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Clerkin

THE WHITE HOUSE  
WASHINGTON

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C. Willis

July 25, 1997

Gracie Edwards  
Post Office Box 432  
Bald Knob, Arkansas 72010

Dear Gracie:

Hillary and I were so sorry to hear about Tommy's death and send our prayers and deepest sympathy to you. He was such a good man -- I'll always be grateful for his support and friendship through the years.

Our thoughts are with you, David, Beatrice, and all your family.

Sincerely,

Bill Clinton

He was a great friend  
to me - I'll never  
forget it

Chiron

Gracie Edwards  
Post Office Box 432  
Bald Knob, Arkansas 72010

**BALD KNOB — Thomas "Tommy" Edwards Jr., 68, died Sunday. Born August 24, 1928, in Bald Knob, a son of the late Thomas and Eddra Hamilton Edwards. He served Bald Knob as alderman for the past 22 years. He was past president of the Bald Knob Rotary Club, Chamber of Commerce, president of the Union Cemetery Association, member of the White River Agency on Aging, the Arkansas Motor Vehicle Commission and served on the Arkansas State Housing Development Commission, president of the Kensett American Legion, and a 32nd-Degree Mason. Mr. Edwards was retired foreman of the DK&S Railroad, veteran of the Korean Conflict and member of Pleasant Grove Baptist Church, where he served as deacon. Survivors: wife Gracie Johnson Edwards; son David Hays, Little Rock; daughter Beatrice Smith, Flint, Mich.; four grandchildren; three great-grandchildren. Services Saturday, 1 p.m., Pleasant Grove Baptist Church. Burial: Union Cemetery by Powell Funeral Home. Visitation: 6 to 8 p.m. Friday.**

*Send letter to wife:*

*Gracie Edwards  
P. O. Box 432  
Bald Knob 72010*

THE WHITE HOUSE

WASHINGTON

SESSION WITH DAN BALZ AND CECI CONNOLLY

**DATE:** July 25, 1997  
**LOCATION:** The Oval Office  
**TIME:** 4:10 p.m.  
**FROM:** Mike McCurry

You will meet with Dan Balz and Ceci Connolly from The Washington Post in an informal, off-the-record session.

As a national correspondent and former National Editor for The Washington Post, Dan Balz is well known for sharp political coverage as well as for his recent book, Storming the Gates, a joint effort with Los Angeles Times columnist, Ron Brownstein. Early next month, Balz is heading to the Post's London bureau, where he will reconcentrate his efforts on politics in the United Kingdom.

Formerly a political reporter for the St. Petersburg Times, Ceci Connolly joined the staff of The Washington Post early this summer after dazzling readers and editors alike with her sophisticated campaign coverage.

Often working together, Balz and Connolly have recently dedicated much of their work to the unrest among the Republican leadership in Congress, as well as the concern of many that the work done in Washington seems to have little relevance to those who are reading about it beyond the beltway and across the country. In a story published early this week, Balz and Connolly theorized that the problems that seem to plague the House leadership cannot be blamed on Speaker Gingrich alone, but rather are due to much larger issues of overall leadership as well as a lack of confidence in the party's agenda and identity.

Tab H  
goes to the  
Press List:  
POTUS/SG  
COS  
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Sosnik  
Todd  
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monitoring USEC's performance. The oversight committee will have general responsibility for ensuring that performance in the HEU Agreement is satisfactory; that ownership and control restrictions are enforced; that relevant foreign and domestic intelligence information is applied; that coordination with other regulatory bodies, including SEC and NRC, is appropriate; that the government's interest in AVLIS (see below) is well-managed; and that the requirements of the 1992 and 1996 statutes are upheld. The precise institutional arrangements of the oversight committee, the responsibilities of its sub-committees, and the methods for ensuring appropriate coordination between the oversight committee and regulatory bodies, will be defined in the directive. A draft terms of reference for the directive is at Attachment B.

### **Privatization and the AVLIS issue**

One issue that is being linked by some in the Congress to the timing of privatization is the spending cap on developing a new enrichment technology, Advanced Vapor Laser Isotope Separation (AVLIS). The U.S. government has invested over \$1.5 billion in this technology, and the research and development is being performed by about 600 workers at the Lawrence Livermore National Laboratory. The Energy Policy Act of 1992 created a cap on how much a public-sector USEC could spend on AVLIS. That spending cap will be reached this fall. Already, AVLIS workers are concerned over the prospect of layoff notices. A disruption of AVLIS, furthermore, could potentially affect USEC's value at privatization. The Administration is therefore considering several options to sustain AVLIS, but some have indicated that your approval of the privatization plan may be necessary to secure congressional support for any temporary fix. However, all agree that some kind of congressional action will be necessary regardless of the existence or speed of the privatization process: even if the privatization plan were approved immediately, the spending cap would be breached before the privatization transaction could be completed.

### **Recommendation**

The Energy Policy Act of 1992 requires Presidential approval of the implementation of the USEC privatization plan. Your approval at this time will help dispel any doubts in the market and in Congress about the Administration's commitment to privatization. Following your approval, USEC will begin immediately to seek market opportunities for privatization, subject to approval by the Secretary of the Treasury of the final privatization proposal. Treasury will take the lead in managing the transaction for the Administration.

If approved, we expect privatization to occur in six to eight months. As noted above, a directive will be prepared to ensure that the national interest is monitored and protected after privatization. The following agencies agree that USEC should be permitted to pursue privatization options in the market: NEC, NSC, State, Treasury, Energy, Commerce, and Justice. CIA believes that privatization poses no threat to national security. CEA opposes this recommendation.

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Sacramento Bee

July 20, 1997, METRO FINAL

SECTION: MAIN NEWS; Pg. A12

LENGTH: 1267 words

HEADLINE: GOP'S PLIGHT ISN'T JUST GINGRICH

BYLINE: Dan Balz and Ceci Connolly, Washington Post

DATELINE: CLEVELAND

BODY:

The infighting over the leadership of Speaker Newt Gingrich, R-Ga., that rocked House Republicans this week reflects far deeper problems than a debate over who will lead the House.

Republican activists and key strategists interviewed over the past few days said the absence of leadership nationally and lack of consensus on a new party agenda invite intensified intraparty conflict that will leave Republicans weakened against President Clinton and the Democrats.

"We don't have unifying themes and we don't have unifying leadership," said Steve Merksamer, a Sacramento attorney who was chief of staff to former California Gov. George Deukmejian. "We have control of both houses (of Congress) and the country sympathetic to our agenda . . . and what are we doing with it? We're squandering it."

Last week's abortive coup attempt against a weakened Gingrich led to the hasty resignation of Rep. Bill Paxon, R-N.Y., as a key member of the speaker's team in the House and helped crystallize a growing sense of frustration within the party. As one top party strategist put it late last week, "The tragedy is that we're on the verge of passing a balanced budget and cutting taxes and we're in a circle shooting each other."

In one sense, the frustration grows out of the party's collective failure to compete against a popular president who they believe has stolen their best issues. Sharp differences among Republicans over whether they should pursue cooperation or confrontation with the president have helped undermine confidence in Republican leaders on Capitol Hill.

But the party's problems also reflect a loss of confidence in its own agenda. Support for supply-side economics has frayed in the face of the strong economy, and with Clinton and the GOP nearing agreement on a balanced budget with tax cuts, there is no consensus on shaping a new agenda.

These problems are responsible not only for the complaints about Gingrich's leadership but also for an escalation in tensions between economic and social conservatives and between Northern and Southern Republicans.

Many conservatives complain the party is losing its identity as a result of Clinton's shift to the center and what they say is their leadership's

collective lack of courage in developing a clear conservative alternative to the president's policies. Moderates complain that conservatives care more about ideological purity than governing.

"We are like the Democrats of the '60s and '70s," said one Midwestern Republican. "We've become captive of a wing of our party, just as the Democrats were captive of their left in the '60s and '70s. . . . Remember when Republicans used to laugh at Democrats beating themselves up? Now we're doing the same thing."

Gingrich's problems drew the headlines, but there were other signs of unrest last week. Massachusetts Republican Gov. William Weld lashed out at Senate Foreign Relations Committee Chairman Jesse Helms, R-N.C., accusing Helms of "ideological extortion" in opposing his proposed nomination to be Clinton's ambassador to Mexico. In Washington, conservative Republicans were engaged in a brush fire with 1996 GOP vice presidential nominee Jack Kemp, once the darling of the conservative movement, over the sales of high technology computers to China, which Kemp supports.

Weld and Helms disagree on social issues, such as abortion and gay rights, and Helms has accused Weld of being soft on the war against drugs. Weld's attack on Helms threatens to strain relations between the party's moderate and conservative wings. The Kemp dust-up with conservatives underscored the lack of consensus on foreign policy.

Republicans haven't fully recovered from their public relations debacle over disaster relief, in which the president vetoed a disaster-aid bill and charged that the Republicans had loaded it with extraneous issues. Eventually the Republicans caved to Clinton's pressure. Now they fear Clinton is on the brink of stealing the tax issue from them as they arrange to balance the budget.

These frustrations prompted members of the Republican National Committee on Friday to urge RNC Chairman Jim Nicholson to convene a party summit to bring the bickering to an end and produce a new agenda.

Party leaders and activists offered a variety of explanations for the problems.

"We are clearly suffering from the transition of having been a presidential party to one that is more diverse, with power that is more diffuse," said Tom Rath, the national committeeman from New Hampshire. He added that members of the national committee feel "we've not had strong leadership out of the Congress."

Another Republican was more blunt: "If we had a strong leader in either House to rally around, we wouldn't have this problem," he said.

With Gingrich crippled first by an ethics investigation and later by sniping from dissidents, many Republicans assumed that Senate Majority Leader Trent Lott, R-Miss., would emerge as the party's strong voice on Capitol Hill. Instead, Lott has disappointed many fellow Republicans who say he hasn't been able to project a national message for the party.

LANGUAGE: ENGLISH

Copyright 1997 The Washington Post  
The Washington Post

July 13, 1997, Sunday, Final Edition

SECTION: A SECTION; Pg. A04; POLITICS

LENGTH: 220 words

HEADLINE: Democrats' Road Wider in the Middle

BYLINE: Ceci Connolly; Dan Balz

BODY:

President Clinton's efforts to govern from the middle continue to help refurbish the image of the Democratic Party.

For years, voters trusted Republicans over Democrats on issues such as fighting crime and cutting taxes. But a new Washington Post-ABC News poll shows that the Democrats now hold the edge on those and other issues, even if narrowly.

On some issues, the images of the two parties have not changed much. Those surveyed, for example, gave Democrats the advantage on improving schools (51 to 30 percent) and Republicans the edge on maintaining a strong defense (50 to 32 percent).

But by 41 to 38 percent, those surveyed said they trusted Democrats more than Republicans to cut taxes. Democrats held a similar edge on managing the economy (43 to 39 percent), balancing the budget (39 to 36 percent), handling crime (38 to 34 percent), and reforming campaign financing (34 to 31 percent).

According to the survey taken last week, Democrats held a big advantage on which party people trust to help the middle class (51 to 30 percent), while Republicans had a small edge on foreign affairs (40 to 38 percent).

The Republicans hold a small edge in family values, with 37 percent saying they trust the GOP to encourage high moral standards compared with 33 percent who trust the Democrats.

