One part that Aviarms was selling was listed as an "F-117A fire control memory." Asked how Israel could have obtained surplus parts for the U.S. F-117 Stealth fighter, the manager checked his computer. Aviarms was brokering it for an Israeli company, which got it from a German company, he said. He could trace it no further.

Barrington was outraged by what he found on ILS. His last year at work was consumed with tracking DRMO sales of sensitive weapons parts and trying to get his superiors at the Defense Logistics Agency to take action. He sent E-mail after E-mail message up and down

of control of our vital defense technology and hardware, but I can't help but wonder after nearly two years of almost DAILY findings such as those above, why the government has not seen fit to attempt to recover ANY of the thousands of sensitive or classified items discovered via ILS." Barrington then quit to become a Baptist minister.

While no senior Defense Department official was willing to meet with *U.S. News* and *60 Minutes* to discuss these problems on the record, a group of knowledgeable middle-level Pentagon and Defense Logistics Agency managers met reporters and confirmed many of their findings. The officials quibbled with some assertions. For instance, they acknowledged that there has been pressure in the past to cut corners to sell surplus materiel, as evidenced by the "profits, profits, profits, profits" memo. But they also insisted that the new management at the Defense Logistics Agency is not profits driven. The officials blamed the four military services, which control most of the demilitarization codes, for writing the codes too leniently and for failing to change them when errors are pointed out. They said the DRMOs are no longer accepting items with demilitarization codes that had been phased out two years ago.

They also said some fixes are in the works. One of their main goals, the officials say, is to set up a centralized demilitarization code office, which will assign and control all the codes, and try to enforce them. The

first step toward that, they say, should occur next year. Investigations underway at two Pentagon museums could also result in tightening of the current rules allowing bartering of government aircraft for a variety of services.

If those steps happen as planned, they will clearly result in some improvement, but the problem is so great that it is difficult to say what real effect they might have. "The scope of this program and the amount of materiel going out the door is so huge, people normally don't believe you," says Portanova, the assistant U.S. attorney in Sacramento. "Only the government could have a program where they give everything away for free and they screw it up."

BY PETER CARY WITH DOUGLAS PASTERNAK
AND PENNY LOEB



TALKING SCRAP. A crane reaches into a heap of discarded weapons at Kelly Air Force Base in Texas. Investigators discovered all kinds of classified Pentagon electronic gear destined for shipment abroad that was sold at the base as scrap metal.

plained, "and you could sell it to someone else, and he could sell it to someone else." Another dealer wrote that he had the parts we ordered, such as a pilot's targeting screen, known as a heads-up display, for an F-16 fighter, and had bought them from a DRMO but wanted more information about our company before selling to us. Another offered to ship us a similar part, with no questions asked.

One company, Aviarms Support Corp. in Westbury, N.Y., had a different story. A manager there said the items the company advertises on ILS are held by Israeli, German and Dutch companies for whom it acts as a broker. Many of the U.S. weapons parts came from the surplus stocks of the Israeli and German militaries, he said. Had they been demilitarized? No, he said, they were all in good working order.

the command chain. "Below are a few examples of obviously Demil-required property offered" at DRMO sales, he wrote in August 1995: "Payload section, nuclear missile. Warhead components: DRMO San Antonio . . . Multipurpose display, F-117A Stealth Fighter: DRMO McClellan Air Force Base, California . . . F-111 Navigation and attack computer: McClellan Air Force Base DRMO . . . Heads-up display, F-111B fighter-bomber: DRMO Davis-Monthan Air Force Base, Arizona."

Barrington had the support of his co-investigators, and even some higher officials at the logistics agency, but little was done. There were no seizures, no attempts to recover the items. On June 5, Barrington sent a final E-mail to his bosses. "Nearing the end of the trail here. I know all of you are very concerned about the OBVIOUS total lack

To Leon / SUB

Fyl

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THE PRESIDENT HAS SEEN

12-17-96

CIGARETTES

IS BIG TOBACCO READY TO DEAL?

RJR's Goldstone hopes to lead the industry toward a compromise

For the head of a major U.S. tobacco company, they were revolutionary words. Cigarette makers "can't continue in public as kind of an outlaw industry," declared RJR Nabisco CEO Steven F. Goldstone in a Dec. 5 speech to executives in Boston. More than that, he continued, "a lot of forces are at work" favoring some broad settlement with industry adversaries. "In 1997," Goldstone proclaimed, "the most meaningful thing I can do is come to some solution on this problem."

Goldstone's remarks were the strongest that any major tobacco company executive has ever made in favor of making peace with the industry's enemies. In one bold stroke, the 50-year-old attorney stepped forward as the industry's leading proponent of compro-

mise, raising the possibility that Big Tobacco will offer to make a historic deal: accepting Food & Drug Administration regulation of tobacco in exchange for legal protection against future courtroom attacks.

The conciliatory stance helped push shares of RJR Nabisco Inc. and arch-competitor Philip Morris Cos. to new 52-week highs. No wonder. The tobacco industry has been mired for years in a Byzantine tangle of increased regulation and hundreds of liability suits from individuals and state governments. In August, investors were shocked when Brown & Williamson Tobacco Corp. suffered a landmark \$750,000 judgement in a personal-injury case in Florida. The threat of an asbestos-like courtroom meltdown, analysts say, has depressed share prices by 50% or more.

A broad settlement, then, "is what needs to be done. It's what the companies need to get back on track," says Jeffrey A. Altman, a vice-president at Franklin Mutual Advisors Inc. in Short Hills, N.J., a major tobacco shareholder. Despite makers' consistently superior profitability, courtroom battles are siphoning both management's attention and hundreds of millions in legal fees.

Resolution of future litigation also could help Goldstone fend off financiers Carl C. Icahn and Bennett LeBow, who are pressing for a spin-off of Nabisco. Some investors and analysts suspect that Goldstone may be initiating settlement maneuvers in part to counter the raiders' charges that he hasn't taken sufficient steps to boost share price. In fact, RJR Nabisco's stock has underperformed the market, in spite of improvements that Goldman, Sachs & Co. analyst Marc I. Cohen estimates will lift profits 14% this year, to \$860 million.

BALANCING ACT. Goldstone clearly is gambling. By holding out an olive branch, he risks appearing weak—inviting a new round of lawsuits or tempting adversaries to make harsher demands. But if there's one thing the experienced trial lawyer knows, it's how to float a peace offering while maintaining a show of strength. To keep the litigation dam from breaking, Goldstone is managing his public statements skillfully.

He first indicated his openness to a settlement in an interview with the London-based *Financial Times* in March, then backpeddled when news of his statements broke in the States. This time, he spoke at an out-of-the-way



and promotion restrictions aimed at reducing teen smoking. The FDA regs go into effect in August, but the industry is challenging them in a North Carolina federal court. Analysts think the industry will prevail—and then dangle its willingness to accept the regulations as a bargaining chip in later negotiations. If necessary, Goldstone is thought to be willing to accept permanent, but limited, oversight by the agency—a prospect the industry has fought for years.

In exchange, he hopes for a congressional guarantee that tobacco makers will be protected against future injury lawsuits—a shield potentially worth billions in saved litigation and settlement costs. According to several analysts who have spoken to sources inside the company, such immunity would not apply to pending cases, but it would protect manufacturers from suits filed after some selected date in the future.

Why isn't Goldstone interested in settling any of the pending suits filed against RJR by plaintiffs' attorneys and state attorneys general? Because he thinks it will be cheaper to continue fighting these opponents, according to Martin Feldman, a Smith Barney Inc. tobacco analyst. Given the industry's almost flawless courtroom record, Feldman says, Goldstone sees no reason to shell out the billions of dollars annually that plaintiffs' attorneys have indicated they are seeking from tobacco makers—especially if he can get some form of legal protection from Congress without doing so.

Philip Morris, with United States Tobacco Co.'s support, brought forth a more modest FDA peace treaty last May but failed to win any political backing. Now, says Gary D. Black, a tobacco analyst at Sanford C. Bernstein & Co., which holds large chunks of Philip Morris and RJR stock, executives at Philip Morris and United States Tobacco are more interested in a settlement than ever. "We continue to be amazed at the

180-degree turn within the industry, embracing the concept of a legislative settlement," Black wrote in a Dec. 11 report. Philip Morris wouldn't comment.

