

States stepping in at urban schools in crisis

Troubled by inadequate schools and unresponsive administrators, legislators are allowing states to intervene using drastic measures

By John Ritter
USA TODAY

HARTFORD, Conn. — The news hit like a stake in the heart at America's second oldest school. Outside evaluators revoked Hartford Public High's accreditation — in effect, labeling the 359-year-old institution a failure.

But as troubling as that news was — teachers were shocked, students were angry — it was merely the catalyst for bigger events. Connecticut's Legislature, exasperated by the dismal performance of schools in the state's largest city, rushed through a law to abolish the locally elected school board and empower the governor to appoint a new one.

The June 1 state takeover came as a relief in Hartford after years of school board mismanagement, policy failure, political infighting and declining academic achievement. Across the country, takeovers are an increasingly popular tool of last resort when frustrations over bad schools collide with local inability — or unwillingness — to reform.

Yet there is no evidence that takeovers can turn school failure into success. No research suggests that they inspire wholesale academic improvement. New Jersey has been running two troubled urban districts, Jersey City and Paterson, since the late 1980s and seen only a modest bump in test scores. Among the most visible takeovers: Cleveland; Youngstown, Ohio; Newark, N.J.; Washington, D.C.; and Chicago. None of those school systems has shown dramatic results either, though educators caution that it probably is too early to expect big gains.

Schools in all those cities had hit rock bottom, just as they had in Hartford. And if educators agree on anything about the nation's dysfunctional urban schools, it's this: Turning them around will take a long time. Assorted problems — academic and non-academic — have to be addressed at once: crime and security, dilapidated buildings, mismanagement, curriculum overhauls, even bus routes and cafeteria food.

If the state simply brings in a new layer of control without meaningful reform in the classroom, no amount of big-footing will change the status quo. Twenty-two states now permit some drastic intervention — takeovers, the closing or consolidation of schools, civil lawsuits or school board recalls — and several others are considering their own "school bankruptcy" laws.

But most often "we see the biggest changes in management and finance, and that's not what it's about," says Hal Hayden of the Northeast and Islands Regional Education Laboratory at Brown University, the group that studied Hartford's schools and made recommendations to the state.

"It's about student learning and increasing student perfor-

mance. That's where the focus must be. Otherwise, what we're doing is painting the house a different color, but it's still the same house."

Differing tactics

There is nothing approaching a standard takeover. In Washington, a control board appointed by President Clinton picked a retired Army general to shape up D.C. schools. In Illinois, the Legislature essentially said to Chicago Mayor Richard Daley, "The schools are yours, go work a miracle." In Ohio, the Legislature can't decide whether to ratchet up the Cleveland takeover with a law making Mayor Michael White the school czar.

But one thing any takeover needs, experts say, is a free hand to hire and fire and move teachers around — union contracts notwithstanding. That's possible in only a few states.

As high-profile as takeovers are, they're relatively rare — and part of a broader movement in the 1990s to hold failing schools accountable. Government impatience is at an all-time high, and lawmakers in state after state are telling schools: Improve or we'll impose changes. "Accountability is just enormous in the states this year," says Kathy Christie, policy analyst at the Denver-based Education Commission of the States. "We could see a bunch more takeover laws this year. And if not takeover, tougher accountability."

In urban districts like Hartford, underfinanced and plagued by suburban flight, the socio-economic realities of inner-city life magnify schools' shortcomings. More than a third of families with children live below the poverty line.

Because fewer than half of Hartford's children go to preschool, large numbers arrive in kindergarten not knowing the alphabet or how to differentiate colors. Only 40% of Hartford Public's students graduate from high school, compared with 80% statewide. Scores on standardized tests are Connecticut's lowest. Drugs and gangs are pernicious influences.

"We have kids who say they're going to die anyway so why stay in school," says Amado Cruz, Hartford Public's principal. Besides deficiencies in curriculum and teacher-training, lack of discipline was cited in the accreditation decision, which the district is appealing.

Also cited was the failure, after years of promises, to bring buildings and classrooms up to accrediting standards. The library-media center, for example, is too small; just two of its computers are wired to the Internet and at least triple the number of books and videos should be available in a high school with 1,960 students. "We have so many needs," says librarian Norma Cherry.

Teachers critical

School is out in Hartford, and the new school board hasn't announced major plans yet. A 48-point improvement plan that the Brown University lab came up is expected to form some basis for changes.

THE PRESIDENT HAS SEEN
6-10-97

It's clear that Hartford's teachers will be crucial to reform. Depending on the source, teachers are either the glue that holds a crumbling system together or the root of many of its problems.

"People don't understand how many hours these teachers put in," Cruz says. "This isn't a suburban district where you have a lot of stability. Teachers are resolving all kinds of problems, all kinds of emergencies. They're tutoring, mentoring, visiting homes, helping kids find jobs, training them for interviews."

Estaban Gonzalez, a junior honors student, says: "The teachers are there for us all the time — before school, after school. We call them at night."

But critics say Hartford's highly paid teachers — average pay \$58,000, with many above \$70,000 — are protected by restrictive work rules, won in contracts negotiated over many years, that rob the district of flexibility to make major reforms.

Donald Romanik, president of the defunct board, says: "The teachers' contract regulates every aspect of how to run the schools — from extra pay provisions, to the number of parent-teacher conferences, to restrictions on the number of required lesson plans, to yard duty assignments."

Takeovers that have teeth are those that give new boards power to move teachers and principals around, experts say. In districts with unions, that means power over contracts.

In Connecticut, a strong union state, the Legislature handed Hartford a mixed bag. The new board can go over union leaders' heads and appeal to the membership to approve changes. But a membership no vote kills the proposal.

Two years from now, though, all bets are off. The law sets up a clean slate for talks on a new contract. If disputes between the board and the union go to binding arbitration, the arbitrators can ignore precedent or any previously negotiated work rule. The law says the arbitrators are bound only by what's best for the children. If the board makes the case that a change is good for kids, the teachers must comply.

For now, almost everyone is taking a high road. Superintendent Patricia Daniel, hired this year by the old board, does not believe the goal of raising Hartford's test scores in just three years is unrealistic. "I won't use the fact that kids are from welfare families as an excuse for not learning," she says. "And I will not let anyone else here use that as an excuse."

Teachers union president Cheryl Daniels says if the new board "really wants to help it will embrace the people working in the system already."

At Hartford Public, the immediate worry of students like Suzi Senna, a sophomore honors student, is whether the accreditation crisis will pass before her chance of a college scholarship is ruined. "We're all middle class or lower-middle class here and we can't transfer out to private schools because we can't afford it."

USA TODAY •
TUESDAY, JUNE 10, 1997

Copied
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THE WHITE HOUSE
WASHINGTON

Date 6/10

To: Vicki Radd

From: The Staff Secretary

Any comment on this
draft?

Seems fine to me.

Phil Caplan

Handwritten signature: Betsy

WHITE HOUSE
WASHINGTON

Ms. Betsy Bengal
Mr. Don Sjaastad
1036 South Madison
Denver, Colorado 80209

Dear Betsy and Don:

I want you to know how much I appreciate your kindness in rearranging your wedding plans to allow us to use the Phipps Mansion on June 20 for the Denver Summit of the Eight.

Since you'll be starting your new life together a week earlier than originally planned, Hillary and I wanted to be sure to extend our warmest thanks and congratulations. Our thoughts will be with you on Friday, and we wish you every happiness in the years ahead.

Sincerely,

DENVER SUMMIT OF THE EIGHT

6-2-97

1730 K Street, NW
Suite 800
Washington, DC 20006
Phone: (202) 974-9651
Fax: (202) 974-9632

140 West 6th Avenue
Denver, CO 80204
Phone: (303) 446-5105
Fax: (303) 446-5010

Date: 21 May 1997

'97 MAY 21 PM4:43

To: Phil Caplan

From: Jonathan Adashek for Harold Ickes - Varnoy

Number of Pages (including cover page):

Subject: POTUS letter

Jim - green dot
Can you handle?

Phil

Denver Summit of the Eight
140 West 6th Avenue
Denver, Colorado 80204
tel: 303/446-5000
fax: 303/446-5010

Memorandum to: Phil Caplan
Deputy Staff Secretary

From: Kevin Varney *KV*
Denver Summit

Subject: Presidential letter

Date: 21 May 1997

In order for the President to host the other leaders for dinner Friday night June 20th it was necessary for a couple to re-arrange their wedding plans. They agreed to change the date of their wedding to Friday, June 13th and it will still be held at the Phipps Mansion. This couple has been exceedingly gracious throughout the entire Summit planning process and it would be a very nice gesture on our part if the President were able to drop them a note thanking them for allowing us to use the site on the day they initially chose and, obviously, congratulating on getting married.

Their names are Betsy Bengal & Don Sjuastad
1036 South Madison
Denver, CO 80209

*June
Ship
741*

SENATOR DALE BUMPERS INVITES YOU
TO A PRESS CONFERENCE & RECEPTION

ON SATURDAY, JUNE 14, 1997, 2:00 p.m. '97 JUN 10 PM4:01

AT THE LAFAYETTE BUILDING,
WEST 6th AND LOUISIANA STREETS,
LITTLE ROCK

6-10-97

Send to Schedulerig

Yes ☒

No ☐

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Cranford Johnson Robinson Woods

Capitol Center (501) 376-6251
303 West Capitol Avenue FAX: (501) 376-4241
Little Rock, Arkansas 72201-3593

Cranford Johnson Robinson Woods
FAX TRANSMITTAL SHEET

Date:

6/8/97

To:

Nancy Heinrich

From:

Skip Rutherford

Number of pages sent including this sheet:

2

If you have any problems receiving this facsimile, please contact Rebecca Jones at (501) 370-7266.

Thank you.

Capitol Center / 303 West Capitol Avenue / Little Rock, Arkansas 72201-3593
FAX: (501) 376-6045 or (501) 376-6085

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Comments:

Nancy would you please make sure the President
& First Lady see this - Thanks, Skip

6-10-97

Send to Scheduling

Yes ☒
No

cc:
John Podesta

C.



(FRI) 6. 6 97 17:41/ST. 16:46/NO. 4260672434 1 2

June 4, 1997

1776 I Street, NW, Suite 890
Washington, DC 20006
(202) 452-8200

The President
The White House
Washington, DC 20500

Dear Mr. President:

'97 JUN 10 AM 11:32

As you know, worldwide religious persecution — particularly against Christians — is a terrible reality of the late twentieth century. The persecution directed against people of faith is brutal and intensifying. Regrettably, however, the issue has been largely ignored by the political class, by mainstream journalists, and by many churches and religious institutions. In an attempt to address this problem, we are holding a meeting to discuss religious persecution on Monday, June 23, in Washington, D.C. We would be honored if you would join us.

The purpose of the meeting is to discuss strategies for making religious persecution a top national priority, and exploring concrete actions — both legislative and non-legislative — that can be taken to help alleviate religious persecution. We believe there is much more that can be done to address this issue; we intend to do as much as we can to make it central to our national political debate. We appreciate the leadership you have shown on this issue, and your participation in the meeting will help to make it a success. We hope you can join us.

If you would like to participate please call Ms. Manon McKinnon at your earliest convenience at (202) 452-8200. In the next week we will follow up with details (i.e., precise times, location and a specific agenda). Because of the relatively short notice, however, we wanted to reach you right away.

In addition, we want to call your attention to a campaign we have begun (through the auspices of Empower America) to bring greater attention to the issue of religious persecution. To this extent, we have recently released a 60-second television ad to highlight this cause. This ad is part of a broader campaign that will include discussions with church and religious leaders; a grassroots information strategy; consulting with Members of Congress; and waging an on-going public information campaign.

We hope to hear from you soon, and we look forward to seeing you on June 23.

Sincerely,

William J. Bennett

Senator Joseph Lieberman

Founding Chairman
Theodore J. Forstmann

Co-Directors
Lamar Alexander
William J. Bennett
Jack Kemp
Jeane J. Kirkpatrick
Vin Weber

Chairman
Thomas W. Weisel

Vice Chairman
Nicholas G. Forstmann

Directors
Joseph A. Cannon
Jamie B. Coulter
Steve Forbes
Congressman Newt Gingrich
Senator Trent Lott
Michael Novak
Dennis Prager
Julian H. Robertson, Jr.
Donald H. Rumsfeld
Judy Shelton
John Skeen
Ward W. Woods



1776 I Street, NW, Suite 890
Washington, DC 20006
(202) 452-8200

Facsimile Cover Sheet

TO: The Honorable William Jefferson Clinton

FROM: **Pete Wehner**
Policy Director
(202) 452-6213 (phone)
(202) 833-0556 (fax)

DATE: June 6, 1997

PAGES: 1 **to follow**

NOTES:

Attached is a letter from William Bennett and Senator

Joe Lieberman inviting you to a June 23 meeting on

religious persecution. We will be mailing you a copy,

but given the short notice, wanted to fax one as well.

Please call our office at your earliest convenience

to let us know if you can attend. We hope to see you
there.

Founding Chairman
Theodore J. Forstmann

Co-Directors
Lamar Alexander
William J. Bennett
Jack Kemp
Jeune J. Kirkpatrick
Vin Weber

Chairman
Thomas W. Weisel

Vice Chairman
Nicholas C. Forstmann

Directors
Joseph A. Cannon
Jamie B. Coulter
Timothy G. Dalton, Jr.
Steve Forbes
Congressman Newt Gingrich
Senator Trent Lott
Michael Novak
Dennis Prager
Julian H. Robertson, Jr.
Donald H. Rumsfeld
Judy Shelton
John Skeen
Ward W. Woods

President & CEO
Tex Lczar

Good (Breed)

What's our

answer to this?

What answer going
to do?

Bo

THE PRESIDENT HAS SEEN

6-10-97

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are right. But to those
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So where do the poorest go?

NEWARK, NEW JERSEY

AMERICA cannot be accused of dragging
its feet in dealing with the poor. First,
welfare reform required most single moth-
ers to find work and accept time-limits on
benefits, overturning 60 years of guaran-
teed assistance. Now a similar upheaval is
planned for public housing, the biggest
since the country's housing authorities
were set up in 1937.

Contentious legislation passed by the
House last month (and echoed in the Sen-
ate) would give local housing authorities
more power to set criteria for admissions,
but would require them to rent more units
as they become available to working peo-
ple, so that housing estates cease to be sim-
ply dumping grounds for the dependent.
The House bill also changes rules that have
discouraged tenants from taking up work
by raising their rents when they do so; and
it requires unemployed tenants to do eight
hours a month of volunteer work, though
that particular bright idea will be impossi-
ble to enforce or police.

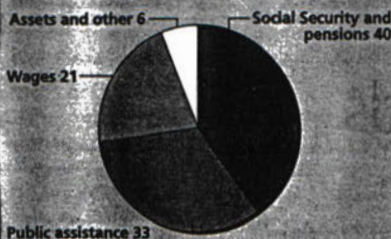
The point, say the legislation's backers,
is that public housing should be a transi-
tional phase for the working poor instead
of a dead end. Opponents, including the
housing secretary, Andrew Cuomo, reply
with a question. If public housing is gradu-
ally inhabited by working people, where do

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Dependent tenants

Sources of household income in
public-housing households, %



Source: Public Housing Data Book, HUD Office of Policy Development
and Research

the poorest go?

The question is pertinent because the
low-cost housing market, public or private,
is disappearing, and lower-income Ameri-
cans are increasingly hard-pressed to pay
the rent. The Department of Housing and
Urban Development (HUD) estimates that
5.3m households pay half or more of their
income in housing costs, up by about a fifth
from the mid-1980s. Out of every five Ameri-
can households that qualify for low-cost
housing benefits, only one actually gets
them. And the Census Bureau estimates
that 87% of renters cannot afford to buy a
cheap house in their area.

HUD is ill-equipped to deal with this
squeeze. Since 1992, its budget has been cut
from \$24.77 billion to \$19.59 billion. In
1994, the number of Section 8 claimants,
who use federal subsidies to buy private-
sector rental housing, was frozen at 1.1m
households (another 1.8m are in a voucher
programme) and plans to add to the 1.3m
units in the public-housing stock were
blocked. In the most recent budget, funds to
do up government-owned units and to pre-
serve low-cost housing stock in the private
sector were both cut.

Alas, the loss of money for
publicly supported housing
comes at a time when there is
at last almost a consensus
about how to do it right: a
mixture of subsidies, small
housing developments scat-
tered through communities,
and a "one strike and you're
out" policy for criminals and
drug-dealers. There are plenty
of success stories about; and
HUD is even getting slightly
better marks for its histori-
cally awful management.

Newark, New Jersey,
whose public housing author-
ity used to be among the worst
in the country, is a good place
to see the possibilities. Motor-
ists on the nearby freeway
once had to endure the sight
of grim brick apartment
blocks. No more. The Christo-
pher Columbus Homes were

torn down in 1994, and now motorists see
the city's soaring basilica instead. The for-
mer residents of the Homes live in tidy two-
storey houses, many of them just across the
road from where the blocks once loomed.
There are no graffiti, not much litter: the
houses gleam. Only the broken-down cars
reveal that this is housing for the poor.

Demolition has played a large part in
recent housing strategy. The disappearance
of the heartless blocks is hardly mourned:
when the wrecking ball began to batter
down Newark's Archbishop Walsh homes
in April, residents cheered. All told, some
100,000 decrepit high-rise units have or
will come down by the turn of the century
in cities from New Orleans to Denver. But
only 40,000 are being replaced. Combined
with the freeze on new Section 8 vouchers,
the result is that America will have fewer
publicly financed units when Bill Clinton
leaves office than when he came in.

The private sector is unlikely to fill the
gap. The much-admired Community
Development Corporations build perhaps
40,000 affordable units a year, but they de-
pend on the low-income housing tax credit
(which was almost abolished in 1995) and
on being able to house a proportion of Sec-
tion 8 tenants. Under Section 8, tenants pay
30% of their income to private landlords;
the federal government picks up the rest of
the bill. With the number of these tenants
frozen, the economics of building low-cost
housing falls apart.

Housing for low-income people, more-
over, is unpopular in many communities,
which price them out by forbidding high-
density development. And regulation can
push up construction costs unnecessarily,
shaving the razor-thin profit margins. New
York city, for example, has stricter require-



Goodbye, Columbus

... and deeper in debt

PHILADELPHIA



THE summery American economy is not without its cold spots. During 1996, a record 1.1m Americans declared personal bankruptcy, up 28.6%

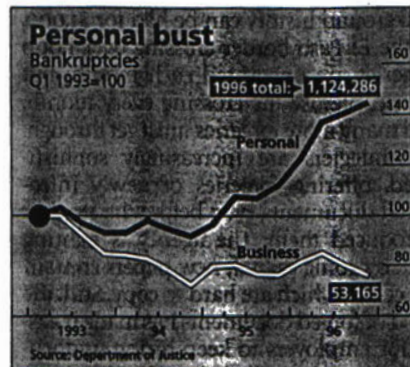
from 1995 and 44.1% from 1994. The bankruptcy binge was widely foreseen, as financial crises go. Consumer debt had grown sharply during 1994 and 1995, particularly credit-card debt, with a daunting average interest rate of 15.8% over the two-year period.

According to the National Consumer Bankruptcy Coalition, a group of banks and credit-card companies, the bankrupt should be pitied less than the lenders. They have a point. America's liberal bankruptcy code is much more of a shield for the debtor than a sword for the creditor.

An extreme case, say bankruptcy-reform lobbyists, is a student who pays off his federal tuition loans by piling up enormous credit-card bills which he then uses as the basis for a bankruptcy petition.

In congressional hearings in April, lenders received some sympathy for the idea of a "needs-based" bankruptcy system under which bankrupt borrowers would be relieved of debt only to the extent judged necessary by a bankruptcy court. A resolution of the bankruptcy-reform question is expected from Congress this autumn.

Meanwhile, lenders tend to steer their portfolios away from consumer debt and towards business debt. According to Robert Morris Associates in Philadelphia, the national association of credit-risk professionals, this shift is a direct result of de-



terioration in the quality of consumer credit. Since the beginning of 1997, the volume of bank commercial and industrial loans has increased by a healthy 3.9%, while the volume of consumer loans has fallen slightly. Mischievous consumer borrowers who presume that new debt will be available to finance the old may be in for a bit of market discipline at the hands of their creditors.

ments for handicapped access than the federal government, adding almost 10% to the cost of construction per unit. It can take years to get permission to build on former industrial sites. Private developers grumble at over-regulation, complaining that they have to build units "one piece of paper at a time". Many give up. It is a sad paradox. Not only is government retreating from the provision of social housing, but it continues to make it hard for others to step in instead.

Illegal immigrants

Willing, eager and cheap

GALVESTON AND DALLAS

AS TEXAS begins to recover from two weeks of devastating storms, a generally hidden truth about its economy will come to light again. Most of the builders and electricians who will have to repair the houses, remake the roads and re-establish the power lines will have to take on undocumented workers in order to meet their contracts. In 1996 the Immigration and Naturalisation Service (INS) conservatively estimated that Texas had over 600,000 undocumented immigrants, doing the jobs no one else wants: hauling carcasses in packing plants, picking fruit, cleaning hotel rooms, or sorting out the unspeakable damage caused by natural disasters.

Raise the issue of these workers with a Texan, and he is liable to fall uncharacteristically silent. Even state legislators avoid the issue. They know that many of their

constituents employ undocumented workers. They also know that the booming Texas economy is driven in part by the ready supply of cheap, diligent, illegal labour.

Dallas is one magnet for undocumented workers. The city's politicians oppose INS crackdowns, fearing they will damage the local economy and bankrupt small companies. Houston is another; there, a dawn drive past some of the city's 36 informal day-labour sites shows the size of the undocumented workforce. Young Mexicans loiter on the pavement, poised to jump into the back of any pick-up truck that slows down to take them. Houston police estimate that over 150,000 labourers, about 85% of them undocumented, gather every day in search of a job. It is a testament to the vitality of the Texas economy that most of them get hired, usually to mix cement and shift bricks. No questions are asked, no papers signed. Most workers do not even know their employer's name. They are paid, in cash, around \$40 a day.

In Galveston, a breezy town on the Gulf coast, undocumented labour is less an issue than a wink-and-nod discussion at the dinner table. As in Dallas and Houston, wealthier families discreetly employ undocumented maids and gardeners. "We may vote against immigration but we still want a cheap gardener," confesses one Galvestonian. The main sources of employ-



No questions asked

ment are restaurants, building sites and small plumbing or electrical firms. At dusk undocumented workers set out along the promenade for their evening jobs as busboys and dishwashers in restaurants. A recent INS raid has kept the more jittery on their toes; but the only tangible impact of the raid, locals say, was the sudden explosion of help-wanted ads for waiters and hotel maids in the next day's paper.

Stricter immigration laws have just made smugglers sharper. The black market in fake documents is buoyant. On a street corner in a Latino district in Dallas, *The Economist's* correspondent was offered a forged Green Card for \$200. Complete

To Ben Tanello - Fyl - 28 Nov

FINANCE AND ECONOMICS *Bx*

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COS



Looking to join the caravan

CASABLANCA AND CAIRO

How fantastic are North Africa's dreams of becoming the next promising emerging market?

IN THE Sahara you can still see caravans of camels criss-crossing the sands. You may soon be able to spot a bunch of besuited stockbrokers traipsing in their wake. Later this month the Casablanca stock exchange is launching a roadshow that will travel all the way from Tangier, in the north of Morocco, to Laayoune, over the dotted line in the disputed Western Sahara. The aim of this "stockmarket caravan", as the bourse has dubbed it, is to persuade hundreds of privately owned firms of the merits of a stockmarket listing.

After years in the economic desert, North Africa is trying to find the way out. Algeria is stuck in a murderous civil war and Libya with Muammar Qaddafi. But, with varying enthusiasm, officials in Morocco, Tunisia and Egypt now sing the praises of free markets and foreign capital. Some predict that their countries will soon be growing at rates of 7-8% a year, and a few big-time investors, such as George Soros, have bet billions of dollars that they are right. But nothing is ever that certain in North Africa.

This is not the first time the region has had great dreams. Growth rates were high in the 1970s too. But since then the economic environment has been transformed. Back then one of the few things that Morocco, Tunisia and Egypt had in common was a legacy of state intervention in the economy. Nowadays privatisation is the rule rather than the exception. Then, rampant inflation cohabited with bloated bud-

get deficits. Today Egypt and Morocco have throttled inflation and cut their budget deficits to 1% and about 3% of GDP respectively. Only a few years ago local industries were sheltered behind high tariffs. Right now the imminent reduction of tariff barriers is focusing minds on what Tunisians and Moroccans call *mise à niveau*, or corporate upgrading.

One symptom of these changes is the emergence of a new generation of Gucciclad, mobile-phone-toting wheeler-dealers who would not look out of place in New York or London. This is hardly surprising, given that some of them cut their financial teeth in those very places.

