BC-CLINTON national editors:DA
Independent counsel urged to probe Clintons' thrift involvement
Susan Feeney
Dallas Morning News

THE WHITE HOUSE

HILTON HEAD, S.C. President Clinton ended his holiday vacation Sunday pretty much as he began it, facing heat from Republican lawmakers over his involvement in an Arkansas real estate venture and with the owner of a failed savings and loan.

Senate Minority Leader Bob Dole of Kansas and House Minority Whip Newt Gingrich of Georgia on Sunday called for Attorney General Janet Reno to appoint an independent counsel to investigate Clinton's dealings with Whitewater Development Corp. and potential involvement with Madison Guaranty Savings and Loan Association,

Dole accused the attorney general of ``dragging her feet'' in the Justice Department examination of the matter.

``I think it's up to Janet Reno now to step back, appoint an independent counsel, and see if we can't get for the president's own good, too get it behind us,'' said Dole, on NBC's ``Meet the Press.''

The investigation centers on Madison, the now-defunct Arkansas thrift owned by James McDougal, who was a partner with then-Gov. Clinton and Hillary Rodham Clinton in Whitewater.

Federal investigators are looking into the costly collapse of Madison and whether any of its funds were illegally diverted to Whitewater. Investigators also are examining whether any money from Madison was improperly routed to Clinton's 1984 governor's race.

The Clintons have denied any wrongdoing, saying real estate investment was a passive, money-losing venture.

Reno has said she was not planning to appoint a special counsel and that career prosecutors should handle the case.

Jeff Eller, the White House spokesman traveling with the president in Hilton Head, said ``there is no need for a special counsel'' since the Justice Department is handling the situation.''

Eller rejected Dole's foot-dragging charge and expressed confidence that the Justice Department findings will clear the president. Under public pressure, Clinton on Dec. 23 ordered his personal lawyer to turn his Whitewater files to federal investigators.

Dole's views were echoed by Gingrich on ABC's ``This Week with David Brinkley.'' ``If they're innocent, why don't they (the Clintons) go ahead and agree to an independent counsel to clear their name?'' Gingrich asked.

On Saturday, Rep. Jim Leach of Iowa, the ranking Republican on the House Banking Committee, also insisted Reno needs to appoint an independent counsel.

Leach said Clinton's role in Whitewater ``stretches ethics and perhaps the law.''

Dole played down the likelihood of illegal wrongdoing. ``My view is that the president probably will be cleared and this will not be an issue ...''

George Stephanopoulos, a senior White House adviser, on Sunday accused the Republicans of a ``remarkable conversion.''

Stephanopoulos, also appearing on ABC's show, said Republicans had opposed reauthorizing a special prosecutor law that permits independent investigation and prosecution of sensitive matters such as the Iran-Contra affair.

Dole said he still objected to that legislation but supported appointing a special counsel empowered only to investigate and report the findings.

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AP Photo

Dole, above, on 'Meet the Press,' and Clinton, below, at golf course in Hilton Head, S.C., where he was vacationing



Reuter Photo

GOP Leaders Target Clinton

Seek independent counsel for S&L probe

THE WASHINGTON POST

Washington — Top congressional Republican leaders yesterday urged Attorney General Janet Reno to appoint an independent counsel to investigate any involvement by President Bill Clinton with a failed Arkansas savings and loan firm and a real estate venture in the state.

White House adviser George Stephanopoulos said there was "no need at this time for an independent counsel" and accused the Republicans of exploiting the issue for political reasons.

Calling for the counsel were Senate Minority Leader Bob Dole (R-Kan.) and House Minority Whip Newt Gingrich (R-Ga.).

Federal authorities are looking into possible wrongdoing involving Madison Guaranty Savings & Loan, owned by Clinton friend James McDougal, and Whitewater Development Corp., owned jointly by McDougal, his then-wife Susan, and Clinton and his wife, Hillary Rodham Clinton, while Clinton was governor of Arkansas.

Questions include whether funds from the now-defunct thrift were diverted to Whitewater or to Clinton's 1984 gubernatorial campaign. Clinton and his wife have said they lost more than $60,000 in the Whitewater venture and have denied any involvement in illegal financial dealings.

Appearing on NBC's "Meet the Press," Dole accused Reno of "dragging her feet" on appointment of an independent counsel and said "it's high time that she did what she knows she should do."

Dole said he thought Madison Guaranty and Whitewater could be a "pretty serious issue" for Clinton, but added that he believed the president would be cleared of any wrongdoing.

Dole, angry at a lengthy probe of the Iran-contra affair during the Reagan administration, has led a Republican effort on Capitol Hill to block reinstatement of the post-Watergate law providing for court appointment of independent counsel to investigate wrongdoing by high-level government officials.

Without the law, Dole said yesterday, Reno could use her own authority as attorney general to appoint an outside counsel to handle the case, which is currently being investigated by career government employees.

When a similar proposal was made by Rep. Jim Leach (R-Iowa), ranking minority member of the House Banking Committee, Justice Department spokesman Carl Stern said anyone Reno appointed would be under her supervision and influence, rather than serving independently under court appointment, as the law intended.

Unlike Dole, Reno supports restoration of the independent counsel law, which was approved late last year by the Senate and is slated for consideration this year by the House.

Gingrich, appearing on ABC's "This Week With David Brinkley," said he believed "there is no question that we need an independent counsel" on the Madison Guaranty-Whitewater issue. "If they're innocent, why don't they [the Clintons] go ahead and agree to an independent counsel to clear their name?" Gingrich asked.

Dole, who previously had called for investigations by congressional committees, accused Democratic leaders of ducking the issue. "The Democrats aren't going to touch this," he said. "If it were a Republican, on the other hand, we'd have five or six hearings going on right now."

But Stephanopoulos, who also appeared on the ABC program, said it was the Republicans who were playing politics. "They've been fighting the independent counsel law for many years," he said. "Now that they sense that there might be some perceived political advantage to going after this, they're all for it all of a sudden."

Stephanopoulos said the case was examined during the 1992 presidential campaign and that Clinton has turned over all relevant documents to the Justice Department. "No laws were broken," he said.

Suspect: 'Slight' Caused Stabbing

By Collin Nash
STAFF WRITER

Two or three times in the past five weeks, Emma Young came to Copiague from Queens to help take care of her elderly, semi-invalid mother.

Then on New Year's Day, feeling slighted by her sister and brother-in-law, Young tried to kill her 87-year-old mother for "all the problems" Young was having, according to a statement she gave to Suffolk County Police.

"Knowing that today was New Year's Day and that my sister, Irene, would be having her whole family over and they would probably just ignore me, I was getting very upset," read a statement police said Young, 68, gave them Saturday. Her mother, Rose Guay, had an apartment in Young's sister's house.

"I told my sister that this arrangement was no good for me because I couldn't see my doctor every week like I needed to. I started to blame my mother for all the problems. She was the one who was the reason I had to be there. I had had it and I couldn't continue this way," she said in the statement.

Young then took a pillow and tried to smother her mother, who cried out, she told police. That was when Young took a steak knife and stabbed her mother 18 times in the chest, police said. Young's sister told police in her statement that she heard her mother cry out.

A judge in First District Court, Central Islip, yesterday ordered Young held without bail in the attempted murder of Guay, who was in guarded condition at Brunswick Hospital Center in Amityville.

Young, of 65-62 Saunders St., Rego Park, stood with her head bowed before Judge William B. Rebolini, who ordered that she be given medical attention and placed on a suicide watch. He ordered Young to return to court on Thursday.

Young's Legal Aid attorney had asked the court for a "nominal bail" for his client because of her psychiatric history, which involved counseling and medication.

Michael Marun told police in a statement that he rushed to his mother-in-law's apartment about 8 a.m. when he and his wife, Irene, were awakened by moaning. After following his wife into the apartment, he saw Young sitting on a chair in the kitchen and his wife standing nearby, Michael Marun said in a statement.

"My wife said 'she hurt her.' I went in and saw Rose, her chest area was full of blood. I opened her clothing and saw many stab wounds in the area but they seemed to have stop bleeding. I saw a steak knife laying on the bed near her leg. Rose was moaning and saying, 'Why did she do this?' Emma was saying to me 'It's your fault — you made me do this.'"

Marun and his wife as well as another of Guay's daughters, declined to be interviewed yesterday.

But according to the statement police said they received from Young, she told them, "This whole thing wouldn't have happened if my family would have treated me better."



Newsday / Thomas R. Kooiman

Young on her way to court

New Questions on MIAs in Laos

THE WASHINGTON POST

Washington — From a huge archive of documents about the Vietnam War declassified in recent months, new evidence is emerging that some American pilots held prisoner in Laos were not released at the end of the war, and that U.S. intelligence officials might have known where some of them were.

The Defense Department lists 330 Americans as missing in action in Laos. Most were certainly killed when their planes crashed in the remote jungles of the mountainous, sparsely populated country.

Officially, only two American fli-

Please see MIA on Page 13

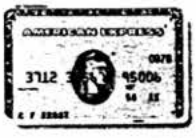
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fectly normal and correct handling of the matter. No taxable event occurred whatsoever," says New York tax lawyer Mark Weinstein.

As evidence of the deal's all-around fishiness, the story claimed that the Clintons and McDougals had actually "sold" the 230 acres to Whitewater Development Corporation—that is, to themselves—in 1979. According to *Time*, Whitewater itself had borrowed money to affect the purchase. Specifically, the story claimed that Whitewater used a $182,611 loan from Citizens Bank & Trust of Flippin, Arkansas—an even smaller Ozark village than Yellville. But when I checked with James N. Patterson, the head of Citizens Bank & Trust at the time, he told me that his bank never made such a loan to Whitewater while he was there.

Patterson does acknowledge that Citizens Bank & Trust issued a $182,611 mortgage encumbering the 230 acres in question. But the mortgage had, in fact, been issued more than a year earlier—in 1978—to the Clintons and McDougals personally, who had used it to buy the property in the first place. When the property was moved over to Whitewater Development, the $182,611 loan went with it—leaving the Clintons and McDougals still on the hook to make the payments if Whitewater should fail to do so.

None of this means that Bill and Hillary Clinton's Ozark business affairs can pass the white glove test. Land deals in the Ozarks conjure images of back-scratching men in shirtsleeves and suspenders, putting together projects with names like "Tears of the Gods Vacation Ranchettes." Any reporter with a nose for news can smell a story in such circumstances.

Investigative journalist James Ring Adams, author of two well-regarded books on bank fraud, has come up with some canceled checks. He says they suggest that Clinton's business partner, McDougal, may have been looking the other way when an S&L he ran—Madison Guaranty—permitted more than $400,000 in checking-account overdrafts. Adams says several of these overdrafts coincided with Arkansas political fund-raising efforts for Clinton. No direct evidence ties these overdrafts to Clinton. Folks at the right-leaning *American Spectator* say that a story by Adams on all this is scheduled to appear in the magazine's February issue.

In sum, what is there to say but here's hoping others in the media learn from *Time*'s mistake? Overreaching by the press is what gave Bobby Ray Inman the excuse he needed to sound righteous at his "I quit" press conference last week. A few more episodes like last week's *Time* gaffe, and it could turn out to be just what Bill Clinton needs to discredit *all* press coverage of the Whitewater affair and get the pesky scandal behind him once and for all. ■

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(End optional trim)

Most early lots were purchased on installment contracts. Buyers put down 10 percent and made monthly payments for seven years. Whitewater used the revenue to make payments on its loans and the deeds were retained by the banks.

But Arkansas law restricted the interest that sellers could charge on installment contracts to 10 percent. In the early 1980s, as the nation's prime interest rate soared over 20 percent, the Clinton-McDougal partnership ended up paying more for its Whitewater loans than it could recover from sales of the land.

Then, sales dried up too.

Nearly half of the 44 lots were sold in the first two years, but no sales were recorded in 1982. Land records show that from 1982 through 1984, only two additional lots were sold.

Gary Fancher, a businessman in nearby Flippin, Ark., was trying to develop a smaller piece of property near Whitewater in the early 1980s when he got caught in the same squeeze. ``People just stopped coming to buy land and we were left holding the bag,'' he said. ``The Clintons got caught in the shorts, like others up here.''

For the Clintons and McDougals, the dream of getting rich was replaced by a dream of getting out.

It was Wade who came to the rescue. Wade said McDougal approached him in the spring of 1985 about the unsold lots, saying: ``I'm tired of messing with this thing. Why don't you just buy 'em?''

Wade formed a partnership with Russell Webb, a urologist in Mountain Home, Ark., and they acquired the 24 remaining lots. In exchange, Wade and Webb gave Whitewater a Cessna airplane valued at $35,000 and assumed about $35,000 of Whitewater's outstanding loans on the land, according to records and interviews.

Lindsey said McDougal later sold the Cessna and pocketed the proceeds as a commission for the sale to Wade and Webb. He said the Clintons did not learn of the sale of Whitewater's remaining lots until after it was completed in May 1985.

(Begin optional trim)

Through it all, Whitewater continued to be a financial headache. Although the lots had been sold, the Clintons and McDougals were still obligated to make the payments on the original purchase loans.

The Clintons' tax returns show deductions for Whitewater interest payments of $19,021 between 1980 and 1988. Lindsey said the couple's 1978 and 1979 returns show $22,000 in interest deductions related to Whitewater.

The remainder of the $68,900 that the Clintons say they lost on Whitewater was financial contributions to the company that were not tax-deductible, according to James M. Lyons, a Denver lawyer who examined the Whitewater transactions for the Clintons.

(End optional trim)

Whitewater continued to be a financial problem for the Clintons into the late 1980s. Occasionally, property buyers defaulted on their purchases and the lots were returned to the development company for resale.

Wade, who was the agent for those lots as well as his own, eventually completed the resales when McDougal approved the lot sales in late 1988.

The Clintons remained partners in Whitewater Development until late 1992 when they sold their interest to McDougal for a nominal $1,000. The transaction was handled by Foster.

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The Bottom Line/Christopher Byron

BOILING WATERS



TWISTED FACTS: *The Whitewater development tract in Arkansas.*

CLINTON AND THE PRESS PACK

BOBBY RAY INMAN HAD A POINT ABOUT THE media when he pulled his name from consideration for secretary of Defense last week. Inman himself came across as thin-skinned and maybe even paranoid when he complained that the media were out to get him just because he was having trouble with columnist William Safire and a couple of others. But Inman did touch a nerve with his larger observation that the press has taken to behaving like a pack of hyenas in its pursuit of scandalous headlines involving public officials.

In too many cases, stories are getting into print in which facts are being twisted, distorted, or ignored altogether in the search for lurid headlines. The "October Surprise" story, in which known con men hoaxed the media into repeating allegations that Ronald Reagan stole the 1980 election through a secret deal with Iran, is but one example of many. As stories like that take root, officials cry foul and head for the exit doors, while investigators open probes, then abandon them for lack of evidence—leaving the public to believe that the fix is in and that the entire government is corrupt.

Consider, for example, the case of Bill and Hillary Clinton and their troubles involving Whitewater Development Corporation. The basic facts in this story were in full public view before Clinton ever became president, and virtually no major media outlet in the country paid them any attention at all. Yet now that Clinton is president, the media act as if they've stumbled upon a felon in the White House—and seem determined to dig up proof of Clintonian venality whether it's there or not.



The latest example of this came last week with the publication by *Time* magazine of a story that accused the Clintons of being tax cheats for failing to report as much as $23,500 in capital gains in a 1979 land deal involving the Whitewater property. In fact, the article appears to have been based on a misunderstanding of various documents fished out of the county courthouse in the Ozark village of Yellville, Arkansas, two hours north of Little Rock, where the Whitewater land records are on file.

Scarcely had the article appeared when White House officials seized on it. Here was exactly the sort of misguided story they'd been waiting for—something to help justify their decision not to release the president's Whitewater records to the public but to turn them over to prosecutors instead, a ploy that would avoid making them public.

"Land transactions are by their nature complex," one White House official said to me last week. "Facts can be twisted and distorted; just look at that *Time* thing. It's what we'd have been in for if we'd handed the records over to the public."

Under the headline "The Tangled Web," the five-page article charged that, beginning in 1978, the Clintons "participated in deals in which the same land was sold and resold—in one case to themselves—at rapidly escalating prices for reasons that cannot quickly be pinned down." The story went on to report that one of these transactions involved a 1979 deal in which the Clintons and their business partners, James and Susan McDougal, sold 230 acres of undeveloped Ozark vacation land that they jointly owned as individuals, to a company they had set up to develop and market the property—the now-infamous Whitewater Development Corporation.

The story said that the original purchase price paid by the Clintons and McDougals in 1978 had been $203,000 for the 230 acres. But, said the story, the "resale" price to Whitewater Development—which the Clintons and McDougals owned as equal shareholders—had been $250,000. This, said *Time*, resulted in a $47,000 capital gain that the Clintons should have reported and paid federal taxes on for their share, but apparently did not.

On the face of it, anyone who sells land to himself at a higher price than he paid for it looks as if he's up to no good. But nothing of the sort happened in the Whitewater transaction. What actually happened is a routine transaction under Section 351 of the IRS Code—a section that countless small-business men make use of every year. Under Section 351, appreciated property can be transferred, tax-free, from an individual to a corporation.

Moreover, the tax analysis presented by *Time* seemed to be based on a misunderstanding of one of the basic concepts of tax law in America: When you sell a capital asset—such as a house, for example—your gain is calculated not from the original purchase price of the asset but from that price *plus* the cost of any capital improvements you undertook after acquiring it.

That's what happened in the case of the Clintons and the McDougals. They bought their 230 acres for $203,000 in 1978; then, according to Chris Wade, the local real-estate broker who sold them the land, they spent somewhere around $40,000 on improvements. Once this was done, the two couples transferred the land to their newly set-up corporate shell—Whitewater Development Corporation—and went into the business of trying get rich as Ozark land barons.

"On the facts as reported, this is a per-

Photographs: top, W. Geoffrey Hartmann; inset, AP/Wide World

Wading Into White ater

Special Counsel: Will Fiske be another Walsh?

ROBERT FISKE'S RESUME READS A LOT like Lawrence Walsh's: Republican prosecutor, defender of corporate clients for the same Wall Street firm (Davis, Polk & Wardwell), a reputation for toughness, meticulous preparation and granite integrity. Last week he followed in his mentor's footsteps once again. On Tuesday Walsh released the final, 566-page report of his seven-year investigation into the Iran-contra scandal. He concluded that though there is no credible evidence former president Ronald Reagan broke the law, senior Reagan aides participated in "a concerted effort to deceive Congress and the public" about the arms-for-hostages debacle. Two days later, Fiske became Attorney General Janet Reno's choice as special counsel to look into the Whitewater affair. He promptly asserted his independence, predicting that before he was done President Clinton and First Lady Hillary Rodham Clinton would face questions under oath about their roles in the murky Arkansas savings and loan saga.

If Fiske is even half as dogged as Walsh, it could be trouble for the Clintons. The White House reluctantly agreed to a special counsel hoping that the shroud of silence around a criminal investigation would take the story out of the news for a while. The administration also wants to use Fiske as a reason for opposing congressional hearings—on the ground that they might prejudice his inquiry. But Clinton could also find himself with another problem—an aggressive prosecutor eager to justify a long, expensive investigation of deeds most Americans will find insignificant or just too complex to easily grasp. That was the charge leveled by Walsh's critics, most of them Republicans, who complained about the $36 million he spent on Iran-contra. It could be a year before Fiske is fully staffed and underway. And there is nothing to stop him from staying on until he finds something that at least looks illegal. Reno could theoretically fire him. Unlike Walsh, who served under the now expired independent-counsel law, Fiske operates under Justice Department rules. But even a whiff of pressure from Reno would create new suspicions that the Clintons really do have something to hide.

Whitewater, to be sure, is no Iran-contra. Walsh faced wrongdoing at the top of the executive branch. Although Fiske's investigative targets include the First Couple, the stakes are far smaller. He will examine the Clintons' relationships with Madison Guaranty and Whitewater Development Corp., a money-losing Ozark vacation-home venture they co-owned with their friend James McDougal. Fiske will look for evidence that Madison got favorable treatment from Arkansas regulators or that the Clintons received special consideration from McDougal in their Whitewater investment. He'll also examine allegations that the Clintons or McDougal pressured a former Little Rock judge into making a $300,000 loan to McDougal's wife. Finally, he'll probe the suicide of White House lawyer Vincent Foster for links to Whitewater.



LARRY DOWNING—NEWSWEEK



NEWSWEEK

Son of Walsh? *Fiske (top) and mentor*

Fiske is unlikely to face a problem that hamstrung Walsh: congressional testimony under grants of immunity from prosecution. Walsh lost two major convictions—Lt. Col. Oliver North and national-security adviser John Poindexter—when an appeals court ruled that the immunized testimony tainted their trials. Democratic chairmen of both the House and Senate banking committees, Rep. Henry Gonzalez and Sen. Don Riegle, have steadfastly resisted calls for Whitewater hearings. Sources say Gonzalez is under pressure from aides to Treasury Secretary Lloyd Bentsen to block an inquiry or risk the loss of his chairmanship (Bentsen's office denies exerting leverage). Gonzalez, normally a gung-ho investigator of S&L mischief, has quietly allowed GOP committee staff to poke around in Arkansas. But House sources say he was so embarrassed by his capitulation on the hearings issue he ducked calls from staff while home in Texas last month.

Special venom: For Walsh, 82, the Iran-contra final report is a bitter coda to a distinguished career. He won 11 convictions or guilty pleas in the investigation of arms sales to Iran and diversion of the sales' proceeds to the Nicaraguan contras. But he said last week that had evidence now available been within reach in 1987, higher-level Reagan-administration figures might have been indicted. According to Walsh, new documents depict Attorney General Edwin Meese as leader of an attempt to cover up Reagan's alleged knowledge of the sales. Walsh reserves special venom for the then Vice President George Bush, who as president pardoned former secretary of defense Caspar Weinberger in 1992, two weeks before his trial. The prosecutor described Bush as uncooperative and the investigation of his role as "regrettably incomplete." All principals denied wrongdoing last week, savaging Walsh as a vindictive lawyer run amok.

Just as elusive for Walsh was public understanding—and indignation—about the enormity of the scandal. As the legal trail grew cold and the years advanced, he became an easy mark for partisan sniping. Fiske won't make many friends either as he descends into Whitewater's muck, but he'll likely never face the abject thanklessness of his old friend's task.

BILL TURQUE *with*
MARK HOSENBALL *in Washington*

Clintons lied about losses. McDougal told his lawyer

By Jerry Seper
THE WASHINGTON TIMES

A1

James B. McDougal, owner of a failed Arkansas savings and loan now under federal investigation, told his attorney in 1992 that Bill and Hillary Clinton lied about how much money they lost in the Whitewater Development Corp.

The confidential conversation, which was tape-recorded, relates to a claim in March 1992 by Mr. and Mrs. Clinton — after Whitewater had surfaced as a presidential campaign issue — that they had lost more than $68,000 in the northern Arkansas real estate project.

"I noticed that article yesterday in The [Washington] Post where some guy there just accepted the Clintons' $68,000," Mr. McDougal told Little Rock attorney Sheffield Nelson.

"I could sink it quicker than they could lie about it if I could get in a position so I wouldn't have my head beaten off," Mr. McDougal said.

"And Bill knows that."

The conversation, a transcript of which was obtained by The Washington Times, was recorded on March 24, 1992, the day after the Clintons released an audit report claiming they had lost money on their half of the Whitewater real estate deal.

The Clintons, Mr. McDougal and his then-wife, Susan, were partners in Whitewater.

The comment is included in the lengthy 38-page transcript, recorded at Mr. Nelson's office after Mr. McDougal had become concerned about an ongoing federal investigation of alleged financial irregularities involving Madison Guaranty Savings and Loan Association, which he owned from 1982 to 1986.

The federal inquiry included a look at numerous Madison loans to prominent Arkansas businessmen and politicians. At one point, Mr. McDougal acknowledged that fraudulent financial statements had been submitted to obtain Madison loans and that loan proceeds were often misappropriated.

Mr. McDougal also said David L. Hale, owner of Capitol-Management Services Inc., a Little Rock lending company, was manipulated for Small Business Administration-approved loans and that information given to him for the loans often was "fraudulent."

Mr. Hale, now under federal indictment for unrelated SBA loans, has alleged that Mr. McDougal and Mr. Clinton pressured him during a March 1986 meeting for a $300,000 SBA loan to Mrs. McDougal.

The loan was never repaid, and $110,00 of it eventually went to Whitewater.

Federal law enforcement sources said yesterday that the transcript of the McDougal-Nelson conversation, a copy of which Justice Department investigators obtained in December, is expected to be turned over to Robert B. Fiske Jr., the New York lawyer who was appointed Jan. 20 as special counsel in the Whitewater-Madison affair.

White House senior advisor Bruce R. Lindsey, who has been assigned to answer questions on an ongoing federal probe of the so-called Whitewater-Madison affair, was not available for comment late yesterday.

He told The Washington Times in November that Mr. McDougal was not a reliable source and had not been "forthcoming with a lot of information," although he would not elaborate.

Mr. McDougal, who has denied any wrongdoing, also was unavailable yesterday.

He has said in media interviews that he only recalls the Clintons investing about $9,000 in Whitewater. Mr. and Mrs. Clinton sold their interest in Whitewater to Mr. McDougal in 1992, after the November general election, and reported a $1,000 capital gain on the sale — the price Mr. McDougal paid them for their shares.

Mr. Nelson, who lost the 1990 gubernatorial race to Mr. Clinton, did not return messages left yesterday on his home telephone answering machine. Mr. Nelson, a longtime Clinton political rival, was not the source of The Times' transcript.

Newsweek, in its editions due today, said it also had obtained a copy of the transcript independently. It said the document had been authenticated by Mr. Nelson.

Mr. Nelson previously has confirmed to reporters for several news organizations, including The Washington Times, that Mr. McDougal spoke to him several times in early 1992 about financial problems involving Madison and Whitewater.

The Clintons claimed in March 1992 they lost $68,900 on the Whitewater venture, a partnership they entered into with the McDougals in 1978. The couples purchased 230 acres of land for $203,000 and intended to build vacation homes on 42 lots along the White River in northern Arkansas. The venture eventually failed.

The claim came after the New York Times reported the Clintons had taken income tax deductions on their personal returns that actually belonged to Whitewater. The deductions, amounting to $5,133, reduced their taxes by $2,156.

The purported $68,900 loss is contained in a report on the Whitewater purchase written by James M. Lyons, a Denver lawyer and longtime Clinton ally. He told reporters during the campaign the Clintons put $68,900 into Whitewater, without any return, while the McDougals lost $92,200.

Assigned by the Clinton campaign to review the deal after Whitewater became a campaign issue, Mr. Lyons concluded the McDougals "exercised total control" over Whitewater.

Mr. Lyons acknowledged, however, that he did not have access to all the documents and had never discussed the matter with the McDougals.

More than 80 subpoenas have been issued by federal investigators in the Whitewater-Madison probe since November, when Attorney General Janet Reno assigned criminal division prosecutors to oversee the case.

One of the subpoenas went to Arkansas Gov. Jim Guy Tucker, who is prominently mentioned in the transcript.

"They would like to get Tucker," Mr. McDougal told Mr. Nelson in the March 1992 conversation. "That FBI agent really wanted to get him. There's a whole bunch of work already done, (but) they're just too dumb to know how to use it."

Mr. Tucker has acknowledged that he received a subpoena but has denied any wrongdoing.

The Washington Times MONDAY, JANUARY 31, 1994

CHALLENGING A PARTNER

James B. McDougal, in a tape-recorded March 24, 1992, conversation with his Little Rock attorney, challenged the amount the Clintons were publicly saying they lost in the Whitewater Development Corp. McDougal, president of Madison Guaranty Savings and Loan Association, was the Clintons' partner in Whitewater:

"I noticed that article yesterday in The [Washington] Post where some guy there just accepted the Clintons' $68,000. ... I could sink it quicker than they could lie about it if I could get in a position so I wouldn't have my head beaten off. And Bill knows that."

The Washington Times

Hale emerges as Whitewater 'piggy bank'

Ex-judge lent large sums to Clinton friends

By Jerry Seper
THE WASHINGTON TIMES

Former Little Rock Judge David L. Hale, who lent hundreds of thousands of dollars in government-backed loans to friends of Bill and Hillary Clinton, has emerged as a central player in the Justice Department's Whitewater-Madison probe.

"There's no doubt that Hale's involvement was ongoing and constant and involved quite a number of people tied to Clinton," says one federal law enforcement official familiar with the Whitewater-Madison probe. "In words that everyone understands, David Hale was their piggy bank."

This is reinforced by the number of grand jury subpoenas issued over the past six weeks showing ties between Madison Guaranty Savings and Loan Association and Mr. Hale's lending company, Capital-Management Services Inc.