There still is widespread disagreement in the industry about how a deal should be structured and pursued. For example, some execs at Philip Morris and other tobacco companies fear it will be politically impossible for the industry to win congressionally guaranteed immunity from lawsuits. According to David J. Adelman, a tobacco analyst at Dean Witter Reynolds Inc., some members of this group are willing to accept the proposed FDA rules in exchange for a promise that the FDA won't take permanent jurisdiction over tobacco. Instead, they would be willing to submit to the oversight of the Federal Trade Commission, which is authorized to review some advertising issues. These execs note that the FTC doesn't concern itself with health issues and is considered friendlier to business than the FDA.

UNDER WRAPS. Details of the status of settlement negotiations are sketchy. Because of the sensitivity and complexity of the discussions, the parties are certain to try to keep any talks under wraps. Goldstone told BUSINESS WEEK that while he "is going to do things" to bring about a resolution, it would not "help the result come about" by discussing it publicly. Key players in the health community and Congress deny they have been contacted by the industry.

Black thinks the industry will attempt to cook up a deal behind closed doors, then try to get a friendly member of Congress, such as Trent Lott or House Commerce Committee Chair Thomas J. Bliley Jr., to sponsor it. But on Dec. 9, Bliley was pessimistic about a legislative resolution. "You are not going to be able to move legislation unless the Administration signs on," he says.

There are, indeed, plenty of reasons to be skeptical that a deal will succeed. For starters, it's not clear that rivals

breakfast gathering of CEOs at Northeastern University—but in a subsequent interview with BUSINESS WEEK, he refused to offer any details (page 34). With such cautious communications, Goldstone has put the issue of a compromise in play without stoking fears of industry vulnerability—a perception that caused tobacco shares to plummet after Liggett Group Inc. announced its settlement of addiction suits in March.

According to sources inside and outside the company, as an opening offer, Goldstone is willing to agree to most, if not all, of the FDA's recent advertising

WHAT THE TERMS MIGHT BE

RJR Chief Steven Goldstone is hinting that an agreement to resolve legal and regulatory issues could be negotiated. Here's what he and other industry execs are thought to want:

NO PROHIBITION

Cigarette makers, fearing that regulators' ultimate aim is to outlaw their products, seek a congressional guarantee that the production and use of tobacco in the U.S. will remain legal.

IMMUNITY

The companies want legislated protection from injury lawsuits filed after a certain date. They see such protection as the only way to remove the uncertainty depressing tobacco stocks by 50% or more. Currently pending liability suits, however, probably would not be affected.

FDA JURISDICTION

Manufacturers are willing to agree to the terms of recently approved FDA rules aimed at preventing teen smoking, which they are now challenging in federal court. Tobacco may also be willing to accede to permanent agency oversight on such issues as marketing.

such as Philip Morris and RJR will be able to agree on a plan. RJR failed to join Philip Morris' earlier compromise proposal, though, in a sign of conciliation, Goldstone now goes out of his way to praise the Philip Morris plan.

Even if manufacturers can reach agreement on terms, they will have a hard time stiff-arming the politically powerful plaintiffs' attorneys, who fear

that any legal protection for manufacturers will limit their ability to win money in current suits. Most industry experts expect plaintiffs' lawyers to succeed in forcing the industry to settle current cases as part of the broader resolution—creating a mammoth challenge for the companies in determining how much money to fork over. The next hurdle: the health community,

which also has the clout to block a deal.

But for RJR Nabisco, the alternative may be worse: the bloodiest litigation war in history and years of continued pariah status. Given such a prospect, it's hardly surprising that Goldstone wants to strike a deal now.

By Mike France, with Lori Bongiorno in New York, John Carey in Washington, and David Greising in Atlanta

'THE INDUSTRY IS WILLING...TO REACH COMPROMISES'

A year ago, Steven F. Goldstone took over as chief executive at RJR Nabisco Inc. Since then, while fending off litigation and raiders, he has recast management and lifted profits by an estimated 14%. *BUSINESS WEEK's* Lori Bongiorno and Mike France spoke with Goldstone on Dec. 9.

Q: RJR is still under pressure from Carl Icahn and Bennett LeBow, who want a spin-off of the company's food unit. Why are you resisting?

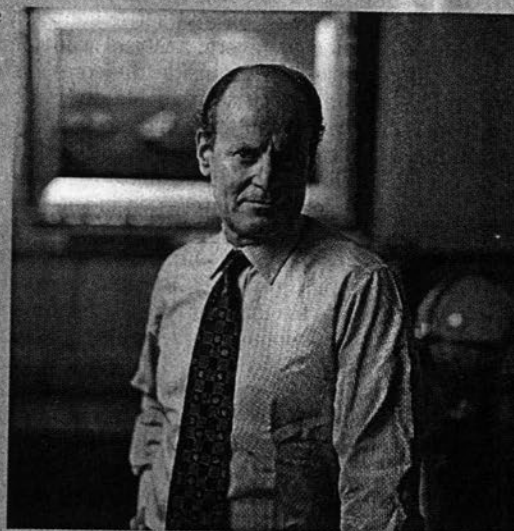
A: Our board has come to a judgment that although a spin-off might be in the interest of our shareholders, it will only be in the interest of our shareholders if done at the appropriate time. Simply put, now is not the appropriate time.

Q: Can RJR survive these continuous attacks?

A: I'll tell you something. I think one of my greatest accomplishments this year is that I've proved not only that we can survive these attacks, but that we can thrive in this environment. I don't waste my time thinking about Ben LeBow and Carl Icahn. Both of them are, frankly, astoundingly irrelevant to this company and to our shareholders.

Q: [In a Dec. 5 talk] in Boston, you mentioned that you believed that you'll soon come to reasonable ground on a tobacco industry legislative settlement.

A: I proceed from the assumption that tobacco is an important product in the U.S. and around the world. It is not going to go away. So it makes sense for political, economic, social, and other forces in this country to focus on [deciding]



RJR CEO STEVE GOLDSTONE

"I don't waste my time thinking about Ben LeBow and Carl Icahn. Both of them are, frankly, astoundingly irrelevant"

how to accommodate a legal product that's enjoyed by millions of Americans but that is, admittedly, quite controversial. This summer, Philip Morris proposed an innovative and far-reaching legislative proposal regarding youth access. That proposal unfortunately went nowhere, probably because it got lost in election-year politics. But it demonstrates that the industry is willing to attempt to reach compromises and address real concerns.

Q: Do you support Philip Morris' proposal?

A: I'm really not directly focusing on that proposal right now because nobody is considering it. But I will tell you this, it certainly merits more discussion.

Q: Does it make sense for the industry to agree to increased regulation in return for immunity from litigation?

A: That kind of thing has the ring of sense to it. Although it makes sense in a theoretical way, it's difficult [to implement].

Q: In Boston, you mentioned that a lot of forces right now favor a settlement.

A: I think you've seen some innovation and flexibility from the industry, and President Clinton has indicated an interest in the subject and an interest in getting a resolution. You saw the rumors over the summer that at least some of the [states'] attorneys general are interested in [addressing] the policy issues.

Q: Is a resolution desirable?

A: I have been fairly clear that I believe a resolution of the basic controversy is in the interest of our shareholders.

Q: Is the company taking any steps to bring this about?

A: If it is a priority of mine—and it is a priority of mine—I am going to do things to try to have that result come about. But I'm not going to help the result come about by talking to you about it.

Q: All the distractions aside, what are RJR Nabisco's prospects for next year?

A: We have management in place. We've got Nabisco humming, and we've got our international tobacco business growing at a very nice rate. We're going to focus on our domestic business, on getting good returns for our shareholders, and on all the external events. I expect 1997 will be a year of good results.

THE PRESIDENT HAS SEEN

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12-17-96

OLDAKER, RYAN, PHILLIPS & UTRECHT

ATTORNEYS AT LAW

818 CONNECTICUT AVENUE, N.W.
SUITE 1100
WASHINGTON, D.C. 20006(202) 728-1010
FACSIMILE (202) 728-4044

MEMORANDUM

To: TG President
- no new requested
- Let's discuss if
you want to -
Hand
Hendley
Boc

TO: Harold Ickes

FROM: Lyn Utrecht *Lyn*

'96 DEC 16 PM5:22

RE: FEC Matter Regarding Presidential Democratic Convention
Travel

DATE: December 16, 1996

The Republican National Committee filed a complaint against Clinton/Gore related to the pre-convention train trip in November. Our response is due December 16. The FEC has made no findings with regard to the complaint and is not presently conducting any investigation. I do not believe there is any merit to the RNC complaint. The train trip will be scrutinized by the auditors during the audit, and I would not be surprised if the FEC simply fails to act on the complaint until such time as the auditors have had an opportunity to review our payments for the trip. The auditors may quibble over some of our allocations but I do not anticipate any significant issues arising from the train trip.