One such is Egyptian-born Aladdin Saba, now 36, who has an American MBA and learned the ways of Wall Street with Kidder Peabody, a now-defunct American investment bank. On a visit home in 1991, he felt Cairo was "bubbling" with change. Interest and exchange rates were being freed, and there was talk of privatisation. "I met a lot of people in the business and found they weren't so special," he recalls. "I thought, if these jokers are making it, why can't I hang a sign on the door too?"

With Ali al-Tahri, a veteran of Kidder's London office, he founded Hermes Financial in 1994. By 1996 Hermes was handling 12% of the turnover on the Cairo bourse and managing the first local mutual funds. Last June, it merged with the Egyptian Financial Group, an older rival, to form EFG-Hermes, Egypt's largest investment bank.

Casablanca, which has only 13 stockbrokers to Cairo's 116, is a relative upstart in the financial markets. But Casablanca Finance Group, founded in 1992, has helped shake up the sleepy bourse. Given Morocco's small size—its GDP is only \$30 billion—Moroccan investment banks are eagerly seeking regional ties. Upline Securities, created in 1993, has formed alliances with Jordanian and Egyptian groups. International clients are "looking not just at Morocco, but at the Middle East plus North Africa, or all of Africa," says Hassan Ait Ali, the firm's 34-year-old boss.

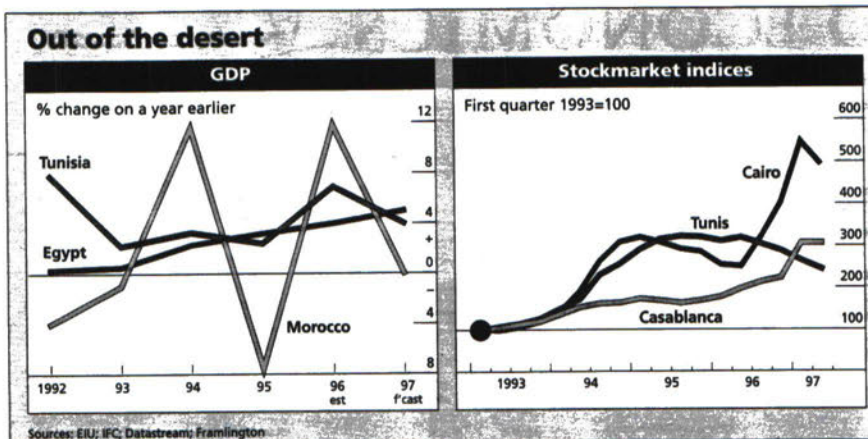
Privatisation has boosted stockmarket capitalisation in all three countries, and the exchanges are using their newfound prosperity to modernise: Tunis and Casablanca have introduced electronic trading systems, and later this year Casablanca will set up a central depository to smooth clearing and settlement. "Investing here will be like buying in Paris," boasts Aymn Alami, the exchange's chairman.

Parlez-vous investing?

Investors seem to like what they see. Last year Egypt and Morocco came 14th and 15th respectively in global stockmarket performance, according to the International Finance Corporation (IFC), the private-sector arm of the World Bank. (Tunisia's poor ranking, at 62nd, was due to the introduction of a new share-trading system that corrected past overpricing.) In the first quarter of this year, the Cairo and Casablanca bourses rose again before blowing off steam (see chart on next page). In the autumn the IFC is expected to add both Moroccan and Egyptian shares to its index of emerging-market stocks available to foreign investors. This means that a chunk of the \$8 billion of investment that tracks the index will pour into the two countries.

Morocco has long set the pace for reform in North Africa. Its biggest economic weakness remains its dependence on agri-

FINANCE AND ECONOMICS



culture; periodic droughts make growth erratic (see chart above). It was first in the region to launch a privatisation programme and first to allow foreign investors to buy into local banks. English is gradually supplanting French as the language of business, an indication of the growing international orientation of the new business class.

Of late, Egypt has become an even more eager reformer. The government is talking of selling one of its four big banks. Three Egyptian companies have sold depositary receipts abroad, and two more are in the pipeline. "My only concern", says Michael Power, a fund manager at Baring Asset Management, "is that there is so little to be concerned about." Tunisia, which has yet to embrace privatisation wholeheartedly and which limits foreign ownership of firms to 49%, has much further to go.

For all their aspirations, all three countries face some daunting realities. One is that economic reform has not yet included reform of stifling, and corrupt, official bureaucracies. Two years ago Morocco's King Hassan, still a fairly absolute monarch, deliberately published a World Bank report that was critical of the country's bureaucrats. "Our entrepreneurs are fine," says an official. "The real upgrading that is needed is of our administration." Yet little changes. "The administration exists for itself," grumbles one businessman, who says several cement firms have been waiting 18 months for approval of a waste-recycling technique widely used in Europe.

A second handicap is the inadequacy of education throughout the region. Roughly half of Moroccan and Egyptian adults cannot read or write. The universities are still churning out would-be bureaucrats, not business-minded graduates. Mass illiteracy and high graduate unemployment hinder the development of the broad middle class that is an economic motor in other emerging markets. And they help to explain why domestic savings in both countries are barely half those in Asia's sprinters.

Lastly, there is politics. Though no other country has anything like Algeria's war on

its hands, all the governments are haunted by fear of revivalist Islam. Investors will be cautious until they see proof that President Hosni Mubarak in Egypt and King Hassan in Morocco can manage the popular demand for more democracy. Local elections in Morocco on June 13th (see page 42) will be a test of the opposition parties' ability to win some power. But it may be a long time before anything resembling a real democracy arises in North Africa.

Such drawbacks ensure that North Africa will not become one of the emerging world's racier markets over the next few years. But, given the turmoil induced by some tigerish stockmarkets elsewhere, there may be something to be said for moving at a camel's steady pace.

Russian reform

Another blow

MOSCOW

A WAR of words between various branches of the Russian government, Harvard University's Institute for International Development and the American government's development-assistance programme, USAID, has proved a costly mess for all concerned.

Andrei Shleifer and Jonathan Hay, two Harvard capital-markets experts, were accused in mid-May of using USAID resources to oversee private investments. Although the exact nature of their supposed transgression has yet to be made clear, the consequences are plain enough. Both men have lost their posts with the Harvard project. Harvard is set to lose a contract, worth some \$14m, to advise the Russian government on financial reform. The reputation of USAID has been damaged. And Russia's Federal Securities Commission has lost what may prove decisive ground in its struggle to keep the stockmarket free from domination by a clique of big banks.

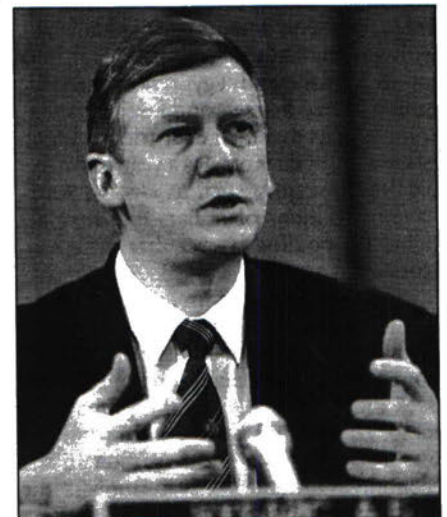
All this suggests there will be one more loser a little further down the line, though

he may not know it yet: the small investor, whose interests the Federal Securities Commission has been trying hard to protect. The commission's political influence has always been slight. Founded only in 1994, it has a mere 100 employees. But it has been a rare voice to speak aloud for the rights of shareholders. Against it have been ranged Russian banks, big firms and government ministries, which have largely succeeded in parcelling control of Russian industry among themselves rather than sharing it with troublesome outsiders.

Last week, amid the smoke billowing from the Harvard explosion, the securities commission lost a long battle with Russia's central bank over who should have power to license commercial banks to deal in securities. This may prove a turning-point in the stockmarket's development, bringing a shift away from the shareholder-driven American model favoured by the commission and its Harvard advisers and towards a bank-dominated system more to the taste of Russia's new economic top dogs.

The fact that the ruling was made by Russia's first-deputy prime minister, Anatoly Chubais, was a damaging signal that the securities commission has lost the unconditional support of its one-time patron. Mr Chubais was its founding chairman in 1994, and handed the job on in 1995 to a protégé, Dmitry Vasiliev.

Mr Chubais has had to move nimbly to limit his own losses. Of all Russia's politicians, he had the closest ties to the Harvard institute, which, with USAID, supported his programme to privatise much of Russian industry in 1992-95. When news of the alleged improprieties began to emerge in May, Mr Chubais wrote to USAID asking it to terminate the institute's contracts in Russia. At a press conference last week he claimed, bizarrely, that the scandal may have been provoked by opponents of Russian economic reform in America. "It is not convenient for me to do business with that



Chubais inconvenienced

kind of institute," he said.

The whole sorry story has smacked more of confusion than of conspiracy. The original allegations against the Harvard consultants apparently came from a disgruntled co-worker in Moscow. They took on such wide political resonance because Russia has become a much more nationalistic and prickly place than it was in the early days of reform. American advisers are something to be used discreetly, if at all. Mr Chubais had little choice save to distance himself from his former backers. In any event, he has become closely entwined with an oligarchy of bankers and industrialists who want at best only a freeish market in Russia. The rift with Harvard is less a setback for Russian reform than a reminder that reform has long since parted company with the theories that once inspired it.

Korean finance No bang

SEOUL

EVERYONE agrees that South Korea's financial system is unstable and needs a speedy reform. This week a presidential commission delivered a detailed proposal, and President Kim Young Sam ordered draft legislation to be submitted to the National Assembly later in June. But although the president appears determined to improve things before he leaves office in February, his intentions may not matter. The shockwaves of a big bang are unlikely to reverberate through Seoul soon.

The dire state of Korea's banks, which are suffering from a series of bankruptcy filings by leading industrial conglomerates, seems to make regulatory reform urgent. But some of the commission's key proposals, sensible though they are, may be too ambitious to be put into practice. In particular, the plans would deal a blow to the power of the finance ministry. Authority to regulate banks, insurers and securities firms would be lodged in an independent Office of Financial Supervision. A separate Securities and Exchange Commission would oversee the capital markets. For good measure, the Bank of Korea, the central bank, would assume full responsibility for monetary policy. That would leave the finance ministry, now Seoul's most powerful bureaucracy, with little to do.

So the ministry, which is charged with drafting the reform legislation on behalf of the government, is fighting back. A single financial supervisory body is fine, it says—so long as its own financial-policy bureau assumes the job. Nor is the ministry charmed by the idea of making it easier for banks to lay off workers after a merger; this, it says, is "unrealistic". And it strongly ob-

Those damned dots

ONE of the meanest tricks that evolution could play on a species destined to do arithmetic is to give it hands with five fingers on them. Any self-respecting numerate organism would prefer four or, at a pinch, eight digits. This is because—as computer scientists were quick to work out—the most efficient way to count is in powers of two (ie, 1, 2, 4, 8, 16...).

Instead, humanity is stuck with the decimal system its two five-appendaged hands have made almost inevitable. Mankind, except for some nostalgic shilling-and-furlong Englishmen, counts in tens instead of twos—save for fractions, where people have sometimes been willing to concede that decimalisation is not all it is cracked up to be. In particular, the prices of shares and bonds are frequently quoted in powers of two ($\frac{1}{2}$, $\frac{1}{4}$, $\frac{1}{8}$...). Or, rather, were. For stockmarkets and banks the world over are now abandoning the familiar fraction in favour of the dreaded decimal.

American securities of all sorts have always been traded in multiples of an eighth of a dollar, even though the country has had a decimal currency almost since its inception. But now this is to end. The NASDAQ stockmarket this week agreed to study a move to decimal pricing. The New York Stock Exchange will take a similar look. Lest they dally, Con-



gress is considering a bill to make exchanges quote shares in decimals.

Across the Atlantic, British government bonds—the gilt-edged 100s that keep the country's budget afloat—have been traded in multiples of a 32nd of a pound since time immemorial. The decimalisation of the currency in 1971 made no difference to this tradition. Nor did the fact that continental Europeans, influenced by the perfidious doctrine of metrication that the French revolution invented and Napoleon disseminated, long ago decided to quote their stock prices decimally. But this week the Bank of England—punch-drunk from all the changes forced upon it in the first month of the Labour administration—agreed to the decimalisation of gilt prices as part of the transition to a common European currency that may never happen.

O tempora! O mores! 0.03125!

jects to the idea advanced by the commission that the government should issue bonds to bail out troubled banks: bonds which could later be converted to shares, which the government would then auction off to new owners.

With those proposals doomed by the finance ministry's opposition, Mr Kim's reform package is likely to be far more mod-

est. It will retain a provision preventing the *chaebol* industrial groups from owning more than 4% of a bank's shares, toughen accounting and disclosure rules, and make it easier for new companies to enter the financial sector. Banks will probably be allowed to engage in securities-related businesses, except stockbroking, and securities houses will be granted permission to engage in most businesses now handled by banks.

Such changes are overdue. But they will do nothing to brake the banking system's downward spiral. Alarmed by the default of their creditors—53 companies on average went bust each day in April, the worst figure since 1982—banks are increasingly refusing to refinance loans. Some merchant banks are even calling loans before maturity. As a result, banks are chock-a-block with idle cash. That has helped short-term interest rates to fall, fuelling a stock-market rebound, but it has not



They say reform is coming soon

Barak
Swain
Barak
Barak

A man for bad times

Israeli-Palestinian relations may have to grow even worse before Ehud Barak, Israel's new Labour leader, can show whether he could make them better

TO CALL it a peace process is to exaggerate. With Egypt cranking the engine, the Israelis and Palestinians may get their stalled negotiations restarted before too long. But, even if they do, the journey will soon be halted again. Without agreement on where they are going, and with no trust at all in one another, every dip in the road becomes a canyon, impossible to cross.

The negotiations are stuck where they have been for weeks. The Palestinians say they cannot be resumed until Israel stops building a new Jewish settlement (Har Homa) on Jebel Abu Ghneim, a pine-covered hill near Bethlehem which commands the last remaining passage between East Jerusalem and the West Bank. The Israelis say they cannot be resumed until the Palestinian Authority convinces them that it is seriously intent on preventing any resumption of terrorism. The result is stalemate. Israel's prime minister, Binyamin Netanyahu, may by now recognise the case for freezing the bulldozers at Har Homa. But he cannot do so without cracking his coalition. And Yasser Arafat, the Palestinians' leader, would face a revolt if he treated suspected terrorists or their supporters with the ruthlessness he showed when the late Yitzhak Rabin was Israel's prime minister.

Enter the man who advertises himself as Rabin's heir. Ehud Barak, aged 55, was elected on June 3rd to succeed Shimon Peres as leader of the opposition Labour Party. He follows Rabin in being a distinguished soldier (he has more medals for bravery than any other Israeli) who has positioned himself on the right of his party. He claims to be the man who can convince Israeli voters, as Mr Peres narrowly failed to do a year ago, that he will never gamble with their security, will bargain toughly all the way, but will lead them, in the end, to true peace.

Above all, Mr Barak exudes an air of welcome self-confidence. Israel is a well-off country, an unofficial

member of the nuclear club with powerful armed forces, and still best friends with the world's remaining superpower. But, since the spring of 1996, when four suicide-bombers killed 61 people in Israel's cities, Israelis have been assailed by new, and partly irrational, anxieties. These are fed by the current government's constant harping on terrorism (reinforced by a suicide-bombing in March which killed three Israelis) and on the sinister intent and behaviour of unchanged Arabs (reinforced by the Palestinian killing of three fellow-Palestinians suspected of selling land to Jews). There are immense perils, the government insists, in agreeing to any "concession" that might weaken Israel's direct security.

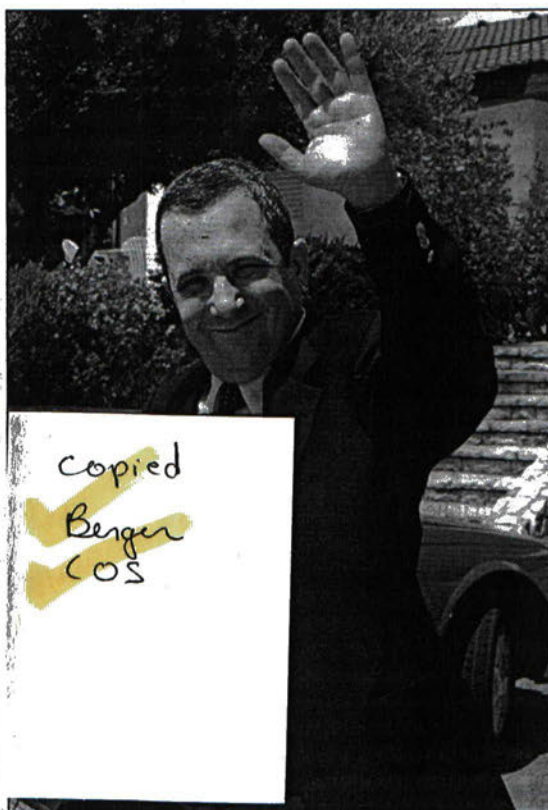
Mr Barak has no time for cooked-up fear. He argues that the collapse of the So-

viet Union and the defeat of Iraq presented Israel with the opportunity to make a lasting peace with the Arabs, an opportunity that should be exploited, he further argues, before radical Middle Eastern states get the chance to lay their hands on nuclear weapons. He does not disclose his own fallback positions prematurely. But he derides the thought that a Palestinian state would threaten Israel. Mr Netanyahu, he once said, "sees Israel as a carp among barracudas". His own fishy metaphor for Israel is "a benign killer-whale".

If the Likud-led government lasts its term, Mr Barak will have no chance to show either benign or deadly power at least until the year 2000. But can the present situation last unchanged for the next three years? It begins to seem improbable. The Palestinians' expectations are at rock-bottom. The best they are being offered, they believe, are scattered cantons of home rule within a grid of Israeli-controlled roads and territory: the latest government map, leaked to the Israeli press, suggests that the Palestinians might get 40% of the West Bank—a suggestion that distresses Palestinians and outrages Mr Netanyahu's religious-nationalist partners.

Palestinians' anger is directed as much at their own rulers as at Israel's. Many are frustrated, feeling imprisoned. Some look back, with nostalgia, to the years before the *intifada* (uprising) and the Oslo process began. Mr Arafat and his men, controlling their lives in autocratic, conspiratorial and sometimes brutal manner, lose support by the day. The Islamist movement, Hamas, claims, with increasing conviction, that the tide is moving its way. Mr Arafat's own faction, Fatah, is rebelling at Israel's security demands: "Are we the bodyguard for Netanyahu's bulldozers at Har Homa?" asks a Fatah man.

Faced with turmoil in the territories, and rebellion in his own coalition, Mr Netanyahu could, before his term is out, turn to the Labour Party for support. An arrangement of this sort, pushed by Mr Peres, had been on the cards in April. Mr Barak opposed it then but now suggests that he might be ready to reconsider it in a year or so—though only in response to public pressure, after the present coalition had admitted defeat. Matters would have to get considerably worse before that happens. On present indications, they may.



Fear only fear itself, Barak might have said

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ance company or bank could be put to good use helping the millions of unemployed. Although Air France will not be sold outright, private capital may be used to help develop the business.

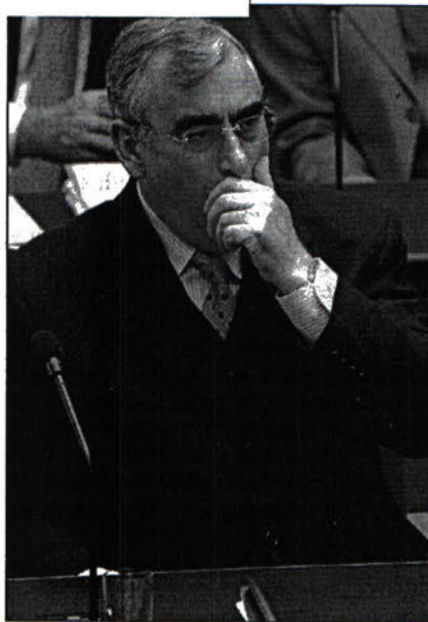
Looking at it this way, you may conclude that the Socialist programme is not light years away from that of the right—which, after all, put up taxes on firms, had a habit of meddling in industry, and tried also to create jobs by encouraging firms to cut the working week. But the Socialists' rhetoric is very different from that of the Gaullists. By rejecting privatisation and arguing that businesses are there to pay taxes and create jobs, Mr Jospin at best makes real reform unlikely. At worst, he may create new millstones for France's already burdened private companies.

Germany

Where's the lifebelt?

by
BONN

THINGS never seem so bad for Helmut Kohl as they cannot get a coalition government over budget policy. The Bundesbank, the left's triennial determined to own off his single perhaps from office. The current mess is luckless and inept. Mr Waigel, did not esbank in a public bound to lose. Ger-



Something up Waigel's sleeve?

hans tend to treat the central bank with near-religious awe, and most politicians know better than to risk their reputations by getting into a fight with it.

Not so Mr Waigel, although he has just notched up a post-1945 German record of more than eight years in the finance job. Long an outspoken fan of tough debt and deficit criteria to make sure weaklings do not join the euro, he is now running scared that Germany itself will fail to qualify. By getting the Bundesbankers to revalue their gold reserves and pay over part of the book profit to the government (albeit indirectly) this year, he hoped to make German public finances euro-worthy after all.

Even if Mr Waigel had got his way, the European Union's statisticians might have gulped a bit about the gold dodge. But he has had to back down after the predictable public outcry. He will get no payout—at least none this year, which is the crucial one for judging which countries can adopt the euro if it starts in 1999.

The skirmish with the Bundesbank has brought Mr Waigel jeers and indignation from all sides, including his own. It has let the opposition Social Democrats portray themselves, somewhat speciously, as champions of financial rigour. And it has set off a new debate on whether the start of the euro, an idea long regarded with dismay by a majority of Germans, should at least be delayed. Mr Kohl doggedly says no, and there is no reason to doubt he means it. He decided recently to stand for chancellor again in the election next year, not least to help ensure that the single currency would arrive on time. But now his main ally, Jacques Chirac, has lost most of his authority and the new Socialist government in Paris may prove a lot trickier than the old one over terms for bringing the euro in.

That aside, the row with the Bundesbank is only one symptom of the budget crisis now threatening to destroy the nearly 15-year-old ruling alliance among Mr Kohl's Christian Democrats, their fraternal Bavarian party, the Christian Social Union (led by Mr Waigel), and the Free Democrats.

Squeezed between rising spending, especially for the 4.3m Germans out of work, and tax revenue that is yet again less than expected, Mr Waigel has next to no options left. A bid for more social-security cuts would founder because the Social Democrats have a majority in the Bundesrat, the second chamber of the federal parliament. Chopping investment spending below the level of new government borrowing is forbidden by the constitution. Selling off state enterprises (as the government promised to do with vigour when it came to power in 1982) could bring in a tidy sum, but would not do much to help Germany qualify for the euro. That seems to leave Mr Waigel with a single, sorry course: to boost taxes. But it is one the Free Democrats reject, say-

ing that, if their partners try to go ahead with it, they will abandon the coalition.

Would they really? Many Christian Democrats and their Bavarian brethren doubt it. They sneer that the Free Democrats have made such idle threats before and, besides, are barely able to muster the minimum 5% of the vote needed to keep themselves in parliament. If they cast themselves adrift now they would certainly find no ally in the shape of the Social Democrats for their tax-cutting, privatisation plans. Left without any obvious coalition partner, they would be blotted out in next year's election. Apply enough pressure, the conservatives say, and the Free Democrats will come around as usual.

That reasoning looked sound enough once, but it may not be so now. At their congress last month, the Free Democrats cast themselves more sharply than ever as the party in favour of tax cuts and deregulation, the party for less state and more private initiative. Arguably, that combination could win them more votes if they were to cut links with Mr Kohl's floundering Christian Democrats and fight alone. Nor need they fear that Mr Kohl's lot and the Social Democrats might squeeze them to death by forming a "grand coalition". That might have been possible a year or two ago but is highly unlikely now. The Social Democrats reckon Mr Kohl's party is sinking fast and are not disposed to toss it a lifebelt.

Besides, old Bonn hands recall that once before the Free Democrats really did make good their threat to walk out of a coalition under a Christian Democratic chancellor after a dispute over tax rises. The date was October 1966, and the chancellor, Ludwig Erhard, resigned a month later. Mr Kohl is tougher than Erhard ever was, but the challenge he faces is tougher too.