Mr. Hale, indicted Sept. 23 on a charge of defrauding the Small Business Administration on unrelated loans, charged in September that Mr. Clinton and James B. McDougal, president of Madison, pressured him in 1986 for a $300,000 SBA loan, saying they needed to "clean up" some financial problems.

The three decided to name Susan McDougal as the loan applicant because they knew that as a woman she could qualify, he said.

Mr. and Mrs. McDougal were the Clintons' partners in the Whitewater Development Corp., a real estate venture in the Ozarks.

About a third of the SBA loan to Mrs. McDougal eventually wound up in the Whitewater account. The loan was never repaid.

Mr. Hale's credibility was challenged early on by federal prosecutors in Little Rock, including U.S. Attorney Paula J. Casey, a Clinton appointee, who refused to talk to Mr. Hale about the accusations against Mr. Clinton and others.

White House spokeswoman Dee Dee Myers called Mr. Hale a liar, saying he was trying to "save his butt" on the eve of an indictment.

When asked about Mr. Hale's allegation of a meeting with Mr. Clinton during which the $300,000 SBA loan was said to have been structured, Miss Myers said the president did not "recall" any such meeting and had "no recollection" about efforts to pressure the former judge for an SBA loan.

Mr. McDougal has said he never discussed the loan with Mr. Hale, terming the allegation "ridiculous."

Mrs. McDougal, who faces unrelated fraud charges in Los Angeles, has not been available for comment. The McDougals are now divorced. She told The Washington Post she does not remember the $300,000 loan.

Mr. Hale said he sought a deal from prosecutors for his testimony against others — including Mr. Clinton and Arkansas Gov. Jim Guy Tucker — in the award of fraudulent SBA loans.

The offer, he said, was rejected by Assistant U.S. Attorney Fletcher Jackson, who oversaw the Hale indictment. Mr. Hale said Mr. Jackson told him he didn't want to know anything about Mr. Clinton or Mr. Tucker because he had "eight years to retirement and was not looking to do anything to jeopardize it."

Mr. Jackson confirmed that conversation but said he was referring only to efforts by Mr. Hale to get charges against him reduced or dropped in return for his testimony.

But four months later, investigators from the Justice Department's fraud division, assigned to Little Rock in November by Attorney General Janet Reno after Mrs. Casey recused herself, have identified Mr. Hale as a major source of loans to several Little Rock businessmen and politicians.

Many of the Small Business Administration-guaranteed loans were tied to Madison and several involved Mr. Clinton's friends and associates. Most of the loans, according to SBA records, were never repaid.

The Hale information, along with several subpoened documents describing a number of loans made through Capital-Management, are expected to be turned over to Special Counsel Robert B. Fiske Jr., the New York lawyer named Jan. 20 by Miss Reno to head the Whitewater-Madison probe.

Federal authorities, according to the law enforcement officials, are trying to determine whether there is any connection between the SBA loans and Mr. Clinton, and whether he or others helped facilitate them. The loans under review include:

- The April 3, 1986, loan by Capital-Management for $300,000 to Mrs. McDougal, routed to a company she owned known as Master Marketing. The loan was never repaid. SBA officials declined comment, but the agency is believed to be trying to collect the money.

Mr. Hale said he, Mr. Clinton and Mr. McDougal agreed to the amount of the loan. He said they also decided the check would be made out to Mrs. McDougal to make sure a woman's name appeared on the SBA loan application.

- A Feb. 28, 1986, loan by Capital-Management for $150,000 to Castle Sewer and Water Corp., which involved Mr. Tucker and others. Mr. Tucker, who succeeded Mr. Clinton as governor, proposed providing water and sewer services to a mobile home park being developed and financed by Madison.

Castle Sewer and Water later defaulted on more than $860,000 in Madison loans. The mobile home project, known as Castle Grande, eventually failed. The SBA loan also was never repaid.

- An Oct. 3, 1987, loan by Capital-Management for $150,000 to Southloop Construction Corp., which also involved Mr. Tucker and others. Southloop proposed building a shopping center on a 30-acre parcel south of Little Rock — next to the Castle Grande project. The venture eventually failed.

Southloop bought the property for $353,000, using money from a $260,000 loan from Madison and a $150,000 SBA loan from Mr. Hale's company. The SBA loan was never repaid.

- A Feb. 21, 1986, loan by Capital-Management for $65,000 to the Communications Co. in Fayetteville, Ark., owned by Stephen A. Smith, a former aide to Mr. Clinton. The company sought to hire personnel and

The Washington Times MONDAY, JANUARY 31, 1994

'Hoarseness' forces Clinton cancellations

President Clinton canceled public events Wednesday and today on his physician's advice because of a hoarse voice, White House spokeswoman Dee Dee Myers says.

Clinton began losing his voice during Tuesday's 64-minute State of the Union address. Wednesday, he whispered through some meetings, drinking tea with lemon and honey, she said. "It's your basic hoarse voice."

Clinton was forced to cancel Wednesday speeches in Washington and Baltimore.

Despite his hoarseness, Clinton returned to the White House after Tuesday night's speech and answered two telephone calls to the White House comment, Myers said. He sounded so raspy one caller didn't believe it was him on the phone. Also, White House officials acknowledged TV viewers saw a blemish on Clinton's nose that was uncovered by makeup before Tuesday's speech. (Editorial, 12A)



AP

GEBBIE: AIDS issue is being studied

NEEDLE EXCHANGE: The Clinton administration is studying whether to allow federal funding of needle exchange programs to block the spread of AIDS among drug abusers, AIDS policy coordinator Kristine Gebbie said. Intravenous drug users are at high risk for catching HIV, the virus that causes AIDS. About one-third of U.S. AIDS patients are drug users or sex partners or children of users. There are 37 programs across the country where drug users can exchange dirty needles for clean ones. Laws ban federal funding of these programs until scientists prove they effectively blocking HIV transmission and don't increase drug use. In October, when the most comprehensive study of the issue concluded just that, the administration itself began looking at needle exchanges.

WHITEWATER QUESTIONS: Republicans on the House Banking Committee plan to seek an S&L bailout hearing to press for answers about President Clinton's Whitewater Development Co. activities. Rep. Spencer Bachus, R-Ala., said the 20 committee Republicans sent a letter to Chairman Henry Gonzalez, D-Texas, asking him to hold a required hearing of the Resolution Trust Corp., overseer of the savings and loan bailout. Bachus said the GOP will then call witnesses to testify on Whitewater. The connection: Clinton and wife Hillary were partners in Whitewater with James McDougal, owner of the Madison Savings & Loan whose failure cost taxpayers at least $47 million.

Also, House Speaker Thomas Foley, D-Wash., rejected GOP calls for congressional hearings on Whitewater, saying there was no evidence of misconduct by the Clintons.

POLICY FLAWED: Former president George Bush says President Clinton's "episodic attention" to foreign policy has led to abrupt policy shifts that have hurt the U.S. image abroad. In an interview in the February *Washingtonian* magazine, Bush was most critical of Clinton's foreign policy advisers, saying they did not have their act "totally together." Said Bush: "President Clinton made it obvious he wants to concentrate on domestic policy and put foreign policy on a back burner, but he found out that isn't possible." White House press secretary Dee Dee Myers dismissed Bush's criticism: "We have a top-notch foreign policy team."

ELSEWHERE IN THE WORLD

U.S. revokes the visas of Haiti's army officers

The U.S. government turned up the pressure on Haiti's military leaders Wednesday by revoking the visas of all Haitian army officers and freezing their financial holdings in the USA. The United Nations imposed a fuel and arms embargo last fall aimed at pressuring the army to return power to exiled president Jean-Bertrand Aristide, who was ousted in a 1991 coup. Under a U.N.-brokered accord signed by Aristide and army commander Raoul Cedras, Aristide was to return last October. But the process began disintegrating after Cedras refused to step down because of a dispute over amnesty for human-rights violators.

BELARUS DISMISSAL: The Belarus parliament voted overwhelmingly to dismiss Belarussian leader Stanislav Shushkevich, 59, who has been implicated in a corruption scandal in the former Soviet republic.

ROOF COLLAPSE IN FRANCE: Rescuers searched through rubble for people trapped under the collapsed roof of a supermarket in the French Riviera city of Nice. Three people were killed, 94 were injured and 10 were missing.

ARGENTINE ANTI-SEMITISM: A street attack on Argentina's top rabbi fanned fears among Latin America's biggest Jewish community — 350,000-strong — that European-style neo-Nazi violence may be crossing the Atlantic. Buenos Aires head rabbi Salomon Benhamu, 57, was walking to the synagogue with his 10-year-old son last Saturday when four people stopped him and began shouting anti-Semitic abuse, police said. One slapped and kicked him.

AFRICAN ACCORD: South Africa, holding multiracial elections in April, announced a new era of regional cooperation with Zimbabwe, its most hostile black neighbor.

Vietnam embargo bill mired in Senate

By Marilyn Greene
USA TODAY

Senate consideration of a bill funding State Department operations bogged down Wednesday over the emotion-charged issue of lifting the 19-year U.S. embargo against Vietnam.

Vietnam War veterans Sen. John McCain, R-Ariz., and Sen. John Kerry, D-Mass., proposed an amendment urging President Clinton to end the embargo and move toward normal diplomatic relations with Vietnam. They said this would help answer questions about 2,238 U.S. servicemen still missing from the war.

In an opposing amendment, Minority Leader Bob Dole of Kansas and Sen. Bob Smith, R-N.H., argued Clinton should base lifting the embargo on release of information they say Hanoi still holds.

"I have plenty of evidence on why we should not believe the Vietnamese have provided all the information they could have provided," Smith said.

Clinton last July said relations with Vietnam could improve after he determines the United States has received "the fullest possible accounting" for the MIAs, including:

- ▶ Return of remains.
- ▶ Resolving questions on MIAs who possibly survived.
- ▶ Cooperation on searches near the Laotian border.
- ▶ Gaining access to Vietnam's official archives.

Officials, ranging from Secretary of State Warren Christopher to Adm. Charles Larson, commander of the U.S. Pacific Fleet, have attested to a high level of cooperation.

"Vietnam has complied to the point that further actions on our part are called for," said McCain, who was a prisoner of war in Vietnam for more than six years.

The Washington Times
THURSDAY, JANUARY 27, 1994

Foley won't order Whitewater hearings

Rejects GOP call, citing 'no evidence'

By J. Jennings Moss
THE WASHINGTON TIMES

House Speaker Thomas S. Foley said yesterday he will not accede to GOP demands that he direct three House committees to hold hearings into the Whitewater-Madison affair.

"There is no evidence of any credible nature pertaining to any misconduct by the president or first lady. None. Zero. None. And under those circumstances, there is no need" for hearings, Mr. Foley told reporters.

But Republicans on the House Banking Committee said yesterday they will try to force committee Chairman Henry B. Gonzalez, Texas Democrat, to call witnesses before the panel to testify on the case.

Citing committee rules, they said the panel had not held required oversight hearings for federal regulators who oversee failed savings and loans.

Mr. Foley, Washington Democrat, said he had not formally responded to a letter sent to him Tuesday by House Minority Leader Robert H. Michel asking for the hearings. But Mr. Foley said he had spoken with Mr. Michel on the subject.

Mr. Foley's position is not new. When Republicans said earlier this month they wanted a select committee to be created to probe the matter, the speaker said the best way to handle the issue would be to let an investigation by a special counsel proceed without congressional interference.

Attorney General Janet Reno last week named Robert B. Fiske Jr. as special counsel in the case. Mr. Fiske, a former U.S. attorney in New York, will be looking into the collapse of Madison Guaranty Savings and Loan Association and its ties to Whitewater Development Corp.

While governor of Arkansas, Mr. Clinton and Hillary Rodham Clinton were half-owners of Whitewater, a real estate development in the Ozarks. Their business partners were James B. McDougal, who also was president of Madison, and his wife, Susan. Mrs. Clinton also represented Madison before state banking regulators.

Federal regulators closed Madison in 1989, at a cost to taxpayers of $50 million. Among other things, authorities are investigating whether Mr. McDougal funneled money from Madison to Mr. Clinton's gubernatorial campaign committee. Mr. McDougal and the Clintons have denied any wrongdoing.

Congressional Republicans have long called for some congressional oversight into the case. Democrats have labeled such demands a political ploy designed to embarrass the president.

Mr. Michel, Illinois Republican, said Tuesday he was dropping his call for a select committee and instead asked Mr. Foley to direct the Banking, Small Business and Judiciary committees to hold hearings on questions that related to Whitewater-Madison as well as broader policy questions.

see FOLEY, page A11

FOLEY

From page A1

Mr. Gonzalez has continued to oppose holding hearings, although he has authorized funds for GOP staffers to travel to Arkansas to pursue leads.

Small Business Committee Chairman John J. LaFalce has initiated an inquiry into questions about a Small Business Administration loan given to Mrs. McDougal. A LaFalce aide said committee officials are reviewing the information and have made no decision about a hearing.

David L. Hale, president of Capital Management Services Inc. in Little Rock, Ark., has said Mr. Clinton and Mr. McDougal pressured him in 1986 to make the SBA-approved loan to Mrs. McDougal. About $100,000 of the money ended up in the Whitewater venture.

Mr. Clinton and Mr. McDougal have denied the charge. Mrs. McDougal has said she does not recall getting the money.

In an interview, Mr. LaFalce — who also is a senior Democrat on the Banking Committee — said he sees no need for hearings before either panel.

"There may be some related issues that need investigating, who should specific small-business investment companies be able to make loans to, for example," Mr. LaFalce said.

Republicans have argued that congressional committees held hearings about the high-profile collapses of the Lincoln National and Silverado savings and loan associations.

Asked about the need for a hearing on Madison before the Banking panel, Mr. LaFalce said: "There's a million (federal) investigations going on of different savings and loans. You can't have a congressional hearing on each one."

In a letter to Mr. Gonzalez, signed by all 20 Republicans on the House Banking Committee, lawmakers laid out a case to hold a hearing where people connected to Madison would testify.

Rep. Spencer Bachus, Alabama Republican, is pushing the issue with the backing of the committee's ranking Republican, Rep. Jim Leach of Iowa.

Mr. Bachus noted that the committee failed last year to hold a required oversight hearing for the Thrift Depositor Protection Oversight Board, which oversees the Resolution Trust Corp., the federal agency that manages failed S&Ls. The letter to Mr. Gonzalez said when the committee holds the necessary hearing, Republicans will request under existing committee rules that witnesses tied to Madison be called to testify.

Treasury Secretary Lloyd Bentsen is chairman of the oversight board.

Senate Minority Leader Bob Dole of Kansas, who had joined Mr. Michel when he called for a select committee, also has agreed to hold off on that demand but still wants congressional oversight through the normal committee structure.

President Clint Takes His Pitch to t Phones

So pumped up was President Clinton following his long-winded State of the Union address that he strolled over to the basement of the Old Executive Office Building late Tuesday night and fielded a couple of phone calls from the public *himself*.



The Man manning the phones Tuesday night.

As a volunteer was wrapping up one call to the White House public comment line, she looked up completely startled and said to the person on the other end, "You will never believe who's standing here!"

The president then took the phone. He took one other call—and both parties were so stunned they hung up without identifying themselves.

One woman did call back, however, to beg that a volunteer confirm to her son that she did indeed talk to The Man.

No Laughing Matter

■ What was heavily advertised as a night of comedy turned somewhat pathetic—and a bit ugly—Tuesday night when dozens of people who showed up on Capitol Hill for a live broadcast of two Comedy Central cable network shows were left soaking their heels in the pouring rain for at least 90 minutes.

"They handled the situation very badly and left people very angry," said Jennifer Washeleski, who works in the travel industry and had been solicited to join the audience.

Many other would-be guests were still fuming when they called us yesterday, complaining that they had even gotten one or two follow-up confirmations from the network. The shows being aired on the all-comedy station were "State of the Union Undressed '94," with commentary by Dennis Miller, and a special live version of "Politically Incorrect."

"Instead of standing in line, people mobbed around the front door. They made it absolutely impossible to interrogate people" in order to screen them, said audience coordinator **Kathleen Madigan.** "I've never seen people act like that before. . . . I'm very sorry if anyone was inconvenienced."

Another rain-soaked fan, **Stephen Kletter,** for one, is just as happy he missed the show. "I caught a few minutes of Dennis Miller when I got home and he stunk up the place. In the end, I was happy I didn't make it."

WE'VE HEARD THAT. . .

■ **Johnny Carson** has turned down an invite to host the Oscars. "He did it for five years and feels there's nothing new he can bring to it at this point," says a Carson spokesman. In addition, it's no secret in some quarters that Carson and the Oscar folks parted under less than friendly terms.

■ Producer **Harry Thomason** assured Post reporter **Lloyd Grove** this week that he and wife **Linda Bloodworth-Thomason** meant no harm when a character in last week's "Hearts Afire" seemed to be arranging for a certain "Professor" Lloyd Grove's legs to be broken. "All she says is 'Fix him so he can't ski,' " Thomason giggled, when the real Grove phoned to share his concerns. Grove can't ski anyway.

■ Imelda Marcos, weeping and gasping for breath, stormed out of a Manila court yesterday after a coronary expert testified she did not need to fly to the United States or China to treat a heart ailment, Reuter reports. Marcos is free on bail pending an appeal of an 18-year jail sentence for corruption.

■ Larry Gatlin, who starred in "Will Rogers Follies" on Broadway and who'll replace **Mac Davis** when the show leaves Washington Sunday, will step into the role early. Gatlin will do the last show at the Kennedy Center—Sunday's matinee—because Davis had a scheduling conflict.



Carson to the Academy: No can do.

S B : I Got , GOP

■ S would argue that S / Bono, the aspiring Repub pol, has a bit of an image problem—as in the lingering bell-bottomed, "I Got You, Babe" dimbulb impression. But Bono, who just announced for Congress, won't bite.

"I don't have any problem with that at all," he says drowsily from his Palm Springs, Calif., campaign office. "They know I'm serious because I just jumped into a race—I wasn't a professional politician. I could certainly have a nice life. I have a wonderful wife, wonderful kids, a wonderful house, wonderful dogs." (We're glad things are going so well for you, Sonny.)

CHECKING IN WITH. . .



Sonny (with Cher) as a musician. Above, from left, Sonny as a politician, and Sonny (with Mary) as a happily married man.





And, furthermore, says the man who got his political feet wet as the mayor of sleepy Palm Springs, experience isn't everything. "If they believe you and like you and respect you, that's what you need more than being glib."

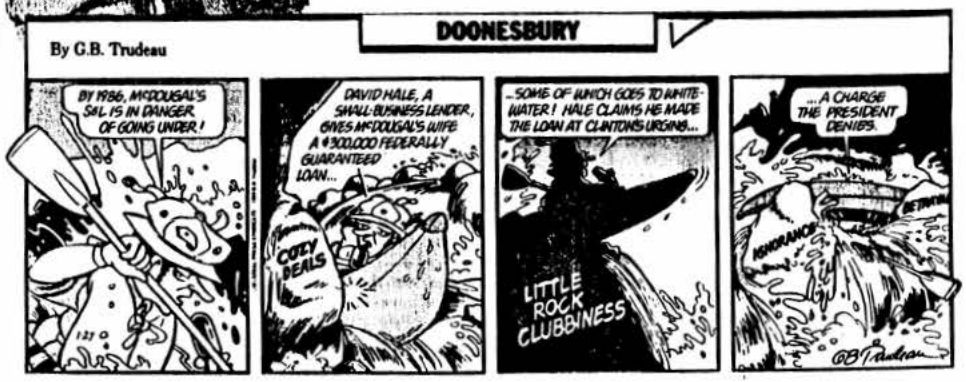
In his '92 Senate campaign for the seat eventually won by Barbara Boxer, Bono was dismissed by most pundits as a lightweight; but he bit back by coming in third with a respectable 17 percent in the primary, and then won points by stumping for the guy who beat him, Bruce Herschensohn, who's returning the favor by serving as Bono's campaign chairman.

The campaign is a family affair. Mary, his wife of eight years and mother of their two small kids, handles the press. But Bono's not expecting an endorsement from his flamboyant ex. "Cher's been rather reclusive the last couple of years, with not only me but with everybody," Bono tells The Post's Mary Alma Welch. "I assume she's a liberal Democrat." Their 24-year-old daughter, Chastity, is "supportive," Bono says, "but she has more liberal views on some things."

When it comes to issues, Bono, 58, isn't much for details:

- Federal funding of abortion: "I'm not for it. I'm for people taking responsibility for what they do." (Yes, in cases of rape and incest.)
- The Clinton health care plan: "There are 39 million not covered by insurance—I would rather just address it as a flat tire or two flat tires on a car and not rebuild the whole car."
- Capital punishment: "I'm for it."
- Gun control: "I have guns, but I've never shot an animal. I like having the right. . . . I had a stalker. He threatened to kill me for at least five years. I like having the chance to defend myself if I have to."
- Federal funding of "obscene" art: "I don't want to pay for something that's gross."

And for a Republican, Bono's downright noncommittal when it comes to President Clinton. "He's starts more cycles of action—he's opened up every issue and gone at it. They're all open cycles. I wish he'd slow down a little bit. I think sometimes you can almost feel his confusion."



PROSPECTS

A LOOK AT WHAT'S AHEAD FOR CLINTON PROPOSALS

Clinton's agenda is likely to click

By Richard Wolf
USA TODAY

President Clinton will win some and lose some in Congress, but the early betting is he'll win more than he loses:



HEALTH CARE: The top item on Clinton's agenda won't be an all-or-nothing proposition. The question is, will the president get most of what he wants or settle for a piecemeal approach?

Since Democrats control the process, watch for Clinton's reconfiguration of the nation's health-care system to be the starting point. Peel away part of his bureaucracy — the national health board, perhaps, and the state purchasing co-ops. Then try to salvage the rest, including universal coverage for all Americans and a basic package of benefits.

If everything clicks for Clinton, he could achieve most of what he wants, but it's a big "if." Equally likely: The employer or individual mandate needed to guarantee coverage for 38.5 million uninsured falls by the wayside, replaced by something more voluntary, more flexible, more acceptable to conservatives and free marketeers.

Call it all Clinton Lite — and make the odds 60-40 if you're a Democrat, 40-60 if you're a Republican.

Fallback: passage of insurance, malpractice and administrative reforms, with the broader plan put off until 1995.



CRIME: Popular with the public, Republicans and moderate Democrats, a tough crime bill similar to one that passed the Senate last year should sail through Congress early this year.

Expect a slew of new death penalty statutes, mandatory minimum sentences for violent offenses, an assault weapons ban and more money and manpower for the crime war.

Two groups will emerge disenchanted: liberal Democrats who say the whole thing goes too far, and Republicans hoping to deny Clinton the credit.



WELFARE: Problems here. Clinton campaigned in 1992 as the man who would "end welfare as we know it," but he didn't say when. The betting is it will take a year.

Some Democrats want to put welfare reform ahead of health reform. Clinton wants to do it all in 1994, but Democratic leaders have problems with that.

First, the agenda is too big. Health and welfare go through the same tax committees. Their time is precious. More critical: Liberals cannot fathom much of the welfare agenda, like strict time limits on benefits. And Clinton needs their support for health care and crime control.



BUDGET: This may be another strong suit for Clinton this year. The economy is improving, unemployment is down, and deficit projections for the coming year are lower than previously forecast.

Watch for the president to be in the driver's seat on most budget issues, at least early in the year. His request for emergency relief for California's earthquake victims is likely to pass in February, despite calls from Republicans and moderate Democrats that it be paid for rather than added to the deficit. And he should be able to beat back efforts to pass a balanced budget amendment to the Constitution — popular with conservatives, anathema to liberals.

As the year wears on, Clinton will seek to stick by last year's deficit reduction law, which set tough limits on domestic and defense spending. From the right, there will be efforts to cut more domestic spending, and some may succeed. From the left, there may be efforts to cut more from defense, and those are likely to fail.



CAMPAIGN REFORM: Clinton and the voters want the same thing — a cleaned-up election process. But the House and Senate have passed totally different bills — one without adequate financing, the other possibly unconstitutional — and Republicans oppose both of them.

The betting is that Democratic leaders will patch together a partial, but not very tough, fix capable of winning passage in both houses. But will it appease the electorate?



ENVIRONMENT: With an ambitious agenda, Clinton can be expected to triumph on issues already in the pipeline while losing temporarily on others.

Likely to pass: an overhaul of the 1872 mining law to protect federal lands, and addition of the Environmental Protection Agency to the Cabinet.

Less certain: measures to finance clean water initiatives, bolster the toxic waste superfund and protect wetlands.



EDUCATION: This should be as simple as A-B-C. Expect Congress to approve a hat trick of initiatives with relative ease, including "Goals 2000," Clinton's effort to improve school quality through goals, standards and tests. Also on tap: attempts to move aid for disadvantaged students to needy districts and ease the school-to-work transition for high school graduates.



TRADE: It will be take it or leave it on yet another trade deal in 1994, and this time Clinton should win hands down, unlike last year's fierce battle over the North American Free Trade Agreement.

The deal: an expansion of the worldwide General Agreement on Tariffs and Trade. Clinton and most lawmakers agree the reduction in tariffs and agriculture subsidies should expand trade and create jobs.

WASHINGTON

USA TODAY'S SPECIAL REPORTS FROM THE CAPITAL

GOP abandons move for a Whitewater committee

Congressional Republicans Tuesday abandoned their push for a special committee to investigate President Clinton's business dealings in Arkansas. House Minority Leader Bob Michel, R-Ill., said appointment of special counsel Robert Fiske led him to join Senate Minority Leader Robert Dole, R-Kan., in giving up the push for hearings on Clinton and his wife, Hillary's, investment in Whitewater Development Co. and dealings with a failed savings and loan.

VETERANS RETIRING: Two long-time House Democrats — Reps. William Ford of Michigan and Don Edwards of California — said they'll leave at the end of the session. "Time has snuck up on me. As I approach my 67th birthday, it is time for me to focus on my remaining years," said Ford, a 32-year veteran, chairman of the Education and Labor Committee and a key player in the health-reform debate. Edwards, 79, a member for 30 years, heads the Judiciary subcommittee on civil and constitutional rights. Also retiring is the Virgin Islands' non-voting delegate, Ron de Lugo, a Democrat who has served since 1980.

IMMIGRATION WORRIES: Sen. Richard Shelby, D-Ala., said immigration laws are "a horror story" that threaten to turn people of "Anglo-Saxon heritage" into a minority. Asked whether demographic changes would be undesirable, Shelby said: "It depends on how you view America.... I'll leave that up to you."

ELSEWHERE IN THE WORLD

Third try for nuclear test ban

Talks on a U.S.-backed worldwide nuclear test ban open in Geneva today amid optimism that this third attempt to secure a treaty might finally succeed. Representatives of nearly 40 countries — including the United States, Russia and China — were expected to attend. All three nuclear powers support in principle such a ban.

BOSNIA FIGHTING: Bosnian Croats were reported to be stepping up attacks on Muslim-led government forces in an apparent bid to reverse recent setbacks in central Bosnia-Herzegovina. U.N. military spokesman Bill Aikman said a "significant battle" erupted after Croat units surged out of the town of Prozor toward government-held Jablanica. Also, U.N. officials acknowledged that aid convoys are delivering almost twice as much food to Bosnian Serbs, and more than three times as much to Bosnian Croats, as they are to the Muslims most affected by the war.

SOUTH AFRICAN TROUBLE: The Freedom Alliance, a coalition of South African right-wingers and black nationalists, threatened to end months of talks with the government and the African National Congress aimed at making the nation's transition to black rule peaceful.

MEXICO VIOLENCE: Mexican President Carlos Salinas de Gortari to Chiapas for his first visit since the New 's uprising by Indian guerrillas and vowed "a new stage" of development for the impoverished southern

78

Whitewater innuendoes just don't fit

The banking and development allegations are out sync with the Clintons people know.



By Deborah Mathis, a Washington reporter and columnist for Gannett News Service and Tribune Media Services.

Before the special prosecutor gets his hands very far into the case, a couple of Whitewatery questions:

▶ Is Bill Clinton just another money-grubbing yuppie, who once used privilege and power to keep the cash rolling?

▶ Is Hillary secreting a smoking gun that could snuff out her and her husband's high ambitions?

Venerable Washington columnist David Broder made the point when he said on a recent Sunday talk show, rather tauntingly:

"If you told me that Bill Clinton was very horny or very ambitious, I would have no trouble believing it.

"If you told me that he was money hungry ... I'd say that doesn't sound like the Bill Clinton I [illegible]."

For all the things Clinton has proved or is suspected to be, materialistic is not of them. As governor, a former aide re Clinton used to walk around with holes in his soles. And many an Ark state Capitol reporter can recall being hit up for a dollar here and there by the state's most powerful politician. Plus, there was the gubernatorial salary — a paltry $35,000 a year, which actually looked good compared to the $10,000 annual salary Arkansas used to pay its governors.



AP

POWER COUPLE: President Clinton and wife, Hillary Rodham Clinton.

