

~~Chyon~~

—

THE FOLLOWING HAS BEEN
6-3-97

Spot

David R. Lifschultz
641 West 59th Street
New York, New York 10019

May 1, 1997

Guns

— What do you
think of this?

— Need a reply

— Make copy
for Secy Rubin

(Want to put in
not in it)

Dear Bill,

Here's another Carroll Tringley
analysis of the trade deficit
from a former student of our
Professor Tringley that so brilliantly
taught us as Georgetown U. Watch
out for the Wall Streeters that they
don't make you another Hoover, old
classmate!

Best regards,

David

Todd,

I will send to Jim once
you have seen.

OK ✓

c

JIM DORSKIND:

Please coordinate
the reply. —
With NEE T.

Todd Stern

1 copy
plus

7

Deficits Without Tears

The United States has racked up over one trillion in current account deficits since 1984. These deficits have caused few tears for our governmental authorities as foreign central banks in their dirty float operations have acquired 646 billion of these deficit dollar deposits and used these deposits to acquire an equivalent amount of Treasury bonds (April, 1997, Federal Reserve Bulletin, page A51, Chart 3.13). Foreign central banks have an interest in acquiring these dollar deposits in order to foster exports to the United States by making their currencies cheaper. Their short-term thinking is such that they worry little about the ultimate redeemability of these dollar holdings in goods, services or gold, but are entirely focused on either increasing their power of production as in China, or reducing their 12% unemployment as in Germany.¹ It is questionable whether it is in the long-term interest of the United States to build up such potential adversaries as China or Japan. The cultural differences are enormous.

The end of 1996 saw U.S. assets abroad of 3.237 trillion, while foreign assets here were 4.320 trillion, a negative-U.S. investment position of 1.083 trillion. In excess of 2.2 trillion of foreign investments were liquid while about 1.5 trillion of U.S. assets were liquid (excluding central bank government holdings).² This rather dismal picture of the United States as the world's largest debtor was not always the case. Back in 1972 foreign assets in the United States were 149.372 billion of which 82.9 billion were liquid. U.S. assets abroad were 206 billion of which 18.8 billion were liquid (includes our entire gold reserve).³

Even in 1972 there was a liquidity problem despite the United States being the world's largest creditor. Foreigners had a liquidity position in the United States of 82.9 billion while the United States had a liquidity position of 18.8 billion largely consisting in our gold reserve. It was obvious then that our gold reserves were insufficient to cover a run on the dollar and that gold convertibility long before then was a myth. For every dollar of gold and liquid reserves there were \$4.40 in liquid liabilities.

The international financial system then was held together by the fear of the Soviet threat and the desire of central banks to foster their countries' exports to the United States. There are now 2.2 trillion of foreign liquid assets in the United States held here only by economic considerations and about 646 billion of foreign central bank holdings of Treasuries. The great international financial question of the day is whether in the event of a stock market crash in the United States (due to a middle east shutoff of oil or a financial accident) the foreign central banks

will buy those 2.2 trillion in dollar deposits should they be dumped on the market or would they let the dollar crash and collapse the world economy as in 1929?⁴ I turn now to a discussion of how we arrived here from 1972.

A lion's share of the blame has to do with bad central bank management. In the old days of the gold standard, a trade deficit was self-correcting as gold left the deficit nation to pay the deficit forcing the U.S. central bank to decrease the amount of outstanding credit to the loss of its gold equivalent (if an ounce of gold was worth \$20, then the loss of one million ounces to pay the deficit would force the U.S. central bank to extinguish 20 million dollars of domestic credit), while the surplus nation received the gold triggering a proportionate increase in credit (if an ounce of gold were worth 80 marks, then Germany would create 80 million marks of credit if it were the surplus country receiving the one million ounces of gold). The decrease in bank credit for the deficit nation decreased demand for foreign goods, while the increase in credit in the surplus nation increased their demand for foreign goods. This system led to trade balance. This self-correction could be achieved today simply by contracting credit in the United States until demand for foreign goods evaporated. This mechanism remains untried as the unemployment it would engender based on the rigidity of the wage level would not be deemed acceptable. We want no tears. The only other self-correcting method would be to allow the currencies to float against each other whereby the deficit nation's excess of dollar credits would drive down its currency making it harder for the surplus country to sell to us. This is the free market approach of Dr. Milton Friedman.

Before turning to an analysis of Dr. Friedman's approach and how it is presently playing out, a brief-discussion of how the so-called gold standard really worked would be highly instructive. Arthur Kitson, an Englishman who advised William Jennings Bryan, wrote in 1933 as follows:

As to the effect of our free gold market upon securities, some years ago the Bankers' Magazine gave a startling example of the depreciation in the prices of 325 of our representative investments caused by the withdrawal of 11,000,000 British pound sterling in gold from the Bank of England by a group of American financiers. The transfer of this amount from London to New York during the period of a few weeks caused a fall of prices equivalent to 115,500,000 in British pound sterling! Whilst the absorption of the same gold in New York caused a corresponding advance in the prices of certain American securities. By first selling English securities and buying American, they had merely to transfer so much gold and afterwards reverse these transactions by buying and selling respectively and the game was won! As a well-known financial writer stated at the time: "These speculators were playing upon two tables at the same time/ one in London and the other in New York / with the certainty of winning on both."⁵

This will give us some help in understanding today's problems and the rise in our stock market. The central banks against all textbook rules are practicing today a dirty float against the United States. Clyde Prestowitz, Jr. maintains the Yen has been undervalued since the 1949 Dodge Plan by the dirty float mechanism.⁶ The way the dirty float mechanism works is that

foreign central banks intervene in the foreign exchange market to buy dollars thereby holding up the value of the dollar and preventing the self-correcting mechanism from working. Otherwise, the surplus dollars of the trade deficit would force the dollar down based on the law of supply and demand.



This is demonstrated by the interesting correlation between the 1996 balance of payments deficit in goods and services of 122.623 billion and the purchase of foreign central banks of Treasuries and other smaller items of 122.778 billion. The much vaunted flow of funds into the United States of 525.046 billion dollars composed of 402.268 billion of private investment is largely offset by an increase of 306.830 of U.S. assets abroad of which 312.833 billion is private. Consequently, the foreign central banks are making up the critical 122.623 billion in goods and services by their dirty float intervention preventing the self-correcting mechanism of the floating currency exchanges from working. The actual current account deficit of 165.095 billion is calculated by adding to the 122.623 deficit 42.472 for unilateral transfers that represent foreign aid, U.S. pension and charitable outflows. The remaining 53.122 billion is an allowance for statistical discrepancies.⁷

Thus the dollar's strength is largely caused by central banks' manipulations of interest rates, which they do by driving rates down by buying Treasury bonds or raising rates by selling them (Japan's .5% Central Bank rate is created by massive credit expansion in Japan to reflate their banking system), and dirty float interventions. This should not be tolerated by the U.S. authorities.



In a recent speech in Belgium Federal Reserve Chairman Alan Greenspan⁸ gave an interesting reason why the United States likes the dirty float operations of the foreign central banks because they hold down U.S. inflation and wage rates. If the dollar falls in value raising the prices of imported goods, this would contribute to inflation. But this is very short-sighted because it deflects attention from a deteriorating current account that for centuries has been regarded as the true test of a nation's economic health. A trade deficit was always regarded as being caused by excessive credit creation in the offending country. In addition, when U.S. manufacturers saw that our government's policy was to prevent self-correction of the trade deficit by free floating exchange rates, they immediately ran to shift manufacturing from the higher wage level U.S. market to slave labor sites⁹ as in China where industrial pollution is a way of life. There our manufacturers need not worry about the E.P.A. Now 40% of our imports are represented by U.S. manufacturing concerns which shifted their production abroad at the expense of the American worker.¹⁰



Anecdotal evidence on Wall St. relates that huge profits are being made in arbitrage operations between Japan and the United States. Hundreds of billions of dollars are being borrowed on 1% to 2% margins in Japan at 2% interest and invested in the United States at 6%. Therefore, an investment of 1 to 2 billion can reap 4 billion in profit per year.¹¹ This harms U.S. manufacturers as these borrowings first occur in Japan in Yen and then are converted into dollars that drive up the dollar and depreciate the Yen causing a rapid increase in Japanese exports to the United States. Wall Street's interests are therefore adverse to General Motors and the United

Automobile Workers Union, and yet Wall St. staffs the Treasury and the Fed.

I see a major obstacle in the development of a solution to the trade deficit problem in the apparent conflicts of interest in the staffing at Treasury, the Federal Reserve and the World Bank. Most of the key job holders come from Wall St. as Robert E. Rubin, Secretary of the Treasury, from Goldman Sachs, and Alan Greenspan, Chairman of the Federal Reserve, and James Wolfensohn, President of the World Bank, from their own Wall St. firms. Departures from these key government jobs often lead to immediate jobs on Wall St. such as the former President of the N.Y. Federal Reserve Bank, William Corrigan, to Goldman Sachs, and Wayne Angell, a former member of the Federal Reserve Board of Governors, to Bear Stearns. Aside from the question as to whether Wall Street's interests are the same as our manufacturing interests, as will be discussed again in more detail below, the other question is whether these Wall St. houses seek through these relationships undue influence on our monetary and regulatory policies.

For example, Goldman Sachs, after paying the largest bonuses and salaries in history, posted a quarterly profit of 905 million on 1.96 billion in revenue based on 5.26 billion in capital.¹² These were said to be made largely in the Japan-U.S. arbitrage operation where security in the exchange rate was vital. A large unexpected drop in the exchange rate could destroy all these huge arbitrage operations and the participating paramount Wall St. houses and hedge funds. Here is where we see the problem of conflict of interest in staffing key financial posts in Washington by Wall Streeters instead of General Motor executives or economists from the United automobile Workers Union.

To put the Goldman Sachs earnings in perspective, it would do well to look at General Motors whose domestic production suffers greatly from the 56% depreciation of the Yen. In the 1995 Annual Report General Motors showed 5 billion in profit on 164 billion in sales with 23.4 billion in equity. They had 647,000 employees to about 10,000 at Goldman Sachs. Where do the real interests of the United States lie, at Goldman Sachs or General Motors? I say, General Motors.

The only policy that best fits America's circumstances at this time is to let the dollar float freely and depreciate until the trade deficit is eliminated. By encouraging through substantial tax credits the use of new domestic bank credit for productive investment, the nation's productivity can be considerably improved dampening domestic inflation while surging domestic production from the lower dollar will eliminate completely the budget deficit. By curtailing immigration those Americans losing welfare can be assured of jobs in a growing economy. General Motors' profits will rise and those of Goldman Sachs will fall once markets stabilize and the artificial swings are stopped. Work will be rewarded, not speculations.

ENDNOTES

¹ The dirty float issue is pregnant with meaning. In 1995 the U.S. had a 187 billion trade deficit with the following significant trade deficits with individual trading partners:

	Deficit (billions)	Treasury Holdings (billions)	
	Year 1995	12/31/94	8/31/96
Canada	22	24.6	30.3
Japan	63	175.7	263.3
Germany	16	54.4	67.1
China	37	20.5	38
Malaysia	9	not shown	not shown
Taiwan	11	25.8	37.3
Mexico	17	7.9	16.9

The figures of Treasury holdings for each of these countries sheds light on their intervention in the market preventing the self-correcting mechanism of supply and demand of dollars to lower the value of the dollar irrespective of purchasing power parity. Foreign holdings now represent 30% of total privately held public debt. Figures taken from "Direction of Trade Statistics Yearbook 1996" of the International Monetary Fund, and Quarterly Press Conference of November of Asst. Secretary of Domestic Finance Darcy Bradbury.

A large support for the dollar against the Yen is the Japanese subsidized half a percent central bank rate to relieve their beleaguered banks which has generated one of the largest speculative manias in the history of Wall Street sending average stock yields to their lowest level in 100 years. What is happening is that hundreds of billions are being borrowed in Japan at low interest rates and then invested in the U.S. in Treasuries at higher yields in a classic arbitrage operation. This artificially lowers interest rates in the U.S. sponsoring the stock market. Senior central bank officials expressed their concern about these developments but feel the Japanese must reflate their banks. Shall it result in an uncontrollable financial crash? In the meantime, the Japanese exporters to the U.S. are having a heyday with the high U.S. dollar.

Some argue that the 1995 trade deficit is inconsequential as it represents only 2.5 % of the U.S. Gross Domestic Product (187 billion out of 7.5 trillion). However, this forgets about the inequity of the dirty float and the significant composition of industrial products such as cars and steel that these imports represent and how such attacked industries have been in periodic distress. Imports now account for about 28% of our car industry and a significant portion of our steel industry. It must be remembered that the power of a modern nation is found in its power of production (see Tacitus *Annals*, Book XII, 43).

What we see happening is whenever another country has a problem such as the Mexican debacle, the U.S. surplus of 5 billion in 1992 is turned into a deficit of 17 billion in 1995 to solve the problem. Or Japan's bank problems stemming from the crash of their crazed real estate and stock markets requires our acceding to their low interest rates which exacerbated the U.S. - Japanese trade deficit. Japan's speculations were symptoms of excessive trade surpluses and excessive industrialization, and attempts by the Japanese central bank to encourage and discourage surpluses resulting from alternating foreign pressures. In any event, the U.S. has in the last 12 years switched from a net creditor nation in 1984 to a not inconsequential debtor nation to the tune of 773.65 billion dollars (Balance of Payments statistics. Yearbook, 1996, International Monetary Fund). This 773.65 billion does not tell the whole story, however. Federal Reserve and U.S. policy is held hostage to a 1.9 trillion foreign portfolio investment consisting of equities and debt securities. In 1995 alone 192.38 billion poured into U.S. equity and debt securities. The great fear that our authorities have is that this investment will be sold if the dollar were to fall, so they are quite prepared to sacrifice American industry by supporting a strong dollar through manipulation to avoid a panic. But it was the artificially propped up dollar in the first place that brought us to such a pass. These manipulations, of course, are facilitated by the inflation of currency and credit. (Statistics obtained from the "Balance of Payments Statistics Yearbook," 1996, International Monetary Fund).

² U.S. Dept of Commerce News, Washington, D.C. 20230, March 13, 1997.

³ Figures obtained by telephone call to Dept. of Commerce.

⁴ This system is prone to other grave risks. There is 1.2 trillion dollars daily trading in foreign exchange markets in an estimated 7 trillion yearly world trade of goods and services (5 trillion of 1995 goods yearly traded per I.M.F. Yearbook 1996, and an estimate on services. U.S. exports and services were 786 billion in 1995). This exposes large trading banks to significant exposures in relation to their net worth in the event of a default of a bank trading partner in another country. Citicorp, for example, shows only 7.6% (19.581 billion) equity and a 16 billion foreign exchange contract exposure before netting agreements in their 1995 Annual Report. A major trading bank default can cause a major chain reaction of defaults. There is no established lender of last resort mechanism covering foreign exchange transactions or insurance as in the case of bank deposits under \$100,000.00 insured in the U.S. by the Federal Deposit Insurance Corp. The huge foreign exchange markets trade

far in excess of actual real trade (1.2 trillion per day versus 7 trillion world trade per year) as the abolition of fixed exchange rates with currencies linked to gold (its collapse was inevitable as this paper explains) forced companies in world trade to hedge their commercial transactions in future currency markets to be sure their sales in marks or yen would have the same value in the future as when the sale was made. Pure speculation also contributes to these figures but the B.I.S. has no such figures available or estimated. See March 1996 and May 1996 Bank for International Settlement Reports entitled "Settlement Risk In Foreign Exchange Transactions" and "Central Bank Survey of Foreign Exchange and Derivatives Market Activity" respectively. Conversations with authorities at the Federal Reserve at New York and the Bank for International Settlements in Basle, Switzerland revealed that for the most part the 1.2 trillion daily foreign exchange market was a black hole to them, and that the Federal Reserve in N.Y. restrained them from making a more extensive study. The B.I.S. estimates six transactions in the future market relating to manufacturer's trade hedging for each trade transaction. If we say that there are 260 working days in the year, and 1.2 trillion daily trading in dollars in the foreign exchange market, then annual foreign exchange trading will amount to 312 trillion. The ratio to world domestic product calculated on value added accruals would be 10.776 on a 28.953 trillion world domestic product (312/28.953). The ratio on world trade (not an end product figure) in services and goods, which is a gross transactions total, would be 44 on an estimated 7 trillion in directional trade or 312 divided by seven. Since the B.I.S. estimates 6 hedges, it leaves 38 trades unaccounted for, or 13.6 % (6/44) accounted for.

If we examine the Fedwire transactions we find a daily turnover of 841 billion per day in 1994 on a gross domestic product of nearly 7 trillion. When we use the 218.66 trillion figure (260x841), then the ratio is 31 (218.66/7). Since 7 trillion G.D.P. only represents the total value added, or end product value, the 218.66 trillion would represent gross underlying domestic transactions relating to this seven trillion G.D.P.

If we examine The Clearing House Interbank Payments System, or CHIPS, we find in the January 1991 report of the Federal Reserve of N.Y. that about one trillion of payments were handled by offset between the members with the balance at the end of the day settled by Fedwire. "82% of CHIPS' dollar volume of payments resulted from foreign exchange transactions or Euro-dollar placements (pages 1 and 9 of report)." When we search for what this N.Y.C. turnover consists of we must make a broad survey. The total valuation of the N.Y.S.E. is 7.3 trillion dollars with 4.1 trillion trading annually (U.S. G.D.P. about 7.5 trillion dollars). If we divide 260 trading days into 4.1 trillion, we come out to 157 billion per day trading. Nasdaq total valuation is 1.5 trillion with 3.3 trillion trading annually. The American Stock Exchange total valuation is 126 billion with 91 billion trading annually. Federal debt amounts to 5.2 trillion although turnover figures are not shown on available reports. On page A 41 in the Federal Reserve Bulletin there is 19 trillion of various debt holdings listed, and it is in here as well as in the stock markets that most of the one trillion daily CHIPS transactions are composed. Some of these debt instruments will trade in multiples daily and others not at all. It is questionable on the basis of economic utility whether a large part of this turnover, or churning, can be regarded as socially useful.

There is thus a direct connection between the Fedwire and CHIPS transactions and the turnover on the foreign exchange markets, and a large part of the 1.2 trillion daily trading on the foreign exchange market relates to N.Y. security and bond trading. Thus severe stock and bond market fluctuations in N.Y. can be instantaneously translated through the foreign exchange market with tidal wave force. (Data obtained from IMF 1996 "Direction of Trade Statistics Yearbook," the March 1995 Federal Reserve Bank of NY, "Fedwire," Bank for International Settlements, and Swiss bankers).

It is difficult to analyze where stock selling could engender a panic because of black holes in data. There is over 90 billion in bank margin lending for individual stock purchases at up to 50% margin, which is in itself not overly large when you consider the total valuation of the N.Y.S.E. alone of over seven trillion (or about the same as the entire G.D.P.). It is more difficult to analyze exposures in option and derivative markets which periodically surface in Orange County debacles through lack of information generated by regulatory authorities (these same authorities refused to even subpoena the relevant transaction data after the manipulation in the cash settlement market precipitated the 1987 stock market crash). Wall Street's senior executives have expressed deep concern on this subject. Another area where information is deficient is the purchase of stocks here by foreigners on foreign borrowings and borrowings by foreign domiciled hedge funds. Huge stock market participation of mutual funds consisting largely of funds of inexperienced investors without time withdrawal requirements are more obvious areas for massive panic selling in a mushrooming stock market decline. The sophistication of the managers of pension funds is highly in doubt when one only briefly reviews the Orange County catastrophe, and more especially when one looks at their high percentage of stock market exposure with yields at 100 year lows below 2 % (average yields on stocks over 100 years were 4 % , and has been as high as 6 % which latter figure could presage a significant fall in stock indexes). The suggestion that the salvation of the Social Security System is to be found in the stock market at such a valuation is irresponsible.

Wall St. houses' equity ratios are very low as Citibank and could be very vulnerable to a stock market crash. For example, Salomon Inc. had equity of 4.143 billion against 183.725 billion in liabilities, or 2.255 % (See 1995 Annual Report). Therefore, the notion that the system must explode into a hyper-inflation as in Germany has not the certainty some think. It could easily implode in a cross-default bank crisis where such defaults destroy massive amounts of bank credit, as in the deflation crises in Germany and the United States in 1929-33. It is the

overextension of credit and currency discussed in this paper which makes the system vulnerable to inflation and deflation crises.

⁵ The Banker's Conspiracy by Arthur Kitson, London: Elliot Stock, 1933.

⁶ The Impact of U.S.-Asian Economic Relations by Clyde Prestowitz, Jr., President, Economic Strategy Institute, Washington D.C. 20005, October 15, 1996.

⁷ U.S. Dept. of Commerce News, Washington, D.C. 20230, March 13, 1997.

⁸ On Jan. 14, 1997 Alan Greenspan, Chairman, Board of Governors of the Federal Reserve System delivered a speech entitled Central Banking And Global Finance at the Catholic University Leuven, Leuven, Belgium. Aside from the typical central bank mechanics talked about on such occasions, Mr. Greenspan said that "on the external side, emerging nations, especially in Asia and Latin America have become increasingly important production sites and markets and thus as competitors. Faced with this broadened foreign competition, firms in many countries now find it less easy than in the past to raise prices during periods of rising demand at home" (page 15). And "I can say with some confidence that everywhere, not just in Europe, the concept of a domestic market will have even less meaning in a decade than it does today (page 17)."

There are logical fallacies in these comments. It suggests that the withering away of the nation state will follow increasing competition among nations as was thought in the 19th century, but this led to World War One. Competition involves strife, and when a company like Matsushita destroys an industry like U.S. television manufacturers, it is a kind of warfare. They did this using traditional geographic price discrimination over national borders. Low prices in the U.S. were subsidized by high prices in Japan. A leading airline consultant told me privately that the Japanese government has a 16 year plan to destroy Boeing. It is this kind of thinking that led to World Wars One and Two.

It is cooperation between individuals or nations under that concept of "love your neighbor as yourself," and the concept of the "just price" (Lev. 25:14, Lev. 6:2, Lev. 19:18, Lev. 19:34) that leads to international cooperation and peace. It is cooperation and fairness that logically leads to peace not unfair competition, strife, economic welfare and dirty floats.

⁹ In the March/April issue of Foreign Affairs an article entitled China's Troubled Workers described "the crushing daily routine of 20,000 workers, most of them women. Their situation resembles the plight of most workers in the foreign-funded sector: exhausting work hours, no overtime pay, complex work rules, fines for breaking them, ever-increasing quotas, draconian sick leave policies, etc." "In some cases, the coercive regulations that management imposes on workers, during and after working hours, are unbelievably detailed: prohibitions on talking, even while eating; marked routes for walking within the factory-dormitory compound; bans of leaving the compound at any time without special permission; prohibitions on getting pregnant, married, or even engaged. In one factory, anyone using the toilet more than twice in a workday forfeits nearly a fifth of her wage, etc."

¹⁰ Survey of Current Business, U.S. Department of Commerce, February, 1977, page 26.

¹¹ Anonymous Wall St. Source. A friend.

¹² Anonymous Wall St. Source. A friend.

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THE PRESIDENT HAS SEEN

6-4-97

THE WHITE HOUSE

WASHINGTON

June 3, 1997

MR. PRESIDENT:

Don Baer has asked if you could inscribe copies of your Morgan State Commencement Speech for the following people:

Terry Edmonds

Michael Waldman

Dr. Earl S. Richardson (President of Morgan State)

Phil Caplan

TCM

1
*To Earl S. Richardson
with appreciation
Bar Clinton*

COMMENCEMENT ADDRESS BY THE PRESIDENT
AT MORGAN STATE UNIVERSITY

Hughes Field
Morgan State University
Baltimore, Maryland

May 18, 1997

Thank you. Dr. Richardson, Judge Cole, Governor Glendenning, Lieutenant Governor Kennedy-Townsend, Mr. Mayor, City Council President, other elected officials, Mr. Speaker, Senator Miller, Senator Sarbanes, Congressman Cardin and Congressman Cummings, my great partners, to the Board of Regents, to faculty, staff, to distinguished alumni, to the magnificent band and choir. I thought it was a great day when I got here, but I know it is now. Thank you very much.

To the members of the class of 1997, your family and your friends -- congratulations on this important day in your lives, the lives of your nation, and the life of this great institution.

Your diploma reflects a level of knowledge that will give you the chance to make the most of the rapidly unfolding new reality of the 21st century. It gives your country a better chance to lead the world toward a better place, and it reaffirms the historic mission of Morgan State and the other historically black colleges and universities of our great land.

When the doors of college were closed to all but white students, Morgan State and the nation's other historically black institutions of higher education gave young African Americans the education they deserved and the pride they needed to rise above cruelty and bigotry.

Today, these institutions still produce the lion's share of our black doctors and judges and business people, and Morgan State graduates most of the black engineers and scientists in the great state of Maryland.

I am here today not because Morgan State is just a great historically black university, it is a great American university. You have produced some of our nation's finest leaders -- your grads like Parren Mitchell, Kweisi Mfume and Earl Graves; judicial leaders like Judge Bell and Judge Cole; public servants like State Treasurer Dixon and on a very personal note, my fine assistant, Terry Edmonds, Class of 1972, the first African American ever to serve as a speechwriter for the President of the United States. There he is.

To
Michael Waldman
with thanks
Bob Turner

COMMENCEMENT ADDRESS BY THE PRESIDENT
AT MORGAN STATE UNIVERSITY

Hughes Field
Morgan State University
Baltimore, Maryland

May 18, 1997

Thank you. Dr. Richardson, Judge Cole, Governor Glendenning, Lieutenant Governor Kennedy-Townsend, Mr. Mayor, City Council President, other elected officials, Mr. Speaker, Senator Miller, Senator Sarbanes, Congressman Cardin and Congressman Cummings, my great partners, to the Board of Regents, to faculty, staff, to distinguished alumni, to the magnificent band and choir. I thought it was a great day when I got here, but I know it is now. Thank you very much.

To the members of the class of 1997, your family and your friends -- congratulations on this important day in your lives, the lives of your nation, and the life of this great institution.

Your diploma reflects a level of knowledge that will give you the chance to make the most of the rapidly unfolding new reality of the 21st century. It gives your country a better chance to lead the world toward a better place, and it reaffirms the historic mission of Morgan State and the other historically black colleges and universities of our great land.

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COMMENCEMENT ADDRESS BY THE PRESIDENT
AT MORGAN STATE UNIVERSITY

Hughes Field
Morgan State University
Baltimore, Maryland

May 18, 1997

*To Terry Edmonds
with thanks
Bob Clinton*

Thank you. Dr. Richardson, Judge Cole, Governor Glendenning, Lieutenant Governor Kennedy-Townsend, Mr. Mayor, City Council President, other elected officials, Mr. Speaker, Senator Miller, Senator Sarbanes, Congressman Cardin and Congressman Cummings, my great partners, to the Board of Regents, to faculty, staff, to distinguished alumni, to the magnificent band and choir. I thought it was a great day when I got here, but I know it is now. Thank you very much.

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6-4-97

Todd,

I will send to Jim once
you have seen.

DKV

—

THE PRESIDENT HAS SEEN

6-4-97

Mr. President
The White House
1600 Pennsylvania Ave. NW
Washington DC 20500

May 21, 1997.

Save to:
Capricia for POTUS
Ann

Do try to get
+ thank Jan for the CD too
keep on fire in court
will sax again -
B

Dear Mr. President,

It will be a long time before Joe & I forget the wonderful time that we had with you and Hillary at Maggie and Bill's wedding a few weeks ago. Since then I've been traveling and playing in London and NYC and look forward to playing again soon in DC.