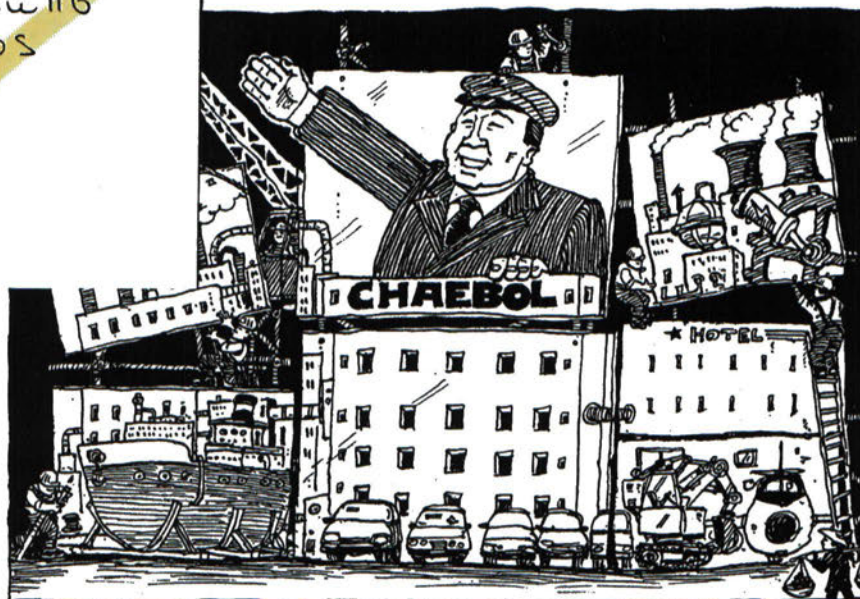
Sandy Interwies
NATO
Who will join the club?
piece - bc

SINTRA

WITH only a month to go until NATO's grand summit in Madrid, the alliance's 16 existing members have still not decided which countries should join. When NATO's foreign ministers met last week in the Portuguese town of Sintra, they fell, as they often do, into an American camp and a French one.

Madeleine Albright, America's secretary of state, argued strongly that only the Czechs, Hungarians and Poles should join NATO in the coming intake. But the French, fighting for a "southern enlargement", have won considerable support. Belgium, Canada, Italy, Greece, Luxembourg, Portugal,

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China adopts the chaebol

SHANGHAI

The idea is fast going out of fashion in other parts of Asia. So why do China's bureaucrats want to build a new breed of disjointed conglomerates?

SOMETHING frightening is stirring in China. Since the death in February of the country's paramount leader, Deng Xiaoping, the reform of state-owned industries (SOEs) has moved into a higher gear. This is to be welcomed: the state sector is urgently in need of a big sort-out. The worrying bit is that the Chinese government also believes that big is better, which is why it has started to breed a new and dangerous form of corporate monster.

The government intends to concentrate its efforts on some 1,000 of the biggest industrial SOEs while leaving the remaining 117,000 to their fate. Some of these smaller firms will survive, some will be sold, others merged and many, it now appears, will be allowed to go bankrupt. In one way this makes admirable sense: there is far too much duplication in Chinese industry, with hundreds of inefficient small factories often making the same things.

But the urge to restructure is being tempered by a less commendable urge to be big. China's economy, runs the prevailing logic, will be the biggest in the world; China's businessmen should therefore run some of the world's biggest conglomerates.

In part this is hubris, in part it is driven by fear about what will happen as China's economy is opened to more global competition. "They look at big companies in the West and wonder how they are going to compete," says a western banker.

Many Chinese businessmen admire Japan's big corporations. They would love to have the muscle of Mitsubishi or Toyota. To this end, they are borrowing some things from Japan, especially the *keiretsu* system in which individual Japanese companies, often with their own stockmarket listings, are linked together through cross-shareholdings. The firms in the family support one another and favour each other in their business dealings.

But the real role models are South Korea's conglomerates, the mighty *chaebol*, which are far less focused in their range of businesses than big Japanese companies and (at least in the past) much more closely linked to the state. The leading ten *chaebol* control around two-thirds of South Korea's economy. Chinese officials and businessmen have visited South Korea to see at first hand how firms such as Hyundai, Samsung and Daewoo work. The Chinese are im-

pressed by the fact that the *chaebol* helped to transform South Korea from a poor hungry nation into a rich one within a generation, and that the *chaebol* are now transforming themselves into multinationals.

One Chinese *chaebol* in the making is CITIC Pacific. This company is run by Larry Yung, the son of China's vice-president. Mr Yung has transformed CITIC from a sleepy mainland-backed holding company into a conglomerate listed on the Hong Kong stock exchange, worth \$12 billion. Its growing interests now span power stations, toll roads, airlines and shopping malls. A number of other so-called "red chips" have since followed CITIC to Hong Kong. The latest is Beijing Enterprises, whose share price more than tripled when it was listed on the colony's stockmarket last week. It owns a rag-bag of businesses including a hotel, a toll road and a chunk of the Great Wall.

Whereas South Korea's *chaebol* grew fat with a generous amount of government-directed cheap credit, China's conglomerates are receiving "asset injections". These work much like steroids. What happens is that the parent company, which is usually a municipal government or a ministry, provides its protégé with the opportunity to acquire a state-run business—a toll bridge, for instance—at highly preferential terms.

The high price which investors are paying for shares in Chinese red-chip companies reflects not so much what the firms consist of today but what goodies they are expected to be injected with in the future, as they are transformed into conglomerates. That is why CITIC Pacific's share price soared to record levels this week on reports that it was about to be offered stakes in more Chinese businesses, including a big infrastructure project in Shanghai (Mr Yung's home town).

Shanghai, China's industrial powerhouse, is leading the reform of the SOEs, knocking down the city's dark, satanic mills, replacing them with office blocks and moving factories to smart new industrial estates. Shanghai's leaders fear the inefficient SOEs will hold back its economy: the state sector employs some 70% of city's 5m workers. Over the next two years the city aims to shed 400,000 surplus state-sector workers, mainly in light industry, chemicals and building materials. Last year 200,000 jobs were cut, mostly in textiles. Though the lay-offs are bold, Shanghai worries about provoking social unrest. So it is organising retraining centres to help sacked workers develop new skills, especially for the growing service sector.

As part of its plan to regain its position

As Asia's leading commercial centre, the city is eager to attract big investors. One recent coup is a deal with Japan's NEC to build a state-of-the-art microchip plant in Shanghai (see box). But city officials also talk about creating ten or so groups that will grow big enough to become "Fortune 500" companies early in the next century. Rather than leave that to the entrepreneurial zeal of the locals, officials still believe it requires central planning.

One particular *chaebol*-like creature currently being assembled is Shanghai Automobile Industry Corp (SAIC). Through a ten-year-old joint venture with Germany's Volkswagen, this state-run firm has become China's most successful car maker—cranking out enough elderly VW Santanas to capture more than half the Chinese car market. Now it is setting up a \$1.6 billion partnership with America's General Motors (GM). By playing the two western car makers off against one another, SAIC has already been able to extract generous promises from GM to provide it with the technology needed to develop its own, modern vehicles. One day, it hopes to sell these on world markets.

SAIC, however, would rather be another Samsung than another Toyota. In April it took control of two loss-making Shanghai firms which make electrical goods, including colour televisions. SAIC now seems poised to buy the municipal government's 34% stake in Dazhong Taxi, the city's leading taxi operator and one of its most ad-

mired firms. Dazhong, which was set up in 1988, has grown by doing two things still unusual in China: first, by offering a relatively high-class service; second, by expanding into businesses that have some connection to its own—such as car insurance, vehicle repair centres, and a partnership with America's Hertz car rental.

Dazhong Taxi has become a darling of overseas investors, who see its foreign-currency "B" share listing on the Shanghai stockmarket as a pointer to the sort of service businesses that will benefit from rising Chinese incomes. The firm, which uses international accounting standards rather than less reliable Chinese ones, reported that in 1996 net profits had grown 9% to 110m yuan (\$13.3m) on sales of 236m yuan.

Although the managers at Dazhong Taxi will not discuss the merger attempt, they appear to be putting up a spirited defence. Last month the company sold a majority stake in one of its subsidiaries (a small but profitable taxi business in the Pudong area, where Shanghai's new financial district is being built) to its employees. This week it launched a bonus issue of shares, which has helped to push up its share price, hence making the company more expensive for predators.

China's leaders would do better to take a ride in a Dazhong Taxi instead of their chauffeured limos. The entrepreneurial flair the firm has shown is rarely achieved when governments try to pick winners—and only occasionally in the sort of un-

wieldy conglomerates they want to build. It would be odd, just as South Korea's government is desperately trying to loosen the grip that the *chaebol* exert on its domestic economy, if China's bureaucrats created new sloths of their own.

Trainers, sneakers and shoes In the vanguard

LOS ANGELES

IN "Married With Children", an American sit-com about a family of dysfunctional losers, the father is a shoe salesman. Yet despite the dreariness of Al Bundy's calling, shoes are one of the trendiest industries around. The chief reason for this is Nike. The sneaker maker from Beaverton, Oregon, not only pioneered a new system of production, contracting out all but the most design-intensive parts of its manufacturing to countries such as Thailand and Vietnam; it also created one of the mightiest marketing machines of recent times, making its name synonymous with American "just-do-it" irreverence.

The result has been astonishing growth: Nike's sales in its current fiscal year will be around \$9.5 billion, almost double the figure for 1995, according to Smith Barney, a brokerage firm. In recent months, however, the company seems to have stalled. On May 29th Nike's shares fell 13% after the firm an-

Who dares, in China, can still win

TOKYO

THE deal struck last month between the Chinese government and Japan's NEC to build a \$1 billion chip-making factory in Shanghai could have a startling effect on China's struggling young high-technology industries. IBM, Rockwell, Texas Instruments and Siemens had all turned down the Chinese government's invitation to bid for the business. The other big high-tech firms were all worried both about China's cavalier treatment of intellectual property and the difficulty of extracting export approval from their own governments for the advanced equipment needed to produce modern semiconductors.

NEC, which has had the full backing of Japan's Ministry of International Trade and Industry (MITI), has similar qualms. But it believes it can prevent blueprints of its microchips from slipping out of the back door. Although the Japanese firm will own only 28.6% of the joint chip-making venture with Shanghai Hua Hong Microelectronics, the Chinese au-

thorities have given NEC complete management control, including having its own man in as boss. As far as the Tokyo-based firm is concerned, the new "fab" in Shanghai will be run strictly as a Japanese undertaking.

In exchange, the Chinese will get some of the best semiconductor manufacturing know-how around. Chief among the benefits of doing a deal with NEC is the firm's knack of making chips ever smaller—and hence cheaper. The Shanghai fab will start off by producing chips with in-

ternal wiring only 0.5 micron wide (half a millionth of a metre)—pretty standard stuff these days. But the aim is to move quickly to the more advanced 0.35 micron processing. When it opens in early 1999, China should have a world-class chip-making facility.

The Chinese are luckier than they probably realise. Lately, NEC has learned to cram more DRAM (dynamic random-access memory) devices on to a wafer of silicon than any of its leading rivals. The company is well into the fourth "shrink" of its basic 16-megabit DRAM design, getting upwards of 700 chips on to a standard eight-inch wafer. Firms still using third-shrink designs have to make do with around 450 chips per wafer.

In return NEC gets a secure foothold in what may become the biggest chip market in the world. China bought some \$7 billion worth of semiconductors last year for its surging computer and telecoms industries. Dataquest, a market-research firm, reckons that the figure will be \$17 billion by 2000. Given the size of this market, who cares if a few illicit copies of semiconductor designs find their way to pirate chip makers?



nounced that its quarterly earnings would not live up to Wall Street's expectations. Nike has lowered its production forecasts to its manufacturers in Asia. John Horan, of *Sporting Goods Intelligence*, a newsletter, speculates that sports-shoe retail chains may have over-expanded, with a planned 17% increase in their retail space in America over the current year threatening profit margins. There is talk of slow business at Footstar, a chain that sells athletic shoes.

Rather than enjoying praise for having created the "Nike economy" of fluid worldwide production, the company is now having to fend off criticisms that it exploits Asian workers. True, the Nike-clad Tiger Woods has given its golf range an agreeable boost. But in the most important sport in which Nike is trying to raise its profile, soccer, its decision to sponsor anti-heroes such as Eric Cantona (the retiring captain of the English league champions, Manchester United) has infuriated sports bureaucrats. And for a company that has always prided itself on its ability to be hipper than its rivals, there is the problem of ubiquity: it is difficult to persuade youngsters that Nike is cool when even their grandparents now wear the firm's shoes.

In Nike's slipstream

Its current slow rivals to bag a its-shoe market, ion in wholesale such as Reebok, been waiting for biggest beneficia- m may well be they have identi- versification of omising of these d by Items Inter- nia (recently ac- "footwear mar-

Simple, which is owned by a Californian firm called Deckers Outdoor; and, especially, Vans.

Vans, which is owned by an eponymous Californian firm, has spent most of its 30-year history trapped in its local market, hampered by inflexible factory workers and unimaginative managers. However, since coming under the stewardship of a father-and-son team, Walter and Gary Schoenfeld, the company has spurred forward. On the production side, it has copied Nike, closing down one of its two Californian factories and subcontracting much of its production to South Korea, where workers can produce a wider range of designs.

On the marketing side, Vans has eschewed expensive sports stars in favour of a different role model: the Californian adolescent. This is demographically shrewd. The number of American teenagers is set to grow from 25m today to 31m in 2010, thanks to the echo of the baby boom, and



The Vans generation

their purchasing power is growing. James Palczynski, an analyst with Ladenburg, Thalmann, an investment-research firm, calculates that teenage spending power could grow from \$75 billion this year to \$77 billion in 1998, and almost all of this income is discretionary.

Vans's hunch is that the leaders of this teenage pack are no longer the inner-city kids Nike has pursued, but the Internet-

surfing latch-key-kids who dwell in southern California's suburbs. Whereas Nike is interested in established team sports such as basketball, Vans aims at individual sports—especially fast-growing "alternative" ones, such as skate-boarding, snow-boarding, surfing and mountain-biking. Within two years of entering the market for snowboard boots in 1995, Vans has become the third-largest company in the business.

Vans goes to great lengths to stay close to its customers—not least by hiring many of them to work for the company. Ideas dreamt up by in-house Generation-xers are then tried out on local youths, who are divided into "core kids" and "mainstreamers". Vans even lets various sporting heroes design not only their own signature shoes but also their own (slightly shambolic) advertisements.

This teen-friendly approach seems to work. In the nine months ending in February, Vans's sales were \$120m (against \$85.4m in the same period in the previous financial year); its net profits rose from \$2.6m to \$7.7m. As these numbers imply, Vans remains a small niche player when set alongside Nike and Reebok. But the progress of Vans, Airwalk and Simple also sends a warning to their more established peers: that the latter will abandon the leading edge of the industry at their peril. After all, an unfashionable sneaker is just another shoe—as Al Bundy will tell you.

America's television networks

The dash for the off switch

NEW YORK

The fragmentation of America's television market is forcing the three main networks into increasingly convoluted gyrations

IS THE all-American tv slob an endangered species? During the viewing season from September 1996 to May 1997, only 49% of prime-time TV viewers watched ABC, CBS or NBC, according to Nielsen Media Research, the first time the combined share of the big three networks has fallen below half. America's remaining tv addicts, according to the ratings, were tuned variously to News Corporation's Fox (which now attracts 13% of viewers: see chart), to wannabe "networks" such as UPN and WB, or to big cable channels such as TNT. But in reality more Americans are simply tuning out. On one estimate, TV is losing one in 20 prime-time viewers every year—a dash for the off switch that comes at a terrible time.

This is not yet an industry in peril. The big networks still make the bulk of TV-land's profits, although an increasing share of those spoils is ending up in the hands of each year's ratings king. And advertising

revenues are still healthy: this year Fox and the big three will rake in a combined \$6 billion in ad spending—a rise of some 4-5% over 1996. But that increase is largely due to higher rates, the traditional yearly price hikes that TV executives may soon find increasingly hard to justify. The reason? A revolution in the viewing habits of all those couch-potato Americans who pay the advertisers' bills.

The networks, for the most part, have had a miserable season. ABC, which led the prime-time ratings as recently as 1994-95, ended last season in third place, and often found itself trailing Fox in the bid to attract young viewers aged between 18 and 49. ABC, which lost about 2m viewers last season, has endured some spectacular flops: a recent, much-hyped "ABC is Pop" special on the rock group U2 attracted one of the smallest prime-time audiences ever. Despite denials by Walt Disney, which owns ABC, rumours persist that Jamie Tarses, the

33-year-old boss of ABC's entertainment unit, will lose her job before the new season is out.

CBS, which is owned by Westinghouse, is faring little better. Its ratings held steady last season, but that is small comfort: the network had already lost more viewers than the other networks combined during the previous two years. CBS's worst headache is its ageing audience—a problem that has not been helped by the network's treacly "Welcome Home" campaign, which puts cosiness before cool. For all CBS's protests that older viewers are spending more these days, advertisers prefer young audiences, and will pay for the privilege of reaching them. On average, it costs advertisers three times as much to reach viewers aged 18-34 as it costs to reach those over 50. CBS's inability to attract young viewers is the main reason why it is losing money.

Where are the viewers?

CBS is largely a victim of NBC's success with shows such as "Seinfeld", "Friends", "Frasier", "Caroline in the City" and "Suddenly Susan", each of which is aimed at younger free-spending, urbane types. NBC's list gave it seven out of the top ten shows last season, and left it awash in ad revenues. This year NBC's parent, General Electric, could make close to \$500m in operating profit from the network (ABC, by contrast, is forecast to make as little as a quarter as much as that this year.) But NBC cannot rest easy. For all its success last season, it lost viewers almost as rapidly as ABC.

Conventional TV-land wisdom has it that Fox, UPN, the WB network and the big cable channels are profiting from those lost viewers. Reality is more complex—and does not show up in any of the ratings (which track only the networks and biggest cable channels). Although Fox gained viewers last season, its long-run share of the audience is stagnant. So are the shares of UPN and the WB network, which between them are still watched by fewer than one in ten viewers at prime-time. The ten biggest cable channels, too, have seen only marginal improvements in their ratings in recent years.

So where are the networks' growing band of deserters going (leaving aside those who have given up TV altogether)? The trend behind the answer is the industry's worst nightmare: fragmentation.

More and more viewers, it seems, are surfing from cable channel to cable channel. As the number of speciality channels grows (among them Home & Garden Television, the Golf Channel and the Romance Classics network, which offers such delights as reruns of "Peyton Place"), the more fragmented the audience will become. Be-



The \$120m man

cause such channels tend to win only tiny, fleeting audiences, most will find it hard to attract enough advertising to thrive. But by sheer weight of numbers—there are already around 200 "unrated" channels—the newcomers will increasingly bite into the big networks' revenue cake.

The networks seem undecided about how to fight back. All have ventured into the cable-channel business, albeit with mixed results: when CBS

launched its new Eye on People cable channel this spring, it was available only to 2m viewers nationwide, because few cable operators were prepared to make space for it. Worse, actual audiences for the networks' cable channels—and hence their ad revenues—are minuscule: insiders claim that MSNBC, a joint venture between Microsoft and NBC, has fewer than 50,000 viewers. The networks, then, are realising that their own, unprofitable cable ventures will do little to offset the fragmentation of both audiences and advertising dollars. Indeed, they are often merely adding extra fragments.

Small wonder the networks are suddenly redoubling their efforts to win back lost viewers next season. Mostly they are doing so with the usual mix of feeble sitcoms, tired features (ABC's autumn schedule is awash with Disney) and secondhand ideas (CBS is taking over two shows from ABC next season). But for sheer uninspired desperation, ABC takes the Grammy. On June 3rd it said it would offer frequent-flier miles to viewers of specific programmes (who will have to complete a questionnaire to prove they watched). The network has also launched a campaign to boost viewing figures under the slogan "TV is good": "It's a beautiful day. What are you doing outside? Watch TV."

With the cost of shows rising fast—the next season's worth of "Seinfeld" will cost

NBC around \$120m, thanks to a pay deal for its stars that will inevitably boost the cost of rival sitcoms—the networks have also come up with a novel argument: fewer viewers should mean higher, not lower, prime-time advertising rates. Fragmentation, say network executives, means that big blocks of demographically desirable viewers, of the kind coveted by advertisers, are becoming rare. To reach such an elusive species, advertisers must pay a premium. So, although "Seinfeld" is losing viewers, an ad on the show could cost around 15% more next season, or well over \$1m a minute.

Reversing your marketing pitch is a fine piece of chutzpah. It even seems to be working: admen are stomping up the dollars for "Seinfeld". Yet, like the news that the networks' viewer share has slipped below 50%, it also marks another retreat. After all, the networks used to boast of how many viewers were glued to their programmes, not how few.

Management consulting

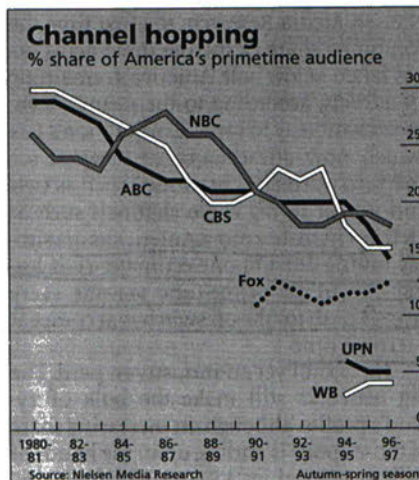
Spouse trouble

NEW YORK

FOR a couple that have recently renewed their wedding vows, the two halves of Andersen Worldwide still act suspiciously as though they were bracing themselves for a divorce. In April the firm's partners voted not to split its two main business units—the Arthur Andersen accountants and Andersen Consulting—into separate companies, and to make whatever changes are necessary to help the troubled union succeed. Now they are quarrelling over who should succeed Lawrence Weinbach, the chief executive of the combined company, who is due to retire in August.

In the first round of voting, which ended on May 30th, the partners rejected Jim Wadia, who is the managing director of the British part of the accounting unit, and whom the firm's board had nominated in preference to George Shaheen, the global boss of consulting. Although backed by a majority of partners (Arthur Andersen partners outnumber Andersen Consulting partners by around 1,600 to 1,000), Mr Wadia was unable to muster the two-thirds of the votes he needed to succeed. So the board will now put forward Mr Shaheen as the only other name on the nominating committee's slate. If he cannot win over a substantial number of Arthur Andersen partners, the accountants and consultants may soon need to call in the lawyers.

Much of the fight is about money. Since Andersen Consulting was spun off as a separate business unit in 1989, its turnover has grown faster than that of Arthur Andersen. Last year it surpassed its sibling for the first



THE AMERICAS

THE PRESIDENT HAS SEEN

6-10-97

Democracy, Haiti-style

PORT-AU-PRINCE

TWO and a half years after democratic rule and the elected President Jean-Bertrand Aristide were restored to Haiti in troops, the bloom is 5% of the electorate in early April in the elections. The run was postponed until tians seemed to care, surprised. have been blamed on days earlier, teachers paid for 14 months spiring student dem-w quickly into two ioting which in turn al strike. Instead, the anned on "irregularities" in the April poll. The real reason, many Haitians believe, may be murkier: that René Préval, president since early last year, and his prime minister, Rony Smarth, found postponement convenient. For the first-round voting had favoured the Fanmi Lavalas ("avalanche

family"), the breakaway movement led by Mr Aristide, and Mr Préval may have felt time was needed to get things better organised for the second round.

The Americans had to push Mr Aristide, a former priest, into giving up the presidency in 1995—as the constitution dictated. Since then, the luxury of not governing has allowed him, like much of the population, to decide that the privatisations and government cuts that he himself had set in motion are a bad thing. But Mr Préval has to carry on with these policies or watch the foreign aid that makes up 70% of the budget be held up by IMF and World Bank rules.

Mr Aristide may merely be looking ahead: no Haitian doubts that he will run again for the presidency in 2000. But he says he has changed his tune because he realises the Haitian people cannot suffer any more. There he is right. The economy has yet to recover from the embargo imposed after he was deposed in 1991, and only lifted on his return in late 1994.

Hunger is no novelty in Haiti: a bad person—a corrupt politician or exploitative merchant—is a *gran manje*, a big eater; a good person a *ti (petit) manje*. But rising prices and drought have recently taken hunger to the edge of famine. In comfortably prosperous Pétionville, the building business is booming and there are more Land Cruisers and BMWs than ever. Down in the crumbling capital of Port-au-Prince and in the countryside, people are said to be eating dogs.

The postponed voting and economic woes may have a silver lining: the United Nations peacekeepers seem likely to see their mandate extended yet again. Until recently, both China and Russia were threatening to use their Security Council vetoes to make sure the 1,350 Canadian and Pakistani troops really did leave when the present mandate expires on July 31st. But instability and the slow training of the police force supposed to replace them now suggest an extension. Certainly, that would suit Bill Clinton: as a foreign-policy success story, Haiti is tarnished these days. But at least there is no fresh tide of boat-people washing up on the beaches of Florida.

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The Nation

76

An Answer to Life's
Little Hypocrisies

By LINDA GREENHOUSE

WASHINGTON

IF the sudden frenzy here over adultery in the military has a familiar ring to it, no wonder: the most directly relevant analogy is not Hester Prynne's New England but Zoë Baird's Washington.