It is true that a flood of cash can spark materialism, but there were no outward signs that the Clintons had been so ignited and certainly none that Bill Clinton brought with him a lust for luxury.

This is not to say, however, that once the couple dabbled they didn't dibble in their land or banking investments. But deliberately crooked dealings? I echo Broder: That doesn't sound like the Bill Clinton I know.

Which brings us to the first lady, on whom the brunt of innuendo of the past month has weighed.

The consensus speculation among longtime Clinton associates who will talk — though none will dare do so on the record — is that Hillary probably controlled the marital purse strings. And that her husband's involvement was passive, possibly to the point of disinterest. And that what he knew of where the money was came by his wife's casual report, as in:

Her: Honey, bought some certificates of deposit today.

Him: Great.

Her: We should make a nice little return at this current rate.

Him: That's nice, dear. Pass the peas.

This still doesn't mean, of course, that if there was any wrongdoing, the p dent is in the clear. The partnership business cuts both ways, you know.

Nor does it mean that Hillary Rodham Clinton betrayed her husband's confidence and just had a field day with the family funds, wheeling and dealing.

In fact, given her intelligence the absence of evidence that she ever been anything but honest, I'm inclined to believe Hillary's reluctance to do with something as basic as protecting her pride.

After all, she is known universally as a savvy, methodical, thorough competent do-er. Failure of any sort no place in her self-image. Nor d gullibility. Nor any kind of destitution. She does not suffer fools gladly and is bound and determined to never, herself, be one.

The Whitewater and Madison C anty boondoggles might make her look like something of a sucker and a greedy. Her various legal maneuvers may portray her as desperate. Her prominence as the governor's wife a top-notch corporate lawyer could leave the impression she didn't mind occasionally being the intimidator.

None of this imagery would sit with Hillary Rodham Clinton, who is all of the wonderful things people have said about her, but certainly not perfect and damn sure proud.

I wouldn't be surprised if it's that simple.

Then again ...

Deborah Mathis was formerly ciate editor of the Little Rock Ark Gazette.

Bill Clinton is no Thomas Jefferson

The president's hero was a staunch fiscal conservative and advocate of states' rights.

By Dan J. Vance

The Clinton spin doctors ave gone great lengths in pre enting their man — William eff Clinton — as the andard bearer for the lega ies of two former presidents - John F. Kennedy and Thom s Jefferson.

The ties with Kennedy are ovious: the youthful appear nce, an idealistic approach to omestic problems, same par affiliation. Kennedy was inton's idol as a teen-ager, d we've all seen the pictures Kennedy greeting a young inton at the White House.

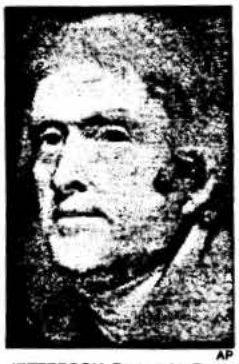
C n also venerates Jef the champion of indi freedoms — clarion bell the Democratic Party. He s careful to make Jeffer n's h e, Monticello, the last p on his memorable pre-in gural trip to Washington.

Like Clinton, Jefferson also lieved a "wall of separation" uld exist between church d a phrase popularly ught to be in the Constitu n but actually appearing in ferson's famous 1802 reply to the Danbury Baptist Association.

Clinton probably shared more in common with Jefferson than with Kennedy on Inauguration Day. Both had defeated incumbent presidents whose party had been in power the previous 12 years. Both inherited relative world peace after decades of threats from abroad. Both pledged to reduce the size of the military. Clinton has his Somalia; Jefferson declared war on a tiny African state — Tripoli. Both inherited a massive public debt from a previous administration.

But a scholarly review of Jefferson's actions discloses a Jefferson not reviewed in history books, one who attacked the economic problems of his day in a manner which, when compared, runs counter to Clinton's actions on every point.

According to Dumas Malone, the pre-eminent Jefferson biographer, Thomas Jefferson concentrated on three areas of concern in relation to economics: elimination of government waste, reduction of taxes and, above all, the retirement of the national debt.



AP

JEFFERSON: Portrait by Rembrandt Peale in 1805.

In eliminating government waste, Jefferson slashed the budget of the Navy by nearly 50% between 1801 and 1802, cut nearly 50% from the Army his first three years in office, reduced the number of foreign embassies, laid off scores of Navy captains and tax collectors and reduced the number of judges. Jefferson limited the powers of the federal government and believed the federal government should only be charged with "the external and mutual relations only of these states." He was a strong advocate of states' rights.

Jefferson's main campaign promise was to reduce burdensome taxes. In a letter to Gov. Joseph Bloomfield of New Jersey in 1801, Jefferson wrote, "We can now proceed without risk of eliminating useless structures of expense, lightening the burthens of our constituents, and fortifying the principles of free government."

Americans had risen in rebellion twice — the Whiskey Rebellion and Fries Rebellion — in the preceding 12 years due to unfair taxation. Jefferson followed through on a campaign promise and eliminated all internal taxes in April 1802.

According to Malone, the national debt was a Jefferson obsession. When sworn in, Jefferson inherited a national debt of $83 million — a staggering sum for the day. He devised a plan to eliminate the debt in 16 years and followed through by actually reducing it by one-third by the end of his second term. He would have done more had it not been for the war with Tripoli.

He wrote to Albert Gallatin: "I consider the fortunes of our republic as depending, in an eminent degree, on the extinguishment of the public debt before we engage in any : because, that done, we : have revenue enough to improve our country in peace and defend it in war, without recurring either to new t or loans.

"But if the debt should once more be swelled to a formidable size, its entire discharge will be despaired of, we shall be committed to the English career of debt, corruption and rottenness, closing with revolution. The discharge of the debt, therefore, is vital to the destinies of our government ... making all other objects subordinate to this."

History portrays Jefferson as a solid fiscal conservative believing in a limited federal government. The current perception of Jefferson as the founder of liberal ideals does not do justice to his extremely conservative approach to economics. Bill Clinton may himself as a Jefferson progeny, but history tells us, at least in matters of economics, he's not even a distant relative.

Dan J. Vance is a Maryland novelist and free-lance writer.

89

Credible evidence of misdeeds

The Washington Times WEDNESDAY, JANUARY 26, 1994

Appearing on "Face the Nation" on Jan. 9, Vice President Al Gore explained his opposition to the appointment of a special counsel to investigate the suspicions aroused by the the White House handling of files relating to the Whitewater Development Corp. He said, "The standard for a special counsel ... is credible evidence of criminal wrongdoing. That standard is not met here. Even his political opponents who are trying to make hay out of this ... will not say there's credible evidence of criminal wrongdoing."

That is true, but the White House had gone to extraordinary lengths to keep secret the existence of certain records that were in the White House office of the late Vincent Foster. The police who were investigating Mr. Foster's death asked that a guard be posted on Mr. Foster's office as soon as they learned who he was on the night of July 20. The guard was not posted until the next morning, enabling at least three White House aides to enter the office. The police believe that evidence that might have helped explain Mr. Foster's death was removed. They found no desk calendar or any appointment diary, the kind of thing that every busy executive keeps. They say they would have found the note that Mr. Foster left if it had been in his office when they made their search. The note was allegedly found torn to bits at the bottom of his briefcase days later.

The police were not allowed to inspect files marked "Whitewater," which subsequently were secretly turned over to a Washington lawyer hired by the Clintons. These presumably included records of the Whitewater Development Corp. that the Clintons said were missing when Whitewater surfaced as an issue during the campaign. Just before Christmas, Mr. Clinton's lawyer secretly arranged for the Justice Department to subpoena all the Whitewater records. This was done admittedly to keep them from being made public. They are now being treated as grand jury documents legally protected from unauthorized release.

All this heightened suspicion that an investigation would turn up something embarrassing, but there is no reason at this point to believe it will uncover a federal crime. While this is being debated, everyone is overlooking the fact that there is credible evidence that President Clinton violated a federal criminal statute only last fall, evidence that the special counsel should be asked to investigate. This is the allegation by two Arkansas state troopers that Mr. Clinton tried to keep them from talking to reporters by suggesting he was willing to appoint them to high-paying federal jobs.

Danny Ferguson, one of the four Arkansas troopers who talked to reporters last year about the governor's extramarital affairs, told the Los Angeles Times that President Clinton had phoned several times to find out what the troopers were saying so he could [quoting Clinton] "come in the back door and shut it down."

Trooper Ferguson and one other trooper talked to the reporters off the record, but Roger Perry, one of the two who went public, told reporters what Trooper Ferguson had told him about Mr. Clinton's phone calls. Trooper Ferguson subsequently confirmed to the Los Angeles Times the accuracy of what Trooper Perry said about the substance of the calls and the interpretation that he placed upon them.

Here's the story according to Trooper Perry. Mr. Clinton had offered Trooper Ferguson one of two jobs: U.S. marshal in Little Rock, paying $67,000 a year, or regional director of the Federal Emergency Management Agency (FEMA), which carries a starting salary of $93,000 a year. The president had already rewarded one of his former bodyguards, "Buddy" Young, with a FEMA regional directorship, a post for which Mr. Young's only qualification appeared to be his success in suppressing "bimbo eruptions."

The president had also asked Trooper Ferguson to tell Roger Perry that he could have anything he wanted. Trooper Perry's interpretation of this was that Mr. Clinton was offering favors if the troopers would hold their tongues. When this story broke on Dec. 20 in the American Spectator and the next day in the Los Angeles Times, Mr. Clinton put his damage control team to work. Betsey Wright, his former chief of staff, flew to Little Rock to get Trooper Ferguson to deny that Mr. Clinton had offered him or any other trooper a federal job in return for their silence.

Trooper Ferguson agreed to cooperate. His attorney issued a carefully worded affidavit saying Trooper Ferguson had authorized him to say Mr. Clinton had "never offered or indicated a willingness to offer any trooper a job in exchange for silence or help in shaping their stories." The media gave the impression this was a sworn statement by Trooper Ferguson himself, but Trooper Ferguson was careful not to perjure himself by swearing that what he had told Roger Perry and the Los Angeles Times was false. It wasn't until Jan. 11 that we learned from the letters column of the Wall Street Journal that Trooper Ferguson himself had sworn to nothing. The Los Angeles Times reporters, who had Trooper Ferguson on tape telling about the job offers, were not taken in by the lawyer's affidavit. They reinterviewed Trooper Ferguson, asking if Mr. Clinton expressly said jobs would be offered if the troopers remained silent. Trooper Ferguson gave this Clintonesque reply: "He didn't say those words." The special counsel can and should have the troopers tell their stories under oath.

Reed Irvine is chairman of Accuracy in Media. Joe Goulden is AIM's director of media analysis.

Musical chairs at the Pentagon

A political cartoon by Pat Oliphant over the weekend illustrated President Clinton's dilemma better than all the commentaries in the world. It showed the president wandering the back streets, knee deep in snow, searching hither and yon. Under a bridge a homeless man looks up from his blankets: "No, I don't want to be secretary of defense — that job has a lousy comfort level!"

Since Bobby Ray Inman's extraordinary performance last week turning down the job he had so recently accepted, the Clinton team has been looking for a replacement candidate. Sen. Sam Nunn, former Sen. Warren Rudman, Gen. Colin Powell and others as well, were reportedly approached, but to little avail. Despite the prestige of the office, this is not so very strange. As Adm. Inman himself said in a relatively unnoticed portion of his press conference, whoever heads the Pentagon will be facing a crisis in funding within the next two years.

Those who feel that the nation's defenses are already being cut enough — or perhaps more than is prudent — will be reluctant to preside over the further decimation of force levels that could ensue. Indeed, there are those who believe that Mr. Aspin left because he lost the Pentagon budget fight with Office of Management and Budget Director Leon Panetta.

So, having abandoned the hope of enticing a "superstar," Mr. Clinton has now settled for the "safe" option, Deputy Secretary of Defense William Perry. Exactly how safe that is remains to be seen. It will be recalled that only a few weeks back, Bobby Ray Inman was also considered a safe choice — except by William Safire, of course. And Mr. Perry, too, reportedly actually expr l some coy reluctance, before coming around.

At least, Mr. Perry is a safe choice in the sense that he is a known entity. He is a technocrat with a wide range of experience in the defense industry, served in the Pentagon under Jimmy Carter, and was a Stanford mathematics professor. He also has the virtue of having been through confirmation hearings less than a year ago. (Judging by the favorable noises emanating from the Hill, the days seem to be over when connections to the defense industry constitute a conflict of interest for a Pentagon chief; or maybe that principle only applies to Republicans, like the late John Tower.)

Furthermore, Mr. Perry been intimately involved in the formulation of Pentagon policy over the past year, on issues from gays in the military and women in combat to defense conversion, procurement reform, and military strategy. There does in fact appear to have been "no daylight" between Mr. Aspin and Mr. Perry. His nomination will make for continuity.

That begs the question, of course, whether continuity with the course set by Mr. Aspin is desirable. A lot of people believe that cuts in force levels outlined in his policy review are excessive. Mr. Perry is a firm believer in high-tech weaponry (he's an expert in stealth technology and smart bombs), which is very well, but you cannot run an army without people — well-trained, well-equipped people at that. In October, Mr. Perry spoke almost with relish about more base closings. Thirty-one major closings were proposed this year. "Even though people have regarded this '93 base closing as a major jolt," he stated. "I can tell you quite candidly that the '95 base closing is going to be even greater." If Mr. Clinton was looking for a defense chief unafraid of downsizing a concept, he appears to have found the right one.

112

Call for Whitewater select panel put off; Michel still wants probes

By J. Jennings Moss
THE WASHINGTON TIMES

House Minority Leader Robert H. Michel yesterday said he was putting off his call for a select committee to investigate the Whitewater-Madison affair, but he renewed his demand for regular congressional oversight in the matter.

Mr. Michel called for separate hearings by the House Banking, Small Business and Judiciary committees into the various aspects related to the failure of Arkansas' Madison Guaranty Savings and Loan Association and President Clinton's possible involvement in it through he and his wife's partnership in Whitewater Development Corp.

"As a result of the Justice Department's willingness to pursue an investigation of Whitewater-Madison through a special counsel, on behalf of the Republican leadership I have decided not to pursue the establishment of a select committee at this time," the Illinois Republican said in a letter to House Speaker Thomas S. Foley.

"It remains the view of the minority, however, that relevant committees of Congress would be abdicating their constitutional oversight obligation if they refuse to delve into and hold hearings on the issues surrounding the Whitewater-Madison affairs," the letter said.

When he was governor of Arkansas, Mr. Clinton was a partner in Whitewater, a real estate venture in the Ozarks. Another partner was James B. McDougal, who was president and owner of Madison.

Numerous questions have been raised about the connection between the two and whether funds from Madison were funneled to Mr. Clinton's gubernatorial campaigns. Investigators also are probing the role first lady Hillary Rodham Clinton had in the matter.

The Clintons have denied any wrongdoing in the case and have turned over Whitewater documents to the Justice Department, which was investigating Whitewater-Madison before Attorney General Janet Reno named an outside special counsel.

Mr. Michel and Senate Minority Leader Bob Dole had said they would introduce legislation calling for a select congressional committee, much like the one that handled the Watergate and Iran-Contra scandals. But they also had said a select committee would not be needed if other committees held hearings.

Democrats have balked at the suggestion that hearings are necessary. They argue that the special counsel named last week to investigate Whitewater-Madison, Robert B. Fiske Jr., should be allowed to conduct his probe without congressional interference.

Mr. Foley, Washington Democrat, said when Mr. Clinton agreed to a special counsel that he thought that would lead to an impartial investigation and that congressional action was not needed. Foley spokesman Jeff Biggs said yesterday he believed Mr. Foley still was against congressional hearings.

Mr. Michel laid out numerous issues for each of the three committees to probe, with most of the responsibility falling to the Banking Committee.

Banking Chairman Henry B. Gonzalez yesterday continued to oppose a committee hearing, a spokeswoman said. On Jan. 14, he sent a letter to the committee's ranking Republican, Rep. Jim Leach of Iowa, saying, "I have seen nothing that suggests your study has a legislative purpose."

But Mr. Gonzalez did approve funds for a second batch of travel by GOP staffers to go to Arkansas and look into the matter.

Beyond the need for congressional hearings, Mr. Leach said the Republican minority in Congress needs to be given access to related documents that so far have not been turned over by the Office of Thrift Supervision or the Resolution Trust Corp. — which handled Madison's failure.

Clinton earns a C-plus from green group

By Ronald A. Taylor
THE WASHINGTON TIMES

President Clinton earned a barely above-average first-year grade from disappointed environmentalists, who said yesterday that the presi- [illegible] "is not working up to potential."

Nearly a year after the president's ambitious 1993 Earth Day address, the League of Conservation Voters (LCV), the self-described political arm of the environmental movement, gave Mr. Clinton a C-plus for raising expectations but failing to deliver.

"President Clinton has yet to in- adequate political capital on behalf of the environment," said Betsy Loyless, LCV political director.

The league's assessment, based on surveys of more than 100 "leading environmentalists," represents what Mrs. Loyless described as an average of four grades: An A for appoint- [illegible]s, a D-plus for budget policies, a B for ideas and promises, and a C-minus for delivery.

This year's annual effort to evaluate the administration's performance on environmental protection posed a dilemma for environmental lobbyists, many admitted privately.

The quandary involved a choice between:

- Echoing the disappointment about the Clinton administration they are hearing from some dues-paying members at the risk of alienating an environmental bureaucracy that is more heavily populated with environmental activists than ever.
- Refraining from harsh criticism this year, thereby giving Mr. Clinton more time to excel, a course favored by others in the movement.

In the final analysis, Mrs. Loyless said, "LCV grades the president by a standard and the highest standard: Did he do what was necessary to protect the environment for future generations? And our answer was that the president is not working up to potential.

"His overall grade recognizes that he says the right thing. He says what the public and the environmental community wants to hear."

Still, she said, "those things are tempered by timid proposals, compromises before it's necessary and in some instances ignoring potentially dangerous situations. Promises were made, principles enunciated, but in many instances the follow-through has not been forthcoming."

As an example, the group noted the administration's speedy offer to compromise on its proposal to reform land-use policies that have allowed cattle ranchers and mining companies to use federal land for bargain-basement prices.

The land-use proposal was an early casualty of the battle that eventually resulted in defeat of the Clinton economic stimulus proposal.

LCV President Jim Maddy noted that their assessment is "substantially more favorable" than the grades given President Bush after his first year in office.

Mr. Maddy acknowledged that "our expectations this time last [illegible] were extraordinarily high" but added that officials in the new administration "underestimated the resistance to change both inside and outside the government."

"We are disappointed in the performance to date," Mr. Maddy said. "But we also don't want to lose sight of the fact that . . . the lion's share of the blame rests with the Congress."

A top environmental official in the Bush administration suggested that the LCV and other environmental groups are letting the Clinton White House off easy.

"If George Bush had abolished rather than rebuilt the Council on Environmental Quality, if he had petitioned DuPont to delay the phase-out of CFCs for at least a year rather than leading the world toward an alternative, the league would have tried to run him out of town," said Michael Deland, chairman of the now-defunct Council on Environmental Quality.

99

TODAY IN CONGRESS

SENATE

Meets at 9 a.m.
Committees:
Armed Services—2 p.m. Closed. Coalition defense and reinforcing forces subc. Meets with North Atlantic Assembly to discuss European security issues. 232A Russell Office Bldg.
Foreign Relations—10 a.m. Pending nominations: Alice Dear to be U.S. director of African Development Bank; Jill Buckley to be assistant administrator for legislation and public affairs at the Agency for International Development; and Tom Dine to be assistant administrator for Europe and the New Independent States at AID. 419 Dirksen Office Bldg.
Labor and Human Resources—10 a.m. Training of health personnel under Clinton health care reform proposal. 430 DOB.
Veterans' Affairs—10 a.m. Nomination of R. John Vogel to be undersecretary of veterans affairs for benefits. 418 ROB.

HOUSE

Meets at noon.
Committees:
Banking, Finance and Urban Affairs—10 a.m. Financial institutions supervision, regulation and deposit insurance subc. Mutual Bank Conversion Act. 2128 Rayburn House Office Bldg.
Education and Labor—9:30 a.m. Select education and civil rights subc. Mark up Drug-Free Schools and Communities Act and Federal Employee Fairness Act. 2261 RHOB.
Education and Labor—10 a.m. Human resources subc. Health care reform and long-term care. 2175 RHOB.
Education and Labor—10:30 a.m. approx. Select education and civil rights subc. Health care reform. Surgeon General Joycelyn Elders. 2261 RHOB.
Energy and Commerce—9:45 a.m. Health and the environment subc. Women's health under Clinton health care reform proposal. 2123 RHOB.
Foreign Affairs—9 a.m. Economic policy, trade and environment subc. U.S. pesticide exports and so-called circle of poison. EPA administrator Carol Browner. 2172 RHOB.
Judiciary—10 a.m. Economic and commercial law subc. Antitrust and Communications Reform Act. 2141 RHOB.
Post Office and Civil Service—10:30 a.m. Census, statistics and postal personnel subc. Status of planning for the 2000 census. 311 Cannon House Office Bldg.
Science, Space and Technology—9:30 a.m. Science subc. Future of high-energy physics. 2325 RHOB.
Small Business—10 a.m. Holds hearing on health care reform. Small Business Administration administrator Erskine Bowles testifies. 2359 RHOB.
Ways and Means—Noon. GATT Uruguay Round trade agreements. U.S. Trade Rep. Mickey Kantor. 1100 Longworth House Office Bldg.

Michel Calls for Hearings on Whitewater

House Minority Leader Says Special Committee No Longer Needed

Reuter

House Minority Leader Robert H. Michel (R-Ill.) yesterday called for hearings on President Clinton's ties to the failed Whitewater Development Corp. but backed off a request for a special investigative committee.

In a letter to House Speaker Thomas S. Foley (D-Wash.), Michel said creation of a select committee was not needed because of the Justice Department's appointment last Thursday of a special counsel to look into the matter.

"On behalf of the Republican leadership, I have decided not to pursue the establishment of a select committee at this time," Michel said in his letter. "It remains the view of the minority, however, that relevant committees of Congress would be abdicating their constitutional oversight obligation if they refuse to delve into and hold hearings on the issues."

Senate Majority Leader George J. Mitchell (D-Maine) told reporters that Senate Democrats discussed the idea of a special committee yesterday and unanimously opposed it on the grounds it was "unecessary and completely political."

Michel and Senate Minority Leader Robert J. Dole (R-Kan.) had recommended creation of a special committee to investigate Clinton's tangled ties to the failed Whitewater Corp. and a defunct Arkansas savings and loan institution.

Government investigators believe depositor funds from the failed Madison Guaranty Savings & Loan may have been diverted improperly to Clinton's 1984 gubernatorial campaign and to Whitewater Development Corp.

Whitewater was an Arkansas real estate venture owned by Clinton and his wife Hillary Rodham Clinton, and James McDougal, Madison's owner, and his then-wife, Susan McDougal.

U.N.: Bosnian Muslims Shorted on Aid

By John Pomfret
Washington Post Foreign Service

SARAJEVO, Bosnia, Jan. 25—A U.N. spokesman today confirmed claims by Bosnia's Muslim-led government that Bosnian Muslims receive less than one-third as much food aid per capita as Bosnian Croats and about two-thirds as much as Bosnian Serbs.

The confirmation, by Chris Janowski, a spokesman for the U.N. High Commissioner for Refugees in Sarajevo, was tantamount to an acknowledgment that there are serious problems with the U.N. operation to feed the Muslims, who are widely perceived to be the principal victims of Bosnia's 21-month-old war.

According to the Bosnian government, Bosnian Muslims receive from the United Nations an average of 6.4 pounds of food a month, Bosnian Serbs receive 9.5 pounds a month, and Bosnian Croats get 21.1 pounds a month. Janowski said the United Nations' target figure for each of Bosnia's needy is 37.4 pounds a month.

Janowski confirmed that the Bosnian government, which released its findings today, based its claims on figures provided by the U.N. refugee agency.

He said Bosnian Muslims were getting less food because in general they live in besieged areas. "You have checkpoints, you have problems, you need clearances," he said.

U.N. officials privately say that the only reason they send aid to Serb-held territories, where locally grown food is relatively plentiful, is to persuade the Serbs to allow some food into Muslim-controlled regions, which are in dire need of aid.

According to Janowski, some Muslim areas are facing severe shortages. The besieged pocket of Maglaj and Tesanj is getting no more than 10 percent of its needs. The Zenica area in central Bosnia received 21 percent to 22 percent of its requirements last month, and Gorazde, which has been surrounded by Serbs for more than a year, is getting less than half of what it needs.

THE NEW HEAD of the **Small Business Administration** is living up to his promise to pull in more business experience at the agency.

SBA administrator Erskine Bowles announced this month that he selected New York investment banker Robert D. Stillman to oversee the expansion of the SBA's Small Business Investment Company program.

SBICs, licensed and regulated by the SBA, are privately owned and managed investment firms that use their own capital plus funds secured through SBA guarantees to make venture capital investments in small businesses.

Stillman retired in 1992 as executive vice president, treasurer and director of the New York-based corporate buyout firm of AEA Investors. In his new job, Stillman will direct a major [illegible]ucturing of the SBIC program, including tightening regulatory oversight and opening it to investments by public pe[illegible]n funds and state and local governments.

40

Congress Ready to Revive Independent Counsel Law, and With It a Conflict

By ADAM CLYMER
Special to The New York Times

WASHINGTON, Jan. 25 — Congress is ready to re-enact the independent counsel law, which provides for judicially appointed prosecutors, even though many lawmakers readily acknowledge a fundamental conflict between such an inquiry and high-visibility Congressional investigations.

The law would provide that in cases involving about 50 senior officials in the executive branch a special panel of appellate judges may appoint a prosecutor who would operate independently of the Justice Department chain of command.

The old law lapsed in 1992 after Senate Republicans fought its extension, but a bill to restore the legislation with minor modifications is expected to be taken up in the House early next month and passed this year. The Senate passed the measure just before adjourning in November.

Lawrence E. Walsh, the independent counsel in the Iran-contra scandal, warned last week in his final report that when Congress grants witnesses immunity from prosecution for their testimony, that step, "at least in highly publicized cases, will likely rule out criminal prosecution."

Mr. Walsh's convictions of Oliver L. North and John M. Poindexter were overturned on appeal because the United States Court of Appeals here found that witnesses' testimony might have been tainted by the testimony given under immunity.

Congress acknowledges that conflict. Representative Lee H. Hamilton, the Indiana Democrat who oversaw the House half of the Iran-contra investigation, said he still believed it was correct to grant immunity, without which witnesses would not have testified, because "we regarded the constitutional and policy implications to be paramount." He insisted that an unfettered criminal investigation "would not have enabled us to understand the full factual record."

Senator William S. Cohen, Republican of Maine, a member of the Senate Iran-contra committee who earlier served on the House Judiciary Committee when it recommended impeachment proceedings against President Richard M. Nixon, said it was up to Congress to recognize the conflict in a "straightforward" manner.

If Congress felt that investigation and exposure were more important than prosecutions, Mr. Cohen said, it should not pretend that the country could have both.

Exposing the scandalous may undermine their prosecution.

In the Iran-contra case, Mr. Hamilton said, Congress felt that the prosecutions could survive the publicity, but it was wrong.

In his report, Mr. Walsh recalled being "at the mercy" of Congressional grants of immunity. But he said he had "never contended that Congress should refrain from granting immunity" in crucial matters.

Former Senator Warren B. Rudman of New Hampshire, the top Republican on the Senate Iran-contra committee, which granted immunity to Mr. North and Mr. Poindexter, said he had urged Mr. Walsh to move quickly with prosecutions for charges like obstruction of justice and destruction of documents before the Congressional hearings began in the summer of 1987.

But, Mr. Rudman added, Mr. Walsh invited his own ultimate difficulties by wanting to "bring down the entire Government."

Mr. Rudman said there was no way to avoid a repetition of the problem: "One of these days, maybe sooner rather than later, some story is going to break and Congress is going to investigate and a special prosecutor is going to be appointed and the whole question of immunity is going to come up again."

Mr. Rudman added: "Let's say it is determined that someone in the White House was selling plutonium to North Korea. A newspaper breaks the story. The Attorney General finds documents and the President says he didn't know anything about it. You think Congress is going to sit around two years and wait for a prosecutor?"

Urging Discretion on Immunity

James Hamilton, a Washington lawyer who was an assistant counsel to the Senate Watergate Committee, said that one lesson to be drawn was that in future investigations Congress "has got to be judicious in whom they give immunity to."

Mr. Hamilton, author of "The Power to Probe" a 1976 book examining Congressional investigations, said that such discretion had been practiced before. He noted that when the Senate Ethics Committee investigated members who had worked with Charles H. Keating Jr., the savings and loan operator, the committee decided against giving Mr. Keating immunity and did without his testimony rather than compromise his trial. But, he said, the panel did obtain other testimony by giving immunity to a Keating aide.