I happened to mention to my friend Emilio Lyons what you had said about your horn having some leaks and needing repairs. Emilio is a consummate craftsman of the saxophone - maybe you've heard of him? He's legendary in the jazz world. Stan Getz was a very close friend of his and Sonny Rollins won't let anyone else near his tenor. They call him "the sax doctor" and he works up at Rayburns Music Store in Boston. Anyway, I've known Emilio since I was nine years old (he sold me my first alto) and his first impulse, when I told him the story of your horn, was to offer his services to you and the nation! Enclosed is a letter that he wrote to you.

All our best wishes and support for the innovative work you're doing as the leader of our country. We believe in you.

Sincerely,



Jane Ira Bloom
345 West 88th St. #4B
New York, NY 10024
tel/ fax 212 724-8467
website: <http://www.tuna.net/janeirabloom/>

JIM DORSKIND:

Please coordinate
the reply.

TIME

SPECIAL ISSUE

WOMEN: THE ROAD AHEAD

PROFILES

To Each Her Own

Combining talent and drive, 10 tough-minded women
create individual rules for success

BY WENDY COLE



Jane Ira Bloom

Saxophonist

What does America's space program have in common with a soprano saxophone? Quite a lot, when the instrument is played by Jane Ira Bloom, 35, a jazz virtuoso who was the first musician commissioned to create a work for NASA's art program. Witnessing a *Discovery* shuttle launch close up inspired her to compose a four-part suite entitled *Rediscovery*, which premiered at Cape Canaveral last fall. Long fascinated by the links between music and motion, Bloom has also composed scores for the famed Pilo-bolus Dance Theater and the repertory theater at Yale, where she earned a master's in sax in 1977. She uses a synthesizer, controlled by foot pedals, to amplify her ethereal solos into swirls of sound that evoke the Doppler effect, the drop in pitch that occurs when a train rushes by with its horn blaring. Bloom has six times been cited in *Down Beat's* annual critics' poll as a talent deserving wider recognition. As to why she first took up the notoriously cranky instrument, she has a winning answer: "It looked so shiny."

JANE IRA BLOOM

saxophonist/ composer

"Jane Ira Bloom has thoroughly mastered the often resistant soprano, an instrument on which there have been few virtuosi in jazz history. Her sound is strong, clear, and actually sings. Moreover, she is an unusually resourceful, cohesive, melodist - creating what sound like 'spontaneous compositions'..."

- Nat Hentoff
Modern Recording

"Sidney Bechet...John Coltrane...Steve Lacy...Wayne Shorter ...Jane Ira Bloom's album ...attests to her place among this select group of players."

- Gene Kalbacher
Modern Recording & Music

"what Miss Bloom has...is flair, individuality, and a warm, full-toned, positive attack that pulses with rhythm and ...melody"

- John S. Wilson
New York Times

"a great talent on the soprano sax who's developed a ...tone that is completely her own."

- Peter Hadekel
Montreal Gazette

"one of the world's best soprano saxophonists."

- Scott Yanow
LA Jazz Scene

"a commanding and insightful improviser...Beyond doubt Bloom is an artist with a direction for the future."

- Leonard Feather
Los Angeles Times

"a monster soprano saxophonist"

- Gavin Report

"Ms. Bloom...has emerged as one of the most acclaimed players of a younger generation of jazz musicians who...are finding new ways to use technology in a creative, exploratory, manner."

- Stephen Holden
New York Times

"one of the most gorgeous tones and hauntingly lyrical ballad conceptions of any soprano saxophonist...she's an original."

- Kevin Whitehead
Pulse

"add her name to the pantheon of the country's greatest jazz artists."

- Washington Post

"an excellent composer and a world-class improviser, I can think of no one else I would rather hear play a soprano saxophone"

- Jim Wilke
Jazzbeat

"Combining talent and drive, one of 10 tough-minded women who have created individual rules for success."

- TIME Magazine

"Playing jazz for the future"

- Atlanta Constitution

"A consummate performer of spontaneous improvisations imbued with an innate sense of form...Bloom possesses an arresting soprano sound...I am firmly convinced that hers is a voice destined to be at the cutting edge of tomorrow's music."

-Chuck Berg
Jazz Times

"a soprano saxophonist whose sound and approach are as distinctive as Steve Lacy's or Wayne Shorter's...there's at least one saxophonist who knows to play the lyrics as well as the tune."

- Robert Palmer
New York Times

"an intelligent passionate improviser, Bloom transcends virtuosic chops..."

- Bill Milkowski
Downbeat

"What strikes me about Jane Ira Bloom is the quality of sound she produces on the soprano saxophone...some of the most tasteful and original uses of 'live' electronics I've yet heard..."

- W. Royal Stokes
Jazz Times

"a cagey, swashbuckling soprano saxophonist, who's one of the true originals on her instrument."

- Gene Seymour
New York Newsday

"stunningly imaginative and witty .."

- New York Post

"Bloom is a mad scientist of swing, blessed with a startlingly bold musical imagination...A true 20th-century technophile..."

- Elena Oumano
TAXI

"a truly brilliant player with unlimited range on the soprano sax. . She can produce moments of breathtaking beauty or energetic intensity with equal ease."

- Michael Point
Austin-American Statesman

"Bloom has established and maintained a level of excellence that few other players can boast of."

- Windplayer

"she tries to capture in music the poetry she imagines of soaring in space."

- Fred Bouchard
Jazz Times

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May 19, 1997

Mr. President
The White House
1600 Pennsylvania Avenue
Washington, D. C.

Dear Mr. President:

It has recently come to my attention through Jane Ira Bloom, and the world of saxophonists that you have a special instrument that may need some work. I would like to humbly offer my services in this regard.

It would be a great honor and privilege for me to repair your instrument. Restoring saxophones and bringing back their beauty of sound is my life's passion and work.

Please accept my offer and allow me to share the gift of music with my President and my country.

Respectfully yours,


Emilio Lyons

Rayburn

Musical Instrument Co., Inc.



Emilio Lyons
Woodwind Specialist

263 Huntington Ave.
Boston, MA 02115
(617) 266-4727 Ext. 13
Fax (617) 266-1517



SAX DOCTOR RIDES AGAIN!

by Emilio Lyons, D.S. (Doctorus Saxophonus) & Fred Bouchard



The Wall of Honor at Raeburn Music in Boston curls with scores of glossy photos of saxophonists, of local and international fame, extolling the skills and signing [sic] their praises of The Sax Doctor, Emilio Lyons. The stories go far beyond the pictures in showing the dedication of this Neapolitan craftsman to the clear, crisp, full, and true sound of each player's horn.

Stan Getz, called in by John Williams as a last-minute replacement for the ailing Benny Carter to play Boston Pops, needed his good friend to make some small adjustments to his horn before he went onstage. Getz, radiant as the stageful of flowers and sounding as fit as Tamara Smirnova-Sajfar's first fiddle, played "My Shining Hour" and



The Sax Doctor and Stan Getz backstage at the 1990 Umbria Jazz Festival

"Goodbye" with his signature soaring grace and bluesy thrust. The next day, it's a Berklee instructor with a leaky pad, or a New England Conservatory student in need of mouthpiece advice.

About Emilio, long a close friend, Stan says: "Emilio is a typical old-world artisan who does his work with much honor and joy. He's not in it for the money, because he takes pride in his work. I wish there were more like him. He's the best saxophone repairman in the world, and one of the finest human beings I have ever met. I love him!"

And so it goes. When saxophone players need help with their horns, they know where to find the Sax Doctor. They come from all over, the unknowns and the greats.

I have a problem with cleaning my saxophone. I have not yet found a truly efficient way of keeping it clean inside. I am curious if there is any fluid I could buy to put through the tubing that would clean it thoroughly, without

damaging my pads. What's your method?

Teena Eggleston, Manchester, NH
The best way is the old-fashioned way. Make a swab out of half a t-shirt and tie it to a long string with a fish weight at the other end. The string should be long enough to go from the neck through the bell. This works better than a stiff brush. Spray a little WD-40 on the cloth; it's a good cleaner and won't hurt the pads. That cleans the bore and makes the saliva drip through faster so it has less contact with the pads.

I have recently bought a wonderful sounding Martin tenor saxophone. However, gaining knowledge about its age or history of the Martin Company seems almost impossible. It is a Richards Martin, made in Indiana, with a shield under the right thumb support inscribed RMC. The serial number is 87432 s x 54. Can you help?

M. F. Thompson, Burnham-on-Crouch, Essex, England
When I started working at Raeburn Music 30 years ago, Martins were very big, as big in popularity and sound as the old Conn. The one you have is of a good vintage. The Martin action is a little awkward, not as fast as a Selmer or Yamaha; these have more edge and are more suited to the style of today. They have not been made for many years. But the Martin sound is very deep and mellow, just as good as Selmer.

I have played alto saxophone in my high school band, and after I participated in the local district band festival became exposed to new things, including some jazz. I was wondering why the Selmer Mark VI is proclaimed by many musicians as the best saxophone ever made. I know they stopped making them 20 years ago, but they still can be bought new. Why doesn't Selmer make an anniversary model? Why aren't new Selmers as good? Are the Mark VIs better suited to jazz? I hope you can answer these questions before I purchase my next saxophone.

Eric Switzer, Camp Hill, Pa.
You know, Eric, I wonder, too! To tell the truth, the new Super Action S80-II is really excellent. They're very well made, and the action is improved. If you put any Mark VI up against it one-on-one, the S80-II has more projection, better intonation, more power. It's as good, if not better, than the Mark VI. If you try five or six Mark VIs, one of them may have a rounder, mellower sound than the S80-II. People are too stubborn about Mark VIs—I'm sick of hearing about how great they are. It's a lot of baloney. The Super Action deserves a chance. People really should test and compare.

Do you know of any books or manuals on repairing a sax? In this part of the world info about wind instruments in general is very hard to find. Thanks for sharing your know-how with all sax people on this globe. God bless you.

O. Szekeley, Singapore
Eric Brand's *Band Instrument Repairing Manual* [1117 W. Beardsley Ave., Elkhart, IN 46154, (800) 398-7586] covers all instruments: brass, piano, strings—everything. All the woodwinds, mouthpieces, even replacing mouthpieces, are covered. Brand and Ferree's [1477 E. Michigan Ave., Battle Creek, MI 49017, (800) 253-2261] supply tools, pads, and everything you need for repairs and maintenance.

As a saxophone player, I understand that there are three dimensions to the saxophone: the lower, middle, and high registers—with a

bonus of the harmonics. Do you have a system for making each dimension of the horn respond equally in resonance with a light touch setup? If so, is this setup programmed to sustain an equal response in all three registers of the horn, [even] when the pads begin to wear down?

Billy Robinson, Ottawa, Ontario, Canada
The way I set up the saxophone is like an [upside-down] ice cream cone. You have to match the [increasing] bore of the instrument with the pad heights for best intonation. As you go down on an alto or tenor, the bore needs more es,ape for the air column. My [rough] measure is a pencil with an eraser head. So I raise the palm keys (D, E, F) about half the width of a pencil eraser. I make the left-hand keys (first-finger B to G) a little higher, so the eraser can't quite fit in. The right-hand keys (F to D) are higher than the left-hand, so the eraser fits

in easily. Then low C and C# are higher, so the eraser can wiggle, and the low B and B#, the highest, 1½ eraser widths.

If you set up too high, it's hopeless. There's no need for it. People are crazy. If the action [gap] is [set at] two erasers, you lose center and projection. The sound plays out sideways. It may sound big to you, but not to your audience. If it's too low, the horn sounds stuffy.

Pads have nothing to do with the sax getting thrown out of adjustment or disturbing the air column. If a pad leaks, you lose power and have to play harder, but you don't lose intonation.

You can ask the Sax Doctor your own question. Write to him care of: DOWN BEAT, 180 W. Park Ave., Elmhurst, IL 60126. DB

THE WHITE HOUSE
WASHINGTON

Date

6-4

To:

Sandy Berger

From:

The Staff Secretary

I've forwarded this
short note from Bob
Rosen to the
President. (The
NSC package went to
Rosen last night.)

red



DEPARTMENT OF THE TREASURY
WASHINGTON, D.C.

SECRETARY OF THE TREASURY

June 4, 1997

'97 JUN 4 PM12:37

MEMORANDUM FOR PRESIDENT CLINTON

FROM: Robert E. Rubin *R.E.R.*
SUBJECT: Your Dinner with German Chancellor Kohl

I would like to provide you with some background on the economic issues facing Germany, with EMU on the horizon, and related U.S. interests.

Germany's Economic Challenges

Chancellor Kohl's principal challenge is to generate sustained economic growth to lower Germany's high unemployment, while also bringing down the budget deficit.

- Over the past four years, Germany has grown at half of the U.S. rate. Most economists forecast growth of only 2-1/4% - 2-1/2% in 1997-98, not enough to bring down unemployment much.
- Jobs in Germany have fallen by nearly 1-1/2 million since 1993; unemployment is now over 11 percent.
- Chancellor Kohl faces enormous difficulties in getting parliamentary approval of tax reforms and structural reforms that are needed to increase investment and employment in Germany.

Prospects for EMU Growing Cloudy

Developments over the past two weeks have increased the uncertainty surrounding EMU and its implications for the rest of the world.

- Chancellor Kohl is an ardent supporter of EMU, but the German public is worried about replacing the DM with a potentially soft, inflationary euro (the chosen name of the new currency). To assuage German fears, Chancellor Kohl's government has consistently argued for a strict interpretation of the Maastricht criteria with the unstated intention of excluding inflationary, high-deficit countries like Italy. But both France and Germany, the two essential players in EMU, face difficulties in reaching the 3% budget target.
- Last month, Chancellor Kohl's government sparked a major political row with a plan to revalue gold held by the

Bundesbank and transfer the resulting profits to the government. This plan apparently provided a painless way of closing small budget gaps for 1997 and 1998. The Bundesbank denounced the plan and this week the government backed off from its proposal.

- Meanwhile, the Socialist victory in the French parliamentary elections poses a problem for Germany. The Socialists campaigned against EMU-inspired austerity. Prime Minister-elect Jospin stated after the election that he would insist on a broad EMU that includes countries such as Italy and Spain.

U.S. Interests in EMU

We have consistently supported European integration, but we have not explicitly endorsed EMU nor have we publicly commented on the specifics of how EMU is launched and which countries participate.

Our interests lie in seeing that sound and credible policies are adopted that will enable Europe to meet its economic challenges effectively. If Europe succeeds in addressing these challenges, we see no risks for the United States. However, we are concerned that in their attempt to meet the Maastricht criteria and in the transition to EMU, European governments have not and will not devote enough attention to their pressing need for labor market and competition reforms.

G-7

On a different subject, the only real leadership in international economic affairs comes from the G-7 Finance Ministers, who report to the G-7 Heads of State. It's important to keep this process intact. It works because these countries share the same perspective of developed economies. We are not asking you to raise this, but provide this in case it comes up.



THE SECRETARY OF THE NAVY

WASHINGTON, D.C. 20350-1000

3 June 1997

Through for

The President
The White House
Washington, DC 20500

97 JUN 3 PM 5:18

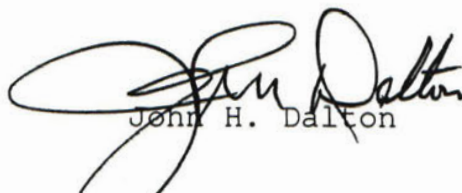
Dear Mr. President:

While in Connecticut on May 18th to receive an honorary degree from Trinity College, I had the pleasure of meeting with Mr. Joseph Donahue, Executive Director of the National Purple Heart Museum. We discussed the progress of the Museum development project and his plans for advancing the national fund-raising campaign.

I was most impressed with his report on the plans for this important Museum. When complete, the National Purple Heart Museum will serve as a living memorial to the brave American servicemen and women wounded in combat since 1783, the year General George Washington presented the first "Badge of Military Merit." Our veterans deserve the recognition of a grateful Nation for their dedication to our core values of honor, courage, and commitment. I am confident that the National Purple Heart Museum will be a fitting tribute to these brave Americans.

On his request, I have enclosed a commemorative Museum shirt from Mr. Donahue. I hope that you will accept his gift as a testament of the faith and confidence with which our veterans regard their Commander-in-Chief.

Sincerely,


John H. Dalton

Enclosure

6-4-97

Send to Denmark? 
Yes 
No 

McLeod Bags Four for \$4



Clark McLeod

Budget Hole

For decades the FCC parceled out spectrum via "comparative" hearings that took years and at lotteries that handed winners free licenses that they frequently sold for windfall profits. But in 1993, lawmakers decided auctions would deliver spectrum to worthy competitors more quickly, while raising more money for the government.

Please Turn to Page A10, Column 1

Having mastered long-distance service, he decided to compete against e-

Chairman Hundt defends the FCC's hands-off approach. With more time, selected industries could have developed clearer plans, he says, but adds, "I do think the government should tell industry how to use spectrum." The FCC chose to set minimum bids for the auction, but because officials thought it would discourage bidders and, contrary to Congressional orders, leave a lot of unauctioned licenses, Also, FCC officials say it would have been difficult to set minimums for licenses in dozens of different U.S. markets.

The company has yet to receive formal licenses, but the FCC recently sent something else just as welcome: a refund of \$3,004,996.



Keith Moloj

THE WALL STREET JOURNAL
TUESDAY, JUNE 3, 1997

THE PRESIDENT HAS SEEN

VP
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THE PRESIDENT HAS SEEN
6-4-97

Chris Jennings
for [signature]

Copied
Jennings
cos

By David Brown
Washington Post Staff Writer

The Long March Toward Stamping Out Infectious Diseases

It takes a lot to kill off a disease.

Smallpox died in Somalia in 1977. Two decades later, it remains history's unique case of disease eradication. The goal was reached after a 10-year international campaign to vaccinate hundreds of millions of susceptible people and to find every single new case of infection.

Polio disappeared from the Western Hemisphere in 1991, when the last case occurred in Peru. Today, more than 120 countries are polio-free. In a campaign reminiscent of the one against smallpox, public health officials and international aid agencies plan to eradicate polio worldwide by the year 2000.

The number of cases of the tropical infection called guinea worm disease has fallen from 3.5 million a decade ago to 153,000 last year. About 80 percent of cases now occur in Sudan, where civil war has blocked efforts by numerous agencies to stamp out the disease. If the war abates, guinea worm too could be eradicated by 2000.

Already, public health officials are mapping out a strategy to take on measles in the new millennium. The eighth leading cause of death in the world in 1990, measles until recently was considered ineradicable.

Simultaneous with these historic efforts are lesser-known campaigns against infections

that strike, cripple and occasionally kill millions of people in dozens of developing nations.

For many of these infections, eradication is impossible for practical or biological reasons. Organisms that infect animals as well as man, for example, can't be eradicated because the animal "reservoir" will always persist even if the human infections are eliminated.

With ineradicable diseases the goal is more modest, though not less important. It is to reduce greatly the number of people infected or to prevent the infection's worst effects from occurring. Even when such goals are achieved the work isn't over.

"With eradication, there's eternal benefit, eternal savings, and you can forget about the disease. With these others, you may eliminate the disease but the infection still exists, so you must still have control measures and surveillance," said Ciro A. de Quadros, director of immunization programs for the Pan American Health Organization and chief architect of the polio campaign in the Western Hemisphere.

Four tropical infections are now under intensive attack, although they are not currently candidates for eradication. They are leprosy, onchocerciasis, lymphatic filariasis and Chagas disease.

Leprosy, a disease whose disfiguring effects have been dreaded since antiquity, has fallen from 5.4 million cases a decade ago to slightly fewer than 1 million cases today. It is most prevalent in India (where it occurs at more than three times the global rate) and in Southeast Asia.

Like tuberculosis, leprosy can be cured with a prolonged course of multiple drugs, which limits or prevents the characteristic damage to the skin and limbs. Unlike the TB bacterium (to which the leprosy bacterium is distantly related), multiple-drug resistant strains of the disease haven't developed.

Recent studies suggest that a single dose of three drugs may be enough to cure very early cases of the disease. However, most cases of leprosy cause no symptoms or obvious abnormalities. There's no way of diagnosing them, even though the people with these "subclinical" cases can infect others. For that reason, leprosy isn't likely to be eradicated even if its prevalence continues to fall steeply.

Onchocerciasis, a parasitic disease also known as "river blindness," has been the object of intensive control efforts since 1974, when the World Health Organization (WHO) and numerous donor agencies targeted the 11 West African countries where the disease is most common.

Black flies, which deposit their eggs in flowing water, transmit the parasite when they bite human beings to obtain a blood meal. Once inside the body, the organism can grow into a worm of visible size. The millions of microscopic larvae, however, do the actual damage as they migrate through the body.

More than two decades of aerial insecticide spraying has virtually wiped out onchocerciasis in seven of the original 11 countries. The other four countries are expected to be free of onchocerciasis by 2002. This quasi-military operation has been supplemented since 1987 with treatment of inhabitants with a pill called ivermectin. Taken once a year, the drug prevents blindness by killing the larvae. Unfortunately, it doesn't rid the body of the adult worms, which live about a dozen years.

Since the program began, about 200,000 cases of blindness have been prevented; 30 million people are no longer at risk for the disease; and about 65 million acres of largely uninhabited land has been opened for settlement.

Local and international agencies are now concentrating on 18 other African countries where a form of onchocerciasis that is rarely blinding but which causes a chronic, maddening itch, afflicts millions of people.

The key to that campaign is ivermectin, which Merck & Co., the drug's maker, is providing free for an indefinite period. (The company gave away more than 19 million doses last year.) However, because killing the black flies is not part of the program in those countries, transmission of onchocerciasis will continue even if its worst effects are eliminated.

Lymphatic filariasis is a parasitic infection that can cause fever and an asthma-like breathing problem. The disease's most feared complication, however, is the massive swelling of limbs or genitals known as elephantiasis. About 120 million people carry the parasite, and 43 million are ill from it.

In a landmark study published last year called "The Global Burden of Disease," researchers used the prevalence of a disease, the duration of its effects, and the severity of its disabilities to calculate the "burden" of nearly 500 diseases. Lymphatic filariasis accounted for the most disability of six tropical diseases considered.

International health organizations are starting a major assault on lymphatic filariasis. A major reason for the commitment is the recent discovery that a single dose of the chemical compound diethylcarbamazine (DEC) can quell the infection and prevent complications for a year. Previously, two weeks of treatment were thought necessary.

This new finding raises the possibility that whole populations can be treated for the disease. Other mass-targeted strategies are underway, such as the recent introduction of DEC-fortified salt in markets in India.

The fourth targeted infection is Chagas disease. Caused by a protozoa and transmitted by the bite of *Triatoma infestans* ("the kissing bug"), it exists only in Latin America. Chronic heart damage develops in more than one-quarter of its victims.

In 1991, the health ministers of six South American countries launched a campaign to rid houses of *T. infestans* through insecticide spraying and the use of insecticidal paints. Transmission of the Chagas disease parasite is expected to be nearly eliminated in Argentina, Brazil, Bolivia, Chile and Uruguay by 1999, with Paraguay following a few years later.

If those goals are achieved, 70 percent of new cases of Chagas disease will disappear.

The Washington Post

MONDAY, JUNE 2, 1997

THE PRESIDENT HAS SEEN
6-4-97

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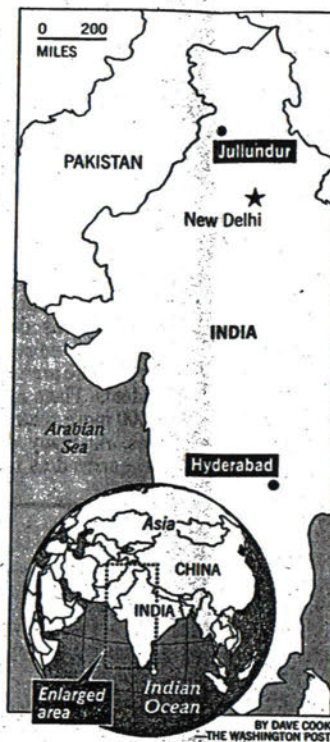
India Moves Missiles Near Pakistani Border

By R. Jeffrey Smith
Washington Post Staff Writer

India's military forces recently moved a handful of medium-range ballistic missiles to a prospective launch site near the Pakistani border, raising fresh concerns in Washington that the two enemies may have entered a provocative phase in their long-standing arms race, U.S. officials disclosed yesterday.

The missiles, called Prithvi, currently are capable of carrying conventional but not nuclear warheads. U.S. intelligence agencies have concluded that fewer than a dozen are now located near the city of Jullundur in the state of Punjab in northwest India. The site is a long way from the factory where most of their Prithvi components were produced, at Hyderabad in southern India, and constitutes a serious ratcheting-up by the Indian military of its historic rivalry with Pakistan's armed forces, the officials said.

Some U.S. intelligence officials have privately described the movement of the missiles as the first operational deployment of the Prithvi since its development began more than a decade ago. But several other officials cautioned that Washington does not know if all of the equipment and troops needed to launch the missiles are also at the site near Jullundur; one official claimed "the best judgment" is that the requisite gear is not there.



"We know that the missiles have been moved, and in the wrong direction," said one U.S. official who is familiar with intelligence reports on the matter. "This is going to prompt a

bad reaction—even an overreaction" in Pakistan, said another official.

There are two versions of the Prithvi, a single-stage, truck-mounted missile derived from Soviet technology. The army's version has an estimated range of 93 miles, giving it the capability to be launched from an area near the Indian border and hit Pakistan's capital at Islamabad or major cities such as Lahore, Faisalabad, and Rawalpindi, the U.S. officials said.

They expressed uncertainty why the missiles were moved to that site at a time when senior Indian and Pakistani political officials have begun moving toward an improved dialogue and a possible reduction of tensions. But one U.S. official said Indian military officials "may have felt some pressure" from legislators and security analysts who began agitating publicly for deployment of the Prithvi as soon as its flight tests were completed this spring.

Speaking about the U.S. effort to prevent a missile arms race on the South Asian subcontinent, a senior U.S. official said, "It looks like that's starting to come unraveled."

Other officials who spoke on condition of anonymity provided details of the Indian action and amplified this expression of concern, predicting that Pakistan may react to its disclosure by taking some provocative new military action of its own—possibly including making a public declaration that it has

deployed similar medium-range missiles of its own, known as M-11s.

India has been developing five warheads for the Prithvi that are packed with conventional explosives, two versions of which are evidently completed. A Pentagon report in April 1996 said that "the Indian Army has completed user trials with the Prithvi," meaning that it has practiced moving the missiles around and launching them from sites that had been specially surveyed in advance.

India does not now have the capability to equip the Prithvi with a nuclear warhead but is believed by Washington to be working on such a capability, one U.S. official said. Pakistan may already have completed its development of a nuclear warhead for its M-11s, which U.S. intelligence officials say have been stored at an air force base west of Lahore.

Pakistani officials have hinted in the past that the country might respond to the missile deployment by dropping its public denial that it has M-11s, which U.S. officials say were purchased several years ago from China. If it did so, U.S. officials said, the Clinton administration would be forced to act under a law aimed at discouraging missile proliferation by invoking wide-ranging trade sanctions against China.

Shiv S. Mukherjee, a spokesman for India's embassy in Washington, declined to comment on the U.S. allegations about the Prithvi yesterday.