If you would like any further information, please let me know.

THE PRESIDENT HAS SEEN

12117196

ENTER THE TALIBAN

Sandy B

very interesting
BK



The road to Koranistan

The reasons for worrying about what has happened in Afghanistan

OF THE two bloody episodes that disfigured south-western Asia a week ago, the fighting between Israelis and Palestinians won far more headlines than the capture of Afghanistan's capital by a murky army of Islamic militants who call themselves the Taliban, "the Seekers". Yet what has happened in and around Kabul is much the bloodier of the two stories, and it may matter at least as much to the rest of the world. Afghanistan is the third country to pass into the hands of an Islamic-revivalist government in the past 17 years, after Iran and Sudan; and the Taliban's victory in Afghanistan is the first to have been achieved by straight force of arms. This is not a purely local affair. Its causes lie, in part, outside Afghanistan; so, quite possibly, will its consequences.

Afghanistan suffers from being a poor country that sits on an important part of the map. It produces some gas, quite a lot of heroin, a few emeralds and not much else of interest to outsiders. But it lies very close to several energy-rich countries, and on what should be a trade route from Russia to the Gulf and India. Other countries have been interested in Afghanistan ever since

the Great Game between 19th-century Britain and Russia; and the game, almost certainly, is not over.

The Taliban had their origins in the chaos which outsiders' manipulation of local politics has created in Afghanistan. When the Soviet Union in effect took over the country, from 1979 to 1992, the Americans sent the aid they provided for the resistance through the Pakistanis. The Pakistanis feared that a single Afghan resistance group might acquire the independence that the Palestine Liberation Organisation had won in its own part of the world. They therefore sent their money into seven different grouplets, which became rich, well-armed factions. The policy worked well for the Pakistanis; for the Afghans themselves, though, the consequences were not good.

The Russians' eventual withdrawal was followed by civil war. The two strongest parties—the moderate Islamists, under Burhanuddin Rabbani and his military commander, Ahmad Shah Masoud, and a fundamentalist alliance run by Gulbuddin Hikmatyar—fought for Kabul for three years. The rest of the country was run partly by their parties, partly by others. But gov-

ernment, such as it was, lay in the hands of local commanders, who collected "taxes" and meted out punishment with varying degrees of corruption and brutality.

The Kabulis probably had the worst of it. Their city, which had survived the Russian occupation reasonably well, got shelled to ruins. But things were pretty bad in much of the rest of the country, too. Most Afghans could not understand why, once the hated Russians had gone, they could not have peace. One large grievance was the difficulty of travel. At least the Russians had kept most of the main roads open. But, once the civil war started, men with guns were stopping travellers and demanding money every few miles. Rahimullah Yusufzai, a journalist from the Pakistani city of Peshawar, counted 42 such "check-points" on the three-hour drive from Spin Buldak to Kandahar. Trade grew harder, goods scarcer, prices higher: and ordinary people got steadily angrier.

In the summer of 1994, a convoy was stopped by bandits on the road north of Kandahar. The convoy's owners, influential Pakistanis, begged their government to do something. The Pakistani government could not intervene openly. Instead, it encouraged a band of Afghan students studying in the *madrassas* (religious schools) run by the fundamentalist Jamiat-e-Ulema Islam on the border with Afghanistan to organise themselves for action.

About 2,000 students went to Kandahar and got the convoy back on the road. At the same time, the story now goes, they heard that two girls, refugees from Herat, were prisoners of a local commander, and were ill-treated. They freed them. That may be part of the legend that has grown up around the people many Afghans see as their saviours. The fact is that the Taliban did then go on to capture Kandahar, Afghanistan's second-largest city.

The zig-zag to Kabul

Their arrival was welcomed by most of the city's people. The Taliban were themselves mostly Kandaharis; the man who had been in charge of the place, a member of Mr Masoud's party, was corrupt and detested. The locals' enthusiasm doubled when they saw how this latest lot of gunmen behaved. They cleared the bandits off the roads and, instead of slaughtering their opponents, merely disarmed them. Their message seemed simple and appealing: peace, order and Islamic law.

From Kandahar the Taliban moved north-eastwards, and in February 1995 they took Mr Hikmatyar's base outside Kabul,

ENTER THE TALIBAN

from which he had been attacking Mr Rabbani's government. That brought a pause in the shelling and a brief respite for the Kabulites. Mr Hikmatyar eventually moved into alliance with his former enemies. The Taliban failed to take Kabul, and moved on instead to the north-west. In September 1995, they took Herat.

They were less popular in Herat than in Kandahar. The Heratis are Persian-speaking sophisticates, and Herat is a trading city, a cosmopolitan place where many women have an education and work and dress fairly freely. The arrival of the Taliban was regarded as an invasion by Pathan peasants. The sophisticates were shocked when the city's men were summoned to the city's sports stadium. A young man said to have shot two members of the Taliban was hanged from a crane while loudspeakers blasted out Koranic slogans.

In August this year, the Taliban moved on Kabul again. Bringing truckloads of well-equipped men from over the Pakistani border, they captured Jalalabad on September 11th and in the last week of September attacked Kabul. Mr Masoud seems to have pulled his men out when it looked as if the Taliban were about to cut the last road to his base in the Panjshir valley.

How, from a band of 2,000 students, did the Taliban grow strong enough to take over the country within a mere two years? They did not start off with much of an armoury; they had little more than the usual Kalashnikovs when they first came over the border from Pakistan. They had the good fortune to capture one of Mr Hikmatyar's ammunition dumps near Kandahar, soon after they began their campaign. But their chief source of arms was most Afghans' hostility to the local warlords. In town after town, armed men deserted their leaders and joined the Taliban. Desertions brought weapons: the Russians had left behind a heavily-armed country. As the Taliban went along they picked up guns and mortars, tanks and even aircraft.

They have not yet, it is true, been put to a serious military test. The country has for the most part fallen into their hands. Nowhere have they been required to fight a major battle against a really modern sort of army. Nor have they yet developed a nationwide political structure. When they take a town, they set up a *shura* (assembly), made up of the most senior Taliban members in the area plus any ex-enemies they have done deals with and any religious or tribal figures important enough to warrant inclusion. Each *shura* makes laws and collects taxes locally: there has been no co-ordination at a national level. The Taliban have now set up a provisional government for

the whole of Afghanistan, but it has yet to impose its authority on the local *shuras*.

The Taliban's leader, Mohammed Omar, is a mullah from Kandahar who lost an eye during the war against the Russians. In 1995, the *shura* in Kandahar declared him to be *amir ul-momineen*, "leader of the faithful", a title which gives him huge authority over dutiful Muslims. His men made one thing brutally clear as soon as they entered Kabul, when they strung up the mutilated body of ex-President Najibullah, a man who used to run the place for the Russians, whose United Nations protectors had abandoned him. In other towns where Taliban rule has been established the *shuras* have taken a similar attitude towards justice. They are both accuser and judge; hands and feet are chopped off for fairly minor offences; exe-

speakers in Kabul and the north and west of the country.

There may also be problems between the Taliban and Afghanistan's Shia Muslims. The Taliban are fiercely Sunni (the more orthodox version of Islam followed by most Muslims), but Afghanistan has many Shias. One Shia leader, Abdul Ali Mazari, has already died at Taliban hands. It is not easy to assume even inter-Muslim tolerance from the Taliban.

The Pakistani connection

Two main questions arise out of all this. Are the Taliban an indigenous or a foreign product? And will the consequences of their success be limited to Afghanistan, or will its effects spread abroad?

The Taliban have a better claim to widespread local roots than either the Soviet-backed governments of 1979-92 or the decrepit regime that has just been ejected from Kabul. But they might never have come into existence had it not been for the Soviet occupation and the West's reaction to it. And they have undoubtedly had a helping foreign hand. No attempt has been made to prevent them getting supplies from Pakistan, or moving armed men to and fro across the border. Fuel, on which the Pakistanis are supposed to have imposed an embargo, seems to be no problem for them. There are reports that trained Pakistanis have been helping them to use some of the more sophisticated ex-Soviet arms that fell into their hands. And they have remarkably smart satellite telephones, which somebody paid for.