The legislation expected to pass this year would be largely a re-enactment of the old law, first passed during the Carter Administration. Under the measure, the Attorney General can ask a special panel of appellate judges to appoint a prosecutor if the Attorney General finds "credible evidence" that a crime has been committed by a senior Government official.

A majority of either Republican or Democratic members of either the House or Senate Judiciary Committees can request the Attorney General to ask for the appointment. The Attorney General does not have to accede to the request but must explain the refusal..

The Senate version of the bill proposes one major change in the law arising out of criticism of Mr. Walsh's performance, in particular his descriptions of the activities of President Ronald Reagan and Vice President George Bush, who were never indicted. The old law required a prosecutor to explain why cases had not been brought against those who had been investigated and not charged.

At the insistence of Senator Bob Dole of Kansas, the Republican leader, the Senate bill no longer requires such an explanation, although it would permit a counsel who wanted to lay out his unprosecuted cases to do so under the law's requirement that he describe the business of his office.

That change is the major stumbling block to prompt House action on the new bill. Leaders there are discussing whether to accept it and pass the Senate version or to resist it and go to a House-Senate conference.

**Traveling?
Check the weather . . .
from Albany to Acapulco.
The New York Times**

...os... ...ing abo... c'me is always easier than doing something

Crime, rumors from the Outback say, is the biggest issue on the minds of Americans, and late last year congressmen were busy little beavers pretending to do something about it. The "it" was not crime itself but the fear of crime, and hence most of what Congress did and most of what it is about to do, now that it's back from what congressmen regard as the Christmas vacation due them, is flapdoodle, intended to make voters think their representatives are doing something of substance when in fact they've done nothing of the kind.



Samuel Francis

Among the bills passed by the House were a law to prevent minors from having handguns, a law to push states to pass tougher laws against men who beat up women, a law to make criminals convicted of crimes against children register their addresses with the cops for 10 years, a law to outlaw parents from kidnapping their own children and a law to reauthorize the office of drug czar for another year. You're probably feeling safer already.

Nor was the Senate a sluggard in the enactment of its own meaningless anti-crime laws. With the House, it passed the much-tooted Brady Bill and, all by itself, increased the penalties for "hate crimes" and created about 50 new federal capital offenses. The latter sounds tough, but most of the new death penalty crimes involve killing federal officials, most will probably never be enforced even if signed into law and, in so far as they're meaningful, represent an ill-considered effort to take over capital punishment from the states and give it to the federal government. Fear of crime or not, this really is not a good idea.

Samuel Francis, a columnist for The Washington Times, is nationally syndicated. His column appears here Tuesday and Friday.

The action for the coming year probably will consist of each chamber grousing about the other one as they try to reconcile the contradictory measures they've passed. One grouse ought to be over the House measure to create 50,000 new police officers (the Senate voted to create 100,000), as President Clinton has been vowing to do ever since his presidential campaign.

More cops will not help control crime. Cops merely arrest criminals. They have nothing to do with trying criminals, punishing criminals or keeping criminals in jail. Of course, if you want to "saturate" the country with cops, that might control crime, but most of us wouldn't like the results. North Korea has police saturation, and it has no crime problem.

More cops in this country, as I have suggested before, will mean mainly more speed traps, and since a number of studies have shown that 7 percent of criminals commit some 70 percent of the crimes, the key to controlling crime is not more cops to bust crooks who have already been busted once or more and then released but to stop their release in the first place. That means abolishing or severely limiting parole, plea bargains and easy bail.

Recent figures from Virginia's prison system (probably similar to those of other high-crime states) show the problem. The average sentence received for first-degree murder in the Old Dominion is a whopping 35.9 years. The average time served by those convicted of it is a mere 11.1 years. For armed robbery, the average sentence received is 11.8 years, but the average sentence served is a ...ninth 5.6 years.

And so on. For second-degree murder, armed robbery, voluntary manslaughter and burglary, the actual sentence served is typically about a third of the sentence handed down, while for rape and sodomy, the time served is less than one half the sentence imposed. Hiring 50,000 or 50 million more cops will do nothing to keep known violent criminals away from the law-abiding. Relying on more cops to control criminals whom the courts then release is the penological equivalent of professional wrestling.

There's now a good deal of talk about "three-time loser" laws under which people convicted of three violent crimes will get life sentences. That's swell, but if lawmakers, state or federal, really want to get tough with crime, one thing they can do is impose and actually inflict capital punishment more often. There were a mere 157 executions in the United States between 1977 and 1991, but nearly 25,000 murders and non-negligent manslaughters in 1991 alone. Lawmakers not only ought to require the death penalty for Murder One but also impose it for rape and at least second offenses of armed robbery. They could also limit death-penalty appeals, as Chief Justice William Rehnquist has, long advocated. Attempts to do so in the Senate last year were abandoned in the face of liberal opposition.

Figuring out how to deal with criminals is really not a toughie, and most societies, ancient or modern, have never had a problem with it.

Figuring out how to deal with criminals is really not a toughie, and most societies, ancient or modern, have never had a problem with it. We do have a problem, but it's not the criminals. It's the characters who make laws that do nothing for real public safety. Figuring out how to solve that problem is somewhat tougher than punishing the criminals the lawmakers refuse to punish.

...he ...gh ...ir ...de...e ...co...nsel ...aw

By Henry J. Hyde

Prodded by congressional Republicans, the power of the press has triumphed again. It was a barrage of critical newspaper editorials, following the lead of The Washington Times, that finally forced President Clinton to accept appointment of a special counsel to investigate the Whitewater affair.

So much for Attorney General Janet Reno's excuse for inaction: that anyone she named would not be sufficiently independent, inasmuch as that person could be removed at any time. She can rest assured that public opinion will prevent official interference with Robert Fiske, the counsel she appointed to explore Whitewater and other of the administration's current embarrassments.

As Congress gets back to business, no one should be surprised if House Democrats belatedly jump aboard the bandwagon of good government by hurrying to the floor a reauthorization of the independent counsel statute, which lapsed over a year ago. And we should be even less surprised if they attempt to use the Whitewater mess to justify a procedural fast-shuffle that would prevent consideration of any Republican amendments.

Anyone who thinks that script is unlikely could not be familiar with the peculiar history of the Independent Counsel bill. It was voted out of the House Judiciary Committee on March 23, 1993, 10 months ago. Then the Democrat leadership slammed on the brakes.

Their stalling may have had something to do with the amendments I and other Republicans hoped to offer on the House floor — in general, the same proposals summarily rejected, by party-line votes, in the committee. One amendment would rein in runaway spending by independent counsels, so the taxpayers will not have to pay for any more $40 million escapades like Lawrence Walsh's Iran-Contra fiasco. Another would prevent those counsels from turning a temporary assignment into a career. Others would safeguard classified information in their custody, prevent prosecutorial fishing expeditions and guarantee financial fairness to innocent persons and due process to all.

Henry J. Hyde is chairman of the House Republican Policy Committee and a member of the House Judiciary Committee.

Then there was the Republican amendment explicitly applying all provisions of the law to — members of Congress. Get the picture?

So nothing was done. In the interim came the Ron Brown/Vietnam affair, Travelgate, improper handling of State Department personnel files and now Whitewater and attendant concerns. Let's assume everyone is innocent; but for Whitewater alone, the list of Clinton-related public officials who need to be scrutinized already includes a president, a first lady, a governor, a former senator, the third-ranking person in the Justice Department, an assistant attorney general, and several senior White House aides.

For weeks, the administration's response was to deflect attention, blur the issue, and find someone else to blame. One audacious presidential spokesman went so far as to claim that Republicans had always opposed the independent counsel law and now were supporting its reauthorization for "some perceived political advantage."

Well, this Republican, for one, has supported the law since I voted for its enactment in 1978, when the high-ranking White House aide quoted above was 17 years old. Then, the commendable purpose of the act was to establish procedures for investigating possible misconduct by officials in order to justify public confidence in the integrity of government. But the expired statute, lacking constraints on costs and time, became a vehicle for abuses of power that mocked justice instead of advancing it.

That's why congressional Republicans want to reauthorize the independent counsel law — but with the caveat that it be genuinely reformed. That's why we offered all those amendments in committee last March. That's why, with the full support of the House Republican leadership, I've now incorporated our amendments into one alternative bill: The Independent Counsel Accountability and Reform Act.

Under today's circumstances, the most partisan course for House Republicans would be to support the Democrats' bare-bones version of the independent counsel reauthorization. In short, business as usual. Then we could watch from the sidelines as one after another administration official is crushed by this institutional juggernaut. We don't want to do that. For the integrity of our legal system, we want to secure the kind of reforms that could spare administration officials the legal and financial torture suffered by their predecessors in the Reagan and Bush administrations.

For instance, only the Republican bill deals with the "Energizer Bunny Syndrome" — the tendency of independent counsels to keep their investigations going forever — by providing that the supervising court can decide when the work is substantially completed or no longer in the public interest. Moreover, at a time when the public is demanding budgetary restraint and fiscal discipline from Washington, only our bill subjects each independent counsel to the annual appropriations process and imposes reasonable restrictions on travel and per diem expenses. Surely, that is not too much of a sacrifice to ask of persons who are supposed to be seeking the truth of a matter.

Far more important, under the Republican bill, an independent counsel would not be able to violate the guidelines for due process applicable to all other federal prosecutors; he would be bound by law to obey the rules. Our bill also, as a matter of simple fairness, allows persons who are acquitted of wrongdoing to recover their attorney's fees. That means future independent counsels would not be able to deliberately force a person into bankruptcy in order to obtain a plea bargain or "cooperative" testimony.

If President Clinton and his appointees do not think such things could happen to them, they should call Cap Weinberger. Or Ed Meese. Or Elliott Abrams. And then they might call their Democrat friends in Congress and urge them — only for the sake of justice, of course — to pass the Hyde substitute as soon as possible.

The Washington Times TUESDAY JANUARY 25, 1994

With Political Connections, Arkansas S&L Lived and Died

By Susan Schmidt
and Marilyn W. Thompson
Washington Post Staff Writers

A1

With flamboyant investments and risky lending, Madison Guaranty had transformed itself by 1985 into one of Arkansas' largest and most politically connected savings and loans.

Madison's owner, James McDougal, had attracted as customers the cream of the state's Democratic establishment. McDougal, along with his then-wife Susan, also was in a business venture with then-Gov. Bill Clinton and his wife, Hillary, whose land development corporation, known as Whitewater, kept a checking account at Madison.

But as 1985 began, a roadblock stood in Madison's path. Federal examiners scrutinizing Madison's books had discovered poorly kept records, loans made without proper documentation and real estate investments of questionable value involving its own officers, investors and their friends. Madison was perilously overextended by financing projects like a seashore development on Canada's rocky coast without first receiving the required approval of state regulators for a foreign investment.

Among Madison's many large loans during that period were several to finance an ambitious trailer home and industrial park project 10 miles south of Little Rock. Borrowers included McDougal's onetime boss, the venerable former Democratic senator J. William Fulbright, and McDougal's friend, Jim Guy Tucker, then a lawyer for Madison who now serves as Arkansas governor.

Federal examiners concluded in a 1984 confidential report sent to Arkansas regulators that, while the institution was still solvent, its "viability" was threatened by its "unsafe and unsound" business practices. And they warned McDougal and his board that unless Madison's weak management was strengthened and $3 million in new capital was raised by 1986, when examiners would return, the federal government would begin action to close it down.

So began a period of scrambling by

MADISON, From A1

McDougal to save an S&L that under his ownership had applied the neighborly ways of Arkansas life to the principles of high finance. A banker who lent millions with little more than a handshake and kept details of intricate deals mostly in his head, McDougal first hired as a Madison vice president the federal examiner, Sarah Worsham Hawkins, who had prepared the critical report. Then he turned to the state of Arkansas for help.

Rose Law Firm Is Hired

He hired Hillary Rodham Clinton and her influential law firm to push a series of proposals before Clinton administration regulators. Madison won state approval to sell preferred stock and to market limited partnerships in its shaky real estate projects, plans that eventually fell through.

McDougal's appeals for state regulatory exceptions helped him stay in control of Madison for another year, while excessive lending and insider transactions continued. He was removed by Madison's board in mid-1986 under pressure from federal regulators. During McDougal's three years as owner, the institution with $6 million in deposits and a tiny loan portfolio had mushroomed in size, to deposits of $123 million. Loans to officers, directors and related parties had swelled from $500,000 to $17 million. Most of that money was never repaid.

The confluence of events in 1985, when McDougal strengthened his already close business and political ties to the Clintons, drew the attention of investigators from the Resolution Trust Corp. when they began untangling the affairs of Madison, which failed in 1989 at an estimated taxpayer cost of up to $60 million. Whether Madison received favorable treatment from regulators—adding substantially to the costs of its eventual shutdown—is among the questions that will be examined by newly appointed special counsel Robert B. Fiske Jr.

Fiske's Investigation

Fiske plans to begin work in Little Rock today on a broad investigation of Madison, the Whitewater real estate venture and a federally backed loan that was partly used by Whitewater to purchase land. The White House has said Clinton was not involved in discussions about the loan. A former municipal judge indicted in connection with that loan has charged that his small business investment company made a $300,000 loan to McDougal's wife under pressure from McDougal and the governor. Fiske also intends to examine whether the July suicide of deputy White House counsel Vincent Foster, who handled the Clintons' personal legal affairs, had any connection to these events.

In April 1985, as he began preparing plans to raise money by selling Madison stock, McDougal began paying Hillary Clinton's law firm $2,000 a month for its services representing the S&L in negotiations with the state Securities Commission. Citing an independent audit that later proved to be filled with misrepresentations, the firm won quick approval for a preferred stock plan never before tried by an Arkansas S&L.

McDougal said later he decided to hire Hillary Clinton and the Rose Law Firm of Little Rock after then-Gov. Bill Clinton jogged by Madison's office one day and dropped in to complain about money, asking if the banker could drum up some business for his wife. The Clintons that year earned $102,492, with Hillary Clinton's Rose firm salary accounting for $55,382, tax returns show.

Hillary Clinton, in an interview last year, described her legal work for Madison in 1985 as limited and said she almost never did work before state officials appointed by her husband.

"I have tried to avoid such involvement and cannot recall any instance other than the Madison Guaranty matter in which I had any involvement, and my involvement there was minimal," she said.

Securities Commissioner

However, McDougal's stock plan required the approval of state Securities Commissioner Beverly Bassett Schaffer, a longtime friend of the Clintons and a political supporter. Clinton had named her to the job, which carried responsibility for overseeing S&Ls and answered to the six-person state S&L board, on Jan. 16, 1985.

Schaffer also was intimately familiar with some of Madison's troubles. As a private lawyer, she had worked for Madison's principal law firm along with Jim Guy Tucker. She wrote a lengthy memo to McDougal's attention warning Madison that its installment real estate sale at the seashore development in Canada was operating in violation of the Interstate Sales Act. Schaffer, whose brother was a key Clinton campaign backer, has said she has never met McDougal and her appointment to the state job had nothing to do with Madison.

Primarily in charge of pushing the S&L's case were young R Law Firm associate Richard Massey and his college friend John Latham, the chief executive officer of Madison. Latham attended a series of meetings with regulators on Madison's behalf to negotiate details of the stock proposal. Weeks earlier, in March 1985, Gov. Clinton had given Latham influence over S&L regulation with an appointment to the state S&L board. As one of five Clinton appointees, Latham helped oversee the state S&L agency and ruled on contested regulatory issues.

Clinton appointed Latham, who eventually became chairman of the state board, although federal regulators had criticized him and other inexperienced Madison managers in the 1984 report. Latham pleaded guilty in 1989 to falsifying Madison records and turned government witness in a federal bank fraud case brought against McDougal for some of his real estate dealings. McDougal was acquitted in the case.

A Precedent-Setting Plan

The stock proposal submitted by the Rose firm was precedent-setting. Though federally chartered institutions were permitted to sell preferred stock, Arkansas S&Ls had never tried such a plan, and there was some question initially about whether state S&L laws would allow it.

Presented on April 30, 1985, the stock plan met with immediate skepticism among some regulators who were familiar with Madison's

MONDAY, JANUARY 24, 1994 THE WASHINGTON POST

12

23

CHRONOLOGY OF AN S&L

1978
Arkansas Attorney General Bill Clinton, Hillary Rodham Clinton and friends James and Susan McDougal borrow $203,000 to purchase 230 acres for development called Whitewater Estates.



The Clintons in 1978

1982
McDougal buys a rural savings and loan that has $6 million in deposits and renames it Madison Guaranty. Within three years deposits grow to $123 million.

1984
A federal examination warns Madison to strengthen management and raise $3 million in new capital by 1986 or face federal action to close the savings and loan. McDougal then hires the federal examiner as a Madison vice president.

1985
Jan. 16: Gov. Clinton appoints longtime friend and political supporter Beverly Bassett Schaffer state securities commissioner. Schaffer reports to Arkansas' six-person Savings & Loan board.

March: Clinton appoints John Latham, Madison Guaranty's chief executive officer, to the state S&L board

April: McDougal and Hillary Clinton formalize the Rose law firm's representation of Madison proposals before the state Securities Commission.

April 3: Calling it a "loan repayment," McDougal withdraws about $30,000 from the Whitewater account at Madison, creating an overdraft in that amount.

April 4: McDougal raises $30,000 to retire Clinton's gubernatorial campaign debt at a fund-raiser held in Madison Guaranty's main lobby.

April 17: Madison's real estate subsidiary deposits a $30,000 yearly "bonus" to McDougal in the Whitewater account, bringing the account into balance.

April 30: Madison submits plan to raise required capital by issuing preferred stock. Regulators are skeptical.

May 6: A state regulator assigned to monitor Madison asks Commissioner Schaffer to seek a legal opinion before acting on Madison's proposal.

May 14: Schaffer informs Hillary Clinton that Madison's plan was approved, accepting the Rose firm's legal analysis that the stock issuance will solve Madison's problems.


McDougal in 1982

1986
Federal officials issue another scathing report on Madison and, later in year, McDougal is removed by the thrift's board under federal pressure.

1989
Madison Guaranty fails, costing taxpayers up to $60 million.

THE WASHINGTON POST

shaky financial condition.

"The question was: Can they and how could they sell stock in a failing institution? Who would want to buy it?" recalled Charles Handley, a state regulator assigned to monitor Madison. Concerned about the stock sale's far-reaching legal implications, Handley alerted Schaffer on May 6 and recommended they seek a legal opinion before acting on the proposal. No independent legal opinion was sought, however.

'Dear Hillary'

Eight days later, in a brief letter that began "Dear Hillary," Schaffer wrote that she accepted the Rose firm's legal analysis and would allow the stock plan to go through.

Handley says now he does not believe that Hillary Clinton exerted political influence in the matter. He said he did not know until late in the process that the governor's wife was involved and "if we had it to do over again, everyone should have known that going in."

He said Schaffer addressed her approval letter to Hillary Clinton because they were close friends. But he said she felt strongly that the Rose firm made a convincing legal case. "Beverly is a lawyer," he said, "and she was also the boss."

Despite winning permission to sell stock, the S&L was unable to generate sufficient interest among investors to sell any, state officials say. Other plans pushed by the Rose firm to market Madison securities and sell limited real estate partnerships also fell through.

During the same period Madison was seeking help from regulators appointed by the governor, McDougal agreed to a request from Clinton that he help retire a 1984 campaign debt. Sources said federal investigators have been examining a series of Madison cashier's checks made out to Clinton or his gubernatorial campaign that were generated at an April 4, 1985, McDougal-sponsored fund-raiser for Clinton in Madison's lobby. Clinton used the $30,000 in proceeds to help repay a personal loan from the Bank of Cherry Valley that he took out in the final days of the 1984 campaign.

Clinton Records Sought

A Madison director's son whose name is on one of the cashier's checks said recently he never made any such donation. Justice Department investigators have begun subpoenaing records from Clinton's gubernatorial campaigns as well as records from the Cherry Valley bank. They are looking into whether some of the money was illegally diverted from Madison accounts controlled by McDougal.

McDougal has said he has no knowledge of improper contributions and former Clinton aide Betsey Wright, who picked up the money raised at the Madison fund-raiser, says the governor did not attend the event and would have no knowledge of irregular contributions.

FBI Is Alerted

The RTC has also alerted the FBI to the activities of the Whitewater checking account at Madison, which fluctuated wildly during the mid-1980s and showed numerous transactions that have no apparent relation to the Ozarks real estate venture, sources say. Whitewater maintained its principal business account at another bank.

The Clintons have said they were only passive investors in the land development company, which they formed with McDougal and his wife in 1978 after borrowing more than $200,000 to finance the purchase of Ozarks property. Clinton was Arkansas attorney general at the time.

Though they say the investment was a failure in which they lost $68,900, the Clintons remained as partners in the corporation throughout McDougal's legal troubles in the late 1980s and the failure of his banking and business enterprises. Clinton's state banking commissioner has said he warned the governor in 1983 that McDougal's activities at another bank he owned, the Bank of Kingston, could run afoul of the law. Hillary Clinton was a Bank of Kingston borrower whose loan was refinanced at another state bank soon after Clinton received the warning.

Account Often Overdrawn

The Whitewater account at Madison was often overdrawn, then brought back into balance with large deposits from other businesses, many of them believed to be shell corporations controlled by McDougal, sources say.

The day before McDougal held the 1985 Clinton fund-raiser, for example, records show that he withdrew $30,000 from Whitewater's checking account at Madison, causing an overdraft of about that amount. Written on the check was the notation "loan repayment," though sources said there were no records indicating McDougal had ever made such a loan to Whitewater.

A few weeks later, on April 17, sources said, the Whitewater account was brought back into balance when Madison's real estate subsidiary deposited $30,000 in it. The payment was described in bank records as part of a yearly "bonus" to McDougal, but it is not clear why the money was placed in Whitewater's account.

The FBI also has subpoenaed records of the former Bank of Cherry Valley, where Whitewater a loan and Clinton also did personal business. Sources familiar with Madison records said that about $15,000 in checks from the Whitewater account were sent to the Bank of Cherry Valley in late 1984 and early 1985, with written notations suggesting that they were used to make payments on two separate loans.

Records Unavailable

Maurice Smith, a finance official for Clinton's gubernatorial campaign who owned the bank, said records on loan accounts during that time period are no longer available.

The Clintons last year ended their Whitewater investment by selling stock back to McDougal for $1,000. Tax records show they have not claimed the $68,900 they say they lost in the venture, which they say was because they tried to be cautious in filing their returns.

McDougal said recently he does not know how the Clintons could have lost what they say they : in the venture. He says he does not recall them putting more than $9,000 into the corporation.

The federal government t to reclaim some of its losses in the Madison affair in 1989 by suing Madison's auditors, Frost & Co., for misrepresenting the S&L's financial condition. The Frost firm worked with the Rose Law Firm in seeking state approval of Madison's stock plan in 1985.

Not realizing the Rose firm did legal work for the thrift in 1985, the Federal Deposit Insurance Corp. hired Rose lawyer Webster Hubbell to represent the government's interest. The case was settled out of court for $1 million; the Rose firm made $400,000 in legal fees.

Hubbell, who followed Clinton to Washington and is now associate attorney general, has recused himself from the criminal investigation of Madison's affairs, which has focused partly on business dealings involving his father-in-law, an employee of Madison's real estate subsidiary. The FDIC is conducting an internal inquiry into how the Rose firm came to be hired.

2/2

MONDAY, JANUARY 24, 1994 THE WASHINGTON POST

24

How Bad Is It?

Whitewater: Clinton denies any impropriety in his land deal—but the investigation is only beginning, and there are many unanswered questions

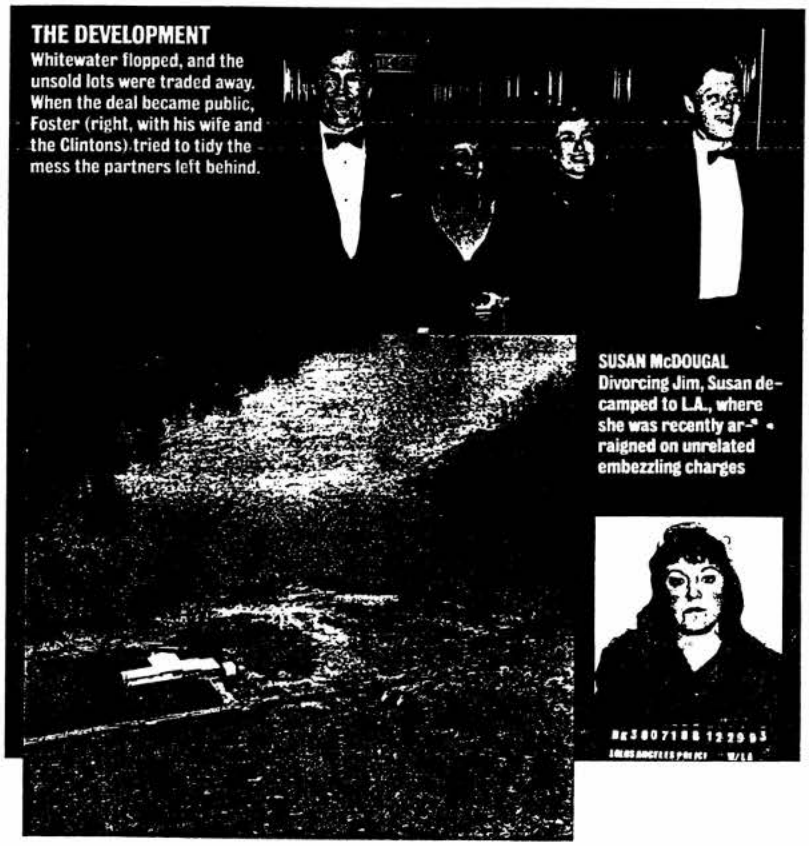
HERE WE GO AGAIN. IN YET ANOTHER example of the Beltway's taste for murky melodrama, a sitting president is being drawn into what would seem to be a major scandal. Remember Watergate, Iran-contra and BCCI? Anyone for another October Surprise? Round up the witnesses, cue the special prosecutor.

It is probably inevitable that the word "Whitewater," which refers to a picayune and almost comically unsuccessful Ozarks real-estate development that involved Bill and Hillary Clinton, is now being transformed into "Whitewatergate." This is something to set the journalistic pack howling and, probably, generate gobs of legal fees. It is also a moment of gleeful opportunity for the Other Party, and some Republicans have actually started muttering about impeachment. What did he know and when did he know it—and what, by the way, about *her*? Specifically, did the president of the United States or his wife engage in any kind of criminal behavior? Did they profit by others' losses, act improperly, abuse the public trust, cross some ethical line? Broadly (and resentfully) the Clintons say no, and the press and public cannot know otherwise now. But the devil is always in the details, and Whitewatergate has lots of them—murry, complicated, nutball details that imply wrongdoing by *somebody*. And there's tragedy—the unexplained suicide of White House Deputy Counsel Vincent Foster last July. If Foster, who among other duties had handled the Clintons' file on Whitewater, killed himself because of some connection to the investigation, Whitewatergate must be serious indeed. But there is no evidence so far that Whitewater precipitated Foster's suicide—and none whatever that the Clintons did anything seriously wrong

Who is James McDougal?

YOU CAN'T UNDERSTAND WHITEWATER without understanding Little Rock in the roaring '80s. These were good times in this clubby, tightly wired political town. The deregulation of the U.S. savings and loan industry, combined with a local boom in the bond-peddling business, kept the banks and lawyers jumping. Some people got very rich very quickly—and one of those who did, and did it with brio, was James McDougal, a smart, politically connected guy who had early on befriended William Jefferson Clinton and his lawyer wife, Hillary. McDougal had briefly served on Clinton's staff when Bill was first elected governor of Arkansas, and then left state government to pursue a fortune in banking when Bill lost the election of 1980.

During Clinton's first term as governor, McDougal acquired a small bank in northeastern Arkansas and in 1982 bought controlling interest in a mom-and-pop savings and loan called Madison Guaranty. Over the next three years, Madison Guaranty became the springboard to financial success for McDougal and his wife, Susan; in 1986, due to intensifying pressure from federal regulators, it also became his downfall. In 1989 Madison Guaranty did a $47 million belly-flop into the arms of the Resolution Trust Corp., the federal agency created to manage the S&L crisis, and McDougal was prosecuted in federal court



THE DEVELOPMENT
Whitewater flopped, and the unsold lots were traded away. When the deal became public, Foster (right, with his wife and the Clintons) tried to tidy the mess the partners left behind.

SUSAN McDOUGAL
Divorcing Jim, Susan decamped to L.A., where she was recently arraigned on unrelated embezzling charges

CLOCKWISE FROM TOP LEFT: ARKANSAS DEMOCRAT-GAZETTE; [illegible]; LAPD; J. ROSS/JONES



THE BANK
Madison went from sleepy savings and loan to overheated financial engine to shuttered failure, despite regulators' repeated warnings; owner McDougal (right)

WEBSTER HUBBELL
Despite connections to Madison, Hubbell (above) ran Justice during a critical phase of the inquiry

for his part in the debacle. He was acquitted in 1990, but by then he and Susan had separated. He went back to southern Arkansas, and she moved on to the West Coast and a financial dispute with Zubin Mehta, the distinguished classical conductor. McDougal, who suffers from manic episodes, is in tough shape psychologically and nearly broke today. Susan McDougal is now being sued by Mehta and his wife for allegedly embezzling $188,000, a charge which she has denied.