The Washington Post

TUESDAY, JUNE 3, 1997

THE PRESIDENT HAS SEEN

6-6-97

Sandy
What's your
take on this?
RC

THE PRESIDENT HAS SEEN
(6-4-97)

To VP
Do you agree w/ GAO?
RB

copied
VP
COS

Agencies Are Having Difficulty Measuring Success, GAO Finds

Report Predicts 'Uneven' Implementation of 1993 Law

By Stephen Barr
Washington Post Staff Writer

The General Accounting Office issued a 116-page report yesterday that found many federal agencies have trouble answering the question: "What are we accomplishing?"

The question is one of the keys to fulfilling the intent of the 1993 Government Performance and Results Act, but the GAO said its studies show the first round of pilot projects set up under the law "achieved mixed results, which will lead to highly uneven government-wide implementation in the fall of 1997."

Agencies will likely meet the September deadline stipulated in the Results Act for filing strategic plans and annual performance goals, it said. But the Hill auditing agency predicted "those documents will not be of a consistently high quality or as useful for congressional and agency decision-making as they could be."

The Results Act, also known as GPRA, seeks to improve the efficiency and effectiveness of federal programs through the creation of a system for setting goals and measuring outcomes to determine if program objectives are being met. The law has taken on increasing importance in recent months as the Congress and White House seek to eliminate duplicative or wasteful programs, cut spending and balance the federal budget.

Congress and President Clinton, who signed the law as part of his "reinventing government" initiative, hope GPRA will provide a framework to improve the management and accountability of government agencies. House Republicans, led by Majority Leader Richard K. Armey (Tex.), have set up teams to consult with agencies on how to measure program performance, while the Office of Management and Budget established an inter-agency group to share GPRA information.

"GPRA is critical to government being able to do its job in an era of downsizing," Senate Governmental Affairs Committee Chairman Fred D. Thompson (R-Tenn.) said yesterday. But, he added, "The GAO report shows that the administration needs to rededicate itself to truly providing a government that works better and costs less."

John A. Koskinen, the OMB deputy director who oversees GPRA for the White House, said, "While I understand that there will be those disappointed that not everyone is using performance information today... the presentation of the first strategic plans to the Congress and the public in September, is the start of the dialogue about performance, not the end of it."

To give federal agencies time to develop GPRA procedures, Congress laid out a seven-year timetable for the law's implementation.

To test the law's requirements, the administration established more than 70 pilot projects to focus on the preparation of annual performance plans and reports. The pilots covered an estimated \$50 billion worth of federal programs and involved a quarter of the executive branch work force.

GAO, in reviewing the pilot projects and other efforts to comply with the law, found federal agencies face several challenges:

- Overlapping and fragmented programs, such as student loans and economic development. Although agencies administering such programs coordinate their efforts, the GAO said split responsibilities "can undermine efforts to establish clear missions and goals. Agencies sometimes face conflicting policy objectives, too. The U.S. Forest Service, for example, seeks to promote timber sales while protecting wildlife.

- Limited or indirect influence in determining whether a program achieves the desired result. Regulatory agencies, scientific research programs and agencies that deliver services through third parties, such as local governments and nonprofits, face difficult challenges, the GAO said.

- Lack of information on program performance. Even when the data exist, the GAO said its studies consistently questioned the quality and accuracy of the information.

- Linking agency performance plans directly to the budget process. A number of programs probably will have to change their structure or procedures to link program goals and taxpayer dollars, a prospect the GAO predicted will plunge Congress and agencies into a "time-consuming and difficult process."

Despite the uneven start, the GAO report noted a few agencies have adopted a disciplined approach to setting goals and measuring their performance. It cited the Coast Guard, Veterans Health Administration, Social Security Administration, Food and Drug Administration, the U.S. Mint and the Defense Logistics Agency.

The logistics agency, for example, reduced the delivery time of nearly all medical supplies from 30 days in 1993 to 24 hours today. At the same time, it reduced prices by 73.5 percent, the GAO reported. Under the revamped procedures, GAO said, the logistics agency reported that it avoided inventory costs of \$95.7 million in fiscal 1995.

The GAO report, "The Government Performance and Results Act: 1997 Governmentwide Implementation Will Be Uneven," will be posted on the GAO's Internet site, www.gao.gov, today. The report's identification number is GAO/GGD-97-109.

The Washington Post

TUESDAY, JUNE 3, 1997

French Vote Underlines Shift in Europe

Emphasis on Labor Issues Could Weaken Attempt To Alter Welfare States

By THOMAS KAMM
And DOUGLAS LAVIN

Staff Reporters of THE WALL STREET JOURNAL
PARIS—Europe has turned left.

With Lionel Jospin's appointment as French prime minister following the Socialist Party's stunning electoral victory, the left is clearly Europe's dominant political force at a crucial time in the continent's race toward a common currency.

Coming one month after Tony Blair's resounding triumph in Britain, left-wing parties control or are part of 13 governments out of the 15 in the European Union. Only Germany and Spain are hold-outs — and many say Mr. Jospin's victory further weakens embattled Chancellor Helmut Kohl ahead of next year's German elections.

The leftward lean portends a shift in Europe's political and economic agenda toward an emphasis on jobs and labor issues, which could weaken European countries' resolve to tackle deep change in their welfare states. "This slows down the main topic on the agenda: the EU's adaptation to the rules of tomorrow's world," says Sergio Romano, a professor of international relations at Milan's Bocconi University. "There is undoubtedly uneasiness in European societies about moving toward greater competitiveness."

But this appearance of a uniform changeover is deceptive, as many leftists openly embrace the free market. Moreover, while European Socialists may now hold the levers of political power, their ability to bring substantial economic change is limited by two key factors: economic globalization and Europe's drive to forge a common currency, which the Socialists support in most of Europe and which force governments to adhere to strict budgetary and fiscal criteria.

"There's a political turn to the left, but not an economic one," says Philippe Moreau Defarges, head of European studies at the French Institute for International Relations. Reflecting this perception, the CAC-40 index of the Paris Bourse actually rose 0.68% yesterday after election results showed that the Socialists and their Communist Party allies would govern.

Still, the leftward tilt does mean a change in priorities, and a rejection of deep changes in welfare. By voting for the left, European voters showed they want fighting joblessness at the top of the agenda, and this could spur an effort by France to seek to loosen the criteria for Economic and Monetary Union, or EMU. While this could allow a slightly more expansionist economic policy, analysts say it would also slow Europe's efforts to overhaul its generous welfare states, which many say hinder Europe's global competitiveness.

France will offer a quick test of what sort of economic policies the center-left can actually implement in today's Europe.

If re-elected, France's center-right government had expected to begin the partial privatization of France Telecom SA this week, but the Socialists say they will block it. The Socialists also made generous promises that seemed to ignore the fact that the French government can ill-afford new public spending and French business can ill-afford any increase in the cost of hiring workers. They promised during the campaign to increase administrative barriers to layoffs, cut the workweek to 35 hours from 39 and create 700,000 jobs, half of them in the public sector.

The Left Sweeps Europe

Thirteen of the 15 countries in the European Union are headed by a center-left government or a coalition that includes the center-left.

COUNTRY	HEAD OF GOVT.	PARTY	PARTY RULING SINCE
Germany	Helmut Kohl	Conservative	Oct. '92 ¹
France	Lionel Jospin	Center-left	June '97
Italy	Romano Prodi	Coalition led by center-left	April '96
United Kingdom	Tony Blair	Center-left	May '97
Spain	Jose Maria Aznar	Conservative	May '96
Belgium	Jean-Luc Dehaene	Coalition led by center-left	March '92
Greece	Costas Simitis	Center-left	Sept. '96
Netherlands	Wim Kok	Coalition led by center-left	Sept. '94
Portugal	Antonio Guterres	Center-left	Oct. '95
Austria	Viktor Klima	Coalition led by center-left	Jan. '97
Sweden	Goeran Persson	Center-left	Oct. '94
Denmark	Poul Nyrup Rasmussen	Coalition led by center-left	Jan. '93
Ireland	John Burton	Coalition led by center-right	Dec. '94 ²
Finland	Paavo Lipponen	Coalition led by center-left	April '95
Luxembourg	Jean-Claude Juncker	Center-left	Jan. '95

¹Elections in Oct. 1998 ²Elections this month

But they also promised not to increase public spending or taxes and are now seeking to reassure investors that they remain committed to economic and monetary union.

France's allies and investors will be closely watching Mr. Jospin's cabinet choices for clues to the new government's fiscal responsibility. But it will need support from the Communists, who are demanding such things as an increase in the minimum wage to show voters that a real change of government has occurred.

Italy might be a model. Like France, the country has a center-left government, headed by Prime Minister Romano Prodi, that depends on the hard-line Refounded Communist party to pass legislation. This hasn't prevented Mr. Prodi from carrying out tough fiscal policies: the government aims to nearly halve the budget deficit this year to be close to the EMU target of 3% of gross domestic product. It has also enforced new taxes to plug holes in government finances and pushed ahead with privatization plans.

But Italy so far hasn't been able to introduce long-term structural reforms in public spending, notably pensions and welfare, largely because of obstruction from its hard-line Communist backers and unions.

Britain's Mr. Blair finds himself at odds with other Socialist parties on a number of issues. Last night, he outlined a "welfare-to-work" program that is more right-wing than what many European conservatives would dare suggest. It aims to get Britain's "workless class" back into the economic mainstream — but would strip benefits from those who refuse jobs or training.

Mr. Blair has said he would adopt the EU Social Chapter that endorses worker rights, but he also argues that Europe needs more flexible labor markets if it wants to create jobs and should increase competition in protected sectors such as energy or financial services — a stand that conflicts sharply with Mr. Jospin's.

Germany is one of the last redoubts of the European right. The Social-Democrats have been in opposition to Mr. Kohl for the past 14 years. But as Germany's 1998 election nears, the question is whether the center-left sweep will knock out even Mr. Kohl, Europe's political titan.

Gerhard Schroeder, the pro-business Social-Democrat premier of Germany's Lower Saxony state, outranks Mr. Kohl in German opinion polls and is widely seen as the opposition's best chance for victory. And as Germany suffers from the worst unemployment since World War II, Chancellor Kohl's government looks paralyzed as coalition parties bicker about ways to

cut spending and find new revenue to rein in the country's ballooning budget deficit.

Analysts say it is too early to count Mr. Kohl out. But, surveying Europe's new political landscape, a prominent German political analyst who requested anonymity because of his ties to Mr. Kohl said:

"If I were the chancellor, I would probably say, 'Good God, Tony Blair on a moderate Euro-skeptic ticket sails to power in Britain and Lionel Jospin, on a moderate Euro-critical ticket, sails to power in France. What does that say for me?'"

— Maria Stijger in Milan
And Cécile Rohwedder in Bonn
contributed to this article.

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THE WALL STREET JOURNAL
TUESDAY, JUNE 3, 1997

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Surging Economy Bypasses Black Men

Blue-Collar Workers Face Particularly Daunting Odds

By CHRISTINA DUFF

Staff Reporter of THE WALL STREET JOURNAL
WASHINGTON—A surging economy is supposed to carry with it all types of people, but low-skilled black males haven't quite caught the wave.

Certainly, the "strongest economy in a generation," to borrow from President Clinton, has lowered unemployment rates across the map and brought all sorts of workers out of the woodwork. "I don't think there's a lot of doubt that improvements have been broad-based," said economist Gary Burtless of the Brookings Institution.

Broad-Based but Unequal?

Broad-based, yes. But equal? Not really. Though the latest expansion has helped both blacks and whites, it hasn't done much to narrow the gap between them. Black workers are making just 76.5% of what white workers make per week—down from the 78% they made in 1990.

Black males in particular are losing ground, especially if they didn't attend college—and only about 14% did. The earnings gap between black male college and high-school graduates has widened four times as much since 1990, as has the gap between their white counterparts. Unemployment is running at 3.5% among college-educated black men—way below the 9.5% among black high-school grads. Comparable figures for white college and high-school grads: 2.1% and 4.0%, respectively. "The premium for black men with a college education is really glaring," said Jared Bernstein, labor economist for the Economic Policy Institute.

Although the jobless rate for adult black men is about the same as for black women—8.9% in April—black men's earnings have fallen more in inflation-adjusted terms than black women's in the current economic expansion. And black women's paychecks are much closer to those of their white counterparts than is the case among black men and their white counterparts.

The hurdles facing blue-collar black males reflect how much the economy has changed over the past decade. Consider Trumark Inc., a Lansing, Mich., maker of underbody car parts. At first glance, Trumark appears the ideal place for low-skilled black men to find jobs. It's in the Midwest, where the economy is booming, and it's run by Carlton Guthrie, a black man who says he prefers to hire black workers.

Because labor markets are so tight, Mr. Guthrie recently had to boost entry wages by \$1 to \$7.80 an hour, "just to attract folks." At the same time, however, auto clients have refused to pay higher prices for Trumark's parts—so Mr. Guthrie hasn't raised them.

Like many businesses, then, Trumark has had to do more work with fewer people to keep profit margins from collapsing. The company is down to just 230 workers from 350 three years ago. "Fewer black men are getting my jobs," Mr. Guthrie said.

'Soft Skills' in Demand

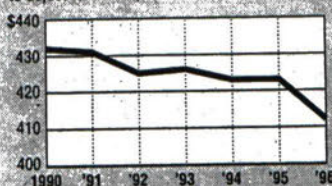
A long-term shift in the workplace is part of what's holding back lower-skilled black men: an emphasis on so-called "soft skills." Now, even factory workers must possess them. For instance, within the past decade, Trumark employees have been required to chart and analyze data electronically, to gauge both the quality and the quantity of what they make.

Many of these prerequisite soft-skills have more to do with personality, attitude

A Rising Economy Leaves Black Men Behind

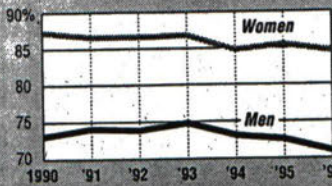
Typical Black Man Is Worse Off...

Median weekly wages, in 1996 dollars to adjust for inflation



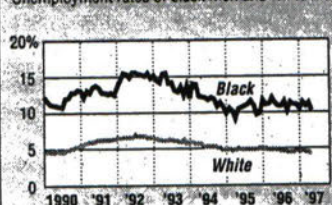
As the Earnings Gap Widens...

Earnings of blacks as a percentage of the earnings of whites, men and women



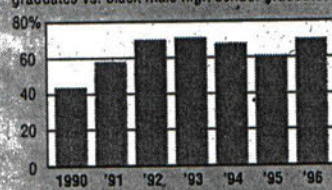
Blacks More Likely to Be Jobless...

Unemployment rates of black men and white men



But College Grads Fare Better

Additional earnings of black male college graduates vs. black male high school graduates



*Economic Policy Institute analysis of Bureau of Labor Statistics data, deflated by the Consumer Price Index
Source: Bureau of Labor Statistics

and behavior than formal or technical knowledge. Philip Moss of the University of Massachusetts at Lowell and Chris Tilly of the Russell Sage Foundation, New York, interviewed 56 employers in 1996 in an effort to explain black men's employment problems. They found that businesses rank black men poorly in terms of soft skills. It's "partly stereotype, partly cultural gap and partly an accurate perception of the skills that many less-educated black men bring to the labor market," they concluded. It's "inevitably subjective."

For five years, Trumark has required its factory workers to have problem-solving skills. With just \$45 million in sales, the company is smaller than some competitors and needs workers who can provide good ideas about how to improve, can work well in teams and have good communication skills. Since many workers don't read or write well, they must use graphics and find creative ways to communicate ideas. "It's much different from putting your hand on a button and watching the press go up and down," Mr. Guthrie said. "That won't get it."

Old Jobs, New Tasks

"As job requirements change, black men have suffered," said economist Margaret Simms of the Joint Center for Political and Economic Studies.

No one knows that better than Darrius Scott. He sells flowers on a street corner in an upper-middle-class neighborhood of

Please Turn to Page A10, Column 5

Continued From Page A2

Washington, but wants a better-paying job. Mr. Scott says he recently was turned down from a furniture-making company because his writing skills are poor. "I didn't see how that mattered," he said. Just last week, he was turned down for a \$12-an-hour job at a pension-benefit company because he couldn't use the computer fast enough to complete a simple math test in 20 minutes.

Harry Holzer, economics professor at Michigan State University, conducted a study in April to determine why there aren't higher employment rates among blacks. He found that when jobs don't require any special tasks—like computer use or dealing with customers—36% of them are filled by blacks. But when jobs require one or more of these tasks, only 20% are filled by blacks.

And long-term trends aren't the only factors decreasing the employment opportunities of black men. Trumark's auto clients also are making cost-efficient changes themselves, which squeezes the company. For example, Ford Motor Co. just discontinued its classic Thunderbird model, causing Trumark to lose \$6 million in sales this year. Fifteen workers, Mr. Guthrie said, will lose their jobs as a result.

"The economy is booming, so to speak," Mr. Guthrie said. "But there's a strong current to reduce costs and that has an indirect effect on black males. Often, they're the ones who are let go."

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Justices Agree to Take Up Liability in Police Chases

By LINDA GREENHOUSE

WASHINGTON, June 2 — The Supreme Court agreed today to set the legal standard for determining whether a police officer is liable for injuries resulting from a high-speed chase.

The Justices agreed to take up a case from a California county on a dispute that has divided the lower Federal courts. The question is whether to establish liability in a civil lawsuit it is sufficient to show that the police officer acted with "reckless disregard" for public safety, or whether an injured person seeking damages must meet the higher standard of showing that the police behavior "shocked the conscience."

The United States Court of Appeals for the Ninth Circuit, in San Francisco, ruled last year that the "reckless disregard" standard was sufficient. Under this test, a plaintiff must show only that the officer acted with deliberate indifference to danger posed by the chase.

That ruling reinstated a lawsuit brought by the parents of a 16-year-old boy who died after a patrol car driven by a Sacramento County Sheriff's deputy crashed into the motorcycle on which the teen-ager was a passenger.

The deputy had pursued the motorcycle at speeds of up to 100 miles an hour after the teen-ager driver ignored a command to stop. The motorcycle eventually skidded to a stop in the middle of the road, and the cruiser, following closely at high speed, slammed into it after skidding 166 feet.

The parents sued the deputy, another officer in the car and the county, alleging a violation of their son's 14th Amendment right to due process. The Federal District Court in Sacramento granted judgment for the officers and the county, ruling that even if the chase violated the boy's constitutional rights, the state of the law was not clear enough at the time of the chase, in 1990, to impose liability on the officers.

In overturning that ruling, the appeals court said the law was clear enough in 1990 that no reasonable police officer would have believed that the high-speed chase was lawful under the circumstances.

"We recognize that courts should be hesitant to second-guess government officials when they must make swift decisions regarding public safety," Judge Harry Pregerson wrote for the appeals court, adding, "But even swift decisions, if arbitrary, may violate the 14th Amendment."

In its Supreme Court appeal, Sacramento County v. Lewis, No. 96-1337, the county said the appeals court had made the police too vulnerable to lawsuits. The county warned that the decision could "both chill law-enforcement officers in the performance of their duties and encourage criminal activity."

There were also a number of other developments at the Court today as the Justices began the last full month of the term. With 26 cases remaining for decision, on subjects ranging from physician-assisted suicide to states' rights to free speech on the Internet, the Justices still have much of their hardest and most important work to do before adjourning later this month or in early July.

Property Law

Giving a broad interpretation to the Federal law that protects workers' pensions, the Court ruled that the property interests that husbands and wives share equally in the nine

states with community property systems must yield to the requirements of the Federal law, the Employee Retirement Income Security Act of 1974.

That law, known as Erisa, prohibits pension plan benefits to which a worker or spouse is entitled from being assigned to anyone else. In this case, *Boggs v. Boggs*, No. 95-1274, a woman in Louisiana, entitled under a state community property law to a half-interest in her husband's future pension benefits, died and left the bulk of her interest to the couple's children. The husband remarried. When he died, his second wife received the benefits under Erisa.

The children sued their stepmother, arguing that the state's community property law should govern the situation and that their mother's wish, as expressed in her will, should be enforced. They won in the lower courts.

But the Supreme Court, in an opinion by Justice Anthony M. Kennedy, found the Erisa law to pre-empt state law, and ruled for the second wife.

"States are not free to change Erisa's structure and balance," Justice Kennedy said.

The vote in the principal part of the opinion was 7 to 2, with Justices Stephen G. Breyer and Sandra Day O'Connor dissenting. Chief Justice William H. Rehnquist and Justice Ruth Bader Ginsburg dissented from parts of the opinion.

The ruling is important in the nine community property states: Arizona, California, Idaho, Louisiana, Nevada, New Mexico, Texas, Washington and Wisconsin.

Death Penalty

The Court declined to hear a constitutional challenge to a Louisiana law, the only one of its kind in the country, that makes sexual intercourse with a child under the age of 12 a capital offense. The challenge was brought by a man who has been indicted, but not yet tried, on charges of having sex with three young girls, including his own daughter. Louisiana amended its statutory rape law in 1995 to provide for the death penalty.

The Supreme Court ruled in a 1977 case, *Coker v. Georgia*, that the death penalty was unconstitutional for rape. That case, however, involved an adult victim. In the case before the Court today, *Bethley v. Louisiana*, No. 96-8334, the Louisiana Supreme Court interpreted that precedent narrowly as not applying to capital punishment for the rape of a child.

No one has been executed for the crime of rape in the United States since 1964, and no one is now on death row for a crime that did not involve a homicide. Lawyers for the defendant, Patrick D. Bethley, told the Court that these statistics demonstrate society's consensus that death is not an appropriate penalty for rape.

In turning down the case, the full Court made no comment. But three Justices, John Raul Stevens along with Justices Ginsburg and Breyer, took the unusual step of indicating in a brief opinion that it was a jurisdictional problem, and not any view that the issue was not important, that led the Court to deny review. Because Mr. Bethley has not been convicted, let alone sentenced to death, there was a question as to whether the case presented the type of final judgment the Supreme Court needs in order to exercise jurisdiction over a case from a state court.

Commander at Aberdeen To Retire Over an Affair

Married General Was Subject of Phone Tip

By PHILIP SHENON

WASHINGTON, June 2 — In a demonstration of the military's heightened sensitivity to sexual misconduct, the commanding general of the Army's Aberdeen Proving Ground has decided to retire after admitting that he committed adultery while separated from his wife more than five years ago, Pentagon officials said today.

The officials said the commander, Maj. Gen. John E. Longhouser, became the subject of an inquiry after an anonymous tip about the affair was received over a telephone hot line established because of a flurry of sex abuse cases at Aberdeen, in eastern Maryland, where male drill sergeants had preyed on young female recruits.

Pentagon officials noted that while adultery is a crime in the military, General Longhouser's case involved an affair with a civilian that occurred long before he arrived at Aberdeen, and that his offenses were not in any way equivalent to those committed by Aberdeen drill sergeants, in cases that have included rape.

The situation, the officials said, is also unlike that of First Lieut. Kelly Flinn, an Air Force bomber pilot who was charged with adultery but whose well-publicized case was complicated by additional charges of fraternization, lying and disobeying orders.

General Longhouser, a West Point graduate and Vietnam veteran with a long list of awards and decorations including the Purple Heart, is now a two-star, or major, general. But because he has not held that rank the three years required to retire at it, he will retire instead at the rank of one-star, or brigadier, general, which means a reduction in retirement benefits.

Pentagon officials said General Longhouser appeared to be retiring partly out of disgust that his entire career would be judged on the basis of what he and others would regard as a minor dalliance.

"Where does this end?" one senior Pentagon official said. "It's terrible that it's come to the point where a distinguished soldier like General Longhouser has his career ended by something like this. This is a good man. Does this make any sense?"

The same questions were asked last month as the Air Force prepared to open court-martial of Lieutenant Flinn, the nation's first female B-52 bomber pilot. Lieutenant Flinn, who acknowledged that she had had an affair with a married man and whose case prompted a national debate over the military's codes of conduct, agreed to resign with a general discharge in exchange for a decision by the Air Force to drop criminal charges.

General Longhouser, who is still under investigation by the Army's inspector general and could face disciplinary charges over the affair, is the latest in a roster of senior military officers and Pentagon civilian officials to face public accusations of sexual misconduct.

Only last week the Navy announced that it had relieved a two-star admiral from his duties as a result of accusations that he had made repeated advances to a subordinate, while the Army confirmed that it had relieved a married one-star general in Georgia for what appeared to be an "improper relationship" with a civilian nurse.



Maj. Gen. John E. Longhouser, commander of the Aberdeen Proving Ground in Maryland.

While General Longhouser declined to be interviewed, he said in a statement issued at Aberdeen today that he had decided to retire, effective June 30, out of a desire "to spend more time with my family."

Pentagon officials said General Longhouser, who is still married, had an affair while separated from his wife in the early 1990's.

"He was separated from his wife, and he did what some separated people do," one Defense Department official said. "People have frailties. People make mistakes."

After accusations of widespread sexual abuse at Aberdeen were

A roster of senior officers accused of sexual misconduct grows longer.

made public last fall, the Army established a nationwide telephone hot line to gather complaints of other instances of sexual misconduct.

As a result, the Army received thousands of calls, and at least one of the anonymous callers provided details of General Longhouser's affair.

When confronted, Pentagon officials said, General Longhouser acknowledged that the affair had occurred and said he would retire.

"He made the decision for the good of the Army, his family, his marriage," said one department official. "His greatest concern was embarrassment for the Army."

General Longhouser, who is 53 years old, has two daughters. He graduated from the United States Military Academy in 1965 and served two tours of duty in Vietnam. His awards and decorations include the Distinguished Service Medal, the Legion of Merit, the Bronze Star and the Meritorious Service Medal.

The prosecution of the drill sergeants at Aberdeen continues. Last week a court-martial convicted one of them of improper sexual relations with five female trainees and of interfering with the investigation.

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The Tobacco Talks: No Deal

The drumbeat of reports about talks to settle lawsuits filed by states against tobacco companies bangs home with numbing percussion how Big Tobacco's money has corrupted federal and state legislatures and distorted the traditional roles of legislative and judicial branches.

Frustrated by their inability to get relief from federal or state legislators, many governors have resorted to the gunslinging plaintiffs' bar to recover from tobacco companies hefty health care costs that their states must pay to treat tobacco-related diseases such as cancer, heart disease and emphysema. Not surprisingly, plaintiffs' lawyers (hungry for their percentage of any payment), some state attorneys general (to help hard-pressed governors balance budgets), and tobacco executives (grabbing their chance to get a below-cost bargain and maintain fat profits) have moved behind closed doors to cut a deal.

Plaintiffs' and tobacco's lawyers trumpet as a national victory the possibility of tobacco companies' agreeing to pay up to \$4 billion a year in damages for smoking-related diseases; to limit use of glamorous

"Relying on tobacco company attorneys and plaintiffs' lawyers to do the public's business behind closed doors in smoke-filled rooms is not a success story."

individuals in cigarette ads, advertising at sporting events and smoking in enclosed public places; and to fund a campaign to discourage teenage smoking. In return for this and their legal fees, plaintiffs' lawyers seek ways to grant tobacco companies some immunity from future suits by individuals (whom these lawyers don't represent) who have been—or may be—killed or maimed by smoking.

Let's put the \$4 billion a year in tobacco company payments in perspective. Smoking imposes at least \$100 billion in health care costs each year. A study by the National Center on Addiction and Substance Abuse at Columbia University found that, over the next 20 years, Medicare alone will spend \$800 billion to treat diseases attributable to smoking.