Why would Pakistan want to support them? Well, backing the Taliban was the best available way to undermine the government of Mr Rabbani, which Pakistan's rulers disliked because they suspected his people of acts of terrorism in Pakistan. The Taliban's loudest supporter in Pakistan, its interior minister, Naseerullah Babar, happens to be, like most of them, a Pathan.

But the largest part of the explanation for Pakistan's support was the prospect that the Taliban would reopen Afghanistan's roads. Pakistan's businessmen want to get into the expanding markets of central Asia. They fear that Iran, which has been busily signing up joint ventures with central Asian countries, has been stealing a march on them. The Taliban, they hope, will bring the order that lets them get on with their business. And, so far, the Taliban seem to be doing just that. In most of the areas they have taken over, roads are opening, trade has resumed, tax-collection has been regularised by the *shura*, business has picked up—and prices have fallen.

Pakistan is also keen on an American-Saudi scheme to build an oil-and-gas pipe-



cutions are carried out in public.

Other things have got tougher, too. Television, and the public playing of music, are banned, as is playing football in shorts. Since taking Kabul, the Taliban have declared that all government employees must grow a full beard within six weeks, and that anybody who does not pray five times a day is an infidel. And strict purdah is enforced everywhere the Taliban go. Women have been banned from working or from going out of their houses unless accompanied by a male relative. Girls' schools have been closed. By comparison, neighbouring Iran is relatively liberal, and people in Herat are sending their daughters over the border to get an education.

These rules are not ones that most Muslims would support. They have emerged from the laws of the Pathan tribes that live along the mountainous Pakistani-Afghan border, where most of the Taliban come from. Pathans are governed by a strict code, the *pakhtunwali*. Imposing Pathan traditions by law may be acceptable among Afghanistan's Pathans (who make up around 60% of the country's population) but it sits ill with the often better-educated Persian-

ENTER THE TALIBAN

line from Turkmenistan through Afghanistan into Pakistan. Unocal, a Los Angeles-based oil company, and Delta Oil, a Saudi Arabian group, had proposed a pipeline that would follow the Herat-to-Kandahar road and cross into Pakistan near Quetta. So long as Afghanistan's civil war went on, nobody was going to put money into that. Now, perhaps, it is a serious project.

It is less clear what the United States feels about the Taliban. One argument says that, since Pakistan has long been America's friend in the region, its allies must be America's allies, too. The Americans are worried about Iran, not only because Iran is said to help assorted terrorist groups but also because it competes with Pakistan for influence in central Asia; and so they would like to assist Pakistan to expand its sphere of influence into Afghanistan, thereby helping to hold Iran in check. The Americans also raise an eyebrow about the fact that Russia had been arming Mr Rabbani's government (yes, the one-time resistance movement against the old Soviet-backed regime: the ironies are endless).

There is no known evidence that the Americans have helped the Taliban. Still, for a bunch of people who advertised their takeover with public hangings, and threaten to confine half the population to their homes, the Taliban have been given a polite American welcome. The State Department says it wants early talks with Taliban leaders, and admits "on-going contacts for the past couple of years". A Taliban delegation has already met Robin Raphel, the assistant secretary of state for South Asian affairs. The State Department says the Taliban do not seek to "export Islam", just to "liberate Afghanistan". Bliethe words, still to be tested by events.

The spillover risks

Which raises the second question: can the Taliban bring peace to Afghanistan without causing trouble for other countries?

They do not yet control the whole of Afghanistan. Abdul Rashid Dostum, a general who used to work for the communists, still controls a stretch of land up to and including the Salang tunnel, which gives Kabul access to the roads to central Asia. Neither Mr Masoud nor Mr Hikmatyar tried to unseat Mr Dostum, whose well-equipped troops get help from Uzbekistan. Having seen what the Taliban can do to ex-communists, Mr Dostum and his men will not be in a hurry to put down their weapons. There is also Mr Masoud, in the Panjshir valley. The Taliban say they plan to attack him; but even the Russians never managed to force their way into the Panjshir.

The Taliban, still groping for some sort of all-Afghanistan organisation, may anyway not present a united front for very long. History suggests that when Pathans are not fighting an outside enemy they fight



It's nobody's carpet but the Taliban's now

each other. The Pathans are a people divided into many tribes, and these tribes sub-divide into clusters of smaller clans. Cohesion does not come easily to them. If cohesion now fails again, the Taliban's moment of power could prove to be brief.

If a Taliban government does survive, on the other hand, Pakistan may have cause to worry about what it has helped to create. The glue that holds Pakistan's various provinces together is far from strong, and Pakistan's own Pathans may start to think they are more at home with Afghanistan's Pathans than with Sindhis or Punjabis.

The Taliban may also worry Pakistan on religious grounds. Their anti-Shia sectarianism could worsen the Sunni-Shia enmities that have broken out in Pakistan over the past couple of years. The world's journalists virtually ignored a particularly brutal Sunni-Shia fight that took place last month among Pakistan's Pathans, near Parachinar in the North-West Frontier Province, started by a row between Sunni and Shia schoolchildren. The fighting, says the Pakistani government, killed 105 people; local reports say that 500 people died.

The Taliban are trying to calm such fears. "We do not want to send people to make trouble in other countries," said Mohammed Stanakzai, the provisional government's deputy foreign minister, on October 1st. But the Taliban's convictions may collide with their interests.

They have said, for instance, that their Islamic beliefs require them neither to use drugs nor to profit from them. But Helmand, an area they have had under their control for over a year, is a poppy-growing centre, and there is no sign that they are preventing the farmers there from growing their usual crop; they have, indeed, standardised the opium tax, at 10%. The United Nations Drugs Control Programme, which

monitors heroin production, estimates that Afghanistan will produce 2,248 tonnes of raw opium this year, compared with 2,066 last year. If the Taliban want money, here is one way of getting it that could lead to arguments with the outside world.

There are other possible causes of contention. "They're expansionist," says a journalist who has travelled extensively among the Taliban. "They often talk of their desire to spread their beliefs to Pakistan, Central Asia, the Middle East." That will worry Russia, Turkmenistan, Tajikistan and Uzbekistan; their leaders called a meeting about it for this Friday. It will also cause alarm in largely Shia Iran, and one band of Muslim revivalists will find itself glaring at another for purely intra-Islamic reasons.

The United States has learned the dangers of taking Islamic warriors under its wing. The "Afghanis"—the Afghans and other Muslims who were trained to fight against the Soviet occupation of Afghanistan—have come back to haunt America. A forthcoming book by John Cooley, an American journalist, points out that Afghanis tend to turn up wherever a guerrilla war with Muslim connections is being fought. They have joined the fight in Bosnia as well as the civil wars in Egypt (where a group of them are currently on trial), Algeria, Kashmir and the Philippines; in that country, an Islamist guerrilla movement is called Abu Sayyaf, after one of the Afghan guerrilla leaders. The World Trade Centre bombers, and those convicted in Saudi Arabia of a bombing in Riyadh last year, had Afghani connections.

Many of the Taliban came out of the camps where the Afghanis were trained. Maybe an uncommonly ferocious civil war has taught them to value peace. It would be unwise to take that hope for a fact.

DATE: 12-17

~~TO: [scribbled out]~~
TO: Made Henning

FROM: Staff Secretary

Pat wants this
young woman to ~~be~~
spend her internship
at White House this
summer. Can you
follow up? Bob

cc: Bob Nash

Look at article
says she's working
for or with the
mexican - And
we can get her then

THE WHITE HOUSE

WASHINGTON

December 13, 1996

Shana Lovell
206 South 29th Street
Ozark, Arkansas 72949

Dear Shana:

Congratulations on winning the Rhodes Scholarship! I was so happy to see that you won this great honor -- I understand you are a remarkable young woman.

Almost thirty years ago, I, too, was a young Arkansan at Oxford, and the memories of those two years are among the most cherished of my life. I hope the experience will be as good for you and that you'll take advantage of all that it has to offer.

Sincerely,

Bill Clinton

I hope to see you
this summer

Shana Lovell: From Ozark to Oxford

By next fall, Shana Lovell, one of the new class of Rhodes Scholars, will make the long voyage from Ozark, Arkansas to England's prestigious Oxford University.

Along the way she has dealt with a father who didn't want her to go away to school, challenged stereotypical ideas about women's roles and coped with financial challenges.