Military officers have been having sex for years with consenting adults to whom they were not married, without forfeiting either their careers or their public standing. Witness Dwight D. Eisenhower, whose well-known extramarital involvement with a woman in his chain of command cost him neither the command nor the Presidency. Now, a more limited indiscretion, revealed in the immediate aftermath of the Air Force's bungled handling of an adultery case against a female bomber pilot, will likely cost an Air Force general the chance to become chairman of the Joint Chiefs of Staff.

Gen. Joseph W. Ralston is only the latest public figure to be set adrift on a suddenly turning tide. Before President Clinton made Zoë Baird his first choice to be Attorney General, countless nominees for high political office skirted through confirmation hearings without their child care arrangements attracting so much as a passing thought, although surely more than a few of them had not bothered to check their babysitters' or cleaning ladies' immigration status.

Ms. Baird's disclosure that her household help lacked green cards — a completely unremarkable fact among two-income professional couples — coincided with a sudden public clamor over illegal aliens and a lingering distrust of women who don't take care of their own children all day long. The uproar did more than cost one distinguished lawyer a good job. Many others, principally although not exclusively women, found themselves disabled from seeking Government jobs. The effect still lingers, particularly in southern California, where undocumented Mexican workers are almost universally employed in upper-middle-class homes and where female lawyers to this day say they cannot con-

sider seeking Federal judgeships.

The paroxysms of sanctimony that sweep over Washington with apparent randomness are actually as predictable as tidal waves that hit tropical coasts in hurricane season. It may not be clear where they will strike, but someone, somewhere, is going to get swamped. Ask Douglas H. Ginsburg, a Federal appeals court judge whose 1987 Supreme Court nomination failed after the disclosure that he had smoked marijuana years earlier.

Before the next tidal wave carries yet another subset of the battered postwar generation out to sea, a country searching for leadership for the much-vaunted 21st century might consider a modest proposal: a social amnesty. The curtain would be pulled down over minor transgressions of the past, and an open public debate could help decide which future misdeeds should bar the offending parties from participating in public life.

Pious Scorekeeping

The idea is not as far-fetched as it might sound. In 1977, President Carter declared an amnesty for young men who had left the country to avoid military service in Vietnam — a public act of generosity that is hard to imagine in the current climate of pious score-keeping, but which helped the country's healing process after a corrosive war. And 36 states have recently offered tax amnesties, limited periods during which delinquent taxpayers can pay what they owe and avoid fines and criminal penalties. New Jersey's 90-day amnesty last year netted \$339 million, four times what the state had expected. People paid their debts and got on with their lives.

The public has never had a chance to debate the costs and benefits of the military's approach to extramarital sex. There may well be reasons for holding military officers, on pain of criminal punishment, to higher standards of behavior than the rest of society. Or the price in hypocrisy and inconsistent enforcement may no longer be worth the theory. Should love affairs within a military unit be treated differently from dalliances between a military officer and a civilian? Let the amnesty and the debate begin.



Nancy Carpenter

Labor's Lost Love

Turning the Tables on the Generals

By Lucian K. Truscott 4th

LOS ANGELES

Nothing has exposed the yawning generation gap in today's military better than Defense Secretary's William Cohen's pardon of Gen. Joseph Ralston for his adulterous affair with a civilian woman 13 years ago.

In the history of the military since Congress adopted the Uniform Code of Military Justice in 1951, how many

Lucian K. Truscott 4th, a West Point graduate, is author of several novels about the Army, including the recently published "Heart of War."

general officers do you think have been prosecuted for adultery? Zero. In the last year alone, how many younger soldiers of lower rank have been prosecuted for adultery? One hundred and sixty-three.

If you check out military bulletin boards on the Internet, you can hear the grumbling in the ranks among lower-ranking men and women with mud on their boots and grease on their hands: The hair splitting and backing and filling that has been used to excuse General Ralston's lapse is not lost on them. What they hear Mr. Cohen saying is that rank is a vacation from the rule of law.

The Defense Secretary's decision flies in the face of the ancient military dictum that while rank may have its privileges, it has even greater responsibilities. A good argument

Military's war on adultery widens a generation gap.

could be made that senior officers, especially generals and admirals, should be held to a higher and tougher moral standard. But don't expect that argument to win many converts among senior officers anytime soon.

Instead, senior generals in the Pentagon are said to be in a panic over whose adultery will be exposed next. There's a generational issue here. Armies do not usually render to

junior soldiers the kind of power they now have with the sexual complaint hot line set up after the scandals at the Army's Aberdeen Proving Ground.

Anyone in the service, even the lowliest private, can now pick up the phone and whisper, "I saw General So-and-So going into a hotel room down at the Dallas Airport Hilton during that convention last month, and the young woman he was with was definitely not his wife." Anonymous tipsters have stripped away the traditional protections of rank.

There is a profound generational split between young officers who have gone to school, trained and served with women in their units right from the start of their careers, and the senior generals and admirals, for whom the presence of women in uniform is an affront. This divide was forced upon the older officers midstream in their careers when Congress allowed women into the armed services in 1978.

The split was brought into sharp relief recently when West Point appointed a female lieutenant colonel who is not an alumna to be Master of the Sword — the head of the Office of Physical Education, which is one of the academy's most powerful staff positions.

Cries of outrage went up, mostly from older, higher-ranking graduates: Academy officials couldn't find a qualified male graduate for the job? Are they now going to call it Mistress of the Sword? But to younger graduates, the appointment was no big deal.

When I was a plebe at West Point, the upperclassmen called anyone who dropped out of a reveille run or a training exercise a "girl" (or worse). That sort of denigration doesn't work anymore at West Point or elsewhere in the Army, where the presence of "girls" in the ranks has removed the pejorative connotation of the word.

But at the highest level of the military, it's still the old boys' club that is in command. And the rank-driven double standard exemplified by General Ralston will likely remain in one form or another until the club's members retire and are replaced by the younger men and women who are its victims.

At least for now, though, the old boys who occupy those spacious, sun-filled offices overlooking the Potomac have been reminded that they occupy perhaps the biggest glass house there is. Just watch: In the very near future, there'll be a lot less stone-throwing from the Pentagon.

Appétit

comfortable

French don't have this problem. They are good at finding paradox.

It comes from a form of rather elegant Romanism, which allows them to confess, continue, and pay attention to the rules of the game. For example, for exam-

les seem to be busily notions of clarity and order.

Beyond, or in religion, they have the idea that should be. Everyone

has five or six of vacation. It's a week and a half and child's mothers have a moment for people (and those who should be) despite the people at age 50 or 55.

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THE PRESIDENT HAS SEEN Overlooked 'Boat People' Due in U.S.

Ex-Green Beret Troops Left Behind in '75

A1 By Keith B. Richburg
Washington Post Foreign Service

HONG KONG, June 8—They served valiantly during America's long war in Vietnam, performing some of the most dangerous intelligence-gathering and reconnaissance missions. When the war ended, they were inexplicably left behind. And for the last five to seven years, they have languished here in refugee "detention centers"—prisons, really—because few believed their tale.

But the long wait now appears over for 31 Vietnamese, most of them ethnic Nung, who formerly served in the U.S. Special Forces. The Clinton administration now agrees that the Nung and their families—about 177 people in all—can be resettled in the United States.

U.S. officials here in Hong Kong have completed interviewing about 20 of the former Special Forces fighters and have approved their applications, and a senior official involved with the screening said the rest are likely to be cleared within a week.

"When I looked at their record, every one of these guys is authentic," the official said. "It's really tragic that they have gone through this five to

See REFUGEES, A16, Col. 4

REFUGEES, From A1

seven years, sitting in a detention camp."

The story of how it took so long for the former soldiers to be discovered here and allowed access to the United States is a case study of a bureaucratic foul-up, refugee workers and U.S. officials say. They add that the Hong Kong government seems more interested in emptying its refugee camps before July 1—the date China is to take control—than in listening to the claims of refugees that they might face persecution if sent home. The case also raises the question of whether others among the tens of thousands of refugees already sent back to Vietnam might have also been eligible for resettlement in the United States.

"We believe there were people who were sent back who should have been recognized as refugees," said Wanyong Austin, a lawyer with Refugee Concern, an advocacy and legal aid group that first publicized the case of the 31 Vietnamese. Thirty are men and one is a Nung woman who also fought and who is married to one of the men.

In addition to Austin's efforts—including taking the case to local courts to block the Nung from being deported—the Vietnamese were helped by the Special Forces Association in the United States, whose members posted the Nung fighters' names and photographs on the Internet and gathered affidavits from American colleagues during the war for verification. The lobbying campaign was also said to involve letters written directly to President Clinton, who intervened.

The Nung, originally from China's Guangxi province bordering Vietnam, first were recruited by the French, who formed several all-Nung units to fight Ho Chi Minh's communist guerrillas during the first Indochina War. When the communist government took power in Hanoi following the French defeat at Dien Bien Phu, the Nung fighters—who had already established a reputation for bravery and loyalty—moved south, settling around Binh Thuan province, where they formed the special 3rd Field Division, or the "Nung Division," of the South Vietnamese army.

In 1964, American Green Beret troops in Vietnam formed several all-Nung units, recruiting many sons of the earlier Nung who had fought for the French and served in the 3rd Division. Many of the Nung were only teenagers—at least one was just 16—when recruited as U.S. Special Forces fighters.

"Some of these guys were involved in some of the most dangerous special missions that were performed during the war, and they performed with great valor," said a U.S. official familiar with the cases. Nung units were used for long-range reconnaissance patrols, particularly in Laos. After American ground troops withdrew from the war in 1973, many of the Nung joined the South Vietnamese army, and some were used to guard sensitive U.S. facilities, including military and intelligence installations, the official said.

When Saigon fell in April 1975, and the United States launched a massive helicopter evacuation, many of the Nung thought they, too, would be evacuated from the city. But they were left behind. A U.S. official quoted one of the Nung as saying he had been told to guard a Defense Department intelligence facility to secure it for the evacuation of Americans, and that a helicopter would return for him.

"The Americans got on the helicopter and that was the last helicopter he ever saw," the U.S. official said. "He knows it was not deliberate—it was very hectic that day."

After the war, the Nung tried to conceal their past association with the Special Forces. "When the communists took over, they knew they were in deep trouble," the U.S. official said. "They were the second generation with a history of opposing the communists." Austin and others said the fact that the Nung hid their American service record for so many years after the war later made it difficult to prove their cases when they arrived here as refugees.

By the time the Nung came as "boat people," mostly in 1990 and 1991, Hong Kong's overcrowded camps were teeming with more than 60,000 Vietnamese, and residents were complaining that the influx had become a financial and social burden on this overcrowded territory.

Following an agreement in Geneva in 1988 among the Hong Kong government, the U.N. refugee agency and Western resettlement countries, all of these people became subject to a screening interview to determine if they were genuine refugees—with a real fear of political persecution if sent back to Vietnam—or economic migrants, seeking to improve their livelihood. Only those deemed legitimate refugees were qualified to be resettled abroad, and the rest were to be sent back to Vietnam, either voluntarily or, if they refused to go, by force.

The Nung came with some documentation to prove their former status as U.S. Special Forces fighters—but the evidence was spotty, like old photographs of ex-commanders, or photocopies of past identity cards, and local interviewers were attuned to fraudulent papers rampant in the camps.

Also, some of their stories seemed incongruous—like the young man claiming to have conducted dangerous long-range reconnaissance patrols for the U.S. Army when he was just 16. "They came with a minimum of documentation, and [saying] things that looked inconsistent with the real world," a U.S. official said.

The 31 Nung were all "screened out," and slated to be shipped back to Vietnam. But Austin's group intervened and went to court to block their deportation, arguing that the Nung would be persecuted if sent back because of their past involvement with the Special Forces.

Meanwhile, the association of Green Beret veterans began the Internet hunt for anyone who could verify a Nung's service. Former American servicemen sent in affidavits verifying the identities of all but four of the Nung in Hong Kong.

A U.S. official came armed with a history and photo book on the Special Forces, so he could test further the men claiming to have served. In the end, he said, interviewing and tests hardly seemed necessary. The officials said he could watch the former fighters beam with pride as they spotted photographs of old uniforms in the book, or recognized service insignia.

"You can see it in their eyes," the official said. "These are guys who looked death in the eye and spit it."

While their ordeal as refugees is ending, the 177 Vietnamese face a possibly even more difficult job adjusting to a new life in the United States. They speak no English—even their Vietnamese carries the thick accent of their northern tribe—and some are illiterate. Their years in postwar Vietnam, eluding authorities, and then detention in Hong Kong, have left them with little preparation for civilian jobs.

"These guys are going to need a lot of care and feeding," a U.S. official said. "I think they understand that while they are taking a step out of a horrible situation, they've got some hard challenges ahead."

The Washington Post

MONDAY, JUNE 9, 1997

THE PRESIDENT HAS SEEN

6-10-97

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By Ann Gerhart and Annie Groer

Activist Calls AIDS Treatment 'Worse Than the Disease'

AIDS activist Mary Fisher—self-described "girl next door, blond Republican, the woman who produces encouraging photographs and delivers inspirational speeches"—is so ill from the drugs she's taking to fight HIV that she's "struggling to care about whether she lives or dies."

This is what Fisher wrote in an emotional letter to Wayne State University medical school graduates, in lieu of the commencement speech she was scheduled to give. It was read by her dear friend Debbie Dingell on Thursday because she was too ill to go to Detroit.

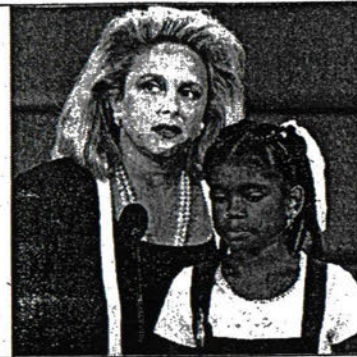
She's not really suicidal, she told The Source over the weekend, and won't willingly orphan sons Max,

9, and Zack, 7, who are HIV-negative.

"I just didn't know I'd feel this bad," she said. "I'm tired, I can't sleep. I've lost my energy. The treatment is worse than the disease."

Recently Fisher, 49, who last year moved from Bethesda to Nyack, N.Y., has been taking protease inhibitors to fight the HIV she contracted in 1991 from her ex-husband. He died in 1993.

"There is a little melancholy," she said of her current emotional state. And a lot of rage. She aimed some of it at the medical profession in the commencement letter: "I do not need another physician who is clinically precise and emotionally



FILE PHOTO BY GARY HERSHORN—REUTERS

detached; whose concern for my well-being is exceeded by her concern for my insurance; whose primary purpose in life is to secure enough money to perfect his long putts and slippery chip shots."

Fisher ripped doctors who won't treat AIDS patients for fear of hurting their practices, and decried the slow pace of AIDS research for women. A Detroit heiress who worked in President Ford's White House, Fisher was

diagnosed with HIV in 1991. A year later she gave a spellbinding Republican National Convention speech about the need for compassion for those with AIDS.

No longer so upbeat, Fisher hopes her angry letter "gets people talking."

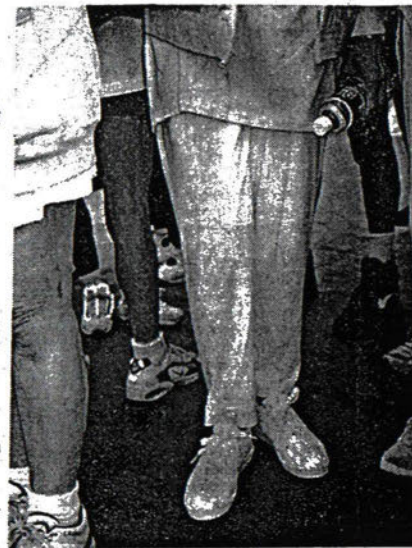
Sneakers Get A Bad Wrap

The letter to Supreme Court Justice Sandra Day O'Connor from Tretorn of North America's marketing manager was awash in apologies.

During 30 years in the United States, this is the first time a Tretorn product "has been linked with a potential act of terrorism.... We're as wholesome as apple pie. Never have we been associated with menacing connotations," a mortified Mary Puricelli wrote.

Ten days ago Tretorn shipped O'Connor a boxed pair of sneakers in black plastic wrap that arrived label-side-down on her front porch. Her security folks took no chances and, within minutes, five O'Connor neighbors were ordered from their Chevy Chase homes and the street was roped off while an FBI terrorism task force, a Maryland state bomb squad and Montgomery County fire and rescue crews solved the mystery.

On Saturday, O'Connor wore "my \$30,000, museum-quality tennis shoes" to the Race for the Cure, a breast cancer research fund-raiser. (She had a mastectomy in 1988 and has taken part in the race for years.)



BY ANNIE GROER—THE WASHINGTON POST

Are those sneaks loaded? The Tretorn-shod O'Connor.

Why \$30,000? "I figure that's what it cost to respond," she told The Source.

Tretorn's Puricelli urged O'Connor to call her directly next time so the company can "provide proper arrangements for safe delivery."

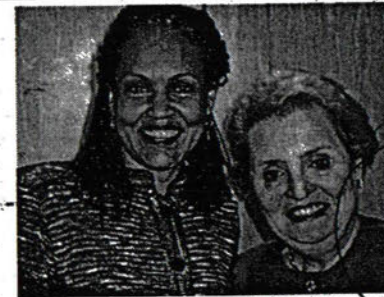
How nice to have a personal shopper, er, shipper.

NOW YOU KNOW...

Two dozen friends of Charlayne Hunter-Gault, who is leaving the PBS "NewsHour With Jim Lehrer" to move to South Africa, held a farewell ladies' lunch at La Colline on Capitol Hill Friday.

At the lunch, hosted by CNN's Judy Woodruff, the group discussed such weighty topics as Africa in the 21st century and women heads of state before moving on to the even weightier topics of shopping, men and hair.

"Going to a lunch like that with friends where you can laugh and talk about very serious things and relationships, I think is the best support system a woman can have," said Secretary of State Madeleine



BY ANNIE GROER—THE WASHINGTON POST

Support group: Hunter-Gault, left, and Albright.

Albright. "No matter what job you have, you need that kind of support."

Independent counsel Donald Smaltz has won a few and lost a few in his probe of whether former agriculture secretary Mike Egan took gifts from companies regulated by his agency.

Not surprisingly, Smaltz has made a few enemies along the way. Two unnamed former staffers allege that he was in the habit of "regularly asking employees to watch his home while it was being cleaned," reports Time magazine today.

A Smaltz spokesman said the allegations are "without merit."

The Washington Post

MONDAY, JUNE 9, 1997

THE PRESIDENT HAS SEEN
6-10-97

THE PRESIDENT HAS SEEN

6-10-97

Editorial Notebook

Rocky Mountain Summitry

When the leaders of the world's wealthiest industrial democracies met for their annual economic summit meetings in the 1980's, they heard sermons from President Ronald Reagan and Prime Minister Margaret Thatcher about the magic of the free marketplace. Now, in an odd turnabout, this month's meeting in Denver will likely revolve once again around the American and British leaders, but with a different story to tell. Their counterparts will be listening intently.

Almost alone among the summit members, Bill Clinton and Tony Blair will come to Denver with healthy economies, low unemployment rates and a centrist political doctrine recently endorsed by voters. Unlike their fellow leaders in Europe and Japan, they have fashioned a formula for curbing government spending while promoting economic growth and preserving some remnants of a safety net. Their success may prove chimerical, especially since Mr. Blair has barely started governing. But for now, it is the envy of the other leaders.

Though conditions in France, Germany, Canada, Japan and Italy are not precisely parallel to those in Britain and the United States, all of them face a fundamental problem of controlling costly social welfare programs that their citizens are reluctant to give up or even see diminished. The recent elections in France and Canada spelled trouble for anyone advocating more austerity at a time of high unemployment, even though the Canadian Prime Minister, Jean Chrétien, squeaked through with a victory. The conservatives led by President Jacques Chirac in France were defeated, and now Mr. Chirac must govern with a Socialist Prime Minister, Lionel Jospin. Chancellor Helmut Kohl of Germany could encounter similar resistance in elections next year.

Voters in all the major industrial democracies — as well as Russia, which will be represented in Denver by Boris Yeltsin — are ambivalent about what needs to be

Western Leaders Look To Clinton and Blair

done to breathe life into their economies. Throughout the 1980's, the Europeans and the Japanese lectured Mr. Reagan about the virtues of a balanced budget. Now

that Mr. Clinton has worked with a Republican Congress to bring the budget into line, France and Germany are struggling hard to live up to what they used to preach. Like other members of the European Union, they set reduced budget deficits as a requirement for participation in a common European currency, which they hope will help secure long-term prosperity.

Under Prime Minister Ryutaro Hashimoto, Japan too is facing the need to undo some of its social safety net in order to compete in the global economy (in Japan's case, without relying too heavily on exports that simply anger its trade partners). But the unstated concern among many economists is that social programs like pensions, health benefits, unemployment insurance and job guarantees are at the heart of what has kept Japan and Germany stable and prosperous for a half-century.

It is easy to deride Mr. Clinton and Mr. Blair as Tory Democrats, but they have found an idiom with which to argue that government spending restraints and deregulation are necessary and to make it look humane on the margins. Any innately liberal impulses for Mr. Clinton, of course, are kept in check by a Republican Congress.

But the political formula perfected by Mr. Clinton and Mr. Blair has one thing in common with that of Mr. Reagan and Mrs. Thatcher, namely its sense of optimism. Both leaders articulate a vision of prosperity that can be reached if the right steps are taken today. Where they depart from their conservative predecessors is in insisting that sacrifice be shared and that government invest in research and education to prepare for the global economy. Europe and Japan will probably have to find their own versions of these qualities of leadership if they are to overcome their economic malaise.

STEVEN R. WEISMAN

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The New York Times

MONDAY, JUNE 9, 1997

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This is really good

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Bogus Facts About the Budget

In a town where the goal posts move quicker than anyone can kick the ball, the favorite new game is to find what is lacking—or "flawed"—in a budget agreement that completes the task of bringing the deficit from \$290 billion in 1992 to zero in 2002. The commentary is provocative, mostly well-intentioned, but all too often built on myths that—simply put—just ain't so.

Myth No. 1: The minimalist budget.

The success of the president's 1993 economic plan has cut the deficit from \$290 billion in 1992 to an expected \$57 billion this year. While 77 percent of the work has been done, this agreement adds \$900 billion in net deficit reduction over 10 years. Even by Washington standards, that's a lot of money.

On entitlements, some have criticized the plan without acknowledging its long-term savings or structural reforms. The entitlement savings—more than \$400 billion over 10 years—represent an effort to modernize Medicare and protect the trust fund for at least a decade. More important, the plan makes structural changes to prepare Medicare for the 21st century. It provides more choice and competition, revamps payment systems in the fastest growing components of Medicare to constrain costs and creates incentives for managed care, while extending coverage to preventive measures like screening for breast and colon cancer.

Myth No. 2: A budget built on a windfall.

Another myth is that the agreement was cemented by spending an extra \$225 billion that the Congressional Budget Office (CBO) found at the last minute. That is not the case. About 80 percent of the \$225 billion already had been assumed in the agreement or was used to reduce the deficit.

The real issue is not what CBO changed, but whether the final assumptions are conservative. They are. First, look at our record on projections. For the last five years, growth has been higher and the deficit lower—an average of \$50 billion lower—than we projected. Second, look at the numbers. The assumption of 2.2 percent real growth over the next five years is lower than the blue chip private-sector consensus, and well below the 2.9 percent average since the president took office. We use conservative assumptions to reflect average growth over the normal ups and downs in the economy. And this projection is actually lower than the average growth rate since 1973—through several business cycles.

Myth No. 3: It's 1981 all over again.

The 1981 tax cut had a devastating impact on the nation's fiscal health. Critics have said that this agreement repeats that error. Not even close. While the tax cut in the agreement amounts to \$250 billion over 10 years, the 1981 tax cut cost the Treasury \$2.1 trillion over a similar time period. Adjusted for inflation, this tax cut is less than 10 percent of the 1981 tax cut. What's more, this tax cut is paid for, and Sen. Trent Lott (R-Miss.) and House Speaker Newt Gingrich (R-Ga.) have committed to the president that it will not explode beyond the 10th year.

Myth No. 4: The deficit is balanced only for a nanosecond.

Another myth is that the budget achieves balance for an instant, then immediately returns to deficit. That's plain wrong. The budget agreement achieves balance in 2002 and then goes into a surplus of \$5 billion in 2003 that grows to \$34 billion in 2007. Now that we have balanced the budget, we must tackle the generational imbalance we face—particularly in the areas of long-term Medicare and Social Security reform. This agreement, however, is a crucial step to prepare for the retirement of the baby-boom generation.

Myth No. 5: We could have supported Hatch-Kennedy without breaking our word.