Any deal that shields tobacco companies from suits by individuals and classes to recover damages in the future will most severely curtail women's rights. A generation ago, tobacco companies targeted women with slogans such as, "You've come a long way, baby!" (For Virginia Slims, smoking is still "A woman thing.") As a result, women are just now beginning to reap the deadly harvest of years of heavy smoking.

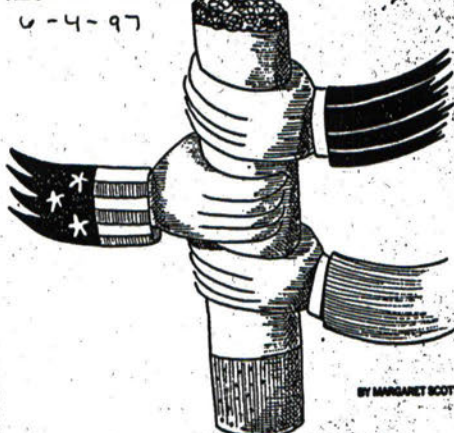
From the early 1960s to the mid-'80s, the death rate from lung cancer among women soared 500 percent (from 26 to 155 per 100,000), six times the pace of increase among male smokers (from 187 to 341 per 100,000). In the early 1960s only one of six women who smoked (16.7 percent) were expected to die from related causes. Today, half of women smokers (47.4 percent) will die as a result of their tobacco use.

What of the limits on advertising? Public authorities are already banning cigarette advertising at sporting events; more sports are separating themselves from tobacco money; and the Supreme Court has upheld local bans on cigarette billboard ads. If the industry is serious about not luring kids to smoke, it should simply end all advertising. Britain is about to do so by law. But under our First Amendment, the only sure route to a complete ban would be by voluntary industry action.

Big Tobacco's willingness to accept smoking bans in public places as part of any settlement isn't even small potatoes. Such bans are going into effect every day in cities and towns across America. Second-hand smoke now stands convicted beyond reasonable doubt as a serial killer.

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BY MARGARET SCOTT

Last year it took more American lives than AIDS. The potential legal liability here is of such concern to employers—whether airlines, manufacturers or white-collar businesses—that they are rushing to ban workplace smoking.

The tobacco pushers have deceived us for decades as they rolled up profits by hooking children on their products. Tobacco executives knew long before the rest of us that 90 percent of smokers are puffing away before they reach age 21 and that nicotine is addictive. Their newfound concern about children in their settlement talks can be better expressed by supporting the Clinton administration's proposals to keep cigarettes out of the hands of minors and agreeing to the Federal Trade Commission's demand to stop using Joe Camel to attract kids.

Rather than a victory for public health, these negotiations reveal starkly the extent to which tobacco money has corrupted the national Congress and legislatures of the 50 states. Conservatives who attack the judiciary for overreaching should think hard about why this issue—one of public health, public taxes, public spending and public law and regulation—is now being handled by plaintiffs' lawyers and tobacco attorneys in the courts. It is because for decades the tobacco industry has been able to influence the votes of enough senators, congressmen and state legislators to kill laws that protect the public health.

Through judicial discovery, plaintiffs' attorneys obtained documents that uncovered the industry's knowledge of the dangers and addictive power of smoking and its efforts to hook children. These documents were available to any legislative committee with the spine to subpoena them. The few legislators who tried, such as Henry Waxman, quickly had their sails trimmed by colleagues beholden to Big Tobacco.

The settlement talks are already influencing the legislative process in Washington as tobacco lobbyists hustle to line up advance support for their deal with plaintiffs' lawyers and kill proposals that might jeopardize their strategy. The first casualty is consistent with the industry's attitude toward children. Just two weeks ago, the Senate defeated an effort by Republican Sen. Orrin Hatch and Democratic Sen. Edward Kennedy to provide health care to 10 million children and finance it with a 43 cent-per-pack increase in the cigarette tax. Privately most senators expressed support for the proposal.

But Republican Senate Majority Leader Trent Lott, a friend of Big Tobacco familiar with the settlement negotiations, said he would scuttle the budget agreement between President Clinton and the Republican Congress unless the Hatch-Kennedy bill, which pays for itself, was defeated. The higher tax on cigarettes threatened to reduce the pot of money tobacco companies were offering to plaintiffs' lawyers. In this game of legislative chicken, President Clinton clucked and delivered Democratic votes needed to kill the proposal.

Relying on tobacco company attorneys and plaintiffs' lawyers to do the public's business behind closed doors in smoke-filled rooms is not a success story. It is tragic confirmation of the failure of our elected representatives to deal with the number one public health enemy of their time and a deadly symptom of how tobacco's campaign contributions are distorting the constitutional roles of our legislative and judicial branches and corrupting so many of our elected representatives.

The writer is president of the National Center on Addiction and Substance Abuse at Columbia University. He was secretary of health, education and welfare from 1977 to 1979.

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What's the deal on this?

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Small Firms Get a Nudge On Pensions

White House Kicks Off Educational Campaign

By Frank Swoboda
Washington Post Staff Writer

The Clinton administration yesterday kicked off of an educational campaign aimed at convincing small businesses to provide at least some form of retirement benefits for an estimated 32 million workers.

The program is aimed at the majority of small businesses with fewer than 100 employees that do not provide any form of pension for their employees.

Labor Secretary Alexis M. Herman announced the effort saying, "there are more than 5 million firms with fewer than 100 workers, but only slightly more than 1 million of these small firms offer pension plans to their employees."

Aida Alvarez, administrator of the Small Business Administration, said many small business owners are unaware of legislation enacted last summer by Congress making it easier for

*... Only slightly
more than 1 million
of these small firms
offer pension plans
to their employees."*

— Labor Secretary Alexis M. Herman

employers to set up some form of retirement plan, including those that involve no real cost to the employer. For example, she said, an employer could set up a personal savings plan for an employee without having to contribute any money to it.

Hollings Acts to Block Antitrust Nomination

Senator Faults Klein on Phone Competition

By Mike Mills
Washington Post Staff Writer

A key Democrat said yesterday that he plans to block President Clinton's nomination of Joel Klein as chief antitrust enforcer at the Justice Department, out of concern that Klein would not do enough to ensure competition in the telecommunications industry.

"We've got an antitrust fellow here who rolls over and plays dead," said Sen. Ernest F. Hollings (D-S.C.). He placed a "hold" on Klein's nomination—a parliamentary move that essentially prevents it from a vote on the Senate floor—because of recent actions by Klein on the telecommunications front.

Hollings objects to an April decision by Klein, who has been serving as acting assistant attorney general for antitrust since the departure last year of Anne K. Bingaman, to allow the \$21 billion merger of Bell Atlantic Corp. and Nynex Corp.

Critics of that merger, including Hollings, had hoped that Klein would impose conditions on the deal that would allow the Justice Department to monitor whether combining the East Coast's two

huge Bell companies would result in the merged company having too much market power.

Hollings also is critical of merger discussions that long-distance company AT&T Corp. and SBC Communications Inc., a big local phone company, are conducting. The Justice Department has not taken a position on that deal.

"We're really confident we'll be able to resolve any outstanding issues that anybody has," said Justice Department spokeswoman Gina Talamona.

Hollings's move followed a hold placed on Klein's nomination by Sen. Conrad Burns (R-Mont.), citing concerns that Klein may regulate the Bells too strongly. Klein appears to have since met many of Burns's objections, however.

Responding to questions asked by Burns in a letter, Klein wrote to the Federal Communications Commission and to Burns to disclose details of the criteria he would use in deciding to recommend to the FCC whether a regional Bell company should be allowed to enter the \$70 billion-per-year long-distance market.

See ANTITRUST, C4, Col. 1

ANTITRUST, From C1

The question of how to ensure that local telephone competition exists before a Bell company may offer its own customers long-distance services was the most hotly contested part of the Telecommunications Act of 1996.

In the end, the law required a Bell company to face at least one "facilities-based" competitor—meaning a rival with its own switching and other equipment—serving both business and residential markets.

In the FCC letter, Klein said he would require the Bells to face facilities-based competition for either their business or residential customers, but not both. A competitor serving residential customers through the "resale" of capacity leased from the Bells' network would suffice, he said, as long as businesses had facilities-based competition.

A Burns spokesman said the senator has not yet lifted his hold on the nomination and plans to meet with Klein to discuss the issues.

Hollings said Klein's interpretation "totally puts the statute on its head. He

needs to read the law again and read it right." His decision to block the nomination is in large part due to Klein's response to Burns, Hollings said.

Klein's approval of the Bell Atlantic-Nynex merger, and his stance on the Bells, also has caused some grumbling within the White House, according to government sources. The administration fought during debate on the law to ensure that the Justice Department had a role in determining whether the Bells could enter the long-distance business.

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By Guy Gugliotta and Stephen Barr
Washington Post Staff Writers

At Even now, Mari Barr can only speak of it for a few seconds before the tears come. And the conviction of Timothy J. McVeigh didn't help. Like many of her colleagues at the Department of Housing and Urban Development, she was waiting for a feeling of relief that never arrived.

"A lot of people were looking for justice and closure, but it feels incomplete," said Barr, special adviser to HUD Secretary Andrew M. Cuomo. "I was all right until someone I knew walked into the room, then I started to cry."

Two years ago Barr led HUD's relief team in Oklahoma City, arriving the morning after the bomb exploded. HUD lost 35 employees in the blast, more than any other agency. One of these, Paul Broxterman, who worked in the inspector general's office, was among the victims.

McVeigh was convicted yesterday of killing.

"I heard the verdict, and everyone was cheering," said Reva Williams, a staff assistant in Cuomo's office. "I thought, so what? I thought of Paul Broxterman. I had tears in my eyes. I wasn't cheering. It wasn't enough. This does nothing for me."

After she heard the verdicts, Barr called Williams and the other members of the relief team, grown close after two years sharing the suffering of the bereaved: "Something will happen and you'll just lose it," said Joanne Simms, HUD's director of human resources.

"We've cried with the families; we've laughed with them; we hugged with them when their family members were found," Simms said. "I tried to read some of the testimony, but after a couple of sentences I just had to put it down."

For two years, Simms, Barr, Williams and Loretta Grier, HUD's director of employee assistance, have worn gold pins—a ribbon, a cross and an American flag—given to them by the victims' families to honor the dead.

"It's never over," Grier said yesterday afternoon. "I suppose this brings some part of it to a close, but the scars are still there." In a while, she said, she would start calling Oklahoma City to speak with the families.

Through HUD's antiseptic hallways, there was little visible reaction to the verdicts, which came in the middle of the work day. In the suites of the HUD general counsel, whose five-member Oklahoma City contingent was wiped out by the explosion, there was a staff meeting and few heard the verdicts until the meeting broke.

"It was a vast relief and a big turning point," said HUD Assistant General Counsel Bill Daley, the direct boss of the five colleagues who died. Daley remains convinced that McVeigh is only one member of a larger conspiracy. "I'm assuming there had to be other people."

So does the relief team: "I don't think one person can effect such an obscenity," said Barr.

Neither she nor other members of the relief team ventured a solid opinion on what McVeigh's fate should be: "I hate to think of taxpayers' money taking care of him for the rest of his life," Simms said. "But I haven't thought that far ahead."

Daley has. "I hired or promoted every one" of the five, he said, and he recalled looking at the smoking shell of the Alfred P. Murrah Federal Building on the day of the explosion and thinking that "if they were there, then they were gone."

Did he think McVeigh should be sentenced to death?

"Yes."

The bombing at the Murrah Building killed 168 people. In addition to HUD, employees of the Agriculture Department, the Transportation Department, the Drug Enforcement Administration, the Secret Service, the Customs Service and other federal agencies died in the blast.

The Social Security Administration, like HUD, cannot erase the memories of April 19, 1995. Fifteen Social Security employees and a volunteer worker died in the explosion. Twenty-two visitors in the Social Security waiting room also were killed.

At the George H. Fallon Federal Office Building in downtown Baltimore, a federal center similar to the Oklahoma City building, several workers found a measure of relief in the verdicts. The 700-employee Baltimore complex houses regional offices of the Internal Revenue Service, Department of Veterans Affairs, General Services Administration and a few smaller agencies.

"I'm happy they found him guilty," said Karen Harris, 47, an IRS supervisory tax technician. "This will help bring some closure for the families

that suffered loss. . . . We felt it deeply in this office," which Harris said was one of many that took up a collection for Oklahoma families after the bombing.

"I'm relieved; I was afraid they were going to find him innocent" because of the seemingly long time the jury spent deliberating, said Martha Kolodkin, 40, an IRS taxpayer service representative. "Everything I heard made me believe he was guilty."

But another IRS employee, tax analyst Vel McDaniel, 56, visiting from the Atlanta regional office, said he wasn't worried about the outcome. "I'm really not surprised," he said. "It was what was expected. . . . It seemed to be a fairly cut and dried case."

"I'm just glad it's over," said Florence Miles, 31, another taxpayer service representative. "I felt sorry for the people who were the victims."

Robert M. Tobias, president of the National Treasury Employees Union, said McVeigh "destroyed something

very valuable—the feeling of safety in the workplace—but I'm hopeful that the verdict will focus attention once again on the valuable contribution that federal employees make."

John N. Sturdivant, president of the American Federation of Government Employees, commended the Justice Department for a successful prosecution and said his union would continue to lobby for improved security inside and outside federal buildings.

Federal law enforcement officials here declined to comment publicly on McVeigh's conviction. Privately, they were grateful that the jury found McVeigh guilty.

"There is a huge amount of satisfaction," said a senior agent at the Bureau of Alcohol, Tobacco and Firearms. "We did our job. We helped bring in the evidence. But one of the difficulties is that even though you got a conviction, you can't bring back the dead."

At the Justice Department officials were pleased with the verdicts, but also measured in their joy. "It's a big

step," one official said of the conviction. "But there is still the sentencing phase and another trial. We're not finished yet."

Five employees of the Drug Enforcement Administration were killed in the Murrah explosion and their pictures are on display at many DEA field offices around the country, often near plaques listing the names of all DEA employees killed in the line of duty.

"In law enforcement, you accept the idea of personal risk, but this was different," said one agent. "People were killed at their desks and some of them were clerks and administrative people who never signed on to do anything dangerous . . . so it was special to see the perpetrator get caught and go to trial. At least now those deaths don't seem quite so random or unfathomable."

Staff writers Pierre Thomas, Roberto Suro and Paul Valentine contributed to this report.

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By Thomas Geoghegan

Overeducated and Underpaid

CHICAGO

It may be a good year in the job market for new college graduates, but in the 1990's a surprising number of them have found that a B.A. is not all that it's cracked up to be.

Median income for a college graduate, of course, is still much higher than median income for a high school graduate. But the median income of recent college graduates fell in the first half of the 1990's, according to the Economic Policy Institute, a Washington research group.

Through most of this decade, the percentage of college graduates in "non-college jobs" has been remarkably high. At least one in five employed B.A.'s was in a non-college job, according to a 1994 survey by the Bureau of Labor Statistics, the latest such study available.

Supply and demand apply even to college graduates. Yet many New Democrats, including President Clinton, seem to tout college as the answer to our scandalous income inequality.

This is at least part of the reason for President Clinton's proposed \$1,500 tax credit — he wants to make the first two years of college "universal." The President has also proposed a \$5,000 tax deduction for college education or job training.

Is this the Big Idea of Neo-Liberalism: Draft all of us into college?

Of course, college tuition is absurdly high. There should be more opportunity and more college aid for the less well off. But we won't slow our rising inequality just by jamming more and more kids into college.

First, a college degree is no guarantee of anything. The median annual income of Americans in the work force with no more than a B.A. degree barely nicked \$34,000 last year. And the thing about median income is that

Assistant manager of Blockbuster? Maybe.

Legal secretary? Can be.

Police officer? Perhaps.

Claims adjuster? Maybe.

In many such occupations, a "college job" is just one where the boss prefers to hire someone with a college degree, and someone with a B.A. in fact takes the job. Willy Loman's job would today be called a college job. In the 1990's it comes with the territory.

Then there are the real non-college jobs. There are B.A.'s selling ties at big downtown department stores. Now some college graduates do this voluntarily. But many have no choice. A study financed by the MacArthur Foundation found that 9.2 percent of the working poor in Chicago have B.A.'s.

True enough, holding a non-college job is a temporary condition for some. But the Bureau of Labor Statistics found that the percentage of B.A.'s in non-college jobs is high in all age groups.

It's true that B.A.'s may have a shot at some of the best non-college jobs. But is that slight advantage worth the high cost of tuition (even with the Clinton tax credit)? In the end, "universal college" could end up as a kind of surcharge for the same "Dilbert"-type or sub-"Dilbert" jobs that workers would have gotten anyway.

Shouldn't the United States be making non-college jobs more attractive, by making non-college work better paid — through union power and collective bargaining?

We forget that in the 1970's, before union busting, the income of high school graduates generally rose as fast as the pay of those with college degrees. Indeed, when college graduates went to work in the 1970's, college income began to wobble.

Why? Plain supply and demand. Richard Freeman, a noted labor economist at Harvard, even wrote a book in 1976 called "The Overeducated American."

True, once unions collapsed in the 1980's, the income of college graduates rose much faster than high school graduates'. But that was far from true in other countries. In Germany and the Netherlands, for example, the gap between college graduates' income and the pay of high school graduates actually decreased over the same period. And in many developed countries, like Japan and France, there was little or no increase in the gap.

It's true that if I were advising an 18-year-old, I would say go to college. But "universal college" is no universal panacea. What makes sense for one 18-year-old will not necessarily raise the income of the whole country.

The fallacy here is pointed out by Douglas Huff in his classic, "How to Lie With Statistics," a book some college freshman have to read. One of Mr. Huff's favorite examples is the relation between college education

and income: Does college really raise income, he asks, or is it just a way we "sort out" who gets the jobs that would be there by and large anyway?

Oh, but it's different now, some people say, because of:

• The global economy. The more B.A.'s, the more foreign capital comes here. But if that's true, why hasn't foreign capital dried up the glut by now?

Of course we need some B.A.'s in a global economy. But are Germany and Japan building auto plants here because of the college graduates in South Carolina? No, they want a location in the United States because we're a big market. (It's our own fault that we let foreign companies play one state off another with low wages and tax breaks. A national policy of collective bargaining would help prevent this.)

• Technology. It's hard to believe that there has been a true "technology revolution" that requires all of us to go to college. If so, what was it? More computers? Kids in grade school can now surf the Internet. Indeed, it's odd to talk about a "revolution" that supposedly occurred in the 1980's when American productivity growth was so insipid then.

Yes, the rise in college tuition is a scandal and a barrier to many young people who really want to pursue Homer and calculus and not MTV. But college will never be a macroeconomic fix for the stagnation of Middle America, which still has not seen a raise.

The best way to open "college to all" is to start raising the wages of working people who never went to college. In the 1950's and 1960's, working-class kids were able to attend college in part because their parents' made union wages, and could pay for their tuition.

It was good enough for our Golden Age. Why isn't it good enough now?

Thomas Geoghegan, a labor lawyer, is the author of "Which Side Are You On?"

Why does a video store manager need a B.A.?

a whole lot of college graduates make less. Besides, if America doubles or triples the supply of B.A.'s, this might lower the median income.

Second, if kids go to college because high school jobs are so terrible, they may end up with these jobs anyway. If one in five employed B.A.'s is already in a non-college job, just what would happen if there's a doubling of the percentage of college graduates now in the work force, a figure that now stands at about 20 percent?

What does the Bureau of Labor Statistics define as a college job?

Manager of a Blockbuster video store? Yes.

The New York Times

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For-Profit Education Venture to Expand

By PETER APPLEBOME

All but given up for dead three years ago, the Edison Project, the ambitious national venture into for-profit schools, will announce this week that it will double in size next year, to 25 schools in eight states with about \$70 million in revenue.

The growth of Edison, a company begun with great fanfare in 1991 by the media entrepreneur Christopher Whittle, is a dramatic sign of the fundamental changes beginning to shape American education as the traditional model — public schools operated by a monolithic school district — slowly gives way to a far more varied landscape of autonomous charter schools and schools operated by for-profit and nonprofit organizations.

"I think there is every reason to believe we are witnessing a fundamental transformation of American education in which Edison is playing a big part, at least symbolically," said Denis Doyle, a senior fellow at the Hudson Institute. "They're certainly a significant entering wedge in a new way of thinking about schools."

Of the 500 charter schools — public schools operated autonomously — that have been created in the last few years, 10 percent are run by private companies like Edison, Advantage Schools Inc., Sabis Educational Systems, Education Alternatives Inc. and Alternative Public Schools, according to a survey in the coming issue of the Education Industry Report, a newsletter that rates the performance of 25 publicly traded education companies.

Edison will announce new sites in Chula Vista, Calif.; Detroit; Duluth, Minn.; Flint, Mich., and San Antonio, as well as expansions in some of the cities where it already does business. The company will also announce test scores indicating that it has had some striking success in improving educational performance.

Yet the signals remain mixed and murky on the company's ability to operate profitably over time.

Mr. Whittle, who originally promised a grandiose network of for-profit private schools, said all 12 of Edison's schools were operating profitably at the site level — that is, factoring out corporate and start-up costs. And some analysts say the company's growth and performance provide considerable evidence that a private company can operate schools better and more cheaply than school districts do.

"What's impressive is that Edison at this point is doing exactly what they said they'd do," said Michael Moe, who specializes in following education-related companies for Montgomery Securities. "It's too early to say this is a slam dunk, but there's a lot of evidence this is going to be a big, significant company that will be significant not just in terms of

what it does, but in terms of the impact it has on American education. This could be a billion-dollar company in 10 years."

But some school officials and even some people within the company are far more cautious in assessing the company's chances to be profitable in the long run.

Bob Finzi, a general partner of the Sprout Group, a venture capital company that is a major Edison investor, said that although he was pleased with Edison's progress, particularly in terms of test scores, he would not agree with the characterization that all schools operate profitably now.

"What's the saying: Liars figure and figures lie?" said Mr. Finzi, a member of Edison's board. "You can cut things a lot of ways, but I wouldn't characterize it that way. Right now, we're falsely characterized as a for-profit. We're as much of a not-for-profit as anyone."

Similarly, Phillip Garrett, assistant superintendent for instruction at the Sherman Independent School

ship. And Edison this week will announce test scores showing significant gains at many of its schools.

At Dodge-Edison Elementary School in Wichita, Kan., for example, fifth graders went to the 59th national percentile from the 46th in reading and to 64th from 35th in math on a standardized test taken by all public school students in Wichita. On tests conducted by the Educational Testing Service, gains by Edison kindergartners and first graders substantially exceeded students in a control group at the two sites where matched control groups exist, Edison the company said.

Increasingly, many skeptical educators are deciding that Edison has put together an educational plan — including a longer school day and year, computers for all families and state-of-the-art reading and math curriculums — that educates children better than conventional schools do.

"We had 40 inquiries nationwide for our charter school, which we pared down to a half dozen, and the parents, teachers, principals and school board members who evaluated them unanimously decided Edison was the best," said Mark Myles, superintendent of the Duluth School District in Minnesota, where Edison will operate a new charter school this fall. "They've really done their homework."

But Edison's educational program has come at a cost of \$105 million raised thus far, with more needed to finance future expansion. Mr. Whittle and Mr. Schmidt said that financial results were encouraging and that Edison as a system could be profitable with 50 to 70 schools, a size it could reach in two years.

Mr. Finzi, however, described financial results thus far as "significantly less" than had been hoped for, as a result of factors including contracting costs that had not been anticipated and the enormous technology costs associated with Edison's much-touted guarantee of a computer for every family in the school.

Perhaps Edison's biggest setback came in its Renaissance School in Boston, which shocked parents in January by saying that, because of financial reasons, it would not offer a ninth-grade class next year as promised, forcing parents to make new high school plans for their eighth graders.

Mr. Finzi said the technology program was so expensive, and its payoff, particularly at the lower levels, so uncertain, that it was likely that Edison would need to rethink it, either offering computers to fewer students or offering less expensive and ambitious technology.

All part of the new school landscape: profits, charters — and questions.

District in Texas, where Edison opened one of its first four schools in the 1995-96 school year, said that test results thus far had been disappointing and that Edison had struggled to operate its schools with the same per-pupil allocation that is available to school districts.

"I'd be very surprised if they were making a profit in Sherman," Mr. Garrett said.

Still, for a company that seemed in jeopardy of being dragged down as Mr. Whittle's media ventures collapsed or were sold off a few years back, Edison's resurgence is remarkable and revealing about the hunger for new approaches to running schools.

The company, headed by Mr. Whittle and Benno C. Schmidt Jr., the former Yale University president, will announce this week that by next fall it will have grown in three years from 4 schools to 12 to 25, which will enroll 13,000 students. Officials say Edison is likely to add even more schools in the 1998-99 school year than it will in 1997-98.

"We could have done a lot more if we wanted to," Mr. Whittle said. "The growth is more a function of logistics than demand."

The company has yet to lose a client. All but one of its eight current cities have expanded their Edison schools since beginning the relation-

CAMP, A PLACE TO DREAM:
GIVE TO THE FRESH AIR FUND

The New York Times

MONDAY, JUNE 2, 1997

MENTAL ADJUSTMENT

How far should employers go to help someone with a psychiatric illness stay on the job?

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THE PRESIDENT HAS BEEN

6-4-97

By ELIZABETH GLEICK

RENE WOZNY, 40, IS AN ATTORNEY FOR the Maryland Department of Assessments and Taxation in Baltimore. She is fortunate enough to have found work she enjoys, but every so often she gets derailed by chronic major depression, a mental illness that can cause a loss of self-esteem, an inability to concentrate and a negative outlook on life. Wozny has been troubled by the disease for as long as she can remember. Last year she learned of an experimental program for depression run by the National Institute of Mental Health, but in order to participate, she needed to arrive at work an hour or two late every day for a month. She and her supervisor struck a deal: she would make up the lost time at the end of each day. "It's the first time I've had a boss who is understanding about this kind of thing," Wozny says.

The path to such enlightenment, though, is never easy—and most employers need some clear road markers along the way. Although the Americans with Disabilities Act of 1990 specifically prohibits any employer with 15 or more workers from discriminating against employees with mental or physical impairments, many managers have been quicker to install wheelchair ramps than to offer the kind of flexibility Wozny's boss did. That is why in March the Equal Employment Opportunity Commission issued guidelines to help employers navigate the fuzzy, sometimes unquantifiable arena of mental illness in the workplace. The guidelines, addressing recent case law, explain how employers should attempt to accommodate mental disabilities that don't directly compromise a worker's qualifications for the job.

Given that 1 in 10 Americans is likely to suffer from a diagnosable mental illness during the year, the stakes for employers are potentially enormous. Although the

FOUR SCENARIOS

Examples used by the Equal Employment Opportunity Commission in new guidelines on psychiatric disabilities

1 ESTABLISHING DISABILITY

"An employee asks for time off because he is 'depressed and stressed.' This statement is sufficient to put the employer on notice that the employee is requesting reasonable accommodation. However, if the employee's need for accommodation is not obvious, the employer may ask for reasonable documentation concerning the employee's disability and functional limitations."

PHOTO-ILLUSTRATION BY MATTHEW WELCH—MONTAGE

2 LONG-OR SHORT-TERM CONDITIONS
 "An employee was distressed by the end of a romantic relationship. Although he continued his daily routine, he sometimes became agitated at work. He was most distressed for about a month during and immediately after the breakup. He sought counseling, and his mood improved within weeks. His counselor gave him a diagnosis of 'adjustment disorder' and stated that he was not expected to experience any long-term problems associated with this event. This employee does not have a disability for purposes of the Americans with Disabilities Act."

guidelines do not have any legal force under the law, refusing to follow them can be risky. The courts often look to the EEOC's analysis when ruling in discrimination lawsuits. So far, nearly 13% of all EEOC complaints under the disabilities law have involved mental illness, though some experts feel this number is leveling off. In a TIME/CNN poll last week, 62% said they believe employers should accommodate mental impairments.

