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THE PRESIDENT HAS SEEN
7-18-97

EB this fyi — we really should do follow up w/ [illegible]

AMERICA'S PROMISE
THE ALLIANCE FOR YOUTH

Colin L. Powell
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July 11, 1997

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

Dear Mr. President:

The spirit of the Philadelphia Summit keeps on growing and spreading. I see it everywhere I go. In Lancaster County, Pennsylvania, the local of Chamber of Commerce presented me with a loose-leaf book full of America's Promise pledges from local businesses. I have participated in Summit-related events in Boston, St. Louis, San Juan, Detroit and New York City.

Since the Summit, over two hundred additional corporate commitments have been made. Larry Ellison of Oracle provided one of the largest with a $100 million+ commitment to bring network computing into every school room in the country. Bill Gates' Microsoft commitment to $200 million+ to libraries is also part of "America's Promise." Even more significant are the many letters I receive from individuals who have gotten in a youth program in their community.

Governors and mayors are planning summits all across the country. We know of at least thirty states and over 175 cities and towns that have a summit in the works.

As you, the First Lady and the Vice-President plan your travels for the fall, I recommend you try to participate in one or more of these summits. Involvement can be as modest as a cameo appearance or as much as participating in a seminar and giving a speech. Other possibilities are a live satellite hook-up, a taped video message or a letter of support.

I am providing the schedule of summits to your staff and will follow up with Erskine Bowles. Attached is just a quick snapshot of a few of the early fall opportunities.

Very Respectfully,

[signature]

Remaining letters will be penned.

Copied Bowles

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Upcoming Community and State Summit Events

The following communities and states are planning exciting summit events. Listed below are highlights of their goals, processes, event programs and their respective dates. Please contact Gregg Petersmeyer with the Communities Department at America's Promise for further information, (703) 684-4500 Ext. 134.

1. Massachusetts State Summit

- Governor Weld and Colin Powell together announced these goals for the state summit titled "The Promise of Youth":

  a) 50,000 additional mentors;

  b) double the number of safe places in the state;

  c) enlist 2,000 AmeriCorps members and 200,000 youth in service;

  d) double the number of individuals and organizations participating in school-to-work and remedial reading programs;

  e) a healthy start for children without health insurance under new state law

  Date: October 25-26, 1997

2. Rhode Island State Summit

- A July 2nd press conference with Governor Almond announced the summit strategy and solicited commitments
- Initiating a Youth Resource Bank -- the first-ever statewide inventory of resources available to youth and those who are willing to commit their efforts
- Goals include: a) 50 Neighborhood Homework Sites; b) 2,500 parent/teacher collaboratives; c) 100 employers offering paid time off for community service; d) 2,000 more mentors; e) a local chapter of "One Hundred Black Men"
- Providence community delegation and state delegation have merged to form a super-delegation to plan both a youth-designed summit and a broader summit in the fall

3. Marquette, Michigan Local Summit

- Richard Lynch will be the keynote speaker at Marquette's Summit entitled, **"The Emerging Patterns of Volunteerism."** The all-day volunteer conference will have presentations, information booths and goal sessions for the communities to attend.
- The Marquette and Alger counties' goal is to make the 5 fundamental resources available to an additional 1,000 youths by the year 2000.

Date: October 8, 1997

4. West Virginia State Summit

- The state's goals are threefold: a) 20,000 children with all five resources by the year 2000; b) one Community of Promise in every county in the state and; c) increased citizen volunteering statewide
- The summit will convene 5 representatives and one county commissioner from every county
- Identifying number of existing children with all 5 resources and seeking promise books from every county -- with 1,100 promises from Clay County already
- Governor committed to active role before and after the event
- Already spoken to over 1,000 state youth on getting involved in the upcoming summit

Date: October 5-6, 1997

5. Louisiana State Summit

- 300 delegates will convene to produce local action plans after a Celebration of Service at the Governor's mansion. The effort is headed by the Lieutenant Governor
- Launching a corporate promise campaign to fund the event, including the statewide day of service, working sessions and plenary sessions

Date: October 22, 1997

6. Syracuse/Onondaga, New York Local Summit

- Rev. Soaries will be the keynote speaker at the **Dual County Summit** held on *September 27*. The Summit members and Mayor of Syracuse will blend corporate and community efforts in local volunteering projects
- A local youth media group will produce a video, The Media Unit, to use during presentations and for publicity purposes
- The **Local Youth Summit** will be held on *October 13th*, giving local youths the opportunity to speak out and develop their own action plans

7. **Greenville, North Carolina Local Summit**

- An inspirational event convening local youth agencies that will set yearly state goals
  Date: November 1, 1997

8. **Madison, Wisconsin Local Summit**

- A statewide Day of Youth Service planned for October 5, 1997
- A state summit in Madison on October 6, 1997

9. **Columbus, Ohio Local Summit**

- A "Words of Youth Retreat" to gather over 100 student representatives of all grade levels and community leaders who have each surveyed 10 friends to hear the critical issues facing the community's youth and what permanent vehicles for youth involvement they can create
  Date: August 18-20

10. **Indianapolis, Indiana Local Summit**

- Ongoing statewide roundtable discussions will culminate in the **"Indy Summit 2000,"** an event with a celebration of the Indiana Promise Book, a service opportunities fair, breakout working sessions and a non-profit networking diner
  Date: September 27, 1997

11. **New Jersey State Summit**

- Completing county-based needs assessment study and survey of existing resources in each goal area before state summit in December
- Governor Whitman has committed to the campaign and event, as well as boosting healthy start efforts under her current "Bright Beginnings" initiative
- Delegation is attempting links with major national commitment-makers present in Philadelphia

  Date: Early December

THE WHITE HOUSE

WASHINGTON

DATE: 7-18-97

NOTE FOR: The Honorable Robert E. Rubin

The President has reviewed the attached, and it is forwarded to you for your:

Information x

Action

Thank you.

Staff Secretary
(x6-2702)

cc:

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7-18-97

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DEPARTMENT OF THE TREASURY
WASHINGTON, D.C.

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SECRETARY OF THE TREASURY

July 16, 1997

Thanks — Bob you were to push this — lack of Sec. Dev. leaves (generally slow process in making negative in fast track — have to push —
BC

MEMORANDUM TO THE PRESIDENT

FROM: Robert E. Rubin R.E.R.

SUBJECT: The North American Development Bank

Issue Forcing Event:

The Hispanic Caucus held a press conference and released a report this morning, prepared by the Latino Coalition, that is critical of NAFTA and its side agreements. While the study is critical of the lack of progress with the NADBank's "Domestic Window," we understand that Representative Esteban Torres (D-CA) made positive comments at the press conference regarding recent progress in the implementation.

Discussion:

The North American Development Bank (NADBank) is an international financial institution capitalized and governed by the United States and Mexico primarily to finance environmental infrastructure projects along the U.S./Mexico border that have been certified by the Border Environment Cooperation Commission (BECC). In addition, 10% of each country's contribution is earmarked for domestic community adjustment throughout that country. Once funding is complete, the NADBank will leverage $225 million in total U.S. appropriations into $2-3 billion in total lending.

Domestic Window Program

The Hispanic Caucus has been frustrated with the pace with which the "Domestic Window" has been implemented and the failure to provide financing for areas adversely impacted by the NAFTA. The Caucus' criticism on the lack of visible progress on the Domestic Window is legitimate. It has taken longer than expected to get the lending program up and running. In the last several months, however, there has been significant progress with implementation. In June, agreements were entered into among the Treasury and the Department of Agriculture and the Small Business Administration regarding their involvement in the Domestic Window. In early July, the interagency group responsible for the program (of which Treasury serves as the chair) identified approximately thirty areas as eligible for adjustment assistance. Since December 1996, the NADBank has been conducting outreach and receiving applications for community adjustment financing -- one application has been received and considered during this period.

To accelerate the Domestic Window program, the approximately thirty areas that are eligible for Domestic Window financing will be announced within the next month. (Sites were selected based on the number of worker certifications by the Department of Labor as displaced under the NAFTA-TAA program and unemployment levels in 1996. The 19 states included in the selected areas are Alabama, Alaska, Arkansas, California, Connecticut, Georgia, Indiana, Kansas, Louisiana, Michigan, Missouri, New York, North Carolina, Ohio, Pennsylvania, Tennessee, Texas, Washington, and Wisconsin.) The NADBank will join with the Departments of Treasury and Agriculture and the Small Business Administration in heavily marketing the program in these areas.

NADBank Environmental Operations

The Hispanic caucus has been less critical of the NADBank's environmental operations in the border region. Recognizing the obstacles that the Bank has had to face, Congressman Torres concluded in his letter to you that "the NADBank's environmental infrastructure component has diligently worked to overcome...obstacles, and we are hopeful that the Bank's lending activity will continue to accelerate."

The NADBank has approved financing for four projects (two in the United States and two in Mexico), and three are already under construction. To ensure affordable financing for poor border communities, the Bank has established cofinancing arrangements with U.S. and Mexican grant programs, including a $170 million cooperative agreement with EPA. The pace of BECC certification and Bank lending has been hindered by two factors: many of the projects, as presented by border communities, are technically and financially unsustainable, and many local water systems cannot manage their projects effectively. In response, the BECC has established a $10 million project development assistance program, and the Bank has established a $2 million institutional development program.

The BECC and NADBank are now poised to increase their assistance to the border region in addressing its environmental infrastructure needs. The Bank and the BECC, with the concurrence of state and federal officials on both sides of the border, have identified more than 30 projects with a total cost of about $500 million as the core of their 1997-99 work plan. The pace of project development and approval is expected to accelerate during the next 24 months.

Attachment Background on the NADBank

Background:

One of the side agreements to the NAFTA was the creation of the North American Development Bank (NADBank), established as an international financial institution through a bilateral agreement between the United States and Mexico. The primary motivation for its creation was to address raw sewage dumped in boundary waters, unsafe drinking water, and inadequate municipal waste disposal that have plagued communities on both sides of the border (estimated to be $6.4-8.0 billion over the next decade). The NADBank's secondary function was to provide financing for community adjustment and investment throughout each of the two countries to further the purposes of the North American Free Trade Agreement (NAFTA) (this bank function is referred to as the "Domestic Window"). (The Domestic Window was strongly advocated by a number of Congressmen, including Representative Esteban Torres.) Funding is divided between the two purposes with no greater than 10% of the NADBank's capital being allocated for the community adjustment programs. The NADBank will be initially capitalized over a four year period on an equal basis by both governments with $450 million of paid-in capital and $2.55 billion of callable capital. The first three capital tranches have been appropriated by the U.S. Congress and pledged by the Mexican Government.

The NADBank may only provide funding for Domestic Window projects after receiving an endorsement of the individual project from the federal government. Executive Order No. 12916 (issued in November 1994) sets forth the process for providing endorsement and designates four executive agencies to develop and oversee the Domestic Window: the Treasury, the Departments of Housing and Urban Development and Agriculture, and the Small Business Administration. Treasury was designated as the Chair of the interagency group.

Environmental projects must be certified by a bilateral institution, the Border Environmental Cooperation Commission (BECC), before the NADBank is authorized to provide financing. The BECC consists of 12 members appointed by the Governments of the United States and Mexico, the majority of whom are from the border region. The BECC holds public sessions to determine which projects satisfy its criteria for possible NADBank funding.

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Inequality Amid Prosperity

By Laura D'Andrea Tyson

Wednesday, July 9, 1997; Page A23
The Washington Post

During the past four years, the American economy has enjoyed a robust expansion with low unemployment, greater international competitiveness and modest inflation. Unfortunately, the economy's expansion has failed to reverse two disturbing long-run trends: stagnant or falling real earnings for the majority of workers and increasing income inequality among workers and households.

Although average real earnings for nonsupervisory production workers increased slightly in 1996 (a trend that is continuing in 1997), they remain far below their postwar peaks of the mid-1970s. In addition, the gap between rich and poor households is much larger than it was 20 years ago.

Much of the increasing inequality in family incomes has its origins in the marked increase in inequality of labor earnings. According to the Institute for International Economics, during the past two decades the ratio of wages of the top 10 percent of workers to those of the bottom 10 percent rose from about 360 percent to about 525 percent for men and from about 380 percent to about 430 percent for women.

Behind these yawning gaps are significant increases in wage differentials by education, age and occupation. To make matters worse and even more difficult to explain, so-called within-group inequality -- that is, differentials in earnings for workers with the same educational, age and occupational characteristics -- also has risen sharply.

There appear to be three major forces behind these troublesome trends. Technological changes have increased the demand for -- and relative wages of -- highly skilled, college-educated workers. Globalization, including import competition and immigration, has increased the supply and depressed the relative and absolute wages of less-skilled, high school-educated workers. Institutional forces, including a sharp decline in unionization and in the real value of the minimum wage, also have put low-skill workers at a disadvantage.

Most economists accord the greatest weight to the technological explanation for rising wage inequality. This explanation is consistent with the fact that an increase in both the relative employment levels and the relative earnings of more skilled workers has occurred across the entire economy, from manufacturing to services and from tradable products to non-tradable ones. In addition, empirical studies have established a direct link between the technological intensity of jobs and the wages they pay.

Economists, politicians and commentators are waging a debate about the globalization explanation of wage inequality. The simple analytical logic of this explanation is compelling -- growing import competition and growing immigration from low-skill, low-income countries have made unskilled labor a more abundant factor of production and therefore reduced its relative price. Opinion is shifting toward the view that globalization has had a "moderate" effect -- perhaps accounting for one-fourth to one-fifth of the nearly 20 percent rise in the wage differential between skilled and unskilled labor -- and the estimate of this effect has been creeping up over time. There is also a developing consensus that immigration has had a more powerful adverse effect than trade on the wages of the poorest workers.