LANGUAGE: ENGLISH

LOAD-DATE: July 14, 1997

## Summer Meeting's Finger-Pointing Produces Resolution to Redirect Party's Attention

By Ceci Connolly

Washington Post Staff Writer

CLEVELAND, July 18—On a day they hoped to turn the spotlight onto the Democratic fund-raising controversy, Republican officials were forced instead to revive their own dejected troops left stunned by reports of chaos in the House.

"I'm one of those Republicans who is a little frustrated right now because we seem to be reading more stories about palace intrigue than we are talking about a national agenda," said Michigan Gov. John Engler. "It's time to stop blaming and start acting. The Republican Party must start acting like the majority party that we are."

Gathered for what was expected to be three days of routine meetings and socializing, members of the Republican National Committee have spent much of their summer confab griping about their leaders in Washington and the party's lack of an agenda. News that one of House Speaker Newt Gingrich's top lieutenants had abruptly resigned only increased the anxiety among the men and women charged with keeping the party's grass-roots apparatus running.

"The inside-the-Beltway leaders need to understand we have goals to accomplish and they need to be cooperating better," said New Jersey committeeman David Norcross.

"They should not be engaged with each other in Beltway ego fights."

Expressing the widespread sense that Democrats are winning the public relations war on budget and tax matters, RNC co-chair Pat Harrison declared: "That's our issue and we need to take it back."

Chastising fellow Republicans for "engaging in self-defeating behavior and replaying last year's season," Engler suggested a high level strategy summit. "What our party needs is a simple national agenda so every American knows what we stand for."

And just to make clear where he stands on the turmoil in the House ranks, Engler added: "And I mean the elected leadership who are serving today and not the would-be leaders who think it might be time for a change.... Let's go to work with the team we elected."

RNC members apparently agreed and passed a resolution urging the "Republican House leadership, the Republican Senate leadership and the Republican governors, in a small group, to meet for a weekend and turn off their beepers and focus our great party."

Norcross said the unusual vote was a clear sign of frustration in the ranks: "Criticism of what was going on in the House is exactly what we meant, and it is richly deserved."

Although the RNC is in far better

financial shape than its Democratic counterpart, officials acknowledged they are falling short of fund-raising projections. The problem for Republicans is twofold: less-than-spectacular giving among small donors and higher-than-expected expenses for responding to campaign finance investigators.

The effort has been a real drain on the RNC financially and has to some extent disrupted the day-to-day

**"It's time to stop blaming and start acting."**

—Michigan Gov. John Engler

activities of every division," said RNC counsel Michael Grebe.

Revenue for the year is about \$1.3 million less than budget projections, and the RNC still faces a debt of about \$4 million, down from \$9.75 million after the election.

Mel Sembler, chief of party fund-raising, said direct-mail contributions and gifts from small donors are below expectations largely because a skeptical public is awaiting action in Congress. "Our stockholders want to see results," he said. "To help close the gap, Sembler is staging eight fancy dinners around the country at

which he hopes Gingrich (Ga.), Senate Majority Leader Trent Lott (Miss.) and other GOP leaders will explain what they are up to in Washington.

A GOP task force on campaign finance endorsed much of the current system, essentially affirming that the marketplace is the best regulator of political money. The panel recommended legislation that would prohibit unions from forcing members to give to campaigns.

Newly installed party chairman Jim Nicholson said Democrats were trying inaccurately to "spin" the Senate hearings into a debate on campaign finance laws, and he criticized Clinton for seeming to ignore the probe.

"This investigation is not in any way about reforming campaign finance laws. It has become nothing less than about our nation's security," Nicholson said. "Because of revelations in this week's hearings, the primary focus of these investigations must be whether the People's Republic of China attempted to influence and corrupt our election campaigns here in America."

But it was Ohio Gov. George V. Voinovich who issued the harshest attack against Clinton. "You don't run the White House as a place where you run the sheep through and shear them as much as you possibly can."

# The Washington Post

SATURDAY, JULY 19, 1997



<b>STATE AND LOCAL ELECTED/APPOINTED OFFICIALS (3)</b>	
<b>1. Hon. Velma Veloria</b>	Washington. State Representative, Washington State Assembly. Also active in women's advocacy issues. Filipino American.
<b>2. Maisie Hirano</b>	Hawaii. Lieutenant Governor. Japanese American.
<b>3. Mike Honda</b>	California. State Representative, California State Legislature. Japanese American
<b>Alternates:</b> <i>Robert Gee.</i> Texas. Commissioner, Texas Public Utilities Commission. <i>Chinese American.</i> <i>Kumar Barve.</i> Maryland. State Delegate, Maryland House of Delegates. Indo-American <i>Rocky Chin.</i> New York, NYC commission on Human Rights, Chinese American.	

<b>BUSINESS, LABOR, EDUCATION, OTHERS (5)</b>	
<b>1. Lam Duc Nguyen</b>	California. President/Owner, Winn-Visions. Small business leader. Vietnamese American
<b>2. Beth Renge</b>	California. President/Owner, Renge Securities. Japanese American.
<b>3. Tomio Moriguchi</b>	Washington. President/Owner of export/import business. Japanese American.
<b>4. Kent Wong</b>	California. Executive Director, UCLA Labor Center. Chinese American.
<b>5. Terry Watanabe</b>	Nebraska.
<b>Alternates:</b> <i>George Koo.</i> California. President, Asian American Manufacturer's Association. Chinese American. <i>Sandra Lee.</i> New York. Owner, Executive Director. Harold L. Lee and Sons, Inc. Insurance Specialist. Chinese American. <i>Dr. Narinder Kapany.</i> California. Business/Science. Creator of fiber optics. Indo-American. <i>Scott Oki.</i> Seattle, Washington. President. Oki Foundation. Japanese American. <i>Luan Le.</i> Texas. Owner, Shrimping Company. <i>Matt Finucane.</i> Washington, DC. Executive Director, Asian Pacific American Labor Alliance. Filipino American.	

<b>ACTIVISTS, RELIGIOUS COMMUNITY, OTHER (4)</b>	
<b>1. Alice Bulos</b>	California. Filipino American Democratic Club. Longtime grassroots advocate, known as the "grandmother" of the Filipino American community.
<b>4. Courtni Pugh</b>	Illinois. Legislative Assistant, Congressman Danny Davis. Worked in Chinatown community center and was labor organizer for the Service Employee's International Union. Young Professional. Korean American.
<b>3. Margaret Fung.</b>	New York. Executive Director, Asian Pacific American Legal Defense Fund. Chinese American.
<b>4. George Willy</b>	Texas. Attorney. Nationally recognized for his work in civil rights/immigration law. South Asian American.
<b>Alternates:</b> <i>Midori Lederer.</i> New York. Japanese American Social Services, Inc. Longtime grassroots advocate. Japanese American. <i>John (J.D.) Hokoyama,</i> California, Leadership Education for Asian Pacifics (LEAP). Japanese American. <i>Rev. Norman Fong.</i> California. President, Council of Presbyterian Ministers. Chinese American. <i>Kanak Dutta.</i> New Jersey. Longtime grassroots advocate. Indo-American. <i>Catherine Lew.</i> California. Community relations consultant. Chinese American.	

<b>EXECUTIVE DIRECTORS/ PRESIDENTS, NATIONAL ORGANIZATIONS (1)</b>	
<b>1. Karen Narasaki</b>	District of Columbia. Executive Director, National Asian Pacific American Legal Consortium. Japanese American.
<b>Alternates:</b> <i>Mark Kim.</i> Washington, DC. Korean American Coalition. Korean American. <i>Helen Kawagoe.</i> California. National President, Japanese American Citizen's League. Japanese American. <i>Michael Lin.</i> Washington, DC. National President, Organization of Chinese Americans. <i>John Yang.</i> Washington, DC. National President, National Asian Pacific American Bar Association. Chinese American.	

**RECOMMENDATION:**

We recommend that you approve these participants for the August 15, 1997 session:

\_\_\_ Approve

\_\_\_ Disapprove

\_\_\_ Discuss Further

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THE WHITE HOUSE

WASHINGTON

THE PRESIDENT HAS SEEN

7-25-97

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McCurry  
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July 23, 1997

MEMORANDUM FOR THE PRESIDENT

FROM : MIKE McCURRY *MMC*

SUBJECT : STAFF CHANGES

I wanted to bring to your attention some staff changes that are occurring in the Press Office. You will be seeing a few of them this Friday for departure photos.

Stuart Schear, our tv Booker, is leaving to join his partner in New York. When we approached Stuart 18 months ago about the job, he was reluctant to leave New York, but was a huge supporter of yours and felt that duty called. He has done a tremendous job and has loved every minute of his tenure with us.

April Mellody's new husband (she got married on June 14), Chris Gillespie, has been accepted to Columbia University's Business School. She will be leaving in August to move to New York with Chris. April has worked in the press office for four years and is a favorite of ours and the press corps.

In addition to Stuart and April, Mary Ellen Glynn will also be coming in for a departure photo. As you know, Mary Ellen went back home to the State Department to work for Secretary Albright. While she is certainly missed, Joe Lockhart has done a wonderful job replacing her and is receiving high marks from both the press corps and the staff. He has fit right into our team.

On a final note, Lorrie McHugh will also be leaving in August after three and a half years with the press office. Lorrie is leaving for family reasons. Her son starts kindergarten in the fall and she wants to be able to be home in time to pick him up from school. While Lorrie is virtually irreplaceable, we are going to split Lorrie's job up and hire a deputy press secretary for operations and a media affairs director. Lorrie will probably come by sometime in August for a photo - although, she actually has her heart set on having you sign the photo that Diana Walker gave her of you on the train trip!

While it is certainly sad to see some members of our Press Office leave, they are doing so for a very good reason - to be with their families. They all feel that it has been a great experience and honor to serve you and they appreciate your taking the time to see them.

*Stuart  
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partner*

*April*

*She was  
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VP  
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Councilman Noach Dear

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

THE PRESIDENT HAS SEEN  
7-25-97

July 17, 1997

~~PERSONAL AND CONFIDENTIAL~~

President William Jefferson Clinton  
The White House  
1600 Pennsylvania Avenue, NW  
Washington, DC 20500

VP / SUNDAY  
Fyi -  
L.R.

Dear Mr. President:

This is a follow up to my previous note in which I alerted you to the negative media coverage the Administration is receiving in the Jewish newspapers. I am enclosing a two page advertisement that is appearing in this week's Jewish Press.

Three-quarters of a million Jewish households nationwide receive this newspaper and will see these ads. It is necessary to put a stop to this misinformation. I saw this same tactic used with Peres and predicted his downfall. I am concerned that this pattern will be repeated and adversely affect the Administration.

I recently spoke at a public forum in the Jewish community. The audience expressed great hostility toward the Administration. I want to put a stop to it. I need your help.

I must meet with you immediately.

Very truly yours,

Noach Dear

I hope to hear  
from you  
warrant request  
Muel

Encl.