But what worries employers, especially small-business owners without human-resources departments or staff attorneys, is that one worker's run-of-the-mill bad attitude may be another's debilitating schizophrenia. "This is fraught with undesirable pitfalls," says Don Livingston, a Washington lawyer who is former general counsel at the EEOC. "It calls on employers to make

enigmatic distinctions between personality traits and personality disorders. Mental-health professionals often find this an impossible task, and now it's being put before factory supervisors." Henry Saveth, an attorney at Foster Higgins, which represents leading corporations in employment disputes, is concerned that traits such as chronic lateness or poor judgment may be linked to psychological impairment. Says Saveth: "Employers are going to face the issue: How much special treatment do they have to give to their poor performers?" This question, he says, "is going to lead to endless litigation."

That particular anxiety, though, may be overblown—and heightened by the scare tactics of some attorneys advertising expensive disabilities-law training seminars for business owners. The wave of publicity surrounding the guidelines may cer-

tainly give people new ideas about suing, and there will always be the occasional surprising decision. Two years ago, for instance, a severely depressed attorney who worked for the San Francisco utility Pacific Gas & Electric asked for shorter work weeks and a transfer to a more understanding supervisor. According to the employee's lawyer, he filed suit when the company refused, and talks broke down over the plaintiff's request for positive evaluations should the company rehire him. A court-appointed arbitrator ordered the utility to pay \$1.1 million to the plaintiff. (Federal law limits awards to \$50,000 for an employee in a company of 100 or fewer and \$300,000 for a company of 500 or more, as well as money for back pay and legal fees.) "It was a wacky decision," says PG&E lawyer Kenneth Yang, yet he acknowledges that the law has not caused the company any "undue hardship."

"The hype around the guidelines reminds me of the hype when the law was passed," says Lia Shigemura, director of Affirmative Action, Equal Employment and Diversity at PG&E. "Companies feared that busloads of disabled people were going to beat down the walls seeking employment. It was not the case. What happened was that existing employees sought accommodations." And this a key point: there is already a lot of mental disability in the workplace. The ADA's goal is

to remove the stigma of talking about it and coping with it. "Ideally, if you are an employer and you try to use this guidance for problem solving, you are going to avoid litigation most of the time," says Gary Phelan, the co-chairman of the disability-rights committee of the National Employment Lawyer's Association.

Unlike such capital-intensive alterations as installing ramps or

lowering drinking fountains, accommodating the mentally ill in fact often requires little more than an attitude adjustment. The Sears, Roebuck 1996 Work Force report showed that the average cost to the company for such accommodation in 1993-95 was zero. Employees with a learning disability were permitted to work at a slower pace; those with mental illness were offered shorter shifts, lower-stress duties or flexible work hours. According to studies conducted by the Matrix Research Insti-

tute in Philadelphia, which specializes in mental-health disorders, the majority of accommodations cost less than \$500 per affected worker—significantly less than it costs to replace a worker.

Thanks in great part to new medications, "substantially more of these people can get back into competitive employment—real jobs in integrated settings for regular wages—than we had expected," says Robert Drake, a psychiatrist at Dartmouth University, who has hired several seriously disabled people to work in his research laboratory. "The job seems to be a

4 REASONABLE ACCOMMODATIONS

"A retail employer does not allow individuals working as cashiers to drink beverages at check-out stations. The retailer also limits cashiers to two 15-min. breaks during an eight-hour shift. In addition to a meal break. An individual with a psychiatric disability needs to drink beverages approximately once an hour in order to combat dry mouth, a side-effect of his psychiatric medication. This individual requests reasonable accommodation. In this example, the employer should consider modifying its policies."

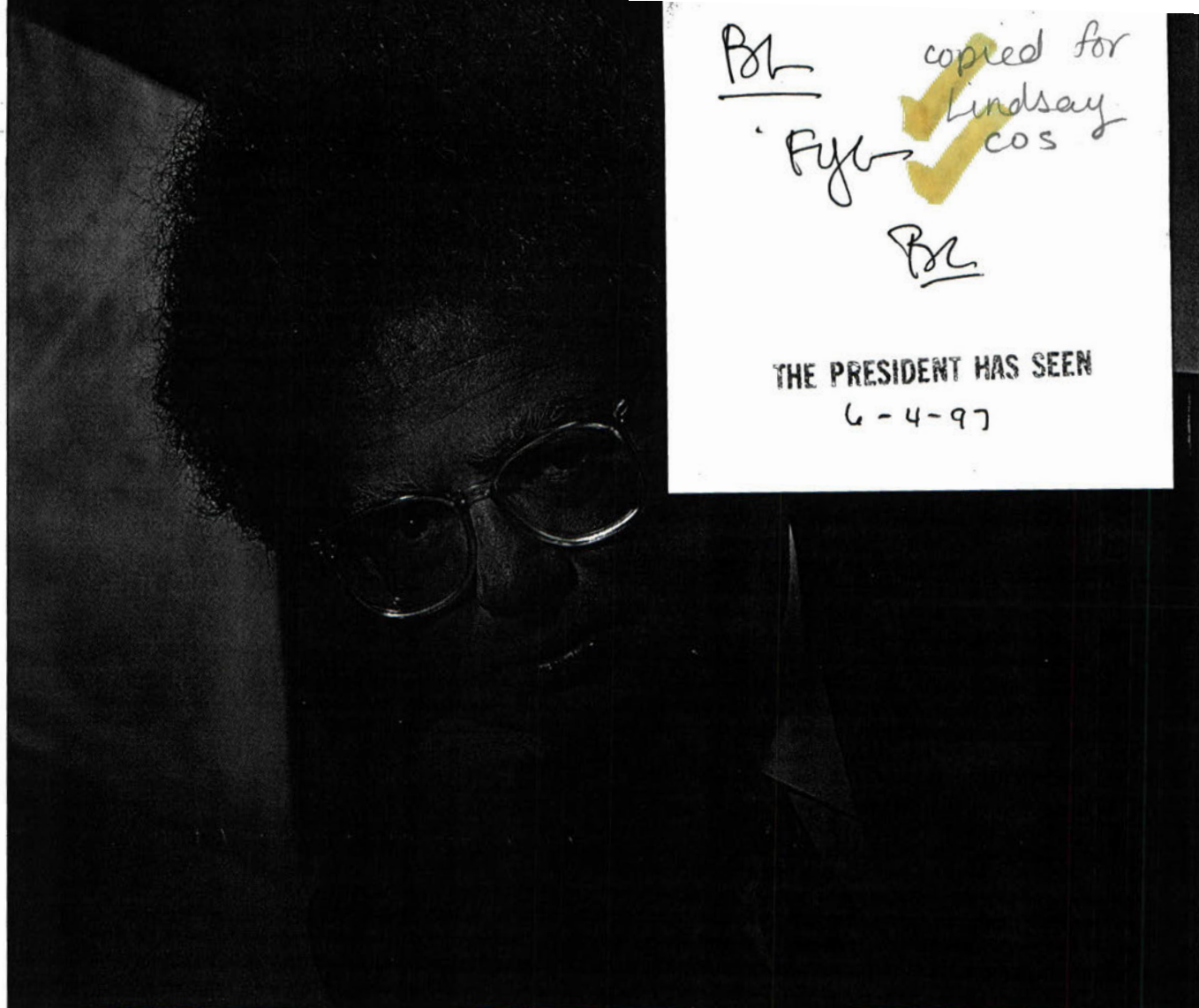
structuring activity that is actually quite helpful." Drake's chief interviewer had been hospitalized for manic depression more than 20 times before coming to work for him. Catherine Durette, who runs a cleaning business in Manchester, N.H., hires people referred to her by a local mental-health center—people whose ailments range from schizophrenia to obsessive-compulsive disorder. "They are all on meds," she says. "If I feel someone is having an off day or seems out of character, I call the center. It may not be anything. You and I have off days."

In general, though, "it is true that employers would prefer not to deal with mental illness—just like they would prefer not to deal with child care," says Laura Mancuso, whose firm, the Conflict Management Institute, helps mediate disabilities-law conflicts in the workplace. Kay Redfield Jamison, a professor of psychiatry at the Johns Hopkins medical school, who wrote *An Unquiet Mind* about her own manic-depression, notes, "One of the net effects of discrimination is that people go underground with these illnesses and do not get treated." That can end up costing their employers a lot more.

—Reported by Ann Blackman/
 Washington, William Dowell/New York and
 Margot Hornblower/Los Angeles

3 CONCENTRATION IMPAIRMENT

"An employee states that he has trouble concentrating when he is tired or during long meetings. He attributes this to his chronic depression. Although his ability to concentrate may be slightly limited because of depression (a mental impairment), it is not significantly restricted as compared to the average person's in the general population. Many people in the general population have difficulty concentrating when they are tired or during long meetings."



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THE PRESIDENT HAS SEEN
6-4-97

THE PRESIDENT HAS SEEN The General Custer of shareholder lawsuits?

How one lawyer helps thwart legal reform

BY PAMELA SHERRID

With great fanfare, Congress overrode President Clinton's veto and passed legislation in late 1995 intended to protect companies from the high cost of often frivolous class action lawsuits. Fifteen months later, the number of such cases has barely budged. Their persistence can be explained in two words: William Lerach.

A recent Stanford Law School study reports Lerach's firm—Milberg Weiss Ber-

shad Hynes & Lerach—was involved in nearly 60 percent of all private securities fraud actions in 1996, up from about 30 percent several years ago. And the frizzy-haired, 51-year-old Lerach—a k a the king of securities fraud lawyers—remains as reviled in executive suites as ever, perhaps even more so. *Despicable* is the word T. J. Rodgers, chief executive of Cypress Semiconductor, uses to describe San Diego-based Lerach's practice.

Milberg Weiss Bershad Hynes & Lerach has won more than \$1 billion in set-

tlements for shareholders over the past three years. In a typical case, Lerach accuses executives of hiding bad news from the public long enough to cash in options and sell off insider holdings. Targeted companies say they are infuriated not only by high legal bills and the cost of settling but also by the immense distraction of time and energy such suits entail.

The rules of the game have changed as a result of the Private Securities Litigation Reform Act, which significantly strengthened management's hand in such cases. For instance, plaintiffs' lawyers now have to describe the alleged fraud in highly specific detail in their complaint or risk having the case dismissed. The financial risks also have shifted to the plaintiffs' side. A judge can decide after dismissal or a trial that a claim was frivolous, forcing the plaintiff to pay all the defendant's legal bills.

Backing off. Factor out Lerach, and the law has mostly worked as intended. His firm's share of cases has grown because

other plaintiffs' law firms, especially smaller ones, have backed away from new cases, reluctant to invest months or years of work for a contingency fee that is now less likely to materialize. Howard Sirota, a successful New York securities fraud lawyer, says the financial disincentives are simply too great to justify pursuing many securities cases today. "Time will tell if Lerach is shrewd or suicidal," says Sirota.

Lerach isn't making inquiries at Dr. Kevorkian's office just yet. He argues that the diversity of cases handled by Milberg Weiss, the nation's largest law firm specializing in securities and consumer class actions, mitigates the risks to his firm. And because many companies carry insurance that can be used for a settlement, some will undoubtedly decide to pay him off, as they have often done in the past when threatened with a suit.

Lerach concedes that the class-action-lawsuit business isn't what it used to be. According to Investors' Research Bureau, an Upper Saddle River, N.J., publisher, Milberg Weiss was lead or co-lead counsel in cases that settled for a total of \$242 million last year, down from \$717 million in 1995. (Milberg Weiss's fees average 5 percent to 15 percent of the settlement.)

Lerach sticks with his specialty, even as its profits decline, for a variety of reasons. Of course, there's the expensive lifestyle (he recently built an enormous showplace of a house to shelter his new, much younger third wife and their baby son). But the attorney seems to be driven by more than money. Lerach closely identifies with victims of financial loss. His father inherited a small fortune and invested it in the stock market—just before the 1929 crash. Not only did the inheritance get swallowed up but margin calls also consumed all his mother's and his aunt's money as well. "My father never got over it," says Lerach. Lerach's upbringing wasn't hard-scrabble, but his family never got to take its place among Pittsburgh's affluent.

Thus Lerach sees himself as a kind of shareholder Robin Hood, not the highway robber his corporate critics think he is. That helps explain his raw intensity as he tries to jump all the new, higher hurdles put in his path by the recent federal legislation. Take the new constraints Congress has put on "fishing expedition" discovery. After a complaint was filed under the old law, the plaintiffs' lawyers were allowed to go through mountains of company documents and take endless depositions to find evidence, for instance, that the company knew a downturn was coming at the precise time it was giving a rosy pitch to investors. Now, the complaint had better be credible on its own

because no discovery occurs until after a judge rules on the defendant's motion to dismiss the case. Even if the case goes forward, the delay in discovery is likely to slow a settlement by six months to a year. And, as Lerach notes, "delay is the enemy of the victim of fraud" because the perpetrator has the money, documents get destroyed, and victims lose heart.

In Lerach's sights

Here are the complaints and settlements agreed to by some of Lerach's targets.

Digital Microwave

\$19.2 million, 1995

Failed to disclose bad news, such as increasing inventories, that would harm future profits.

Abbott Laboratories

\$32.5 million, 1995

Hyped the blockbuster potential of an antibiotic under development while hiding data on adverse reactions.

Platinum Software

\$32 million, 1994-95

Falsified reported profits with revenue from phantom product transactions.

IDB Communications Group

\$75 million, 1995

Accounting manipulations led to fictitious revenues; insider selling.

In three separate recent cases, including one involving computer powerhouse Silicon Graphics, federal judges also have interpreted the new law to mean that investors must prove that executives consciously committed fraud. Previously, it was enough for investors to prove that managers acted "recklessly," a lesser burden of proof. "This is serious," says Lerach. "You can't slice open someone's head to prove conscious intent." Imagine a case in which a company memo details hopeless flaws in a soon-to-be-launched product. The chief executive makes public statements praising the product even as he sells a lot of his own insider holdings into rising prices for the stock. Then the product fails and the stock price collapses. At the trial, the executive insists he didn't read the memo. To prove conscious intent, Lerach would have to prove that the executive saw the memo. "Trials turn on such distinctions," Lerach says.

The Securities and Exchange Commission agrees with Lerach that the new law

didn't change the state of mind a perpetrator must be shown to have to constitute a violation of the securities laws; it is trying to get renegade judges to see things its way. The SEC is concerned that the tougher new standard could be applied to the government's enforcement actions as well as to private suits. The agency is expected to send President Clinton an update on the effects of the legislation this week.

Legal moves. Lerach, meanwhile, has been trying to dodge the unfriendly new climate in federal court. He is filing an unprecedented number of shareholder claims in state courts, mostly in California. Doing so allows him to avoid the discovery delay imposed by the federal reform. The move has defense lawyers flustered, forcing them to drag their attaché cases to out-of-the-way little burgs and to dust off state laws that have almost never been used. "State judges don't know securities from beans," says Laurence Popofsky at San Francisco's Heller Ehrman White & McAuliffe. It's unclear whether state suits can include a company's shareholders throughout the United States.

Besides, a counterpunch is already being readied in Washington. Members of Congress with big high-tech constituencies are rallying support for legislation that would pre-empt state law and create a national standard for all securities suits. "You can't shut down smart lawyers with a federal law that solves just half the problem," says Thomas Proulx, who wrote the original Quicken personal finance program and now heads the California Technology Alliance, a political action group.

Lerach seems to have little appetite for another bruising political confrontation, especially after the disastrous foray he made into California politics last year. Encouraged by voters' rejection of a state referendum that would have strengthened management's hand even more, Lerach went on the offensive. He helped bankroll Proposition 211, a measure that would have made California a plaintiffs' bar heaven. But high-tech executives flexed their newfound political muscle, and the proposition was defeated 3 to 1. Lerach and his firm lost face—plus the more than \$4 million they contributed to the campaign.

Still, Lerach insists that he has no choice but to step into the political ring again, so important is the question of state pre-emption to his practice. "We can't pass on this fight," he says. Lawmakers, for their part, face a difficult challenge: As tempting as it might be to crack down further on Lerach's shop, securities fraud does happen, and investors still need a way to try to recover their losses. ■

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udget, these two doomed measures did
ir fate is deeply depressing. This budget
oph of short-termism, in which politi-
oclaimed their disciplined determina-
balance by 2002, only to let the figures
Clinton in particular, 2002 has become
date that stops him sinning (fiscally, at
second term. Yet the true aim of Ameri-
e days has to be quite different: to try to
entitlement programmes well into the
icaid programme cannot be afforded if

it remains captive to rapidly rising health costs; Social Security faces ruinous pressure when, by 2010, the baby-boomers start retiring and cease to pay their taxes.

The sad truth, however, is that politicians make budgets, not economists; and for politicians the crises of the next century are unimaginably far away. The lesson of the latest budget is that entitlements in general, and Social Security in particular, are still sacred; so sacred that even sensible first steps to put them on a sounder financial footing are discarded as too risky. And if politicians are so frightened now, when all the economic indicators are favourable and deficits are at record lows, when will they ever have the nerve to try?

The comfort of strangers

TO UP
What do you
think?
Bz



More than ever, foreign ownership of media businesses is the friend of pluralism.

Legal barriers to foreigners should be scrapped

JUST in case Rupert Murdoch manages to circumvent the problems he is having in launching a satellite-television operation in the United States, the Clinton administration appears to want to put a new one in his way. It has just asked the Federal Communications Commission to look again at its relaxed attitude to foreign satellite operators. Keeping foreigners out of the communications business is nothing new. Back in the 1890s, the French government banned foreign ownership of the pigeon post. The pigeons have given way to the cables and satellites that deliver telephone calls and television pictures, but controls on foreign ownership have stayed and spread. They are even less justifiable now than they were then.

Foreign ownership of media has always been especially controversial: after all, in democracies, the media are the main channel between the governed and the government. The chief executive of a national newspaper group or a television network may run a company whose market capitalisation is less than that of a middling bank or brewery, but has far greater political clout. In the case of television, the scarcity of spectrum, and the expense of building a cable system, have been additional justifications for regulating ownership.

Now, though, these arguments are weaker. The costs of starting new television channels are falling, and will drop faster as digital compression packs more into the same transmission capacity. In Europe, even with old-fashioned analogue distribution, the number of cable and satellite channels is already doubling every three years. Digital television will swell the number. And, when viewers tire of conventional television, they can find oodles of news and entertainment on the Internet. More and more, people will complain about too much choice on their screens, not too little. In addition, there are ever more distribution paths: wireless, telephone lines, cable and satellite all potentially compete to carry facts and fun into people's homes.

Such a glut of choice weakens the old arguments for special rules about media ownership. So does the convergence of different kinds of communications. The background to the American controversy on foreign investment in satellite television is that the FCC regulates it as a sort of telecommunications service, where the door is being opened to for-

eigners as a result of the liberalising talks at the World Trade Organisation earlier this year, rather than as broadcasting, where the door is staying shut. The European Union, by contrast, treats satellite-television companies as broadcasters and so has no qualms about allowing some members to limit foreign ownership.

Such inconsistencies will multiply as pictures travel along telephone wires and TV sets are routinely fitted with a plug for a telephone line to carry Internet traffic. Governments will have to decide whether an e-mail sent to thousands of people should be regarded as a broadcast, and whether a company such as America Online, offering Internet access and entertainment, is a telephone company or a broadcaster. The big issues for regulators ought to be whether and how to regulate the content—some of it from abroad—that appears on screens, not trying to keep out foreign investors.

Open up

Indeed, allowing foreigners to invest in domestic media is the best guarantee of competition and a plurality of views. In Australia, tough rules on media ownership have not prevented Rupert Murdoch's News Corp from controlling 70% of newspaper circulation. Restrictions on foreign investment and cross-media ownership have had the same perverse effect as protecting any other sort of market: they boost the profits of the main players, allowing them to become ever more dominant. Much of the pressure on the FCC to think again about foreign satellite operators comes from American broadcasters, frightened by the prospect of competition from foreign companies such as News Corp.

In broadcasting, as in telecommunications, an open market is the best guarantee of competition. But both industries are naturally prone to concentration. Telephone companies attract more customers the more people they connect; and television broadcasters, as Mr Murdoch well understands, will lock up markets by controlling the design of the software for the decoder box that unscrambles digital signals. Both industries will therefore need vigilant antitrust regulation. But neither needs xenophobic ownership curbs, any more than did the 19th-century pigeon post.

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THE PRESIDENT HAS SEEN
6-4-97

The corporate welfare queens

When it comes to subsidies for companies, Congress can't say no

BY JAMES K. GLASSMAN

While President Clinton and the Republican Congress have been busy cutting welfare for poor people, they have practically given a free pass to welfare for rich companies. "Corporate welfare"—the term for a government subsidy to a firm that doesn't need the money—has been under attack from both the left and the right for years but continues to thrive. The new budget deal includes cuts in Medicare and Medicaid but lacks mention of any plans to eliminate the dozens of programs that help defray the costs of doing business for large-scale companies like Pillsbury.

A recent report by the Cato Institute, a conservative think tank in Washington, finds that the federal government "now spends \$65 billion each year on more than 100 programs that provide taxpayer assistance to American business." The Congressional Budget Office, with a more limited definition, pegged the figure, at \$28 billion, not including tax preferences such as the exemption for ethanol or breaks for timber producers. And an unlikely coalition that includes Ralph Nader's Public Citizen on the left and the National Taxpayers Union on the right is targeting specific corporate-welfare programs totaling \$10 billion.

Among the most egregious examples of corporate welfare, say critics:

- **Advanced Technology Program:** Provides \$225 million to companies for basic research and overhead costs. Recipients include such giants as IBM, Dow Chemical, and Xerox.
- **Market Access Program:** Gives firms, including Campbell Soup, Ralston Purina, and Gallo Winery, millions to promote their goods overseas. "In recent years," says the Cato report, "MAP annual budgets have included more than \$1 million to promote popcorn sales, \$125,000 to promote frozen bovine semen, and nearly \$120,000 to promote alligator hides."
- **Overseas Private Investment Corp.:** Provides loans, guarantees, and insurance to U.S. firms that invest in developing countries, including United Technologies and McDonald's.

Grover Norquist, president of Americans for Tax Reform and a top GOP strategist, blasts subsidies for sugar and tobacco growers and for utility companies. It's hard to believe big companies can't afford to fund their own research, or advertising, or uranium enrichment—or can't go to banks to borrow for investments abroad.

Advocates say these programs create jobs, but that analysis

misses half the equation. When government spends money, it takes funds out of the private sector (in the form of taxes or borrowing), making it unavailable for investment. The real issue is not whether spending creates jobs—throwing rocks at windows creates work for glass repairers—but whether the private marketplace can direct that spending to better uses than the government can.

That's an open question, but you have to wonder about a program like MAP, which solicits companies (including actor Paul Newman's specialty-foods firm) to submit requests for grants. On hearing of this practice, Democratic Rep. Charles Schumer of New York, an ardent foe of corporate welfare, asked, "Is this a government program, or is this a Publishers Clearing House contest?"

Nobody's business. Republican Rep. Bob Livingston of Louisiana, chairman of the House Appropriations Committee, believes "most of the programs are boondoggles," but that doesn't mean he can persuade his colleagues—or the White House—to end them. Livingston told me that when his committee tried to kill ATP, Clinton was adamant that it be saved, or he would veto the entire budget. (Norquist claims ATP is a prime fund-raising tool for Democrats.) In the end, it was scaled back from Clinton's request of \$345 million to \$225 million. Next year? It might well go up again.

Livingston, however, sees value in OPIC, since the United States needs to compete with other countries that subsidize exporters. "Kasich will tell you that they've all got to go," says Livingston, referring to Rep. John Kasich, the Budget Committee chairman and, with Republican Sen. Sam Brownback of Colorado, the most enthusiastic corporate-welfare opponent on the Hill. "But it depends on whose ox is being gored."

After winning a majority in 1994, Republicans did trim corporate welfare by 15 percent. But last year, the 55 top spending programs that benefited business received a 1.3 percent increase in funding. As for this year: Cutbacks are unlikely, especially since the CBO's new estimates of \$225 billion in extra revenues have taken the pressure off.

That's a shame. Ending the worst of corporate welfare could prevent the need to trim Medicare by \$115 billion by 2002, as the budget deal proposes. "Republicans have fumbled the ball both policywise and politically on corporate welfare," says Stephen Moore of Cato. "Why not just say you're taking \$10 billion a year out and using it to cut capital-gains taxes?"

A good idea, but doubtful. Still, Norquist is ever the optimist: "We'll get corporate welfare this time, just like we got welfare-welfare last time."



Subsidies for firms that
don't need the money

Sandy B

THE PRESIDENT HAS SEEN
6-4-97

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Councilman Noach Dear

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Brooklyn, NY 11204

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May 12, 1997

~~PERSONAL AND CONFIDENTIAL~~

President William Jefferson Clinton
President of the United States of America
The White House
1600 Pennsylvania Avenue, N.W.
Washington, DC 20500

Dear Mr. President:

I am following up with you regarding the note I sent last week about my meeting with Prime Minister Benjamin Netanyahu. I would like to meet with you personally in order to discuss confidential information I received from the Prime Minister. I believe I have some answers which will enable the Middle East peace process to resume.

I look forward to hearing from you so that we can arrange a mutually convenient time to meet.

Very truly yours,

Noach Dear
Noach Dear

*I hope to
see you
Repsul*

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MARKING INITIALS: OB DATE: 7/29/99
2019-0774-S

THE PRESIDENT HAS SEEN
6-4-97

Councilman Noach Dear

4424 16th Avenue
Brooklyn, New York 11204
Telephone (718) 633-9400 • Facsimile (718) 633-9403

May 19, 1997

~~PERSONAL AND CONFIDENTIAL~~

President William Jefferson Clinton
President of the United States of America
The White House
1600 Pennsylvania Avenue, N.W.
Washington, DC 20500

Dear Mr. President:

I read with concern that Dennis Ross has left the Middle East without establishing a timetable for the peace process to go forward. Accordingly, I am contacting you again about personally providing you with the information I received from my meeting with Prime Minister Benjamin Netanyahu.

I understand the political dynamics necessary for Prime Minister Netanyahu and believe that through my contacts, I may be able to move the negotiations along. I look forward to being of service to the Administration.

I hope to meet with you shortly to discuss this matter further.

Warren Buffett

Very truly yours,

Noach Dear

DETERMINED TO BE AN ADMINISTRATIVE

MARKING INITIALS: DB DATE: 7/29/19
2019-0774-5

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NUCLEAR DISA

We're not supposed to worry about Armageddon anymore. But who's safe when the Russians are

By BRUCE W. NELAN

RUSSIAN MILITARY OFFICERS stared wide-eyed at the glowing image on their radar screens: an incoming missile on course to hit Moscow in 15 minutes. They were tracking a rocket about the size of a U.S. submarine-launched Trident that seemed to be streaking in from the Norwegian Sea. There had been no particular tension between Russia and the U.S. on Jan. 25, 1995. Still, the officers knew that if this were a surprise attack, the first American missile to be fired would probably be from a submarine, aimed to deto-

nate over Russia and generate an electromagnetic storm that would fry the country's electronic circuitry. The radar crew flashed a warning of the possible nuclear attack to an underground control center south of Moscow.