Given the powerful and diverse forces driving inequality and the economic disaster that has befallen low-skilled workers, especially young men, in recent years, how should policy-makers respond?

First they should diagnose the problem correctly. There is no evidence, for example, that higher tax rates are the culprit. The effective tax rate for a middle-class family of four is about the same today as it was in 1980. The top 1.4 percent of families pay substantially less than they would pay at rates prevailing 20 years ago, and the tax rate for the bottom quintile of families has been cut by the generous expansion of the earned income tax credit. There is little economic justification for significant overall tax relief at this time, and even less for the Republican package, which targets too much of the benefits to upper-income families. Generous capital gains tax relief, including indexing and estate tax relief, would not significantly improve the economy's performance but would exacerbate income inequality.

Policy-makers should not vainly attempt to reverse the forces of globalization by building protectionist walls. Protectionism would raise consumer prices, shrink export opportunities and the high-paying jobs they support, and reduce net economic welfare, potentially making everyone worse off. With 95 percent of the world's consumers outside our borders, we must focus on breaking down barriers to trade abroad, not building them up at home. This requires that Congress grant President Clinton and his able trade representatives fast-track authority to negotiate tough, enforceable trade agreements.

As a recent study of the National Research Council confirms, although immigration benefits the economy overall, with little negative effect on the income and job opportunities of most Americans, it has depressed wages of low-skill native-born Americans. These findings imply that the United States should shift toward skills and away from family ties as the basis for awarding immigration quotas in the future.

The balanced-budget deal must include adequate financing for social safety net programs -- including food stamps, the earned income tax credit, Medicaid, housing subsidies and Social Security -- that ease the challenges facing millions of low-income American workers and their families. Such programs effectively contain increasing income inequality.

Finally, policy makers at all levels must renew their efforts to provide all Americans with opportunities to upgrade their education and skills throughout their lifetime. Lifelong learning is a necessity if workers are to meet the demands created by changing technology and intensifying globalization.

The writer, who was President Clinton's economic adviser in is first term, is professor of economics and business administration at the University of California at Berkeley.

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Sandy — Interesting!

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Henry Kissinger

Let's Cooperate With China

The Washington Post
SUNDAY, JULY 6, 1997

On a recent visit to Beijing, I found improvement of the battered Sino-American relations to be a key objective—perhaps the key foreign policy objective—of the post-Deng leadership.

At the same time in the United States, the debate about granting normal trade status to China becomes more venomous with each passing year. The opponents of normal trade are already gearing up for next year. Some seek to punish China over human rights; others want to clip China's wings; many are seeking to use the China issue to restructure America's political parties. If they succeed, they will thrust America into at least political and economic war with the most populous country in the world, and one of the most dynamic. Such a confrontation is not called for by any realistic assessment of the national interest.

The administration has shown statesmanship in resisting these pressures, and it has been supported by every former president, secretary of state and national security adviser. But it has been extraordinarily timid in dealing with the demonization of China. Seeking to placate every pressure group, it has basically accepted the objectives of its critics while asserting that it has a better way of achieving them. As a result, no positive agenda emerges.

I must inject a personal note. Many of us urging cooperation with China are being accused of doing so for commercial reasons. As chairman of an international consulting firm, I inevitably encounter clients who also do business in China, though they represent a very small part of our total income. Still, anyone who believes that my views are for sale and who is prepared to ignore nearly 40 years of my published views, long before any business was done in China by anybody, should stop reading now.

The post-Cold War world obliges America to conduct two different types of foreign policy simultaneously. In the North Atlantic and the Western Hemisphere, we are dealing with pluralistic democracies practicing market economics. They do not view each other as strategic rivals; war between them is inconceivable. In these regions, American policy can be based on a sense of community and shared moral values.

It is different in Asia. There, the nations—many of continental size—consider each other, at least in part, strategic rivals. Many reject our commitment to political pluralism. No integrating institutions exist. Wars, while not likely, are not inconceivable. In Asia, at least for the next generation, peace will require the conscious and deliberate managing of a balance of power—a task with which America has never felt comfortable.

That alone should cause the United States to be wary about unnecessarily treating China as a preordained adversary. For if we cannot cooperate with China, our options will shrink and the bargaining position of all other players in the region will improve. Any opponent of the United States will automatically find support in Beijing. Tensions will mount as problems in Korea and Cambodia become much more difficult to resolve.

Before embarking on so risky and irrevocable a course, it is necessary to define correctly the challenge being posed by China. China's growth, while spectacular, starts from the base of a far lower GDP than ours, according to various estimates ranging from 10 percent to 25 percent. Thus, in absolute numbers, even if China continues to grow at the rate of 10 percent indefinitely—an assumption for which there is no precedent—it will, for the foreseeable future, barely match America's absolute growth of 2.5 percent to 3 percent. The relationship is even more one-sided in the military field. China is no military colossus bestriding Asia. We devote 3.5 percent of our GDP to defense; while the precise amount China spends is unclear, most experts believe it represents some 2 percent of the GDP, or at most a tenth of our effort.

Moreover, unlike the Soviet Union, China faces strong neighbors. For at least the next decade, Japan will have a more formidable military establishment. Nor can planners in Beijing ignore the military capacities of India, Korea, Russia, Vietnam or Taiwan. Even China's rudimentary capability to attack the United States with intercontinental missiles cannot be used effectively. An American counterblow would leave China disarmed and defenseless in the face of neighbors it has historically feared. So long as we maintain our regional alliances and a significant military presence in the Western Pacific, the Asian balance of power is unlikely to be challenged.

Under present circumstances, confronting China would not rally the neighbors of China, as the containment policy did those of the Soviet Union. During the Cold War, all of the Soviet Union's neighbors had felt threatened ideologically and militarily and were eager to cooperate in containing it. China's neighbors either do not feel threatened or are reluctant to acknowledge it. Their probable reaction, of positioning themselves between China and America, would foster both nationalism and neutralism all over Asia. And no European nation except possibly the UK would support us.

What confrontation will produce is a no-win situation for both sides. For China, too, would suffer enormously in its rate of economic development, in its prospects for collaboration with the West and in increased vulnerability to potentially hostile neighbors.

The Asian power balance is in flux. China's growth, though larger than the others', is not occurring in a vacuum. For Japan, India, Indonesia, the nations of Southeast Asia and Korea are also increasing in economic strength and military power.

America should not sacrifice one of its chief diplomatic assets—that we are, or could be, closer to each of the contenders in Asia than they are to one another. Hence we are in a position to advance our interests and protect the balance of power from a position of flexibility. Our obliviousness to this reality is reflected in the simultaneous pressures brought on Indonesia, the third most populous Asian country, and on Japan, the most economically advanced, by some of the same single-issue constituencies—on human rights and trade—urging confrontation with China. How do these groups imagine we can maintain an equilibrium in Asia amid such incoherence?

As China emerges into great-power status, adjustments in the Asian balance of power are inevitable. Disagreements are likely, but a permanent adversarial relationship is not foreordained. For the foreseeable future, China's challenge to America will be political and economic, not military.

We cannot prevent enhancement of Chinese influence arising from the process of economic growth—though we should devise rewards and penalties to channel it into directions that serve our national interest. But we must resist the domination of Asia by any country, including China. If China should choose an adventurous path, we should honor existing defense commitments and take other measures to preserve the balance of power in Asia. But unless that begins to happen, we owe it to ourselves to seek to encourage the emerging giant into a cooperative approach.

In the months ahead, an exceptional opportunity exists for exploring the prospects of coexistence in the preparations for the Clinton-Jiang summit and, even more, at the summit itself. For us, the key issues are trade, nonproliferation and human rights. Success in dealing with the first two items depends on the ability to establish equitable rules for trade and enforceable rules for preventing the spread of nuclear and missile technology. This would enable China to enter the World Trade Organization and to address American concerns about the spread of advanced techology into irresponsible hands.

Human rights have a legitimate, indeed inevitable, place on the Sino-American agenda. American concern on this subject reflects the kind of people we are. At the same time, the subject should be brought into a proper relationship with other objectives in our relations with China and with respect for China's many great historical achievements. In trying to encourage the pace of evolution, it is only fair to recognize that the system is much less rigid than when I first encountered it—though it retains its uncompromising insistence on a monopoly of power.

For China, the potential flash points are Hong Kong and Taiwan. Americans are concerned that the autonomous status of Hong Kong represents a leap into the unknown. But to most Chinese, and not only supporters of Beijing, Hong Kong was always a symbol of a humiliating colonialism imposed on an impotent China 150 years ago. To them, Hong Kong's reversion to the mother country is a source of pride.

I take seriously the Chinese leaders' expressed commitment to Hong Kong's autonomy—above all because it is so overwhelmingly in their self-interest. Hong Kong's economic collapse would wipe out China's single largest foreign currency earner and would strip the reversion of much of its symbolic significance, while the political collapse of the one-country, two-system policy would end all hopes of peaceful reunification with Taiwan.

Even with the best of intentions, there are, however, intangibles that can only be tested by the passage of time: (a) How will Chinese officials react on a day-to-day basis to a more open system with which they are unfamiliar, particularly with respect to the press and freedom of assembly? (b) Will it be possible to insulate Hong Kong's civil service from the different practices across the border? (c) Will the authorities and the opponents of the new institutions muster the self-restraint needed to operate Hong Kong's autonomous system without resorting to violence? (d) Will Taiwan see the practice of autonomy in Hong Kong as a challenge or as an opportunity?

On these issues, the United States can play a helpful role so long as it proceeds with some sensitivity. China has been told insistently by both administration officials and members of Congress that major breaches of the agreement will have a disastrous impact on American public opinion. The point has been made. Henceforth, the autonomy of 6 million Hong Kong residents is much more likely to benefit from workable Sino-American relations than from confrontation.

For more than two decades, Taiwan thrived and peace was maintained on the basis of principles laid down in the Shanghai Communique of 1972: American acknowledgment of one China, America's declared interest in a peaceful solution, and Taiwanese restraint in challenging this arrangement. All sides have an interest in maintaining this state of affairs, the precariousness of which was illustrated by the mini-crisis in the Taiwan Straits in the spring of 1996. The principles of the Shanghai Communique need to be reaffirmed: America must stick to the spirit of the one-China policy; China must understand that America is serious about our interest in a peaceful solution; and Taiwan must recognize that America's interest in a peaceful solution does not give Taiwan license to rekindle the Chinese civil war.

The traditional agenda is no longer adequate, however. As China develops and America extends the range of its international concerns, the two countries will rub up against each other in such regions as Central Asia, the Middle East—especially Iran—and Korea. America's relations with Japan remain a source of concern in China even as the alliance with Japan must continue as a key element of American foreign policy. The evolution of Russia affects both countries. Access to energy is bound to become a principal concern. These issues should be part of a serious geopolitical discussion seeking to explore common ground.

The forthcoming exchange of visits between Presidents Clinton and Jiang Zemin must not be treated as public relations exercises. Sino-American relations will either improve dramatically or decline dramatically.

Unless carefully and thoughtfully prepared, these meetings could, in the present atmosphere, easily backfire. Expectations must be realistic on both sides. And domestic pressure groups must temper their often valid concerns with an equal concern for the possibly unintended consequences of their actions. For what is at stake may be the prospects of peace in the next century.

The writer, a former secretary of state, is president of Kissinger Associates, an international consulting firm that has clients with business interests in many countries abroad.

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7-18-97

Lower Estate Taxes Will Hurt Small Farms

The New York Times
TUESDAY, JULY 15, 1997

By Chuck Hassebrook

WALTHILL, Neb.

At first glance, family farmers like Phil Menke of Cozad, Neb., seem likely beneficiaries of a proposed Congressional rollback of estate taxes. The family's wealth is in the fertile land it has farmed in the Platte Valley since 1905, and Mr. Menke is worried that his son might not be able to carry on this tradition. But Mr. Menke believes that a big cut in estate taxes will make things harder for his family, not easier.

That is because an effective estate tax helps modest family farms survive the growing pressures from big agribusinesses. Estate taxes help to level the playing field between typical family farmers, who must compete for land based on what they can earn from it, and wealthy heirs of large farms who compete mainly on the basis of their inheritance.

That competition has been intense.

In Nebraska, farmland values rose 8 percent last year, to levels beyond the reach of most small farmers like the Menkes, who need more than the 320 acres they now own to provide a full-time livelihood. The primary force in rising land costs has been aggressive bidding for ever more land by large operations, the ones that would benefit most from the huge estate tax reductions moving through Congress.

Increases in the estate tax credit passed last month by the Senate would exempt $1 million from taxation ($2 million for couples), up from $600,000 under current law. A new provision would exempt another $2 million for couples who own family farms and businesses, in addition to the $1.5 million they can exempt under current law. (This week, a conference committee is working out differences between the Senate bill and a less generous House version.)

A boon for agribusiness.

That means a wealthy couple engaged in farming could transfer a farm estate of $5.5 million (more than 10 times the assets of the average Nebraska farmer) to their heirs without paying any taxes at all.

A modest 5 percent return on that inheritance would generate $275,000 annually for the wealthy heirs to invest in farm expansion. That grants them a powerful advantage over smaller farmers who must compete for the same land.

The estate tax has always had two purposes: to raise revenue and, most important, to prevent excessive concentration of wealth. If wealth becomes too concentrated, free enterprise with opportunity for all is destroyed.