DETERMINED TO BE AN ADMINISTRATIVE

MARKING INITIALS: DB DATE: 07/30/97

2019-0774-5

JIM DORSKIND:

Please coordinate the reply.

copies sent to Tarullo Berger

THE WHITE HOUSE  
WASHINGTON  
July 25, 1997

with Bin Laden did I survive the process? (680) in efforts -

MEMORANDUM FOR THE PRESIDENT

FROM: PHIL CAPLAN *Phil*

7125197

SUBJECT: Privatization of the U.S. Enrichment Corporation (USEC)

The Energy Policy Act of 1992 calls for the privatization of the USEC, subject to approval by the President and the Secretary of the Treasury. The attached memo from Sandy Berger and Dan Tarullo recommends you approve implementation of the privatization plan that has been developed by the USEC and an NSC/NEC-led interagency group. *NEC, NSC, State, Treasury, Energy, Commerce and Justice have all agreed on the plan. John Podesta and OSTP concur. CIA believes that privatization poses no threat to national security. CEA is the only dissenting voice.* Your FY '98 budget assumes sale proceeds from privatizing USEC of \$1.6 billion.

**Background on USEC.** The impetus behind the 1992 Act was that the government did a poor job managing HEU activities. The USEC is now a wholly-owned government corporation that assumed operation of DOE's uranium enrichment facilities and produces commercial nuclear reactor fuel. Operations have improved significantly since 1992. The USEC is also the U.S. Government's executive agent in the U.S.-Russia Highly Enriched Uranium (HEU) Purchase Agreement, which provides for the purchase from Russia of 500 metric tons of HEU from dismantled nuclear warheads for eventual use as commercial nuclear reactor fuel in the U.S.

**Privatization.** Offered for your approval is a dual-path plan (Attachment A) whereby the USEC will simultaneously pursue (i) a negotiated sale to private investors and (ii) an initial public offering to the general investing public. The interagency team has recommended this dual-approach to test both markets before making a final decision -- top-flight investment banks are advising the whole process. The Secretary of the Treasury must approve the final sale. Because of the sensitive nature of USEC's facilities and the importance of the HEU Agreement with Russia, potential buyers will be carefully screened. Total foreign participation in the USEC will be limited to 10%; foreign-sourced financing will also be limited to 10%. The interagency team also recommends you issue a directive setting up a high-level interagency USEC oversight committee to monitor performance.

**Views.** All agencies agree the plan should move forward. CEA opposes privatization and believes that the USEC's profit-making motive may give it incentive to not live up to its responsibility in the HEU Agreement. Other agencies discount this theory -- USEC just concluded a five-year contract with Russia, and the U.S. Government can remove USEC as the executive agent of the HEU Agreement with as little as 30 days notice. Plus, USEC has a strategic market interest in sustaining its position as sole executive agent of the HEU Agreement.

If you approve the plan, privatization will likely occur in 6-8 months.

Approve implementation of plan       Disapprove       Discuss

THE WHITE HOUSE

WASHINGTON

87 JUL 23 4:10:01

July 17, 1997

ACTION

MEMORANDUM TO THE PRESIDENT

FROM: DANIEL K. TARULLO AND SAMUEL R. BERGER *DKT*

SUBJECT: Privatization of U.S. Enrichment Corporation

Current law calls for the privatization of the United States Enrichment Corporation (USEC), subject to approval by the President and the Secretary of the Treasury. USEC is a government-owned corporation formed in 1992 that produces enriched uranium for use as commercial nuclear reactor fuel. It is also the U.S. government's executive agent in the U.S.-Russia HEU Purchase Agreement, which provides for the purchase from Russia of 500 metric tons of highly enriched uranium (HEU) from dismantled Russian nuclear warheads over twenty years. Under the Agreement, weapons-grade HEU is blended into low-enriched uranium (LEU) suitable for use as nuclear reactor fuel, imported into the United States, and sold to nuclear utilities.

An interagency group, led by NEC and NSC, has been examining the economic and national security issues associated with privatizing USEC. With the exception of CEA, all agencies agree that privatization should proceed. This memorandum therefore recommends that you approve the implementation of USEC's privatization plan. Such approval will permit USEC to evaluate privatization opportunities in the market and facilitate a privatization transaction, subject only to the approval of the Secretary of the Treasury. Your FY 1998 budget assumes sale proceeds from privatizing USEC of \$1.6 billion.

**Background on USEC privatization**

The 1992 Energy Policy Act created USEC as a wholly-owned government corporation to assume operation of the Department of Energy's uranium enrichment facilities, and to market enrichment services to electric utilities that operate commercial nuclear power plants in the United States and abroad. The Act resulted from a consensus that these activities had been poorly managed by the government. For example, the government's operation showed little ingenuity in pricing and contracting policies, expended billions of dollars by investing in an enrichment technology that never became commercially viable, and kept excess capacity in

operation for many years.

Since USEC's creation as a government corporation, operations have improved significantly. Some further improvement is expected following privatization (particularly relative to what would obtain if USEC were to remain within the public sector with no prospects for being privatized). For example, OMB projects that a privatized USEC could enjoy up to 10 percent lower non-energy costs than a public-sector USEC.

These potential efficiency benefits were the primary impetus behind Congress's direction to the Administration to privatize USEC subject to several conditions, including the ongoing protection of the national security. Another condition for privatization, which Treasury has concluded is likely to be met, is that the net present value of the sale be at least equal to the value to the government of retaining the company.

A subsequent law, the 1996 USEC Privatization Act, established a more detailed process to follow in privatization, specified additional liabilities and responsibilities that would be left with the U.S. government, and established a requirement that the President monitor the actions of the U.S. executive agent (presently USEC) for the U.S.–Russia HEU Purchase Agreement (hereafter the “HEU Agreement”).

### **Need for Presidential decision**

The 1992 statute requires that before privatization can occur, you must approve the implementation of a privatization plan. The plan presents a two-track process for exploring privatization options (an initial public offering or a merger and acquisition). The law also requires that the Secretary of the Treasury concur in any final sale, an important assurance that the details of the final privatization transaction will be scrutinized to protect the national interest. A summary of the factors that must be evaluated as part of any final privatization deal and the privatization process that USEC will follow, with your approval, is at Attachment A.

### **Privatization and the HEU Agreement**

All agencies concur that the HEU Agreement is a key national security interest. CEA's opposition to privatization is predicated on its concerns about the economics of the HEU Agreement for a private-sector entity. In particular, CEA notes that USEC is a near-monopoly which enjoys advantageous contracts for its most important input, the electricity it uses in the enrichment process. USEC's marginal cost of producing reactor fuel domestically is therefore significantly lower than the price USEC is paying the Russians under the HEU Agreement. Thus, the more USEC imports from Russia, the higher its costs. CEA concludes that privatization, and its accompanying profit-maximizing objective, creates a potential divergence in incentives between the U.S. government and USEC in the HEU Agreement. Because of the paramount importance of that Agreement, CEA therefore argues that USEC should remain in the public sector so that the government can retain maximum control over its behavior. CEA also

argues that carrying out any sanctions -- such as replacing USEC as the executive agent -- will be difficult as a practical matter. In sum, CEA believes that the internal efficiency benefits from privatization are not worth the potential risks of undermining the HEU Agreement -- even if those risks are only modestly higher with a privatized agent. A June 11 *New York Times* editorial raised similar concerns, which are shared by some outside experts.

Other agencies are not convinced by CEA's argument. They note that USEC has already concluded a five-year contract with Russia, with specified prices and quantities, for 132 metric tons out of the total 500 metric tons covered under the 20-year HEU Agreement. Negotiations to extend the five-year contract will begin well in advance of the end of the contract period. Furthermore, the U.S. Government will retain the right, after privatization, to change or add executive agents with as little as 30 days notice if USEC fails satisfactorily to perform its executive agent responsibilities. Contingency plans have been prepared should such action ever be required. Since USEC has a strategic market interest in sustaining its position as sole executive agent (to prevent market control from slipping to others), this authority should be a powerful tool for ensuring continued attention by USEC to U.S. national security objectives. All other agencies, however, support privatization and oppose the imposition of additional measures to improve USEC's incentives to implement the HEU Agreement beyond those described below, believing that they are unnecessary or undesirable at this time.

### **Preventing foreign ownership, influence, and control**

Because of the sensitive nature of some of USEC's facilities and the importance of the HEU Agreement, potential buyers of USEC will be carefully scrutinized in the process prior to selling USEC. The NSC led a review of existing statutory, regulatory and administrative regimes to control foreign ownership and influence of USEC and determined that they are sufficient to protect U.S. national security. Consistent with those authorities and the national interest, the NSC approved stringent limits on foreign ownership and influence: foreign competitors, or any entity with a relationship with a substantial commercial competitor of USEC, are excluded from bidding for USEC. In addition, total foreign participation in the acquisition of USEC is limited to a maximum of 10 percent; foreign-sourced financing will be limited to a maximum of 10 percent; and voting rights of foreign persons in the corporation are limited over 10 percent. Not only will bidders be screened, but the criteria are designed to limit future opportunities to amass sufficient corporate shares to achieve control of the privatized corporation or obtain sensitive commercial information.

### **Policies to ensure performance in the national interest**

To ensure that satisfactory performance of the HEU Agreement, limitations on foreign influence in USEC, and other governmental responsibilities are upheld in the years after privatization, we are preparing a directive for your signature. This directive, which will be completed during the privatization process, will formalize a high-level USEC oversight committee and will detail the precise responsibilities of the relevant government agencies for

Decision

\_\_\_\_\_ Approve

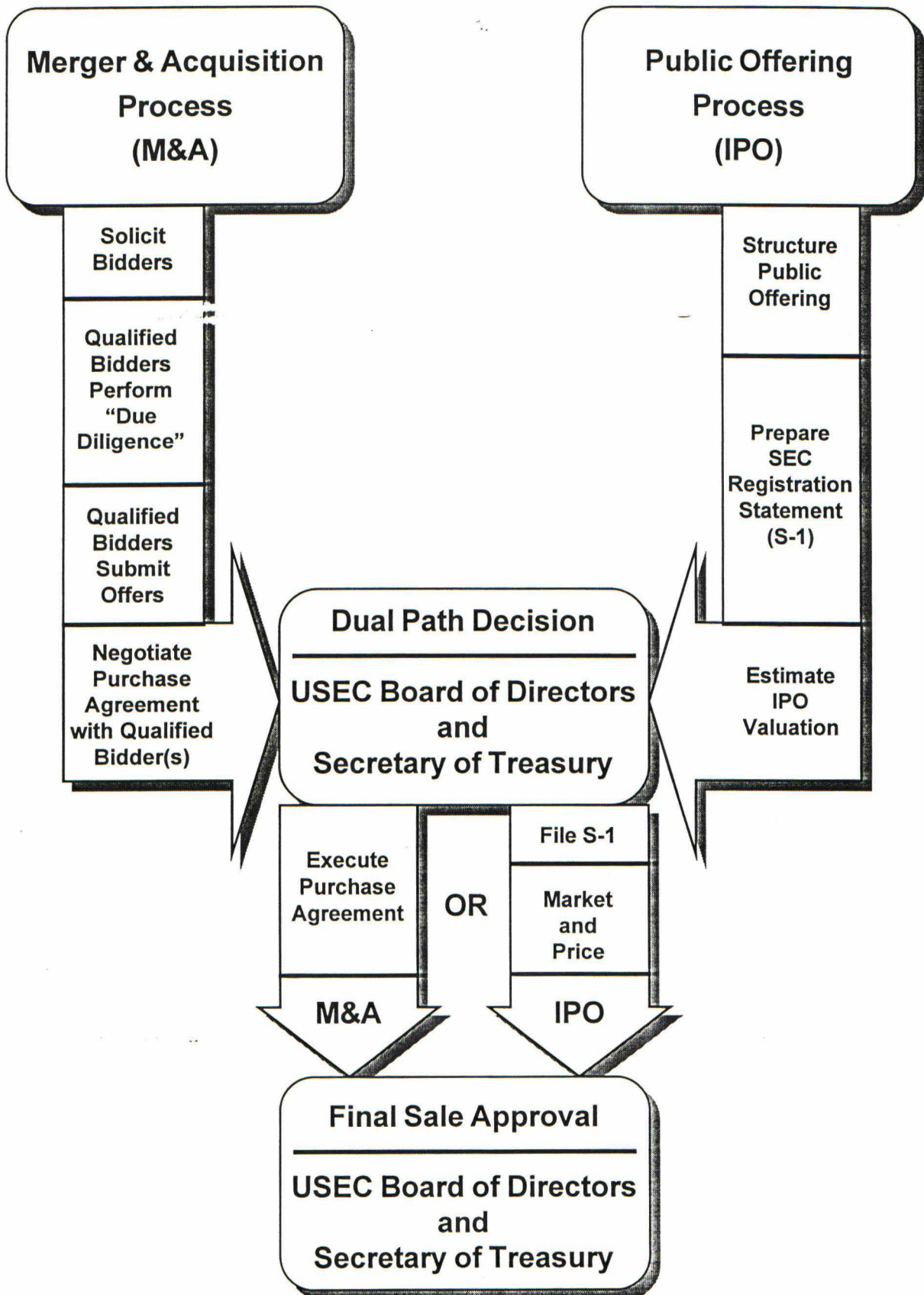
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\_\_\_\_\_ Discuss