Duty officers inside that bunker went by the book, relaying the warning up the line. One buzz went to the three nuclear code briefcases assigned to President Boris Yeltsin and his top two military officials. On each briefcase a small light beside the handle blinked on. The officer carrying Yeltsin's case rushed to the President and flipped it open. On an electronic map inside, they saw a bright dot over the Norwegian Sea. Beneath the map was a row of

buttons, offering a menu of attack options on targets in the U.S.

On military bases across Russia, red lights flashed and Klaxons blared, alerting the troops in charge of the country's strategic nuclear weapons to get ready to use them. Yeltsin and his military commanders, linked by phone, waited to hear whether an attack had been confirmed. About 12 minutes after the mystery missile soared onto the radar screens, military analysts could see that it was not heading for Russian territory. It turned out to be a Norwegian scientific rocket sent aloft to observe the aurora borealis. The Norwegians had dutifully notified the Russian embassy in Oslo, but the word was never relayed to



MOORED MENACE Many of Russia's missile subs are confined to port but can still hit U.S. targets

RRAY

losing control over their arsenal?

the military. "For a while," says Sergei Yushenkov, a member of the Russian parliament's Defense Committee, "the world was on the brink of nuclear war."

It may still be near the brink, despite the end of the cold war and the dismantling of thousands of warheads, because the people and the machines that control Russia's nuclear arsenal are being neglected. Like the rest of the armed forces, the soldiers in the Strategic Nuclear Forces (SNF) are largely unpaid, unfed and unhappy. The delicate computer networks at the heart of the nuclear force are not being maintained properly, and the safeguards that prevent accidental or unauthorized launches are fraying.

Bill Clinton likes to point out that Russian missiles are no longer aimed at targets in the U.S. It is true that both sides agreed in 1994 to switch the missiles away from their cold war assignments, but it isn't true that this step moved the world a safe distance back from Armageddon. The missiles' computer memories retain those targets, and they can be restored very quickly. "It is just a matter of a couple of minutes," says a Defense Ministry official in Moscow. And if a missile is launched without a selected target—even if by accident—it reverts to the original one.

Despite arms-control agreements that have reduced the numbers, Russia still has an estimated 1,300 strategic missiles with more than 6,000 warheads, and they are on hair-trigger alert. The country's retaliatory policy is to launch on warning, meaning its war plans call for the launching of a retaliatory salvo of thermonuclear missiles if Moscow receives confirmed warning that Russia is under attack, but before it has suffered any damage. Moscow has even updated its military doctrine and now claims the right—as the U.S. has done for decades—to be the first to use nukes when it believes it must. "We will choose the means," says Security Council secretary Ivan Rybkin, "including nuclear weapons."

With these kinds of high-risk strat-

egies, a government needs to have the tightest, most reliable command-and-control system that money can buy. That is not what Russia has today, and the Russians admit it. Defense Minister Igor Rodionov says the problem is obvious. The system is built on electronics, which must be carefully maintained and regularly replaced. But last year the forces received, by Rodionov's estimate, only 10.5% of the funds needed to do that. The result, he predicts, is that "we may lose the entire system." The links between radars and headquarters, the computer management of missiles and the physical security of the warheads could all break down. The issue is at the top of the agenda this week when Rodionov meets Secretary of Defense William Cohen at the Pentagon.

For lack of funding, some of the key defense industries are floundering and might not survive. The Impulse complex in St. Petersburg, for example, turns out components for command-and-control systems but has been immobilized by unpaid bills and sporadic strikes. "They have not had a military procurement order in months," says a Moscow expert.

Equipment is vital, but in any military unit the people are equally important, and they are breaking down too. The soldiers of the SNF, members of an élite warrior class, are being reduced to misery and poverty.

They are paid very little—\$180 a month for a submarine commander—when they are paid at all. Last year some of them, along with their families, threatened to block the Trans-Siberian railway if they were not paid. Others kill themselves; the suicide rate in the SNF is reportedly the highest in the armed forces.

A visit to Krasnie Sosenki, the Little Red Pines, makes it easy to see why the troops are so depressed. This is a military base 190 miles north of Moscow that houses officers of the Strategic Rocket Forces, who command the land-based missiles. Here the nuclear elite lives in row after row of shabby five-story apartment buildings, laundry on the balconies. The officers are bewildered and angry. One major, who has served 24 years in the SNF and will retire in six months, did not see a paycheck for four months. "How would you feel," he asks, "if you served half your life, and on the threshold of retirement they just stop paying you?" His wallet is empty, and he has only enough money to buy two loaves of bread at the private kiosks that now constitute the base's main supply line. On snow-covered Karl Marx Street, a female noncommissioned officer who will give only her first name and patronymic, Galina Ivanovna, snaps, "We're living in poverty. That's all you need to know."

If the troops are that dispirited, what might they do? What might they not? Last week the Federal Security Service officially confirmed that it had arrested a colonel in the SNF who had been collecting classified information on the missile forces and was planning to try to sell it to someone at the U.S. embassy in Moscow. The next such officer might be willing to sell not just secrets but a warhead—or the plutonium to make one. "The missile forces must be fed," says Robert Bykov, a retired colonel of the SNF. "If those who guard Russia's nuclear weapons go hungry, we might face some terrifying consequences."

The potential is there for some form of nukenapping—grabbing weapons for ransom or nuclear blackmail—or sales to rogue states or terrorists, or unauthorized launches by renegade commanders. Some Russians even fret about a nuclear civil war. If a region in Siberia were to declare its independence, a retired senior officer in Moscow speculates, "the entire missile force in the area might cut itself off from the chain of command and control and get reprogrammed to be able to launch at will."

A top-secret CIA study last September,

first reported by the *Washington Times*, rated the likelihood of such a launch as still low but found the Russian control system under such unprecedented stress that some high-level commanders in Moscow were worried about the security of their nuclear weapons. The CIA also reported that the famous code briefcases are not what they seem. They allow the President or the Defense Minister or the Chief of the General Staff to authorize a nuclear attack, but the actual ability to launch missiles lies much further down the line of command, even in regional command posts and

satellite-tracking stations have gone to Ukraine, Georgia and Kazakhstan. The high command is now partially blind, which increases its apprehensions, produces false alarms and makes good decisions harder.

Third on the CIA's worry list is the possible "involvement of local, nuclear-armed units in separatist movements." The question here is what might have happened if the leaders of Chechnya's rebellion had had access to some nuclear weapons during the time the Russian army was pounding Grozny into rubble.

Such concerns have revived the worldwide call, even from some very senior generals and admirals, to abolish nuclear weapons. But a large part of the risk could be eliminated by the less radical step of "de-alerting" the forces, taking them off their hair-trigger posture. Since there is no political reason to think war is around the corner, why not make it impossible to fire the missiles without a great deal of time-consuming preparation?

Various proposals on how to do that have been put forward, several by Bruce Blair of the Brookings Institution, a leading expert on nuclear weapons. Missile nose cones, he suggests, could be replaced by large, blunt tips, or disabling pins could be inserted into rocket engines. Indeed, warheads could actually be removed from the missiles, under mutual inspection procedures. All of the steps could be reversed, but they would build in a safety valve of time, giving an opportunity to reflect.

These ideas have not caught on. Defense Secretary Cohen ducks the issue. Others, like former Assistant Secretary of Defense Ashton Carter, seem to think de-alerting would distract people from the campaign to abolish the weapons altogether.

The big problem would be selling de-alerting to the Russians. They are more reliant on nuclear weapons than ever because their conventional forces have fallen apart. And the weapons of mass destruction have a weightier meaning and symbolism to Russia today: they are the pillar on which a proud nation rests its claim to superpower status. With their army, navy and air force in disrepair, the Russian leaders are very unlikely to respond with smiles and nods to suggestions that they disable, even temporarily, their terrifying nuclear forces. Besides, no one is trying to persuade them.

—Reported by

Brigid O'Hara-Forster/London, Andrew Meier and Yuri Zarakhovich/Moscow and Mark Thompson/Washington

"For a while, the world was on the brink of nuclear war."



submarines, which, says the CIA report, "have the technical ability to launch without authorization by political leaders or the General Staff."

Under these circumstances, uncountable things could go wrong, and the CIA lists three most feared scenarios. First is a political crisis in Moscow that could lead to a military coup or a breakdown in command authority from the top. This could leave elements of the strategic forces to their own devices.

Second is a possible miscalculation of U.S. actions during some kind of crisis. The Russians might wrongly think they were under attack from the West and fire their rockets. This danger has greatly increased because the Russian early-warning system is not what it used to be. It has lost major radar stations in the new nations of Ukraine, Latvia and others. Some of its

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THE WHITE HOUSE
WASHINGTON

June 3, 1997

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MEMORANDUM FOR THE PRESIDENT

FROM: GENE SPERLING

RE: Tax Options

Through NEC meetings with Erskine Bowles, we have come to nearly unanimous decisions on the recommendation for the tax package that the Treasury Department would like to float with different members of Congress starting tomorrow.

An 11-page decision memo from Secretary Rubin and Summers is attached. This is the only memo you need to read. Behind it is appendix A-G, which offers background paper you could refer to, if it is helpful.

The one substantive disagreement is the one we identified to you earlier. While Secretary Rubin and the rest of your economic team would support paying for our education changes by phasing in both the \$10,000 deduction and credit, Secretary Riley would prefer an option with the full \$1500 tax credit while limiting the \$10,000 deduction to a 15% credit. If there is a decision not to reduce the deduction, then the Secretary would prefer to start the credit at a minimum of \$1,200 and the deduction at \$5,000 and phase both in gradually. Treasury Option 4 is one way to achieve this, but by no means the only way. Another way might be to phase-in the deduction beginning at \$5,000, then \$7,500, and reach \$10,000 in the year 2000, and the credit beginning at \$1,200 and rising to \$1,500 in the year 2000.

Secretary Riley believes that a \$1,000 HOPE credit makes it much more difficult to talk about universal access. About 40 states have average community college tuitions above \$1,000.

Others on your economic team who support phasing in the HOPE Scholarship credit believe that \$1000 or \$1200 as a starting point is still a sizeable and attractive amount and that because it is less than what most community colleges charge, it would weaken the case that the HOPE scholarship tax credit would lead to community colleges raising their tuition to the amount offered by the HOPE scholarship tax credit.

Wish to see to have to try to make it work



DEPARTMENT OF THE TREASURY
WASHINGTON, D.C. 20220

June 3, 1997

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6-4-97

MEMORANDUM FOR THE PRESIDENT

FROM: Robert E. Rubin
Lawrence H. Summers

SUBJECT: Decision Memo for the Tax Package

There are several issues that need your attention as we attempt to influence the tax bill that is being developed in Congress. This memo summarizes the issues that arise in each portion of the tax package, presents recommendations that have been developed in a series of meetings held by your economic advisors, and, where decisions are needed, highlights the choices that need to be made. The tabs following this memo provide a more detailed discussion of the issues in question.

OUR RECOMMENDATIONS

Education

Phase in Hope Scholarship and Tuition Deduction to attain full levels you proposed after 1999; drop B- requirement and eliminate offset of Pell Grants against allowable credits; make Section 127 (for employer-provided education) permanent

✓ Child Credit

Apply to child under 13 through 2002, child under 18 thereafter; refundable to families who have at least \$2,000 of earned income, but do not have sufficient tax liability to use full credit; optional Kidsave to establish nondeductible backloaded IRA type savings vehicle with amount of credit, but with earnings distributable tax free for child's education, and possibly child related events, or for parent's retirement

✓ Capital Gains

40% exclusion for long-term capital gains (with AMT rate on capital gains reduced to 24%); oppose indexing of basis; expand targeted small business capital gains relief on qualified stock held 5 years by increasing eligible gain from \$10 million to \$20 million and liberalizing eligible assets to qualify as active business

✓ Alternative Minimum Tax (AMT)

Make modest changes to eliminate standard deductions and personal credits (such as Hope and child credit) as preferences in AMT taxable base

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Home Office Deduction

Allow home office expenses if substantial management and administration takes place at home, although primary business activities is outside, if no other office is available

Estate Tax Relief

Give special exemption for \$900,000 of value in qualified farm and small business in addition to \$600,000 value of unified credit; increase estates eligible for liquidity relief in payment as proposed in your FY 98 budget

Urban Initiatives and Other Budget Items

Our suggested package contains a complete set of FY98 Budget initiatives, including the expansion of EZs and ECs, Brownfields, CDFI and the welfare-to-work tax credit and tax incentives for FSC software, D.C., and Puerto Rico, and the equitable tolling provision. It extends expiring provisions that we do not make permanent, including the R&E tax credit, deduction for contributions of appreciated stock to private foundations, the work opportunity tax credit and the orphan drug tax credit.

This recommended package is summarized in the table following this memo.

Education

Treasury and your economic team support an option that phases in both the HOPE credit and tuition deduction. Treasury and others recommend option 5. Others prefer option 4, which phases in more slowly but keeps a \$1,200 (rather than \$1,000) initial HOPE credit. Secretary Riley favors option 3, which limits the tuition deduction to a 15 percent credit.

☐ Accept Option 5 below ☐ Accept Option 4 below ☐ Accept Option 3 below

Other alternatives:

☐ Trim Hope credit (package 1 below)

☐ Other variations (Elimination of the Pell offset could be phased in, though this would not save a lot since completely eliminating the Pell offset costs roughly \$3 billion through 2002. The income phaseout ranges could also be altered (the credit and deduction phase out for joint filers with incomes between \$80,000 and \$100,000 and single filers with income between \$50,000 and \$70,000).

The following table presents Treasury estimates of several possible combinations of the HOPE scholarship and tuition deduction as well as several other education proposals. The

packages illustrate the tradeoffs necessary to fit the HOPE scholarship and tuition deduction into the \$35 billion agreement. These tradeoffs are necessary in order to offset the increased costs of the package that would result from dropping the B- requirement (as requested by the education lobby) and the Pell grant offset (as requested by Congressional Democrats). Dropping these two items is estimated to cost approximately \$5.3 billion through 2002.

Each of the options set forth below would eliminate the Pell grant offset and the B-restriction. Each option would fully phase in the complete education package by 2003, so the tuition deduction would be \$10,000 and the HOPE Scholarship would be \$1,500. The effective date of the first four options has been moved back to January 1, 1998, which saves roughly \$2.5 billion. The complete education package is fully phased in by 2001 in Option 4 and by 2000 under Option 5. Please note that the Joint Tax Committee may score these proposals as being more expensive than shown in the table.

Education Packages: Preliminary Treasury Estimates, (Dollar amounts in billions)

	1998-2002	1998-2007
HOPE Scholarship, \$1,200; Tuition Deduction, \$10,000 ¹	35.2	89.2
HOPE Scholarship, \$1,000; Tuition Deduction, \$10,000 ²	34.1	88.3
HOPE Scholarship, \$1,500; Tuition Deduction @15% credit ³	34.9	88.9
Phased in HOPE Scholarship; Phased in Tuition Deduction ⁴	35.0	89.0
Faster Phased in HOPE Scholarship and Tuition Deduction ⁵	35.1	89.2

¹The tuition deduction starts at \$5,000 through 1999, and increases to \$10,000 thereafter.

²The tuition deduction starts at \$10,000 in 1998.

³This variation converts the tuition deduction into a 15 percent credit on expenses up to \$10,000 (\$5,000 in 1998).

⁴The tuition deduction starts at \$5,000 through 2000, and increases to \$10,000 thereafter. The HOPE credit starts at \$1,200 through 2000, and increases to \$1,500 thereafter.

⁵The tuition deduction starts at \$5,000 through 1999, and increases to \$10,000 thereafter. The HOPE credit starts at \$1,000 through 1999, and increases to \$1,500 thereafter. The proposal has a 7/1/97 rather than 1/1/98 effective date.

Additional Features of the Education Packages

- o With money outside the \$35 billion, we propose to make permanent the exclusion of employer-provided educational assistance from taxable income (Section 127). This is a cause that has been championed by Senator Moynihan and others in the House and the

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Senate. Doing so will cost roughly \$3.7 billion through 2002.

_____ Support _____ Do not support

- o A student loan interest deduction would provide relief to many middle-income students and is politically popular. Adopting the student loan interest deduction in the Republican Leadership education bill (S.1) would cost \$1.8 billion under Treasury scoring.

- The proposal to deduct student loan interest would provide a \$2,500 above-the-line deduction, phased out at \$45,000 to \$65,000 for single filers and \$65,000 to \$85,000 (either for the student or taxpayer claiming the student as a dependent) for joint filers.

_____ Support _____ Do not support

- o We are developing proposals to aid K-12 school construction (and other activities) in poor neighborhoods, as urged by Congressman Rangel and others. States would be permitted to allocate a fixed annual amount of tax credits (based on population), much as they do currently with low-income housing tax credits. The States could allocate the credits for projects in public schools located in empowerment zones, enterprise communities or that have a high percentage of low-income students. The schools could use the credits to help pay for construction and renovation projects by giving them as partial payment to developers who perform the construction work or by selling them. Each school would be allocated credits equal to a specified portion of construction costs with the balance to be covered by the State or the school districts.

✓ _____ Support _____ Do not support

Middle Class Tax Relief and Saving Provisions

- o We recommend that the IRA and child credit proposals in your FY98 Budget be combined into a "Kidsave" credit, which couples the child tax credit with a tax-preferred saving vehicle that can be used for the child's education and for the taxpayer's retirement. The credit would be refundable for families with earned income of at least \$2,000. The credit would be as you proposed for children under 13 through 2002, thereafter including children under 18. See Exhibit A for background.

_____ Agree _____ Alter and adopt the variation as indicated below

_____ Drop refundability

_____ Keep refundability, but drop earnings threshold

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- ☐ Do not broaden to cover children under 18 after 2003
- ☐ Do not combine child credit with Kidsave saving proposal
- ☐ Make Kidsave mandatory to obtain credit
- ☐ Broaden withdrawal options from Kidsave to cover
 - ☐ First time home purchase by child
 - ☐ A young child's development grant after age of majority

Points to note:

- Refundability would help draw a striking contrast between the distributional effect of likely Congressional taxes packages and ours. It also ensures that all working families faced with the costs of raising children benefit from the child credit.
- If the credit is made refundable, we recommend the earnings threshold, rather than universality, for two reasons. First, it reinforces the message that "work pays," providing additional incentive for low-wage families to enter the labor market. Second, it helps distinguish the refundable child credit from earlier proposals such as the McGovern demogrant and Nixon's Family Assistance Plan.
- If we have a voluntary Kidsave account, your advisors all agree that withdrawals should be permitted for educational expenses of the child and for the taxpayer's retirement. These uses could be broadened to include purchase of a first home (as in your FY98 IRA proposals), and for "development accounts" for children over 18 (to address concerns that our tax proposals do little to help families with children who do not go to college).

General Capital Gains Relief

If we are to have broad-based capital gains tax relief as appears certain, **our recommended option is a 40 percent exclusion for capital gains (with the AMT rate on capital gains reduced to 24 percent)**. The special AMT rate ensures that the highest tax rate on capital gains is 24 percent under both the ordinary income tax and the AMT. The 40 percent exclusion leaves room for negotiating a slightly higher exclusion, but holding firm against capital gains indexing.

☒ Accept ☐ Other option (listed below)

Other options:

☐ 50% exclusion with 20% AMT rate

- _____ Indexing
- _____ Exclusion plus indexing
- _____ Separate rate schedule (10.5% - 20%)
- _____ Separate rate schedule (7.5% - 20%)
- _____ Offer no specific proposal, but work out a Congressional compromise

The following table provides the cost estimates for several broad-based capital gains options that we have considered:

Preliminary Treasury Estimates, (Dollar amounts in billions)¹		
	1998-2002	1998-2007
40% capital gains exclusion (w/ 24% AMT rate)	-\$4.5	-\$9.9
50% capital gains exclusion (w/ 20% AMT rate)	-\$13.4	-\$25.3
50% capital gains exclusion, plus indexing starting 1/1/97	-\$32.3	-\$96.9
Separate rate schedule: 10.5% for 15% bracket taxpayers, 20% for other taxpayers; 20% AMT rate	+\$13.4	+\$15.3
Separate rate schedule: 7.5% for 15% bracket taxpayers, 20% for other taxpayers; 20% AMT rate	+\$8.2	+\$3.7

Points to note:

- o **Replacing the current maximum rate on capital gains with a percentage exclusion** provides the same proportional reduction in the rate on capital gains for taxpayers in all tax rate brackets. Current law provides a maximum capital gains rate of 28 percent benefitting only higher income taxpayers. A 50 percent exclusion as in several current Republican bills would lower the top rate on capital gains from 28 percent to 19.8 percent. For AMT purposes, capital gains would be subject to a special 20 percent rate, rather than the regular AMT rates of 26 or 28 percent to ensure that the top capital gains rate is 20 percent for both regular tax and AMT purposes.
- o **Separate rate schedule applicable to capital gains.** An alternative means of providing rate relief would be to tax capital gains under a separate rate schedule. For example, a

¹ All of the estimates shown include the cost of the proposed exclusion for sales of principal residences, which costs \$1.4 billion through 2002 and \$2.3 billion through 2007. However, they do not include the proposed expansion of the Bumpers targeted capital gains provision.

special rate schedule could be established with a rate of 7.5 percent for taxpayers in the 15 percent bracket and a rate of 20 percent for taxpayers in higher tax brackets. A special AMT rate of 20 percent would apply.

- Thus, in contrast to a percentage exclusion, taxpayers in tax brackets ranging from 28 percent to 39.6 percent would be subject to the same special capital gains rate. This causes a separate rate schedule of this type to be much less expensive than a percentage exclusion because the greatest benefits are given to high bracket taxpayers who are more likely to have induced realizations from the proposal. Conversely, less revenue is spent on lower bracket taxpayers who are less likely to change their realization pattern as a result of the proposal. Obviously, this type of separate rate schedule is more regressive than an across-the-board exclusion.

Indexing Capital Gains

We oppose indexing capital gains as part of the tax bill. Doing so, particularly in combination with a capital gains exclusion, would bestow inappropriately large benefits on high-income taxpayers, add to the incentive to form tax shelters and significantly increase the complexity of the tax system. For similar reasons, the New York State Bar Association has "strongly opposed" indexing for many years both in testimony and in several reports submitted to Congress. For example, they stated in a 1995 report sent to Mr. Archer that:

The indexation proposals currently before Congress are fundamentally flawed. The proposals would: permit unwarranted tax avoidance and revenue loss; potentially result in the mass marketing of tax shelters to well advised and high income taxpayers, as in the 1980's; and vastly increase the burden and complexity of the tax system for all taxpayers, as well as the IRS, at a time when many believe that its complexity has already brought it near the breaking point. Moreover, even if a theoretically sound system of indexation could be developed, the additional complexities that would be necessary to do so would completely overwhelm taxpayers and the IRS.

A more detailed explanation of the problems inherent in capital gains indexing is attached as Exhibit B.

Expand Small Business Capital Gains Proposal (Section 1202)

In 1993, targeted capital gains relief was added under section 1202 the Bumpers bill, for sales of small business stock. Section 1202 presently provides a 50 percent exclusion for capital gains from the sale of qualified small business stock held for more than 5 years. Gain eligible for this exclusion may not exceed the greater of \$10 million or 10 times the taxpayer's basis in the stock. We recommend dropping the ten times basis alternative and increasing the eligible gain to \$20 million and making technical changes to liberalize the qualification of businesses under section

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1202. A more complete description of the proposed changes to section 1202 is attached as Exhibit C.

- o Increase limit on eligible gain. We would recommend that the \$10 million limitation on eligible gain be increased to \$20 million and that the alternative limitation of 10 times basis be repealed as a simplification measure.

☒ Agree w/ recommendation ☐ Make other change

Other change:

☒ Increase the size of businesses permitted to use the special proposal from \$50 million to \$100 million of assets. Note, however, that increasing the limit may draw available capital away from smaller firms that were the intended beneficiaries of the provision. Increasing the limit on the size of business from \$50 to \$100 million and doubling the limitation on eligible gain would be similar to the proposal offered by Daschle.

☐ Increase percentage exclusion of gain from 50% to 75%

Points to note:

We recommend that the current law 50 percent exclusion and maximum tax rate of 14 percent be retained. Even if a broad-based capital gains exclusion were adopted, section 1202 would still be more favorable because the maximum rate for other capital gains likely would be about 20 percent. However, if you desire to grant even more generous treatment to small business stock, the exclusion under section 1202 could be increased to 75 percent, i.e., the maximum rate under section 1202 would be reduced to 9.9 percent. (In either case, taxpayers subject to the AMT would be subject to a 14 percent rate.)

Reform of the AMT

We recommend a modest reform of the AMT by eliminating from its base the standard deduction and allowing personal credits (Hope, child credit) against AMT liability as well as the regular tax. We recognize the overwhelming policy merit of a broader package in our memo in Exhibit D.

☒ Accept modest reform
☐ Urge broader reform
☐ Do not include any AMT reform

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Points to note:

In the absence of policy changes, the number of taxpayers that pay taxes because of the AMT (as opposed to the regular income tax) will increase by roughly 25 percent per year: from 0.9 million in 1997 to 2.4 million in 2002 to 8.4 million in 2007. The taxpayers who are thrown onto the AMT will increasingly be taxpayers who are not traditionally viewed as aggressive or abusive of the tax system. The items that will force taxpayers onto the AMT are state and local tax deductions, personal exemptions, and the standard deduction; these are not the tax preferences that the AMT was designed to limit. Forcing many millions of taxpayers to fill out a very complicated tax for a parallel tax system will infuriate most taxpayers and may put in peril the survival of the whole progressive tax system.

As described in Exhibit D, Treasury has developed an AMT reform package. Adopting it, however, will raise two major political problems. First, because so many taxpayers will be affected by the AMT in the future, the long-run costs of solving the problem are high and the solution still disproportionately benefits higher-income taxpayers because more of them are subject to AMT than middle-income taxpayers. Second, because the costs of the AMT increase sharply over the 10-year budget window, tackling the problem makes it more difficult to challenge Congressional Leadership proposals with the criticism that costs explode in the out years.

- o Our recommended reform simplifies the AMT, but does not solve the long run problem. Going further is arguably the best choice on purely policy grounds, but raises difficult political problems. It would also force you and your advisors to make the correct, but difficult argument that AMT costs explode in the out years because we are saving millions of taxpayers from a future unexpected tax hike, while other proposals cause costs to explode in the out years because they cut taxes for wealthy taxpayers.

Home Office Deduction

Under the Supreme Court's holding in Commissioner v. Soliman, a taxpayer may not take a home office deduction if the home office is used to perform the administrative and management activities of the taxpayer's business, but the taxpayer performs his primary business services at another business location. In response to Soliman, several proposals have recently been made to allow taxpayers to take a home office deduction in these situations. The Treasury is generally supportive of allowing a deduction in these situations, but believes that certain technical modifications are necessary to the proposals that have been offered. First, changes should be made to ensure that *de minimis* management activities would not qualify the taxpayer for the home office deduction. Second, the proposal should be drafted in a manner that does not cause commuting expenses to become deductible. A more detailed explanation of the home office deduction is attached at Exhibit E.

☒ Accept proposal☐ Other

Costs of the Package in the Second Ten Years

Exhibit F shows the 10-year cost of two different suggested tax packages. The Center for Budget and Policy Priorities (CBPP) received a great deal of attention last week for their analysis of the costs of the budget agreement in the second ten years. They concluded that the net tax cut from 2008-2017 would be \$650 billion under the revenue streams adopted in the budget agreement.