The crux of any bipartisan deal is the commitment of both sides to honor their word. President Clinton insisted that this agreement include \$16 billion to expand health coverage for up to 5 million uninsured children. We are proud of that commitment. It is no secret that we support the goals of the Hatch-Kennedy bill. But we are insisting that Republicans hold to their part of the bargain on education, tax cuts, legal immigrant and Medicaid. How could we make that demand if we had backed-off a vital component the first time a proposal came along that we liked?

Myth No. 6: Gridlock is better than budget agreement.

Implicit in many of the critiques is an assumption that the status quo would have been preferable. Conservatives have criticized Republicans for accepting most of the president's request for investments in our future, while others rebuke the administration for accepting a deal that would allow a capital gains tax cut. Those who argue for a budget with no tax cuts or harsh domestic cuts are setting standards that would have made a bipartisan agreement impossible. Do the critics believe that holding out for the purest position and certain gridlock is preferable to an agreement that puts the deficit on a path to zero while investing more in education, the environment and children's health?

That view is wrongheaded. Top financial experts, including Alan Greenspan and Paul Volcker, have specifically credited the 1993 plan's deficit reduction with leading to lower interest rates, higher private sector investment and a stronger economy. Linedrawing by either side would have created the specter of gridlock, dampening confidence, raising interest rates and weakening a remarkable expansion. We chose a better path: leaving our differences to be resolved outside this agreement and sacrificing our sense of the perfect to accomplish the common good of a balanced budget. That plan will strengthen Medicare, invest \$16 billion in health care for poor children, protect the environment, provide the largest increasing in education funding in a generation and make our nation's fiscal health the envy of the world. That can't be all bad.

The writers are, respectively, head of the president's National Economic Council and director of the Office of Management and Budget.

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The Washington Post

MONDAY, JUNE 9, 1997

CBS - We and DMC ought to
get this out around the country
It's very good

THE WHITE HOUSE
WASHINGTON

June 7, 1997

'97 JUN 7 PM12:09

RECOMMENDED TELEPHONE CALLS

TO:

Senate Finance Committee Democrats:

Senator Daniel Patrick Moynihan (NY)
 Senator Max Baucus (MT)
 Senator Jay Rockefeller (WV)
 Senator John Breaux (LA)
 Senator Kent Conrad (ND)
 Senator Bob Graham (FL)
 Senator Carol Moseley-Braun (IL)
 Senator Richard Bryan (NV)
 Senator Bob Kerrey (NE)

DATE:

Before Monday, June 9, 1997

RECOMMENDED BY:

John Hilley *John Hilley*
 Barbara Chow *Barbara Chow*

PURPOSE:

To discuss the tax mark-up and shore up support for education tax credit.

BACKGROUND:

The Senate Finance Committee plans to markup its Reconciliation tax bill during the week of June 16. Chairman Roth has already begun consultations with his colleagues and may reveal a proposal late in the week. Unlike the House, Roth has indicated that he plans to engage in a genuinely bipartisan process that balances the interests of committee members. The main components are likely to include:

- Child credit similar to S. 2
- Significant IRA proposal (a long-standing interest of the Chairman's)
- Major broad based capital gains cut (will probably not include indexing)
- Large estate tax
- Higher Education tax component (no \$10,000 deduction)
- Host of provisions of interest to specific members

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Senate Finance Committee Democrats are split on the issue of whether to propose a broad Democratic substitute and will not likely decide on a course of action until after they have reviewed the Chairman's mark. Regardless of the broader strategy, you should be aware that there continues to be almost no support for the Administration's education initiatives even with the modifications announced last week. We are, however, receiving strong support from higher education groups. ACE (umbrella group), NAICU (private colleges), AACC (community colleges), and AAU (research universities) signed a letter praising the Administration's changes and endorsing the HOPE Scholarship, a tuition tax deduction to promote lifelong learning, Section 127 extension, restoration of the student loan interest deduction, a college savings incentive, and elimination of the cap on private institution tax-exempt bonds (Administration does not support). The state colleges organizations have not signed on yet.

Instead, preliminary discussions with Senate Finance Committee Democrats suggest that they intend to support an education package that is likely to look quite different from the HOPE scholarship and education tax deductions we have proposed. It will likely include: permanent Section 127, student interest loan deductibility, school construction tax incentives, tax proposals relating to prepaid tuition plans, and an increase in the education bond cap. This package sums to roughly \$10-\$15 billion with the leftover \$20-\$25 billion allocated for a HOPE-like tuition tax credit and whatever else can be negotiated with the Republicans. There is virtually no support for the \$10,000 higher education tax deduction. At this point, the Democrats seem intent upon including their education ideas within the \$35 billion education set aside, because they believe their proposals would not otherwise be funded. However, this tactic will displace key elements of the Administration's proposals.

Your telephone calls, which Secretary Rubin strongly endorses, are critical to develop support for your education tax initiatives and to reverse course on the Democrats' apparent education strategy described above.

The interests of specific members are as follows. (Although the purpose of the call is to discuss tax provisions, members may also raise health care concerns.)

- **Moynihan:** Two major concerns: 1) Permanent extension of Sec. 127, employer provided education assistance. Costs \$3.7 billion over five years. 2) Raise bond cap on education

bonds. May also wish to discuss academic health center carve-out. You should indicate that this is also a priority for you in the House and Senate and it looks like we will succeed in the House Commerce Committee next week. Senator Moynihan will also want to ensure that New York is not disproportionately affected by Medicaid cuts. He may also wish to discuss plans to redevelop Pennsylvania Avenue. You should thank him for his leadership and continued support on this issue and indicate that you look forward to working with him to get a plan for the Avenue through Congress.

- **Baucus:** Tax incentives for Internet hookups for educational institutions (no revenue estimate). Indicated "a lot of trouble" with \$10,000 education deduction. Interested in significant capital gains cut.
- **Rockefeller:** Has indicated to Secretary Riley that he is willing to be a key ally on the Administration's education tax proposals. In return, he is very interested in your support of his children's health proposal which relies entirely on Medicaid. As you know, the Administration's proposal uses a combination of Medicaid expansions and a new mandatory grant program to achieve the goal of insuring 5 million children. On Friday, Secretary Shalala and Chris Jennings met with him to convey Administration views. They agreed to work with him in emphasizing a Medicaid approach through the Finance Committee. John Hilley has also communicated this separately to Senator Rockefeller. The House is likely to adopt a grant approach. We are hoping for a compromise in conference that parallels the Administration's approach which combines both programs. Administration representatives also made a commitment to provide technical assistance and fulfilled this, by meeting immediately afterward with Rockefeller's staff. Rockefeller is also concerned that the House will reopen the coal miner pension provisions designed to provide benefits to coal miners whose companies have gone out of business or abandoned their commitment to their pension programs. You should indicate strong support for protection of the coal miner provisions.
- **Breaux:** Strong interest in his Kidsave proposal. Would transform child tax credit into a long-term retirement savings account, similar to an IRA. However, would allow children to take a long-term loan against one-half of their

accumulated balance for higher education. Provides a limited \$1,500 education credit but sunsets this after Kidsave generates sufficient funding to pay for education. Breaux proposal contains no education deduction. Original proposal cost \$50-\$60 billion. The Administration has suggested that the Kidsave credit be refundable and broadened the use of the account for children's education and parents retirement. Administration proposal costs \$78 billion (combines child credit/Kidsave).

- **Graham:** Two priorities: 1) School construction (creating an allocable credit to assist in financing the construction, rebuilding, repairing of schools). No revenue estimate but Graham has expressed interest in a proposal in the \$5 billion range. Treasury is working with him. 2) Also interested in tax proposals relating to prepaid tuition deduction similar to Florida plan. Provides tax free withdrawals from prepaid tuition plans. (\$600 million over 5 years). Graham is very interested in Governor Chiles kid's health plan which involves expanding health coverage of uninsured children through schools. The Administration is currently providing options for incentives to move in this direction.
- **Moseley-Braun:** Highest priority is school construction (working with Senator Graham and Treasury). Second highest priority is student interest loan deductibility (\$1.8 billion). Would reinstate interest deduction for student loans which was phased out in the 1986 tax act.
- **Bryan:** Expressed skepticism about the Administration's education tax proposals but support for education. Has not yet indicated interest in a specific tax area.
- **Kerrey:** Strong supporter (with Breaux) of Kidsave. Believes in linking education, savings, and child credit. Likes Kidsave retirement provision because he believes future generations will receive only limited benefits from Social Security. Currently engaged in heated dispute with Secretary Rubin over findings from his IRS commission which has called for an independent board to oversee IRS operational functions.

TALKING POINTS:

1) My top priorities in the tax bill are to preserve the \$35 billion set aside in the budget agreement for the HOPE scholarship and the education tax deduction and to ensure that the costs do not explode in the outyears. Our education initiatives are designed to provide a tax break at a time when they are critically needed. The HOPE scholarship is designed to make grades 13 and 14 universally available. In response to concerns that many of you have made, we have redesigned the credit to make it more progressive and workable by dropping the B minus average and the Pell grant offset. The education tax deduction provides essential tax relief to middle income families. Together, these initiatives are good policy and enjoy widespread support.

2) However, while I am very committed to the \$35 billion education set-aside, it doesn't mean we can't work together on other tax proposals in the context of the larger Reconciliation bill. I am very interested in your ideas. It is essential that we remain united, to develop a tax bill that is good for the country, incorporates our mutual interests and can be enacted.

**CONTACT PERSON AND
TELEPHONE NUMBER(S):**

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Senator Max Baucus
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Staff Contact: David Castagnetti (H) 301-320-6495

Senator Jay Rockefeller
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Staff Contact: Lane Bailey (H) 703-250-6631

Senator John Breaux
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Senator Kent Conrad
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Senator Bob Kerrey

(DC Home) 202-737-6450 (NE Home) 402-558-7523

Staff Contact: Mary Sherman (H) 202-544-1724

DATE OF SUBMISSION: June 7, 1997

ACTION:

6-10-97
THE PRESIDENT HAS SEEN
37 JUN 6 PM 7:03
THE WHITE HOUSE
WASHINGTON

June 5, 1997

RECOMMENDED TELEPHONE CALL

TO: Senator Moynihan (D-NY)

DATE: Before Monday, June 9, 1997

RECOMMENDED BY: John Hilley *John Hilley*

PURPOSE: To thank Senator Moynihan for his continued support on Pennsylvania Avenue closure and redevelopment and to thank him for hosting a discussion on the tax bill.

BACKGROUND: Senator Moynihan sent you a letter in May 1995 regarding the design for the "President's Park". He has long been an advocate for the redevelopment of Pennsylvania Avenue and has recommended that Roger Kennedy lead our design efforts. See attachments I and II. He has raised this issue on a number of occasions and discussed it again on Wednesday with Bob Rubin.

Senator Moynihan also held a discussion on Wednesday with Senate Finance Democrats on the tax bill. Bob Rubin and John Hilley attended. You have invited the Bipartisan Finance Committee Members and Senator Daschle and Senator Lott to meet with you on Tuesday, June 10, at the White House.

TALKING POINTS:

- * // Thank you for your leadership and continued support for the redevelopment of Pennsylvania Avenue. I am going to talk to Bob Rubin about getting a plan for the Avenue through Congress. Your suggestion that Roger Kennedy help lead our design efforts carries great weight with me.
- I want to also thank you for hosting a discussion of the tax bill yesterday with the Senate Finance Democrats.
- // We announced some changes Tuesday on our education package which responded to you concerns. I understand Bob Rubin briefed you on those changes, such as making employee education assistance permanent.

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Hilley
COS

- I hope we can work together in the coming days to achieve a good education tax package. I hope you'll look carefully at my ideas for the Hope Scholarship credit and tuition deduction.
- The two important aspects of the tax issues are education and not letting this harm our deficit reduction.

CONTACT PERSON AND

TELEPHONE NUMBER(S): Senator Moynihan

(O) 202-228-1931

(H) 202-628-1115

(NY-H) 607-278-9922

Mark Patterson(staff)

(H) 202-362-4587

DATE OF SUBMISSION: June 5, 1997

ACTION:

Daniel Patrick Moynihan
N.Y.C.

United States Senate
Washington, D. C.

May 23, 1995

Dear Mr. President,

You have likely heard the tale of President Kennedy riding up Pennsylvania Avenue in his Inaugural parade. On his left was Andrew Mellon's Federal Triangle, unfinished from the great depression. On his right, rows of near-to-derelict two and three-story buildings. Later that afternoon he mentioned this to Arthur Goldberg, who in turn set me to work. On May 23, 1962, the President approved a report calling for, among other things, "The Redevelopment of Pennsylvania Avenue."

The essential idea was that the L'Enfant plan was a sketch of the Constitution, showing both the separation of powers and the unity of the government. It was essential to keep the area vital. A design committee was set up. The last instruction President Kennedy gave before leaving for Dallas was to arrange on his return a meeting with the Congressional leaders to show the plan. One of two requests Mrs. Kennedy made of President Johnson, on leaving the White House, was that he continue that work. It has gone forward ever since, with, curiously, each successive President involved with some specific project.

May I suggest that you might finish the enterprise in triumph with the design of the park how to be located on the north side of the White House. You will be interested to know that the L'Enfant plan shows Pennsylvania Avenue going from the "Congress house" to the "President's house" and continuing beyond, but not around. To the contrary, on the north side there is a park extending to K Street. This is essentially the plan of the King map of 1818, with the park foreshortened to H Street.

The task now is to settle on a design. Here, I dare to say, you are in luck. For the past several years Roger Kennedy, as Director of the National Park Service, has headed a commission of a dozen Federal agencies, including the Secret Service, on the general subject of the President's Park. This is to say the area from Lafayette Square down to the Mall. They address the subject of the President's captivity the general needs of the government, access of visitors,

Kennedy is just the man Jefferson would have picked for the job now before you. A man of Enlightenment tastes, he has been a lawyer, a scholar, a writer, and a public servant of the first rank, but his avocation has always been architectural history. He has written brilliantly on the design and setting of American neoclassical buildings such as the White House. I would urge that Secretary Rubin get in touch with him. (For most of our history, the Supervising Architect of the Treasury was responsible for these matters. Hence, Mellon's Federal Triangle.) It is a rare opportunity. If I can be of assistance up here, please let me know. It has been something of a life's work!

Respectfully,



The President
The White House
Washington, DC 20500

cc: The Honorable Robert E. Rubin

THE WHITE HOUSE
WASHINGTON

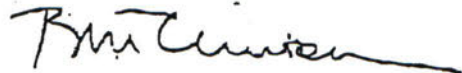
June 14, 1995

Dear Pat:

I deeply appreciate your letter of May 23rd regarding the design for the "President's Park". It so happens that I have heard the story of President Kennedy's inaugural parade, and I was aware of the important leadership role you played in the redevelopment of Pennsylvania Avenue over the last three decades.

I did not know that L'Enfant's plan contemplated a park north of the White House, although I am certain that Roger Kennedy is familiar with this. Your recommendation that he should help lead our design efforts carries great weight with me. I have instructed Secretaries Rubin and Babbitt to work closely with Roger as we make progress toward adopting a final plan. Because of your long involvement with the development of Pennsylvania Avenue since the Kennedy years and your singular expertise on this subject, I have also asked that you be consulted and kept informed as the Administration's work on the "President's Park" moves forward.

Sincerely,



The Honorable Daniel Patrick Moynihan
United States Senate
Washington, D.C. 20510



REPORT TO THE PRESIDENT
ON THE USE OF TECHNOLOGY TO STRENGTHEN
K-12 EDUCATION IN THE UNITED STATES

Breed THE PRESIDENT HAS SEEN
6-10-97

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our plan to look schools
up to the future in
a way that takes that into
account, and that the
primary purpose is to make
belong teacher training, reform
etc. — Bre

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PRESIDENT'S COMMITTEE OF ADVISORS
ON SCIENCE AND TECHNOLOGY
PANEL ON EDUCATIONAL TECHNOLOGY

MARCH 1997

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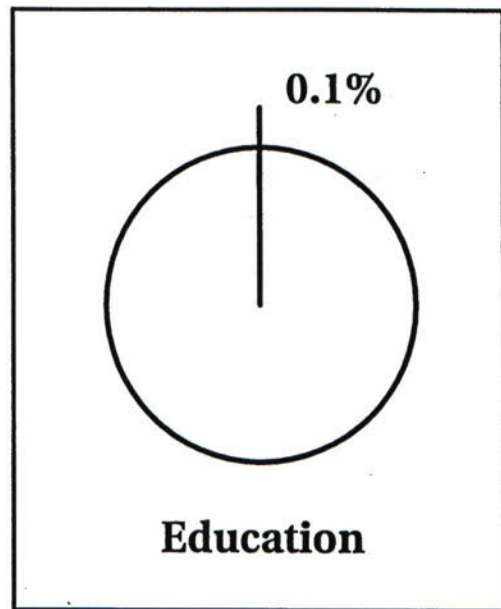
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THE WHITE HOUSE
WASHINGTON

MT R & Suen 7/11-12

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*who doing more
edu. research*

Fraction of Expenditures Allocated to Research

The New York Times

Founded in 1851

ADOLPH S. OCHS, Publisher 1896-1935
ARTHUR HAYS SULZBERGER, Publisher 1935-1961
ORVIL E. DRYFOOS, Publisher 1961-1963
ARTHUR OCHS SULZBERGER, Publisher 1963-1992

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McGinly
What's your report?

A Poor Deal for the Tongass

The anti-conservationist wing of the Republican Party has used every legislative tactic in the book to test the Clinton Administration's resolve on environmental issues. With a few exceptions, the Administration has stood up to the test, resisting Congressional efforts to weaken environmental statutes and commercialize the public lands. Now comes a new challenge, not from Congress but from the Forest Service, a branch of the Agriculture Department that controls the annual "harvest" in the national forests. Over the years, it has done pretty much what it wanted regardless of who occupied the White House.

The service recently issued the broad outlines of its long-awaited land management plan for the Tongass National Forest in southeastern Alaska. The plan is not reassuring. It calls for too much logging in a forest that has already been heavily cut and, worse, would threaten watersheds vital to the Tongass's biological future and to the livelihoods of commercial fishermen.

The Tongass is of almost talismanic importance to environmentalists. Its 17 million acres are rich in spruce, hemlock and cedar, contain the largest remaining stands of old-growth trees in the United States and provide habitat for grizzly bears, bald eagles, countless salmon and a range of other rare species. For different reasons, the Tongass is important to Alaska's Congressional delegation. The forest has provided jobs for thousands of loggers and sawmill workers in an otherwise depressed region. The number of jobs is now well below historic highs, and Alaska's politicians would like a much higher harvest than the new plan proposes. The stage is thus set for a nasty political and bureaucratic battle that the White House may have to resolve.

Under the 10-year plan, loggers could harvest up to 267 million board feet of timber every year. While only half the old limit, it is more than double

the amount actually logged last year. But even more troublesome than the raw numbers is the service's apparent willingness to open up untouched stands of old-growth forest in watershed areas that nourish streams and rivers.

The agency says the plan will preserve 84 percent of the remaining old-growth timber over the next century, while providing other protections like buffer zones along river mouths and beaches. These are laudable gestures from an agency that has traditionally been more far more interested in harvesting trees than in protecting them. But nearly a half-million old-growth acres would be left unprotected. Some of this could be logged without lasting damage. Other areas, including many of the forest's still-pristine watersheds, cannot be logged without damaging the biological heart of what is left of the original Tongass. The plan will almost surely be a bad deal for taxpayers as well. Between 1992 and 1994, according to the General Accounting Office, the Forest Service shelled out far more for expenses like construction of logging roads than it received by auctioning the trees to logging companies.

Devised by the Forest Service's regional office in Alaska, the plan will now undergo a long review process that ends with the Secretary of Agriculture, Dan Glickman. Having made much of its previous efforts to save the Tongass from threats in Congress, the White House has an obligation to conduct its own review and to push Mr. Glickman in the right direction.

The challenge is to find a way to provide jobs for a relatively small number of loggers without ruining the fish, the wildlife and other natural and recreational values that, over time, can create more sustainable jobs than logging can. The Government has never located that point of equilibrium, largely because the Forest Service never really wanted to. Its new plan will slow the ruinous clear-cutting of the past. But it still misses the mark.

The House Ethics Memorandum

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THE PRESIDENT HAS SEEN

If Clinton Is So Flawed, How Did He Win? Military Injustice

To the Editor:

"The Clinton Conundrum" (editorial, June 1) suggests that the President is "flawed by lack of discipline, by self-pity, defensiveness, a volcanic temper, and being too eager to please." If he is flawed to this extent, how do you account for the fact that he soundly defeated Bob Dole and Ross Perot, who both spent millions to portray him as a scoundrel?

You also imply that talk-show banter indicates that "the public remains ... confused by the President's behavior." I am surprised

that you would ascribe such importance to the talk-show phenomenon as an accurate gauge of public perception. Most talk shows are mouthpieces of the far right.

You go on to say that "If Mr. Clinton were truly to center himself in the hearts of Americans, he would have to come clean over what happened with Paula Corbin Jones." You indicate that you want your readers to believe Paula Jones.

Lincoln did not "center himself in the hearts of Americans" until long after his death. The same has been true of other great men who have occupied the Presidency. I think Bill Clinton will come to be regarded as one of America's great Presidents.

TRAVIS W. MILLER
Fort Worth, June 2, 1997

The Sensible Goal

To the Editor:

Your advice to President Clinton to "come clean" ("The Clinton Conundrum," editorial, June 1) is naive. As many politicians have discovered to their sorrow, removing all doubt from the public's mind regarding a charge of personal misbehavior is a serious risk indeed.

The President would probably do more for his place in history, and certainly more for the country, by spending every bit of his undeniable political capital trying to cure the campaign (mis)finance be-

To the Editor:

Defense Secretary William S. Cohen should be concerned about criticism that his standards for judging the sexual conduct of his officers are biased (front page, June 6).

If we are going to lose qualified people from the armed forces like First Lieut. Kelly Flinn but keep those like Gen. Joseph W. Ralston, Secretary Cohen can expect that his double standard will drive qualified women and men away from the military.

MAUREEN A. O'LEARY
Astoria, Queens, June 6, 1997

To the Editor:

Re "Cohen Criticized for His Support of a Top General" (front page, June 6): We citizens want commanders in the military who are aggressive and innovative. These characteristics are often correlated with a strong sex drive. Adultery should not be in the military code; rather the offense should be "social behavior damaging to the effectiveness of the service."

This is the big difference between the cases: no service member complained about Gen. Joseph W. Ralston, as one did about First Lieut. Kelly Flinn.

WILLIAM M. KAULA
Los Angeles, June 6, 1997

Public TV, Branded

To the Editor:

Rich but Not So Free

To the Editor:

If Deputy Treasury Secretary Lawrence Summers and his like-minded colleagues don't think economic freedom and prosperity are possible without personal freedoms ("Hong Kong's Business Elite Tells Americans: Don't Panic," front page, June 5), they only need to look to their own childhoods.

America had some of its best economic years during the 1950's, while African-Americans' civil rights were being consistently violated. For a capitalist country to remain prosperous, only the elite needs freedom.

DAVID KRAUT
Brooklyn, June 5, 1997

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THE PRESIDENT HAS SEEN

6-10-97

THE CASE FOR MORPHINE
TONY BLAIR: ANOTHER CLINTON?

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WHAT'S WRONG AT THE FBI?

- The fiasco at the crime lab
- The controversy over Director Freeh
- The impact on the OKLAHOMA CITY TRIAL



UNDER THE N

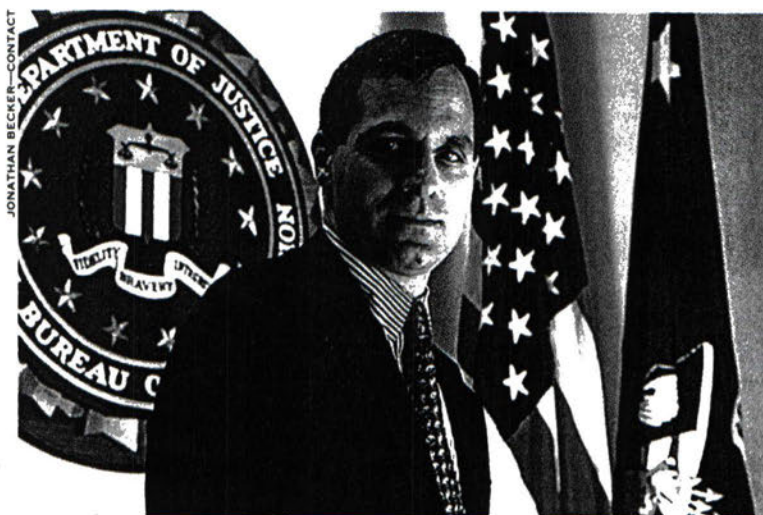
Once the most esteemed federal agency, the

By NANCY GIBBS

IT WAS THE IDEA OF A GUY NAMED BONAPARTE TO INVENT THE FBI IN 1908 (Charles Joseph, the Emperor's descendant who served as Teddy Roosevelt's Attorney General), and once initial suspicions were allayed that it would turn into some big, secretive, czarist police force, it did precisely that. The bureau quickly built its empire of white men in white shirts, chasing anarchists and Bolsheviks in the '20s, gangsters and bootleggers in the '30s, fascists in the '40s, communists in the '50s and civil-rights leaders and antiwar protesters in the '60s. The enemies, always changing, are changing still, and the agency that confronts them now faces problems that would bedevil any FBI director trying to drag the agency into the modern age—which helps explain why Louis Freeh is having a very bad spring break.