Attachment A. Privatization process and summary of factors that must be considered in evaluating privatization

# USEC PRIVATIZATION

## DUAL PATH PROCESS



# PROCESS FOR THE PRIVATIZATION OF THE UNITED STATES ENRICHMENT CORPORATION

## I. Introduction

The United States Enrichment Corporation is following a dual path approach to privatization --- simultaneously pursuing a negotiated sale of the Corporation to private investors ("M&A transaction") and an initial public offering of the Corporation's common stock to institutions and the general investing public ("IPO"). A dual path approach has been recommended because, while either an M&A transaction or an IPO could be structured to satisfy the statutory requirements for privatization, it is difficult for the United States Government to know which approach will best achieve these objectives without testing both markets before making a final decision.

Set forth below is a brief description of the process that USEC will follow. Additionally a schematic outline of this process is included at the end of this memorandum. The Secretary of the Treasury and other Administration officials will be consulted with at each step in the M&A and IPO process. At the dual path decision point, the USEC Board of Directors (Presidential appointees confirmed by the Senate), with the approval of the Secretary of the Treasury, will select the transaction alternative that best satisfies the statutory requirements for privatization set forth in the Energy Policy Act of 1992 and the recently enacted USEC Privatization Act (the "Statutory Requirements"; see section III). Following the dual path decision, the Corporation, with the approval of the Secretary of the Treasury, will execute and close the selected privatization transaction.

The Corporation, working with the Department of the Treasury, has engaged Morgan Stanley & Co. as the Transaction Manager to direct both the M&A and IPO process. Merrill Lynch & Co. has been engaged as the co-lead manager and six other investment banks have been engaged as co-managers in the event that the USEC Board of Directors and the Secretary of the Treasury determine to privatize USEC pursuant to an IPO. In addition, the Corporation is supported by its financial advisor, J.P. Morgan Securities, and its legal and accounting advisors. While the Secretary of the Treasury is directed to make certain statutorily-required approvals in connection with USEC's privatization, it is anticipated that throughout the entire dual path process USEC will be working closely with Treasury and other Administration officials.

## II. The Dual Path Approach

The dual path approach to privatization commences with the simultaneous initiation of the merger and acquisition process and preparation for the public offering process. Approximately 21 weeks later, the USEC Board of Directors and the Secretary of the Treasury will be in a position to decide which path to follow to the closing of a privatization transaction.

## **The Merger & Acquisition Process**

The M&A process will proceed in two distinct phases designed to (a) provide prospective buyers with information about the Corporation and result in firm bids for the Corporation and (b) provide information to the Corporation about prospective buyers and their ability to meet the Statutory Requirements. It is anticipated that prospective M&A buyers would be large industrial companies having both a strategic and financial fit with the Corporation. Alternatively, it is also anticipated that a group or consortium of companies may be interested. During the course of the M&A process, the Corporation, DOE, NRC and other agencies will collect and evaluate information regarding the ownership, financial structure and other matters related to prospective bidders to permit a complete assessment by the Government of the ability of bidders and bids to satisfy the Statutory Requirements.

### *Phase I: Offering Memorandum and Preliminary Bids*

Phase I of the M&A process is designed to provide prospective bidders with sufficient information about the Corporation to submit a preliminary bid to purchase the Corporation. Phase I will also enable the Corporation to make an initial assessment as to the level of interest of prospective bidders and the ability of an M&A transaction to satisfy the Statutory Requirements.

Prospective bidders will be provided an offering memorandum which will contain a description of the uranium enrichment industry and certain confidential information regarding the Corporation's business. After reviewing the offering memorandum, interested parties will be required to make a preliminary, non-binding bid. Phase II of the M&A process will only be open to those bidders that are judged best able to satisfy the Statutory Requirements. It is anticipated that the pool of prospective bidders will be significantly reduced before the start of Phase II.

### *Phase II: Due Diligence and Final Bids*

During Phase II, bidders will be provided a copy of the form of purchase agreement to be used in acquiring USEC and given an opportunity to conduct an in-depth due diligence review of the Corporation. This will include access to data rooms, management presentations, meetings with other appropriate government officials and facility tours.

At the conclusion of this due diligence period, bidders interested in acquiring USEC will be directed to submit their best and final offers by a specified date together with a signed purchase agreement. Prior to the dual path decision, the Corporation will negotiate a final purchase agreement with the bidder(s) submitting the bid which has the ability to proceed in a transaction best satisfying the Statutory Requirements.

The best bid(s), if any, from the M&A process will be compared to the valuation determined in the IPO process, and both will be measured against the Statutory Requirements.

## The Public Offering Process

The public offering process will be undertaken concurrently with the M&A process and will consist of three principal components: (i) the structuring of the public offering, (ii) the preparation of a registration statement and prospectus, and (iii) the determination of the estimated IPO valuation. In addition, the Corporation will consider the option of an investment by a strategic investor to purchase a minority interest in the Corporation in conjunction with a public offering.

During the structuring stage, which may overlap with the preparation of the registration statement, key issues such as the Corporation's financial structure, dividend policy, the number of shares to be issued, and the jurisdictions in which the offering should be sold, will be finalized.

The Corporation will work with the underwriters and the Corporation's financial advisor, legal advisors and accountants to prepare the registration statement. A registration statement is both a disclosure and a sales document filed with the Securities and Exchange Commission ("SEC"). Following completion of the draft registration statement, the Corporation intends to make a confidential submission of its draft registration statement to the SEC. The Corporation would only make a public filing of the registration statement in the event that a public offering is selected as the privatization transaction when the dual path decision is made.

During the period that the registration statement is being reviewed by the SEC, the underwriters will complete the estimated IPO valuation of USEC. This valuation will indicate an estimated range of the gross proceeds that could be realized from a potential public offering. The estimated valuation range will be based on the conclusions of the underwriters and will represent their best estimate at that time of the likely proceeds from a public offering of the Corporation's stock. The estimated valuation range will also reflect the financial structure and dividend policy of the privatized corporation. Accordingly, this estimated valuation range, based on updated market and financial information, and the policies and financial structure for the privatized corporation, may differ from previous valuations of the Corporation done by others.

As part of the public offering, the Corporation will consider the option of an investment by a strategic investor to purchase a minority interest in the Corporation. Under this scenario, a strategic investor would purchase a certain percentage of the Corporation's stock at a price no less than the IPO share price. The Corporation anticipates that the process to solicit a strategic investor would begin at some point after the start of the M&A process and likely end before the public filing of the registration statement.

### III. The Dual Path Decision and the Statutory Requirements

Following the submission of final bids and the negotiation of a final purchase agreement(s) by prospective buyers in the M&A process and completion of the estimated IPO valuation of the Corporation, there will be a formal evaluation of the options available under the M&A process and the IPO process. The transaction selected will be the one that the USEC Board of Directors, with the approval of the Secretary of the Treasury, determines will best satisfy the eight Statutory Requirements, as described below.\*

1. **Net Present Value:** privatization will result in a return to the United States at least equal to the net present value of the Corporation.
2. **No Foreign Control:** privatization will not result in the Corporation being owned, controlled, or dominated by an alien, a foreign corporation, or a foreign government.
3. **Public Health & National Security:** privatization will not be inimical to the health and safety of the public or the common defense and security.
4. **Adequate Enrichment Capacity:** privatization will provide reasonable assurance that adequate enrichment capacity will remain available to meet the demands of the domestic electric utility industry.
5. **Long-Term Viability:** privatization will provide for the long-term viability of the Corporation.
6. **Gaseous Diffusion Plants:** privatization will provide for the continuation by the Corporation of the operation of the Department of Energy's gaseous diffusion plants.
7. **Reliable and Economical Domestic Industry:** privatization will provide for the protection of the public interest in maintaining a reliable and economical domestic source of uranium mining, enrichment and conversion services.
8. **Maximize Proceeds:** to the extent not inconsistent with such purposes, privatization will secure the maximum proceeds to the United States.

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\* The Statutory Requirements can be found in section 1502(a) of the Atomic Energy Act of 1954 (42 U.S.C. 2297d-1(a)) and sections 3103 and 3104 of the USEC Privatization Act (42 U.S.C. 2297h-1 and 2297h-2).

#### **IV. Closing the Privatization Transaction**

Following the dual path decision by the USEC Board of Directors and the approval of the Secretary of the Treasury, the Corporation will pursue the selected transaction to closing.

If a public offering is selected, the Corporation anticipates that it would make a public filing of the registration statement shortly after the dual path decision. At that time, the preliminary prospectus would be circulated and the "road show" (i.e. the marketing of the common stock of the Corporation to the public) would commence. At the conclusion of the road show, the public offering would be priced. Because the pricing of the public offering would occur at least 6 to 8 weeks after the estimated valuation range had been established by the underwriters, changes in market conditions during that period could affect the final pricing. Following the pricing of the offering, the registration statement would be declared effective by the SEC and the offering would be consummated.

If an M&A transaction is selected, the Corporation intends to close this transaction expeditiously following satisfaction of all relevant conditions. This would include obtaining all necessary regulatory approvals.

At the time of the pricing of a public offering or the execution of a definitive purchase agreement relating to an M&A transaction, the USEC Board of Directors must again determine that it is not aware of any facts or circumstances that would materially change the Board's decision that the privatization transaction will satisfy the Statutory Requirements. In addition, pursuant to section 3104(c) of the USEC Privatization Act, the Secretary of the Treasury must make a final determination that the privatization transaction will provide the maximum proceeds to the U.S. Treasury consistent with the other Statutory Requirements.

The USEC Privatization Act provides for the allocation of liabilities between the U. S. Government and USEC at privatization and calls for a memorandum of agreement between OMB and USEC, which would also provide for final settlement of USEC's accounts receivable and accounts payable with the Government.