What's Whitewater?

BILL AND HILLARY BECAME EQUAL partners with James McDougal and his wife, Susan, in Whitewater Development Corp. in 1978—though the Clintons never invested as much as the McDougals did. Whitewater was an attempt to build down-market retirement and vacation homes on 230 acres of land along the White River in northern Arkansas. Shakily financed and indifferently managed, the venture never really clicked, and the Clintons say they lost $68,900 before they sold their stake back to McDougal (for a lousy $1,000) in 1992. But it was hard to tell where Whitewater ended and Madison Guaranty began, and investigators are still trying to determine whether the partnership played any significant role in the collapse of the S&L. The answer, on the basis of thousands of pages of regulatory records released by Arkansas officials last week, is no. Whitewater was never more than a small part of McDougal's wobbly empire, and the bank regulators rarely if ever mentioned it in their reports on Madison Guaranty. By 1985, when the Whitewater venture had played out, McDougal apparently traded the remaining land for part-time use of a two-engine Piper Seminole. Like many of McDougal's affairs, this deal was weirdly complicated—but he seems to have traded away the Clintons' interest along with his own.

What was the Clintons' role?

LET'S MOVE ON. ONE OF THE QUESTIONS that concerns investigators and editorial writers now is whether Clinton or his wife, during their years in the governor's mansion, did anything to help their old friend McDougal keep Madison Guaranty afloat. After all, Bill as governor was in a perfect position to keep state regulators off McDougal's back, and Hillary as a partner in the Rose Law Firm, that bastion of the Arkansas legal establishment, was in a great position to help. Although the Clintons again say no, the answers are less certain here. It is a fact that Hillary in 1985 represented Madison Guaranty in a successful attempt to persuade state officials to let the thrift raise cash by selling preferred stock. This was at a time when McDougal was trying to keep state and federal regulators at bay. It is also a fact that Madison Guaranty paid the Rose Law Firm a $2,000-a-month advance against services to be performed, and that McDougal has told reporters he hired the firm after Bill complained about the state of the Clintons' finances. McDougal said last week he regarded the bank's relationship with the Rose firm as "giving a friend's wife some work." Asked whether the arrangement might not have been inappropriate, he said, "I'm not teaching ethics this semester."

Worse yet, Beverly Bassett, a protegé of Bill's who was then serving as the Arkansas commissioner of securities, approved the concept of the stock plan in a "Dear Hillary" letter that suggests cozy familiarity. Here is a state regulator—an appointee of the governor—telling the governor's wife that their friend McDougal could use a novel approach to raise cash for his troubled thrift. State records include a handwritten note to Bassett from a subordinate questioning whether Arkansas law allowed thrifts to sell preferred stock to the public. Bassett overrode the question, but in an interview with NEWSWEEK she said the staff finally concurred in her decision to permit the stock offering.

The stock sale never happened, and Bassett claimed she did not know at the time that the Clintons and the McDougals were partners in Whitewater. More broadly, says Bruce Lindsey, one of Clinton's senior advisers, "there is no evidence that [Bassett] did anything that could be considered going easy on Madison."

Did other regulators—state or federal—go easy on Madison Guaranty? The emerging record of state and federal regulators' attempts to crack down on Madison Guaranty is replete with critical findings on insider loans and underestimated liabilities, and it will take months to sort out all the allegations. But since there were hundreds of troubled S&Ls all across the country at that time, and since it took three years for Madison Guaranty to fail, the questions about the regulators' conduct at this point

seem to involve issues of judgment, timing and tactics, rather than favoritism or impropriety. This is Lindsey's argument. Bassett, he says, was seriously concerned about Madison Guaranty in 1986 and was working to arrange a takeover by FSLIC, the Federal Savings and Loan Insurance Corporation. That way, he says, customers could more quickly recoup their losses from federal deposit insurance than if the regulators simply waited for the bank to collapse. "She was just trying to protect depositors," Lindsey said.

The stickier issue is whether Hillary, by agreeing to represent Madison Guaranty, was implicitly trading on her relationship with Bill. How could Bassett not be influenced by the intervention of her boss's wife? Lindsey says "Hillary's involvement was not significant" and says he does not think "there was any conflict or anything improper" in her conduct. Besides, Lindsey says, nothing ever happened with the stock plan. The bottom line here, it would seem, is an issue of legal ethics rather than some violation of law—and Little Rock, with its tightly interconnected legal and political elites, looks at ethics somewhat differently from the way it's taught in law school.

Were funds diverted?

BUT THE INFERNAL DETAILS KEEP ON coming. One involves a 1985 political fund raiser at Madison Guaranty's office in Little Rock. McDougal staged the party as a favor to Bill Clinton, who was trying to pay down debts from his 1984 gubernatorial campaign. It netted $30,000, including $12,000 in checks from Madison Guaranty. According to news accounts, investigators are still trying to determine whether any of that money came from an estimated $250,000 in business loans that regulators suspected were improperly diverted from the bank. McDougal has denied wrongdoing, and Lindsey said that Clinton could not know where the money came from.

Then there's the case of David Hale, a former municipal judge in Little Rock who started an investment firm of his own. Hale's company specialized in writing loans for the disadvantaged that were guaranteed by the Small Business Administration, and he was indicted by a federal grand jury in Little Rock last year for allegedly defrauding the SBA. In 1986 Hale's company loaned $300,000 to a company called Master Marketing, whose president was Susan McDougal. Jim McDougal admits some of the money went to a land deal involving Whitewater, but the Clintons say they never knew about it. Hale, who is awaiting trial on the unrelated SBA case, has tried to negotiate a plea with federal prosecutors by offering testimony on McDougal's financial machinations. He says he loaned the money to Susan McDougal after Bill Clinton personally asked him to help. Clinton denies this—and it is only fair to point out that Hale has an ax to grind.

What did Foster know?

McDOUGAL WAS FORCED OUT OF MADison Guaranty in 1986, and RTC took over the bank three years later. The Feds had another failed thrift with a portfolio of overvalued assets and the taxpayers, as usual, were left holding the bag. Another strange wrinkle appeared during the mopping-up, and it involved two more FOBs—Vincent Foster and Webster Hubbell, both partners in the Rose Law Firm. This episode began when the Federal Deposit Insurance Corporation decided to sue an accounting firm, Frost & Co., which had audited Madison Guaranty. Foster wrote FDIC to solicit business, and Rose wound up representing FDIC in the suit against Frost & Co. Webb Hubbell, who migrated to Washington with his friend Bill and is now the number-three man at Justice under Attorney General Janet Reno, handled t case for the FDIC—despite the fact th Hubbell's father-in-law had been an exec tive with a Madison Guaranty subsidia and had extensive dealings with the bank

Hubbell says he informed FDIC of t potential conflict of interest. The suit w settled for $1 million, far less than the $ million the FDIC hoped to collect fro Frost. Hubbell has disqualified himse from the Justice Department s ongoing i vestigation of the Madis Guaranty scandal. So has t U.S. attorney in Little Roc Paula Casey, who is a forme law-school student of Clinton'

Which brings us to th saddest and most mystifying e ement in the Whitewater imbr glio—Vince Foster's suicid Foster shot himself on July 2 in a deserted park across th Potomac River from Washing ton: no one really knows wh But he was the keeper c the Clintons' Whitewater file and he probably knew that th Madison Guaranty investiga tion was gathering momentum In fact, RTC examiners were pushing the Justice Departmen to open a criminal investigation of the bank's collapse, and the FBI obtained a warrant to search David Hale's Little Rock office for evidence on the day Foster killed himself. There may be no connection: White House officials say that Foster didn't know about the FBI's planned raid.

White House Counsel Bernie Nussbaum found the Whitewater file in Foster's office two days later and sent it to Williams and Connolly, the law firm that represents the Clinton family. On Christmas Eve the file was subpoenaed by a federal grand jury. Does it contain a smoking gun? Probably not. Lindsey and other White House aides maintain that Bill and Hillary never had much documentation for their disappointing joint venture with McDougal, and McDougal says the records of his dealings with the Clintons exist entirely in his head. Still, the wheels of justice have begun to turn and may lead to the appointment of a special prosecutor in the months to come. For better or worse, the Whitewater story is only beginning—and how it is handled could be just as dangerous to Clinton as the facts of the tangled case.

—MARK HOSENBALL in *Little Rock*, AMY BORRUS in Washington and TOM MORGANTHAU in New York

FOLLOW THE FILES

Deep Throat's dictum was, "Follow the money." But with Whitewater, it's the documents:



1987: The McDougals say they sent all the Whitewater files to the Clintons, who don't recall asking for or receiving them. A year later, Hillary asks for power of attorney to manage Whitewater.

Fall 1991: Betsey Wright stores many Clinton business papers in vault at campaign headquarters.

July 22, 1993: Two days after the suicide of Foster (above), Bernard Nussbaum ships Whitewater files from Foster's office to Clinton lawyers.

December 1993: Clinton agrees to turn over Foster's files "voluntarily," even as a subpoena is being prepared.

Jan. 2–3, 1994: White House aides say they've turned over the files. The next day, they confess it will be a "couple of weeks."

Jan. 5, 1994: The files, it is revealed, have been subpoenaed—and therefore are sealed.

Whitewater probe grows to include state agency

Records combed for ties to failed Arkansas S&L

By Jerry Seper
THE WASHINGTON TIMES

A1

Federal investigators looking into the tangled Whitewater-Madison affair have expanded their probe to include a search of state records for ties between a failed Arkansas S&L and a state agency that awarded millions of dollars in tax-exempt bonds, The Washington Times has learned.

Of special interest to investigators is the insistence by senior state officials answering to Gov. Bill Clinton that the Arkansas Development Finance Authority (ADFA) not locate in Little Rock's financial district, as ADFA officials had sought, but move into a building owned by Madison Guaranty Savings and Loan Association outside the downtown area.

ADFA executives had vigorously opposed this, but the state officials required them to lease the space from James B. McDougal, the S&L's owner and Bill and Hillary Clinton's partner in Whitewater Development Corp. This was done at a cost of more than $5,300 a month for nearly two years.

According to federal law enforcement sources, investigators want to know whether the lease was inflated to allow for payments to Mrs. Clinton.

At the time of the lease, Mr. McDougal was paying Mrs. Clinton $2,000-a-month retainer — a deal arranged by her husband — to represent his S&L before state banking regulators looking to close down Madison as insolvent. The S&L eventually was closed by federal regulators in 1989 at a cost to taxpayers of $50 million.

The lease agreement with Mr. McDougal, state records show, was

see **PROBE**, *page A9*

• *Attorney General Janet Reno says naming a special counsel eased criticism in the Whitewater affair. A9.*

PROBE

From page A1

signed despite protests of ADFA officials who said Madison's building, a renovated laundry on South Main Street at the edge of the downtown commercial district, isolated them from the city's financial institutions and banks, with whom they dealt daily. In addition, bids received from at least five other building owners seeking the ADFA contract were lower than the Madison offer.

But the scope of the broadened Whitewater-Madison inquiry is far wider than that, the sources said.

The probe has included a search of bond authorizations, underwriting agreements and bond counsel contracts involving Madison, Whitewater, several banks and brokerage houses, and a number of law firms — including the Rose Law Firm, where Mrs. Clinton was a senior partner.

Records belonging to the ADFA, which has issued millions of dollars in tax-exempt development bonds during the past nine years, have been reviewed to determine if Whitewater, Madison, Mr. McDougal or customers of Madison used or benefited from tax-exempt bonds to buy or develop property.

The ADFA review began quietly last month by Justice Department investigators assigned to Little Rock in November. They expect to turn over their findings to Special Counsel Robert B. Fiske Jr., the Wall Street lawyer named last week by Attorney General Janet Reno to head the Whitewater-Madison investigation.

ADFA was created by Mr. Clinton to expand the state's authority to issue tax-exempt bonds to help investors buy or develop property in Arkansas. It also was touted by Mr. Clinton as a way to bring thousands of jobs to the poor state.

Law enforcement sources familiar with the probe said records reviewed so far include:

• A $2.75 million issue in 1985 for Park on Meter Inc. (POM) of Russellville, Ark., whose president, Seth Ward, is the father-in-law of Webster L. Hubbell, former managing partner at the Rose firm and now U.S. associate attorney general. The Rose firm put the bond deal together and represented POM, according to ADFA records. The bond has since been repaid.

At the time, however, Mr. Ward was an officer of a Madison subsidiary and has been identified by federal banking regulators as having defaulted on $587,000 in Madison loans.

The Madison real estate subsidiary, known as Madison Financial Corp., is being investigated by federal authorities in connection with allegations that it may have covered overdrafts by Whitewater.

Mr. Ward also was an investor with Arkansas Gov. Jim Guy Tucker, who succeeded Mr. Clinton, in a 1,100-acre real estate deal in Little Rock known as the Castle Grande Project, which has drawn the attention of federal investigators.

• Two bond issues totaling $1.77 million for Pine Bluff Warehouse Co., which operated river storage and transportation facilities. White House Associate Counsel William H. Kennedy III, the son of the company's chairman, also is a former Rose firm partner.

The Rose firm represented both ADFA and the borrower on the Pine Bluff Warehouse bond deal, according to ADFA records.

It was not clear yesterday why those two bond issues were of concern to investigators, or what others had been reviewed. But Mr. Hubbell's name has surfaced in the investigation in connection with loans to his father-in-law.

According to the Federal Deposit Insurance Corp., Mr. Ward was a prime abuser of Madison.

The Rose firm's involvement in the inquiry surfaced last year when it was learned it may have had a conflict of interest involving Madison. The firm was paid $400,000 by the FDIC in 1989 to sue the S&L, four years after it had defended Madison before state regulators. In the FDIC suit, the Rose firm attacked a Madison audit that Mrs. Clinton had used to defend Madison in 1985.

FDIC officials said they were not aware the Rose firm had represented Madison. Vincent W. Foster Jr., the late White House deputy counsel who had been a Rose partner, signed a letter seeking the FDIC's business, saying the firm did not represent any S&Ls.

The Clintons have denied any wrongdoing in the Whitewater-Madison affair.

Mr. Hubbell, the No. 3 official in the Justice Department, has recused himself from the inquiry.

80

Southern connections spice Whitewater stew

THE ECONOMIST (OF LONDON) A1

LITTLE ROCK, Ark. — Among the cookbooks on sale at the Little Rock airport that tout local (and now presidential) cuisine is one that boasts how Bill Clinton grew up amid the "Southern connectedness" of small-town Arkansas.

The cozy connectedness of Arkansas politics is, by common consent, a basic ingredient of the stew now known as Whitewater. A special counsel will decide whether it was a recipe for corruption. But is Arkansas stew really so different from other varieties?

NEWS ANALYSIS

For as long as Arkansas has existed, a clannish elite has run the place. Before the Civil War, the rulers were called the Family or the Dynasty. Nowadays, a 10-minute stroll in downtown Little Rock — where the dominant banks, corporate giants and law firms nestle side by side — is enough to give an idea of the incestuousness of the capital.

Everybody knows everybody, locals are fond of saying. What they really mean is that if you know a clique consisting of perhaps 1,500 out of the state's 2.4 million people, you know everybody who matters.

This is partly because of the almost colonial structure of the Arkansas economy. "The natural

see **SPICE**, *page A9*

MONDAY, JANUARY 24, 1994 **The Washington Times**

SPICE ✓

From page A1

state," as it calls itself, is poor by American standards, ranking above only next-door neighbor Mississippi and West Virginia in median household income. Yet it is also the home of a collection of super-rich commercial giants, from Jack Stephens' banking empire to Don Tyson's poultry business and Sam Walton's Wal-Mart stores.

Such businesses thrived in the rather loose regulatory environment of Arkansas, an environment enhanced by the close ties between local businessmen and the local politicians they help to keep in power.

It was no coincidence that in the 1980s, Little Rock became a favorite nesting place for "bond daddies" who hustled small-city treasuries, or that little Arkansas had far more than its fair share of savings and loan disasters.

Such is the background to the Whitewater saga, which involves a cast of characters worthy of the longest Russian novels (conveniently, Republicans in Washington have just produced a handy guide to the characters and their myriad connections).

Among the leading players are James and Susan McDougal, erstwhile financial groupies to the Arkansas top drawer and partners with the Clintons in the Whitewater land-development venture, whose dealings with Mr. McDougal's failed thrift, Madison Guaranty, are at the heart of the story.

Featuring prominently, too, is the Rose Law Firm, where Hillary Clinton was a partner, as were Webster Hubbell (now associate attorney general) and Vincent Foster (the White House deputy counsel who killed himself in July).

Why did these Arkansas moralists not make a fuss earlier? They say they were — and still are — inhibited by Mr. Clinton's power.

The most intriguing moments in the plot come when old-fashioned Arkansas "connectedness" emerges in its full glory.

At one point, for example, Hillary Clinton is hired to plead, in front of a state regulator who happens to be an old friend appointed by her husband (the governor), for a special stock scheme to rescue the bank belonging to her business partner (Mr. McDougal). The scheme was approved ("Dear Hillary," began the letter from the regulator, Beverly Bassett), though it was never used.

In Little Rock, reactions to all this vary. Some shrug their shoulders and say this is the way business has always been done in Arkansas, where the notion of conflict of interest has never been highly developed.

In such a small world, it would have been hard for Madison Guaranty to find any top lawyer to represent it who did not have some connection to Mr. Clinton. Besides, others add, Arkansas is not so special; plenty of states work in similarly cliquey ways.

But a few people resent the idea that Arkansas is a place of loose standards. They say it offends the many people there who can recognize an ethical barrier when they see one.

"I'm sick and tired of hearing that we're all crooks in Arkansas," says one lawyer. "There is a line," argues another, "and the Rose Law Firm went over it."

Rose is the oldest law firm in Little Rock. It is seen as first-class but a bit snobbish, and in recent years very ambitious. Its critics accuse it of unfairly exploiting its Clinton connection. Its list of clients includes many of the biggest Arkansas businesses having most contact with state regulators — firms such as Tyson Food and Beverly Enterprises, which runs nursing homes.

The longer Mr. Clinton was governor (he was in the job for 12 years in all), the more boards and commissions came under his appointees. Whether or not Mrs. Clinton represented a particular client, asserts a Rose-basher, "it wasn't a level playing field. Everyone knew that if you took on Rose, in effect you took on the governor's office."

Why did these Arkansas moralists not make a fuss earlier? They say they were — and still are — inhibited by Mr. Clinton's power. Haven't critics in Washington of Mrs. Clinton's proposals for health care reform tended to pull their punches because of her status as first lady?

Arguments over ethical dividing lines are one thing; criminal behavior is another. No evidence has yet emerged to show that the Clintons broke any laws.

Jim Leach, the Republican congressman from Iowa who led the calls for the appointment of a special counsel to investigate the Whitewater affair, says that "what we're dealing with here are issues of public trust more than criminality."

Nevertheless, the public so far seems to find the matter too obscure to bother about. The president's opinion-poll ratings apparently remain unscathed by Whitewater.

If anything could damage them, it is probably the impression of a cover-up. A lot remains to be explained about the motives for Vincent Foster's suicide and the events surrounding it. In Little Rock, Mr. Foster was well respected. Friends are at a loss to explain why he should have taken his own life (the archest of conspiracy theorists wonder whether it really was suicide).

What is known is that he had been working on Whitewater's delinquent tax returns for the Clintons. Three senior White House aides reportedly visited the dead man's office before the police did. What exactly were they looking for? Why were the Whitewater papers removed from the office, and why did it then take so long for Mr. Clinton's lawyer to hand them over to the Justice Department, under a negotiated subpoena that protects them from public scrutiny?

Until these and other questions are answered, the Whitewater business will, as an Arkansas editor puts it, fail the smell test. For the time being, Arkansas stew smells pretty rich.

bc-whitewater
(wap) (ATTN: News editors)
Subpoena of Gov. Tucker Outlines Scope of Whitewater Probe (Washn)
By Howard Schneider and Michael Isikoff= (c) 1994, The Washington Post=

WASHINGTON A federal grand jury has subpoenaed Arkansas Gov. Jim Guy Tucker, D, seeking a wide range of records on President Clinton, former Clinton aides and others as part of an investigation into the downfall of a Little Rock savings and loan.

The subpoena, released by Tucker's office to the Associated Press in Little Rock earlier this week, provides the most detailed map yet to the scope of a federal investigation of Madison Guaranty Savings & Loan, a failed S&L owned by Clinton's former business partner, James McDougal. The probe will be taken over next week by special counsel Robert B. Fiske Jr.

It shows that Justice Department investigators have been pursuing a broad range of business and political relationships that involve Clinton and other Arkansas political figures.

The three-page subpoena asked Tucker to turn over to FBI financial analysts all records he has relating to Bill and Hillary Rodham Clinton. It also asks for records related to former U.S. senator J.W. Fulbright, D, former Clinton aide Steve Smith, former state highway commissioner Maurice Smith, and Seth Ward, the father-in-law of Associate Attorney General Webster L. Hubbell.

The subponea asked for tax returns, canceled checks and other financial records as well as diary entries, telephone logs, message slips and other personal items relating to more than 50 businesses and individuals.

When Tucker released the subpoena in Arkansas he told the Associated Press that he had been asked ``for a variety of documents which we're putting together'' for delivery to a grand jury beginning Friday.

Tucker had numerous business dealings with Madison, McDougal, and former Little Rock municipal judge David Hale, a key figure in the investigation who was indicted last summer for defrauding the Small Business Administration in connection with transactions at his SBA-funded investment company. Hale has alleged he made an improper SBA loan under pressure from Clinton and McDougal.

Fulbright, who employed McDougal as a top aide until the senator lost the 1974 election, was also a partner in several McDougal land deals and a borrower at the Madison thrift. Steve Smith was an investor with McDougal and Tucker in a small bank, and Ward worked for and borrowed from McDougal.

The subpoena was issued as Justice Department lawyers prepare to turn over their inquiry to Fiske, who was named this week by Attorney General Janet Reno as special counsel. In a news conference Thursday, Fiske said he will replace Justice Department career prosecutors with his own team of lawyers who will take a fresh look at the case.

Fiske is due to arrive in Little Rock Monday to assume control of an inquiry that has sent FBI agents scouring rural courthouses in the Ozark Mountains for land and bank records that could shed light on the web of financial relationships McDougal created in the mid-1980s as the head of Madison.

Clinton, Tucker, and others were named as possible beneficiaries of McDougal's activities at the thrift when the Resolution Trust Corp. recommended that the Justice Department more thoroughly investigate Madison's collapse. The thrift's failure in 1986 cost taxpayers as much as $60 million, according to a recent RTC estimate.

Among other things, the investigation is examining McDougal's business ties to the politicians, including his joint ownership with the Clintons of the Whitewater Development Corp. It also will look at whether money McDougal raised for campaigns, including $30,000 for Clinton's 1984 governor's race, was improperly taken from Madison's treasury.

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bc-oh-whitewa
MEMBERS OF CONGRESS

WELCOME SPECIAL COUNSEL
By PAUL BARTON=
Gannett News Service=
WASHINGTON For the most part, Cincinnati-area members of Congress express little sympathy for President Clinton when it comes to the Whitewater affair, saying the appointment of a special counsel to investigate was long overdue.

``Based on the allegations we've heard, there is an awful lot of smoke there,'' said Rep. John Boehner, R-West Chester.

He added that he is ``not ready to convict'' but, ``If they find wrongdoing, they (the Clinton's) should be treated like anybody else.''

The case refers to possible improprieties in Bill and Hillary Clinton's involvement during the 1980s with Madison Guaranty Savings and Loan of Little Rock and a real estate development project in North Arkansas known as Whitewater.

Boehner, when asked about the Clintons' denial of wrongdoing, said, ``I have my doubts.''

Rep. Rob Portman, R-Cincinnati, said it was past time for an investigation, despite the president's contention that nothing wrong occurred.

``It's not his judgment that is important; it is the judgment of the American people,'' he said.

``Let's let the facts come to the surface. When we see the facts, we can decide whether there was some impropriety or not.''

Portman said he was especially pleased by the appointment of Robert B. Fiske as special counsel to look into the matter.

``Fiske has a good reputation for being fair,'' Portman said.

Fiske came from the New York law firm of Davis, Polk and Wardwell. Portman's chief of staff, John Bridgeland, came from the same firm.

Even Democratic members of the Tri-State delegation wish the president would have moved more quickly to call for appointment of a special counsel.

``I think he was hurt in the public's eye in a way that would have been nicer to avoid,'' said Rep. David Mann, D-Cincinnati.

Instead of facing up to the situation, Mann said, the administration seemed to resort ``to the standard White House playbook'' of trying to control the public relations aspect of it.

``I don't know what is there,'' Mann said. ``It will be good to get to the bottom of it.''

Sen. Howard Metzenbaum, when asked if believed the Clintons' denials, said, ``I don't know any more about the facts than you do.''

But Metzenbaum and Sen. John Glenn, both D-Ohio, say they are happy to see that a special counsel has finally been appointed.

Glenn believes things will turn out all right for the president.

``I applaud the president for what he is doing,'' Glenn said. ``I think this is the quickest way for him to get all the information out and get this issue behind him. I am confident the investigation will find he did nothing wrong.''

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BC-FOSTER national editors:GL
Whitewater scandal might not have become huge issue if Foster's death had not been linked to it
(HAS TRIMS)
By John Aloysius Farrell and Michael Kranish
Boston Globe

WASHINGTON Of all the twists to the Whitewater scandal, none is more appealing to President Clinton's critics than the notion that the nascent scandal-to-be led Vincent Foster, a deputy White House counsel and close friend of the First Family, to kill himself last summer.

Using limited, though intriguing, circumstantial evidence, Clinton's enemies have fueled interest in Foster's suicide, which the U.S. Justice Department and Park Police have concluded was caused by work-related anxiety and distress.

It is hard to imagine that the Whitewater issue would have become so dominant or that Attorney General Janet Reno would have appointed a special prosecutor last week if Foster's death had not been tied, however obliquely, to the unfolding scandal over Whitewater Development Corp., the Clintons' 1980s Ozarks real estate venture.

Few were closer to the Clintons than Foster. Like Clinton, he was a native of Hope, Ark. He knew Clinton for more than 40 years and was a close friend and law partner of Hillary Rodham Clinton.

Now the question is whether he took some of the Clintons' secrets to his grave: secrets about the Clintons' partnership in Whitewater with James and Susan McDougal, and about whether McDougal who also owned a failed bank paid off then-Gov. Clinton with financial favors in the mid-1980s in return for leniency from Arkansas banking regulators.

Clinton's critics have stitched isolated bits of evidence and a few coincidental events into a scenario worthy of a John Grisham novel. Foster, who once said that he had ``always fantasized going off to the mountains of Colorado and writing a great novel in seclusion,'' could hardly have crafted a more intriguing plot.

Foster was found shot in the head in a park overlooking the Potomac River on July 20. He was caught up in the so-called ``Travelgate'' flap over the firing of the staff of the White House travel office.

He had been the target of a number of scathing editorials in The Wall Street Journal on that topic.

A note discovered in Foster's briefcase and belatedly turned over to the FBI listed the travel flap and several minor White House controversies as causing his distress.

The lawyer concluded in his note that Washington was a city where ``ruining people is considered sport.''

Though the Justice Department never officially closed the Foster case, the matter rested until news broke on Oct. 31 that the Clintons were named in an investigation of Madison Guaranty, the savings and loan bank owned by their business partner, McDougal.

Since then, Clinton's critics have stirred speculation about the Foster case by pointing at several bits of circumstantial evidence concerning the Clintons and Whitewater.

Among the elements:

Foster killed himself on the same day that FBI agents raided the offices of David Hale, a Small Business Administration contractor who says Clinton pressed him to make an improper loan to Susan McDougal of $300,000, much of which ended up in Madison and Whitewater accounts.

The raid was staged a few minutes after Foster's fatal gunshot. Clinton's critics suggest that Foster had been tipped off that morning, after the warrants were signed in Little Rock, Ark., and that he fell into a fatal despair.

One of the last phone calls Foster received the morning of his death was from James M. Lynch, a Denver attorney and friend of the Clintons whom they

hired during the 1992 campaign to review the Whitewater affair.

``One of his last conversations in life was with Lynch,'' said Rep. James Leach, a Republican from Iowa who has spearheaded GOP congressional attacks on Clinton's involvement with Whitewater. ``It would appear he was very troubled by his work at the White House.'' However, Lynch has told reporters he was not calling Foster about a Whitewater-related matter.