For the better part of a generation, both political parties have thrown money and laurels at the FBI for one reason: to stop crime. Under Clinton, while agency after agency saw its budget dwindle, the FBI's jumped 25%, to \$2.9 billion. Congress paid for 3,600 new employees, new computers, new field offices. Law-and-order Republicans were there first, but Clinton and the Democrats joined in until there was simply no constituency that didn't see the FBI as the all-purpose answer to voters who routinely listed crime among their top concerns. For a nation whose greatest enemy is suddenly within, the FBI has become the Pentagon of the post-cold war world.

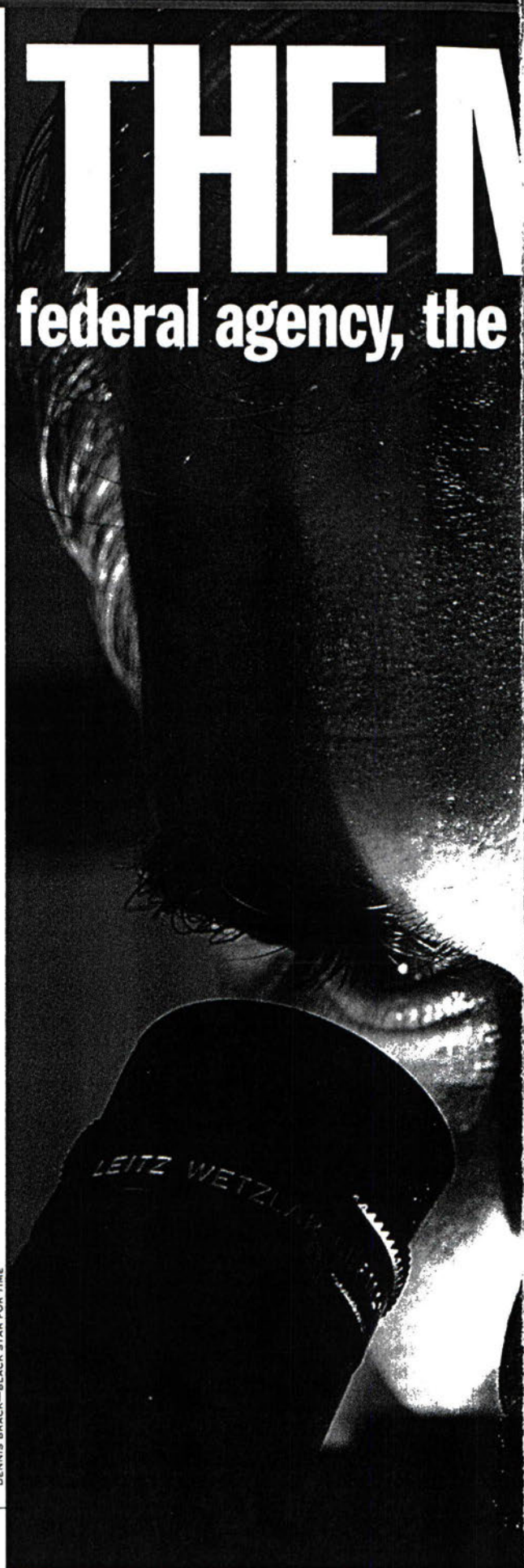
This means, like the well-protected Pentagon of 20 years ago, virtually no congressional oversight. Any lawmaker who raised concerns risked being flayed as soft on crime. But without accountability, several things happen, all of them bad. Money gets wasted. Officials get sloppy.



DRAWING THE AGENCY INTO THE MODERN AGE

Director Louis Freeh has been trying to change the agency's culture, but his critics charge him with obsessive secrecy, bullheadedness and micromanagement. His relations with the Clinton White House are also poor

DENNIS BRACK—BLACK STAR FOR TIME



MICROSCOPE

FBI comes under attack for sloppy work



TIME

Innocent people go to jail. And cases that should be won are lost. The specifics have become a martyrs' lament: Waco. Ruby Ridge. Filegate. Richard Jewell. By last Saturday, the embattled Freeh was ready to break his trademark silence in an interview with *TIME*. "They very regularly report the bumpy landings at National Airport. You rarely hear about the safe landings," he argues. "We do many, many good things every day. Children are saved, explosive devices are defused, pedophiles are arrested, gangs are taken off the streets. I'm not saying we shouldn't be criticized for the mistakes we make, but I do know that the successes of the men and women of the FBI are taking place every day."

Such a season of blame is taking its toll on an agency ill equipped to handle it. The 25,000 or so employees who wrestle with heavy caseloads, bad technology, long hours and growing threats to their safety, who find purpose in the bureau motto of "Fidelity, Bravery, Integrity," can handle

just about anything—anything but walking down the street and having a pal from the local police department slide up in his cruiser and ask mocking questions about all the cases the FBI has screwed up and all the headlines it's made and "Hey, what's the deal with this Whitehurst guy?"

This Whitehurst guy is Frederic Whitehurst, the FBI chemist who originally blew the whistle on the FBI lab in 1989 and helped launch an inquiry that finally resulted last week in a blistering report from the Justice Department's inspector general. Michael Bromwich released a 600-page doorstop charging that some FBI forensic operations had been sloppy and biased. But even before the verdict was reached, Whitehurst's treatment as a whistle-blower raised questions about the FBI's ability to manage dissent. At first, lab managers dismissed his complaints about colleagues' work as prickly perfectionism. They suspended him for a week after he notified defense lawyers of lab errors in a case. It was not until 1994

that Whitehurst's claims were taken seriously enough to reach the inspector general's office. Freeh has promised to address the lab problem by hiring a distinguished scientist from academia to run the lab, seeking accreditation from an outside professional society and investing \$30 million in a new facility. "We're embarrassed by it," acknowledged Bill Esposito, the bureau's new deputy director. The accusations could compromise the prosecution of some major cases, including the Oklahoma City bombing, and reopen hundreds more (see following stories).

Next week the

THE GANG THAT COULDN'T EXAMINE STRAIGHT

By ELAINE SHANNON WASHINGTON

THE JUSTICE DEPARTMENT REPORT ON THE FBI LAB DELVES deeply into fewer than two dozen cases and examines just three of the FBI's 35 specialized units, but its repercussions are enormous. By questioning the lab's credibility, the 500-page study has undermined thousands of cases that have coursed through the agency—the lab does as many as 600,000 examinations a year—especially those handled by the 10 lab workers faulted in the study. "We're going to get hundreds, if not thousands, of motions that are going to encompass every part of the lab, from latent-fingerprint comparisons to tire-tread analysis," says a ranking FBI agent.

A great deal of resources will have to be expended simply responding to defense motions, meritorious or not. Already

next week there will be a motion to reopen the case of Jeffrey MacDonald, the Green Beret doctor now serving a life term in prison for killing his pregnant wife and two daughters in the infamous *Fatal Vision* murders in 1970. MacDonald's lawyer, Harvey Silvergate, says the motion will be based in part on affidavits of FBI agent Michael Malone, formerly a lab examiner, submitted during the lawyer's attempt to reopen the MacDonald case. According to last week's report, Malone exhibited

"inexcusable" behavior in the corruption hearing filed against former judge Alcee Hastings when Malone testified to having performed a tensile-strength test that was not only beyond his expertise but was also carried out by another member of the lab. In the MacDonald case, Malone, who specialized in hair and fiber evidence, had asserted that filaments found in a hairbrush at the murder scene came not from a blond wig worn by an intruder, as MacDonald claimed, but more likely from a doll owned by one of the murdered little girls.

The Oklahoma City bombing case is the biggest of those cited by last week's report (see following story). It strongly criticizes explosives experts involved in the bombing investigation, particularly David Williams, who, according to the study, "reached conclusions that incriminated the defendants without a scientific basis," and Roger Martz, the chief of the chemistry-toxicology unit, who

Lab scientist Frederic Whitehurst blew the whistle on nearly a score of cases



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The bureau's in for harsh for their of these

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of Hearts for his penchant for lopping heads first and asking questions later. All such decisions emanate from Freeh and his inner circle of nonagents, who hunker in the seventh-floor suite that agents have nicknamed "The Bunker." Members of Congress love Freeh's almost self-hating approach to the agency—frequently admitting what it has done wrong—but experts believe that by too readily accepting blame, Freeh has opened the door for more of it.

Freeh's sense of rectitude is also what has complicated his relationship with Clinton's White House and, in some cases, undermined his effectiveness. When Freeh took the job, he made only one demand of the President: Don't interfere with how I do it. So independent was Freeh that he refused to attend the Rose Garden photo-op signing of the crime bill. The bureau has regularly released good crime statistics without telling the White House in advance, depriving Clinton of a chance to crow. By mid-1994, relations between Freeh and the White House had become "icy," according to a senior official. When Freeh headed off to Jordan and Saudi Arabia to pursue counterterrorism investigations, Clinton's foreign policy aides bristled at his interference on their turf without prior consultation. In February, Freeh refused to provide a report about Chinese influence peddling for Madeleine Albright before her trip to China. White House officials were stunned. Who was Freeh working for?

But at times he, or his bureau, has been less independent than he pretended, which has got him into trouble with Republicans on the Hill as well. First there were charges that the FBI went along with White House requests to investigate employees of its travel office. Then there was the matter of the 900 or so private FBI files on former Republican staff members that turned up in the White House. Critics say any number of FBI officials could have blocked the request for their transfer and didn't. Instead Freeh declared that he felt "victimized" by the White House's actions. "Freeh has a tremendous talent for self-preservation," says a senior White House official. "He figured the waters were rising and decided to get himself to dry land." The bureau also slipped the White House an advance copy of former agent Gary Aldrich's salacious memoir of his tenure at the Clinton White House. "The hallmark of the FBI has been that it's free of politics," says Kentucky Representative Hal Rogers. "With Filegate and other possibilities of political interference, the bubble has burst."

The complaint that the FBI can be politically manipulated is as old as the agency itself, of course. What is new and alarming, however, is the accumulation of problems

that reflect a combination of arrogance and negligence. Besides the crime lab's problems, the most damaging are:

ALDRICH AMES CIA officers point out angrily that while the bureau has done well catching spies, it has a poor record of detecting them in the first place. In the Ames case, it was the CIA that eventually identified Ames as the mole and turned him over to the FBI to build the case for his arrest. Ames began his career as a mole lit-



SUCCESS STORIES

Nailing Mob boss John Gotti in 1992 was an old-fashioned achievement. And in June 1996, the bureau brought the 81-day Freeman standoff in Montana to a peaceful end



MISSSES

The arrest of Richard Jewell for the Atlanta bombing was a painful blunder. The FBI also botched the 1992 standoff at Ruby Ridge with white separatist Randy Weaver



FUMBLE

Aldrich Ames may have led to the most serious breach of U.S. security ever. Last week an internal report criticized the FBI's less-than-aggressive pursuit of the mole

erally under the watch of the FBI. In April 1985 he began visiting the Soviet embassy in Washington to pass secrets. FBI cameras that are constantly trained on the Russian embassy from a nearby building recorded Ames' visits. Though he initially filed the paperwork explaining his forays, he eventually stopped doing so and kept going back. But the bureau never thought to wonder why.

RICHARD JEWELL FBI agents in Atlanta were under tremendous pressure from headquarters to make progress in solving the Olympic Park bombing. So they came up with a scheme to trick Jewell into being interviewed by saying it was part of a training tape. Freeh was monitoring the investigation closely and called to insist that the agents inform Jewell of his Miranda rights. At that point Jewell smelled something funny, stopped talking and asked to see his lawyer. When the case against him collapsed, veterans blasted Freeh for botching their scheme to trick him into talking. Never mind that they were trying to trick the wrong guy.

MANAGEMENT FAILURES In 1986 the FBI launched an ambitious program to upgrade its computer systems, including computerized fingerprint scanners installed in police cars across the country. If that goal is ever realized, it will be four years late and double the cost projected. The upgrade effort is already such a mess, plagued by contractor and design lapses, that Congress refuses to fund it anymore. But Freeh maintains an ambitious vision: to build a whole new technological infrastructure to track global crime. "We have people with laptop computers in Russia moving money out of Citibank accounts in New York City, and people with laptops in Sweden shutting down our 911 system in northern Florida," he told TIME. "We are very far behind."

RUBY RIDGE The year before Freeh arrived, tax resisters in Idaho wound up in a standoff against federal agents. Vicki Weaver and her teenage son were shot to death; her husband Randy Weaver collected \$3 million in a wrongful-death suit and became a martyr in the militants' crusade against encroaching law-enforcement agencies. Six officials connected with the showdown were disciplined for "inadequate performance, improper judgment, neglect of duty," even though investigators found no actual misconduct. That might not have gone down so badly had Freeh not promoted as his No. 2 the supervisor of the whole operation, Larry Potts. Only when Justice Department officials intervened with news that Potts and his headquarters aides were under criminal investigation for their roles did Freeh acknowledge his "blind spot" and suspend his friend.

His defenders are quick to note that Freeh has been far more willing than past

directors to change the agency culture. "We rebuilt our credibility by full cooperation with the investigations, admitting our mistakes, and more importantly making sure we have structures in place that will prevent those mistakes from recurring," says Freeh. After Waco and Ruby Ridge, he created a new, less paramilitary "crisis-management unit" and completely overhauled the way the bureau handles hostage situations. In the spring of 1996, when the Montana Freemen holed up in their compound near Billings, FBI agents were under far stricter rules of engagement. They could use deadly force only if they or hostages faced "imminent death or serious physical injury." At Billings the FBI also deployed a new unit called the Critical Incident Response Group of behavioral scientists and hostage negotiators. FBI officials insist the CIRG is as skilled in talking as it is in breaking down doors. In the Freemen's

case, they seemed to have proved it when the confrontation ended without bloodshed after 81 days.

For all the firestorms, Freeh can take comfort in the fact that his agency retains a special cachet; he can thank *The X-Files* and *The Silence of the Lambs* for helping inspire 65,000 people to apply for a few hundred upcoming agent slots (starting salary for an FBI agent: \$42,000). He can also take some solace from the fact that while a cozy office in a big law firm may look pretty appealing to him right now, he can depart in his own time; Clinton is in no position to fire him, given the ongoing investigations into campaign contributions. Does the White House dream of getting rid of him? "On the list of things we chat about over here, it's not on the Top 10," says an official. "And we never get below the Top 10."

Even congressional critics like Grass-

ley say they think Freeh can "rehabilitate" himself and the agency. His colleague in the House, archconservative Republican Bob Barr of Georgia, has already given the FBI a lesson in that. Last year the agency asked for the authority to apply multi-phone roving wiretaps so it could track suspects switching from cell phone to cell phone. But Barr, with heavy backing from both the National Rifle Association and the American Civil Liberties Union, now had ammunition to block the legislation. "My view is that we are not interested in giving the FBI more power until it gets its house in order and proves that it can live in the boundary of existing laws." That's a long way from the days when the FBI drafted the bills it wanted passed and delivered them to the Hill in plain Manila envelopes. —Reported by John F. Dickerson, Tamala M. Edwards, J.F.O. McAllister and Elaine Shannon/Washington

WHY RENO'S TIN EAR IS NO LONGER A VIRTUE

JANET RENO CAN READ THE LETTER OF THE LAW. THE QUESTION is whether she is missing the larger story. Last week, for the fourth time, the Attorney General decided not to appoint a special prosecutor to look into Democratic campaign fund raising. Relying on the advice of Justice Department lawyers who are conducting their own probe, she pointed to the language of the independent-counsel law. It requires "specific, credible evidence" of a crime by high-ranking federal officials. If the department inquiry turns up a smoking gun, she says, she'll pull the trigger on an investigation. But not before. "The best thing I can do is ignore the politics," she said. "I take everything based on the evidence and the law."

For Republicans her refusal was a signal to go ballistic. Taking time from finalizing his loan with Bob Dole, House Speaker Newt Gingrich said Reno should explain under oath why she opposed a special counsel. Senate Judiciary Committee chairman Orrin Hatch, a sometime Reno supporter, was less bloodthirsty but no less unhappy. "There's overwhelming evidence that there may—that's all you've got to do, show that there may—have been criminal activity," he says. "You can't hide behind career prosecutors."

It is ironic that Reno should be suspected of trying to appease Bill Clinton. Whatever her shortcomings, most of Washington agrees she is nobody's crony. Last year she was deeply out of favor with the White House for appointing special counsels four times to investigate Administration scandals. The Clinton team let her dangle for weeks before deciding to keep her as Attorney General. Now her enemies say she is trying to regain favor. Friends say she's a principled

legal purist. Just about everybody says that, for better or worse, she's blind to appearances. What she fails to see is that public confidence requires an investigation conducted well beyond White House reach.

At work Reno is largely isolated from astute political advice, heading a department where several top jobs, including Assistant Attorney General in charge of criminal investigations, have long been vacant. Especially since the departure several weeks ago of Deputy Attorney General Jamie Gorelick, Reno has had no one who is sensitive to vibrations beyond the conference rooms at Justice. For guidance she relies on twice-weekly meetings with Justice Department lawyers who bristle at suggestions they would not pursue an investigation wherever it leads.

They don't see a crime yet because many of the laws that might have been broken apply to donations given "to influence a federal election." They say the laws have been applied only to contributions for a specific candidate, not to the millions in so-called soft money given for party activities. All the same, most

donors would admit that, no matter what channel their cash flowed through, they gave to elect Clinton or Dole. But Reno could trigger the independent-counsel statute by finding a conflict of interest that prevented her department from investigating the matter. William Barr, Attorney General under George Bush and a past critic of the statute, argues that "the primary issue is whether this is the kind of case that can be handled as business as usual." As most would agree, it has already gone well beyond that. —By Richard Lacayo. Reported by Viveca Novak/Washington

Should Janet Reno have appointed an independent counsel to investigate campaign fund-raising activities by members of the Clinton Administration?

YES 57% NO 33%

Did Reno decide not to appoint an independent counsel mostly based on the facts, or mostly to protect Clinton?

On the facts 34% To protect Clinton 51%

From a telephone poll of 1,040 adult Americans taken for TIME/CNN on April 16-17 by Yankelovich Partners Inc. Sampling error is ±3%. "Not sure" omitted.



CYNTHIA JOHNSON FOR TIME

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Speech I gave Friday
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THE PRESIDENT HAS SEEN
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**SAMUEL R. BERGER
ASSISTANT TO THE PRESIDENT
FOR NATIONAL SECURITY AFFAIRS
BUILDING A NEW CONSENSUS ON CHINA
COUNCIL ON FOREIGN RELATIONS
JUNE 6, 1997**

[I am pleased to be back at the Council on Foreign Relations. I have always had the highest regard for the Council -- which I think of as a few thousand people who should be Secretary of State, a handful of people who actually were Secretary of State, and one person -- Les Gelb -- who secretly is Secretary of State.]

I want to use this occasion to tell you where President Clinton hopes to take the relationship between the United States and China as we enter a new century. But in looking ahead, I think it is important to look back at how that relationship evolved over the past two and half decades. Indeed, this year marks the 25th anniversary of the Shanghai Communiqué, which led to the end of China's isolation, normalization of our relations and -- until recently -- a broad national consensus in support of strong U.S.-China relations.

The simple truth is this: the direction China takes in the years ahead will be one of the most decisive factors that will determine whether the next century is one of conflict or cooperation. The emergence of China as a great power that is stable, open and nonaggressive... that embraces political pluralism and international rules of conduct... that works with us to build a secure international order -- the emergence of that kind of China profoundly is in America's interest.

China, of course, will define its own destiny. But the decisions we make will influence China's evolution. To wield our influence effectively requires sustained domestic support for a revitalized relationship with China and a clear-eyed approach based on our national interests. I am concerned that support is fracturing -- and convinced that rebuilding it is vital to America's future.

The Shanghai Communiqué grew from a recognition both in China and the United States that there are long term strategic advantages for both our countries in cooperation -- and that we could reduce our differences without forsaking our fundamental principles.

Before Shanghai, we had virtually no contact with China -- save for the occasional frosty meeting between mid-level officials in Warsaw, scholarly gatherings and contests between sports teams. Today, China's doors are open to tens of thousands of Americans -- and tens of thousands of Chinese are studying, working and living in the United States.

Perhaps most important, Shanghai was accompanied by an extraordinary period of economic change in China and opening to the world. Since 1972, China has quadrupled its economic output... its economy has grown at an average of 8 percent a year... and it is now the 10th largest trading nation in the world. In 1972, China stood outside most of the international institutions and agreements that undergird our security and prosperity. Today, China has signed on to many of them, from the World Bank to the Chemical Weapons Convention... from the Universal Declaration of Human Rights to the Comprehensive Test Ban Treaty.

These past two decades also have seen genuine improvements in the lives of hundreds of millions of Chinese -- greater freedom of movement and choice of employment, better schools and housing, improved access to information and a more open process for choosing local officials.

Each of these strides was the result of choices made by China's leadership -- to reform their economy and to play a more constructive role in the world community. These choices were not made because of U.S. policy -- but they would not have been made without the right U.S. policy... without the United States making clear to China that its participation in regional and global affairs was necessary... that it is not our enemy... and that its growth and development were welcome.

Here in America, the changes that began in the 1970's produced a renewed fascination with China, and a broad consensus that the road we had taken from Shanghai was the right one.

But in the late 1980s, a confluence of events began to weaken that consensus -- and now threatens to unravel it.

First, the collapse of the Soviet Union undermined the then-prevailing strategic imperative for a strong relationship with China. Why retain a China card when the Soviets had folded their hand?

Second, Taiwan's remarkable progress toward democracy began to call into question our One China Policy -- the linchpin of our relations, but inherently built around the asymmetry of an official relationship with China and an unofficial one with Taiwan.

Third, the political reforms in China that many expected would emerge from economic reform failed to materialize. Focused on control and fearful of chaos, the regime kept a tight lid on democracy and dissent.

Eight years ago this week, these fissures blew wide apart in Tiananmen Square. In one terrible spasm of violence, Beijing crushed the mostly student democratic movement... shattered the hope that China would take a decisive step toward democracy... and began the unraveling of the consensus on China policy in the United States.

Congress understandably was eager to demonstrate America's condemnation. It sought to link China's progress on human rights to its Most Favored Nation trade status. In 1992, linkage gained 60 votes in the Senate and 409 votes in the House -- and it won broad public support. But the policy proved unworkable. The linkage stick was as blunt as it was big. In effect, it threatened to destroy the relationship in order to improve it. And it posed a false dichotomy: stand up for human rights and stop economic interaction or trade with China and abandon human rights.

Over the first two years of the Clinton Administration, we moved away from five years in which the MFN debate defined America's China policy... and toward a renewed strategic dialogue with

China. We have pursued this dialogue not for its own sake, but as a vehicle for advancing our national interests: increasing areas of cooperation on shared problems and dealing with our differences -- candidly, respectfully, patiently.

Our strategic dialogue with China is built around three propositions.

First, China stands at a crossroads, with conflicting forces pulling in opposite directions: inward-looking nationalism and outward-looking integration.

The fear of chaos and disintegration in China is a consistent thread that runs through much of China's history. From the days of the Qing [Ch'ing] dynasty, the center frequently has not held. Even during the period since the 1949 revolution, when communist ideology provided a cohesive framework, China underwent the searing experience of the Cultural Revolution. Today, with the collapse of that ideology, and in the absence of a legitimizing democracy, there is a distinct temptation among some in China to pursue a more chauvinistic, nationalistic direction in order to avoid losing control. Should that instinct gain sway in this new post-Deng era, China could turn away from the international community and toward hostility and hegemony, threatening stability in Asia.

But the strong pull of integration competes with the grasp of nationalism. Increasingly, China's economic growth -- which now in effect substitutes for ideology -- is fueled by the outside world. Last year, foreign firms doing business in China were the source of more than 40% of China's

exports. And China's participation in international organizations has jumped from a handful twenty years ago to more than 1000 today -- from international agricultural organizations to aviation oversight regimes... from ocean management boards to space satellite conventions -- slowly entangling China in a web of international arrangements necessitated by a global economy.

The need for capital to fuel China's growth -- for which China must compete with other compelling new markets around the world -- increases the need for greater rule of law and predictability, at least in its commercial affairs. And the fellow travelers of the new global economy -- computers and modems... faxes and photocopiers... increased contacts and binding contracts -- carry with them the seeds of change. Can China successfully make the next great leap toward a modern economy in the Information Age without producing the result of empowering its people, further decentralizing decision making, and giving its citizens more choices in their lives? Possible -- but I doubt it.