## Foreign Affairs

THOMAS L. FRIEDMAN

# The Globalutionaries

JAKARTA, Indonesia

There is a fascinating revolution going on in Indonesia. It's not always visible, but if it succeeds it could save this country from the dead hand of the Suharto regime, which after 30 years in power is a spent force, without energy or ideas.

Wimar Witoelar, a popular Jakarta talk-show host, described the Indonesian revolutionaries to me as those 20- and 30-year-olds, most of them educated and working in the private sector, "who want to get rich without having to be corrupt and who want to have democracy but don't want to go out in the streets and get killed for it."

What's interesting is their strategy. The Suharto regime allows no space for a democratic opposition to emerge. So what the pro-democracy, pro-clean-government forces are relying on is not a revolution from below, not a revolution from above, but a revolution from beyond.

Their strategy is to do everything they can to integrate Indonesia into the global economy on the conviction that the more Indonesia is tied into the global system, the more its government will be exposed to the rules, standards, laws, pressures, scrutiny and regulations of global institutions, and the less arbitrary, corrupt and autocratic it will be able to be. Their strategy, in short, is to Gulliverize the Suharto regime by globalizing Indonesian society. As a military analyst, Juwono Sudarsono, put it: "The global market will force upon us business practices and disciplines that we cannot generate internally." Or as another reformer here remarked to me: "My son and I get our revenge on Suharto every day by eating at McDonald's."

Indonesia's "globalutionaries" include business school grads who want Indonesia in the World Trade Organization (W.T.O.) and APEC and Asean; young entrepreneurs who welcome foreign investment here so that any move the Suharto regime makes with the domestic economy, and any shenanigans it might try, will have international implications; and human rights activists who use the Internet to get their stories out and whose hackers occasionally break into — and alter — government web sites. The Indonesian press can't directly rebuke the Suharto regime for its rampant nepotism. So instead it reports with great relish on how the U.S. and Japan are taking Indonesia before a W.T.O. court to protest the fact that

Indonesia's national car factory — controlled by the President's son — is being protected by all sorts of tariffs out of line with W.T.O. norms.

Many, of course, have made a similar argument about China — that the more it is integrated into the global economy, the more open and pluralistic it will inevitably become. But what is interesting about Indonesia is that it isn't outsiders making

## Indonesia's young guerrillas.

this argument to justify their business dealings here. It is Indonesian reformers making the argument as a self-conscious political strategy.

So globalization has many dark sides, from environmental degradation to widening the gap between rich and poor, but what you see in Indonesia is its most important upside — the ability to generate pressure on autocratic regimes when no domestic space is available.

While everyone is focusing on the question of whom President Suharto will appoint as his next vice president and likely successor, I would argue that it almost doesn't matter. The really interesting succession in Indonesia is already happening, and it is the one being mounted in the private sector by the globalutionaries. They are plugging Indonesia into the world in ways that will, over time, redefine both politics here and the limits of what's possible — no matter who succeeds Mr. Suharto.

In the meantime, if the U.S. wants to promote this process of opening up and democratizing politics in Southeast Asia it needs a multifaceted strategy. It has to work with military officers who want to professionalize their ranks, give protection to the nongovernmental human rights organizations when they come under attack for reasonable activities and find every way possible to encourage countries like Indonesia to integrate with the global economy and institutions, rather than cutting them off, which is idiotic.

It would be nice if every democracy movement could be led by a hero like Andrei Sakharov. But you have to work with what you've got, and around here the biggest agents of change are the globalutionaries. □

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*The New York Times*  
THURSDAY, JULY 24, 1997

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# Quietly, a trend away from out-of-wedlock births emerges

By Ben Wattenberg

Out-of-wedlock births have soared and are America's No. 1 social problem. In 1960, 5% of children were born illegitimately. Now the ratio is a third (32%). Scary, straight-line projections have shown it could go to 50%.

Yet, unheadlined, major changes are going on. The most critical components of high illegitimacy rates — birthrates among teen-agers and blacks — have fallen dramatically.

Why no headlines? Due to a temporary statistical anomaly, the trend is seen only faintly in the most publicized index of illegitimacy. But the turnaround will be showing up soon.

The National Center for Health Statistics' (NCHS) most recent statistics, through mid-year 1996, reveal the startling changes.

Teen-age fertility (ages 15-19) dropped by 10% from 1991-96, while the decrease for the total population was only 5%. White teen birthrates decreased by 7% — and black teen birthrates by 20%.

That's important. These days, catastrophically, about three-quarters of teen-age births are illegitimate. But among women over 20, the illegitimacy ratio is 25%. There is also a big racial difference in illegitimacy: 25% for white

teen-agers, 70% for blacks.

If there's such stunning headway, why no headlines? After all, illegitimacy, particularly by teen-agers, correlates with major social problems: poverty, crime, welfare, dropouts, cyclical illegitimacy.

The problem is that illegitimacy is usually talked about as a simple ratio, out-of-wedlock births as a percentage of all births. It's important. It's understandable. We concentrate on it. And it's changed little in recent years.

How can the out-of-wedlock ratios decline so minutely while the rates decline so sharply among the very groups — teen-agers and blacks — that contribute so heavily to it?

Teen-agers comprise a small proportion of the population. Women are considered statistically fertile for the 29 years from 15-44. During the four years teen-agers are statistically fertile, they bear 13% of the babies. So, when teen-age fertility falls, it has only a limited effect on the ratio.

Moreover, fertility decreased not only for teen-agers (mostly illegitimate) but also among older women (mostly legitimate). If both sides of the proportion shrink, the ratio won't move much. Demographer Stephanie Ventura of NCHS says, "The out-of-wedlock ratio is a flawed index because it doesn't properly



By Jerry Moserak, USA TODAY

take into account the sharp decline in married fertility."

So why is this good news? Because teen-agers become adults. (Flash!)

If unmarried teen-agers refrain from childbirth, they likely will have children later on, after they are married (perhaps at increased rates). This means that the illegitimacy ratio will go down solidly — but slowly. Each year only 1/29th of the fertility spectrum moves from teen-ager to 20-something. Martin O'Connell, chief of

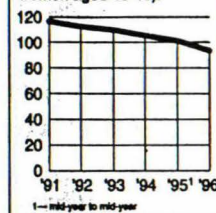
fertility and family statistics for the Census Bureau, says, "Once out-of-wedlock birth is delayed, it may never happen. Personal responsibility and contraceptive techniques learned as teen-agers are likely to stick."

Is this trend definite? Part of the coming illegitimacy ratio decline is already baked into the cake — by teen-agers who haven't borne children during the past five years. The illegitimacy ratio will go on falling if teen-age fertility rates simply don't go up. It will fall faster if they continue to decline.

Douglas Besharov, welfare expert at the American Enterprise Institute, says: "The data

## Teen births decline

Since 1991 teen birth rates have fallen, mostly among blacks (births per 1,000 black women aged 15-19).



correlate with other indicators. Contraceptive use among teen-agers is up. Abortion is down partly because of fewer conceptions. Welfare reciprocity and high school dropout rates are down."

Why now? Tighter state-by-state welfare provisions, made possible by federal waivers granted in the first part of the 1990s, probably discouraged young women from bearing out-of-wedlock children. An "announcement effect" of the federal welfare-reform bill had, an impact even before the law was passed. There have been publicity campaigns. A growing economy lifted many poor people to higher economic status, where fertility is lower.

What will it mean? Plenty. Consider "Income Inequality." It's said the poor are getting poorer while the rich get richer. Yes, but in part that's coming from the increase in single-parent households, caused partially by out-of-wedlock teen-age births. Median income for female-headed households was \$21,348 in 1995, compared to \$47,129 for married couples. Fewer female-headed households in the future will mean less income inequality.

Who should get the credit? Most welfare waivers have been granted during the Clinton presidency. But mostly GOP governors did the asking, Clinton says he "ended welfare as we know it." The Republicans say their tough bill passed. Conservatives point to a campaign for teen-age abstinence. Liberals look at sex education.

Let everyone take credit. There's work to be done. Illegitimate birth is still problem No. 1. But something is going on that bodes better. That will show up in the illegitimacy ratios. Then it will be headline news.

Ben Wattenberg, a senior fellow at the American Enterprise Institute and moderator of PBS' Think Tank, is a member of USA TODAY's board of contributors.

7-25-97

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# Welfare Incentive to Keep Teenage Parents in School Shows Some Success

By Barbara Vobejda  
Washington Post Staff Writer

An Ohio program that boosts the welfare checks of teenage parents who stay in school and cuts benefits if they drop out has had some success in increasing classroom attendance and reducing welfare dependence, according to a study released yesterday. But the program failed to induce teenagers to return to school if they had already dropped out.

The program, known as Learning, Earning and Parenting, or LEAP, has been cited as a model by President Clinton and has become the focus of national attention since passage of the federal welfare law last year. The federal law also sanctions high school dropouts by denying welfare payments to teenage parents who are not in school. Changing the behavior of teenage parents also is considered critical to reducing welfare caseloads because half of

long-term recipients had their first child as a teenager.

The study, conducted by the Manpower Demonstration Research Corp., a New York organization that designs and evaluates welfare programs, followed more than 4,000 teenagers in 12 counties for four years after they entered the program.

While it found that financial incentives can change some behavior, it also underscores the difficulty of improving the lives of those who need help the most: high school dropouts. Three years after entering the program, for example, two-thirds of the teenage parents had not completed high school.

And while the proportion of the teenagers on welfare decreased over time, more than 60 percent were still on the rolls four years after joining LEAP.

The study, said Judith Gueron, president of the group that conducted it, "reminds us that

there are no easy answers. . . . Overall, too many teenagers returned to school only to leave again without getting a diploma. And too many remained on welfare and not employed."

LEAP, begun in 1989, pays teenage parents an extra \$62 a month if they attend school regularly. Their checks—\$274 a month for a teenage mother with one child—are cut by \$62 if they drop out or are absent frequently. LEAP also provides child care, transportation and counseling for the teenagers.

In tracking the effect of the program, the researchers found that it helped the young parents progress from one grade to the next. It did not, however, end up raising graduation rates, although the teenagers who were in school when they enrolled in LEAP were more likely to go on to receive high school equivalency certificates. The program also raised employment rates for the teenagers in school.

But for teenagers who had already dropped out of school when they were enrolled, employment rates did not increase, nor did graduation rates or receipt of equivalency certificates.

Phyllis Brown, who oversees the LEAP program in Hamilton County, Ohio, said many young mothers do not return to school, even if their welfare benefits are reduced, because their families or boyfriends make up that lost money. "A \$62 decrease in their check does not make that much difference to them," she said.

Also, many of the teenagers found entry-level jobs without finishing high school. But after several years at these jobs, she said, many young mothers contacted the LEAP counselors seeking help in completing high school diplomas because they eventually decided they wanted to improve career options.

Leonard Tetlak, who runs the program in

Cuyahoga County, said the state's experience has shown that "it is really important to do things to get to teens as soon as possible after they have a child to help them avoid dropping out of school." That means identifying poor teenage parents, offering them child care assistance and other services and monitoring their progress, he said.