Supporters of deep cuts in the estate tax have tried to turn that logic on its head by arguing that estate taxes force the sale of family farms. But that rarely happens, and when it does, it has more to do with the complexity of tax rules than with the lack of exemptions.

Under current law, while some estates barely exceeding the nominal $600,000 estate tax credit may pay tax in the absence of any legal advice, minimal planning can eliminate taxes on up to $1.8 million worth of farmland. Other strategies involving gifts and trusts enable the rich to pass on many millions of assets tax free.

Fewer than the largest 5 percent of farm estate holders would benefit from an increase in the Federal estate tax credit, says Dr. Neil Harl, an Iowa State University economist. "The beneficiaries would be the richest property owners in the country, further exacerbating the clear and worrisome trend toward concentration of wealth," he wrote in a recent issue of Tax Notes, a policy journal.

The solution to the problems of small farmers who have failed to plan their estates is not to open the floodgates to greater concentration of wealth. Rather, the code should be simplified to insure that all farm families can take full advantage of the exemptions of up to $1.8 million, while closing loopholes that serve the rich.

Small farmers are the poster children for the campaign to end estate taxes, but they would not be the beneficiaries. To the contrary, they would lose access to the land they need to make a living, as it concentrates in the hands of a few. □

Chuck Hassebrook is program director of the Center for Rural Affairs, a research group which supports the interests of family farms.

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Sandy

What's the deal here?
When was China in '91 — BC

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U.S.'s Role as Arms Merchant to Kuwait Faces Challenge by China

THE PRESIDENT HAS SEEN
7-18-97

By John Lancaster
Washington Post Foreign Service

KUWAIT CITY—After U.S.-led forces drove Iraqi troops from Kuwait in 1991, Kuwait and other Persian Gulf allies showed their gratitude by spending billions of dollars on American arms. But U.S. arms merchants no longer can take their wealthy customers for granted: Kuwait is considering the purchase of long-range howitzers from China.

Kuwait's potential purchase of 72 Chinese-made self-propelled howitzers instead of competing and, by most accounts, superior American, British and South African versions has raised eyebrows among U.S. defense contractors and prompted a personal appeal to Kuwaiti leaders from Vice President Gore.

Kuwaiti officials assert publicly that they have not made a final decision and will do so only after each model has been thoroughly evaluated on the basis of cost and performance. In private, however, they say they may end up buying the Chinese guns for reasons that have nothing to do with range, price or accuracy and everything to do with politics.

Eager to gain a foothold in one of the world's richest arms markets, China has hinted that it will withhold its support at the United Nations for extending trade sanctions against Iraq if Kuwait does not agree to the estimated $300 million purchase, according to Western diplomatic sources and a senior Kuwaiti official who spoke on condition of anonymity. China is one of five permanent members of the U.N. Security Council—along with the United States, Britain, France and Russia—which next votes on the renewal of sanctions in October.

"Sometimes you get to a state when you feel you're being blackmailed," the senior Kuwaiti official said. "We lean toward the U.S. equipment, but we have to find a way to please the Chinese and not upset them in the Security Council."

The United States is not the only arms supplier in the gulf. France and Britain have long been major competitors. Kuwait has bought armored fighting vehicles from Russia, tanks from the former Yugoslavia and patrol boats from France.

The Persian Gulf War, however, provided the United States with a competitive edge. Arab nations in the U.S.-led coalition that drove Iraqi invasion forces from Kuwait were impressed by high-tech American weapons and grateful for U.S. leadership during the crisis. U.S. officials also have been successful in persuading gulf allies to buy weapons compatible with those that would be used by American troops if it became necessary to defend them against another foe.

Since the Gulf War, the United States has deployed about 20,000 troops in the region, most of them on ships, and stockpiled armored vehicles and other weaponry in Kuwait and several other gulf countries.

The partnership has been a profitable one for the United States, the world's largest arms exporter. Since 1990, the six nations of the Gulf Cooperation Council—Saudi Arabia, Kuwait, Qatar, Bahrain, the United Arab Emirates and Oman—have signed contracts for $36 billion worth of American arms—32 percent of the $110.8 billion in U.S. arms exports over the same period, according to an analysis of Defense Department figures by the Washington-based Arms Control Association.

But as memories of the Gulf War fade, U.S. defense contractors have begun to face growing competition from abroad, especially in the realm of less sophisticated weapons such as howitzers and armored vehicles, as Arab allies diversify their suppliers for both political and economic reasons.

"They're sending a signal that, 'Hey, we're prepared to go elsewhere for these things, so don't take us for granted,'" Richard Grimmett, an arms control expert at the Congressional Research Service, said in a telephone interview from Washington. "If they're totally dependent on one supplier, they'll be dependent on the politics of their relationship with that supplier."

Bethesda-based Lockheed Martin Corp., for example, is competing fiercely to sell as many as 80 long-range strike planes to the United Arab Emirates in a deal estimated at $6 billion. Notwithstanding a personal appeal in 1995 by President Clinton to Sheik Zayed bin Sultan Nahayan, president of the Emirates, officials of that country announced in March that they were seriously considering rival offers from two European manufacturers.

Kuwait remains on excellent terms with the United States, whose forces conduct regular maneuvers with the Kuwaiti military. So U.S. officials were surprised to learn recently that Kuwait's Higher Defense Council was leaning toward China's North Industries Corp. to supply it with self-propelled howitzers, tracked vehicles that function as long-range artillery pieces.

The United States has been pushing the M109A6 Paladin, some of which are already deployed in the desert north of Kuwait City to protect against invasion from Iraq. U.S. Army warrant officers who recently examined the Chinese howitzer in Kuwait expressed concern, saying they found faulty welds and antiquated radio equipment that would not permit communication with American-made M1A2 tanks used by Kuwaiti and U.S. forces, according to diplomatic sources.

"For sure, those who will use it would like to see American technology [but] we find we have to please other friends," Deputy Foreign Minister Suleiman Shaheen said in an interview here this week. "China is a power to be reckoned with, so it is in our interest to have a relationship with them."

An official at the Chinese defense attache's office in Washington, who would not give his name, declined in a telephone interview to comment on the proposed howitzer sale. But he said, "In Chinese policy, we will not impose any political conditions on any country. We want to have normal trade relations with everyone."

News of the proposed purchase set off alarm bells in Washington. "I would like to reiterate my strongest support on behalf of United Defense L.P., a U.S. company which has proposed to provide the 155mm M109A6 Paladin self-propelled howitzer," said a draft letter prepared by Gore in April and obtained by Defense News, a trade publication.

The message on behalf of the Arlington-based firm was repeated by William S. Cohen, who made his first visit as defense secretary to Kuwait last month.

But some Kuwaiti politicians caution the United States against pushing its products too hard. "I feel bullied," said Jassim Khorafi, a pro-government member of parliament. "We do appreciate the role they played, but from a financial situation, we are unable to buy as much as we would wish to buy. . . . To keep pushing for arms is too much. This will create problems for us."

THE WASHINGTON POST
TUESDAY, JULY 15, 1997

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Inside Information

Some Welfare Workers Try a New Approach: Been There, Done That

Once on the Dole Themselves, They Mix Toughness Empathy to Help Others

Friends to the 'Drawer People'

A1

By JOHN HARWOOD

Staff Reporter of THE WALL STREET JOURNAL

ALBANY, Ore. — Nobody planned it, but Oregon's welfare department has discovered a new weapon in the struggle to move recipients into work: the spunk and savvy of former beneficiaries within its own ranks.

Since Oregon passed a welfare overhaul two years ago, its rolls have dropped 44%, or double the national average for the same period. Those who made it happen include hundreds of people with experience on both sides of the welfare-office desk: About 15% of the Adult and Family Services Division's 2,000-person work force are former aid recipients.

Here in Albany, a city of 36,000 in western Oregon, applicants are greeted at the front counter by Cate Hahn. She is a 37-year-old single mother who relied on public assistance two years ago and has been sharing a mobile home with her welfare-dependent sister. That sort of experience goes all the way to the top: Lupe Tovar-Puga, who until last week was manager of the Albany office, spent time on the rolls herself following a divorce two decades ago.

Cate Hahn

"It has become a natural part of our fabric," explains Sandie Hoback, administrator of the Adult and Family Services Division. "There's a certain power in the message that's missing if you haven't walked that road."

With little notice, former recipients have been weaving themselves into the fabric of the nation's welfare departments for years. Though no one keeps comprehensive statistics on the subject, Manpower Demonstration Research Corp., an authority on human-service programs, has found that former beneficiaries make up more than one-third of welfare work forces in areas as diverse as Riverside County, Calif., near Los Angeles, and Columbus, Ohio. The head of California's welfare department, the nation's largest, is former food-stamp recipient Eloise Anderson.

Most weren't hired for their special skills; to the contrary, they typically got in the door by landing entry-level jobs that offered low pay and demanded minimal qualifications. But today's new world of welfare overhaul has handed them extraordinary opportunities to make the programs they once relied on work better — and perhaps, in the process, to dislodge stereotypes of a bleeding-heart welfare establishment.

State and local welfare departments are confronting stiff federal requirements for moving recipients off the dole. And experts agree that bridging the psychological distance between clients and caseworkers, as former recipients often do, can help smooth that process.

Sometimes, the message is a hard one. Mary Jo Bane, a Harvard University welfare scholar who resigned her Clinton administration job to protest the legislation, notes that former recipients "can be sympathetic ... and in some ways tougher."

Too Tough?

In fact, some analysts say that recipients-turned-authorities may prove too tough on welfare clients, or may lack the training to handle the most challenging cases left behind as a strong economy sops up those best prepared to enter the job market. Former recipients, says California's Ms. Anderson, sometimes become "hardened and cynical" toward the welfare culture they know.

So far, the blend of encouragement and high expectations in Oregon seems to be working. Ms. Hahn, at the Albany office, typifies the approach. She understands that "things can blow up in your face," as they did for her a few years ago when a relationship with her boyfriend fell apart shortly before the birth of their daughter, Candra Jo. She supports government help — in the form of cash benefits, training classes and job-search assistance — to get people back on their feet.

At the same time, she says she doesn't object to cutting benefits for those who won't follow Oregon's strict work requirements: "The government doesn't owe you anything but the right to live free."

A generation ago, welfare departments weren't looking for workers like Ms. Hahn, whose childhood was rife with family problems and whose formal education beyond high school was limited to one year at a small religious college. In the heyday of President Johnson's War on Poverty, many states ran welfare offices like social-work agencies, deploying platoons of university-trained caseworkers. That approach came under attack from conservatives who felt it was too lax; in the 1970s, it was replaced in many states with a by-the-numbers system centered around dry calculations of eligibility.

Today, even some former defenders of the old system have come to acknowledge

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Continued From First Page

that the conservative indictment had merit. "I really had to take my blinders off," says Ms. Hoback, the Oregon welfare chief, who began her career as a legal-aid welfare specialist. By expecting little of a recipient in return for open-ended benefits, she says, the system was "enabling" continued dependency. "We kept robbing her of her dignity."

Highly trained social workers still have a role in Oregon, helping to serve clients facing severe problems with drugs or family violence. But they sometimes clash with their street-smart counterparts over delicate issues of how hard and how fast to push beneficiaries toward self-reliance. "It's a conflict," says Novena Roth, a former aid recipient who works in the welfare office in rural Lebanon. "They say, 'We have to fix them before we can put them out.' We're saying, 'By putting them out, we can fix them.' "

Not a Way of Life

"There are people who are older than I am who were raised entirely on welfare," adds Portland welfare worker Nichelle Brown, a former recipient who supports the reforms passed by Congress last year. "We need to put a stop to that. It's not supposed to be a way of life."

More than anything else, former recipients bring intimate knowledge of the communities they serve and a visceral identification with the travails, and the allure, of life on the dole. Ms. Brown, who still lives in subsidized housing, sometimes encounters her own cousins at the welfare office where she works.

She also encounters, and challenges, some of the same problems with motivation and follow-through she became familiar with during her own five years on the rolls. When one beneficiary phones her to blame a malfunctioning alarm clock for missing a job-training appointment, Ms. Brown quickly dismisses the explanation. "There's no excuse you can give me," she says. "I've been through it all."

Barbara Zharkoff, who works in the welfare office in North Salem, has carved a niche serving fellow Russian speakers. She invokes her own experience both to reassure those shamed by seeking government help, and to warn them against becoming too complacent. "The first time I got my food stamps, I held them like this," recalls Ms. Zharkoff, pressing her fingers together as if holding something rotten. Yet two years later, "It was hard to let [illegible] go." Her experience helps [illegible] relationships with what welfare [illegible] the drawer people — those long-term clients whose cases have languished in file cabinets for years.

Like some of her colleagues, Ms. Zharkoff has mixed feelings about parts of the welfare revolution. She relied on cash assistance while pursuing a college degree. Oregon's welfare rules now generally don't permit that, requiring those who have finished high school to seek a job instead. Still, Ms. Zharkoff says, "If you're trying to become self-sufficient, we'll help you more," even financing car repairs for people who lack transportation.

On the Edge

Ms. Hahn realizes she could land back on the rolls someday. She earns [illegible] an hour at the welfare department and supplements that by umpiring for a local softball league for about $15 a game. But the challenges of single parenthood, plus some health problems, keep her on the edge. "I'm one paycheck away from being homeless," she says, "and probably will be for a long time."

She displays her familiarity with both sides as she staffs the front counter of the Albany office, once a Sears store, she walked in as a child on summer days to enjoy the air conditioning. A woman walks in with her daughter, says she is destitute and demands immediate help. Ms. Hahn tells the woman, who offered the same story a week earlier, to schedule an appointment with a caseworker.