That leads me to the second proposition of our strategic dialogue: a relationship as complex and multi-faceted as that between China and the United States cannot be defined by any one issue -- positive or negative. It requires that we expand areas of cooperation while dealing forthrightly with our differences. Let me touch on four issues that underscore the breadth of the relationship, and its importance to America's interests: the spread of weapons of mass destruction; our increasingly complex commercial ties; stability on the Korean peninsula; and the health of the global environment.

Stopping the spread of weapons of mass destruction is one of the most compelling priorities we face today. The record with China is neither as bad as some portray -- or as good as we would like. China supported the indefinite extension of the Non Proliferation Treaty... it has joined the Biological Weapons convention... it has signed the Comprehensive Test Ban Treaty... it has ratified the Chemical Weapons Convention... it supports negotiation of a global treaty to stop production of fissile material for nuclear weapons... it has agreed to abide by the Missile Technology Control Regime, which controls the export of technology for missiles that can deliver weapons of mass destruction. China also has curtailed its nuclear cooperation with Iran -- especially in areas that might contribute to Iran's nuclear weapons capability-- and pledged not to assist unsafeguarded nuclear facilities in third countries.

At the same time, China maintains weapons supply relationships that trouble us and an inadequate system of export controls to assure that in a country as large as China, unauthorized sales do not occur. Last month, we imposed economic penalties against several Chinese companies for providing assistance to Iran's chemical weapons program. And we continue to raise with China our concerns about the possible sale of missile technology to Iran and Pakistan. We will use all the tools available to us -- cooperation... persistent diplomacy... targeted sanctions when appropriate -- to secure improvements in China's non-proliferation policy and bring it into all the global regimes that restrict dangerous military transfers. Increasingly, I believe China must come to see that it is in its own interest not to help arm rogue nations or feed instability near its own borders.

On the economic front, the United States has played a central role in China's modernization and economic progress. Since the Deng reforms began, American firms have made \$175 billion in direct investments in China -- our companies are now the fourth largest source of investment in the PRC after Hong Kong, Taiwan and Japan. We are China's largest market, a not insubstantial factor in fueling China's growth.

We have worked through some difficult differences, including China's unsatisfactory enforcement of our intellectual property rights. Two years ago, when China failed to stop massive pirating of our compact discs and videos, we threatened 100% or more tariffs on \$2 billion in Chinese exports. China agreed to take decisive action -- and it did, closing 15 illegal C.D. factories in 1996 and several more in recent months.

China is the fastest growing market in the world for our goods and services. But our growing trade deficit poses a genuine problem that China must address. The only answer is increased market access for American products. China cannot enjoy the benefit of our open market if our companies are denied the chance to compete in China. Similarly, China's admission to the World Trade Organization -- which we strongly support -- depends on Beijing improving its positions on market access and rule making.

We also share a strong interest in stability on the Korean peninsula. As the Cold War's last armed frontier, the DMZ remains one of the most dangerous flashpoints in the world. With China's cooperation, we convinced North Korea to freeze its dangerous nuclear program -- and we expect

the North to make good on its agreement to dismantle that program. China also has agreed to take part in the Four Party Peace Talks we proposed with South Korea to advance a lasting settlement with North Korea. As the tension of recent months reminds us, the Korean Peninsula remains volatile -- and it remains very much in the interest of both China and the United States to use the influence we both have wisely.

Finally, we can't secure a healthy global environment if we lock a quarter of the world's population out of the effort to protect it. What comes out of a smokestack or goes into the water within China's borders can do grievous damage beyond them. That's why the Vice President's initiative to open a joint forum on the environment and development -- announced when he visited China in March -- is of such long range significance. It opens up the prospect for real cooperation in an area where trouble in one corner of the planet can be a plague on everyone's house.

Expanding our cooperation with China does not mean subordinating our differences, including over human rights. Let me be very clear on this point, because human rights is the most difficult divide to bridge in forging a new China policy consensus. To some, we emphasize human rights too much. To others, we are not doing enough. I believe we must avoid making a false choice between human rights and engagement.

Our expectation that, over time, growing interdependence will have a liberalizing effect on China does not mean that we can let China off the hook for human rights abuses. An unshakable belief in human rights is part of who we are as Americans. Our leadership role in the world is due to the

power of our example as well as to the example of our power. The Chinese ask us to respect their culture and heritage. We ask them to respect universally recognized human rights. People everywhere aspire to be treated with dignity, to give voice to their opinions, to worship freely, to control their political destinies -- as events from Central America to South Africa to the Philippines powerfully demonstrate. So we will continue to speak out for human rights -- and against their abuse in China. It makes a difference -- by giving hope to those who carry the fight for freedom and giving integrity to the values by which we define ourselves.

In the last six months, we again sponsored a resolution at the United Nations Human Rights Committee in Geneva focusing on human rights violations in China. Many of our allies abandoned the effort. But a lonely voice is better than no voice at all. The State Department continues to publish unvarnished reports on human rights in China. We will speak out against the arrest of dissidents and speak not only with China's leaders, but also with voices for change -- from Martin Lee to the Dalai Lama. We will maintain the Tiananmen sanctions. We will work with Congress to significantly expand Radio Free Asia broadcasts to China in Mandarin. We will provide greater support for civil society and rule of law programs in China. And we will work more closely with the business community, challenging it to play its part in helping move China toward a more rules-based, transparent, accountable system.

In this effort, we need to be clear about our objectives. Change will not come overnight. And it most assuredly will not come if we isolate ourselves from China or cut off our relationship. If we fail to engage China, we will fuel the very inward-looking forces that trample human rights. But if

we engage for the long haul... encouraging the evolution of the rule of law and civil society in China through contacts across borders, among people and between governments... if markets expand and information flows... if we continue to call it as we see it when rights are suppressed... there is a far greater chance the roots of a more open society will gain strength.

Similarly, pursuing a strategic dialogue with China does not mean we are closing our eyes to the future of Hong Kong -- on the contrary, it serves our interest in helping sustain freedom and prosperity for Hong Kong after its reversion to China on July 1. 1,100 American companies operate in Hong Kong, making it the capital of American business in the fastest growing part of the world. It's one of the few places in Asia where we run a trade surplus. Our Navy ships put in port calls 80 times a year. And it matters to us that the people of Hong Kong preserve their way of life.

The process by which the United Kingdom and China reached their reversion accord in 1984 was difficult -- but the result admirable. In the Joint Declaration and Basic Law, the PRC pledged to maintain Hong Kong's autonomy, freedoms and way of life. Living up to that pledge is as much in China's interest as it is in Hong Kong's -- or in ours. First, because a dynamic, prosperous and free Hong Kong will continue to drive growth and progress in China. Second, because the world is watching. A smooth reversion will promote China's international prestige -- but handled badly, the transition will tarnish China.

As events unfold, our first responsibility is to put the transition into perspective. It does not begin nor will it end on July 1. It has been underway for fifteen years and it will unfold in the months and years ahead. Hong Kong's reversion to China is a motion picture, not a snapshot. We should not prejudge the outcome -- or lose interest when the cameras leave. And we should look to the people of Hong Kong in judging the transition's success.

What the people of Hong Kong expect -- and what the international community has the right to expect -- is that China adheres to the letter and the spirit of the Joint Declaration. We should look to see if elections for the new legislature are set soon and held freely... if freedom of speech, press, religion and association are maintained... if the civil service continues to function professionally... if Hong Kong's courts operate without interference... if its economy remains open and market oriented.

Finally, the third basic proposition behind our strategic dialogue is the continuing logic of the One China policy. Americans have been heartened by powerful movement toward democracy in Taiwan. We welcome it. The issue is not our support for democracy in Taiwan, but how best to sustain it.

The One China policy has worked. And it continues to be the right approach. It has allowed democracy to flourish in Taiwan and all three relationships to prosper -- between the United States and the PRC... between the United States and Taiwan... and between Taiwan and the PRC. It provides the stability needed for growth. And it buttresses our conviction that the Taiwan

question can only be settled by the Chinese themselves -- peacefully. It would be a serious mistake for us to abandon the One China policy. And it also would be a serious mistake for either party unilaterally to undermine the prospects for a peaceful resolution to the Taiwan issue -- as we made clear in sending our aircraft carriers to the region in the wake of China's provocative military exercises.

In laying out the purpose of our strategic dialogue with China and the propositions behind it, I want to end with the one development that could destroy the dialogue, do grievous injury to the interests of the United States, and shatter a new consensus on China -- a vote by Congress to revoke Most Favored Nation trade status for China.

The goals of the opponents to normal trading relations with China generally are ones we share -- advancing human rights and religious freedom... promoting fair trade... strengthening regional and global security. But the method they have chosen -- destroying our economic relations with China -- is profoundly misguided. Revoking MFN would cut off our contact with the Chinese people, not strengthen the forces for human rights. It would eliminate, not facilitate, cooperation on weapons proliferation. It would close one of the world's emerging markets to our exports. And it would drastically weaken Hong Kong -- which handles over 50% of U.S.-China trade and depends on normal trade status -- just when its economic strength is vital to ensure autonomy from Beijing. That's why Hong Kong leaders across the political spectrum, including Governor Patten, Democratic Party leader Martin Lee and Chief Secretary Anson Chan all favor renewal. Finally, revoking MFN would make China more isolated and unpredictable and less likely to play

by the rules of international conduct. Treating China as our enemy could well make China our enemy.

Twenty-five years after the Shanghai Communiqué, China's isolation is giving way to international engagement... its backward economy to remarkable growth... its dying ideology to the first stirrings of change.

But the results are far from pre-ordained: inward looking isolation, or outward looking integration? As we create the structures and policies that will become the foundation for security and prosperity into the new century, one of our most critical challenges is to bring China into the effort as a stakeholder... to make the choices ourselves that will make it more likely China makes the right choices.

The United States will survive and flourish even if China stays outside the international system... and inside a cocoon of self-absorption and xenophobia. But our interests are far better served by increasing cooperation, avoiding chaos and strengthening economic growth.

To succeed will require the vision to imagine a new relationship between two great powers. The courage to see it through. The confidence that universal values will prevail in China as they are around the world. The conviction that it is profoundly in America's interests to work with, not isolate ourselves from, a quarter of the world's population. That is the course this Administration has chosen. But we cannot walk it alone. And so in closing, let me call on your leadership to

help us rebuild a broad national consensus on China policy. A consensus that will serve America's interests and our ideals in the challenging years ahead.

THE PRESIDENT HAS SEEN

6-10-97

Baer / Lewis / Palmer

can we do more w/
Nig.?

& 20 - finding true vaccine
~~any~~ next to

Copied
Baer
Lewis
Emanuel
COS

for Discrimination

America doesn't expect his own projection to escape challenge. Economists and accountants who want to question some of the assumptions, or the compounding of "debt" or some other aspect of his calculations. "Let them tear at it and what survives would go to journalists, who would start talking about it. And if it finds reasonably fertile ground, and politicians might find enough people to use it in their legislative agenda."

Nobody could figure out how to set matters right. So, according to Thomas, they simply brought out a different, unmarked deck, extracted a pledge of no further cheating, and resumed the game.

Some of the top names/units are:

medical-device industry and its Republican allies have made it a top priority to insist on a far kinder FDA chairman. At the FCC, Hamd's successor is also likely to be less assertive than Hamd.

Relatively strong regulators remain in place at the Environmental Protection Agency, the Securities and Exchange Commission and the Federal Trade Commission. But as these early Carter appointees depart, their successors are likely to be less assertive. The American industry is in some of its darkest periods of innovation and reconstruction. At such moments, "elite" businessmen want to sweep aside all concerns over a broader public interest that hinder their efforts to develop new products, in his myopia, cannot pursue. But it is precisely at times like these that government is needed to steer and coordinate the nation's economic activities. Because of budget pressures there will be little new public spending for the foreseeable future, though the country still needs money that the private market doesn't provide. Government is now left with one course of action—to promote public regulation—to promote public participation. It would not be smart to have a "no new federal money" bill on the fast-track board.

OUTLOOK

Commentary and Opinion

Sander Gilman
Good Piece

PUNISHMENT?

Could Be Moral

as disagreement concerning the purpose of punishment—deterrence, rehabilitation or retribution—but I had no reason to then decide which was right, or whether, depending on the circumstances, they were right. I did know that retribution was old in ill repute among criminologists.

Then I began to reflect on the work of Simon Weisenthal, who had devoted himself since 1945 exclusively to the task of hunting down the Nazis who had survived the war and escaped into the world. Why did he hunt them, I asked myself, and what did he hope to accomplish by finding them? And why did I respect him for devoting his life to this singular task?

Weisenthal said that his conscience forced him "to bring the guilty ones to trial." And if they were convicted, then what? Punish them, of course. But how? To rehabilitate them? The idea was absurd. To incapacitate them? With Germany defeated, they represented no present danger. To deter others from

See MORALITY, C5, Col. 4

'Eye for an Eye'

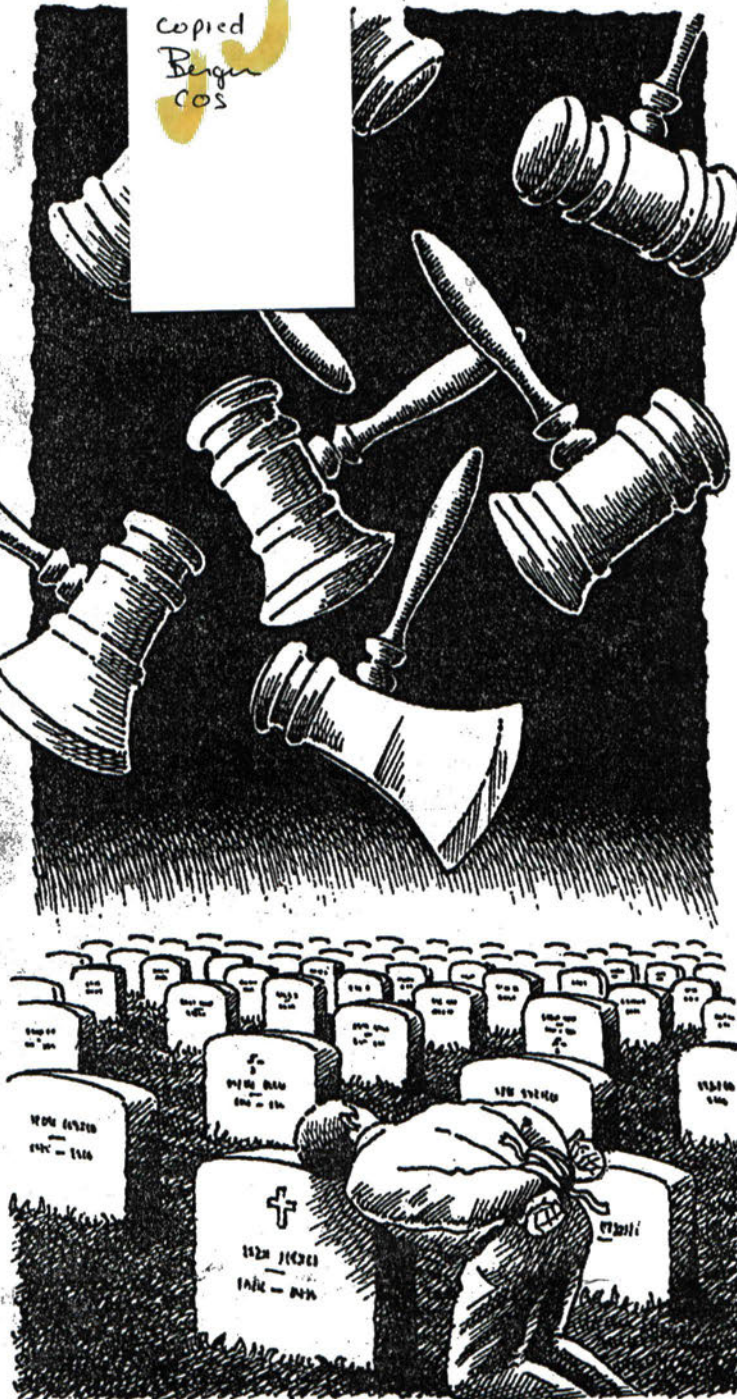
early cannot be achieved in any case of multiple murder.

It takes a case like the Oklahoma City bombing to illuminate the hypocrisy and confusion surrounding most pro- and anti-death penalty arguments. U.S. District Judge Richard Matsch, with characteristic firmness and fairness, barred the introduction of emotionally inflammatory exhibits (including wedding photographs of victims) during the trial's penalty phase to determine whether McVeigh is sentenced to death or life imprisonment without parole.

The judge declared, "We have to guard this hearing to ensure that the ultimate result and the jury's decision is truly a moral response to appropriate information rather than an emotional response."

Lots of luck. The response of the victims' families to McVeigh's conviction showed, in unusually candid fashion, the

See PUNISHMENT, C5, Col. 1



BY JEAN-FRANCOIS ALLAUX FOR THE WASHINGTON POST

Smart Rules For Soldiers And Sex

Why the Military Cares About Adultery, but Doesn't Punish Everyone

By Charles Moskos

Do the armed forces follow an outdated mode of sexual morality by enforcing an anti-adultery code? Did Secretary of Defense William S. Cohen invoke a double standard in deciding to forgive Air Force Gen. Joseph W. Ralston for marital infidelity? The answer to both questions is no.

Contrary to popular understanding, adultery in the military is not a "stand-alone" offense. Under Article 134 of the Uniform Code of Military Justice, adultery is punishable only when "directly prejudicial to good order and discipline and not to acts which are prejudicial only in a remote or indirect sense. . . . It is confined to cases in which the prejudice is reasonably direct and palpable." The very wording of Article 134 invites the course of action Cohen took in saying he would "draw distinctions" and apply the rule of reason to adultery incidents. By establishing the principle of a case-by-case approach, Cohen has gone a long way toward extricating the armed forces from what has become a public relations debacle.

What distinguishes the armed forces from the rest of society is its necessity for good order and discipline. To see the military's moral code as antiquated is to lose sight of the reason behind it. Only the armed forces have as a main purpose the responsibility, as it is well put, "to kill people and break things." A military unchecked by a moral code is asking for chaos that unnecessarily risks the lives of our young men and women in

See ADULTERY, C6, Col. 1

Charles Moskos, a military veteran, is professor of sociology at Northwestern University. His most recent book (with John Sibley Butler) is "All That We Can Be: Black Leadership and Racial Integration the Army Way" (BasicBooks).

One Size No Longer Fits All in Today's Military

ADULTERY, From C1

uniform. Indeed, the pragmatic understanding of adultery in the armed forces might be one that civilian organizations could consider emulating.

Cohen's decision to allow Ralston to remain a candidate for the chairmanship of the Joint Chiefs of Staff is also a sound one, despite heavy criticism that a more lenient standard was applied to the vice chairman of the Joint Chiefs than to others. The leniency shown Ralston has been particularly contrasted with the summary dismissals of Air Force 1st Lt. Kelly Flinn and Army Maj. Gen. John E. Longhouser, head of the Aberdeen Training Center.

The double-standard accusation does not hold up, however. It is a reach to ascribe a "palpable" effect on good order and discipline to the known facts of Ralston's indiscretions, an affair with a civilian woman 13 years ago. This differs from the case against Flinn, the first female pilot to fly a B-52 bomber. Her actions, beyond adultery, involved fraternization with an enlisted man, disobeying a direct order and lying to her commander. That these acts would be deemed prejudicial to good order and discipline should surprise no one. (That a white female officer could become a national heroine for much of the media, while black NCOs who commit adultery with their subordinates became



BY MIKE LUCKOVICH FOR THE ATLANTA CONSTITUTION

national pariahs may be the real double standard.)

Longhouser's early retirement upon revelation of an adulterous affair five years ago with a civilian woman has more the element of a Greek tragedy. The fates frowned on Longhouser when he was assigned to command at Aberdeen Proving Ground in

Maryland, the very base where the Army's sexual scandals have been most pronounced. Fair or unfair, there was no way that Longhouser could remain in command at Aberdeen in the current environment.

The substance of the adultery code in the military and the differences in adultery

cases are not always easy to communicate to the general public, or even Capitol Hill. But the issues at stake are not really all that complex. The heart of the matter is always good order and discipline.

The high-profile adultery cases do have a silver lining, however. They open the way for new thinking about sexual codes in the armed forces. Many of the rules and regulations that emerged out of the old order are no longer appropriate; that is one of the reasons for Cohen's announcement yesterday that panels will be established to study privacy issues and enforcement of laws against adultery. For the first time, the American military has large numbers of women—15 percent of the total force, many more in support units—who are not assigned to a separate corps such as the WACs and WAVES of

yesteryear.

Consensual sex among those of similar rank is something the military has shied away from regulating. Such behavior has more profound effects on good order and discipline than does adultery. The prevalence of consensual sex among equals sets a tone in which superior-subordinate sex becomes a minor, rather than a major, step.

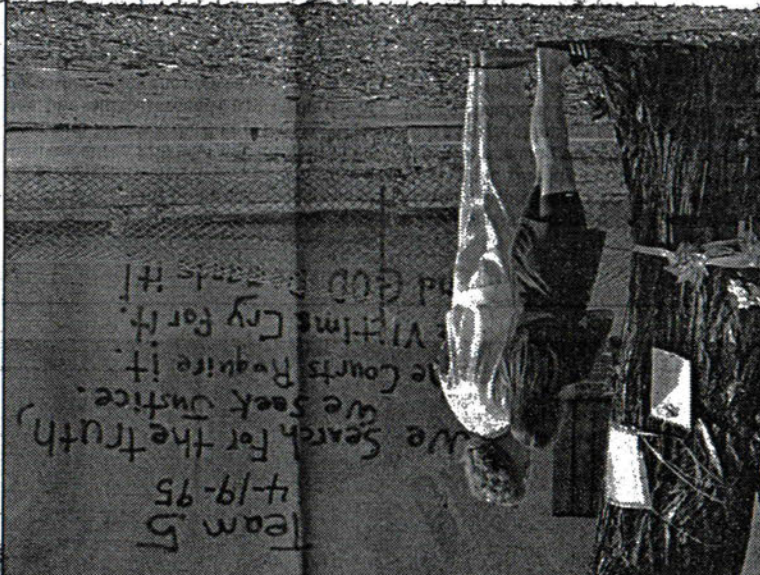
The term "zero tolerance" should be dropped for petty sexual harassment, as there is no consensus in either sex of what constitutes petty harassment. Are there settings, such as office environments, in which the fraternization ban might be relaxed? Are there other situations, such as deployments, where even consensual sex among equals (including married couples!) might be prohibited?

We also need to look at the efficacy of the military's so-called "hot lines" now used to report adultery and sexual harassment. These hot lines not only corrode the chain of command, but have become channels for vindictiveness. Now is the time to consider an all-female "chain of complaint" within the Inspector General branch to handle all sexual-misconduct allegations. Such a screening mechanism would both make enlisted women more ready to report sexual harassment and serve to screen out unwarranted accusations.

The highly publicized adultery cases in the armed forces, thus, present Cohen with an opportunity. In fact, promoting well-qualified Ralston to the chairmanship of the Joint Chiefs could be the very way to lance the boil of frivolous enforcement of the adultery ban. This would be a start to set matters right on the gender front. Otherwise, there will be a never-ending series of exposures and careers ruined for little good reason.

The thing that connects human beings to one another is a solidarity against death, and a punishment of capital punishment, upsets that solidarity.

After Macbeth has not murder. junction. Thou shalt some of the in- it teaches us the awe. Among other things, equals Macbeth. cy, said, "nothing during his presiden- 267 death warrants Lincoln, who signed justice. Abraham Shakespeare plays, than any other of and perhaps more army anger, revenge about ambition, ty- the similarity ends. murder, but there, the story of a Stranger." Mac- Macbeth was a murderer, and like The Shakespeare's Macbeth. Like Mersault to capital punishment. Now compare Camus's Mersault to the distinction between kill- ing and murder. Still others, like contributing editor Jean Bethke Elshtain in the most recent issue of the New Republic, re- it on the seemingly compelling argument made by the French- man Albert Camus in his "Reflections on the Guillotine." Ca- mus argues that the state, in exacting re- venge in the form of death, is presuming to do the work, or take the place, of God, and this it has no right to do. But surely the state's right to act de- pends on whether we live in a moral or im- moral community. After all, God seems to have delegated His moral community.



But the "deterrence" rationalization for the death penalty is easier to dismiss than the "moral outrage" justification. The most elo- quent statement against the latter was delivered by the Supreme Court Justice Thurgood Marshall in his dissent in the 1976 case of *Cregg v. Georgia*, which upheld new, narrowly drawn death-penalty laws (after the Court had struck down all existing capital punishment statutes in 1972) and opened the way for a resumption of executions in the United States.