The 2008-2017 cost of the first package (detailed at the end of the exhibit) is roughly \$650 billion. The cost of the second package (with the minor AMT reform) would be roughly \$440 billion in the second ten years.

Distributional Effects of the Tax Package

In Exhibit G you will find eight tables showing distributional effects of different Administration and Congressional tax packages.

- o The first four tables show very preliminary estimates of the distributional effects of the recommended tax package, with and without the capital gains exclusion (40 percent exclusion with the 24 percent AMT).
- o The next two tables show the distributional effects of the President's budget proposals. The President's budget proposals targeted 80 percent of the tax relief to families in the middle three quintiles of the income distribution.
- o The last two tables show very preliminary and rough calculations of the distributional effects of S.2. It is provided here to give you an idea of what the distributional effects of a Congressional Leadership package might look like.
- o The recommended package targets more relief than either the Budget or S.2 to the bottom two income quintiles, presumably because of the refundable Kidsave credit. It provides less of its total tax relief to families in the third and fourth quintiles of the income distribution than the President's budget, but more than S.2. It provides a greater share of tax relief to the top quintile than the Budget proposals, but less than S.2.
- As a comparison of tables 3 and 4 with 1 and 2 demonstrates, eliminating the capital gains provision makes the distribution considerably more progressive, even relative to the FY98 Budget proposals.

6-4-97

Management Expert Picked To Be I.R.S. Commissioner

By DAVID CAY JOHNSTON

After a frustrating search to find someone willing to take on the political and technological problems of running the Internal Revenue Service, the Clinton Administration has persuaded the chief executive of a Virginia computer company, Charles O. Rossotti, to accept the job, Government officials said yesterday.

Mr. Rossotti, 56, is the founder and chief executive of American Management Systems, a Fairfax, Va., computer consulting company that says it specializes in working "with clients to achieve breakthrough performance through the intelligent use of information technology."

The current I.R.S. Commissioner, Margaret Milner Richardson, announced in January that she planned to resign.

Mr. Rossotti founded American Management Systems in 1970 with Ivan Selin, who later became Under Secretary of State for Management in the Bush Administration.

Calls to Mr. Rossotti's business and his Washington home were not answered last night, but Government officials said that he had agreed to accept the job and that his name had been sent to the Federal Bureau of Investigation for a background check.

The I.R.S. has become a lightning rod for criticism, especially by House Republicans, for its treatment of taxpayers, from unanswered telephone calls and bad advice to armed raids on businesses wrongly suspected of criminal tax fraud.

The Clinton Administration has acknowledged serious problems in management of the service for more than a year.

A senior Government official said last night that Mr. Rossotti "is the combination of proven management experience on working with culture change for customer service and deep knowledge of information technologies that were top priorities in searching for a new I.R.S. commissioner." Mr. Rossotti's job, the official said, "is to change the culture and the technology to make the I.R.S. an effective organization in interacting with taxpayers."

American Management Systems has offices in 53 cities around the world and employs 6,800 people.

Mr. Rossotti owns nearly 1.4 million shares of American Management Systems, or 3.4 percent of the company, which are worth \$36.5 million based on yesterday's closing price of \$26.25 a share.

He was paid \$250,000 in salary and no bonus last year, a modest salary for the head of a company with \$812 million in revenue.

His wife, Barbara M. Rossotti, 57, is a lawyer with Shaw, Pittman, Potts & Trowbridge, a Washington law firm that last year was paid \$2.9 million as the outside general counsel to American Management Systems, filings with the Securities and Exchange Commission show.

What Works In Education? Republicans Go Find Out

By ADAM CLYMER

LOUISVILLE, Ky., May 28 — When a group of Republican Congressmen travels the country to talk about education, the predictable topics include tuition vouchers, Federal paperwork and how the best decisions are always the local decisions.

But when the Republicans on the Subcommittee on Oversight and Investigations of the House Committee on Education and the Work Force go on tour as they did last week (with only a single Democrat along), they hear other concerns — from the defense of Federal programs for children at risk to warnings against writing off all public schools because of grim conditions in some cities.

In hitting the road from Los Angeles to the Bronx, the inelegantly named panel has several clear goals. One is to contradict the Democratic argument, made tellingly in the elections, that the Republican Party doesn't care about education.

In the hearing here, Representative Van Hilleary of Tennessee cast his party as thoughtful reformers, unfairly attacked: "People who want to keep it the way it is say, 'They're against education.'"

But there is also genuine curiosity behind the hearings called "Education at a Crossroads: What Works? What's Wasted?"

The committee contends that there are 760 Federal education programs. But the hearings devote much more effort to identifying successful reform programs in schools, than to some Federal efforts.

Representative Pete Hoekstra of Michigan, the committee chairman, said he hoped to avoid "legislation by anecdote" and find ways the Federal Government's modest spending could be used to help states adopt proven educational techniques. He said he hoped to reach agreement with the Clinton Administration and House Democrats; otherwise, "it won't go anywhere."

One topic that gets a lot of attention is the Republican proposal to use vouchers to help parents send their children to private schools. In the Bronx last month, John Cardinal O'Connor came to a hearing at Cardinal Hayes High School to describe parochial school efforts to teach pupils "how to combat the downward deviancy in the world, how to combat drugs, how to make a decent living."

In Cincinnati, students at Mother of Mercy High School stood in line to ask about vouchers, the most controversial of the committee's proposals, even though Mr. Hoekstra warned the Mercy High School students that he didn't think the Government would be offering vouchers soon.

Also at the hearing, Nancy Schlemmer, secretary of the National Parent Teacher Association, said the subcommittee paid too much attention to parochial schools, while 90 percent of children go to public schools. Vouchers, she warned, "siphon limited public dollars away from public schools and are not accountable to the public."

Tom Mooney, president of the Cincinnati Federation of Teachers, felt vouchers were relevant, saying that at private schools, parents were more involved.

In Cincinnati, the committee seemed impressed with the state-of-the-art electronic capabilities of the Mayerson Academy, a teacher-training institute outside the school system — part of a business effort, led by the Procter & Gamble Company, to revitalize Cincinnati schools.

In Louisville, as in Cincinnati, there were pleas for more education money from Washington. Edward Reidy, deputy commissioner of education in Kentucky, said that even modest help was important because the "Federal Government is focusing on making sure that the youngsters who are least well-served in our society get help." He said that as a result, "poverty is no longer the primary determinant of what kids will learn" in Kentucky.

Kentucky is implementing a 20-year program to overhaul the education system. Representative Hoekstra said he could not understand how the state could wait so long.

Carolyn Witt Jones, of the Partnership for Kentucky Schools, a business group backing the overhaul, explained, "We didn't get to the pits as a state in education in five years and we can't fix it in five years."

Mr. Hoekstra said, "I find people much more patient with solving this issue than I think they should be."

The New York Times

WEDNESDAY, JUNE 4, 1997

*By Reed
See page 10
for our report
on the voucher
issue
on June 4
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Study on Education of Blacks Finds Problems

By WILLIAM H. HONAN

A new reference book devoted to the preschool and secondary-school education of black students offers less that is encouraging than an earlier volume about higher education. Both are part of a planned three-part series.

"The news in this volume is not as good as it was in the first," said William H. Gray III, president of the United Negro College Fund, which raised \$5 million to support the publications.

"The first volume showed things like the remarkable growth in the college graduation rates of black women," he said. "This study has more negatives. Our next task is to find out why."

The 370-page book, being released today in Washington by the college fund's Frederick D. Patterson Research Institute, compiles, but does not analyze, decades of information from 40 archives. The first volume was released in March and the third, to be published this summer, will focus on the transition of black students from high school to work or to college.

Michael T. Nettles, a professor of education on leave from the University of Michigan who has devoted nearly a year to the project, said there were a number of unexpected revelations in the latest volume, which used data gathered through 1994, including:

¶ Contrary to the widespread belief that black students are a dominant presence in urban public schools, Mr. Gray said, less than one-third of black public school students attend schools in large cities.

¶ Young black children participate in preschool programs at a higher rate, or 53 percent, than white students, who represent 44 percent.

¶ Black preschoolers display abilities comparable with those of white students in verbal memory, social behavior and physical development, but fall behind in vocabulary skills.

¶ Black students are more fearful of physical harm at school than whites, and must cope with more security guards, gangs, weapons and metal detectors. And more black students in suburban schools worry about being harmed while traveling and from school.

¶ Although blacks are 12.5 percent of the population of the United States, they represent more than 16 percent of all public school students. The graduation rate of African-American students, however, is lower — 12.5 percent, in proportion with their percentage of the population.

¶ Black students represent a disproportionate 28.7 percent of students in special education schools.

The compilations were conceived by Mr. Gray, a former Congressman from Philadelphia who became the first black House member to serve as the Democratic whip.

"Congressmen, policy-makers and others can't do their jobs unless they have this raw material available to them," he said.

Sources in the book include the Department of Education, the Census Bureau and the National Science Foundation.

Corrections

An article and an entry in the News Summary yesterday about Malcolm Shabazz, the 12-year-old grandson of Malcolm X who is accused of having set the fire that critically injured the boy's grandmother, referred incorrectly to a court hearing in the case on Monday. It was a detention hearing, to determine whether the boy would remain in custody; technically, there are no arraignments in Family Court. The summary also misstated the status of the hearing. It was adjourned until

yesterday; it was not completed on Monday.

In addition, articles yesterday and on Monday misstated the date of Malcolm X's assassination. It was Feb. 21, 1965, not May 21.

An article yesterday about the survivors of the Oklahoma City bombing misstated the number of days a 5-year-old boy, Brandon Denny, spent in intensive care for his injuries. It was 71 days, not 17.

An art review on Friday about an exhibition of works by Joaquín Torres-García at the Jan Krugier Gallery in Manhattan through July 30 misstated the gallery's address. It is at 41 East 57th Street, not East 57th.

The credits with a television review yesterday about "Bill Clinton: Rock 'n' Roll President" on VH1 misstated the given name of the program's Washington producer. She is Joy Roller, not Jay.

The New York Times

WEDNESDAY, JUNE 4, 1997

6-4-97

Ford to Raise Output Sharply Of Vehicles That Use Ethanol

A1

By KEITH BRADSHAW

DETROIT, June 3 — The Ford Motor Company announced today that it would begin building 250,000 cars, mini-vans and pickup trucks annually that can burn ethanol or gasoline, in the largest alternative fuel program in the United States since the oil crises of the 1970's produced alarm about American reliance on imported energy.

Chrysler is expected to announce a similar program next week, ethanol and auto industry officials said. Without ruling out ethanol-powered vehicles, General Motors has begun selling electric cars in Southern California and Arizona.

Ford officials characterized their announcement as part of a corporate commitment to clean air. The No. 2 American auto maker said it hoped the sharp increase in the availability of ethanol-burning vehicles — it built 5,000 such vehicles last year — would lead to a sizable increase in the mere 40 service stations in the nation that sell the blend of 85 percent ethanol and 15 percent gasoline.

But as much as Ford and No. 3 Chrysler trumpet a commitment to the environment, they have an even bigger commitment to something they hold dear: profits. Under a loophole in Federal law, building the dual-fuel vehicles will help them sell more big-profit, big-engine, gasoline-guzzling trucks and sport utility vehicles at a time when strong sales of these vehicles is putting both companies at risk of violating Federal fuel-economy standards.

Environmentalists were skeptical about the plan because ethanol is now difficult to find.

As far as buyers are concerned, the dual-fuel capability of these vehicles — the Taurus sedan, the Windstar mini-van and the Ranger pickup truck — will make no difference, Ford said. Sticker prices will be identical. It will outfit the vehicles with stainless steel fuel systems that can run on either gasoline or ethanol, and

about 6 percent of Ford's total production last year, when there are currently only 40 stations that pump ethanol, all in the Midwest and Idaho.

Daniel Becker, an energy expert at the Sierra Club, said Ford was inappropriately using a loophole in Federal fuel laws. "Ford's announcement about making cars for which there is no fuel is a cynical ploy to avoid violating a law," he said.

Federal fuel-economy laws are administered by the National Highway Traffic Safety Administration, which is part of the Transportation Department. The agency, which has a non-partisan tradition, declined to comment on Ford's move.

It is difficult to predict exactly how much Ford or Chrysler's overall fuel economy may be helped by selling dual-fuel vehicles. The formula that measures the fuel efficiency of these vehicles is quite complex. Mr. McCabe said, however, that for each such vehicle, Ford could effectively sell two more of its hot-selling, mammoth Expedition sport utility vehicles. But because the formula counts a dual-fuel vehicle as roughly equivalent to a gasoline-powered vehicle that gets 60 miles a gallon, the effect could be even greater to the auto maker's fuel average.

Auto makers earn this bonus regardless of whether the customer ever buys any ethanol.

But not only is the fuel hard to come by, it is also more expensive to use.

A gallon of ethanol fuel, a type of alcohol commonly made from corn and then blended with a little gasoline, sells for about the same or slightly less than a gallon of mid-grade gasoline. But because of differences in the energy in each fuel, a car gets fewer miles to the gallon on this blend, known as E85, so the cost per mile can actually be about 15 percent higher, Mr. McCabe said.

Besides the stainless steel fuel system, Ford installs an electronic sensor that continuously measures the proportion of ethanol to gasoline entering the engine and adjusts the operation of several engine parts.

The sensor and stainless steel fuel system currently cost Ford an extra \$300 a vehicle, but that should drop with larger-scale production, Mr. McCabe said. Beginning a year from now, Ford plans to make 50,000 to 60,000 Ford Ranger compact pickup trucks a year with dual-fuel engines, he said. Within four years, the company plans to make 250,000 midsize Tauruses, Rangers and Windstar mini-vans annually with dual-fuel engines. All of the ethanol cars will be powered by Ford 3.0-liter V6 engines.

With sales rising year after year for Chrysler's Jeeps and Ford's F-150 full-size pickup trucks, and strong sales in the first year of the Ford Expedition, both auto makers are in danger of violating Federal laws and paying penalties that would run into the tens of millions of dollars.

Michael T. McCabe, Ford's worldwide marketing manager for alternative fuel vehicles, acknowledged that many people might just put gasoline in the new vehicles. "The customer is totally flexible," he said.

That may be, but environmental groups scoffed at the idea of building such a huge number of vehicles,

G.M., the world's biggest car maker, also has some difficulties complying with the fuel-economy rules but is focusing its energy on the development of electric vehicles rather than ethanol-powered cars. Most foreign auto makers, particularly the Japanese, have relatively little difficulty meeting the United States standards because they mostly make smaller, lighter cars and engines that get more miles to the gallon of gasoline.

The N.H.T.S.A. has the authority from Congress to raise Federal fuel-economy standards as technology improves. But the Republican Congress, at the request of auto makers, has blocked it from doing so for the last two years by attaching provisions to the Federal budget blocking any spending for this task and may do so again this year.

Auto executives are convinced that the White House would like to skirt Congressional opposition, although the Administration has not yet introduced any formal initiative to do so. But by building a lot of dual-fuel vehicles, the auto makers could protect themselves from all but the most stringent changes in Federal standards.

Ford's average fuel economy for mini-vans, sport utility vehicles and pickup trucks for the 1996 model year was just 20.6 miles a gallon,

A clean-air move will allow the sale of more big-profit, heavy users of gas.

while Chrysler's was just 20.3. Ford did not face any penalties because the law allows an auto maker to average any year with the three years before it and the three years after it. But with sales of pickup trucks and sport utility vehicles continuing to rise and overall fuel economy still falling, both auto makers are struggling even to meet the seven-year averages.

Philip M. Novell, the general sales manager for Ford-brand cars and trucks, said in an interview that the company was determined to meet the law. Expanded production of the dual-fuel vehicles "enhances our ability to comply with the law, and we will be in compliance," he said.

In calculating the average fuel economy of an auto maker's vehicles, the Federal Government takes a weighted average based on each vehicle's efficiency in the city and on highways. By an odd coincidence, Brazil, the only large country that switched to mostly ethanol-powered cars after the oil crises of the 1970's, has been switching back to gasoline-powered cars as the Government reduces ethanol subsidies as supplies have proved irregular.

The New York Times

WEDNESDAY, JUNE 4, 1997

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Continued on Page D4

Continued From Page A1

THE PRESIDENT HAS SEEN
6-4-97

Storm Warning: Bigger Hurricanes and More of Them

By WILLIAM K. STEVENS

THE East and Gulf Coasts of the United States may be entering a long-anticipated, prolonged siege of more frequent and more destructive hurricanes, forecasters say.

They predict that this summer, more hurricanes than normal will develop in the tropical North Atlantic for the third straight year. This would make 1995-97 the most active three-year period on record for the pinwheeling oceanic cyclones, and the experts say that could be only the beginning.

The 1970's, 1980's and early 1990's were a time of relatively infrequent hurricanes. Those years did have

A change in weather patterns would send damage soaring.

their big storms: 7 of the 10 most costly hurricanes ever to strike the United States mainland did so over that stretch, including Hurricane Andrew in 1992, the costliest ever. But a new Federal study attributes the trend of escalating damage over that period to expanding population and exploding development rather than more frequent or powerful storms.

Now the atmosphere and ocean appear to have entered a new and more ominous hurricane phase. Some experts believe the turbulent stretch beginning two years ago signifies a return to the 1940's, 1950's and 1960's, a period of high hurricane activity in the United States. If that is so, according to the new Federal study, the cost of damage wrought by hurricanes — already the most expensive natural disasters in America — could soar to new heights.

Scientists offer varying explanations of what is responsible for the increase in hurricane frequency. One new study has found that sea-surface temperatures in

Continued on Page C10

SCIENTIST AT WORK

Steen Malte Willadsen

Iconoclastic Genius of

By GINA KOLATA

WINDERMERE, Fla.

THERE is a persistent rumor about Dr. Steen Malte Willadsen that rings so true to those who know him that it has taken on a life of its own. The story is that several years ago, without bothering to tell anyone, without troubling to write it up for publication, Dr. Willadsen cloned an adult cow.

Absolutely false, Dr. Willadsen said. But this 53-year-old Danish-born embryologist, described by others in the field as a genius and an iconoclast, has become bigger than life, almost a mad scientist, to hear some tell it, from whom anything is possible.

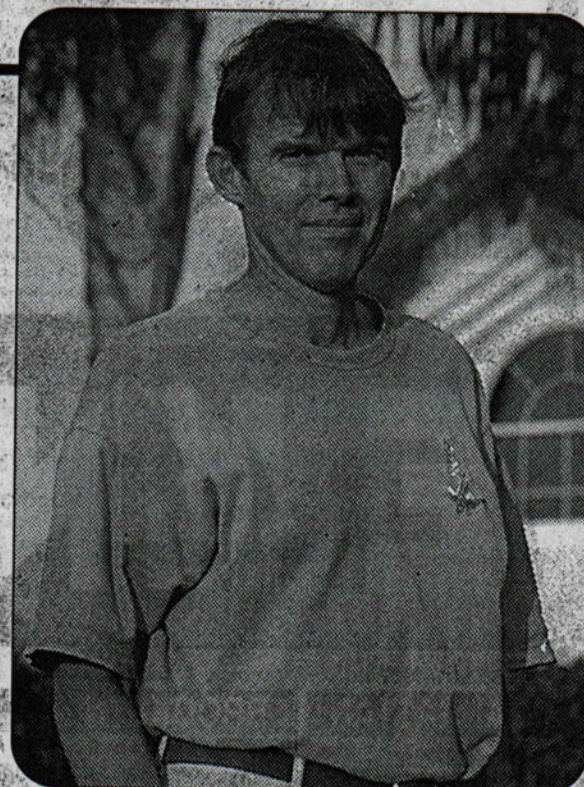
He was the first to clone an animal from embryo cells, taking cell nuclei, which contain the genetic blueprint for the animal, from an embryo and adding them

to sheep eggs whose way, he produced 1 to each other and to the original embryos. He did the same with cows.

Before that, he had made chimeras — animals that were half sheep and half goat, and even half sheep and half cow. Rumors of Dr. Willadsen's unpublished work on embryo cloning prompted Dr. Ian Wilmut, the scientist who cloned an adult sheep, to decide that such a feat was possible even though the conventional wisdom said that once a cell has specialized, its genes cannot be reset to the state they were in when a sperm first fertilized an egg. And Dr. Willadsen's current projects, involving human eggs, appear to be pushing the envelope again.

Few have come away from encounters with Dr. Willadsen unscathed. "His personality is not one you'd find in anyone else," said Dr. Andrew Watson, an assistant professor of obstetrics and gynecology at the University of Western Ontario who worked with Dr.

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Dr. Steen Malte Willadsen, professor of embryology at the University of Western Ontario.

Willadsen's way of doing things is that he is a bit of a charmer.

"He is a bit of a charmer," Watson said.

In a clear trade school ship to always be rural Denmark, cattle and a sort of bryology.

In a bryology trade school ship to always be rural Denmark, cattle and a sort of bryology.

Joe Skipper for The New York Times

Storm Warning: Bigger Hurricanes and Even More of Them

Continued From Page C1

1995 were the highest on record in the tropical North Atlantic. That year, 19 tropical storms and hurricanes, double the 1946-1995 average, formed in the Atlantic. The authors of the study concluded that warmer seas encouraged incipient hurricanes to develop by infusing them with more energy. Temperatures in the region of hurricane births, between 10 degrees and 20 degrees north latitude, have remained above average since 1995.

Coincidentally or not, 1995 also saw the highest average global surface temperatures on record, and some scientists say this raises the possibility that global warming is contributing to the increased frequency of hurricanes. The coincidence "is suggestive of some link to global warming, but that needs to be proved," said Dr. Mark A. Saunders, chief author of the study. It is "just one of the possibilities," he said.

Other say that global warming is almost certainly not the cause. One is Dr. William M. Gray, an atmospheric scientist and hurricane expert at Colorado State University in Fort

Possible links to global warming still await proof.

Collins. The rise in sea temperature "is not related to the warming of the planet," he said, noting that global warming has been slow, while the Atlantic sea-surface temperature

finer as those with peak sustained winds of more than 110 miles an hour, and they account for 75 percent of all hurricane damage. Lesser hurricanes have peak winds of at least 74 miles an hour.

The forecasters predicted that the 1997 hurricane season, which officially began on Sunday and lasts through November, would produce 7 hurricanes, 3 of which would be in the intense category, and 4 lesser tropical storms strong enough to be named. By comparison, 11 of the 19 named storms in 1995 were hurricanes, 5 of them severe; last year, 9 of the 13 named storms were hurricanes and 6 were severe.

The Colorado group's forecast applies to an area encompassing the Atlantic Ocean, the Caribbean Sea and the Gulf of Mexico. It is to be updated on Friday, but Dr. Gray said the update was not expected to depart substantially from the April prediction. The forecasters do not attempt to predict whether or where any of the hurricanes will strike land.

The forecasts are based on an array of predictive signs and atmospheric phenomena that Dr. Gray has identified as determining hurricane activity. One is the amount of rainfall in the Sahel region of western Africa, where the small areas of low pressure that are the embryos of hurricanes first form. When the Sahel is wetter, Dr. Gray found, more embryos form. This year, the Sahel is wet.

Another factor is the phenomenon known as El Niño, the huge pool of warm water that develops every two to seven years in the eastern tropical Pacific, changing weather patterns around the world. When it is in place, high-level winds blowing from the west tend to shear off the tops of developing hurricanes in the adjacent Atlantic, causing them to abort.

Big Storms: Weighing the Damage

The 30 most damaging United States hurricanes. Estimates of damage are in 1995 dollars, based on inflation, personal property increases and changes in population of coastal counties from 1925 to 1995.

Rank/Hurricane	Year	Category	Damage (in billions of dollars)
1. Southeast Florida/Alabama	1926	4	\$72.303
2. Andrew (Southeast Florida/Louisiana)	1992	4	33.094
3. Southwest Florida	1944	3	16.864
4. New England	1938	3	16.629
5. Southeast Florida/Lake Okeechobee	1928	4	13.795
6. Betsy (Southeast Florida/Louisiana)	1965	3	12.434
7. Donna (Florida/Eastern U.S.)	1960	4	12.048
8. Camille (Mississippi/Louisiana/Virginia)	1969	5	10.965
9. Agnes (Northwest Florida, Northeast U.S.)	1972	1	10.705
10. Diane (Northeast U.S.)	1955	1	10.232
11. Hugo (South Carolina)	1989	4	9.380
12. Carol (Northeast U.S.)	1954	3	9.066
13. Southeast Florida/Louisiana/Alabama	1947	4	8.308
14. Carla (north and central Texas)	1961	4	7.069
15. Hazel (South Carolina/North Carolina)	1954	4	7.039
16. Northeast U.S.	1944	3	6.536
17. Southeast Florida	1945	3	6.313
18. Frederic (Alabama/Mississippi)	1979	3	6.293
19. Southeast Florida	1949	3	5.838
20. Alicia (north Texas)	1983	3	4.056
21. Celia (south Texas)	1970	3	3.338
22. Dora (northeast Florida)	1964	2	3.108
23. Opal (northwest Florida/Alabama)	1995	3	3.000
24. Cleo (southeast Florida)	1964	2	2.435
25. Juan (Louisiana)	1985	1	2.399

high above Singapore. On balance, the forecasters say, the indicators point to higher-than-average activity this year.

One of the most powerful indicators, according to the new study by Dr. Saunders and Andrew R. Harris, climate scientists at University College London in Britain, is the Atlantic sea-surface temperature. Their statistical analysis found that while most of the relevant factors were indeed favorable for hurricane development in the banner year of 1995, the dominating influence was the unusually warm ocean. The temperature in the region where hurricanes develop was 1.2 degrees Fahrenheit above the 1946-1995 average, a record. The development region was 0.36 of a degree warmer than average last year and is about 0.9 of a degree warmer now. This, said Dr. Saunders, presages another active season. His study appeared in the May 15 issue of the journal *Geophysical Research Letters*.

The researchers suggest that warmer seas cause more water to evaporate from the surface. With evaporation, latent heat is released in the atmosphere, and the researchers believe that this is what imparts more energy to the embryonic storms coming out of Africa, making it more likely that they will develop into hurricanes. "It seems that this is a stronger effect than any other mechanism, like El Niño or the monsoon in the western Sahel," Dr. Saunders said.

The question, he said, is whether the rising sea temperature is a natural expression of the climate system's variability, independent of any influence from a warming atmosphere. Dr. Gray, for his part, says he believes the warmer ocean tempera-

If so, the new Federal study on hurricane damage may offer a preview of what lies ahead. In the study, Dr. Roger Pielke Jr. of the National Center for Atmospheric Research in Boulder, Colo., and Dr. Christopher Landsea of the National Oceanic and Atmospheric Administration's hurricane research division in Miami calculated how much damage would

The \$50 billion hurricane may be a matter of time.

result from past hurricanes if they had occurred in 1995, when the coasts held many more people and much more wealth than earlier.

The calculation, which also accounts for inflation, shows that if the more numerous storms of the very active quarter-century prior to 1970 were to hit the mainland now, each of the storms would cause far more damage than it did back then.

It has been suggested in the past that escalating hurricane damage in more recent decades has resulted from an increase in the number and severity of storms. The Pielke-Landsea analysis found this is not so. In fact, when all hurricane damage was assessed as if it had occurred in 1995, the four biggest hurricanes of the last eight years were no longer the most damaging in history. Andrew, which exacted an all-time record \$26.5 billion in actual damages, was downgraded to second place by a monster that struck Florida and Alabama in 1926. Hugo (1989), Opal

Possible links to global warming still await proof.