Another recent study by the same group highlighted the difficulty of changing teenagers' behavior. Researchers found that a program that spent \$9,000 per teenager trying to improve self-sufficiency had little effect. The mothers who received the money were no more likely to find a job or leave welfare.

"In general, we don't have examples of success working with teen parents who have dropped out," Gueron said. "That's troubling, because when every state has to deal with that population, you like to have models of success, and there aren't any of those out there."

**The Washington Post**

THURSDAY, JULY 24, 1997

# Gas Exposure in Gulf War Revised

A28

## CIA Computer Model Indicates 100,000 Troops Were Near Nerve Agent

By Dana Priest  
Washington Post Staff Writer

Nearly 100,000 U.S. troops were exposed to trace levels of poisonous sarin gas in a plume released when American soldiers unknowingly detonated rockets in Iraq at the end of the Persian Gulf War, five times the number the Defense Department had originally estimated, Pentagon officials said yesterday.

But the concentration of nerve agent that reached those troops was so low that no known health effects are believed to be associated with such a level of exposure, officials said.

The new information, which is to be released today, comes from a CIA computer model of one pit located near an ammunition dump at Khamisiyah in southern Iraq. U.S. troops entered the area days after the war ended to destroy a huge cache of weapons before leaving the country. No one reported unusual illnesses at the time, and there are conflicting reports about

whether any of the chemical alarms carried by troops sounded.

The demolition at the pit, which occurred on March 10, 1991, and that of a nearby bunker, are the only confirmed releases of chemical agents during the conflict in the vicinity of troops.

The new data does not by itself answer the question so many Persian Gulf War veterans have, namely whether the collection of symptoms reported by some of them can be linked to chemical exposure. There is no reliable scientific data that shows that a one-time, low-level exposure to sarin would create the sleepiness, memory loss, joint pains and other illnesses afflicting some veterans.

"The answer is not in the plume," said one defense official.

Still, it is a critical piece of information for the dozens of ongoing, government-funded studies into the possible delayed effects of low-level chemical exposure.

The CIA computer model, which combines data and technology

from several other agencies and private companies, measured the number of rockets believed to have been detonated, weather conditions, wind patterns, rate at which the chemical would have dissipated and the location of troops.

The model shows that over a three-day period the plume traveled 300 miles over 99,000 troops, most of them from elements of the 18th Airborne Corps and the 7th Corps. The amount they were exposed to is estimated to be between 1 milligram per cubic meter, a level that would immediately cause running noses and watery eyes, and 0.01296 milligram per cubic meter, a level that would not produce any known effects, at the time or later.

An exposure of 100 milligrams is lethal; 35 milligrams is incapacitating.

Defense officials said yesterday that one reason the number of troops is so much larger than they had originally estimated was because the sarin did not dissipate as quickly as had been believed at

first. Rather, it was soaked up by the wood crates that held the rockets and by the sand at the site and remained viable for a longer period of time.

Defense scientists came up with the original estimate of 20,000 soldiers by drawing an arbitrary 50 mile radius around Khamisiyah. The department then surveyed those troops, but found no significant increase in reported health problems among the group.

The department is sending out a new questionnaire to survey the 99,000 troops identified by the model and another letter to the previous 20,000 that were previously identified, letting some of them know they were actually not exposed to the plume.

For five years, the Pentagon had steadfastly insisted that no U.S. soldiers had been exposed to chemical weapons in Iraq. In June 1996, it revealed that chemical munitions had been unknowingly destroyed at Khamisiyah. The department has admitted that its efforts to find possible chemical exposures were extremely lax and disorganized, but it has denied it covered up the information, as many veterans advocates allege.

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THURSDAY, JULY 24, 1997

The Washington Post

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John Warner and Kay Bailey Hutchison

## The Missing NATO Debate

THE PRESIDENT HAS SEEN

7-25-97

Going into the NATO summit in Madrid, conventional wisdom had it that expanding the Alliance would be easy. We believe this perception is changing with the realization of what expansion will entail.

The plan—which would have Poland, the Czech Republic and Hungary come under the American security umbrella in just two years—seems to contradict the reality of declining defense budgets and general post-Cold War retrenchment that is taking place in all of the Western democracies. French President Jacques Chirac admitted as much at the recent NATO summit in Madrid, when he flatly declared that "France does not intend to raise its contribution to NATO because of the cost of enlargement."

One indication of this intensified scrutiny is the recent letter from 20 senators to the president outlining those areas that will be debated prior to NATO expansion. Signatories include senators from every region of the country and from across the political spectrum, from Jesse Helms (R-N.C.) to Paul Wellstone (D-Minn.).

These members have differing views of NATO expansion, from support to skepticism to outright opposition. But they share one concern: The decision to enter into a mutual defense treaty with three additional countries deserves more debate and inspection than it has thus far received.

Under Article 5 of the NATO Charter, the members make a commitment to treat an attack on one member as an attack on all. Are the American people willing to make that same commitment to the three countries in Central Europe being identified for NATO membership, and possibly more in the future? And at what price?

The cost of adding at least three members to NATO will entail in-

creased training for the new members, enhanced command and control capabilities, communications and intelligence-gathering improvements, upgrading of facilities and the purchase of weapons that will bring the new members up to NATO standards.

The wide variations in the estimates for these improvements are of concern. The independent and respected Rand Corp. in 1995 fixed the cost of NATO expansion at \$1 billion to \$5 billion a year over 10 years,

### *Will an attack on one member be seen as an attack on all?*

soaring as high as \$10 billion or more should a strong threat to NATO re-emerge.

The nonpartisan Congressional Budget Office has estimated that expanding the alliance (to the three plus Slovakia) would lead to U.S. costs ranging from \$5 billion to \$19 billion over 15 years. The CBO estimates the total cost of expansion at as much as \$125 billion. The cost to the United States assumes, questionably, that the new members of the alliance would increase their own defense spending by 60 percent over the same period.

In stark contrast to these staggering cost assessments are the Clinton administration's rather modest estimates for adding three to five unnamed members to the alliance. In a February 1997 report to Congress, the administration concluded that the cost to the United States over 12 years would be just \$150 million to \$200 million a year, at best only one-fifth of the next highest estimate from an independent source. The

same administration estimated the costs of the current U.S. operation in Bosnia at less than \$2 billion. The actual cost will be \$6.5 billion through June 1998, with that withdrawal date now in question.

The administration's February report is further troubling because of its assumptions about burden-sharing, or how much of the total cost of NATO enlargement will be borne by our European allies. According to the administration, the United States will pay just 15 percent or so of the direct enlargement costs. Other members will pay 50 percent, and the new members 35 percent.

The recent statement by President Chirac would seem to call this assumption into question. His statement is consistent with the trends of the last several years. Despite cuts in U.S. defense spending since the end of the Cold War, we still spend nearly 4 percent of our total wealth (gross domestic product) on defense. By comparison, France spends just 2.5 percent, Germany 1.5 percent and Poland 2.4 percent. It seems unlikely that these current and future allies will pay proportionately two or three times more than the United States for the costs of NATO expansion when they spend just half of what we do on general defense.

NATO expansion may well be a good idea, but the plan to bring it about must be based on hard realities, not feel-good perceptions. A heavy burden falls upon elected leaders to make a convincing argument to the American people that changes we make to the alliance are in our national interest and will strengthen the organization.

*Sen. Warner is a Virginia Republican and Sen. Hutchison is a Texas Republican.*

Berger  
Cos  
Cognard

The Washington Post

THURSDAY, JULY 24, 1997

LINDA LESOURD LADER

July 22, 1997

*Marie E.  
We do need to give  
them a letter, pick up  
no points - sorry  
J. W. White BC*

MEMORANDUM FOR THE PRESIDENT

SUBJECT: Religious Outreach at the White House

FROM: Flo McAfee and Linda Lader

Both of us have been pleased and very honored to assist you with religious issues and with people in the faith community over the past four years, and we both remain committed to being of help to you in the future. Because we know how important these people and issues—and your personal faith—are to you, we wish to bring to your attention our concerns about how these matters will be handled in the White House in the coming months. In brief:

- (1) With Marilyn DiGiacobbe leaving the White House at the end of July, it is not clear who, if anyone, will be the staff person assigned to this area.
- (2) After four years of concentrated, committed effort on your part and from many others, we are concerned that significant ground could be lost.
- (3) Should there be a dramatic difference in the understanding or attention shown to these people and to issues of importance in the faith community, we are especially worried that it would breed cynicism about your motives. ("He doesn't really care about these things, he was just trying to get reelected.")
- (4) Without anyone in the White House who has an unbiased sensitivity to *all* the faith communities, access to you, to White House staff and to events would be skewed in favor of those who have the best personal contacts, and the voices of a few could drown out the vast majority.
- (5) Many new heads of denominations have been elected who have not yet been invited to any events and who need to be contacted.
- (6) Though we are enthusiastic about the upcoming event on Religious Freedom in the Workplace, we hope that the staff involved will be as sensitive to the religious dimensions of this occasion as they are to the legal issues.
- (7) We are especially hopeful about your initiatives regarding race, but we have heard from various religious leaders who are unhappy about not having been contacted by the White House and who wish to be included in the process and hope to be invited to related events.
- (8) The annual Religious Leaders breakfast should now be in the planning stages if it is to take place in September. (Suggested date: September 15.) To that end, attached is a letter from Tony Campolo suggesting what could be the start of a list for the breakfast meeting.

THE PRESIDENT HAS SEEN  
7-25-97

Echaveste  
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We will be having lunch in the White House Mess with Marilyn DiGiacobbe this Friday, July 25. If it were possible for us to drop by and see you for a few minutes, we would appreciate the opportunity to discuss this candidly with you in person.

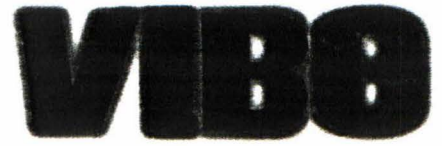
As always, we commend you for the great things you are doing for this country!

*with gratitude*

12

THE PRESIDENT HAS BEEN  
7-25-97

July 18, 1997



*Ann Lewis cc  
McCuey CTS / Anglian  
Q. Clinton  
Washington*

*Lewis  
McCuey  
Smith  
Moore, Minton  
COS  
Copied*

The Honorable William J. Clinton  
President of the United States  
The White House  
c/o Ann Stock  
1600 Pennsylvania Avenue  
Suite 200 - East Wing  
Washington, DC 20500-2000

Dear Mr. President, **MR. PRESIDENT**

You, and the country, are on a major roll. I can't wait to see what happens when your leg heals.

I'm writing to you with a request which I believe is right in the pocket with what you are trying to accomplish. Vibe, the successful urban magazine I founded, will take to television with a megalaunch August 4 in 98% of U.S. households. Think Arsenio times two; the best music on television, fresh guests, meaningful conversation and a lot of spontaneous fun. David Salzman and I hope that you will appear on the nightly hour the next time you visit Los Angeles, but for now we'd greatly appreciate a brief "good luck from the President" on videotape.

We feel it makes sense because the show is about the same ideals and objectives you stand for - inclusion, honesty, hope and unity. We're bringing full spectrum television to latenight America and fulfilling a need in the process.

David will be following up with your staff since our debut is quickly approaching. Thanks in advance.