Foster worked for the Clintons on Whitewater in 1992 and 1993, selling off the company's assets and preparing missing tax returns in the weeks before his death.

Foster did the records in the White House and found, among other things, that the Whitewater partners ``hadn't done their income taxes'' for Whitewater, Leach said. ``He made the decision, apparently, they would take no capital gain.''

The White House acknowledged in December that files on the Whitewater corporation were found by Foster's colleagues when his office was searched after his death. The files were not given to the FBI or Park Police officers who observed the search, but sent instead to the Clintons' private attorney.

White House aides now say that the authorities, like everyone else at the time, were focused on the Travelgate affair, and showed no interest in Whitewater, an issue which was first raised in the 1992 campaign and had faded from view.

The aides say Foster's files were routinely distributed with government work sent to other counsels, Foster's private files given to his wife, and the Clinton Whitewater files handed over to their attorney.

Foster was a close friend and law partner of Hillary Clinton at Little Rock's Rose Law Firm. It was while Hillary Clinton worked for the firm that she was hired and paid by McDougal's savings and loan, which she represented in at least one matter before regulators appointed by her husband.

After Madison folded, federal regulators were stuck with a $50 million debt for the taxpayers. It was Foster who wrote the Federal Deposit Insurance Corporation, urging them to hire the Rose Law Firm to sue Madison's auditors for the failure of the thrift.

The FDIC is now investigating the case, trying to finding out if Foster or his partners at the Rose firm ever disclosed that Hillary Clinton had once done work for Madison.

(EDITORS: NEXT 2 GRAFS OPTIONAL)

Foster also received a phone call from the Rose Law Firm on the morning of his death, but on its face that call could be routine: As a partner for years, he had many friends there with whom he stayed in contact.

``Vince Foster was a partner in the Rose Law Firm. Vince Foster wrote the letter to the Resolution Trust Corporation asking for his firm's representation of the RTC in a suit against the auditors, for which they got a million dollar settlement and the law firm got a $400,000 fee,'' Leach said.

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Foster's wife and attorneys at the Rose Law Firm declined to be interviewed.

Clinton for months angrily resisted questions about whether Foster's suicide was the result of anything more than a personal depression. But in recent days, the president seems to have concluded that a deeper investigation into Foster's role is inevitable.

``Because he had some files that were relevant to it, I think ... (the special counsel) has to look into what was there,'' Clinton said on CNN's ``Larry King Live'' on Thursday.

There is little doubt that will happen. In accepting appointment as special counsel Thursday, former U.S. attorney Robert B. Fiske Jr. said that his investigation would explore any connection between

-END-OF-AUTOBREAK

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BC-USA-WHITEWATER

RENO VOWS WHITEWATER PROBE TO BE INDEPENDENT

WASHINGTON, Jan 23 (Reuter) - Attorney General Janet Reno said Sunday that she would do all possible to ensure the independence of her newly named special counsel's investigation into President Clinton's Arkansas financial dealings.

``I'm darn sure going to do everything I can to stay out of it and make sure that he is independent,'' Reno, the nation's top law enforcement official, said on the NBC programme ``Meet the Press.''

On Thursday, Reno named a former Republican U.S. Attorney in Manhattan, Robert Fiske, to investigate any criminal violations related to the president or Hillary Rodham Clinton's relationships with Whitewater Development Corp.; Madison Guaranty Savings & Loan, a Little Rock, Ark. thrift; or Capital Management Service Inc, a failed Little Rock investment company.

The Clintons were partners in Whitewater, a vacation home developer, with James McDougal, owner of the now-defunct Madison, and his former wife, Susan, who received a $300,000 loan from Capital Management. David Hale, a former municipal judge who owned Capital, has charged that the Clintons and McDougal pressed him into making the loan as a way of bolstering Madison.

In addition, the Resolution Trust Corp, the U.S. thrift bailout agency, has asked for an investigation of possible diversion of funds from Madison to Whitewater to pay certain campaign and other debts of then-Arkansas Governor Clinton in the mid-1980s.

Reno said she had tried to make sure that Fiske had all the time and money he needed to complete an independent report.

``And watching Mr Fiske in action, watching him design the scope ... I tried my best, even though he's my selection, to make sure that he knew he was independent and I think he feels comfortable in that regard,'' she said.

Reno and the White House initially opposed calls for a special counsel as politically inspired by the president's Republican political foes.

REUTER

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PM-Whitewater-Glance,70
With PM-Whitewater-Clintons' Interest
By The Associated Press=

A breakdown of the $41,000 in interest deductions that Bill and Hillary Rodham Clinton took on their joint tax returns for payments on loans that an aide said were for Whitewater Development Co. Inc.

1978 - about $10,000.
1979 - about $12,000.
1980 - $13,350.
1986 - $1,636
1987 - $2,561
1988 - $1,474

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THE FALL OF A BOND DADDY

What Dan Lasater says about Bill Clinton's Arkansas



THOROUGHBRED RECORD (ABOVE); ARKANSAS DEMOCRAT-GAZETTE

Lasater's wealth helped him win the right friends; accepting a racing trophy in 1975 (above, left) and pictured more recently (right)

FEW OF LITTLE ROCK'S POLITICALLY connected entrepreneurs worked or played harder in the fast-flying 1980s than Dan Lasater. Although savings and loan executive James McDougal, Bill and Hillary Clinton's partner in the Whitewater land venture, is now the First Couple's best-known Little Rock supporter, Lasater actually wielded far more clout. The onetime McDonald's counterman parlayed a small fast-food joint into the Ponderosa Steakhouse chain and a stable of thoroughbred racehorses. Restless and flush with cash, he became one of the city's "bond daddies" in the early '80s, taking advantage of the freewheeling Reagan-era regulatory climate to sell high-interest, high-risk deals to small-town banks and S&Ls. Lasater put some of his money into political campaigns, and it helped him win the right friends, including Clinton, then governor, whose administration gave his small, struggling brokerage a lucrative piece of the state's coveted bond-underwriting business. Success also gave Lasater a taste for cocaine. It earned him a federal prison sentence for possession and distribution in 1986.

Like McDougal and Whitewater, Lasater popped briefly into view during the 1992 campaign. The Los Angeles Times reported that in 1985 Clinton personally lobbied state legislators for a bond deal in which Lasater's firm received a $750,000 share—at a time when it had been alleged in court testimony that he was the target of a cocaine investigation. Clinton campaign officials denied that Lasater got any special treatment from Clinton. In the hurly-burly of the election season, both matters were all but forgotten by the press. But, as with Whitewater, important questions remain unanswered. According to state records and interviews with Arkansas officials, the Clinton administration continued to award bond business to Lasater's firm despite its shaky financial condition and a record of questionable business practices well known inside the securities industry.

BY MARK HOSENBALL

Moreover, a confidential FBI document says Lasater told federal agents that in the early 1980s Clinton asked him to give his ne'er-do-well half-brother Roger a job. Lasater put him to work in his Florida stables.

Late last week the White House once again denied any impropriety in Clinton's relationship with Lasater. Presidential aide Bruce Lindsey acknowledged that Lasater was a supporter, but disputed suggestions that Clinton had lobbied state officials to win bond business for him. Betsey Wright, Clinton's former gubernatorial chief of staff, said it was "outrageous" to suggest that Lasater got state contracts because he'd hired Clinton's half brother. "Bill trying to help [Roger] get employment wouldn't raise an alarm to me," says Wright. Lasater refused to comment.

But his story is clearly one of an ambitious businessman eager to buy access to public officials. He staged fund-raising events for Clinton at his firm's offices and marshaled thousands of dollars in campaign contributions. Records for Clinton's 1984 campaign show at least $5,000 from Lasater, his family and associates. Two former Lasater & Co. bond salesmen say he encouraged his staff to donate to Clinton's campaign, promising to boost their commissions so they could more quickly earn back their contributions. Clinton and Lasater also socialized on occasion. Clinton aides reported two years ago that he'd flown on Lasater's private plane three or four times between 1982 and 1984. In an interview with FBI agents, Lasater recalled that Clinton had visited his house for a party, and that they had met at two other social functions. In 1985 Clinton lent his name to an ad promoting Arkansas Week at a New Mexico ski resort owned by Lasater. It promised prospective vacationers that Clinton would be there to hobnob with them. But he didn't show.

Still, Lasater's brokerage business foundered. Lasater & Co. soon came under scrutiny from state regulators and securities-industry watchdogs. Lasater himself told the FBI that by 1982, his firm was in

deep trouble with tax collectors and might be required to inform securities regulators. That same year the company was censured by the state securities commissioner for cheating customers. Later it was censured by the National Association of Securities Dealers. Company documents also show that Lasater wasn't too picky about whom he hired: some of the firm's salesmen had drug and bad-check convictions. One bond salesman was censured for cheating on a bond-licensing exam.

Nevertheless, in early 1983, shortly after Clinton returned to office (he lost his 1980 re-election campaign to Republican Frank White), the board of the Arkansas Housing Development Agency added Lasater's firm to a list of brokerage houses eligible to underwrite state-bond issues.



MIKE STEWART—SYGMA

Clinton with brother Roger in happier Arkansas days



ARKANSAS DEMOCRAT-GAZETTE

Roger pleaded guilty to cocaine charges

Wooten Epes, appointed by Clinton as agency director shortly after Lasater was put on the underwriters list, says he was unaware of problems involving Lasater's firm. He believes board members knew that Lasater had been a Clinton supporter during the 1982 campaign. (Epes points out that the list also included firms that did not back Clinton.) Over the next two years, Lasater & Co. got pieces of more than a dozen bond sales set up by the state agency. Officials said they did not know how much money the Lasater firm earned from the deals, but such work is traditionally lucrative—high fees and minimal work. Epes said that had he known about the firm's record, he might have hesitated to continue using it as an underwriter.

One reputable Little Rock broker says he tried to alert the Clinton administration about Lasater's dubious credentials. After learning that Lasater had been selected as a state-bond underwriter, he spoke with "someone I knew had the governor's ear." The broker says he believes his warning reached Clinton. But both Wright and state officials say they heard nothing.

Little more than a year after Lasater & Co. underwrote its first state-bond deal, state police began to pick up word that Lasater and his bond daddies had become heavily involved with cocaine. According to police files, parties hosted by Lasater sometimes featured lines of cocaine laid out on glass tabletops or silver trays. His circle included Roger Clinton. Lasater told the FBI he first met Roger Clinton in 1981, when Clinton was playing in a band. Lasater took him on as a stable hand at his Florida horse farm after "Gov. Bill Clinton requested Lasater to hire him," in the words of Lasater's statement to federal agents.

IN 1984, AFTER AN UNDERCOVER STATE-police sting, which Governor Clinton approved, Roger was arrested on cocaine charges. He later pleaded guilty. On the witness stand in a related trial in February 1985, Roger not only confirmed that he had worked at Lasater's stable, but also said Lasater had once loaned him $8,000 to pay off a drug dealer. (Roger gave the dealer $4,000 and kept the other half for himself.) Another witness testified that Roger Clinton had been asked by state police to make Lasater the target of a new drug probe.

Clinton didn't flinch when it came to his brother's drug use—he signed off on the sting that led to his arrest. But exactly what Bill Clinton knew at the time about Lasater's cocaine use is not clear. The evidence shows that Lasater continued to get bond business from state agencies even after he was identified in court testimony as a sting target. In the spring of 1985, Lasater & Co. was one of the firms selected to sell bonds to finance a new statewide radio network for the Arkansas State Police. Lasater partner George Locke told the FBI that "because Lasater & Co. backed the right individual in Governor Clinton, Lasater & Co. received the [bond] contract." A law-enforcement source says that before the deal went forward, the governor's office asked Col. Tommy Goodwin, the state-police chief, about Lasater's drug background. Goodwin was told by his staff that Lasater was a cocaine user but not a dealer. The firm's state-bond business finally dried up a few months before Lasater and his partners were indicted on federal drug-conspiracy charges in October 1986. Lasater pleaded guilty and served six months in prison. Last week the Naval Criminal Investigative Service disclosed that Lasater is now facing a new investigation in connection with alleged financial irregularities in the operation of the Marine Corps PX system.

It is only fair to point out that Lasater's career was unexceptional. In virtually every state capital, the underwriting of state bonds is free lunch for the politically well connected. Last year Jim Leach, the Republican congressman from Iowa, who is leading a congressional investigation into Clinton's involvement in the Whitewater scandal, introduced a bill in Congress to curb the practices of "cities and states [which] are awarding bond business to the securities firms or banks which have provided the most campaign contributions." Interestingly, Leach's cosponsor on the bill was Texas Congressman Henry Gonzalez, the Democratic chairman of the House banking committee, whom Leach and other Republicans now accuse of obstructing their investigations into the Clintons' Whitewater dealings. If congressional investigators expand their probe to include the activities of Lasater and other flamboyant Little Rock bond daddies during the days Clinton was governor, they might find a whole new set of problems for an already beleaguered White House. ■

THE WEEK

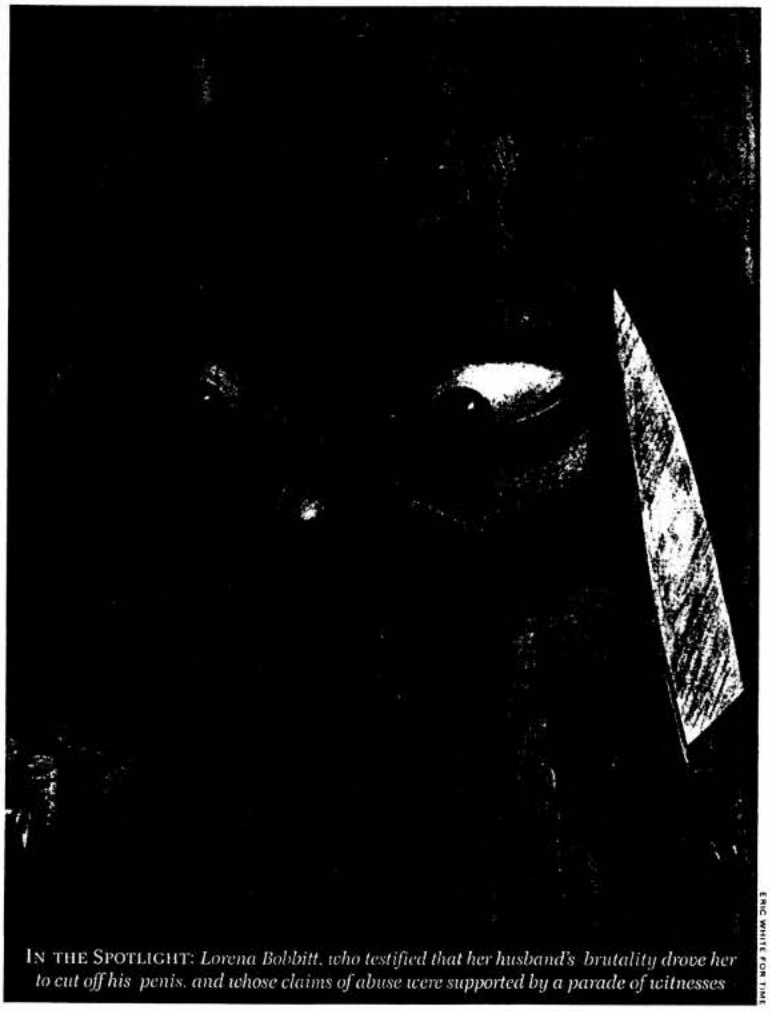
JANUARY 9 - 15

NATION

Clinton's European Adventure
On his first European trip in office, President Clinton delivered a well-received speech in Brussels in which he stressed U.S. commitment to Europe and pledged to keep 100,000 troops there. Brussels was the site of a two-day NATO summit, and the alliance agreed to Clinton's Partnership for Peace plan. The initiative provides for the possibility of former Warsaw Pact countries' joining NATO gradually over an unspecified period. The President toured Prague with Czech President Vaclav Havel and then arrived in Moscow, where he urged Russians to continue reforming their economy. In the Kremlin, Clinton signed an agreement with Boris Yeltsin and Leonid Kravchuk, the President of Ukraine, dealing with Ukraine's nuclear weapons.

Counsel for Whitewater
After nine Democratic Senators urged him to take the step, President Clinton finally agreed to call for the appointment of a special counsel to investigate his involvement with the Whitewater Development Corp. in Arkansas. Senate minority leader Bob Dole and other Republicans who had long insisted on the appointment of a special counsel continued to call for a congressional investigation as well.

No Vote Suppression
Federal and state investigators announced that they had found no evidence of vote suppression in last year's gubernatorial election in New Jersey. Edward Rollins, the campaign manager for Governor-elect Christine Todd Whitman, had boasted that the campaign made payments to keep blacks away



ERIC WHITE FOR TIME

IN THE SPOTLIGHT: *Lorena Bobbitt, who testified that her husband's brutality drove her to cut off his penis, and whose claims of abuse were supported by a parade of witnesses*

INSIDE WASHINGTON



BRAD MARKEL—GAMMA LIAISON

From the Man Who Brought You Willie Horton ...

FLOYD BROWN IS BACK. He's the conservative who created the original Willie Horton ad in 1988 and made a video rehashing the Gennifer Flowers mess in 1992, and he is now covertly feeding information and hard-to-find documents to reporters and congressional Republicans looking into the Whitewater affair. Brown's associate David Bossie has been to Little Rock several times digging for dirt. Evidently some Whitewater tale tellers prefer to deal with Brown & Co., figuring Brown can be trusted to protect their sources.

WINNERS & LOSERS


NAJLAH FEANNY—SABA

CHRISTINE WHITMAN
N.J. Governor-elect's campaign cleared of vote suppression

SEN. CHARLES ROBB
Virginia Democrat's rival, Gov. Wilder, won't oppose him in primary

NASA
Results of Hubble mission are spectacular—and the best p.r. for a space station

HILLARY CLINTON
Whitewater special counsel named despite her opposition

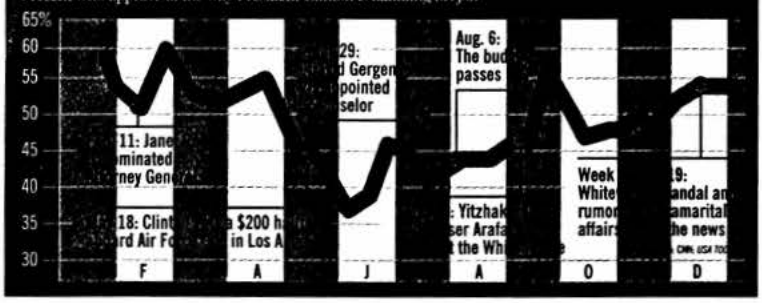
TONYA HARDING
Figure skater's bodyguard is implicated in attack on Kerrigan

HOWARD STERN
No late-night TV gig as New Year's Eve show repels Fox's owner


TERRY ASHE FOR TIME

THE CLINTON ROLLER COASTER

Percent who approve of the way President Clinton is handling his job




ABC-TV

Bill and Ted's Cuddly Adventure

The White House allowed Ted Koppel, anchor of ABC's *Nightline*, to spend a few exclusive minutes with Bill Clinton on each night (but one) of the President's European tour. Questioning Clinton—and Secretary of State Warren Christopher—the usually bold and unflinching newsman suddenly seemed to turn into Merv Griffin:

To Clinton **"Over the past month, you've had a bad time . . . You now have got to be the leader of the free world again. Just from a human point of view, how do you find the grit to do that?"**

"See if you can explain, in a nice pithy paragraph, how it is that 30 or 40 years from now people are going to look back on this trip."

"Do you go with these speeches the way they're written, or do you sort of wing it?"

***[After Clinton separately walked out on three reporters who asked him about Whitewater]* "Yesterday you lost it a little bit. I don't mean you lost it, you lost your touch a little bit. You didn't handle the Miklaszewski interview very well, you didn't handle Ann Compton's interview very well. Was it fatigue? Was it just the frustration of having it come up? I mean, why? You could have handled either one of those questions and knocked them out of the park any other night."**

To Warren Christopher **"Do you have to take along formal wear? How many different changes of clothes does the Secretary of State have to bring, and why don't you have someone to pack for you like the President?"**

"It's just—it is amazing, I mean, I am some years younger than you and do not work as long or as hard a day as you do, and I must say, for you to move into this thing now, and you can't really let your guard down now for the next eight days, can you?"

"Now, how important is dinner with your wife?"

from the polls. He later recanted the remarks. Whitman takes office this week.

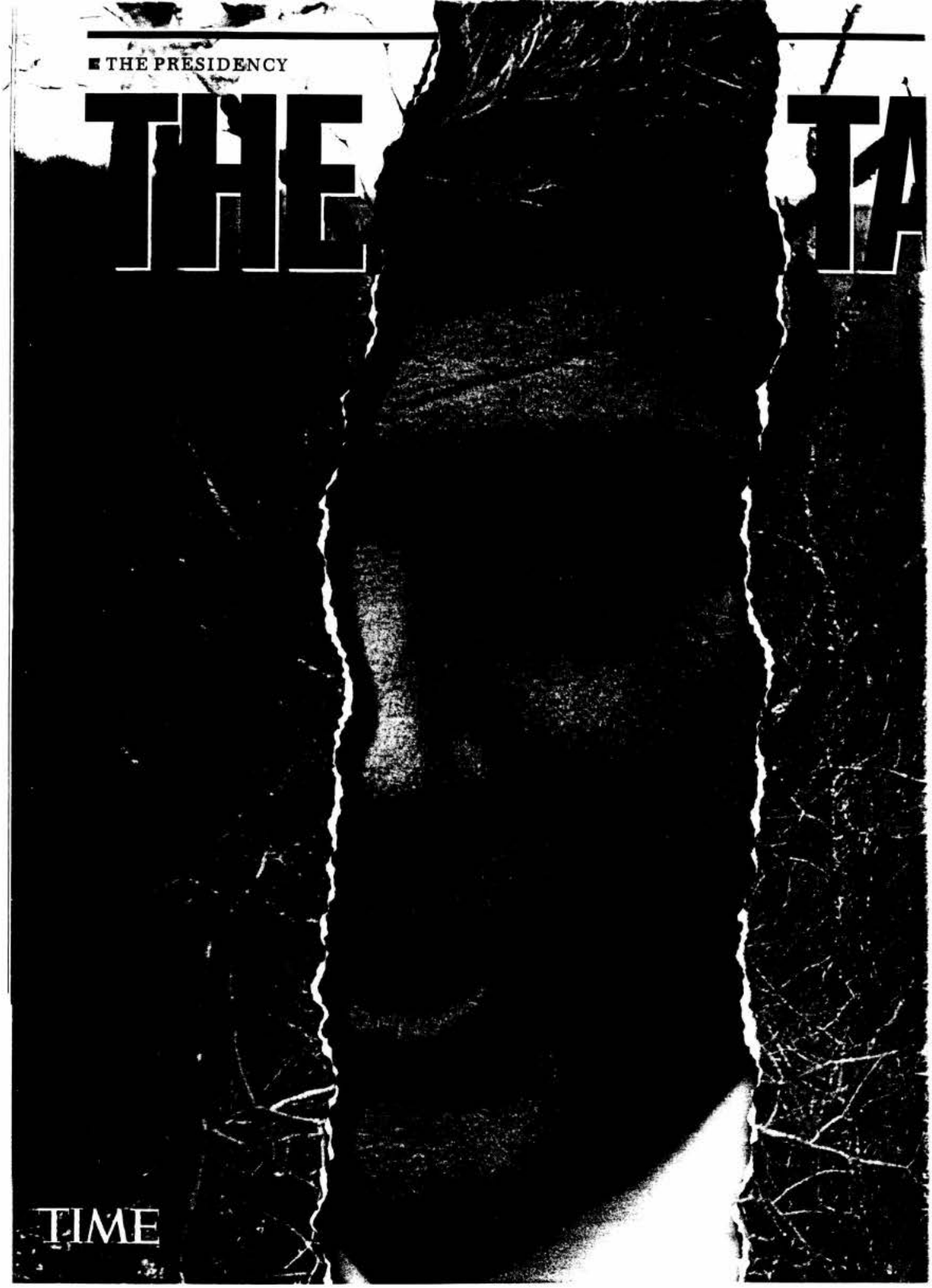
Wilder Withdraws
Virginia Governor Douglas Wilder used his State of the Commonwealth address to announce that he had dropped plans to run for the U.S. Senate. He would have battled arch-nemesis Senator Charles Robb for the Democratic nomination in a contest that many had expected to be a mudslinging embarrassment to the party.

Arrests in Kerrigan Attack
The bodyguard of U.S. figure-skating champion Tonya Harding and two other men were arrested for the brutal assault on Harding's rival Nancy Kerrigan in Detroit. According to his lawyer, bodyguard Shawn Eric Eckardt told investigators that he had taken part in the plot to injure Kerrigan but denied being "smart enough" to plan it.

More Combat Jobs for Women
Lame duck Defense Secretary Les Aspin overruled the Army and Marine Corps to approve a policy that will expand the presence of women in ground-combat forces. Women still won't engage in fighting, but Aspin has ordered that they be allowed to take dangerous support jobs that have been closed to them. The two services have until May 1 to provide a list of what these jobs will be.

Davidians on Trial
In San Antonio, Texas, the trial began of 10 men and one woman who are members of the Branch Davidian cult and who are charged with murder and conspiracy to commit murder in connection with the death of four federal agents. The agents were shot during a raid on the cult's compound near Waco in February 1993.

Cheating at Annapolis
In the largest cheating scandal since it adopted its honor code in 1951, the U.S. Naval


THE PRESIDENCY
THE
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TIME

NGLED WEB



As Reno chooses a special prosecutor, new questions arise in the Whitewater case

By GEORGE J. CHURCH

IF THERE IS ANYTHING BILL CLINTON does not need, it is another embarrassing question about Whitewater. In fact the President has agreed, most reluctantly, to the appointment of a special counsel to investigate that mess largely to move the questions off the front pages and TV network news for a while. But now TIME has turned up evidence that Bill and Hillary Rodham Clinton participated in deals in which the same land was sold and resold—in one case to themselves—at rapidly escalating prices for reasons that cannot quickly be pinned down.

Even in the middle of what should have been a heady European trip, a senior aide reported Clinton to be "vexed" and "frustrated." In Brussels, Prague, Kiev and Moscow he was winning favorable press coverage for his handling of foreign policy. But at every stop he kept hearing that awful word Whitewater to his obvious dismay. Presidential aides had fought to portray criticisms of Whitewater and related deals as partisan Republican sniping. But now nine Democratic Senators had joined the clamor for a special counsel to take an independent look.

A conference call Tuesday night between Clinton's entourage in Prague and people at the White House ended with no final decision. But before leaving the Czech capital Wednesday morning, Clinton told advisers, "I want to get on with the business of my presidency," and gave the go-ahead for a special counsel. Officially, the decision came in a letter from White House counsel Bernard Nussbaum to Attorney General Janet Reno.

That gave White House aides a reason to turn aside any new Whitewater questions: from now on, it's all up to the special

THE LAND: Why did the 230 woodsy acres escalate in value so quickly?

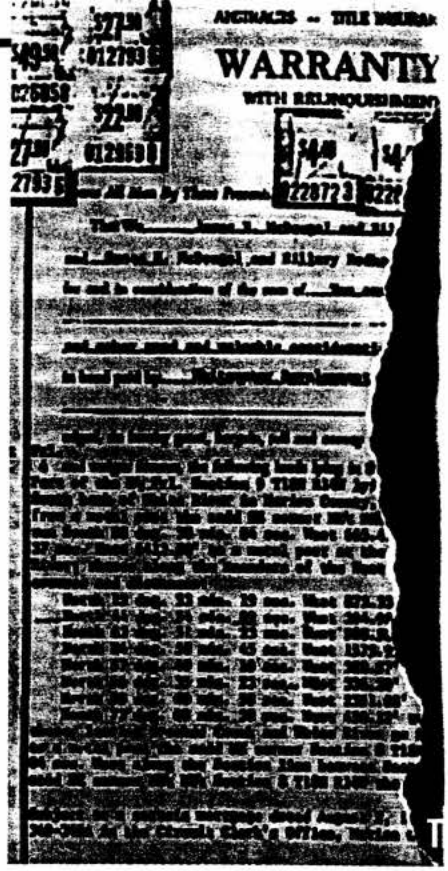
counsel. But there are questions about the special counsel. Who will be chosen? Reno's only answer was someone "ruggedly independent." Outsiders could agree only on a general description: the counsel should be someone well known and respected, at least within the legal profession; probably retired or semi-retired (because he or she could not be involved in any active litigation); and preferably a Republican. How broad or narrow will the probe be? Said Justice Department spokesman Carl Stern: "We're not going to tell the special counsel what to investigate. He or she is going to tell us."

The difference could be crucial. An inquiry focused narrowly on Whitewater and the failed Madison Guaranty Savings & Loan, whose owner James McDougal and then wife Susan were partners with the Clintons in that land venture, might be concluded speedily, but be open to charges of inadequacy. A broader investigation could turn into a fishing expedition lasting for years.