In 1993, she graduated number one in her high school class of 96 in tiny Ozark, pop. 3,500, a town where only 10 percent of the population had a college degree. Hard work, a sharp intellect, and a series of scholarships and part-time jobs have helped her make it through college.

Shana, now a 21-year old senior chemistry major at the University of Arkansas at Little Rock, decided by age 9 she wanted to go to college, and in her early teens knew she "wanted to make a difference." She grew up in a culture where, she says "I was expected to make a career choice that would allow me to stay at home and be a good mother."

Shana's rural background includes memories of visiting her great-grandmother, who lived "up on the mountain" in a home that included wood-burning stoves and an outhouse.

Her intelligence was marked early. In the eighth grade, she was unable to go to school for several months while recuperating in a body cast from a broken femur. Teachers would send three weeks of work assignments to her at home. "I sent them back completed in three days," Shana recalls, "because the pain made it hard for me to sleep at night, so I did my homework."

Her father didn't like the idea of her leaving home to go to college; he wanted her to go to a small college nearby and live at home. When she opted to move to Little Rock, he told her "You're on your own."

Her high school 4.0 grade average dropped in college - to a 3.98. She received a B in a biology of cancer course during a 21-credit hour semester while she also worked part-time and did community service work. "It just shows I'm human," she quipped to a professor who attempted to console her on making her first B.

Shana, who hopes to one day work in pediatric AIDS research, will spend this summer in Washington, D.C., fulfilling some of the requirements of the Truman Scholarship she won last year. She will undergo leadership training and do an internship with a federal AIDS policy panel either in the White House or the Department of Health and Human Services.

Last Saturday, when her name was called as a Rhodes Scholar, "My heart stopped; it really did, for just a second. I thought 'You didn't call my name.' " Fearing her knees would buckle, she grabbed the back of a chair and "held on for dear life" while people gathered around to congratulate her.

Later, she and a girlfriend, who had a credit card, went out to celebrate. Others on the University of Arkansas at Little Rock campus were exuberant, too. She's the University's first Rhodes Scholar.

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12-17-96
To Gene Sperry

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Felt -

Bo

THE PRESIDENT HAS SEEN

12-17-96

Catholic Health Association of the United States

An Overview of 1997 Legislative Priorities

1. **We support a balanced federal budget**...it is a fiscal imperative and it can be done in a responsible manner without devastating programs for the poor.
2. **We support extending solvency of the Medicare hospital insurance trust fund for the next seven years**...to allow time for fundamental, bipartisan reform of Medicare financing before the baby-boomers retire in 2010. **We support reasonable Medicare savings but the six-year Medicare reductions proposed last year were too deep** and not needed to balance the budget or provide transitional solvency for the Medicare HI trust fund.
3. **We oppose Medicaid reductions and per-capita limits at this time.** Growth in FY96 Medicaid spending was only 3.3 percent. Projected spending for 1996-2002 has come down by \$93 billion, more savings than the President or even Congress proposed earlier this year.
4. **We support efforts to expand health coverage and significantly reduce the number of uninsured Americans.** Important progress toward universal coverage can be made in 1997 by fixing the harshest provisions of the welfare reform bill and targeting assistance to certain uninsured groups, e.g., children.
5. **We support restructuring Medicare** to encourage more efficient and responsive service delivery...allowing for **provider-sponsored organizations** to coordinate care.
6. We support efforts that allow not-for-profit hospitals and health systems to continue their mission to serve people in need. **Specifically, we support revisions to the tax-exempt bond cap for not-for-profit hospitals.**
7. **We will oppose efforts to give for-profit hospitals special Medicare capital payments.**

Issue 1

The Catholic Health Association... supports a balanced federal budget

...it is a fiscal imperative and it can be done in a responsible manner without devastating programs for the poor.

In 1995, CHA developed a Responsible Balanced Budget (RBB) that would have eliminated the federal deficit by 2002. This past Fall, we updated the RBB to reflect Administration and Congressional changes in budget estimates. Highlights of our budget, which we have used successfully as an educational and advocacy tool, are:

- ◆ No tax increases...but no tax cuts either. They are inappropriate at this time and make balancing the budget more difficult.
- ◆ \$35 billion over six years to address serious flaws in the welfare reform bill and expand health coverage.
- ◆ Reasonable, six-year Medicare savings of \$90 billion.
- ◆ Similar level of discretionary savings as proposed by the President's FY97 Budget; however, we would not necessarily exempt defense spending from these cuts.
- ◆ Modest adjustment in the CPI inflation update that saves \$51 billion over six years.
- ◆ Elimination of several tax loopholes, many of the same proposals as in the President's FY97 Budget.
- ◆ There is nothing magic about the year 2002 as a target for a balanced budget. If a six or seven-year time frame was good enough in last year's discussions, it should be good enough for action this year.

*Catholic Health Association
1997 Legislative Priorities*

Issue 2
The Catholic Health Association
supports reasonable Medicare savings that can extend
solvency of the Medicare hospital insurance trust fund for
the next seven years

BUT...the Medicare reductions proposed last year were too deep!

- ◆ It is very unlikely that next year will bring bipartisan or public support for a long-term solution to the Medicare trust fund.
- ◆ At least a few years are needed to explore different proposals and develop support for fundamental change.
- ◆ Trying to extend solvency of the HI trust fund for another ten years without establishing new financing sources would require huge and unrealistic cuts in Medicare payments to hospitals and other providers. Trying to pack six years of Medicare savings into five years would also require unnecessary and dangerous risks.
- ◆ The best approach would be to establish more realistic targets. Extending HI solvency for seven years or until 2004 would provide adequate time for enacting and beginning to implement a longer-term solution before baby-boomers retire in 2010. Targeting 2003 or 2004 for federal budget balance would help focus Medicare legislative changes on structural payment reforms, e.g., new prospective payment systems, rather than on “quick and easy” reimbursement savings that are “scoreable” but do not change Medicare incentives.

Issue 3
The Catholic Health Association
opposes Medicaid reductions and per-capita limits
at this time

- ◆ CHA commends (and supported) the President for consistently opposing Congressional attempts to block grant Medicaid. A block grant could seriously jeopardize access to needed services for low-income populations -
- at a time when fewer Americans are receiving employer-paid health coverage and the number of uninsured continues to rise to a record 41 million.
- ◆ Last year CHA supported efforts to slow the nearly 10 percent annual growth in Medicaid spending and provide states with some additional flexibility -- without eliminating important federal coverage guarantees. In this context, CHA supported "per capita limits."
- ◆ It now appears that fears of huge Medicaid growth rates are no longer realistic. Growth in FY96 Medicaid spending was only 3.3 percent.
- ◆ The Urban Institute estimates that Medicaid spending for 1996-2002 will be \$93 billion less than the CBO April 1996 baseline.
- ◆ The \$93 billion "savings" is more than the President or even Congress proposed earlier this year.
- ◆ We certainly need to monitor future Medicaid growth and continue to give states additional flexibility, but we also need to "wait and see." Capping and reducing Medicaid now is unnecessary and could harm low-income populations who depend on it.

Issue 4
The Catholic Health Association
supports efforts to expand health coverage and
significantly reduce the number of uninsured

- ◆ CHA has consistently supported legislation to expand coverage to America's uninsured. We are grateful for the President's and Mrs. Clinton's efforts early in the Administration to bring the problem of the uninsured before the American people.
- ◆ As a first step, we urge the President to follow through on his commitment to fix the harshest provisions of the welfare reform bill, e.g., fighting for Medicaid coverage of legal immigrants.
- ◆ Administratively, there are steps that HCFA can take now to prevent some legal immigrants formerly eligible for SSI from losing coverage. HCFA should revise its instructions to States to make clear that States need not revise their State Medicaid plans in order for these legal immigrants to maintain Medicaid coverage. In addition, CHA encourages the President to propose legislative changes to the welfare law in the FY98 President's Budget. CHA's Responsible Balanced Budget proposes additional federal spending of \$15 billion over six years to make some of the welfare changes.
- ◆ As a second step, even within the context of a balanced budget, additional federal spending should be targeted for expanding health coverage for low and moderate-income children. CHA's Responsible Balanced Budget proposes additional federal spending of \$20 billion over six years for expanding health coverage. As the President and Congress consider legislative proposals for expanding coverage, CHA will play an active role in advocating on their behalf.