Collins. The rise in sea temperature "is not related to the warming of the planet," he said, noting that global warming has been slow, while the Atlantic sea-surface temperature jumped in a matter of months.

It was Dr. Gray and his group of researchers who correctly predicted that 1995 would be one of the most active seasons on record, although they underestimated 1996. In April, the group forecast that 1997 would also bring more hurricanes than average, including the more intense ones. These major storms are de-

activity. One is the amount of rainfall in the Sahel region of western Africa, where the small areas of low pressure that are the embryos of hurricanes first form. When the Sahel is wetter, Dr. Gray found, more embryos form. This year, the Sahel is wet.

Another factor is the phenomenon known as El Niño, the huge pool of warm water that develops every two to seven years in the eastern tropical Pacific, changing weather patterns around the world. When it is in place, high-level winds blowing from the west tend to shear off the tops of developing hurricanes in the adjacent Atlantic, causing them to abort. El Niño may make an appearance later this year, forecasters say, but the Colorado group predicts that it will not do so in time to affect the hurricane picture.

Other elements include the behavior of stratospheric winds that circle the globe high above the equator and weather features far remote from the Atlantic hurricane belt — things, for example, like the temperature

15. Hazel (South Carolina/North Carolina)	1954	4	7.039
16. Northeast U.S.	1944	3	6.536
17. Southeast Florida	1945	3	6.313
18. Frederic (Alabama/Mississippi)	1979	3	6.293
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24. Cleo (southeast Florida)	1964	2	2.435
25. Juan (Louisiana)	1985	1	2.399
26. Audrey (Louisiana/north Texas)	1957	4	2.396
27. King (southeast Florida)	1950	3	2.266
28. Southeast Florida/Georgia/South Carolina	1947	2	2.263
29. Southeast Florida	1935	2	2.191
30. Elena (Mississippi/Alabama/northwest Florida)	1985	3	2.064

Sources: Dr. Roger A. Pielke Jr.; Dr. Christopher W. Landsea

in the atmosphere, and the researchers believe that this is what imparts more energy to the embryonic storms coming out of Africa, making it more likely that they will develop into hurricanes. "It seems that this is a stronger effect than any other mechanism, like El Niño or the monsoon in the western Sahel," Dr. Saunders said.

The question, he said, is whether the rising sea temperature is a natural expression of the climate system's variability, independent of any influence from a warming atmosphere. Dr. Gray, for his part, says he believes the warmer ocean temperature is "a manifestation of a major change in North Atlantic ocean circulation." Stately currents in the North Atlantic undergo periodic shifts on decadal time scales. Dr. Gray said he believed that a new pattern was in place, and that it was likely to presage a decade or two of above-average hurricane activity.

"This is the greatest fear we have," he said, "that we're entering a new era. I believe we are."

It has been suggested in the past that escalating hurricane damage in more recent decades has resulted from an increase in the number and severity of storms. The Pielke-Landsea analysis found this is not so. In fact, when all hurricane damage was assessed as if it had occurred in 1995, the four biggest hurricanes of the last eight years were no longer the most damaging in history. Andrew, which exacted an all-time record \$26.5 billion in actual damages, was downgraded to second place by a monster that struck Florida and Alabama in 1926. Hugo (1989), Opal (1995) and Fran (1996) slip far down the list.

The analysis, its authors wrote, indicates clearly "that the United States has been fortunate in recent decades with regard to storm losses." Now, they wrote, multi-billion-dollar losses may become increasingly frequent, and it may be "only a matter of time" before a single storm exacts \$50 billion in damages.

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6-4-97

THE WHITE HOUSE
WASHINGTON

June 3, 1997

Copied to:
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MEMORANDUM FOR THE PRESIDENT

FROM: TODD STERN *TS*
PHIL CAPLAN *PC*

SUBJECT: Cloning Policy Options -- Report of National Bioethics Advisory Committee

The attached Gibbons/Kagan memo (Bruce Reed is recused) urges you to follow the recommendation of the NBAC to submit legislation banning human cloning but permitting cloning of human tissue, including embryos. NBAC's cloning report is to be released Saturday, though the Washington Post reported on a leaked draft today. Jack/Elena also recommend that the U.S. support a modified version of a French proposal for a cloning paragraph in the G-8 communique.

NBAC Report/Legislation. NBAC concludes that it is morally unacceptable for anyone to try to create a child using the cloning technology that created Dolly. But NBAC finds that other forms of "human cloning" -- e.g., of DNA sequences, cell lines, tissues, embryos -- are appropriate and scientifically important, as is animal cloning. Therefore, NBAC calls for narrowly worded legislation barring anyone from trying to create a child through somatic cell nuclear transfer techniques. The legislation would sunset and, prior to the sunset, an oversight body would report on the state of the technology and social/ethical issues.

Likely Reaction. While there is a broad consensus emerging (including AMA and World Medical Association) that cloning humans is wrong, biotech and pharmaceutical industries will strongly oppose legislation as they fear it will impede research. The right-to-life community will oppose on the ground that the ban should extend further -- to the cloning of human embryos for research. *This issue, incidentally -- whether to allow the cloning of embryos for research -- is exactly what the Post honed in on this morning.* (Currently, the Administration bars the creation of embryos for federally funded research only, and has opposed legislation on the subject.)

Jack/Elena recommend that you announce your support for NBAC-type legislation and that you propose specific legislative language. (A possible event where you could accept the NBAC report and announce your position is under consideration for Monday, June 9.) *Rahm concurs.*

Approve ☒Disapprove ☐Discuss ☐

G-8 Communique. France proposes a paragraph embracing national and international bans on reproductive cloning. Jack/Elena recommend that we support this proposal, but with critical modifications along the lines of the NBAC proposal. If you approve, Dan Tarullo will seek to negotiate specific language, but cautions that agreement by all eight countries may be difficult.

Approve ☒Disapprove ☐Discuss ☐

THE WHITE HOUSE

WASHINGTON

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May 29, 1997

MEMORANDUM FOR THE PRESIDENT

FROM: JACK GIBBONS
Assistant to the President for Science and Technology

ELENA KAGAN
Deputy Assistant to the President for Domestic Policy

SUBJECT: CLONING POLICY OPTIONS

Two upcoming events create the need to develop a position on legislation banning the cloning of human beings. First, the National Bioethics Advisory Commission (NBAC) is about to complete the review you requested of the ethical and legal issues associated with cloning human beings. On Saturday, June 7, at its final public meeting, NBAC is expected to vote in favor of a legislative ban. Second, France has proposed that the Denver Summit communique include a paragraph urging countries to pass domestic legislative bans and to work together toward a global ban.

We recommend: (1) that you support domestic legislation banning human cloning, and that you announce specific legislation at the top of your June 10th press conference; and (2) that the U.S. support the gist of France's proposed cloning paragraph while insisting on critical modifications.

NBAC's Findings and Recommendations

In its draft final report, NBAC unanimously concludes that "it is morally unacceptable for anyone . . . to attempt to create a child" using the technology that created Dolly the sheep: somatic cell nuclear transfer -- that is, the transfer of the nucleus from an adult somatic (non egg or sperm) cell into an enucleated egg. NBAC bases this conclusion on safety concerns, finding that the technology is "likely to involve substantial risk to the potential child." The report also states that "serious ethical concerns... require a great deal more widespread and careful thought and public deliberation before this technology should be used."

NBAC also concludes, however, that other forms of "human cloning" -- such as the cloning of DNA sequences, cell lines, and tissues (which do not involve the creation of entire human beings) -- are scientifically important and not ethically problematic. Moreover, NBAC finds that animal cloning is ethically acceptable and promises important benefits. The Commission thus cautions that restrictions on cloning not impede these activities.

The Commission notes that current restrictions effectively prohibit federally funded and regulated entities from attempting to clone a human being through somatic cell nuclear transfer. However, fertility clinics and other privately-funded clinical and research establishments face no prohibition on human cloning, and NBAC questions whether some of these organizations will adhere to a voluntary moratorium.

Accordingly, NBAC's draft final report calls for carefully-worded national legislation prohibiting anyone from "attempting to create a child through somatic cell nuclear transfer techniques." The Commission specifies that the legislation should include a sunset provision and that, prior to the sunset date, an oversight body should review and report on the status of somatic cell nuclear transfer technology and the ethical and social issues associated with its use in humans. NBAC also recommends that the U.S. cooperate with other countries to enforce mutually-supported cloning restrictions.

National Legislation

We recommend that you embrace NBAC's proposal to establish a narrowly crafted time-limited legislative moratorium. Legislation is the only way to establish a comprehensive, enforceable prohibition on cloning entire human beings in all publicly and privately funded research and clinical activities. If carefully written, the ban will not preclude important research.

Reaction to proposed legislation will be mixed. A national and international consensus is emerging that attempting to apply the technology used to clone Dolly to humans is morally wrong. The American Medical Association has conveyed this view to NBAC, and the World Medical Association has issued a similar statement. Given NBAC's recommendation, we expect many in the scientific and ethics communities to accept a legislative moratorium.

But some who agree that cloning a human being using somatic cell nuclear transfer is morally unacceptable will oppose a legislated moratorium. In particular, the biotechnology and pharmaceutical industries strongly oppose legislation. These two industries are deeply concerned that a legislative debate will produce broadly drawn language that impairs critical research. Some academic researchers may share this view. Fertility clinics also may oppose legislation, but to date have not signaled a position.

Finally, some in the right-to-life community will argue from the other side that NBAC's proposed approach does not go far enough. This community will push for a comprehensive ban on the creation of embryos, through any means, for research purposes (i.e., not for the purposes of creating a child). The Administration has applied this restriction to federally-funded research, but opposed legislation on the subject. This is an issue NBAC declined to review, and we do not recommend revisiting it in this context.

We recommend that you announce your support for legislation and propose specific legislative language on June 10, at your scheduled press conference, three days after NBAC's

recommendation will become public. We anticipate that the release of NBAC's report will prompt Congressional hearings and legislative proposals. By acting quickly you can maintain your leadership on the issue and carefully frame the legislative debate, making clear the value of biotechnology research and the danger of overly broad regulation, while calling for the prohibition of an unethical use of a specific technology.

Approve ____ Disapprove ____

Group of Eight Statement on Cloning

France has proposed a paragraph for inclusion in the G-8 communique embracing national and international bans on "reproductive human cloning." Germany will support the statement; Canada will support it with some modification.

The U.S. biotechnology and pharmaceutical industries strongly oppose including any paragraph on cloning in the communique. They fear that it will not be carefully drafted and may inadvertently extend to the cloning of DNA, cells, and tissues as well as entire human beings. Further, industry is concerned that a statement on cloning ultimately could provide cover for protectionist efforts to restrict U.S. biotechnology products and activities.

Nevertheless, we recommend that the Administration support the French proposal with critical modifications. Specifically, we suggest that the U.S. insist on changes to: (1) affirm the potential medical and agricultural benefits of cloning technology; (2) limit the prohibition to the use of somatic cell nuclear transfer technology; and (3) propose a time-limited moratorium instead of a ban. USDA and HHS support this position.

Approve ____ Disapprove ____

THE WHITE HOUSE
WASHINGTON

C. P. Bullock
Jimmy
Garland
Superman's

Copied
Rehm Emanuel

June 4, 1997

Kellye Wulfers
Number 7H
1435 York Avenue
New York, New York 10021

Dear Kellye:

Thanks for your letter on the glamorization of heroin chic in the fashion industry. I was impressed by your insider's perspective on it all and glad to see you agree with me about this practice being destructive. I'll keep speaking out on it, but the fashion leaders are going to be the ones who need to take the initiative on it.

Dick arrives this afternoon -- I promise to take good care of him. I only wish he'd come more often.

Sincerely,

Bill

Your letter was wonderful

Kellye Wulfers
Number 7H
1435 York Avenue
New York, New York 10021

Dear Mr. President,

Manner

5-21-97

I am so glad you commented on the fashion industry's glamorization of "the drugged out" look. I have seen, first hand, at Calunklein, the way corporate culture trades in beautiful young people and how "messed up looking" they can be portrayed. My time with Calunklein has recently ended, but I was there long enough to witness the short-sighted, sheltered visions which create warped images of American youth. Unfortunately, Mr. Klein is the lead perpetrator.

The looks on the models' faces in the ads reveal it all. Stylists and editors counter that there are no drug paraphernalia or overt physical signs of drug use in these pictures. But, it is in the eyes of these young models, an emptiness + sedation on their overly glossy faces, peering out from a dirty motel room. It matters little what product they are selling, whether it is truly quality, it is commodified as a symbol of "decadence chic". Ordinary denim jeans are imbued with a hint of danger, of the cutting edge for the manipulated consumer.

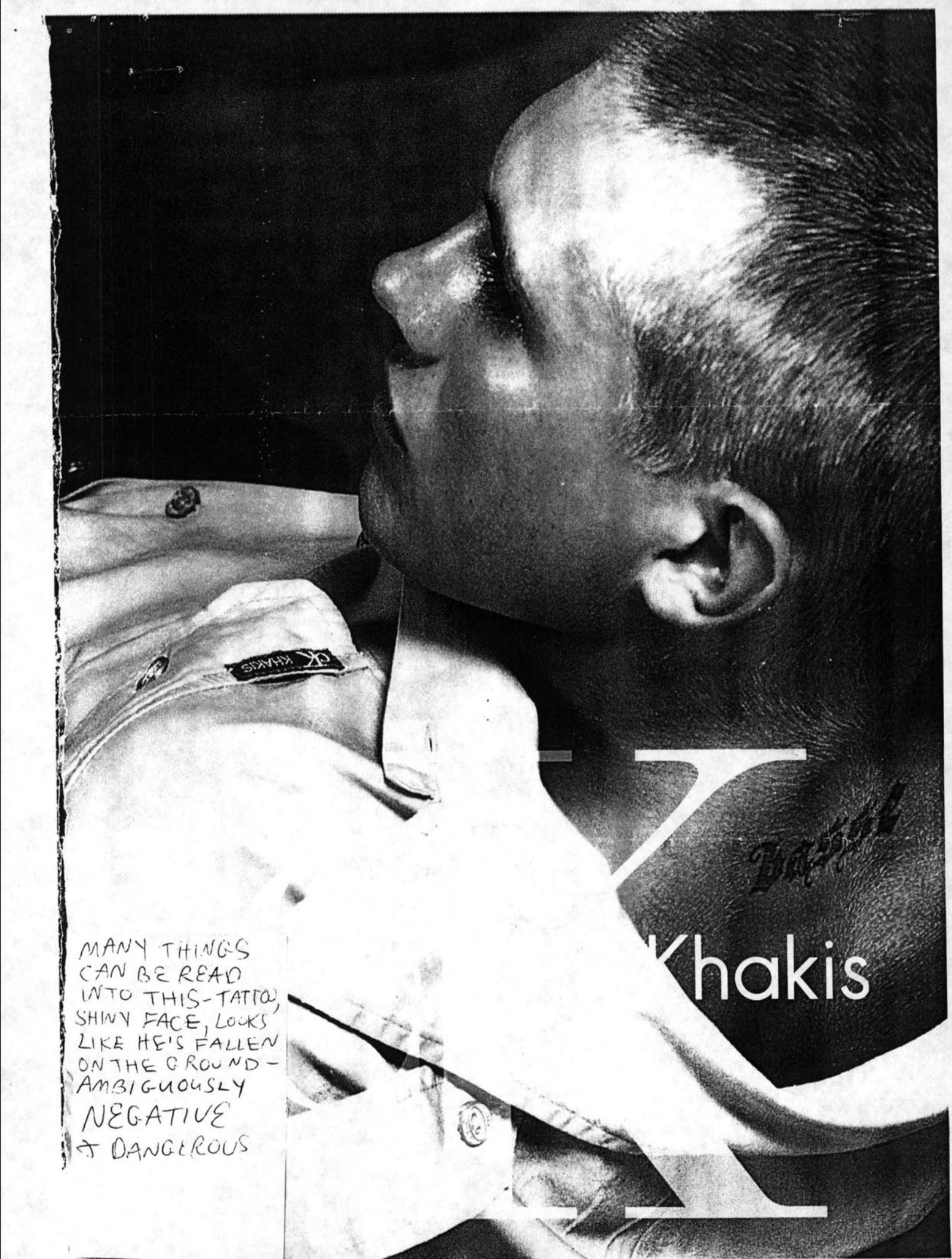
Allow me to contrast Calunklein ads with those of his competitor, Tommy Hilfiger. Hilfiger's models are clean-scrubbed, glowing, but with an accessible, honest beauty. We see a variety of races, quirky appearances and even individual affectations like dread-locks or nose-rings, but all with an underlying health and radiance to the kids. Tommy Hilfiger presents a modern, youthful, positive image of American mass-market fashion.



It is a sad Commentary on the overall lack of Creativity and quality products in this industry that it should have to resort to such negative images. Well-designed objects should speak for themselves, and the demand will follow. Instead, we have an elite, removed & self-serving corps of Manhattan culture-makers who fail to accept the power & responsibility of this medium. The bottom line, is as you said, life or death. What is the chain of thought processes a 14 year old in Iowa experiences when she sees Kate Moss glass-eyed on a dirty couch in a Calvin Klein dress costing \$1200?

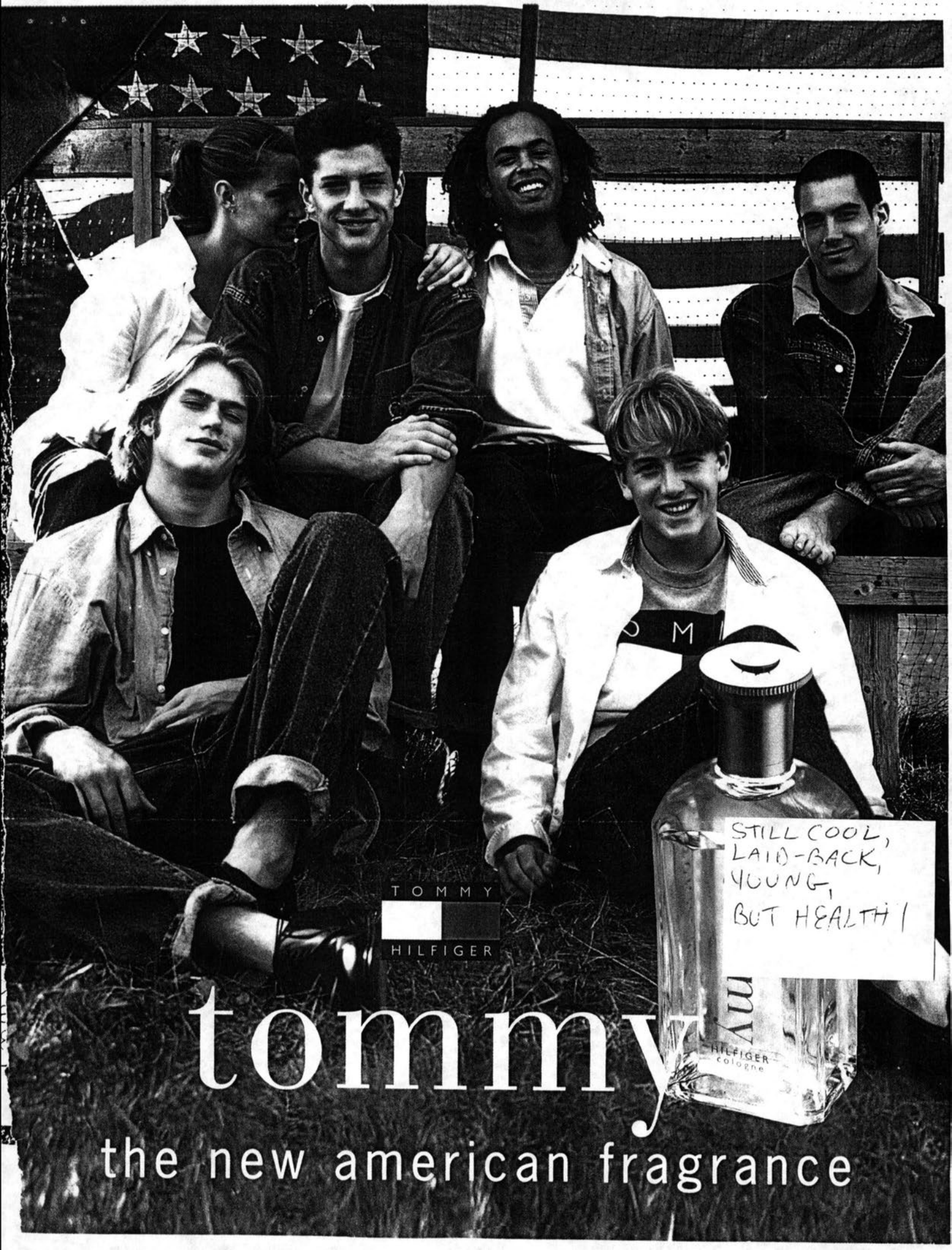
Knowing your possible limited exposure to fashion magazines, I've enclosed some images that really solidify these points. Thank you for your attention to this letter. I wish you continued success, and please keep my grandfather out of trouble when he's up next week!

Faithfully,
Kellye Wulfero



MANY THINGS
CAN BE READ
INTO THIS-TATTOO,
SHINY FACE, LOOKS
LIKE HE'S FALLEN
ON THE GROUND -
AMBIGUOUSLY
NEGATIVE
& DANGEROUS

Khakis

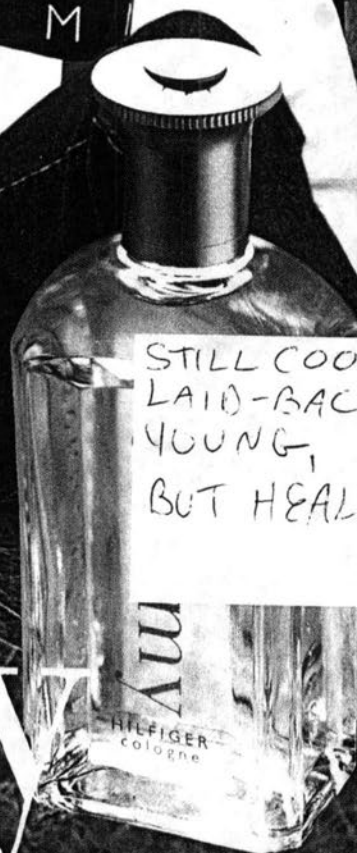


TOMMY
HILFINGER

STILL COOL,
LAID-BACK,
YOUNG,
BUT HEALTHY!

tommy

the new american fragrance



RCD

GOOD
DESIGN
SPEAKS FOR
ITSELF

GUCCI

By JANE PERLEZ

PRAGUE, May 30 — No longer is Vaclav Klaus the infallible economic miracle maker of Eastern Europe.

After insisting that the Czech Republic was the model for a quick transition from Communism to capitalism, the usually confident Prime Minister has been forced to admit mistakes, administer some medicine and reshuffle his Government.

And the Czech Republic — instead of looking like the idyllic haven of economic prosperity in the formerly Communist east — faces a decline in economic output this year, in contrast to growth estimated at 6 percent in neighboring Poland.

This past Wednesday, in an effort to reduce a ballooning current account deficit, Mr. Klaus introduced the second austerity package in a month, freezing wages and cutting Government spending. The measures were also intended to protect the currency, the Czech crown, from further speculative pressure. The crown fell 10 percent after the central bank two days earlier, in an abrupt change of policy, allowed it to float in value.

In announcing the measures, Mr. Klaus acknowledged that the results would be higher inflation, economic contraction, increased unemployment and a drop in real wages. While Mr. Klaus did not say so specifically, analysts said it for him: He could no longer contend, as he had two years ago, that the transformation of the Czech economy was complete.

The Government also promised to speed legislation to introduce a United States-style securities and exchange commission to put some discipline into the capital markets, the most unregulated and unscrupulous in the region. At least 10 senior banking officials have been charged with embezzlement and other financial irregularities this year; dozens of investment fund managers are said to have looted assets from their investors without reprimand.

"This is the greatest turmoil since 1989," said Jiri Pehe, a political analyst at Radio Free Europe here, referring to the turnover of power from the old Communist regime. "Until now, the Government has been very negligent in dealing with the mounting problems."

The glow had already been off Mr. Klaus for several few months, as he delayed taking measures that he considered anathema to his laissez-faire beliefs. Now, with the Government in an economic pullback, there was mixed popular reception.

On the streets of Prague, black-market money changers, a fixture in the past, reappeared as local residents tried to unload crowns for foreign currency. Electronics and furniture stores were packed as consumers, fearing further declines in the currency and huge price increases, spent freely.

Zdenek Tuma, chief economist at Patria Finance, an investment bank here, said he liked the direction of the economic package. "But the major problem," he said, "is whether the Government will be able to implement the changes. It is clear the credibility of the Government is damaged."

Mr. Klaus's approval rating tumbled to 36 percent early in May, down from 49 percent at the beginning of the year and more than 60 percent a year ago, according to a leading polling company.

And Jan Vanous, president of PlanEcon, an economic research institute in Washington, ticked off the names of little-known new appointees to crucial finance posts and remarked: "Who were they kidding? This is not going to inspire the confidence of Western investors."

President Vaclav Havel, who is not an economist but keeps a good grasp on the popular mood, commented about the Government, "No vision; no concepts."

Even though inflation at 8.8 percent has been low for the region and unemployment has also been low, at 4.1 percent, trouble signs for the Czech economy have been evident for a while — notably lagging productivity and steadily increasing wages.

A pure laissez-faire advocate, premier faces shrinking prosperity.

In 1996, average monthly wages increased 18 percent, according to PlanEcon's May report on the Czech economy. During the first quarter of this year, real wages increased at least three percentage points more than growth in labor productivity, and industrial production declined 1.5 percent.

Czech growth of 4 to 5 percent was largely fueled by imports, including Western machinery for refitting industrial and power plants. Traditional exports with low value-added content like steel, building materials and chemicals fared poorly in an increasingly competitive world market.

Last year, the balance of payments ran into the red for the first time. In April the trade deficit was

15.3 billion crowns, nearly 4 billion crowns more than the Government had predicted. A mounting trade deficit pushed the current account deficit, the broadest measure of commerce in goods and services, to 8.6 percent of the gross domestic product, one of the highest in the world.

At the same time, the vaunted voucher privatization that was supposed to rapidly and painlessly turn state-owned companies into competitive private entities failed to bring about new management or much new capital investment. Instead, many voucher holders sold their vouchers to investment funds, which were owned by the banks, many of them troubled. Many banks, in turn, were either owned by the Government or by the investment funds.

"It's a very cozy setup which does not allow for much concern about profit maximization at these companies," said Mr. Vanous, who has been a critic of voucher privatization. "You have industrial companies which don't have long-term plans because they never know who their new owners are going to be."

In some cases, speculators bought companies cheaply and then sent their profit out of the country. In March, 1.3 billion crowns was said to have been embezzled from one of the country's largest investment funds, CS Fondy, and deposited in banks abroad.

The serious message in the Czech economic downturn, Mr. Vanous said, is that there is no short cut to transforming former Communist economies. He added that while the Czech Republic was suffering from these troubles, it seemed unlikely that Poland or Hungary would "catch the Czech disease."

"Klaus said that the transformation was over and people began to believe it," Mr. Vanous said. "He should have told them the truth: We've jumped in, we've hit the water, but we're not yet to the middle, let alone the other side."

The Czech Republic, Mr. Vanous said, faces a 15- to 20-year struggle to catch up to Western Europe.

THE PRESIDENT HAS SEEN

6-4-97

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Dor

Santana

What happened?

BC

The New York Times

TUESDAY, JUNE 3, 1997