In any case, matters meriting a special counsel's attention keep piling up. The fundamental questions still are: Was any money from Madison Guaranty improperly funneled into Governor Clinton's campaigns, or into the Clintons' pockets? And did the Governor repay with political favors to the S&L? But any attempt to answer quickly leads into a tangled financial-political underbrush, which seems to get thornier every day. Some new problems:

RUNAWAY INFLATION? On July 14, 1978, Arkla Land Co. sold a 3,600-acre tract in northern Arkansas to a company called 101 River Development Inc. for a price equivalent to about $400 an acre. On Aug. 2, a 230-acre parcel was resold. The buyers: Bill and Hillary Clinton and James and Susan McDougal. A deed examined by TIME in the Marion County seat of Yellville is recorded in their individual names; tax stamps indicate the price was $203,000, or roughly $882 an acre—more than double the per-acre price only 19 days earlier. Little more than a year later, on Sept. 30, 1979, the Clintons and McDougals sold the land again, to their newly formed Whitewater Development Corp. The price, again as calculated from tax stamps: $250,000, or just under $1,087 an acre.

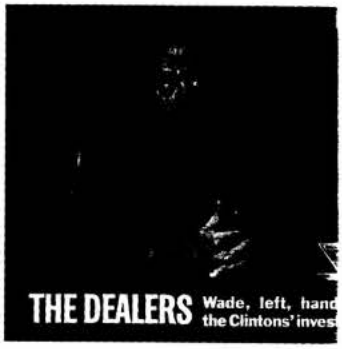
Why the rapid price inflation? Why did the Clintons and the McDougals pay twice the price paid by 101 River? Why was the price increased almost 25% a year later? The only explanation available, and a not fully satisfying one, comes from James Patterson Jr., who was involved in several ways: he was secretary of 101 River Development, which sold the land to the Clintons and McDougals, and also president of Citizens Bank and Trust in the tiny Arkansas town of Flippin, which loaned money to 101 to buy the land and later advanced a $182,611 mortgage loan to Whitewater so it could repurchase the same land. Patterson, in an interview with TIME, insists that the sale to the McDougals and Clintons was an arm's length transaction. The reason they paid more per acre than other buyers of acreage from the large parcel was that they bought better land with a large amount of river frontage. And the reason his bank extended such loans, Patterson said, was to boost local economic development.

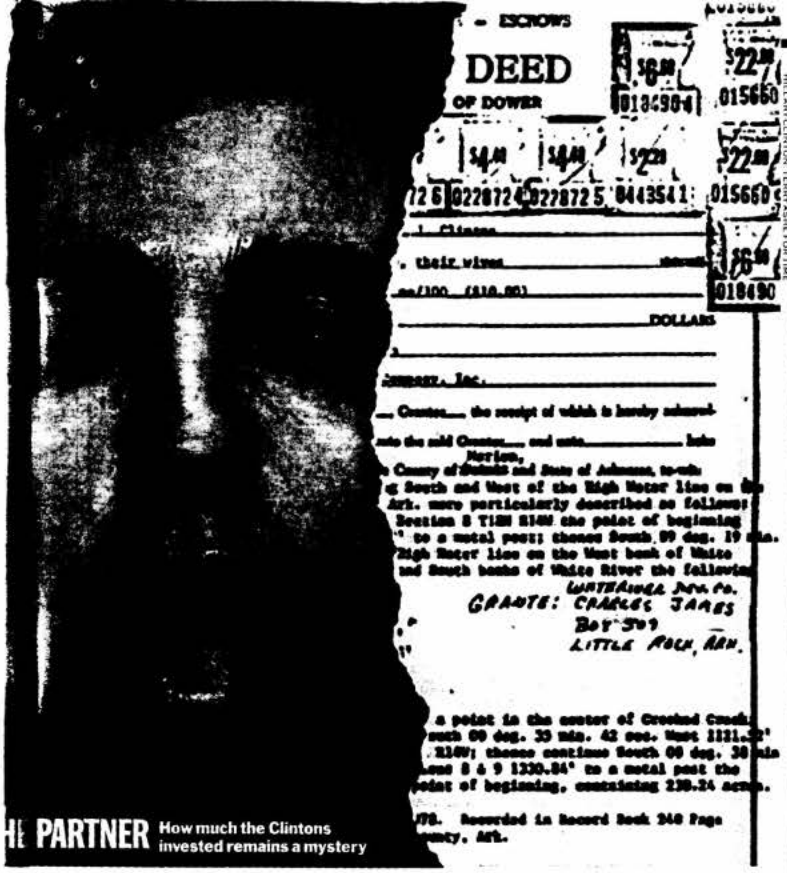


PROFIT OR LOSS? The Clintons have contended that rather than improperly profiting from their half-share in Whitewater, they lost nearly all the $69,000 they invested. But that claim is becoming increasingly difficult to support. For one thing, Whitewater's purchase of the land for $47,000 more than the Clintons and McDougals had paid for it would have yielded each couple an initial profit of $23,500, if they had a fifty-fifty share in everything. The profit may have been entirely on paper; even so, they should have paid federal capital-gains taxes on it. The Clintons' tax returns from 1980 through 1987 show no such payment; their 1979 return is unavailable.

Besides the $183,000 loan from Citizens Bank, Whitewater was started with a down payment of $20,000. But documents establish that the $20,000 was also borrowed, from Union Bank of Little Rock. That raises the question of whether


THE PROBERS Iowa's Leach, the chief Republican gadfly on Whitewater, called for a special prosecutor, which Clinton finally asked Reno to appoint


THE DEALERS Wade, left, hand the Clintons' inves



HE PARTNER How much the Clintons invested remains a mystery

HILLARY CLINTON: TERRY ASHE FOR TIME

the loan from Citizens was prudent, given that there was no cash down payment. Also, it is not known for sure how much, if any, unborrowed cash the Clintons put into Whitewater.

Further, records and interviews with Chris Wade, the real estate agent who sold the lots for the Clintons and McDougals and ended up buying much of the land from them, indicate that Whitewater over the years took in around $270,250. Wade claims that Whitewater spent $40,000 on improvements like roads, and carrying costs on the land may have eaten up much of the rest. But it is hard to see how the Clintons' half-share could have resulted in a loss of anything like $69,000. McDougal has told the Associated Press that he thought their cash investment, and loss, was only about $9,000 up to 1986.

CONFLICT OF INTEREST? A Governor going into partnership with a man whose main business is regulated by the state government seems questionable to begin with—or at least an occasion for special vigilance. But at least one more specific potential conflict has been turned up by TIME. In 1983, Madison Guaranty sought state approval, over the objections of a rival S&L, to open a branch in Salina County. A six-member board established to decide such cases had a temporary vacancy. Governor Clinton sent a letter to one Dick Fisch (nobody today recalls anything about him) appointing Fisch a "special member . . . to specifically hear" the Madison case. The board, including Fisch, voted to approve Madison's application. As it turned out, the branch never opened. No matter; in the view of some lawyers, it was unethical for Clinton to decide who should vote on an application from a business partner of the Governor's.

TRYING TO MISLEAD REGULATORS? Rose Law Firm, in which Hillary Clinton was a partner, represented Madison Guaranty for a retainer of $2,000 a month, and in 1985 Mrs. Clinton presented to a regulator appointed by her husband a plan for a sale of preferred stock to shore up the S&L's finances. In support of that petition, Richard Massey, another member of the Rose firm, wrote two letters. One, in June, acknowledged inferentially that Madison did not meet federally mandated cash requirements but cheerily asserted that "the applicant anticipates that no deficiency will exist in the near future." The next month Massey advised that Madison "anticipates . . . improvement of its financial condition and services provided to customers." Massey told the Associated Press that he was merely passing on what he was told by Madison management.

Those rosy opinions were sandwiched between totally contrasting judgments by the Federal Home Loan Bank Board, which supervised S&Ls whose deposits were insured by the Federal Government, as Madison's were. In a 1984 audit, the bank board warned that Madison's "investment and lending practices in real estate developments" were jeopardizing its "viability." In 1986, eight months after the second Massey letter, another bank-board



ed Whitewater land sales; McDougal recalls
ng only about $9,000 up until 1986



THE LAWYERS Foster and Hubbell signed up the thrift regulators as clients, but were the feds told that the firm had worked for Madison as well?

audit cited a hair-raising list of "problems," including "conflicts of interest, high-risk land developments, poor asset quality . . . inadequate income and net worth, low liquidity, securities speculation, excessive compensation [presumably to officers] and poor records and controls." All that, said the bank board, raised "a significant threat to [Madison's] continued existence."

THE FEDERAL FOREBODINGS PROVED prescient: Madison did fail, and was taken over by federal regulators on March 2, 1989. A few days before, Vincent Foster, then a partner in Rose Law Firm, wrote to the Federal Deposit Insurance Corporation, which had temporarily taken responsibility for dealing with failed thrifts, seeking a contract for Rose to represent the regulators. Rose in fact got the business, and Webster Hubbell, a partner who has since become Associated U.S. Attorney General, brought a $6 million suit on behalf of the regulators against Madison's accountants; he settled for $1 million.

The question is whether anyone told the FDIC that Rose had previously represented Madison. Under federal law, it could be a crime not to disclose this fact. Foster's letter made no mention of it, and he cannot shed any light on the matter now: he became a White House counsel after Clinton's victory but committed suicide in July (after his death, a Whitewater file was removed from his office, and the disclosure of that helped trigger the whole scandal). According to government documents, a Rose lawyer recalls telling the FDIC. Officials of that agency say they can find no records nor anyone with a memory of being orally informed.

Obviously, no one can predict the outcome of the special counsel's probe. The dealings in question are so complex that it is difficult even to summarize the suspicions they arouse, let alone cite the evidence supporting such suspicions. The sums of money involved are relatively petty, certainly on the scale of those Clinton now grapples with in shaping a federal budget. Violations of law, if any, would be extremely difficult to prove. Even Iowa Congressman Jim Leach, the chief Republican gadfly on Whitewater, doubts that the special counsel can or should bring criminal charges against Bill or Hillary Clinton. At most, he thinks, they might be assessed some civil penalties, perhaps mostly "symbolic" ones. But on another level, the investigation concerns the much larger issue of whether a President and First Lady can be trusted to obey the law and tell the truth. ***—Reported by James Carney with Clinton, Richard Behar/Little Rock, Elaine Shannon/Washington and Suneel Ratan/Yellville***

THE POLITICAL INTEREST

Michael Kramer

Where It Hurts

WHAT RANKLES ABOUT WHITEWATER? THE FACTS MOST NEEDED TO judge the Clintons remain unknown. In their absence, the nation is left with a jumble of disturbing impressions. First is the sense that we've been here before. Bill Clinton is a famous corner cutter. Ask him about something he perceives as uncomfortable, and he goes into lawyer mode. "I've caused pain in my marriage," he said, when Gennifer Flowers' charges surfaced. He didn't outright admit to philandering. He said "everyone" knew what he meant, and probably everyone did, but Clinton wasn't going to be any clearer. He didn't break *American* laws, he said, when the pot-smoking charges flew—a dodge that held for a nanosecond, until it was revealed that Clinton's noninhaling had taken place in England. And then there was the draft.

Since those activities and Clinton's tortured explanations took place before he was elected President, voters had a chance to review the evidence and pass judgment. Ultimately, enough people either believed Clinton or considered his truth shading less important than the need to improve on George Bush's performance. Today Americans can gauge Clinton by his record in the Oval Office as much as by anything else.



CYNTHIA JOHNSON FOR TIME

Itemized grievances on the campaign trail

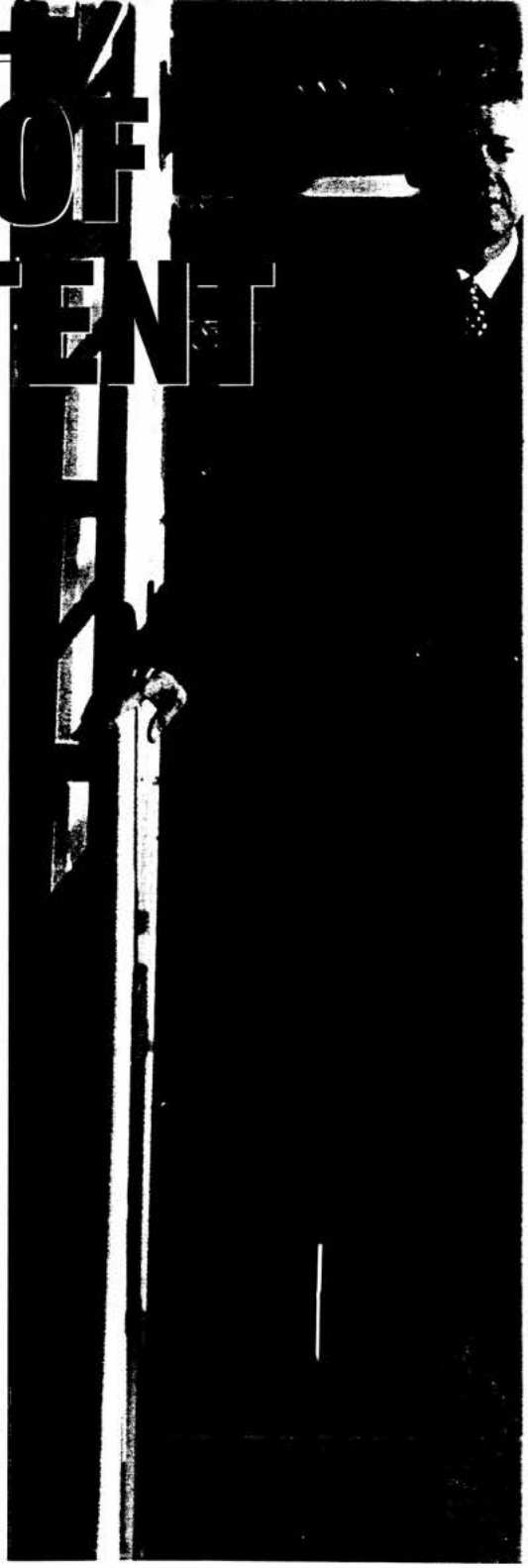
Where, then, does Whitewater fit in? It's different—or could be—because the wrongdoing (if there was any) may have involved abuses of power while Clinton was serving as Governor of Arkansas. On the other hand, Whitewater too is from the past. So even if the worst were proved—and no one yet knows what that is—the offense might not warrant impeachment. Even proof of an ethical lapse by then Governor Clinton is not likely to harm him as much as an error committed during his presidency, such as the unproved allegation that he recently dangled a job offer in front of an Arkansas state trooper in return for the trooper's silence about Clinton's alleged sexual shenanigans before he won the White House.

The President's call for an independent Whitewater investigation temporarily quells the political outrage, but many people still think Clinton must be guilty of something because they know he isn't stupid. Here's a policy wonk well versed in every domestic issue that ever made a Sunday-morning talk show, a politician with near total recall of conversations and events from long ago, a meticulous record keeper capable of itemizing underwear donations to charity. Why, then, are so many vital Whitewater records missing? How is it possible that two respected lawyers like Bill and Hillary Clinton don't possess a paper trail capable of proving their innocence—unless they're hiding something? How could products of the Watergate generation ignore the central lesson of Richard Nixon's downfall: stonewalling, and even its mere appearance, can be at least as corrosive as laying out the whole tale publicly, unless the true story transcends mere embarrassment?

Then there is the matter of the President's overall credibility. Are these nagging qualms so damaging that Clinton's legislative agenda will be jeopardized? Republicans, of course, and some Democrats think the President's ability to accomplish health-care reform has been compromised. But one senior Democratic Senator insists that Clinton has already ended up as "just another player with his own vision of how to resolve the matter."

More important, but thankfully vague at this point, is whether the scandal has hobbled Clinton's ability to command public support in a crisis. When a President, like Bush before the Gulf War, seeks public approval for a life-threatening mission with an argument that finally relies on a plea to "Trust me, you elected me," this is no trifling question. ■

WINTER OF DISCONTENT



In the Whitewater scandal, Clinton's real problem may be letting his frustration overcome his judgment

BY JONATHAN ALTER

IMAGINE THAT THE PRESS REPORTED A RUMOR THAT THE president had a tattoo on his rear end. Now imagine that Bob Dole challenged the president to prove that this wasn't true. Should the president pull down his pants to prove it?

As Clinton traveled the world last week, that's the fanciful analogy of a top-level White House aide explaining why the Clintons have been so reluctant to open all of their personal files to nosy reporters and attack-dog Republicans. Under pressure even from his own party, Clinton, fuming in Prague, finally agreed to have the attorney general name a special counsel to cut through the thicket of Arkansas connections now known as Whitewater. But the tattoo analogy testifies to the rage of the president and his staff about the way the story is being portrayed. Their disillusion that the Whitewater furor is strictly a matter of press obsession and partisan harassment also helps explain why the whole mess has been, as Jimmy Carter said, so "grossly" mishandled.

Even now, few people can absorb the mind-numbing details of 15-year-old real-estate and banking transactions in Arkansas. As long as they lost money, there is political safety for the Clintons in that confusion. A NEWSWEEK Poll shows that only 14 percent of the public believes the president to be guilty of "serious offenses." But nearly 70 percent believes Clinton should have been more open in handling the matter. Ultimately, such trust wounds may hurt more than future stories on any document or deal. The Clinton handlers argue that if they had publicly released the Whitewater files found in Vince Foster's office, the press would have nit-picked at discrepancies and demanded a special counsel anyway. And staffers complain that every time they make a concession, Dole wants another one. Now he's baying for a Senate select committee, as if this were Watergate or Iran-contra, which it isn't.

But the stonewall strategy violated Rule One of damage control—if it's going to come out eventually, get it out early. It moved the prospect of a special counsel from possible to inevitable. And it resurrected Clinton's reputation for shiftiness about his past.

Why resist full disclosure? The widespread assumption is that they must have something hugely embarrassing to hide, possibly connected to Foster's now portentous suicide. Perhaps so. We'll find out more when the special counsel completes his or her work. But there is another possible explanation. The Clintons let their resentment—their cynicism about Washington cynics—overwhelm their political judgment. They gave rein to frustration



without appreciating the consequences.

Did Clinton really believe he could avoid questions on Whitewater just by changing the subject? That might be the way he wants the Washington press corps to work, but he knows perfectly well that it doesn't. His critique of a news media more interested in an old land partnership than a new "Partnership for Peace" has some validity, but it is also politically irrelevant—like howling against the wind. It's as if he learned nothing from his 1992 travails over the Vietnam draft story, where every withheld fact and testy response just fueled more stories.

Short of criminal wrongdoing, scandals hurt most when they confirm something that we always suspected about our leaders. The good news for the Clintons is that because few voters suspect them of greed, money stories about them don't find much fertile soil. But there is one Clinton trait that resonates with this story—their habitual desire to have it every which way. In Arkansas, they wanted to be selfless public servants *and* comfortable 1980s Yuppies; crusading reformers *and* cozy courthouse politicians; careful about appearances (Hillary took no share of her law firm partnership profits that came from state business) *and* capable of exploiting the connections that came with their positions.

The game in Washington now is to figure out where eyebrow-raising over conflict-of-interest ends and direct "exposure" to charges of wrongdoing begins. The president is in real trouble if evidence surfaces that he intervened directly with state regulators to help Madison Guaranty, the ailing savings and loan owned by James McDougal, his disgraced Whitewater partner. (So far, none has.) He's in trouble if David Hale, an indicted former judge, can prove his allegation that Clinton intervened to secure improper Small Business Administration loans to McDougal's wife Susan. (Hale hasn't yet.) And he's in trouble if he knew that some of the $30,000-plus that McDougal raised to retire the debt from Clinton's 1984 campaign was funneled through Madison. The last is especially unlikely. No politician—not even Rep. Jim Leach, Clinton's most credible critic—can vouch for the source of his campaign checks.

Because of her role as a rainmaker for the Rose Law Firm and attorney for Madison, Hillary Rodham Clinton is actually more exposed than her husband. Forget the particulars of the Madison fiasco. The wife of the governor should not have represented *any* bank before a state regulator appointed by her husband, even if she was just supervising the case and seeking a routine advisory opinion. She may be less vulnerable on her (unsuccessful) request for power of attorney over Whitewater in 1988. Bruce Lindsey, a senior White House aide and former Arkansas lawyer, makes the case that with McDougal at that point ailing mentally and financially, "the power-of-attorney request was an effort to wrap up Whitewater, not become actively involved in its management."

So far, much of the rest is just innuendo. The press, squeamish about reporting the sex tales of state troopers, has compensated by emphasizing Whitewater. News organizations are routinely conveying misimpressions, including the notion that Whitewater files were secretly removed from Foster's office at night (they were removed in daylight, in the presence of the FBI), and that Foster spoke to the author of a Whitewater report on the morning of his death. (He didn't.) Similarly, it often has been repeated that the Clintons mysteriously failed to write off their $69,000 in Whitewater losses. But according to Lindsey, more than half of that amount consisted of mortgage-interest payments that the Clintons did write off throughout the 1980s. In 1992, when they finally sold their worthless Whitewater stock for $1,000, the Clintons declined to write off the rest in part because accountants' fees to collect the disorganized documents would offset any savings.

More dangerous Whitewater rapids may lie downstream. But it's also possible that the special counsel's verdict will be sloppy record-keeping and inattention to potential conflicts of interest. If that's all it is, the Clintons should have fessed up, taken their licks and moved on. Instead, it will be drip, drip, drip for months. This is an old lesson about Washington. When will the president and his wife finally learn it? ■

What Is 'Whitewater'?

A bewildering bundle of questions about Madison Guaranty and Whitewater will greet the special counsel. Three of the potentially most embarrassing:

Was Madison Guaranty propped up?
As Madison teetered, Clinton named as his S&L regulator a lawyer who had represented the thrift. She OK'd a "novel" stock plan to raise cash for the S&L. Did he try to extend Madison's life at taxpayer cost?

Was there a power-up?
Claiming attorney-client privilege, Clinton aides removed Whitewater files from Vince Foster's office before those investigating his suicide could review them. The files were turned over last week, but the foot-dragging raised suspicions of an attempt to hide facts.

What did Clinton know?
The Resolution Trust Corp. alleges that Madison kited checks in a scheme involving Whitewater. Who—if anyone—benefited from this apparent mismanagement? When did the Clintons learn of any improprieties? What action did they take?

Arriving in Brussels: Self-inflicted wounds

WALLY McNAMEE FOR NEWSWEEK

BIG TIMES IN LITTLE ROCK

How the incestuous world of business, law and politics spawned the Whitewater troubles

BY HOWARD FINEMAN

THE WILD SIDE OF THE '80S reached its zenith in different ways, and at different times, across America. In Arkansas, the place was Little Rock and the year was 1985. It was Bill and Hillary Clinton's town—and the scene of events at the heart of what has come to be known as Whitewater. A new-money crowd, flush with profits from municipal-bond sales and small-town banking empires, was blackballed by the staid Little Rock Club, but they gathered for champagne dinners at Jacques and Suzanne's, their own French restaurant on the top floor of a downtown bank building. Meanwhile, the workaday bond salesmen who manned the boiler-room phone banks—the infamous "bond daddies"—whiled away their spare time at a fern bar called Busters, where they paid with $100 bills. One waiter was so impressed that he asked for work and was making "cold calls" the next day.

In 1985 the Whitewater characters had the run of the city. James McDougal, the S&L cowboy and the Clintons' business partner, was luring the establishment into a Gatsbyesque deal: condo lots on Campobello Island, Franklin Roosevelt's retreat off the Canadian coast. McDougal's wife, Susan, wore skintight pants and rode a white horse in a TV ad for a McDougal-owned housing development. The McDougals drove a Bentley. Dan Lasater, king of the bond daddies (page 27), had a Rolls. He built two wings onto his palatial home on Little Rock's fanciest street and threw parties in his apartment at the Quapaw Tower, where the women were abundant, the cocaine was plentiful and the governor's brother, Roger Clinton, was often around.

The Clintons were close to them all in 1985—and that proximity is behind some of the Whitewater questions now to be examined by a Justice Department special counsel. But the Clintons may be in trouble for nothing more—or less—than embracing the Little Rock that surrounded them that year. In fact, they worked for years to control the clubby world they found.

As scandal junkies know, the Clintons had been partners with McDougal since 1978 in the Whitewater Development Corp. He was a key backer of Clinton campaigns, and in 1985 held a fund-raiser, an event investigators now are examining to see if money was illegally funneled from Madison S&L, owned by McDougal. That year, Hillary, a partner at the prestigious Rose Law firm, represented McDougal's bank before state regulators—another transaction now under investigation.

Little Rock was susceptible to the seamy side of the decade. It is the capital of a poor state, but with a large number of wealthy people. They all know each other, and most went to school together at the University of Arkansas. Many fortunes were built on politically influenced deals at the intersection of private markets and government: regulated utilities, municipal bonds, state banks. In Little Rock, as elsewhere, those businesses got out of hand. Out of the way, with a small population—and essentially controlled by one party, the Democrats, since the Civil War—Arkansas produced an elite that generally dealt only with itself and that viewed conflicts of interest as business as usual. It's a state in which the chairman of the Senate agriculture committee is on the payroll of the powerful Arkansas Poultry Federation, and nobody seems to mind.

Over the years the Clintons flourished in this environment: Bill as governor, Hillary as a leading corporate lawyer. In Arkansas, government is a crucial source of jobs: directly, on the state payroll, or in the form of state-backed investments in private proj-



ENRICO FERORELLI

Governor Clinton and Hillary back home

ects. It is patronage that Clinton, in his 12 years as governor, expanded and consolidated. Along the way, he invented new ways for business to make money, and perhaps unavoidably for well-connected law firms—including Hillary's—to prosper.

The signature business of Little Rock, bond sales, was founded by the late Witt Stephens. He was a patron of the Clintons and most every other politician in Arkansas. The eldest son in a poor farm family, he sold Bibles and belt buckles as a boy. In 1933 he set out on the back roads carrying a leather satchel of nearly worthless Arkansas highway bonds. The paper, he told small-town bankers, would be valuable someday: Roosevelt would bring the country out of the Depression. Meanwhile, the face value of the bonds (10 times what Stephens was asking) would look like an impressive asset. He sold them all—and became the original Arkansas bond daddy.

Stephens, and his brother Jack, later moved from selling bonds to underwriting the issuance of new ones, first by local governments in Arkansas, then in other states. To win the underwriting contracts, the Stephenses needed political contacts, and they acquired them by funding campaigns. Moving into corporate underwriting, the Stephenses joined Wall Street by helping to take public Arkansas companies such as Wal-Mart, Tyson Foods and TCBYogurt. In 1985 the Stephenses acquired a major interest in what is now the state's largest bank, Worthen Bank & Trust.

SIXTY YEARS AFTER WITT STEPHENS hit the road, the company, still privately held, occupies a marble-clad, 25-story building in downtown Little Rock. The walls of the executive suites are paneled in Honduran mahogany and festooned with American art worth millions of dollars. The Stephens family has provided the Clintons with crucial help, both private and public. They became the Clintons' financial advisers and portfolio managers in 1976; a Stephens executive, William Smith, handled their account at the firm until 1984. During four of those years, Clinton was governor, and the state awarded Stephens millions of dollars in bond-underwriting contracts. In 1990 the Stephens family gave financial assurances that helped Clinton secure a $50,000 bank loan in the last days of his closely contested gubernatorial campaign. And in March 1992, in the dicey days before the Super Tuesday primaries, Worthen Bank extended a $3.5 million line of credit to Clinton's campaign. The Federal Reserve is examining whether that act violated a federal law prohibiting securities firms from controlling bank operations.

The rise of the Stephenses meant new business for Little Rock's sleepy law firms. Foremost among them was Rose, where Hillary worked from 1976 through 1992, and where she did business deals and legal work that now put her at the center of the Whitewater probe. With her help, her three closest friends in the firm obtained key jobs in the administration: Webster Hubbell, now associate attorney general; William Kennedy III, who was a Rose managing partner and who is now associate White House counsel; and the late Vincent Foster, the former White House deputy counsel, whose suicide last July is also under investigation.

Little Rock's Power Blocks

With his capitol haunt at one end of downtown and her law digs at the other, Bill and Hillary Clinton were the most powerful bond in Little Rock's tightly connected financial and political worlds.



State Capitol



Stephens Inc.
Investment bank and bond trader underwrote Wal-Mart. Owns major interest in Worthen Bank. Advised Clintons on investments from 1975–84. Client of Hillary's Rose Law Firm.



Worthen Bank
Extended $3.5 million credit to the Clinton's 1992 campaign.

Wright, Lindsey & Jennings
White House aide Bruce Lindsey's law firm. Hired Bill Clinton when he briefly lost governorship.



Rose Law Firm
Former employer of Hillary, Vince Foster, Webster Hubbell and William Kennedy III.



TCBYogurt
Another Rose client; Hillary a board member 1989–1992.