Issue 5

The Catholic Health Association

supports restructuring Medicare to encourage more efficient and responsive service delivery...allowing for provider-sponsored organizations to coordinate care

- ◆ Provider-sponsored organizations, or PSOs, are an effective means for coordinating clinical care, achieving operational efficiencies, and fostering improved patient outcomes. Typically, these organizations are functioning as networks under contract with health plans. Others are taking steps to become independent, licensed health plans in order to market health coverage directly to groups and individuals. However, the growth of these entities has been impeded in some jurisdictions by laws and regulations that were designed for traditional insurance products or HMOs.
- ◆ CHA strongly supports establishing a new PSO Medicare option. We want to work with Congress and the President to enact appropriate PSO standards and HHS Secretary oversight so that PSOs will become a real choice for beneficiaries.
- ◆ PSO standards for solvency, delivery of care, and quality assurance should be rigorous, but they should also be designed to meet the needs of Medicare beneficiaries -- not simply conform to existing state insurance requirements.
- ◆ The federal government should take the lead role in licensing and monitoring PSOs, at least initially. Medicare restructuring will require a concerted federal effort if it is to succeed. Allowing states to effectively veto federal efforts to expand Medicare choices would keep beneficiaries and the Medicare program from achieving the efficiencies and coordination of care that PSOs can offer.

Issue 6
The Catholic Health Association
supports revisions to tax-exempt bond cap
for not-for-profit hospitals

- ◆ The Administration, Congress, and market competition are forcing hospital systems to become more efficient. Hospital systems must cut costs, integrate, consolidate and eliminate excess capacity to compete and survive.
- ◆ There are several areas in the tax law as applied to not-for-profit entities that impede the movement toward more efficient health care delivery. One area of major concern to CHA's members includes issues arising from the \$150 million cap on the issuance of certain tax-exempt bonds. The limitations imposed by this cap significantly complicate the ability of not-for-profit hospitals to merge and/or form joint venture arrangements to operate more efficiently. The cap's impact is particularly acute on Catholic hospital systems that seek to centralize operations such as access to the capital markets to promote efficiencies for their members.
- ◆ CHA recently wrote to the Department of Treasury requesting guidance regarding the bond cap's impact on not-for-profit hospitals. (See the attached letter to Assistant Secretary for Tax Policy, Donald C. Lubick.) CHA members, staff, and counsel met yesterday with Assistant Secretary Lubick and his staff to discuss the problems encountered by not-for-profit hospital systems and to formally request that these issues be included in the 1997 Treasury/IRS business plan for active consideration. The meeting resulted in a productive exchange of ideas. *It remains unclear, however, whether the bond cap issues will make the Treasury/IRS active consideration list due to the large number of issues competing for Treasury/IRS guidance during the coming year.*
- ◆ Given the significant health policy implications of this tax policy issue, we would be grateful if the White House asked Treasury to take the following actions: (i) review the bond cap issues and (ii) issue clarifying guidance with respect to the impact of the bond cap on not-for-profit hospitals.

*Catholic Health Association
1997 Legislative Priorities*

Issue 7
The Catholic Health Association
opposes efforts to give for-profit hospitals
special Medicare capital payments

In 1994 HCFA decided not to include in the hospital PPS regulation a proposal which for-profit hospitals lobbied aggressively for that would increase Medicare capital payments to taxpaying hospitals and reduce capital payments to tax-exempt hospitals. Congress included the measure, however, in its Balanced Budget Act of 1995 which President Clinton vetoed. CHA strongly opposes a Medicare capital adjustment for taxpaying hospitals because it would:

- ◆ violate the purpose of Medicare's prospective payment system which pays fixed amounts to hospitals regardless of special cost considerations;
- ◆ reward management's decision to organize as a proprietary entity in violation of established Medicare policy that it should not be entitled to higher payment than a not-for-profit facility;
- ◆ give for-profit hospitals unfair competitive advantage in price-sensitive markets;
- ◆ subsidize 20 percent of hospitals -- mostly for-profits -- at the expense of 80 percent of hospitals -- mostly not-for-profit;
- ◆ transfer tens of millions of dollars from nonprofit hospitals to for-profit hospitals; and
- ◆ create new incentives for capital projects by increasing reimbursement for capital costs.

We request that the Administration make known to Congressional leadership its opposition to a special Medicare capital payment adjustment for taxpaying hospitals.

*Catholic Health Association
1997 Legislative Priorities*

THE
CATHOLIC HEALTH
ASSOCIATION
OF THE UNITED STATES



October 31, 1996

The Honorable Donald C. Lubick
Acting Assistant Secretary for Tax Policy
Department of the Treasury
Room 3120
1500 Pennsylvania Avenue, N.W.
Washington, D.C. 20220

Dear Mr. Secretary:

I am writing to request an opportunity to meet with you to discuss policy issues related to the changing health care marketplace.

Health care delivery in the United States is rapidly evolving. Congress, the President, and market competition are increasingly demanding that health care delivery institutions become more efficient. Hospitals and hospital systems have been encouraged to cut costs, integrate, consolidate, and to eliminate excess capacity. Correspondingly, there has been increased movement in the health care industry toward managed care arrangements.

Guidance under current law, in several respects, is not well equipped to promote the movement toward more efficient health care delivery arrangements as several barriers to more efficient cooperative relationships exist. One such barrier of particular concern to the not-for-profit hospitals and health care systems we represent is the operation of the \$150 million tax-exempt bond cap in section 145 of the Internal Revenue Code of 1986.

Sections 145 and 103 of the Code permit section 501(c)(3) organizations to issue tax-exempt bonds in order to raise necessary funds. Section 145(b), however, limits the amount of "qualified section 501(c)(3) bonds" that can be issued by a section 501(c)(3) organization — other than "qualified hospital bonds" — to \$150 million.

The operation of this \$150 million cap, as currently interpreted by many bond counsel, is inconsistent with the policy goal of encouraging hospital systems to move into more efficient arrangements. Mergers, joint ventures, joint operating agreements and consolidations of separate not-for-profit hospital entities or systems are often the most efficient courses of action to take from a health care policy perspective. However, such steps often can cause not-for-profit entities to inadvertently exceed the bond cap — leaving them with the undesirable choice of either abandoning a planned restructuring, or being required to proceed under debt financing (or refinancing) terms that negate many of the desired benefits of restructuring.

WASHINGTON OFFICE
1875 Eye Street, NW
Suite 1000
Washington, DC 20006-5409
Phone 202-296-3993
Fax 202-296-3997

Short of a legislative repeal of the \$150 million cap, we believe that there are several issues for which Treasury and the Internal Revenue Service have authority to provide constructive guidance, including: (1) the allocation and aggregation rules, (2) the qualified hospital bond definition and (3) the change in use rules.

1. Aggregation and Allocation. Aggregation and allocation rules under current law have become an inhibition to efficient restructuring of not-for-profit health systems, particularly in the context of mergers and joint ventures. The principle guidance with respect to the issue is the allocation and test-period beneficiary rules appearing in proposed regulations under the predecessor to section 144 (dealing with qualified small issue bonds). These proposed regulations predate the 1986 enactment of section 145 and are unclear in their application to the section 145 bond cap. The lack of clarity in this area has resulted in much confusion in the marketplace. Different CHA members receive inconsistent advice from counsel in connection with virtually identical transactions. Informal inquiries to the Internal Revenue Service have provided little further assistance except to confirm the lack of clarity in the area. Furthermore, because bond counsel tend to read what inferential guidance exists as to section 145 issues quite conservatively, many sound restructuring transactions involving institutions with significant outstanding section 501(c)(3) bonds simply do not go forward.

2. Qualified Hospital Bonds. Although "qualified hospital bonds" are not subject to the \$150 million cap, this term has not been defined in regulations, and only has been the subject of a limited number of private rulings. As a policy matter, a number of activities undertaken by institutions to restructure the delivery of hospital care, whether done individually or in concert with other not-for-profit providers, should be considered as activities within the spirit of the qualified hospital bond exception. Unfortunately, the treatment of many expenditures is unclear, and without further guidance, institutions have been advised to treat bonds for many activities related to the delivery of hospital care as subject to the cap.

3. Change in Use. Converting an underutilized wing of a hospital from a qualified hospital use to a non-hospital use (e.g., long-term care) for efficiency reasons could be treated as a "change in use" that would cause the bonds financing that wing to count toward the \$150 million cap. Provided that such a conversion is for efficiency, cost savings or other legitimate purposes, public policy should not impose a severe financial penalty on such a conversion. Although there is published guidance with respect to a change in use from exempt to non-exempt bonds, no such guidance exists for change in use from qualified hospital bonds to section 501(c)(3) bonds subject to the cap. Guidance in this area is needed.