Ms. Hahn is more sympathetic with a 30-something single father who earns about $10 an hour at a factory that builds manufactured homes. His wife moved out, and he can't afford child care. "I'm sorry," she says, but he earns too much to qualify for a child-care subsidy. She suggests that he apply for an expedited payment of the federal earned income tax credit for the working poor; Ms. Hahn is taking advantage of that program herself.

Later, she comforts a young woman in cutoffs and a faded blue blouse who is embarrassed to apply for food stamps and Medicaid. The woman, a community-college student and mother, mutters in embarrassment as she fills out forms. Ms. Hahn replies softly: "Sometimes you just need a little help."

Her ties to the system don't end when the office closes and she climbs into her battered 1981 Thunderbird. She and her two-year-old daughter have been sharing a mobile home with Ms. Hahn's unmarried older sister and her sister's two children. Her sister uses her welfare check and food stamps to help cover living expenses.

"She needs to go out and find a job," Ms. Hahn says. But on this week, her sister isn't in town, having traveled to Illinois to meet with her former husband to formalize child-custody arrangements. Ms. Hahn doesn't know when her sister is coming back.

A Distressing Phone Call

It is the sort of setback Ms. Hahn doesn't need. Her sister normally watches Ms. Hahn's daughter during office hours. Two weeks later, her sister phones to ask Cate to take care of her kids for a while, as she has moved back in with her former husband, landed a job in Illinois and isn't coming back soon.

Alone again, Ms. Hahn finds a day-care center for her daughter and slots in summer camp for her sister's 12-year-old daughter and 11-year-old son. Meanwhile, she sets aside her misgivings and applies for a new welfare grant to cover expenses for her niece and nephew.

But she doesn't like what she hears from her niece, who dreams of becoming a pop singer. If that doesn't work out, the girl told her recently, "I can always have kids and go on public assistance."

To keep her spirits up, Ms. Hahn draws on the lessons of a motivational program [illegible] years ago to [illegible] wrenching changes set in motion by welfare reform. She took to the program so well that the department now has her teaching it to recipients to speed their moves toward self-sufficiency.

When she convenes the class for a half-dozen welfare mothers one recent afternoon, Ms. Hahn turns quickly toward self-revelation. "I still struggle" in the [illegible]," she says. "But it beats the alternative. As you all know, being on assistance is [illegible]."

It is a tough audience; one woman dozes intermittently. But Andria West, 32, who says she is preparing to seek lasting employment after battling alcohol problems, finds Ms. Hahn easier to relate to than other workers she has encountered in more than 10 years on welfare. "Because she's been there," Ms. West says, "she understands."

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THE WALL STREET JOURNAL
TUESDAY, JULY 15, 1997

Fly First Class (With the Other Criminals)

From the perspective of a Martian now being chased around that planet by NASA, one Washington travel-perk "scandal" probably looks pretty much like another.

However, congressmen and journalists on this planet are nearer the problem, one would think near enough to make the distinctions that are the mark of intelligent life-forms.

One would think.

Rep. David M. McIntosh has been chasing SEC Chairman Arthur Levitt Jr. all over Planet Washington. He does so in pursuit of a "scandal" that, when we press our x-ray spectrometer up against it, seems to consist of the substance of interstellar space, which is to say, nothing.

Mr. Levitt is accused of flying first class and staying in nice hotels, and digging into his own pocket to pay for it.

Business World

By Holman W. Jenkins Jr.

It takes a special kind of ingenuity to find something to get outraged about here, but Mr. Levitt did use legitimate government-paid upgrades to defray the cost of upgrading even further. If you stand back and twist your head at a funny angle, you can pretend this means taxpayers "paid" for Mr. Levitt to fly first class.

Such allegations are padded together by junior subcommittee staffers, the sort who find the magic phrase "government rate" works wonders with the airlines when scheduling their own travel. Their work is passed on to senior staffers and the congresspersons themselves, for whom "fact-finding missions" to interesting and attractive parts of the world seem to be a daily necessity.

Then, no doubt reading from something somebody handed him, Mr. McIntosh pronounces, "It's clear to me that taxpayers have been subsidizing Mr. Levitt's first-class lifestyle. While taxpayer-subsidized French wine . . . and stays at luxury hotels may draw approval from Wall Street, that kind of lifestyle offends average Americans on Main Street." Voilà, a soundbite is born.

Mr. McIntosh added that all this troubles him "deeply," an adverb it wouldn't normally occur to us to apply to anything connected with Congress.

Strange as it may seem, though, we have gotten the feeling over the years that Mr. Levitt does care deeply about the honor and fairness of the securities markets, and about whether the people who labor in them are worthy of public trust. In an administration that oozes false sincerity about many things, he's at least a novel sensation.

As with any federal agency, the SEC does things that defy our understanding from time to time, but less so than most. He hasn't shut down the bull market by trying to put its perpetrators in jail, as some of his predecessors did. Yet he has shown a willingness to wade into an authentic garbage dump, the municipal finance racket.

He has also taken steps, prophylactically, to make sure the mutual fund industry performs as advertised. He has sermonized about conflicts of interest, and worked to correct its habit of wandering far and wide from the published investing strategies of particular funds. What the heck, it's a useful, if incremental, application of the SEC, which, after all, is there to be useful. And he just got a nice pat on the head from the generally cynical General Accounting Office.

Most of all, he has seen fit to leave well enough alone, unlike a lot of Clinton regulators who seize on the "activism" theme to muck things up in their portfolios and keep their names in the paper.

By way of research, we examined an Institutional Investor article about the "Washington-Wall Street shuffle." Putting two and two together, we noticed the one place where the Clinton administration has been an unalloyed, scandal-free success is the economy, which has rested firmly in the hands of Wall Street rejects like Mr. Levitt, Bob Rubin and Alan Greenspan.

Perhaps there is a secret McIntosh method here—a plan to disable the Clinton administration by hassling one of its few grown-ups. But Republicans should remember that someday, perhaps within the lifetimes of our grandchildren, they could conceivably end up the party of government again. Then they might want to coax some grown-ups into service too. The precedent here is not an inviting one.

Arthur Levitt

Mr. Levitt has been around a long time, too long to let the silliness of congressmen ruffle him unduly. He was one of the saviors of Roll Call, the Capitol Hill newspaper and chronicler of silliness without end.

Yet one or two people have noticed the stock market going up lately. This it has done on the basis of lots of middle class people wanting to invest for their retirements. There was some $4 trillion in mutual funds as of last week.

Apropos of these people, there is not a Lion's Club or trade association in the land that Mr. Levitt won't show up at in order to make a speech assuring the small investor that the SEC is on the job.

As the Washington Post reported in ripping the lid off what somebody somewhere told them was a "scandal," the SEC chairman took 153 official trips in 175 weeks between September 1993 and November 1996 at a cost of about $111,000—or $725.49 a trip.

We would say the taxpayer is getting his money's worth out of Mr. Levitt. Traveling every week to give a speech really isn't a barrel of fun, even if the hotel is nice and the wine is French.

On taking the job he informed his staff that he wanted to fly first class. This strikes us as a wise precaution. At 66, he would have to be considered at high risk for coach aneurysm.

He's also a rich guy, having made his bundle by founding a Wall Street firm. But instead of acting like those jerks who keep piling up money as a way of "keeping score," he tried his hand at things where he could be useful to society—head of the American Stock Exchange, resurrecting Roll Call, and for the last four years, head of the SEC, a job that by his standards doesn't pay all that well.

Life being short, Mr. Levitt entered into a plea bargain with Mr. McIntosh's subcommittee and has agreed to suffer in business class at taxpayer expense rather than loll in first class at his own. We are honestly at a loss to understand what principle of good government is served by this outcome, but that's par for the course. It would be interesting, though, to get a full accounting of how much of the taxpayer's money Rep. McIntosh spent to bring about this heroic denouement. The SEC calculates it alone has spent $187,000 responding to Mr. McIntosh's request for documents and accounting of Mr. Levitt's every limo ride.

Disclosure: Chairman Levitt once bought us breakfast, and we wrote a column making fun of him for threatening to nationalize the accounting profession.

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Is the EPA Saving Infants?

By David Murray

Environmental Protection Agency Administrator Carol Browner's proposed new regulations on soot—extremely small airborne particles—must now face congressional Democrats as well as Republicans who are critical of the new rules' potential impact on local economies. Given the kind of science that the EPA has mustered to show the public health effects of soot, Congress is right to ask hard questions.

Consider one of the EPA's more alarming claims. On June 11, a forthcoming article by EPA employee Tracey Woodruff in the scientific journal Environmental Health Perspectives was announced in the press. National Public Radio reported that Ms. Woodruff's research showed that "industrial air pollution may contribute to infant mortality." Based on the records of four million births between 1989 and 1991, Ms. Woodruff found that "infants born in cities with high levels of soot in the air were as much as 26 percent more likely to die of sudden infant death syndrome (SIDS) and 40 percent more likely to die of respiratory causes that their counterparts in cleaner cities."

On June 20, the case was made more dramatically by a quarter-page ad in the Washington Post, sponsored by the U.S. Public Interest Research Group, containing banner headlines from several newspapers that reported the study and repeated its claims: "Atlanta smog's fatal risk to babies cited" (Atlanta Constitution), "High soot levels increase risk of babies dying" (Detroit News) and "Study: Pollution Kills Many Infants" (Salt Lake Tribune). On June 26, President Clinton endorsed Ms. Browner's proposed rules.

So Ms. Woodruff had produced a potent study. But how good was her science? It was not easy to find out, since the journal in which it appeared had yet to be released. According to Julia Simmons of Environmental Health Perspectives, galley copies of the article were released prematurely to members of the press and environmental groups.

An examination of Ms. Woodruff's study shows that apparently some journalists overlooked serious methodological questions. First, her study found an overall elevated risk ratio for infant mortality in the most polluted areas of only 10%. Yet most epidemiologists do not consider a risk ratio lower than 200% to 300% to be of concern; by this standard, a 10% increase is barely detectable statistical "noise." Moreover, the most vulnerable infants, those in the low-birthweight category (who presumably would be more likely to be harmed by pollutants), showed no statistically significant increase in risk, while the strongest risk relationship shown, that for normal birthweight infants and respiratory mortality, rose by no more than 40%.

Carol Browner

Second, because some data were difficult to obtain, the study ignored many states, including California and New York, in which nearly 30% of all U.S. births occur, as well as metropolitan areas with populations of less than 100,000. Including cities such as Los Angeles, which has a relatively low infant mortality but relatively high air pollution, might well have further reduced the small association Ms. Woodruff found.

Third, though her study tried to account for confounding variables—infants' circumstances apart from air pollution that are known risk factors for mortality—it excluded two of the most important, mother's age and alcohol and drug consumption during pregnancy. Since these are key elements in an infant's mortality risk, and since the confounding variables that were considered—mother's race, education, marital status and smoking—had a major impact on the study's results, their absence suggests a great deal of caution in accepting the findings.

Finally, the study examined four million births. But how many deaths? In the 12 months ending June 1996, 28,500 children under one year of age died, or 7.4 per 1,000 live births. Seventy percent of all these deaths of children occurred during the first 28 days of life. In 1996, deaths of children between 28 days and one year of age—the period Ms. Woodruff studied—totaled 10,030, of which 2,740 resulted from SIDS, and 1,190 from respiratory distress syndrome. (The leading causes of death were prenatal or congenital anomalies or conditions.) These numbers mean that the relevant study population, which was only a partial selection of all nationwide deaths, was quite small indeed. In such small samples statistical anomalies have an exaggerated effect, and the 10% to 40% relative risk ratios Ms. Woodruff discovered become even less convincing.

The headlines asserting that moderate soot concentrations cause sudden infant death syndrome are all the more stunning because the cause of SIDS is in fact unknown. But we do know that its incidence has fallen dramatically since the warnings against allowing infants to sleep on their stomachs or sides became widespread. We also know that otherwise healthy infants quickly and unexpectedly perish, whether from smothering in bed clothes, carbon monoxide poisoning or another tangible cause. Air pollution, however, is not commonly associated with sudden death, and Ms. Woodruff's study doesn't change that fact.

This is not the first time that the EPA has received such "scientific" backing at a crucial political juncture. Ms. Browner is right that science ought to determine any new regulations. But before Congress passes judgment on her proposed new rules, it ought to make sure it has access to more persuasive science than the evidence that's been presented so far.

Mr. Murray is director of research for the Statistical Assessment Service, a nonprofit group in Washington.

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E. J. Dionne Jr.

The Tax War

The Washington Post
Tuesday, July 15, 1997

If you want to see where American politics is moving, watch the tax fight in Washington. President Clinton has redefined the battle. Once it was over whether there should be tax cuts. Now, it's a fight over who will benefit most—the middle class or the wealthy. The test: Does the president have the nerve to hold his ground?

Republicans are furious. In theory, Clinton stuck to the deal with them by proposing a limited capital gains tax cut and very modest relief for those who inherit farms or small businesses. In practice, Clinton's proposals gut the parts of the Republican tax plans that give the most to the wealthiest taxpayers.

Republicans are reduced to saying the Clinton tax cut shortchanges the wealthy and gives too much to the lower middle class. It's not an easy argument to make.

Republican National Chairman Jim Nicholson and House Ways and Means Chairman Bill Archer (R-Tex.) have both argued that to raise questions about the distribution of the benefits offered by their party's tax plans is to wage "class warfare."