With love and respect,

*[Handwritten signature of Quincy Jones with a heart symbol]*

Quincy Jones

# Apply the Lessons of Cambodia to Bosnia Before It's Too Late

By Fred Hiatt

BC-FYI

THE PRESIDENT'S PICK

7-25-97

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BC

WASHINGTON — Bosnia and Cambodia are a world apart, but unfortunately with much in common. The United States and others have spent bil-

disarming of all Cambodian factions, but the hard, and so the dictator Hun Sen retain his private Communist party, but when blow up the peace United Nations allowed him to co-prime minister. Already 10 Cambodian:

That same forces left, victory on their watch, the prosperous. A freedom rights group International Land Mines and

Yet — and the mistake — the community paid

attention to postelection democracy-building. Few sought to safeguard the UN's huge initial investment by insisting, as a condition of aid — which continued to pay half of Cambodia's budget — that the nation hire independent judges, set up a supreme court, create an impartial election commission. It was easier just to keep claiming success.

Gradually, the facade of democracy crumbled. Mr. Hun Sen re-established control through a classic Communist combination of political intrigue backed by thuggish intimidation and outright violence. Journalists were gunned down, independent politicians were exiled or attacked with hand grenades. He labeled his enemies "worms" and, when France and the United States let out a peep or two of protest, threatened to turn his thugs loose on their embassies.

Even then, the peeps were few and far between. Last fall, on the

who lives in a heavily fortified stockade outside Phnom Penh, behaves like an increasingly dangerous psychotic. Washington's belief that he will provide 'stability' is foolish."

Even when Mr. Hun Sen used tanks finally to oust Prince Ranariddh the weekend of July 7, the Clinton administration refused to sever its access to the king, balancing its criticism of Hun Sen with admonitions to Prince Ranariddh and refusing to label Hun Sen's coup a coup.

All along, one argument for turning a blind eye to democracy's degradation was that "stability" would allow economic development, which would eventually promote democracy. Cambodia illustrated bankruptcy of such logic. As Prince Ranariddh and Mr. Hun Sen became less and less countable, the Cambodian economy became more and more corrupt. The leaders sold half of Cambodia's forests to logging and other companies, pocketing most of the proceeds themselves. In a few more years,

Cambodia could be a desert — an impoverished desert with a wealthy, drug-trafficking elite.

All this argues for a strong international response to Mr. Hun Sen now, rather than one

more accommodation to the "reality" he seeks to make permanent. It also argues for a hard look at Bosnia, which could still go either way.

In Bosnia, too, peacekeepers have hesitated to do the hard things — to enforce the Dayton peace accords by returning refugees to their homes, arresting war criminals, building a real democracy to challenge the mafia power of wartime thugs. And no wonder — those tasks are hard, and risky; with Congress yapping at his heels, President Bill Clinton might love to declare victory, deal "realistically" with the ensconced thugs and bring home the troops.

Yet the hard tasks were written into the Dayton accords, just as into the much-violated Paris agreement, because everyone understood peace would not take root otherwise. Having tried and failed to ignore Bosnia, and then having invested \$7 billion there, the United States should give that investment at least a chance to pay off.

*The Washington Post.*

## In the Balkans, NATO Must Go After the Masterminds

**D**URING my time as high representative in Bosnia, I repeatedly urged key governments such as the United States and Britain to be ready to give their forces the orders needed to arrest those indicted for war crimes by The Hague tribunal. For these arrests to help the peace process, and not just create chaos, they had to be carefully planned and orchestrated with political initiatives.

That meant that the first targets had to be the most important indicted war criminals, including Radovan Karadzic, the Bosnian-Serb leader, and Dario Kordic, the Bosnian-Croat lead-

er. But NATO troops started, on Thursday, by going after minor figures. This served to give both men advance warning, making their arrests more difficult.

I do not know what brought the NATO-led forces to discount this advice and go for a half-baked operation, which turned into what at best looks like a half-success.

There may have been other considerations of which I am unaware. But it appears that it was done without any coordination with those in Bosnia. And it will probably damage those forces inside the Republika Srpska that have started

to challenge Mr. Karadzic.

By design or by default, the Dayton peace agreements have entered a new phase. This phase will require a far more coordinated effort from the political and military sides to prevent repeating the mistakes of Thursday's Prijedor operation. And this effort will not be completed by June 1998, when President Bill Clinton has said that U.S. troops should leave.

— Carl Bildt, a former Swedish prime minister and the former civilian representative in Bosnia, commenting in *The New York Times*.

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Berger

COS

to claim success no matter what and to deal "realistically" with thugs and dictators. We used to blame those temptations on the Cold War ("He's a dictator, but he's our dictator"); they turn out to stem more from human nature than from the struggle against communism. In Cambodia, where Bolshevik-style purges have followed last week's coup d'état, it may be too late. Bosnia still has a chance.

The UN came to Cambodia after it had suffered through two decades of war and genocide at the hands of both native and outside aggressors. In 1993, 20,000 UN troops enforced a peace and monitored elections. Ignoring expert opinion that democracy was inappropriate for such an impoverished and traditionally authoritarian nation, nine out of 10 eligible Cambodians voted — often risking their lives to do so. The liberal-royalist party of Prince Norodom Ranariddh won.

The United Nations then made its first mistake. The Paris peace accords had called for the

# Apply the Lessons of Cambodia to Bosnia Before It's Too Late

By Fred Hiatt *BC-LYI*

WASHINGTON — Bosnia and Cambodia are a world apart, but unfortunately with much in common. The United States and others have spent billions of dollars to bring peace and democracy to both small, war-ravaged countries — and in both there's a strong possibility those efforts will fail.

The peace-building campaigns — by the United Nations in Cambodia, by NATO in the former Yugoslavia — have done much good, not least by simply enforcing an absence of war. But long-term benefits are threatened by recurring temptations in the international response — to avoid the most difficult (but necessary) tasks, to claim success no matter what and to deal “realistically” with thugs and dictators. We used to blame those temptations on the Cold War (“He’s a dictator, but he’s our dictator”); they turn out to stem more from human nature than from the struggle against communism. In Cambodia, where Bolshevik-style purges have followed last week’s coup d’état, it may be too late. Bosnia still has a chance.

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The United Nations then made its first mistake. The Paris peace accords had called for the

disarming of all Cambodian factions, but that was seen as too hard, and so the longtime dictator Hun Sen was allowed to retain his private army. His neo-Communist party lost the election, but when he threatened to blow up the peace process, the United Nations caved in and allowed him to retain power as co-prime minister with the prince. Already, those nine in 10 Cambodians were betrayed.

That same year, most UN forces left, declaring a great victory on their way out. And for a time, the prospects seemed reasonable. A free press and human rights groups flourished. International aid helped clear land mines and train judges.

Yet — and here was the next mistake — the international community paid far too little attention to postelection democracy-building. Few sought to safeguard the UN’s huge initial investment by insisting, as a condition of aid — which continued to pay half of Cambodia’s budget — that the nation hire independent judges, set up a supreme court, create an impartial election commission. It was easier just to keep claiming success.

Gradually, the facade of democracy crumbled. Mr. Hun Sen re-established control through a classic Communist combination of political intrigue backed by thuggish intimidation and outright violence. Journalists were gunned down, independent politicians were exiled or attacked with hand grenades. He labeled his enemies “worms” and, when France and the United States let out a peep or two of protest, threatened to turn his thugs loose on their embassies.

Even then, the peeps were few and far between. Last fall, on the

fifth anniversary of the Paris peace accords, then-UN Secretary-General Boutros Boutros Ghali congratulated Mr. Hun Sen for his “statesmanship.” Winston Lord, then U.S. assistant secretary of state, was still calling Cambodia “a model UN success story” in 1995, while his deputy reported that the concept of human rights “has permeated” Cambodia’s government. The current U.S. ambassador to Cambodia, Kenneth Quinn, consistently rejected congressional calls for a tougher U.S. line on human rights.

“This policy was and continues to be absurd,” William Shawcross, the journalist and Cambodia expert, noted in the *New York Review of Books* nine months before Mr. Hun Sen’s final coup. “Hun Sen, who lives in a heavily fortified stockade outside Phnom Penh, behaves like an increasingly dangerous psychotic. Washington’s belief that he will provide ‘stability’ is foolish.”

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All along, one argument for turning a blind eye to democracy’s degradation was that “stability” would allow economic development, which would eventually promote democracy. Cambodia illustrated the bankruptcy of such logic. As both Prince Ranariddh and Mr. Hun Sen became less and less accountable, the Cambodian economy became more and more corrupt. The leaders sold off half of Cambodia’s forests to Thai and other companies, pocketing most of the proceeds themselves. In a few more years, Cambodia could be a desert — an impoverished desert with a wealthy, drug-trafficking elite.

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*The Washington Post.*

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— Carl Bildt, a former Swedish prime minister and the former civilian representative in Bosnia, commenting in *The New York Times*.

THE PRESIDENT HAS SEEN  
7-25-97

July 18, 1997

The Honorable William J. Clinton  
President of the United States  
The White House  
c/o Ann Stock  
1600 Pennsylvania Avenue  
Suite 200 - East Wing  
Washington, DC 20500-2000

**VIBE**

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Dear Mr. President, **MR. PRESIDENT**

You, and the country, are on a major roll. I can't wait to see what happens when your leg heals.

I'm writing to you with a request which I believe is right in the pocket with what you are trying to accomplish. Vibe, the successful urban magazine I founded, will take to television with a megalaunch August 4 in 98% of U.S. households. Think Arsenio times two; the best music on television, fresh guests, meaningful conversation and a lot of spontaneous fun. David Salzman and I hope that you will appear on the nightly hour the next time you visit Los Angeles, but for now we'd greatly appreciate a brief "good luck from the President" on videotape.

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David will be following up with your staff since our debut is quickly approaching. Thanks in advance.

With love and respect,

*[Handwritten signature of Quincy Jones with a heart symbol]*  
Quincy Jones

*Also cc:  
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**VIB**

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Also cc:  
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**VIBE**

7800 Beverly Boulevard  
East Building, Suite 258  
Los Angeles, California 90036  
Quincy Jones

The Honorable William J. Clinton  
President of the United States  
c/o Ann Stock  
1600 Pennsylvania Avenue  
Suite 200 - East Wing  
Washington, DC 20500-2000

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David will be fol  
approaching. Th.

7800 Beverly Boulevard • East Building, Suite 258 • Los Angeles, California 90036  
Phone: (213) 852-4309 • Fax: (213) 852-4411

**MITCHELL, WILLIAMS, SELIG, GATES & WOODYARD, P.L.L.C.**

320 WEST CAPITOL AVENUE, SUITE 1000  
LITTLE ROCK, ARKANSAS 72201-3525  
(501) 688-8800  
Telefax # 688-8807

Staff Sec  
cc: N H

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**TELEFAX TRANSMITTAL COVER SHEET**

DATE: July 25, 1997

TIME: 10:25 AM

PLEASE DELIVER TO:

PT 301-23-4110

NAME: MS. NANCY HERNREICH, Deputy Assistant to the President

LOCATION: Washington, DC

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FROM: Ark Monroe, III

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REMARKS/SPECIAL INSTRUCTIONS:

Jim Dorstkin to  
reply  
coordinate with  
Chris Jennings

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## LAW OFFICES

MITCHELL, WILLIAMS, SELIG,  
GATES & WOODYARD, P. L. L. C.320 WEST CAPITOL AVENUE, SUITE 1000  
LITTLE ROCK, ARKANSAS 72201-3525  
TELEPHONE 501-688-8800  
TELEFAX 501-688-88072181 K STREET, N.W., SUITE 700  
WASHINGTON, D.C. 20037  
TELEPHONE 202-347-4500  
TELEFAX 202-347-7500ARK MONROE, III  
DIRECT DIAL 501-688-8633

LICENSED IN DISTRICT OF COLUMBIA AND ARKANSAS

July 25, 1997

130 WEST CENTRAL AVENUE  
POST OFFICE BOX 658  
BENTONVILLE, ARKANSAS 72712-0658  
TELEPHONE 501-273-0561  
TELEFAX 501-273-0567VIA FACSIMILEThe President  
The White House  
1600 Pennsylvania Avenue, N.W.  
Washington, D.C. 20500-2000

Dear Mr. President:

I am writing to request that you oppose a provision in Senate version of the Budget Reconciliation Spending Act which will significantly impact premiums paid by senior citizens on private Medicare supplement insurance. It has received support from some in your Administration.