"The 'outrage' rationalization differs from the deterrence argument," he observed, "in that it contemplates the individual's shrinking from and social conduct not because he fears punish- ment but because he has been told in the strongest possible way that the conduct is wrong."

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THE WHITE HOUSE
WASHINGTON

June 10, 1997

TO: Sylvia Mathews
John Podesta
Jodie Torkelson
Craig Smith

FR: Phil Caplan *PC*

The letter responding to Abe Pollin's suggestion about WH tours has been on the President's desk since April 11. I get the sense from talking to Craig and Nancy that the President may not be satisfied with the response.

I have beefed up the letter a bit and would like to resubmit it to the President for his signature.

Please let me know if you have any comment on the new letter.

cc: Todd Stern
Nancy Hernreich

June 10, 1997

PERSONAL

Mr. Abe Pollin
Chairman of the Board
USAirways Arena
One Harry S. Truman Drive
Landover, Maryland 20785

Dear Abe:

Thank you for your interest in the distribution of White House tour tickets. I'm sorry that I haven't responded sooner, but I appreciated your suggestions and asked my staff to look seriously into them.

I'm advised that we already have a system for distributing timed tickets that fits the particular needs of the White House. Among other things, most tickets are distributed each morning for tours that day, which permits much-needed flexibility. We are often forced to close the White House on very short notice due to special events here or for other reasons. Making widespread advance tour tickets available could leave a false impression that the tours are guaranteed.

Thanks, too, for the stadium pretzels. You were kind to send them along, and I am grateful for your continued thoughtfulness and support. Please share my appreciation and best wishes with your staff.

It was good to see you at the White House, and I look forward to getting together again.

Sincerely,

THE WHITE HOUSE
WASHINGTON

June 10, 1997

MEMORANDUM FOR DON BAER
 ANN LEWIS
 MICHAEL WALDMAN

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

Copied
Baer
Lewis
Waldman

The U.S. Mint strikes a medal for each president, including when a president is re-elected. The medals are a source of revenue for the Mint, for the various presidential libraries, etc. and do not cost taxpayers any money. Since JFK, the medal has traditionally featured a portrait of the president on the front, and a quote from his Inaugural or other significant speech on the back.

The President's first medal (copy attached) bears a quote from his first Inaugural, "There is nothing wrong with America that cannot be cured with what is right with America."

Possibilities for the second medal include:

"Our greatest responsibility is to embrace a new spirit of community for a new century. For any one of us to succeed, we must succeed as one America." (Inaugural)

"With a new vision of government, a new sense of responsibility a new spirit of community, we will sustain America's journey." (Inaugural)

"...by our dreams and labors, we will redeem the promise of America in the 21st century." (Inaugural)

"For no matter what our differences -- in our faiths, our backgrounds, our politics -- we must all be repairers of the breach." (State of the Union)

Any favorites? A better suggestion? The President will make the final call, but please let us know your thoughts by June 17. Thanks.



THE PRESIDENT HAS BEEN

6-10-97

✓ bec: POTUS

K McGinty

THE WHITE HOUSE

June 3, 1997

*copied
McGinty
COS*

Ms. Christine Wood
Kids Against Pollution
PO Box 22
Newport, N.Y. 13416

Dear Ms. Wood:

✓ Thank you and your K.A.P. Youth Leaders for recognizing the Clinton Administration's Executive Order protecting children from environmental health and safety risks. The award is displayed proudly in my office and I will be sure to forward your letter suggesting a White House Commitment Garden for Children to the President's office. Thanks, too, for all you do to protect our resources and to involve children in the process.

With best regards, I am

Sincerely yours,

Hillary Rodham Clinton
Hillary Rodham Clinton

Ms. Wood



PO BOX 22 NEWPORT, NEW YORK 13416
PHONE: 315-845-8597 email: kapaborg.com

"Save The Earth Not Just For Us
But For Future Generations"

Christine Shalin-Wood
EXECUTIVE DIRECTOR

EXECUTIVE BOARD

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Marion Truette
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Saratoga Springs, NY 12866
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Faco Valle
Central NY Council on
Occupational
Safety & Health
Syracuse NY 13204
315-471-6187

Youth Leadership
Ananda Babunzou, Daniel
Cuda, Matt Elliott, Mea
Faville, Joy Felo, Chelsea
Horn, Troy Helmer, Jed
Michael, Eric Miller.

To The Clinton Administration:

Thank you for the Executive Order: Enhancing Protection of Children's Health, and the development of EPA's office of **Children's Health Protection**. These *First Steps* to "walking the walk" for children's health protection are vital during these trying times.

Kids Against Pollution (K.A.P.) is willing to assist with the *Next Step* to perpetuate this commitment of the Clinton Administration for Administrations to come by establishing a **Commitment Garden for Children** at the White House. The establishment of a *Commitment Garden for Children* will promote and secure support for the Executive Order to Enhance Protection of Children's Health, and EPA's office of Children's Health Protection. Establishing this garden first on the White House grounds will set the example for communities nationwide to solidify their commitment for children's health protections from environmental threats. "The Garden" will symbolize children's need for clean environments to grow healthy and reproduce strong generations.

Children, like gardens, need clean air, water and soil to grow healthy and strong. Each *Children's Commitment Garden* will be a unique expression and commitment. Some may be simple gardens, while others include park benches and swings; but all could display a common commemorative plaque. Since these gardens would be a symbol of commitment for a clean future, they would be required to: * be cultivated on uncontaminated grounds, * must be pesticide free, * and meet Clean Air / Clean Water Standards.

As communities, neighborhoods and government buildings cultivate *Children's Commitment Gardens*, they will be cultivating awareness for safe, healthy environments needed for children, as well as their own commitment. **Next Steps** are important to help keep these vital **First Steps** growing to **Future Steps** - that of "Making It Happen" or making manifest the reality of Children's Health Protection.

We thank you for all of your past and future efforts on behalf of children's health. We look forward to the opportunities that lie ahead with the establishment of EPA's office of Children's Health Protection. Together we can "Save The Earth Not Just For Us But For Future Generations"

 K.A.P. Awards are hand made by kids from R
 materials found in nature, or remnants of items
 meant to be discarded!

K.A.P. believes in recognizing those who take on leadership roles for the environment and strive to keep democracy alive. These awards are presented to authority figures such as government officials, teachers, and businesses.

Awards are decided and presented by K.A.P.'s Youth Board of Directors.

This award is made from: Dryer lint (batting inside), old curtain, old dress (trim), beads, branch, feathers, Jute (macrame), sea shells, and love.

Thankyou for the Executive
 Order Enhancing Protection
 of Children's Health; Jan Rayche
 the First Steps to
 "Walking the walk"
 for child health protection

Meghanville

Matthews & North

K.A.P. Youth Leader,
 Eric Miller
 Amanda Mower
 Heather Dulap
 Samantha Presiden
 Chris Wood
 Brenda Foster
 Ivy Carpenter
 Mike Kishna

THE PRESIDENT HAS LEFT

6-10-97

THE WHITE HOUSE
WASHINGTON

June 7, 1997

MR. PRESIDENT:

The attached memo from Sylvia and Minyon Moore concerns an outreach meeting to be held prior to your San Diego speech on race. My understanding is that you need to end up with a group of about 25 people. You can obviously choose people from any of the lists, though Minyon and Sylvia evidently believe that the people on the A and B lists are of higher priority than the people on the C list.


Todd Stern

copied
Matthews
Moore
COS


~~Sylvia Moore~~

THE PRESIDENT HAS SEEN

6-10-97

MEMORANDUM FOR THE PRESIDENT

FROM: SYLVIA MATHEWS AND MINYON MOORE

RE: OUTREACH MEETING ON RACE AND RECONCILIATION

'97 JUN 7 AM 11:04

As a follow-up to your request to do more outreach prior to your speech in San Diego, attached you will find a copy of the proposed list of invitee's that have been developed by the White House reconciliation working group and Secretary Alexis Herman. Because of their diverse backgrounds, far-ranging experience on issues of race and commitment to racial equality, we believe the people on these three lists will provide you with insight and views that will refine your vision of your Race Initiative.

As we understand it, the purpose of this meeting is to discuss your speech and to discuss thoughts and ideas for what to do with the initiative over the next year.

Due to space constraints, we have prioritized the list into "A," "B," and "C" categories. The "A" and "B" list reflect people who will fulfill the goal of this meeting and with whom you do not often have the opportunity to discuss these issues. The "C" list represents people who also bring a great deal of insight to discussions of race, but in order to maximize the effectiveness of the meeting we had to prioritize the list. Although we believe those on the "A" and "B" list are equal in stature, we divided the lists into two categories in order to limit the size of your meeting.

In addition, we spoke with Reverend Jackson and he will not be able to attend because of a high school commencement speech. He is still looking forward to convening a group of civil rights leaders to discuss a broad range of civil rights issues with you at a later time.

Currently the meeting is scheduled for Tuesday, June 10, 1997, from 5:30 p.m. to 7:30 p.m. We will need your input as quickly as possible so that we can notify participants. Please feel free to contact Sylvia Mathews or Minyon Moore if you need any additional details.

<u>A-List</u>	<u>B-List</u>	<u>C-List</u>
Henry Cisneros Wade Henderson Elaine Jones Cornel West William Julius Wilson Chancellor Chang-Lin Tien Dr. Mary Berry Bob Johnson Karen Narasaki Eli Weisel Dale Minami, Esq. Rev. Jesse L. Jackson (scheduling conflict) Andy Young (out-of-country) Ralph Neas Antonia Hernandez Taylor Branch Stephen Carter Rev. Joe Lowery Ron Allen Fidel Vargas Dr. Joan Campbell Rabbi David Sapperstein <i>John Gregory</i>	Hugh Price Kweisi Mfume Alma Brown Raul Yzaguirre Mylrie Evers Stewart Kwoh Dorothy Height Ernie Green Carol Willis Ron Wakabayasi Gloria Molina Judy Lichtman Sandy Cloud Marsha Greenberger Bill Galston Ben Barber Maggie Williams Jamal Bryant Cha Guzman Arthur Schlesinger Nathan Glazer Christi Haubegger John Sweeney <i>Sony</i> <i>Anti-Army fr.</i> <i>Chris, Mark who</i> <i>helped it.</i>	Rev. Doug Cole Deval Patrick Chris Edley Roger Wilkins Antonio Gonzales Weldon Latham Sandy Cloud Jesse P.M. Santos Joel Jacinto J.D. Hokoyama Don Tamaki, Esq. Martha Choe Judy Chu Rev. Yolanda King or Martin King III, Dexter Alan Wheat Mayor Marc Morial Mayor Kurt Schmoke Barbara Arwine <u>Speechwriting additions</u> <u>(c-list):</u> Richard Goodwin Mario Cuomo Norma Kuntu Al From Skip Gates Nicholas Lemon Eric Liu John Singleton Gregory Nala Jane Delgado Bob Shrum Paul Begala David Axelrod Note: They will call these people

*Return
Carter
from the trip*

Post stuff

Brianna Weinstein, 12

Brianna Shelsea Weinstein,
12, of Hanover, N.H., formerly
of Iowa City, died Wednesday,
May 28, 1997,
at her home
after a long
illness.



Visitation
will begin at
10:30 a.m.
Friday at the
Rand-Wilson
Funeral Home
in Hanover.
Memorials

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one sister, Shelsea, at home; her
grandmother, June Weinstein, of
Chicago; and her aunts, uncles,
and cousins.

Her grandparents, Sheldon
Weinstein, Lucille Rutill and
Julius Rutill, died earlier.

Letter to
family

from
Beth Cune

Dear Mr. President,
I thought you would want to know
that Brianna Weinstein passed
away on Wednesday. She was
with her family and two dogs
at home, and she died while her
mother was reading her a favorite
story. Her parents both asked me
to pass on to you that your words
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and her family. It is little things like
this that you do that make you the truly
good person you are.

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No ☐

Send to Russis?

Yes ☒

No ☒

C.

6-9-97

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Thank

Wendy

Brieanna Weinstein, 12

Brieanna Shelsea Weinstein, 12, of Hanover, N.H., formerly of Iowa City, died Wednesday, May 28, 1997, at her home after a long illness.



Visitation will begin at 10:30 a.m. Friday at the Rand-Wilson Funeral Home in Hanover.

Memorials may be made

to the Brie Fund, c/o The Hitchcock Foundation, Dartmouth College, Attn. Michael Shoob, Hanover, N.H., 03775, or the Bernice A. Ray School, Hanover, N.H., 03755.

Brieanna was born Oct. 3, 1984, in Iowa City to Dr. James and Mimi Rutili Weinstein. She was a fifth grader at the Ray School in Hanover. She had many interests including cooking, swimming and playing the bass violin. In 1995, she met President Clinton, who had remained in contact with her. She fought her battle with leukemia since 1985, suffering five relapses and nearly 11 years of treatment.

Survivors include her parents, one sister, Shelscy, at home; her grandmother, June Weinstein, of Chicago; and her aunts, uncles, and cousins.

Her grandparents, Sheldon Weinstein, Lucille Rutili and Julius Rutili, died earlier.

Dear Mr. President,
I thought you would want to know that Brieanna Weinstein passed away on Wednesday. She was with her family and two dogs at home, and she died while her mother was reading her a favorite story. Her parents both asked me to pass on to you that your words of encouragement and the opportunity for Brie to meet you have meant so much to them. Brie told everyone she met that she was your "special friend." She was encouraged to focus on "happy thoughts" as a way to forget her pain, and you provided some very special "happy thoughts." Enclosed is a copy of her obituary which mentions you. As you can see, your kindness made a great impact. Thank you from me, my little angel Brie, and her family. It is little things like this that you do that make you the truly good person you are.

Wendy

THE WHITE HOUSE
WASHINGTON

Date 6-10

To: Sandy Berger
John Podesta
From: The Staff Secretary

Any comment on this?
I plan to send it to POTUS
today unless I hear
otherwise.

Tadel

cc: Gene Spearing

THE WHITE HOUSE
WASHINGTON

June 9, 1997

MEMORANDUM FOR THE PRESIDENT

FROM: Daniel K. Tarullo *DK*

SUBJECT: Agenda for Denver Summit Discussions

With a near-final schedule for the Summit now in hand, I want to propose to you the topics to be discussed in the working sessions, along with suggestions for which Leaders you might ask to provide some introductory comments. The proposed schedule is attached. This memo explains the proposal.

We want to use the Summit to (1) highlight your success since 1993 in building a strong economy and integrating Russia into the ongoing work of the community of democracies, and (2) build on these accomplishments by organizing ourselves to meet the economic and security challenges of the next century. The Summit will consolidate and extend your leadership in forging cooperative efforts to deal with crime, terrorism, and drugs. It will also include an initiative on controlling the spread of infectious diseases and focus attention on major global environmental problems. In addition, we will have discussions of the challenges for our individual societies posed by aging populations and globalization.

There follows a session-by-session breakdown of proposed discussion topics:

Friday Dinner: Since Lyon, six of our eight countries have had elections, three since the beginning of May. Moreover, Denver takes place against the backdrop of the Helsinki-Paris-Madrid developments, which are working basic changes in European security arrangements. It seems useful to use this first dinner to take stock of developments, domestic and international, in the last year. It will also be important at this dinner to try to integrate President Yeltsin into the role of regular participant, rather than latecomer. I suggest inviting Yeltsin to kick off the discussion by giving his perspective, on developments in both Russia and the world.

By the time of Denver we may have agreement on some common steps for improving the political and economic situation in Bosnia, which could be discussed in the latter part of the dinner and released as a separate document that evening. Although there is no ideal lead speaker on this topic from among the other leaders, NSC on balance recommended Chirac (the alternative is no designated speaker other than you as host). Finally, this would also be the time to deal with any late-breaking crisis that may occur.

Saturday Morning Session I: During this two-hour session we would deal with two subjects -- Africa and the ongoing cooperative global agenda. On Africa economic issues, we want to emphasize an approach that relies on sound economic policies in Africa and our efforts to integrate sub-Saharan countries more completely into the global economy through increased trade and investment. Chirac will want to speak to this topic with more attention to traditional aid policies. Again, it is both important to have a discussion that reveals differing emphases, while converging around common positions. On Africa security and peacebuilding, Chretien has taken a strong interest and would be a good lead-off speaker.

On the global agenda, you have the opportunity to underscore the progress we have made in the last three years in organizing ourselves to meet these transnational problems together, as well as to emphasize the need to strengthen and extend the cooperative networks we have formed. While detailed discussion of each area is not necessary, Hashimoto will want to speak to terrorism in light of the Lima incident, and some discussion may ensue. I suggest asking other leaders to comment on developments in the other areas -- Chirac (drugs), Prodi (crime), Chretien (nuclear safety), and Yeltsin (UN reform).

Finally, I propose that you take a few minutes toward the close of this session to address infectious diseases and the AIDS vaccine. We have an initiative to develop a global network for surveillance of, and response to, emerging infectious diseases, which should be highlighted. We also need to impress upon the other leaders the importance of supporting research to develop an AIDS vaccine.

Saturday Morning Session II: This one-hour session would be devoted entirely to the environment, including climate change. There are, at present, significant differences of views among the Eight on climate change and other key environmental topics. It is important that this session both air those differences and result in a common statement of principles on which we can agree. Many of the leaders want to speak to this subject. I would suggest asking Kohl to make some initial remarks, followed by a comment on climate change by Hashimoto.

Saturday Lunch: Lunch will be a good opportunity for a more informal discussion of important social and economic issues -- the aging of our societies and the structural changes in our societies that are needed for the new economy. Obviously we do not proposed collective initiatives among the Eight on these subjects, but instead look to productive discussion of common problems. Since Hashimoto proposed the aging topic for discussion, he could make introductory remarks. Of course, Blair has shown great interest in the structural change issue -- labor markets, education, and welfare reform -- and he could speak to this topic. This part of the discussion could also address the topic you raised at last year's summit -- job creation by small and medium sized enterprises. Given Italy's great success with competitive smaller businesses, Prodi could speak to this topic.

G-7 Leaders Saturday Afternoon Session: This session will require delicate

handling, less in the discussion than in how we characterize it publicly. On the one hand, you have indicated to Yeltsin and others your intention that this be fairly brief and low-key session. On the other hand, there are some important steps on international financial stabilization to highlight, and it is important to deliver the same growth message to Hashimoto that you conveyed when he visited Washington. Also, Hashimoto has expressed consternation that the entire G-7 agenda will be dealt with in only an hour. He, and some officials from other countries, feel the brevity of the session undermines the continued vitality of the G-7 as an entity capable of collective action when needed to meet an economic crisis.

While I have asked the schedulers to see if we can add fifteen or twenty minutes to this session by reducing what seems (at least to me) the excessive protocol time now dedicated for official greetings at dinner, we will obviously not be approaching the two hours that Hashimoto thinks crucial.

I propose that the session be devoted in straightforward fashion to three core G-7 topics: key macroeconomic issues (including the European Monetary Union); the financial stabilization agenda, and funding Ukraine's shutdown of Chernobyl.

Sunday Morning Session: This session would be devoted to more traditional foreign policy topics. First, there could be some discussion of how to give impetus to the democracy initiative being launched at this summit. I thought Kok might be an interesting choice to kick off this discussion, though Chretien is a possibility.

Second, there should be a discussion of Hong Kong's reversion to China, doubtless accompanied by observations on China more generally. The Japanese are a bit nervous about having this discussion. Our view is that it would be damaging not to have this discussion on the eve of Hong Kong's reversion. Given your conversation with Blair in London, he seems the best lead.

Finally, we would touch on the Middle East. We will probably want to do so in the context of speaking about Iran, Iraq, and Libya, though we should be prepared for questions about the peace process. Here it is probably best for you to set the tone yourself.

RECOMMENDATION

That you approve the attached agenda and designation of lead speakers for me to transmit to the other Summit participants.

Approve _____

Disapprove _____

Discuss _____

PROPOSED AGENDA FOR DENVER SUMMIT SESSIONS
(Proposed lead speakers noted in parentheses)

Friday Dinner

- Domestic and International Developments since Lyon (Yeltsin)
- Bosnia (Chirac)

Saturday Morning I

- Africa
 - Economics (Chirac)
 - Political/Peacebuilding (Chretien)
- Ongoing Global Agenda (brief comments, not full discussion)
 - Terrorism (Hashimoto); Crime (Prodi); Drugs (Chirac); Nuclear safety (Chretien);
 - UN reform (Yeltsin)
- Infectious Diseases (POTUS)

Saturday Morning II

- Environment (Kohl)
 - Climate change (Hashimoto)

Saturday Lunch

- Aging (Hashimoto)
- Globalization and Economic Growth
 - Structural Reform (Blair)
 - Small and Medium Size Enterprise Job Creation (Prodi)

Saturday Afternoon (G-7)

- Macroeconomic
 - European Monetary Union (Santer)
- Financial Stabilization (Kohl)
- Ukraine/Chernobyl (POTUS)

Sunday Morning

- Democracy (Kok)
- China/Hong Kong (Blair)
- Middle East (POTUS)

Todd
Cord

THE WHITE HOUSE
WASHINGTON

June 10, 1997

Erskine --

After discussing this with John and hearing from him that you were ok to go forward, I have offered Sean Maloney the open deputy slot in my office. I think he will be very good and an excellent addition to the White House staff. I expect him to start shortly after July 4.


Todd Stern

cc: John Podesta
Sylvia Mathews

LEHMAN BROTHERS

*Through
5/20/97*ERNEST G. GREEN
MANAGING DIRECTOR

'97 JUN 4 AM 7:56

June 2, 1997

*TO NSZ
for handling* 6-10-97President William Jefferson Clinton
The White House
1600 Pennsylvania Avenue, NW
Washington, DC 20500

Dear President Clinton:

I understand that the Summit planning team met Memorial Day weekend for final negotiations on the G8 position documents, but I hope that you will consider underscoring two important additional points during the Denver Summit: 1) accelerating debt relief for the African continent, and, 2) making a state visit to Africa within the next 12 months.

The foreign policy and international business communities and others have been very impressed with the Department of Treasury's leadership role in formulating the World Bank/IMF debt reduction plan for highly indebted poor countries (HIPC). US support for reducing debt more quickly will have a measurable impact on poverty alleviation efforts in Africa.

In Uganda--the first African country to qualify for debt relief under the HIPC terms--accelerated relief will literally save lives. In that country the financial costs of delaying debt relief is the equivalent of six times the national health budget. Debt relief in Africa allows poor countries to immediately invest a higher proportion of their resources in their people.

Denver will also provide you a unique opportunity to announce a state visit to Africa, a visit most appropriately timed to occur within the next 12 months. Such a visit will have multiple effects; specifically, the visit can:

- Build on the success of the First Lady's trip, further spotlighting Africa's most successful nations and encouraging Africa's new leaders to press on with the critical political and economic liberalization they have courageously undertaken;

- Provide an opportunity to consult with African leaders in regard to a wide-range of development, trade and conflict resolution issues. (An announcement in Denver will also immediately address an emergent Congressional Black Caucus concern regarding the lack of African representation, given Africa's prominence on the meeting agenda. Some Members have difficulty understanding how in one case--Russia--efforts were made to consult with political leaders who were not formal G7 members.); and
- Heighten US private sector awareness of the world's last large emerging market.

While several countries can be targeted, South Africa should be the clear central focus of the visit. Ideally, the visit could occur within the next 12 months, well in advance of the Spring 1999 elections in South Africa and the expiration of President Mandela's term in office.

Perhaps the most compelling reason for a state visit relates to a purely domestic agenda. Leaders in the African-American community have consistently communicated the importance of high-level visits by the administration as a vehicle to underscore the important place of Africa policy within your administration. This trip would serve that purpose.

Relatedly, I also recommend that you consider using the upcoming 40th anniversary observance of the Central High School desegregation effort as an opportunity to deliver a comprehensive foreign policy address on Africa. Throughout the 20th century the advancement of African Americans and Africans has been linked. As racial segregation limited the rights of our citizens, colonialism and minority rule limited the rights of Africans. As the civil rights movement advanced political rights for many in the US, Africa's movements for independence and majority rule have allowed growing numbers of citizens to participate in the democratic process. Today, Africa has emerged from its 40 year struggle for political independence and must confront many unresolved issues--much as we in the US continue to confront the legacy of segregation and the existence of racial tension.

There are a number of venues in Little Rock that would be appropriate for such an address, however, I invite you to consider the Winthrop Rockefeller Foundation--of which I am a board member--as a site. Of course, I am available to discuss the above at greater length.

Sincerely,



Ernest G. Green
Managing Director

LEHMAN BROTHERS

FACSIMILE COVER SHEET

DATE:

PAGES (including cover):

TO:

Name

Nancy Hemreich

Company

The White House

Phone

456-6610

Fax

456-2883

FROM: Ernest G. Green

Public Finance

(202) 452-4728 (Direct phone number)

(202) 452-4778 (FAX)

MESSAGE:

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