But who, exactly, is waging class warfare? When fully effective, the House Republican plan offers 18.8 percent of its benefits to the wealthiest one percent of Americans, according to the Center on Budget and Policy Priorities. The Senate plan gives them 12.5 percent, while the Clinton plan offers them 2.6 percent of its tax cuts.

Once upon a time, "class warfare" meant "soaking the rich." Now you're in the trenches with bearded Marxists if your tax cut for the wealthy isn't big enough. Strange, but this is Washington in 1997.

The Republicans are missing a chance to make their best case for a tax cut. For years, they argued that government should not tax people into poverty or make life tougher for the pressed middle class. They were right about this, especially since regressive payroll taxes take a much bigger chunk from the incomes of the middle class and the working poor than from the wealthy.

That's why it's incomprehensible that Republicans have so fiercely resisted Clinton's proposal to give the $500-per-child tax credit to families who owe no income taxes but pay substantial payroll taxes. Most of these families earn roughly $17,000 to $30,000.

House Speaker Newt Gingrich said that provisions helping such families turned the tax bill into "a welfare bill." Democrats loved this. They scoured the country for policemen, nurses and other hard-working taxpayers who resent being labeled "welfare recipients." When cops and nurses are on your side in the class war, the other side needs to regroup. That's why the Republicans have started wobbling on this issue.

People at the middle and the bottom need relief for another reason: For nearly two decades—until the last two or three years of the current economic recovery—they have lost ground or barely kept up.

According to Congressional Budget Office figures, Americans in the bottom fifth of the income distribution saw their after-tax incomes drop by 16 percent between 1977 and 1994. The next-to-the bottom fifth lost 8 percent, while the middle of the middle class stayed about even. By contrast, members of the wealthiest fifth saw their incomes rise by 25 percent—and the top one percent had a whopping 72 percent income increase.

Government can't radically redistribute income without seriously negative consequences. But it can do some things to preserve a middle-class society. It can provide general benefits to everyone—for starters, good schools and universal access to medical insurance. It can pursue economic policies for fuller employment and write rules on work and wages to protect the bargaining position of employees. And it can take less money from those who can least afford to pay.

This means that when the government can afford tax cuts, it should direct the money to people whose take-home pay most needs bolstering. This isn't class warfare. It's a modest step toward class harmony.

To make the Republicans even madder, Clinton's bill is more fiscally conservative than theirs. The costs of the two Republican proposals balloon after a decade. In the 10 years after 2008, the Republican bills could cost between $650 billion and $700 billion. In the same period, the Clinton plan could cost a more sustainable $450 billion. In this debate, fiscal prudence and social equity are on the same side.

The Republicans would be smart to declare victory and buy the Clinton plan whole. That way, they could claim credit for a tax cut and avoid being cast as class warriors for the wealthy. Remember: The Republicans' biggest mistake in 1995 was shutting down the government instead of buying the budget concessions Clinton offered.

The key player this time is Clinton. Will he stick with his overly generous but reasonable plan, or will he give yet more ground? Everything in Washington these days is called a "character issue," but this one is the real thing.

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Rahm / Bruce
Can we do more on this? If it's so bad how did we raise collections by 50%
BC

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The Washington Post
THURSDAY, JULY 17, 1997

Solicitor General Sets Departure

Acting Solicitor General Walter Dellinger, the government's top courtroom lawyer since June 1996, will leave his post next month, the Justice Department announced yesterday.

Dellinger will represent the government one last time, on Aug. 11, in oral arguments over the Food & Drug Administration's proposed regulation of nicotine and tobacco products, in the U.S. Court of Appeals for the 4th Circuit. Dellinger will then return to a professorship at Duke University law school. His wife, Anne, who had worked in Washington during Dellinger's early days in the Clinton administration, returned to their North Carolina home two years ago.

Dellinger first joined the Justice Department in 1993 as head of the Office of Legal Counsel.

President Clinton has yet to name a successor to lead the prestigious solicitor general's office, known to the public mostly through its representation of the federal government in Supreme Court cases. Seth Waxman, who is deputy solicitor general, is among the leading candidates.

The administration is struggling to fill several top Justice Department vacancies. The nominations of Eric H. Holder Jr., to be deputy attorney general, and Joel Klein, to be assistant attorney general for the antitrust division, have been pending in the Senate for several months. (Waxman has been filling in as deputy attorney general since spring.) Separately, Clinton has named Raymond Fisher to be associate attorney general, Bill Lann Lee to be assistant attorney general for the civil rights division and Beth Nolan to lead the Office of Legal Counsel. The nominations are pending.

Nation's Child Support System Criticized

GAO Faults U.S. for Inadequate Leadership, States for Poor Improvement

By Barbara Vobejda
Washington Post Staff Writer

The General Accounting Office yesterday issued a harsh assessment of the nation's child support system, saying the federal government has provided inadequate leadership and states have failed to make improvements that would allow them to collect billions of dollars owed by deadbeat parents.

Despite the mandate of a 1988 law and the expenditure of $2.6 billion, most states have not computerized their collection systems, a step seen as essential in bringing in more of the $34 billion owed in child support.

While the total amount of child support collected has increased significantly since 1990, states collect money in fewer than one-fifth of cases in which it is owed.

"The current system remains a failure," said Rep. Lynn C. Woolsey (D-Calif.), who requested the study with Rep. Henry J. Hyde (R-Ill.). The two members of Congress are introducing legislation that would take responsibility for child support collection away from states and turn it over to the federal government.

Efforts to improve child support collection are considered essential to the success of welfare reform because as many as a quarter of those on welfare could go off the rolls if they received the support they were owed.

Welfare legislation enacted last year imposes extensive new requirements on states to centralize and automate their child support collection systems, building on the requirements of the 1988 law. But the poor performance described in yesterday's report bodes ill for the success of the child support efforts in the new law.

"The findings confirm our worst fears about the program and reinforce in our minds the need for the federal government to take over the job of enforcing child support orders," Hyde said in a prepared statement.

Efforts to automate child support collection date back to 1980, when Congress agreed to help states pay for computerized systems that would keep track of court orders mandating parents to pay child support. In 1988, Congress required states to set up the computerized registries, setting a 1995 deadline. But states were plagued with technical glitches, cost overruns and friction with counties and court systems, some of which maintain their own child support records.

As a result, the deadline was extended to October 1997. Still, just 15 states have met the requirement so far, and the GAO predicts many states will fail to meet the new deadline.

Officials at the Department of Health and Human Services, which oversees the system, say nine states have indicated they may miss the October deadline. If that happens, about 44 percent of the national caseload will not be included in automated systems, the GAO reported, because those states include California and others with large populations.

The report blames the federal government for failing to improve its oversight, saying the Office of Child Support Enforcement at HHS "has allowed some funds to be spent without ensuring that states were progressing toward effective or efficient systems."

HHS spokesman Michael Kharfen said the Clinton administration was disappointed that some states have encountered problems, but "we disagree that there's been a lack of federal leadership. . . . It is the states' responsibility to design and implement these systems."

He said HHS has withheld federal funds in some cases until states have met certain goals.

Elisabeth Donahue, counsel at the National Women's Law Center, said, "Many states don't want to put much of their own resources into these programs; they don't do a good job collecting money, but they want to retain control of it. . . . This is the states' last chance."

Paula Roberts, a senior staff attorney at the Center for Law and Social Policy who tracks child support collections, said that if nearly half of all cases are not included in automated systems by the deadline this year, "there is not a chance" that the changes envisioned in the new welfare reform bill will be realized.

"Once again, the moms and dads who need child support have been made big promises that we can't deliver on," she said.

Child-Support Collection Net Usually Fails

By ADAM CLYMER

WASHINGTON, July 16 — Delinquent parents shirk court orders to pay child support in 4 of every 5 cases, and Federal efforts to help states increase compliance rates have failed, the General Accounting Office reported today.

The 50 states have been under increasing Federal pressure to make sure that child support is collected. But the G.A.O. report found that despite some improvements, the system was still porous: "States have underestimated the magnitude, complexity and costs of their projects and operations, and they could have received better guidance from the Federal Government."

Representatives Henry J. Hyde, Republican of Illinois, and Lynn C. Woolsey, Democrat of California, who requested the report by the nonpartisan investigative arm of Congress, said it showed that collection of child support should be turned over to the Internal Revenue Service. They proposed legislation that would also have the Social Security Administration disburse payments to parents or to state welfare agencies.

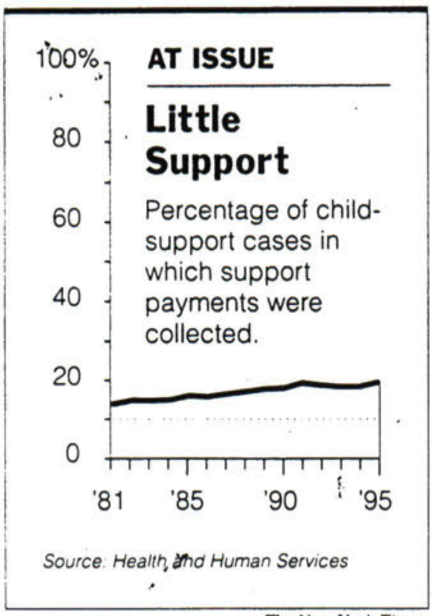
Mr. Hyde said the problem was made more urgent by changes in the welfare law. Custodial parents who exhausted their welfare eligibility would have an even more urgent need for support payments, he said.

Deducting child support from paychecks, just like taxes, Mr. Hyde said, "is the one method left to us to insure that, finally, child support orders are worth the paper they are printed on."

"No longer will deadbeat parents be able to move from state to state to perpetually frustrate enforcement efforts," he added.

Ms. Woolsey said that under their proposal "the children stop being punished over the emotions of the separation or the divorce." Ms. Woolsey said that when she and her husband divorced about 30 years ago, he never paid any of the court-ordered child support, so she worked and went on welfare.

The accounting office's report singled out the Office of Child Support Enforcement in the Department of Health and Human Services for "limited leadership and oversight." The report criticized the office for not following recommendations the G.A.O. made five years ago that included withholding Federal financial help for computerizing inadequate state programs.



The New York Times

The Department responded by saying that the accounting office assumed it had more authority to tell the states what to do than the law allowed. And while it said nothing about the rate of compliance, the Department said that total collections have increased from $8 billion in 1992 to $12 billion in 1996. But the G.A.O. report noted that while collections increased, so did support orders, which meant the rate remained relatively constant.

According to reports by the Department, collection rates increased modestly, from 13.9 percent in 1981 to 19.3 percent in 1991, but slipped a bit before recovering to 19.4 percent in 1995, the last year for which statistics are available. There was huge variation among states, with Minnesota's record of collecting in 40 percent of cases the best, and Indiana's 10 percent the worst. The District of Columbia, Illinois, and Tennessee each collected in only 11 percent of the cases. Connecticut collected in 16 percent, New York in 15 percent and New Jersey in 24 percent. California, with nearly 4 million children covered by support orders, collected in just 14 percent of the cases.

The report warned that the $2 billion that the Federal Government has spent helping states computerize their systems for tracking delinquent parents may prove grossly inadequate, even without the additional requirements imposed by the 1996 welfare law.

The report said the 12 states that have developed computer systems that meet the department's standards represent only 14 percent of the national cases. The accounting office said that many of the larger states that have assured the department that they would meet this year's deadline for certification of their computer systems were being too optimistic.

One major obstacle to the Hyde-Woolsey proposal is the hostility to the Internal Revenue Service in Congress, especially among Republicans, and to giving the agency additional powers. But Mr. Hyde, a conservative, said that in the face of the accounting office's "appalling" findings, it was time to take that step.

"Governmental child support collection efforts must be consolidated at the Federal level," Mr. Hyde said, "and support must be collected with the same efficiency and resolve with which Federal taxes are collected."

Under the Hyde-Woolsey plan, employees would indicate on tax withholding forms the monthly amount of any court-ordered obligation. Failure to do so would constitute a tax law violation punishable by a year in prison.

Employers would deduct and withhold support payments, just as they withhold taxes, and failure to withhold would be punished just as failure to withhold taxes is sanctioned. But the custodial parent could choose, if payments were being made regularly, to let current procedures continue without the I.R.S. deducting from the other parent.

The I.R.S. would also have access to a national register of support orders. If a parent failed to pay the amount of support ordered by the tax deadline, the I.R.S. would assess and collect the amount in the same way it collects unpaid Federal taxes.

"The present difficulties with the interstate enforcement of child support will be eliminated with the stroke of a pen," Mr. Hyde said. "No longer will custodial parents have to wait years while court systems in different states coordinate their actions."

The New York Times

THURSDAY, JULY 17, 1997

House Cut Would Kill Woodrow Wilson's Living Memorial

By Stephen Barr
Washington Post Staff Writer

More than 30 years ago, when Congress decided to honor Woodrow Wilson, it adopted a suggestion by Wilson's grandson and created a "living institution" instead of erecting a more traditional marble and stone monument to the nation's 28th president.

Today, that living memorial—the Woodrow Wilson International Center for Scholars—operates with public and private money in antiquated offices at the Smithsonian Castle. The center is not a think tank and does not take positions on issues, but sees itself as a house where scholars in a variety of disciplines can gather.

But the Wilson Center appears to be at a crossroads. A review by the National Academy for Public Administration (NAPA) portrays the center as a splintered operation, suffering from "damaged morale" and ineffective leadership. The House, which ordered the review, voted Tuesday to give the center $1 million for fiscal 1998, essentially enough money to disband.