The provision at issue extends a new right to the under 65 Medicare-eligible disabled population to obtain Medicare supplement insurance on a guaranteed issue basis. On its face, the provision sounds good, but it could have disastrous consequences on premiums paid by existing Medicare supplement policyholders. Generally, most Medicare supplement policies written today cover only the over 65 population.

As a former Insurance Commissioner in Arkansas, I am keenly aware of insurance company experience regarding the cost of insuring both the traditional Medicare population and the under 65 Medicare-eligible population. Due to the medical needs of the under 65 Medicare-eligible individuals, their claims experience as a group is substantially higher than that of the senior citizens who make up the traditional Medicare supplement market. **As a result, if Congress creates a new right allowing Medicare-eligible individuals under age 65 to purchase the same Medicare supplement coverage sold to senior citizens, there will be an immediate, significant premium increase for all present Medicare supplement policyholders.** A study conducted earlier this year by the American Academy of Actuaries confirmed that requiring carriers to guarantee issue to the under 65 population would result in higher premium costs for all policyholders.

I question the wisdom of having senior who purchase private Medicare supplement insurance cross-subsidize this higher risk group. This group will already be impacted by other changes in the Medicare program promoted by the Administration and by Congress. You are well

MITCHELL, WILLIAMS, SELIG,  
GATES & WOODYARD, P.L.L.C.

The President  
July 25, 1997  
Page 2

aware that senior citizens have fixed incomes, experience the greatest incidence of non-covered prescription drug costs and generally are a very price-sensitive group to insure. An abrupt increase in Medicare supplement premiums will cause substantial consternation among senior citizens and some loss of coverage as individuals are forced to drop their policies. In fact, the Congressional Budget Office's analysis of the Senate provision predicts that approximately 40,000 seniors will drop their Medicare supplement policies as a result of the anticipated premium increase.

In summary, I have serious reservations about the Senate approach, which will immediately and significantly affect senior citizens' Medicare supplement premiums. I request that you reconsider the Administration's position on this important subject and take alternative means of covering the under 65 disabled population.

Thank you for your consideration of this recommendation. If I can supply additional information or if you have questions, please let me know.

Respectfully yours,

MITCHELL, WILLIAMS, SELIG,  
GATES, & WOODYARD, P.L.L.C.

By   
Ark Monroe, III

TAM/jad  
cc: Chris Jennings

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COS  
Mathews  
Winston

1997 JUL 25 4:48:29

July 23, 1997

MEMORANDUM FOR THE PRESIDENT

THE PRESIDENT HAS SEEN  
7/25/97

THROUGH : ERSKINE BOWLES *EB*  
SYLVIA MATHEWS *quat*

FROM : JUDITH A. WINSTON *JAW*

SUBJECT : FIRST ADVISORY BOARD MEETING ON THE RACE INITIATIVE

This memorandum provides a summary for you of the July 14 meeting of your Advisory Board on the Race Initiative. In brief, the meeting was constructive and productive, keeping in mind that it was the first meeting of a group generally not familiar with each other and the difficulty of beginning a discussion on this issue in front of media cameras and a nationwide audience. I expect that as the Board members become more familiar with one another and more comfortable in the public setting of their full Board meetings, some of any initial tentativeness will fade.

Each of the Board members talked generally about their expectations and priorities for the Advisory Board. They had a healthy exchange of information and perspectives on the Race Initiative, which unfortunately was mischaracterized in some newspapers as "disagreement" about the extent to which the Board should focus on "black-white" relations versus a broader discussion of race relations and reconciliation and future-oriented policy and action. Based on my observations, none of the Board members viewed these as mutually exclusive propositions. I believe the Board members will work well together under Chairman Franklin's leadership, and they are looking forward to assisting you on this Initiative.

As an initial matter, the Board decided to focus on two areas -- education and economic opportunity -- among the many subject areas affecting and affected by race, including housing, health care, criminal justice, and the environment. They plan to follow the basic framework already outlined for the Initiative, which will include gathering and examining existing data, finding "best practices" of people and organizations who are exercising effective leadership to connect communities across racial boundaries, and having a serious dialogue in communities across the nation about both the common ground among us and the sensitive, dividing issues that may be difficult, but essential, to discuss. I am fast assembling a staff to assist you and the Board in this effort.

I have recommended to the Board that they meet again in September, which I believe will provide sufficient time to make that meeting effective and productive. In the interim, they will be talking in their communities, with each other, and with me and my staff to further develop the ideas discussed at the Board meeting.

I am honored to be serving as the Executive Director of your Race Initiative, and I look forward to working with you, the Advisory Board, and the White House staff, who could not have been more helpful to me during this initial period and whose assistance will be critical in the coming months to the success of this effort. Erskine Bowles and Sylvia Mathews particularly have been supportive and encouraging and accessible in the midst of significant demands on their time.

I will keep you informed of the Board's activities and progress and am always available to you if you have any ideas, questions, or concerns about the Board's or the staff's work.

# Council on Competitiveness

July 25, 1997

Send to Scheduling  
Yes   
No

cc: John Podesta  
per Phil Kaplan

**CHAIRMAN**  
William Hambrecht  
Hambrecht & Quist Incorporated

**VICE CHAIRMEN**  
Jack Sheinkman  
Amalgamated Clothing and Textile  
Workers Union, AFL-CIO, CLC

Charles M. Vest  
Massachusetts Institute of Technology

**EXECUTIVE COMMITTEE**  
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Xerox Corporation

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AFL-CIO

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BellSouth Corporation

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California Institute of Technology

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The Honorable William J. Clinton  
President of the United States  
1600 Pennsylvania Avenue, N. W.  
Washington, D.C. 20500

Dear Mr. President:

We are following up on the interest you expressed in the National Innovation Summit to John Young and Chuck Vest at the June meeting of your Committee of Advisors on Science and Technology (PCAST).

You may recall that the Summit will be organized by the Council on Competitiveness and hosted by the Massachusetts Institute of Technology on March 13-14, 1998. It will bring together 150 CEOs, university presidents, labor leaders, and government policy makers to set an agenda for strengthening the U.S. position as the world's best platform for innovation in the 21st century.

We believe that your personal leadership of a high-profile, bipartisan forum could make a historic contribution to the future strength of the U.S. economy:

1) You can and should present to the nation a compelling post-Cold War vision to underpin long-term investments in our innovation system. It has been more than half a century since President Roosevelt commissioned the celebrated report from Vannevar Bush which inspired many of the nation's stunning achievements in science and technology. You are uniquely qualified to redefine the context and frame the new challenge at the National Innovation Summit.

2) The Summit will create an opportunity for you to deepen public understanding of the importance of innovation for our economic future. Too few Americans appreciate how critical new knowledge, products, and services are in creating high-wage jobs and underpinning U.S. competitiveness in world markets. The Summit at MIT will showcase vivid examples of innovation in health, communications, information processing, transportation, advanced materials, and consumer products. Your taking part would make a tremendous difference in driving home the message that every American has a vital stake in innovation.

3) Your leadership could play a decisive role in building consensus on a national action agenda to strengthen innovation. Industry, labor, universities, and government are all being forced to adjust to wrenching budget pressures, the information revolution, the globalized economy, the end of the Cold War, and other profound changes. Broad agreement on how each sector can sustain its contribution to the R&D enterprise in the face of these changes, and on practical ways to collaborate more effectively, would be a huge step forward.

We have laid the groundwork for this initiative with a series of highly successful regional summits across the country involving governors, members of Congress, corporate chief executives, university presidents, and senior administration officials. A summary of participants and findings is attached along with a list of the Steering Committee that has been formed for the National Summit.

We are eager to make your participation the centerpiece of the March 13-14, 1998, program. We look forward to hearing from you and will follow up with key members of the administration.

Sincerely,



William R. Hambrecht  
Chairman, Hambrecht & Quist Inc.  
Chairman, Council on Competitiveness



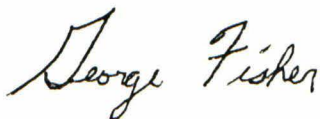
Charles M. Vest  
President, Massachusetts Institute of Technology  
Vice Chairman, Council on Competitiveness



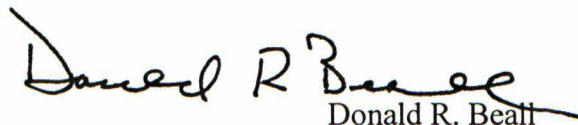
John A. Young  
Co-Chair, PCAST  
Chairman, Council on Competitiveness 1986-90



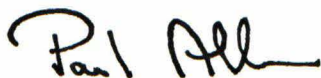
Jack Sheinkman  
President Emeritus, Amalgamated Clothing  
and Textile Workers, AFL-CIO  
Vice Chairman, Council on Competitiveness



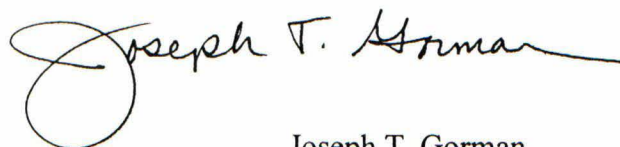
George M.C. Fisher  
Chairman, CEO & President, Eastman Kodak  
Chairman, Council on Competitiveness 1990-93



Donald R. Beall  
Chairman & CEO, Rockwell International  
Co-Vice Chair, Council on Competitiveness



Paul Allaire  
Chairman & CEO, Xerox Corporation  
Chairman, Council on Competitiveness 1993-97



Joseph T. Gorman  
Chairman & CEO, TRW Inc.  
Co-Vice Chair, Council on Competitiveness

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## National Innovation Summit Steering Committee

### List of Members to Date

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William Hambrecht, Chairman, Hambrecht and Quist  
Charles Vest, President, Massachusetts Institute of Technology

#### Members:

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Richard Atkinson, President, University of California  
Paul Allaire, Chairman and CEO, Xerox Corp.  
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Ray Stata, Chairman and CEO, Analog Devices, Inc.  
William Steere, Chairman and CEO, Pfizer Inc.  
Gary Tooker, Chairman, Motorola, Inc.  
Julie Meier Wright, Secretary of Trade and Commerce, State of California  
John Young, Former CEO, Hewlett-Packard, Inc.

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*A Call to Action --*

1997 Regional Summits on  
American Innovation:

San Diego, California

Atlanta, Georgia

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