Donald C. Lubick
October 31, 1996
Page 3

In sum, we believe that constraints under current interpretations of section 145 have had the unfortunate effect of discouraging not-for-profit organizations from entering into more efficient arrangements with other not-for-profits for the provision of health care. We believe that much can be gained through a Treasury review of these issues and the promulgation of further guidance to assist not-for-profit health care providers during this time of dramatic industry transition. Existing guidance has provided little certainty for the rapidly changing health care marketplace — greater clarity is necessary. We would request that the Treasury make the development of guidance in this area a priority for inclusion in its business plan for 1997.

We look forward to having the opportunity to discuss these matters in more detail with you and would like to arrange a meeting in the near future. John Salmon, our tax counsel at Dewey Ballantine, will call your office to follow up with respect to this request.

Sincerely,



William J. Cox
Executive Vice President

cc: Catherine E. Livingston

bc

In Support
of a
Responsible
Balanced
Budget

**October 1996
Draft**

To be revised in February 1997

THE CATHOLIC HEALTH ASSOCIATION
OF THE UNITED STATES

DRAFT

THE [illegible] [illegible]
12-18-96

DECEMBER 6, 1996

'96 DEC 6 PM 4:49

MEMORANDUM FOR THE PRESIDENT

FROM: DOUG SOSNIK

SUBJECT: CAMPAIGN FINANCE

Norm Ornstein asked that I forward the attached document to you.

Tom Waldman

12/18/96

Todd-

Copy sent to Michael Waldman.

Do you want a copy to go to Sosnik?

☒ Yes
☐ No

M.

copied
12/18/96
[signature]

TO: DOUG SOSNIK
FROM: NORM ORNSTEIN

Ornstein

REFORMING CAMPAIGN FINANCE

The campaign finance system in America has been a problem for some time. But in 1996, it went from the political equivalent of a low-grade fever to Code Blue-- from a chronic problem needing attention sooner or later to a crisis, with a system clearly out of control. The system needs both an immediate fix in a few important areas, and some sustained attention to the broader problems. We need an approach that breaks us out of the unproductive framework-- Democrats insisting on a bottom line of tough spending limits and public financing, Republicans insisting on a bottom line of no spending limits and no public financing-- that has doomed any constructive change for decades. It must instead use constructive ideas to help reduce existing problems without creating large unanticipated new ones.

And any proposal must accommodate the Supreme Court's rulings, from Buckley v. Valeo to this year's Colorado decision, that give wide leeway to individuals and groups independently to raise and spend resources in public and political debate under the First Amendment. If a Constitutional Amendment to alter the impact of the Court's decisions were desirable (and it is not clear that amending the First Amendment is the appropriate course of action,) it is not practical in the near term. So other ways must be found to reform the system within the existing constitutional context-- ways that will achieve the objectives of placing huge donations to candidates or parties off limits; leveling the playing field for outside groups and candidates in political communications in campaigns; enhancing political discourse and dialogue in the campaign; strengthening enforcement and disclosure; and encouraging small individual contributions.

We propose changes in five key areas:

1. "Soft" Money. The idea of "soft" money, spending by parties outside federal regulation, emerged in the reforms of the 1970s, as a way to enhance the role and status of party organizations. Unlike the hard money that goes to campaigns, soft money can come directly from corporate coffers and unions, and in unlimited amounts from wealthy individuals. It is harder to trace, ~~less systematically disclosed, and less accountable.~~

Over time, soft money contributions for "party-building and grass roots volunteer activities" (the language of the law) came to be used for broader purposes, and evolved into a complex system of parties setting up many separate accounts, sometimes funneling money from the national party to the states or vice versa, or back and forth in dizzying trails. But soft money was a comparatively minor problem in campaign funding until 1992. Parties sharply increased their soft money fundraising and spending for a wide range of political activities, including broadcast ads, both in and out of election season. The escalation increased alarmingly in 1996. Both parties sought and received large sums of money, often in staggering amounts from individuals, companies and other entities, and

poured unprecedented sums of soft money into the equivalent of party-financed campaign ads. There is now evidence that some of this money came illegally from foreign sources.

The original limited role of soft money, as a way to enable funds to be used to enhance the role and capability of the parties, especially the state parties, has been mangled beyond recognition. Still, any change in law must recognize that state parties are governed by state laws; that traditional party-building activities, from voter registration and get-out-the-vote drives to sample ballots, have an inevitable overlap between campaigns for state and local offices and campaigns for federal office, and that the goal of enhancing the role of parties is a laudable and necessary one.

What to do? We propose the following:

1. Eliminate national party committee soft money by eliminating the distinction in law between non-federal and federal party money. In other words, create one pot of national party money, that has similar fund-raising qualifications to the money raised for candidates, namely, no corporate and union funds and limits on sums from individuals. Money may only come from individuals and registered political committees, which are given specific limitations. (See appendix for specific language.)

2. Give parties freedom to allocate the hard resources they are able to raise among their candidates for office as they chose and not subject to existing restrictions, in order to provide a robust role for political parties even as they lose the soft money resources; this in turn will move the parties away from the subterfuge, encouraged by the Colorado decision, that they are independent of their own candidates.

3. Expand the existing limits on individual contributions to parties. Currently, individuals can give a total of \$25,000 per year in hard money to federal candidates and/or parties, with a sub-limit of \$20,000 to a party (and with no limits on soft money donations.) Change the limits so that individuals can give the current limit of \$25,000 per year to candidates, but create a separate limit of \$25,000 per year to political parties. Index both figures to inflation.

4. Stiffen party disclosure requirements. Currently, parties can transfer unlimited sums to state parties or related entities for use as they wish, without any federal disclosure of the state party expenditure. We propose that any monies transferred from a federal party to a state party or state and local entity be covered by federal disclosure laws, including the source and the nature of any expenditure of the funds, and that any transfers from state parties to federal committees come only from federal accounts.. We also encourage states to continue their own trend of strong state-based disclosure requirements.

2. **Issue Advocacy.** 1996 saw an explosion of political ads both by outside groups, such as the AFL-CIO and business entities, and by both political parties, that were essentially unlimited in funding and outlays because they were classified not as campaign-related independent expenditures but as "issue advocacy" ads. The Court in Buckley v. Valeo defined political ads as those that explicitly advocate the election or defeat of a candidate. This very narrow definition has allowed groups to employ television and radio ads that were political ads in every sense except that they avoided any explicit candidate advocacy. Thus, huge numbers of campaign ads aired that were thinly disguised-- at best-

- as issue ads. They praised or-- more frequently attacked-- specific candidates but ended with the tag line "Call Congressman _____ and tell him to.... (stop "raising taxes," stop "cutting Medicare", etc.)

The Supreme Court has appropriately stated that issue advocacy is protected under the First Amendment, as are independent expenditure campaigns. However, funding for independent expenditure campaigns can be regulated as are candidate and party funding for elections. We believe that there is room for Congress to define with more clarity what is meant by issue advocacy and political campaigning without running afoul of the Court's real intent. Thus we propose:

Any paid communication with the general public that uses a federal candidate's name or likeness within sixty days of a primary or of a general election-- the same times used by Congress to limit lawmakers' postal patron mass mailing communications-- be considered a campaign ad, not an issue advocacy message, and be covered by the same rules that govern independent expenditure campaigns, meaning among other things that they cannot be financed by corporate or union funds, but can use publicly disclosed voluntary contributions in a fashion similar to funds raised by political action committees. (An exemption would apply, as it does in current law, for candidate debates and press coverage.)

This change would not limit in any way groups' ability to communicate in a direct targeted fashion with their own members or constituents. Nor would it limit advertising campaigns or the freedom of parties or independent groups to get their issue-oriented messages out. What it would do is change the funding basis of campaigns that include actual federal candidates to conform to other comparable election-related efforts. The AFL-CIO or the Chamber of Commerce, the Christian Coalition or the Sierra Club, for example, could run whatever ads it wanted, funded as it wished, whenever it wanted that mentioned or referred to no specific candidate for office. It could run ads that mentioned candidates or lawmakers in a similar fashion except during the sixty days before a primary or general election. During the two sixty-day periods, ads could run that mentioned a candidate or used the candidate's likeness-- but *those* ads would have to be funded in the same fashion as other independent expenditure campaigns-- in other words, by publicly disclosed money raised on a voluntary basis by a political committee.