The House decision means the center's future will be in doubt until later this year, since the Senate seems likely to continue its funding. A Senate Appropriations subcommittee is scheduled to meet today, and a spokeswoman for Sen. Slade Gorton (R-Wash.) said he would propose that the center get the same amount it currently receives, about $5.8 million.

The dispute over the center has been overshadowed by the clash over funding for the National Endowment for the Arts (NEA), which receives its funding from the same appropriations bill. Like the NEA, the Wilson Center is caught up in the debate over how much the government should subsidize cultural and intellectual activities.

Center supporters stress that it is neither partisan nor ideological. "I can't understand why the conservatives should be voting against the center," said Gertrude Himmelfarb, a neoconservative and professor emeritus at the City University of New York. "It is the least trendy of all the institutions in the United States. Of all institutions, this is one they should be supporting."

But the center also faces a harsher kind of criticism: that its existence no longer seems to make any difference, particularly in public policy debates.

"I want them to be relevant," said Rep. Ralph Regula (R-Ohio), who heads the House subcommittee that placed the center in jeopardy. "Are they relevant as far as agencies of government in town? I'm not sure they are. Are they relevant to the public? Maybe a little bit." Regula added, "They don't seem to have a sense of mission; they're just kind of drifting."

The NAPA report argues that the Wilson center's operations need to be pulled together so that visiting scholars not only pursue their research but also contribute to the center's specialized geographic programs. The principal purpose of the center, the NAPA report said, is "the bridging of the worlds of learning and public affairs."

Rep. David E. Price (D-N.C.), who led an effort in the House to defend the center, said many of the center's research efforts have "a strong public policy connection" and said the NAPA report did not address the center's relevance to such issues "one way or another."

Charles Blitzer, 69, a target of the NAPA report, has presided over the center as its director for the last eight years. During an interview at his office, where he chain-smoked as the air conditioner struggled against the searing heat outside, Blitzer noted that the NAPA report concluded the center "merits continued support."

He dismissed much of the report's criticism, saying that "we are stuck on a semantic problem" about how to define the center's "mission" in Washington. For the most part, Blitzer said, he believes that scholars at the center should be left free to pursue their studies.

According to the NAPA report, the center's only requirement on fellows, in addition to fulfilling their study objectives, is a five-minute presentation on their project to colleagues and staff.

The center annually selects about 35 fellows, who receive an average stipend of $43,000 and spend their time studying and writing. Previous and current fellows include Raul Alfonsin, the former president of Argentina; Anatoly Dobrynin, the former Soviet ambassador to the United States; Washington Post reporter Thomas B. Edsall; author Betty Friedan; New York Times columnist Thomas L. Friedman; novelist Carlos Fuentes; Harvard University professor Samuel P. Huntington; and Itamar Rabinovich, the former Israeli ambassador here.

More than 100 other scholars annually pass through the doors of the center's geographic-based programs. They include the Kennan Institute for Advanced Russian Studies and programs devoted to Latin American, Asian, East and West European, and U.S. studies. The center also operates the Cold War International History Project and the Environmental Change and Security Project, exploring such issues as global population trends and how they fit into U.S. foreign policy.

Some of Blitzer's colleagues agree that an artificial division separates Wilson fellows from the various programs and needs to be addressed. "Scholars working on their own research can enrich programmatic activities and vice versa," said Kennan Institute director Blair Ruble.

The NAPA report also heightened tensions over Blitzer's management of the center, which was criticized in the NAPA report. Blitzer rejected the criticism, saying he has worked to improve the center's endowments, operations and scholarship.

When he arrived, Blitzer said, the center had an endowment of $4 million and $2 million in debts. Now, he said, the center's endowment is valued at $24 million, and $3 million has been raised to furnish new quarters in the Ronald Reagan building at the Federal Triangle, where the center has a 30-year, rent-free arrangement.

Regula has expressed concerns about the Wilson Center's role since the early 1980s and at one point opposed Blitzer's plans to move the center into the Reagan building. Now, Regula's funding cut and the NAPA study have plunged center officials into internal meetings on how to address what Latin American program director Joseph S. Tulchin called a "constructive kick in the pants."

Regula said he has "no qualms" about abolishing Wilson's memorial if Congress concludes the tax dollars being spent do not advance public policy or prove useful to society.

But, he added, "I'm a fan of Woodrow Wilson. For his time, he was a great president, and I like the living memorial. To me, it beats bricks and mortar."

The Washington Post
FRIDAY, JULY 18, 1997

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New Bonus Rules Proposed for State Welfare Plans

The Washington Post
Friday, July 18, 1997

By Judith Havemann
Washington Post Staff Writer

States that want to collect part of $1 billion in future federal bonuses for top performance would have to do more than decrease their welfare rolls. They would have to show that recipients have kept jobs and increased their earnings, according to a proposal being circulated by the Clinton administration.

The proposed rules would redefine the measure that the White House and many states have used to gauge success of welfare reform—the reduction in caseloads. Critics have long said that caseloads, which already are dramatically declining, are a poor measure of achievement because it is unclear whether impoverished families who leave welfare have become self-sufficient or whether they have fallen into greater poverty.

In circulating a "preliminary concept" paper, the Department of Health and Human Services is seeking to motivate states to answer what has been a central question since passage of welfare reform last summer: As caseloads have fallen in 48 of the 50 states—and by a total of 1.2 million nationwide since August, as President Clinton boasted two weeks ago—what has happened to the former recipients?

But the response to urgings from Clinton and the nation's governors to the private sector to hire former welfare recipients has been spotty and hard to document.

In mandating that welfare recipients be moved into jobs, the new welfare law also authorized distribution of up to $200 a year from 1999 to 2003 in bonuses to states with high performances. The HHS draft proposal attempts to define high performance so that all states have a chance at winning a bonus, not just those that began their welfare reform before the new federal law.

The bonus proposal would rank states for both improvement and achievement in four areas:

- employment;
- job retention;
- earnings progression;
- teenage births.

It calls for using state unemployment insurance records to determine whether welfare recipients are getting jobs, how long they keep them, and whether their earnings increase from year to year.

States also would be judged on whether they reduce the number of births among girls 15 to 17, whether or not they are on welfare.

The idea of bonuses marks an important departure from traditional federal practice in the social welfare field. Under the old federal-state welfare system, Washington officials issued finely detailed rules, and a quality control system held the states to account for following them. Under the new system, states design their programs, and Washington will reward the successful with bonuses and punish those who fail with the loss of federal funds.

The HHS "concept" paper has been developed with extensive input from states and the American Public Welfare Association, the organization of the nation's top welfare officials, as required by the federal law. But neither group has endorsed the proposal.

"It is wrong to say that this is a sea change away from just focusing on caseload reduction," said Evelyn Ganzglass, director of employment and social services policy studies for the National Governors' Association. "States would never have said caseload reduction is the only measure of success." Furthermore, said Andrea Kane of the NGA, "the governors have always been very interested in putting people to work and having them become self-sufficient."

The bonus issue stirred controversy last year when Olivia A. Golden, HHS acting assistant secretary for children and families, asked state officials for suggested criteria. Officials from Wisconsin, where caseloads have fallen 52 percent since 1993, pressed for caseload reduction as the single measurable standard.

"You want to have a simple measure that can be put into operation and understood by everyone from the caseworker to the commissioner," Jason Turner, the former Wisconsin official who raised the issue with Golden, said yesterday. He said a welfare manager would have a hard time figuring out what to do to help the state win the bonus, and therefore it was unlikely to have an effect on states. Other officials questioned whether unemployment data was complete enough to judge if states were succeeding in putting welfare recipients into work. Such data differs from state to state, measures only about 90 percent of the jobs, and would leave out recipients in workfare programs.

But Mark Greenberg, an attorney at the Center for Law and Social Policy, said "at this point the single biggest focus of a number of states seems to be caseload reduction. Welfare reform is about much more than getting people off the rolls. If the high performance bonus can bring back a focus on work and employment and the well-being of families, that might help bring better balance to state approaches."

Chinese Firm Denies U.S. Hearing Allegations

By Carrie Lee
Reuter

HONG KONG, July 17—China Resources launched a campaign today to defend the conglomerate's name and threatened legal action over criticism made in a U.S. congressional hearing into foreign political funding.

The state-owned conglomerate's Hong Kong-based arm, China Resources (Holdings) Co. Ltd., said it was the victim of "irresponsible, malicious and slanderous attacks on the company's reputation."

One of China's most powerful companies in this former British colony, China Resources took out a half-page ad in Hong Kong newspapers to deny allegations about its business and a relationship with Indonesia's Lippo Group.

"It has come to our attention that a witness testifying before the United States Senate Committee investigating campaign financing has made allegations about our business activities and our relationship with the Lippo Group," the ad said. "Such allegations are entirely false and groundless. The company's business and relationships are entered into on a purely commercial basis."

"The company has retained U.S. legal counsel to investigate its legal options regarding these irresponsible, malicious and slanderous attacks on the company's reputation. We will take all appropriate legal actions to clear our good name," it said.

At a Senate hearing last week, committee Chairman Fred D. Thompson (R-Tenn.) said China Resources is the principal partner in China of the Indonesian Lippo Group and that there were indications of a plot by China to influence U.S. elections.

On Tuesday, business consultant Thomas Hampson told the committee that Lippo is increasing its ties with China, and claimed that China Resources, its main Chinese partner, is involved in intelligence-gathering, according to hearing testimony.

China Resources, which has had a presence in Hong Kong for five decades, is under the direct control of Communist-ruled China's Ministry of Foreign Trade and Economic Cooperation.

Former 'Untouchable' Voted India's President

Associated Press

NEW DELHI, July 17—For the first time, a member of Hinduism's lowest social class—once called untouchables—will become president of India.

Federal and state lawmakers, who chose India's president Monday, gave Vice President K.R. Narayanan 4,231 votes. His nearest rival, former election commissioner T.N. Seshan, got 240, Indian news media reported.

The ballots were not counted until today.

Narayanan, 76, is the first member of Hinduism's lowest class to hold the largely ceremonial office. He will be sworn in July 25.

"I am feeling very humble," Narayanan said. "But I am confident that the people, Parliament and legislators have full confidence in me."

His election came amid caste violence in India, where rioting left 10 people dead in Bombay last week.

The rioting began in a Bombay slum after someone draped shoes around the neck of a statue of low-caste hero and independence leader B.R. Ambedkar. The act was a grave insult in India, where feet, shoes and leather are stigmatized.

> *"I am feeling very humble."*
>
> — President-elect K.R. Narayanan

Police sent in to quell the unrest shot and killed 10 rioters.

The rioting spread to the western state of Gujarat, where police opened fire today on low-caste protesters, killing a 17-year-old boy and injuring four others, a news agency reported. Press Trust of India said police fired on the crowd in a poor neighborhood of Ahmadabad.

Hinduism, the religion practiced by most Indians, divides society into four castes, plus a fifth, lowliest class commonly called *dalits*, or "oppressed people." A century ago, when Indians like Narayanan were known as untouchables, brushing against such a person or even glancing at one was considered enough to defile a Hindu of status.

Although today it is illegal to discriminate against dalits, few have risen as far as Narayanan. Most remain at the bottom of society, in its most menial roles.

Narayanan was college-educated in part because of financial help from a fund set up by independence leader Mohandas K. Gandhi, who championed the cause of India's lowest classes. Narayanan, who has been vice president for five years, is one of the few politicians untainted by scandal at a time when courts are hearing cases of corruption and financial irregularities by top Indian officials.

The Washington Post

FRIDAY, JULY 18, 1997

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Ivo H. Daalder

Three Choices In Bosnia

In mid-May, President Clinton concluded a review of Bosnia policy by urging his foreign policy team to redouble its efforts to secure full implementation of the Dayton accords. However, the political standoff in the Bosnian Serb Republic between its former self-styled president, Radovan Karadzic, and his hand-picked successor, Biljana Plavsic, demonstrates that the Bosnian Serbs have no intention of abiding by Dayton's terms. The standoff confirms that, notwithstanding his indictment for war crimes and earlier agreement to step down from power, Karadzic remains very much in control of the levers of power. It is Plavsic's inability to control these levers—not Karadzic's opposition to a unified Bosnia, which she shares—that the infighting is all about.

This political turmoil only serves to underscore a larger point: Despite the absence of fighting, real peace in Bosnia remains as elusive as ever. While Dayton served to legitimize the deployment of foreign military forces in order to stabilize the cease-fire agreed to earlier, the underlying differences among Bosnians on whether the country should be partitioned or integrated were not resolved. So long as there is a large military presence, these differences will not be resolved by force. Instead, they are manifest in disagreements about how Dayton should be implemented—with Serbs stressing the independence of their entity and Muslims emphasizing the importance of refugee returns and other integrationist elements of Dayton. Rather than resolving the conflict, Dayton implementation is but its continuation by other means.

"Despite the absence of fighting, real peace in Bosnia remains as elusive as ever."

The Bosnian parties are now awaiting next year's scheduled departure of the NATO-led stabilization force. Once it leaves, the Serbs will declare independence or seek accession to Serbia. Fearing this (and that the Bosnian Croats will follow suit), Bosnian Muslims are using the American-led military Train-and-Equip program to prepare for preemptive military action designed to unify most of Bosnia under Sarajevo's control.

With Dayton's implementation stalled and prospects mounting for hostilities once the stabilization force leaves, the administration must once again reexamine its policy. It has three options:

- **First, U.S. troops can leave on schedule.** By then, we will have invested $7.7 billion, and U.S. troops will have been in Bosnia for 30 months to help secure the peace. If, despite this huge investment, war resumes, the parties will have made that choice. Of course, the situation would begin to unravel at a most inconvenient time: just when the administration is trying to convince an increasingly doubtful Senate that NATO enlargement will benefit European peace and stability.
- **Second, we can stay, committing some 5,000 to 8,500 U.S. troops to an international force for the long haul.** Such a commitment would drastically alter the perspectives of the parties, all of whom are waiting for the stabilization force to disappear. Real peace would become a real option. However, in staying the president would need to convince the Pentagon and a highly skeptical Congress—which recently voted overwhelmingly to bring the troops back home next June—that this is a wise investment.
- **Third, we can accept that Dayton will not work and seek to renegotiate its terms.** Although the accords may come completely unraveled, renegotiation could resolve the key contradictions in Dayton—including whether Bosnia's future is partition or integration. A new deal could ensure both: The Serbs could get a small part of the territory they currently hold in eastern Bosnia and be granted independence (albeit as an international pariah so long as Karadzic and others hold sway); the remainder of Bosnia would be integrated into a single state with strong provisions guaranteeing minority rights. Transitional security would require an international—including U.S.—military force.

The United States faces a fundamental choice in Bosnia—we can leave and risk war; we can stay and risk being there for another decade or more; or we can negotiate a new deal. None of these options is easy. It is clear, however, that the current policy of strong rhetoric will not work. Muddling through no longer is an option.

The writer, associate professor at the University of Maryland's School of Public Affairs, coordinated U.S. policy toward Bosnia as a staff member on the National Security Council in the first Clinton administration.

The Washington Post
Friday, July 18, 1997

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JUDY MANN

Big News Beyond the Beltway

It doesn't take more than a few days down on the farm to feel approximately a million miles away from the Beltway and the concerns that seem to grip the capital.

Some of us who live inside the Beltway also feel a certain puzzlement about what politicians are up to and why we are getting loaded down every day with tedious details about scandals that have long since outlived their interest. You glance at stories about Republican congressional committees and their leaks and machinations and wonder: Who are these people and what are they doing? If you're smart, you budget your time wisely and try to read only those stories that are going to have an impact on your life. Very little on the Hill these days makes that cut.

It's no accident that approval of Congress is standing at a mediocre 40 percent in the latest Washington Post-ABC News poll, while President Clinton's approval rating has hit an all-time high of 64 percent. Congress is stuck playing in the gutter, splattering mud around, and it's not sticking, the ultimate offense.

Meanwhile, Clinton is standing firm on insisting that the Food and Drug Administration have the power to regulate nicotine in tobacco, and has appointed a task force to make sure the American public gets the healthiest deal possible out of the tobacco pact. For parents of teenagers who are at risk for smoking, Clinton is focusing on matters that hit close to home, whose reach extends far beyond the Beltway, into the health of families all across the country. The possibility of a real turnaround in America's relationship with tobacco, unthinkable even three or four years ago, is cause for enormous optimism. Something is happening here.

What else do people care about, outside the Beltway? Down in the Shenandoah Valley, where I've spent a few days, the big story is that Wal-Mart wants to build a shopping center in Woodstock. Woodstock is a small town about two hours outside Washington where many merchants still close up at 1 o'clock on Saturday afternoons. We have a Safeway and a Food Lion and a Ben Franklin, and a couple of hardware and department stores, but the inventory is limited.

The merchants are mounting a counteroffensive against the shopping center project, saying it will drive many of them out of business. Residents like the personal attention they receive from local merchants, but they also know that they're getting gouged by outfits that have a monopoly on certain products and services.

If Wal-Mart comes in, so will several hundred jobs. We may not have to drive to Harrisonburg or Winchester to find building supplies at what I'd consider reasonable prices. Since my husband seems to be in constant need of building supplies, this angle on the Wal-Mart project is especially appealing to me.

We have no doubt that a big, new shopping center will change the mood and energy level of the town, and traffic levels will likely increase—a possibility that sends waves of horror through residents who do not see how people can stand the traffic in Northern Virginia. On the other hand, maybe we'll get a decent fish market, bookstore, and a store where you can buy a metal wastebasket and some nice lamps. These are the kinds of trade-offs people are talking about, and it's the big story in the local press.

The other big story has been what to do about junkyards that stockpile old cars, create eyesores and pollute nearby streams. The ancient Virginia ethic that you can do whatever you want with your own property is still strong, and so far the Board of Supervisors of Shenandoah County hasn't figured out a way to get rid of these. Maybe if Wal-Mart and its companion stores come in, they'll add enough to the tax base that the county can afford a financial incentive program that will encourage the junkyard owners to sell the cars for scrap metal and find a new line of work.

These days most of us down here with any land are worrying about rain, which we haven't had much of for weeks. I can water the flower beds near the house, but I'm not up to taking a hose to 14 acres of pasture, which is being chomped on methodically by the cows, their calves and our new young bull, who arrived with a ring in his nose and looks quite fierce. We're going to need rain soon, and nobody's looking to the government for that.

We got back inside the Beltway on Tuesday and looked at the back papers. One of the first headlines I saw said this: "Voters Feeling Remote From Issues in Capital." I'd been outside the Beltway long enough that I wasn't even feeling like a voter, and I wasn't sure I trusted everything I read in the press. That was one story, though, that was right on the money.

The Washington Post

FRIDAY, JULY 18, 1997

THE PRESIDENT HAS SEEN
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E. J. Dionne Jr.

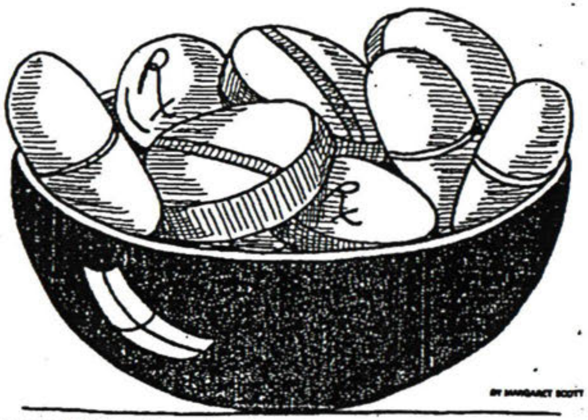
Another Round on Health Care

We decided during the great health care battle in 1994 that we didn't want a comprehensive federal approach to health insurance. It seemed so difficult, bureaucratic and messy. The Clinton health care plan had all those pages, those infamous "alliances," the endless rules.

So Congress said no—without ever casting a vote outside a committee—and we hoped things would get better.

But, no, the health care issue didn't go away. It keeps coming back because health care is so expensive and consumes such a big part of government and family budgets. It comes back because employers have to find ways of shedding costs and because the managed care plans they rely on don't satisfy employees the way more open-ended plans once did. It comes back because the number of Americans without insurance continues to creep up.

As a result, Washington is now deeply engaged in yet another health care fight. It has two fronts, one involving children, the other the elderly.



BY MARGARET SCOTT

This round lacks the drama of the Clinton battle or the confrontation over Medicare cuts in 1995. It's not getting the intense coverage of those earlier rounds. But make no mistake: How these arguments turn out will affect how millions of Americans get insurance—and whether many get health coverage at all.

On its face, the children's part of the fight is going well for those who would expand coverage. The budget agreement between President Clinton and the Republican Congress included $16 billion for children's health care. The Senate, thanks to Sens. Orrin Hatch (R-Utah) and Edward M. Kennedy (D-Mass.), tacked on an additional $8 billion courtesy of a 20-cent-a-pack cigarette tax.

But matters are highly unsettled. For one thing, the House hasn't agreed to the cigarette tax, and Senate Republican leader Trent Lott doesn't like it. And while the Senate kid care proposal insists that every federal dollar appropriated be used to add to the number of children insured, the House has a much vaguer "block grant" approach with much looser guidelines. It might permit federal money to be spent, say, on bailing out a troubled hospital.

There is much to be said for encouraging state experimentation, especially if you look at states that are trying to do good things, such as Florida with its Healthy Kids program. But, as supporters of the Senate bill note, building on the existing Medicaid system may be the most efficient way to expand coverage to kids without building new bureaucracies.

Governors, of course, want lots of federal money with no strings attached. But if Congress is going to appropriate money to cover kids, isn't that what the money should be spent for? Otherwise, why bother? And the cigarette tax is a real test of Congress's priorities: If Congress is not willing to pass even this tax to give health care to more kids, when will it get around to them?

The Medicare battle entails many small changes to the system and a big one. The smaller changes deserve much more scrutiny, as John Judis argues in the current issue of the New Republic, because many of them (such as medical savings accounts) threaten to unravel the social bargain that all elderly Americans will share a decent system of coverage. Judis also points out that proposed Medicare provisions that purport to save money may end up being giveaways to health interests that happen to make large campaign contributions.

The Senate is right to begin figuring out how wealthy citizens might chip in more for Medicare. But it was cavalier for a Senate committee to vote to raise the age at which people will be eligible for Medicare (from 65 to 67) without first asking: Won't it be hard for 65-year-olds, especially those with health problems, to buy private insurance? Unless 65-year-olds are at least allowed to buy into Medicare, this proposal (now, fortunately, in deep trouble) would simply expand the number of uninsured.

Much as we might wish it, rejecting comprehensive health care reform did not translate into few rules and short bills. Right now, Congress is writing a slew of new rules and very complicated bills. We'd better pay attention. If Congress cuts costs by increasing the number of uninsured, it's doing taxpayers no favors.

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FRIDAY, JULY 18, 1997

7-18-97

In Sudan, Deadly Epidemic Follows War's Devastation

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By JAMES C. McKINLEY Jr.

TAMBURA, the Sudan, July 16 — Dr. Michaleen Richer and her crew set up their laboratory outside a dilapidated clinic in a village of mud huts bathed in the forest's dappled light.

One by one, Dr. Richer drew blood samples from vials, mixed them with a protein and squeezed them from a dropper onto cards in a rotating machine powered by her car battery. More than eighty ragged people from the Zande village of Baragu watched and waited. Some stood sullenly in line to give blood. Others sat under trees, waiting for the news they dreaded.

"That's another positive," Dr. Richer said, pointing to one of the samples on the card. "Number ten-thirty-two."

For weeks, Dr. Richer, an American, and aid workers from CARE International have been trying to determine the extent of an outbreak of sleeping sickness that is spreading quickly through the villages here in the southwestern part of the Sudan along the border of the Central African Republic.

The preliminary results are frightening. As the civil war in the Sudan grinds into its 15th year, sleeping sickness, a parasitic malady that is fatal but curable, is once again raging through Western Equatoria province, infecting at least one in five people in Tambura County alone, doctors say. The outbreak is among the worst documented this century, doctors say, and it has even been found in villages where it has never been seen before. But because studies so far have been limited, it is impossible to know how widespread the epidemic might be.

"It's catastrophic, actually, to be truthful," said Dr. Richer, who works for the International Medical Corps, a relief organization.

This form of sleeping sickness, or African Trypanosomiasis, spread by tsetse flies, is only found in Africa within 10 degrees north and south of the equator, a region with 55 million inhabitants. The flies carry a parasite, the trypanosome, from human to human.

Within three to six months, this parasite multiplies in the blood and lymph nodes, causing fever, weakness, sweating, pain in the joints and stiffness. In two to three years, the parasites migrate to the brain. There they cause personality changes, madness, and seizures. If the disease is untreated, the patient eventually slips into a coma and dies.

The surging epidemic in Tambura County is a case study in the way disease follows war in Africa, as surely as hyenas follow lions after a kill.

By 1989, after more than a decade of work, Belgian doctors had pushed the incidence of sleeping sickness down to less than 1 percent of the

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population. But when Sudanese rebels swarmed into Western Equatoria in 1990, the Belgian doctors pulled out, along with almost all of the Sudanese Government's medical staff.

Then the drawn-out war severed the main trade routes to Khartoum and the rest of East Africa.

As the region became cut off from the outside world, its handful of clinics and hospitals closed down for lack of staff and medicine. No one received any medical treatment until Western charities re-established a skeletal system of clinics in 1994.

"There was a complete breakdown of health services from 1990 until the time that CARE came," said Edward Loojo, a 36-year-old Sudanese lab technician who worked with the Belgian doctors. "People were not diagnosed in time. The health personnel went to exile."

To make matters worse, tens of thousands of people fled into the bush to escape the fighting, away from the towns and main roads. Thousands crossed into Congo, formerly Zaire, and the Central African Republic. The farther into the wild the people pushed, the more they were bitten by tsetse flies.

Now the disease has returned with a vengeance. Last August, nurses employed by CARE began to see hundreds of people suffering from what looked like sleeping sickness stumbling into the clinic in Ezo, about 40 miles south of the town of Tambura. More than 100 people died, but the nurses had no means to test for sleeping disease.

"So many people were dying, and we thought it was a different disease," Francis Dawa, one of the nurses in Ezo, said. "Every family is hit. Even myself, I am positive, but I'm treating the people." Because of the cost and shortage of medicine, some infected medical personnel have not yet been treated.

At the main hospital in the town of Tambura, it became clear an epidemic was rising, doctors said. In 1995, the staff there treated only 18 patients for the disease, but the number shot up to 87 in 1996. So far this year, they have admitted more than 100.

Alarmed by the numbers, Dr. Richer and Dr. Mario Enrile of CARE did a quick survey in Ezo, finding that more than a quarter of the residents were infected. In April, they persuaded the Centers for Disease Control and Prevention in Atlanta to send in a team to help do a more scientific study.

The study was interrupted for a month when rebel soldiers harassed the researchers, but it resumed two weeks ago. The preliminary results suggest that 21 percent of the 21,500 people in villages around Ezo have the disease, Dr. Richer said. The epicenter of the outbreak appears to be in Ezo itself, where 37 percent of the 440 people who have been tested are infected.