*Don't
Campaign*

3. Enforcement. The lack of strong enforcement of campaign laws has been a serious problem in the past, but escalated sharply in 1996. The Federal Election Commission is poorly and erratically funded, hampering its ability to gather information, disseminate it in a timely fashion, and use it to investigate or act on complaints of violations of the laws or regulations. The Commission's structure, with six commissioners, three of each major party, makes inevitable frequent deadlock along partisan lines. Little if any penalty results from blatant violations of the campaign laws. Elections are not overturned, and if there are subsequent financial penalties, they are rarely commensurate with the severity of the violations and in any case are of little importance if the violations made the difference between winning and losing. Candidates and parties, knowingly take advantage-- and never more openly than in 1996.

It would be desirable to change the structure of the FEC, including changing the selection of its membership. Given the Buckley decision and the attitudes of lawmakers

from both parties, major structural changes are probably not practical. But there are other ways to create a more viable disclosure and enforcement regimen. We recommend:

1. *Move from the current practice of voluntary electronic filing to a mandatory one, with a de minimus threshold.*

2. *Move from annual appropriations for the FEC to two-year or even longer-term funding, with a bipartisan mechanism in Congress to maintain adequate funding for the commission. Congress should also consider an independent funding source for the FEC, such as a modest filing fee for campaigns and related committees.*

3. *Allow for the possibility of private legal action against campaigns for failure to disclose appropriate information, with the FEC as administrative agent. Streamline the process for allegations of criminal violations, by creating more shared jurisdiction between the FEC and the Justice Department, and fast-tracking the investigation from the FEC to Justice if any significant evidence of fraud exists.*

4. *Put into legislation a requirement that until a campaign has provided all the requisite contributor information to the FEC, it cannot put a contribution into any account other than an escrow account where the money cannot be spent. In turn, the current ten-day maximum holding period on checks would have to be waived.*

5. *Adopt a single eight-year term for Commissioners, with no holding over upon expiration. Commissioners' terms should be staggered, so that no two terms expire in the same year. Congress should explore ways to strengthen the office of chairman, including considering creating a new position of non-voting chairman and presiding officer, as the Commission's Chief Administrator.*

4. **Broadcast Bank.** No campaign finance reform will be effective unless it ensures adequate resources for candidates and parties to get their messages across. A positive and constructive campaign finance reform proposal will channel the resources in the most beneficial ways, empowering parties and candidates (including challengers) and encouraging small individual contributions, while removing as much as possible the unfair advantages and subsidies available to independently wealthy, self-financed candidates. At the same time, a constructive reform will try to encourage better debate and deliberation in campaigns by encouraging more candidate-on-screen discourse. In that spirit we propose:

1. *Creation of a "broadcast bank" consisting of minutes of television and radio time on all broadcast outlets. Some time will be given to political parties, allocated in the same proportion as the public funding available for presidential campaigns. Other time will be available to individual candidates, as described below. Each party will decide how to allocate the time among its candidates. Such time can be used for ads, provided that no message is less than sixty seconds, and the candidate must appear on screen on television messages, and the candidate's voice and identification used on radio communications.*

2. *Additional time will be available to candidates who raise above a threshold of \$25,000 in individual, in-state contributions of \$100 or less; for each subsequent such contribution, candidates will receive a voucher for an equivalent amount of broadcast time.*

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3. The broadcast bank can be financed in several ways. The first step is to make a tradeoff: the "lowest unit rate" provision, which requires that broadcasters give discounts that average thirty percent on the advertising time they sell political candidates, will be repealed. In return, each broadcaster will be assessed a fee of 30 percent on all the political advertising the broadcaster sells, with the revenues going to the broadcast bank. The second step is to provide additional revenues or broadcast minutes from one or more of a variety of options. One approach would be to auction off whatever space the FCC determines is available in the portion of the spectrum, currently reserved for public safety, channels 60 through 69, which is soon to be broadened by technological advances. A second is to take advantage of a provision of the 1996 Telecommunications Act that requires broadcasters to pay a fee for employment of any ancillary or supplementary portions of the digital spectrum, with the fee set by the FCC and the funds to be placed in the U.S. Treasury; Congress could direct or the FCC could require that the fee be paid in whole or part in broadcast minutes for public purposes, or that the funds be set aside for the bank.

4. Candidates who want to purchase time outside of the broadcast bank system may do so, but must do so at market rates (lowest unit rates would no longer be mandated for such time.)

5. Small Individual Contributions. Over the past several years, campaigns for Congress have seen sharp changes in the nature of contributions. A shrinking share of campaign resources have come from small donations from individuals, while steadily increasing shares have come from both larger contributions (\$500 to \$1,000) and political action committees. Of all the sources of private monies that go into our political campaigns, the most desirable and least controversial is that contributed by in-state individuals in small amounts. The more citizens involved in the campaign process, the more stake they have in the political system; a small contribution is a positive way, with no direct link to a legislative product, to enhance the political process.

One of the most significant goals of campaign finance reform, then, is to find ways to encourage small individual contributions, especially in-state, and to encourage candidates to raise more of their funds in this fashion. The key to doing so is:

1. Create a 100% tax credit for in-state contributions to federal candidates of \$100 or less. The credit would apply to the first \$100 an individual gave to candidates-- in other words, \$25. given to each of four candidates would result in a \$100. credit. It would not apply to large contributions; it would be phased out if an individual gave more than \$200 to the candidate.

2. As in #4 above, add a large incentive to candidates to raise more of their resources from small individual in-state contributions by creating a matching voucher system for broadcast time.

3. Consider funding the tax credit for small contributions by assessing campaigns a ten percent fee for large contributions (\$500. or more.) Consider further the tradeoff of raising the individual contribution limit of \$1,000. to \$2,500. to take into account inflation in the two decades since it was instituted while simultaneously assessing the fee for large contributions.

The reforms above are not top-to-bottom comprehensive changes in the federal campaign financing system. Comprehensive proposals do exist-- although they include radically different approaches. But no comprehensive proposal is practical at the moment, or could in fact "cure" the problems in the system once and for all. Nor would any two of us agree on all or even most of the elements that might be included in a comprehensive package. The changes we propose are doable and sensible, and if enacted, would make a very big positive difference in American campaigns.

If PIC is unable to reach an agreement on the artwork, the project can be cancelled, but PIC will forfeit \$70,000.

I would greatly appreciate your letting me know no later than noon tomorrow whether PIC should go forward with this project.

THE PRESIDENT HAS BEEN

12-18-96

THE WHITE HOUSE

WASHINGTON

'96 DEC 17 AM 11:18

December 17, 1996

MEMORANDUM FOR THE PRESIDENT

FROM: MICHELLE HOUSTON
DIRECTOR, WHITE HOUSE GIFTS

THROUGH: JAMES A. DORSKIND
SPECIAL ASSISTANT TO THE PRESIDENT
DIRECTOR OF CORRESPONDENCE
AND PRESIDENTIAL MESSAGES

SUBJECT: Gift Unit Report for the Week Ending December 11, 1996

A. Gifts Delivered This Week: 336
Gifts Processed This Week: 266

B. Highlights of the Gifts Received from December 5, 1996 through December 11, 1996:

1. **Amy Glickman.** Swatch "Timeship" watch with Fitness Fit and Shopping Fit covers. The appraised value is \$55.

Disposition: _____ Keep for personal use and send to:

_____ ☒ Oval Office

_____ Residence

_____ Designate for Archives

2. **Mort Roche.** Two synthetic "Interlocking Grip Training Golf Gloves," designed by the donor. The appraised value is \$30.

Disposition: _____ Keep for personal use and send to:

_____ Oval Office

_____ Residence

_____ Designate for Archives

3. **Ruth Crawford.** Paperback titled, *The Woods Afire: The Memoir of a Georgia Teacher Before and After Desegregation*, written and inscribed by the donor. The appraised value is \$15.

Disposition: _____ Designate as on loan and send to:

_____ Oval Office

_____ Residence

_____ Designate for Archives

4. **Joshua Feldman.** Three short-sleeved cotton "Aloha" shirts. Two are dark with a floral print, the other is light-colored with a beach motif. The appraised value is \$135.

Disposition: _____ Keep for personal use and send to:

_____ Oval Office

_____ Residence

_____ Designate for Archives