"That means that of the 8,000 people in Ezo, about 3,000 are going to die unless we treat them," Dr. Richer said.

Epidemics have periodically swept through the region throughout its history. The local authorities say that at least 200,000 died of the illness in outbreaks between 1915 and 1940. In Uganda, an epidemic killed four million people in 1906. There are some towns in the Central African Republic — Bassigbirf for instance — that have literally been wiped out by the illness.

The disease is curable. The problem is cost. Two drugs are available that can kill the parasite, but the one prescribed for the early stages, Pentamidine, has become expensive because it is in high demand among AIDS patients. The drug itself costs only $11.50, but the cost to produce a course of treatment is between $170 and $520. The drug used in the second stage, Melarsoprol, costs about $100 for a course of treatment.

To stop the parasite's spread, all 30,000 residents in Tambura County would need to be tested, doctors here say. Then drugs would have to be administered to those who have the parasite, a project doctors estimate could cost more than $1 million.

But even those measures would not be enough. Doctors here have studied only villages in the Sudan, but it stands to reason the disease is spreading rapidly in Congo and the Central African Republic as well. Both of those countries have undergone civil wars and political upheavals recently.

"We need to treat all the people who are infected," Dr. Richer said. "There needs to be a regional control program set up." Once the study is completed, aid workers say they hope to raise international contributions to pay for the medicine to bring the epidemic under control.

In Ezo, nearly every family has been hit by the disease. Since no official record of deaths is kept, it is impossible to say precisely how many have died.

What is certain is that the recent survey has terrified Ezo's residents. Peter Lissan, a 48-year-old teacher, had brought three of his children to the clinic at Ezo. The children had been tested during the survey and were all infected. His 13-year-old daughter was very weak. She slept constantly and was unable to do the chores on the family farm, he said.

As he looked for someone to help his children, Mr. Lissan said he was sure the rest of his family had been infected as well.

"When I see the baby in the morning, and it takes time for it to wake up, I fear it is sick," he said.

"We don't call it sickness, we call it death."

The hospital in Tambura houses more advanced cases in a squalid ward of narrow beds. All are weak. Some are disoriented. On one bed, a farmer complains, "My head is evaporating."

One of the patients, a 15-year-old girl, Juhana Jima, lies half paralyzed on a sheetless mattress. She weighs only 46 pounds. Her eyes are wide, intelligent and frightened, but she is mute.

"When she came in, she couldn't eat or talk," a nurse says. "She could not get up by herself and she was always sleeping." She is being treated and will survive, but may have permanent brain damage.

Further down the ward, Carlo Bageyopai, a 44-year-old farmer from Ezo, hovers tenderly over his wife, Zaneta Siata, who is 43. The woman has also shrunk to skin and bones. She can barely talk or lift her head.

In December, Mr. Bageyopai carried his wife back to their farm in Ezo with medicine from the clinic, but she continued to decline, he said. It was only when the doctors came to test people for the survey that they found out the truth.

"We had heard that there was a disease called sleeping sickness, but it didn't occur to me that this was sleeping sickness," he said. "There are a lot of people who are suffering from this disease. Others have died without getting any medical attention."

The New York Times, FRIDAY, JULY 18, 1997

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Israel Needs Help to Kick the Subsidy Habit

By E.V. Kontorovich

The U.S. gives Israel $3 billion a year in economic and military aid, making it the largest recipient of American largesse. Israel has been subsidized at similar levels since the signing of the Camp David Accords in 1979. Recently, leaders in both countries have begun to admit that the money debilitates Israel's economy. Many Israeli officials have been quietly signaling, at least to reporters, a willingness to accept reduced aid levels. This year, they had the chance--and refused. Israel will end up with $50 million less in U.S. aid, but this appears to be a one-time cut.

Israel's allocation has long been viewed as a sacrosanct budget item, doggedly defended by Israel's supporters in America, most notably the American Israel Public Affairs Committee, a Jewish lobbying group with vast clout in Congress. So when the $50 million reduction began to gain acceptance in May, many critics of the current levels of funding saw it as the beginning of Israel's gradual weaning from welfare.

These hopes are in vain. It took a series of unique circumstances to make even the $50 million reduction politically viable, and Israel quickly moved to ensure that the cut would not be followed by deeper ones. The idea for the reduction originated with the Clinton administration, which wanted to reward Jordan for making peace with Israel in 1994 and for continuing to cooperate with the peace process. But no one in Washington wanted to increase the foreign-aid budget. So Congress plans to skim $50 million each from Israel and Egypt (the second-largest recipient of U.S. subsidies) to set up a development fund for the Hashemite Kingdom.

But like many welfare cases, Jerusalem seems to feel entitled to its full sum. Intense negotiations between Israeli and American officials and Aipac ensued. "There was a lot of groping for some mechanism" to accommodate Israel, says Aipac President Melvin Dow. The mechanism that was agreed upon guarantees that the cut will not serve as any sort of precedent, according to Israel's ambassador, Eliahu Ben Elissar.

The way Israel spins it, the reduction isn't a reduction, but a gift from the government of Israel. "The $50 million Israel gives to the Jordan fund is part of our policy of showing how much we care about Jordan and its development," Mr. Elissar says. Indeed, the cut was structured to make it look like a voluntary Israeli donation. The U.S. will give Israel the full $1.2 billion in economic aid this year, as usual. Then Israel will send back the $50 million to Washington, which will pass it on to Jordan.

Benjamin Netanyahu

This Byzantine scheme demonstrates how desperately Israel is attached to its welfare benefits. Foreign subsidies have become a centerpiece of Israel's economy; perhaps no independent state in modern times has been so dependent on them. With an annual government budget of $55 billion, Israel receives almost $10 billion in free money from friends abroad. America's $3 billion economic and military aid package alone constitutes more than 3% of Israel's gross domestic product. Roughly another $7 billion arrives in the form of U.S. housing loan guarantees, assistance from other nations and donations from Jews around the world. All told, nearly one-seventh of the Jewish state's GDP comes from international alms.

Like most welfare programs, aid to Israel has been inspired by the best intentions. Congress wanted to support a beleaguered democracy and long-time ally: The high level of aid supposedly symbolizes America's unique relationship with the Jewish state. But after nearly two decades of giving, many economists and politicians in Israel and the U.S. have concluded that the subsidies are ruinous for Israel.

The aid creates a two-tiered system of dependency, a sort of socialism on welfare. On one level, Jerusalem finds itself hooked on the regular infusions from the U.S., which props up its bloated socialist policies. At the same time, Israel's citizens remain dependent on their nation's welfare state for the provision of most services, from health to transportation. A report released last year by the Jerusalem-based Institute for Strategic and Political Studies concluded that the aid "prevents reform, causes inflation, fosters waste" and "ruins our competitiveness and efficiency."

The $50 million nonreduction isn't the first false hope for foreign-aid welfare reform. One year ago, newly elected Prime Minister Benjamin Netanyahu, speaking before a joint session of Congress, urged U.S. lawmakers "to begin the long-term process on gradually reducing the level of your generous economic assistance." But when the applause died down, it turned out that what the prime minister meant was that the right time for cuts would be *after* the end of his term.

Mr. Netanyahu is certainly more market-oriented than his predecessors or opponents. He concedes that outside subsidies stunt the economy, and it is doubtful whether previous prime ministers would have accepted even this year's cut. In contrast, the leader of the opposition Labor Party, Ehud Barak, told me last month that "we need financial support and would prefer to receive it for quite a long time."

Mr. Elissar likens Israel to a "junkie," hooked on foreign aid. If Jerusalem is the junkie, Washington is the pusher. Among addicts, such gestures as Mr. Netanyahu's are called cries for help. That is to say, the addict can't kick the habit himself; nations, like people, need a little nudge.

Mr. Kontorovich is a member of the New York Post's editorial board and former Israel correspondent of the Forward.

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THURSDAY, JULY 17, 1997

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VP/C Jennings

Can we make sure options? — BC

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The New York Times, THURSDAY, JULY 17, 1997

AUDIT OF MEDICARE FINDS $23 BILLION IN OVERPAYMENTS

ERROR RATE IS PUT AT 14%

Money Improperly Paid Equals Amount to Be Extracted in a Pending Budget Bill

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By ROBERT PEAR

WASHINGTON, July 16 — In the first comprehensive audit of Medicare, Federal investigators said today that the Government overpaid hospitals, doctors and other health care providers last year by $23 billion, or 14 percent of the money spent in the standard Medicare program.

The books and records of the Medicare agency and its contractors were in such disarray that they could not be thoroughly audited, said June Gibbs Brown, inspector general of the Department of Health and Human Services. Ms. Brown said there was no way to tell how much of the overpayment resulted from fraud.

The estimate of improper payments, based on an exhaustive review of a sample of actual claims, is substantially higher than previous estimates by health policy experts. It tends to confirm the suspicions of elderly people who say their Medicare bills are riddled with errors.

The amount of improper payments detected by the inspector general is, by coincidence, the same as the amount of savings to be extracted from Medicare under the budget bill now pending in Congress — $115 billion over five years, or an average of $23 billion a year. Congress is considering major changes in Medicare, including an increase in the age of eligibility and higher fees for more affluent beneficiaries, to prevent the program from going bankrupt before baby boomers need it.

In her report, the inspector general said: "We estimate that during fiscal year 1996 net overpayments totaled about $23.2 billion nationwide, or about 14 percent of total Medicare fee-for-service benefit payments. These improper payments could range from inadvertent mistakes to outright fraud and abuse. We cannot quantify what portion of the error rate is attributable to fraud."

The report said the Government had no reliable way to prevent or detect improper Medicare payments, and no reliable estimate of what it might owe on unpaid claims for services already provided.

Auditors found a $4.5 billion "computation error" in the agency's estimate of unpaid claims. They found that contractors sometimes mixed

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up Medicare's two trust funds, for hospital care and doctors' services. Other contractors confused amounts owed to the Government with amounts owed by the Government. The contractors, typically private insurance companies, review claims and pay bills for Medicare.

Medicare officials acknowledged tonight that the Government made substantial erroneous payments, but they said they did not get credit for all the proper, accurate, timely payments they made.

Melissa T. Skolfield, a spokeswoman for the Department of Health and Human Services, said: "This is the first comprehensive audit of Medicare's financial statements that we've ever had. It's a useful road map in our efforts to improve the integrity of the Medicare program." H. Christopher Peacock, a spokesman for the Medicare agency, said, "We are preparing an action plan to deal with the recommendations."

The report made these points:

¶Controls over cash are loose. Checks were signed by people who had no authority to do so.

¶Medicare's vast computer systems have so little security that records can be easily altered or destroyed, with few safeguards for the privacy of "sensitive medical history information, personal beneficiary data and claim information."

¶Hospitals and clinics received the biggest share of improper payments, 35 percent of the $23 billion. Most of the remainder went to doctors (22 percent), home health agencies (16 percent), nursing homes (10 percent) and medical laboratories (6 percent).

¶Payments were classified as improper because medical records did not show a need for the services provided, or the services were not covered by Medicare. Routine billing errors and improper diagnostic codes accounted for only 9 percent of the improper payments.

¶Premiums paid by Medicare beneficiaries have not been audited. The amounts owed to the Government by hospitals, doctors and others who were overpaid cannot be audited because the Government and its contractors keep inadequate records.

In each of the last three years, the inspector general has found severe weaknesses in Medicare's bookkeeping and internal controls. Today, for the first time, Ms. Brown estimated the amounts of overpayments and for each type of service.

Bruce C. Vladeck, who runs Medicare as administrator of the Federal Health Care Financing Administration, has concurred in most of the auditors' prior recommendations and has repeatedly promised improvements. But Ms. Brown said today that many of the problems "remain uncorrected."

In the 1994 audit, made available today by the Government, Ms. Brown said Medicare actuaries "were not available to provide sufficient information to audit the details" of Medicare spending because they were "involved in the President's health care reform initiative," the ill-fated effort to guarantee health insurance for all Americans.

In today's report, Ms. Brown said Medicare was "inherently vulnerable" because it had 38 million beneficiaries and paid 800 million claims a year through 59 contractors governed by a complex set of reimbursement rules. The Health Care Financing Administration "has not adequately monitored these contractors," she said.

The auditors examined 5,314 claims for 600 patients chosen to be representative of Medicare beneficiaries across the country. The report said that 1,577 of the claims, or 30 percent, "did not comply with Medicare laws and regulations."

Richard J. Davidson, president of the American Hospital Association, complained last week that health care providers were "under siege by Federal law-enforcement and investigative personnel." He said Federal agents did not distinguish between innocent billing errors and criminal activity. The association asked for a six-month moratorium on new investigations of hospitals suspected of filing false claims.

Under Federal law, health care providers are supposed to keep records to support all claims, and they must make the documents available when Federal investigators request them. Ms. Brown said many health care providers failed to supply the documents.

The inspector general gave several examples of erroneous payments. In one case, a nursing home was paid $15,362 for a 61-day stay by an elderly patient. Medical records did not show any condition that required skilled nursing care.

In another case, a nursing home billed Medicare separately for routine services already included in the fixed amount paid by the Government for each day of care. In other cases, auditors found that patients' medical problems were much less severe than indicated on claims, so doctors were entitled to less money than they received.

Representative Bill Thomas, Republican of California, said, "The inspector general's audit shows that billions of dollars are being wasted every year by Medicare because of fraud, abuse, shoddy accounting practices and improper payments."