ARKLA (public utility)
Once owned by Stephens, this Rose client was run by White House chief of staff Mac McLarty 1985–92.

Wal-Mart
Hillary on the board of directors 1985–92. Stephens, Rose client.

Tyson Foods
Bill contributor; Stephens, Rose client.

• Whitewater development

○ Little Rock

ARKANSAS

Markham
2nd St
3rd St
4th St
Capitol
6th St
7th St
Chester
Izard
State
Broadway
Spring
Center
Louisiana
Main
Scott
Cumberland
8th St
9th St
Arkansas River
630
30
500 feet
N
W
E
S

The Rose firm is the oldest pillar in the Little Rock establishment. Rose partners had their eyes on Bill before they'd heard of Hillary. Two senior partners, Gaston Williamson and William Nash, had been Rhodes scholars. They interviewed Bill in 1968 and gave him enthusiastic reviews that helped him win his own Rhodes. Six years later, when Clinton was teaching law at the University of Arkansas in Fayetteville, and mounting his first campaign—for the First District congressional seat—he was a guest at a Rose reception. Though he was only a 28-year-old novice, his campaign was almost as well funded as that of his veteran Republican opponent. The Little Rock crowd furnished its share.

When Clinton was elected attorney general in 1976, his wife joined Rose, the first woman ever hired. At the time, Rose was being transformed under the leadership of an aggressive new partner, Joseph Giroir. Once content to handle estates and the Stephens and Worthen money, Rose was aggressively pursuing the new deals of the go-go years: bank and S&L and bond business. Giroir was later forced out by the firm for using its connections and lawyers to enhance the banking business he was running on the side.

Hillary quickly became a key member of a team that was pursuing new public-private deals. She worked on bond issues and securities deals for Stephens. At one time or another she did legal work for most of the major corporations in the state, including Worthen, Arkla gas (run, from 1985 to 1992, by Thomas (Mack) McLarty, now White House chief of staff) and Wal-Mart. She eventually served on the boards of two big Arkansas companies, Wal-Mart and TCBYogurt. One particularly loyal client was Don Tyson, the northern Arkansas chicken magnate whose multibillion-dollar company was a major employer—and major polluter—in the state. While Bill flew for free in Tyson's jets—explaining that he was saving taxpayers' money by not purchasing a state plane—Hillary flew commercial on Tyson business.

LIKE ANY GOOD LAW FIRM, ROSE WAS able to play both sides of a business phenomenon. When S&L and bank acquisitions were hot, the firm helped make them—and Hillary, who was made a partner in 1980, had her share of that work. Then, when Arkansas S&Ls started to fail, Rose developed a new specialty, representing the federal government in efforts to clean up the S&L mess. Foster was an expert in the cleanup, and Hillary, too, worked on several of those projects. At least some of the banks and S&Ls were state chartered, and thus regulated primarily by officials appointed by Governor Clinton. At one point, Rose was hired to sue the accounting firm that had given a rosy review of the balance sheet of McDougal's Madison Guaranty S&L. Foster, who solicited the business from Federal Deposit Insurance Corp., neglected to mention that another partner in the firm, Hillary, had been paid a $2,000-a-month retainer by the same S&L. Rose got the job, but settled the case for only one twentieth of what the FDIC thought it could win. The FDIC recently launched an investigation.

While Hillary was building her law practice, Bill was devising new investment programs to boost the state's economy. They did much good for the state, but also provided him with a new source of patronage. In the cousinly world of Arkansas, where one good ole boy helps another, some of the money found its way into the friendliest of hands. One major development grant reportedly went to a warehouse owned by the father of one of Hillary's closest Rose partners, Kennedy. Another went to International Paper, which later sold a parcel of land—at what critics say was an unusually cheap price—to Whitewater Development.

Clinton's main vehicle for development—and patronage—were bond issues, first issued through the highway authority and then through a new entity called the Arkansas Development Finance Authority. ADFA bundled local bond issues to make them more attractive to buyers. Doing the complex legal work and sending them to market was a bonanza for law firms and underwriters—including Rose. Because of Jack Stephens's increasingly aggressive support for Republicans—and because he wanted to reward his new friends—Clinton made sure that none of the state-bond business went to Stephens Inc. when he reassumed the governorship in 1983. Most of the legal work was shared by Rose and Wright, Lindsey & Jennings, where Clinton worked when he lost the governorship.

Despite Clinton's public-investment efforts, most of the economic growth has occurred in the private sector in the northwest part of the state. Tyson, Wal-Mart and the J.B. Hunt trucking company (which ships for both) are rapidly expanding there and creating thousands of jobs. The old university town of Fayetteville—where almost all of the elite of the state attended either college or law school or both—has become a new business hub.

The new mecca is the Bud Walton Arena, a shiny new $32 million basketball palace devoted to the greater glory of the University of Arkansas Razorbacks. The fanciest skybox belongs to Don Tyson. Carved into the solid-mahogany walls are two chickens dribbling a basketball.

When the Clintons were on vacation in Arkansas last month, they hit Fayetteville in time for a Razorbacks game. The president worked the crowd, on the floor and in the skyboxes. The Clintons looked at ease, glad to be back home. But if Whitewater has shown anything so far, it's the danger inherent in all of this coziness. For years, it's now clear, the Clintons were too comfortable to consider how their behavior might look later in another, less intimate place—Washington, D.C. ■

Hillary Clinton played an active role in Little Rock's legal and social scene

JERRY STALEY—SYGMA



LEVEL 1 - 9 OF 18 STORIES

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HEADLINE: With Political Connections, Arkansas S&L Lived and Died

SERIES: Occasional

BYLINE: Susan Schmidt, Marilyn W. Thompson, Washington Post Staff Writers

BODY:

With flamboyant investments and risky lending, Madison Guaranty had transformed itself by 1985 into one of Arkansas' largest and most politically connected savings and loans.

Madison's owner, James McDougal, had attracted as customers the cream of the state's Democratic establishment. McDougal, along with his then-wife Susan, also was in a business venture with then-Gov. Bill Clinton and his wife, Hillary, whose land development corporation, known as Whitewater, kept a checking account at Madison.

But as 1985 began, a roadblock stood in Madison's path. Federal examiners scrutinizing Madison's books had discovered poorly kept records, loans made without proper documentation and real estate investments of questionable value involving its own officers, investors and their friends. Madison was perilously overextended by financing projects like a seashore development on Canada's rocky coast without first receiving the required approval of state regulators for a foreign investment.

Among Madison's many large loans during that period were several to finance an ambitious trailer home and industrial park project 10 miles south of Little Rock. Borrowers included McDougal's onetime boss, the venerable former Democratic senator J. William Fulbright, and McDougal's friend, Jim Guy Tucker, then a lawyer for Madison who now serves as Arkansas governor.

Federal examiners concluded in a 1984 confidential report sent to Arkansas regulators that, while the institution was still solvent, its "viability" was threatened by its "unsafe and unsound" business practices. And they warned McDougal and his board that unless Madison's weak management was strengthened and $ 3 million in new capital was raised by 1986, when examiners would return, the federal government would begin action to close it down.

So began a period of scrambling by McDougal to save an S&L that under his ownership had applied the neighborly ways of Arkansas life to the principles of high finance. A banker who lent millions with little more than a handshake and kept details of intricate deals mostly in his head, McDougal first hired as a Madison vice president the federal examiner, Sarah Worsham Hawkins, who had prepared the critical report. Then he turned to the state of Arkansas for help.

The Washington Post, January 24, 1994

Rose Law Firm Is Hired

He hired Hillary Rodham Clinton and her influential law firm to push a series of proposals before Clinton administration regulators. Madison won state approval to sell preferred stock and to market limited partnerships in its shaky real estate projects, plans that eventually fell through.

McDougal's appeals for state regulatory exceptions helped him stay in control of Madison for another year, while excessive lending and insider transactions continued. He was removed by Madison's board in mid-1986 under pressure from federal regulators. During McDougal's three years as owner, the institution with $ 6 million in deposits and a tiny loan portfolio had mushroomed in size, to deposits of $ 123 million. Loans to officers, directors and related parties had swelled from $ 500,000 to $ 17 million. Most of that money was never repaid.

The confluence of events in 1985, when McDougal strengthened his already close business and political ties to the Clintons, drew the attention of investigators from the Resolution Trust Corp. when they began untangling the affairs of Madison, which failed in 1989 at an estimated taxpayer cost of up to $ 60 million. Whether Madison received favorable treatment from regulators -- adding substantially to the costs of its eventual shutdown -- is among the questions that will be examined by newly appointed special counsel Robert B. Fiske Jr.

Fiske's Investigation

Fiske plans to begin work in Little Rock today on a broad investigation of Madison, the Whitewater real estate venture and a federally backed loan that was partly used by Whitewater to purchase land. The White House has said Clinton was not involved in discussions about the loan. A former municipal judge indicted in connection with that loan has charged that his small business investment company made a $ 300,000 loan to McDougal's wife under pressure from McDougal and the governor. Fiske also intends to examine whether the July suicide of deputy White House counsel Vincent Foster, who handled the Clintons' personal legal affairs, had any connection to these events.

In April 1985, as he began preparing plans to raise money by selling Madison stock, McDougal began paying Hillary Clinton's law firm $ 2,000 a month for its services representing the S&L in negotiations with the state Securities Commission. Citing an independent audit that later proved to be filled with misrepresentations, the firm won quick approval for a preferred stock plan never before tried by an Arkansas S&L.

McDougal said later he decided to hire Hillary Clinton and the Rose Law Firm of Little Rock after then-Gov. Bill Clinton jogged by Madison's office one day and dropped in to complain about money, asking if the banker could drum up some business for his wife. The Clintons that year earned $ 102,492, with Hillary Clinton's Rose firm salary accounting for $ 55,382, tax returns show.

Hillary Clinton, in an interview last year, described her legal work for Madison in 1985 as limited and said she almost never did work before state officials appointed by her husband.

"I have tried to avoid such involvement and cannot recall any instance other than the Madison Guaranty matter in which I had any involvement, and my

involvement there was minimal," she said.

Securities Commissioner

However, McDougal's stock plan required the approval of state Securities Commissioner Beverly Bassett Schaffer, a longtime friend of the Clintons and a political supporter. Clinton had named her to the job, which carried responsibility for overseeing S&Ls and answered to the six-person state S&L board, on Jan. 16, 1985.

Schaffer also was intimately familiar with some of Madison's troubles. As a private lawyer, she had worked for Madison's principal law firm along with Jim Guy Tucker. She wrote a lengthy memo to McDougal's attention warning Madison that its installment real estate sale at the seashore development in Canada was operating in violation of the Interstate Sales Act. Schaffer, whose brother was a key Clinton campaign backer, has said she has never met McDougal and her appointment to the state job had nothing to do with Madison.

Primarily in charge of pushing the S&L's case were young Rose Law Firm associate Richard Massey and his college friend John Latham, the chief executive officer of Madison. Latham attended a series of meetings with regulators on Madison's behalf to negotiate details of the stock proposal. Weeks earlier, in March 1985, Gov. Clinton had given Latham influence over S&L regulation with an appointment to the state S&L board. As one of five Clinton appointees, Latham helped oversee the state S&L agency and ruled on contested regulatory issues.

Clinton appointed Latham, who eventually became chairman of the state board, although federal regulators had criticized him and other inexperienced Madison managers in the 1984 report. Latham pleaded guilty in 1989 to falsifying Madison records and turned government witness in a federal bank fraud case brought against McDougal for some of his real estate dealings. McDougal was acquitted in the case.

A Precedent-Setting Plan

The stock proposal submitted by the Rose firm was precedent-setting. Though federally chartered institutions were permitted to sell preferred stock, Arkansas S&Ls had never tried such a plan, and there was some question initially about whether state S&L laws would allow it.

Presented on April 30, 1985, the stock plan met with immediate skepticism among some regulators who were familiar with Madison's shaky financial condition.

"The question was: Can they and how could they sell stock in a failing institution? Who would want to buy it?" recalled Charles Handley, a state regulator assigned to monitor Madison. Concerned about the stock sale's far-reaching legal implications, Handley alerted Schaffer on May 6 and recommended they seek a legal opinion before acting on the proposal. No independent legal opinion was sought, however.

'Dear Hillary'

Eight days later, in a brief letter that began "Dear Hillary," Schaffer wrote that she accepted the Rose firm's legal analysis and would allow the stock

plan to go through.

Handley says now he does not believe that Hillary Clinton exerted political influence in the matter. He said he did not know until late in the process that the governor's wife was involved and "if we had it to do over again, everyone should have known that going in."

He said Schaffer addressed her approval letter to Hillary Clinton because they were close friends. But he said she felt strongly that the Rose firm made a convincing legal case. "Beverly is a lawyer," he said, "and she was also the boss."

Despite winning permission to sell stock, the S&L was unable to generate sufficient interest among investors to sell any, state officials say. Other plans pushed by the Rose firm to market Madison securities and sell limited real estate partnerships also fell through.

During the same period Madison was seeking help from regulators appointed by the governor, McDougal agreed to a request from Clinton that he help retire a 1984 campaign debt. Sources said federal investigators have been examining a series of Madison cashier's checks made out to Clinton or his gubernatorial campaign that were generated at an April 4, 1985, McDougal-sponsored fund-raiser for Clinton in Madison's lobby. Clinton used the $ 30,000 in proceeds to help repay a personal loan from the Bank of Cherry Valley that he took out in the final days of the 1984 campaign.

Clinton Records Sought

A Madison director's son whose name is on one of the cashier's checks said recently he never made any such donation. Justice Department investigators have begun subpoenaing records from Clinton's gubernatorial campaigns as well as records from the Cherry Valley bank. They are looking into whether some of the money was illegally diverted from Madison accounts controlled by McDougal.

McDougal has said he has no knowledge of improper contributions and former Clinton aide Betsey Wright, who picked up the money raised at the Madison fund-raiser, says the governor did not attend the event and would have no knowledge of irregular contributions.

FBI Is Alerted

The RTC has also alerted the FBI to the activities of the Whitewater checking account at Madison, which fluctuated wildly during the mid-1980s and showed numerous transactions that have no apparent relation to the Ozarks real estate venture, sources say. Whitewater maintained its principal business account at another bank.

The Clintons have said they were only passive investors in the land development company, which they formed with McDougal and his wife in 1978 after borrowing more than $ 200,000 to finance the purchase of Ozarks property. Clinton was Arkansas attorney general at the time.

Though they say the investment was a failure in which they lost $ 68,900, the Clintons remained as partners in the corporation throughout McDougal's legal troubles in the late 1980s and the failure of his banking and business

enterprises. Clinton's state banking commissioner has said he warned the governor in 1983 that McDougal's activities at another bank he owned, the Bank of Kingston, could run afoul of the law. Hillary Clinton was a Bank of Kingston borrower whose loan was refinanced at another state bank soon after Clinton received the warning.

Account Often Overdrawn

The Whitewater account at Madison was often overdrawn, then brought back into balance with large deposits from other businesses, many of them believed to be shell corporations controlled by McDougal, sources say.

The day before McDougal held the 1985 Clinton fund-raiser, for example, records show that he withdrew $ 30,000 from Whitewater's checking account at Madison, causing an overdraft of about that amount. Written on the check was the notation "loan repayment," though sources said there were no records indicating McDougal had ever made such a loan to Whitewater.

A few weeks later, on April 17, sources said, the Whitewater account was brought back into balance when Madison's real estate subsidiary deposited $ 30,000 in it. The payment was described in bank records as part of a yearly "bonus" to McDougal, but it is not clear why the money was placed in Whitewater's account.

The FBI also has subpoenaed records of the former Bank of Cherry Valley, where Whitewater had a loan and Clinton also did personal business. Sources familiar with Madison records said that about $ 15,000 in checks from the Whitewater account were sent to the Bank of Cherry Valley in late 1984 and early 1985, with written notations suggesting that they were used to make payments on two separate loans.

Records Unavailable

Maurice Smith, a finance official for Clinton's gubernatorial campaign who owned the bank, said records on loan accounts during that time period are no longer available.

The Clintons last year ended their Whitewater investment by selling stock back to McDougal for $ 1,000. Tax records show they have not claimed the $ 68,900 they say they lost in the venture, which they say was because they tried to be cautious in filing their returns.

McDougal said recently he does not know how the Clintons could have lost what they say they spent in the venture. He says he does not recall them putting more than $ 9,000 into the corporation.

The federal government tried to reclaim some of its losses in the Madison affair in 1989 by suing Madison's auditors, Frost & Co., for misrepresenting the S&L's financial condition. The Frost firm worked with the Rose Law Firm in seeking state approval of Madison's stock plan in 1985.

Not realizing the Rose firm did legal work for the thrift in 1985, the Federal Deposit Insurance Corp. hired Rose lawyer Webster Hubbell to represent the government's interest. The case was settled out of court for $ 1 million; the Rose firm made $ 400,000 in legal fees.

Hubbell, who followed Clinton to Washington and is now associate attorney general, has recused himself from the criminal investigation of Madison's affairs, which has focused partly on business dealings involving his father-in-law, an employee of Madison's real estate subsidiary. The FDIC is conducting an internal inquiry into how the Rose firm came to be hired.

GRAPHIC: ILLUSTRATION, MADISON GUARANTY AND THE CLINTONS, TWP

LANGUAGE: ENGLISH

LOAD-DATE-MDC: January 24, 1994

Mrs. Clinton's Ex-Law Firm Defends Whitewater Role

By Ellen Joan Pollock
Staff Reporter of The Wall Street Journal

Partners at Hillary Rodham Clinton's former law firm in Arkansas say they fully disclosed to federal regulators their work for the thrift at the center of the Whitewater affair.

A lawyer for the Rose Law Firm also said Mrs. Clinton played a much smaller role than has been reported in representing the thrift, Madison Guaranty Savings & Loan, in a matter that came before a state regulator appointed by then-Gov. Bill Clinton.



The Federal Deposit Insurance Corp. has been looking into whether the Rose Law Firm fully disclosed its prior relationship with Madison when the firm was hired by regulators to handle a lawsuit the thrift had filed against its auditor. The FDIC took over Madison in 1989.

The Clintons' partnership with Madison's owner in Whitewater Development Co. is being investigated by an independent counsel appointed by U.S. Attorney General Janet Reno. Among the questions the prosecutor, Robert Fiske Jr., is likely to look at is whether money from the now-defunct thrift was improperly used to pay off Mr. Clinton's campaign debt when he ran for governor. Friday, it was also disclosed that a federal grand jury had subpoenaed records from current Arkansas Gov. Jim Guy Tucker and others involving the Clintons' role in Whitewater.

In interviews last week, Rose partners said that on several occasions, two partners at the firm alerted thrift officials to potential conflicts because of their relationship with Madison. Each time, regulators decided that the potential conflicts weren't of consequence, the lawyers said.

Typically, under legal-ethics rules, conflicts of interest are mitigated by full disclosure and clients' approval of the firm's continued representation.

There were three areas of concern over conflicts, according to Rose partners. In the mid-1980s, Mrs. Clinton and another lawyer in the firm represented Madison in two matters before the state securities commissioner. According to Rose partners Ronald M. Clark and Gary N. Speed, that prior representation was disclosed to the FDIC by then-partner Webster L. Hubbell. Mr. Hubbell is now associate attorney general.

Mr. Speed, who did most of the work for the FDIC in the suit against the auditor, Frost & Co., recalls that when he became involved in the case, he was "concerned" that the firm's prior representation of Madison might create an appearance of a conflict of interest. He said he raised the question with Mr. Hubbell. "He assured me later that it was fully disclosed [to the FDIC] and that there was no problem," Mr. Speed said.

Mr. Hubbell couldn't be reached for comment. Carl Stern, a Justice Department spokesman, said that Mr. Hubbell has said he "orally" disclosed the prior relationship to the FDIC.

Mr. Speed also noted that the law firm's position in the suit against Frost over audits conducted in the mid-1980s "was not inconsistent" with any work the law firm had previously done for Madison, a key factor in any conflict-of-interest analysis. "We hadn't done any review of . . . the financial statements of Madison," he said.

Charles W. Wolfram, a legal-ethics specialist at Cornell Law School, said he sees "no problem at all" in Rose's representation of the FDIC because, once the agency had taken over Madison, it was "not an adversary of the S&L. . . . They're just like a trustee in bankruptcy."

Mr. Speed said he continued to worry about potential conflicts and to make further disclosures. Particularly worrisome, he said, was the relationship of Mr. Hubbell's father-in-law, Seth Ward, with Madison. Mr. Ward, a former Madison employee, had settled a tangled court dispute over sales commissions and a loan he had received from the thrift. His settlement reduced the amount that Rose was able to demand from Frost for losses sustained by the thrift.

Mr. Speed said that to allay the firm's conflict concerns, Mr. Hubbell's relationship with Mr. Ward was disclosed by Rose lawyers to Resolution Trust Corp. attorney April Breslaw and other thrift regulators during "numerous conversations."

Mr. Speed said he and Mr. Hubbell had another conversation with Ms. Breslaw on the subject of conflicts after Rose hired an attorney who had once worked at Madison. "She concluded that it was not a problem," he said. Ms. Breslaw declined to comment.

Peter Kumpe, a Little Rock lawyer for the auditor, Frost, said that the Rose Law firm's connection with Madison was "no secret at all." He said that Ms. Breslaw was actively involved in the litigation and that he assumed she knew of Rose's relationship with Madison.

The FDIC has said that it knew about the relationship between Madison and Mr. Hubbell's father-in-law but that its lawyers didn't recall being told about Rose's previous representation of the thrift. In a statement, the FDIC said it was investigating, although it had "no reason to believe we were misled."

Rose partners also said they don't believe Mrs. Clinton's role in the firm's representation of Madison before the state's securities commissioner was improper. "We don't see that Hillary's done anything unethical in this situation," Mr. Clark said.

Mrs. Clinton was involved in representing the thrift before securities commissioner Beverly Bassett Schaffer, who was appointed by then-Gov. Clinton. At issue was the thrift's effort to gain state regulatory permission to issue preferred stock. But people familiar with the matter said that Richard Massey, another Rose attorney, did almost all of the work. One Rose lawyer said he doesn't know of "one instance" in which Mrs. Clinton appeared before a state regulator "and I don't know anyone that does."

The fact that Ms. Schaffer had communicated with the Rose firm in a letter addressed "Dear Hillary" had raised suspicions that Mrs. Clinton had been directly involved in pressing the matter before Ms. Schaffer.

In an interview, Ms. Schaffer said that Mrs. Clinton "never came to any meetings." Charles Handley, an aide to Ms. Schaffer who worked on the Madison matters, also recalls no instance when Mrs. Clinton dealt with the state securities department. Ms. Schaffer said that neither she nor her staff knew of the Clintons' business dealings with James McDougal, Madison's owner. She said she merely "concurred" with the Rose firm's opinion that the stock plan wasn't inconsistent with state law. No final plan was filed with the department, "much less approved by me, as securities commissioner," Ms. Schaffer said.

As evidence that Ms. Schaffer wasn't simply doing Madison's—or Mrs. Clinton's bidding — Mr. Clark points out that the securities commissioner made it difficult for the thrift to pursue a separate plan involving the operation of a brokerage-firm subsidiary. Madison's broker/dealer application was approved by Ms. Schaffer in the fall of 1985 but only on the condition that it met the federal net capital requirement by the end of that year. That deadline passed unmet.

The Rose firm has also come under scrutiny because Madison put the firm on retainer for the work supervised by Mrs. Clinton. The firm collected $2,000 a month for a 15-month period. Mr. Clark noted, however, that the firm eventually "determined our work was so sporadic that we couldn't justify the retainer." In July 1986, he said, the firm returned $6,400 to Madison.

52

Reno uses special counsel to quiet critics

By Major Garrett
THE WASHINGTON TIMES

Attorney General Janet Reno said yesterday she appointed a special counsel in the Whitewater-Madison affair in part to quell media criticism that was imperiling President Clinton's legislative agenda.

"And judging by the way that you all have tuned down the deflections, it worked," Miss Reno said on NBC-TV's "Meet the Press."

She denied colluding with the president on the appointment, a move she adamantly resisted until Mr. Clinton asked for it when he was in Europe.

"It indicates that the president of the United States has a large number of issues that he's got to deal with," Miss Reno said. "It indicates that he was finding the whole issue very distracting and diverting from the real issues that have to be focused on in America."

Last week Miss Reno appointed Robert B. Fiske Jr., a liberal Republican and Wall Street lawyer. Mr. Fiske said he expects to be given br authority to investigate the Clintons' ties to the Whitewater development project and Madison Guaranty Savings and Loan.

The Clintons were full partners in Whitewater Development Corp., an unsuccessful real-estate venture in northern Arkansas. The Clintons were partners from 1978 to 1992. Federal regulators closed Madison Guaranty in 1989 and the subsequent bailout cost taxpayers $50 million.

Miss Reno said she would not interfere with Mr. Fiske's investigation.

"I told him, 'I want you to design the scope of it. ... I don't want to control your purse strings, I don't want to control anything about what you do. You're going to report to the American people,' " Miss Reno said.

Meanwhile, Senate Minority Leader Bob Dole repeated his call for congressional hearings into the matter. The senator said a partial review by the Congressional Research Service showed Democrats sought no fewer than 18 investigations of conduct suspected of being illegal or unethical during the Reagan and Bush administrations.

"The point is, Democrats aren't going to investigate Democrats," Mr. Dole said on CBS-TV's "Face the Nation." "If Democrats can investigate Republicans 18 times, even though you had special counsels, special prosecutors, in some of those cases, then there ought to be the same standard. Shouldn't be a double standard."

Mr. Dole said Congress has some interest in the Whitewater-Madison matter because the failure of Madison Guaranty cost taxpayers millions of dollars.

In addition to examining the unorthodox financial transactions in the Whitewater-Madison affair, Mr. Fiske, a former U.S. attorney in New York, has said he would investigate the July 20 suicide of White House Deputy Counsel Vincent W. Foster Jr.

He will also investigate Capital-Management Services Inc., a Little Rock lending agency that granted a $300,000 Small Business Administration (SBA) loan to Susan McDougal, then the wife of Madison's owner, James B. McDougal.

Capital-Management's president, David L. Hale, a former Little Rock municipal judge now under indictment on unrelated SBA fraud charges, has said Mr. Clinton pressured him to give the SBA to Mrs. McDougal. More than $100,000 of the loan eventually found its way into the Whitewater account.

Mr. Fiske, according to guidelines established by Miss Reno, will have the authority to investigate whether "any individuals or entities committed violations of federal law," including Mr. and Mrs. Clinton and others involved with the couple through Madison or Whitewater.

He also has the authority to investigate "other allegations or evidence of violation of any federal criminal law by any person or entity" that might surface during his investigation.

Mr. Fiske said last week after his appointment he expects to take testimony in the case from the Clintons under oath.

"I would certainly expect that before this investigation is over that I would question both the president and the first lady and that it would be under oath," Mr. Fiske said.

ARKANSAS DEVELOPMENT FINANCE AUTHORITY

Federal investigators looking into the financial affairs of the Madison Guaranty Savings and Loan Association have begun to examine the thrift's ties to the Arkansas Development Finance Authority. A look at the agency:

- Created by Gov. Bill Clinton and the Arkansas General Assembly in 1985, the ADFA is a bonding agency that issues tax-exempt, low-interest, long-term bonds for purchase nationwide.
- The ADFA provides financing for industry, small and large businesses, agriculture, multistate hospital and health care enterprises, education, local governments, and even foreign-owned companies in the United States.
- The majority of projects are in Arkansas.
- Outstanding loans: single-family housing, $972.6 million; multifamily housing, $63.3 million; development finance projects, $186.2 million; other loans and investments, $241.6 million.
- The authority is run by an 11-member board of directors appointed by the governor, and the agency's president, is appointed by the board and serves at the pleasure of the governor.

Source: Arkansas Development Finance Authority

The Washington Times

State agency major source of funds for Clinton backers

By Jerry Seper
THE WASHINGTON TIMES

The Arkansas Development Finance Authority, which has issued millions of dollars in tax-exempt bonds since its creation in 1985, has been a significant source of revenue for investment brokers and lawyers who helped Bill Clinton during his gubernatorial and presidential campaigns.

According to state records, friends of the Clinton administration had access to tax-exempt financing for development projects throughout the state and reaped millions of dollars in bond underwriting and bond counsel fees in return.

The ADFA program, touted by Gov. Clinton as a way to bring jobs to his economically depressed state, created fewer than 2,800 new jobs in its first seven years.

Each job cost Arkansas taxpayers $13,000 to create and paid an average wage of $15,000.

Top Clinton supporters fared better, according to the records:

- Stephens Inc., Arkansas's largest brokerage firm, took in nearly $5 million in fees as a bond underwriter from 1985 to 1991.

Warren A. Stephens, president of the Little Rock-based company, raised $50,000 in campaign funds for Mr. Clinton's 1990 re-election as governor and more than $100,000 for his presidential race.

- The Rose Law Firm and two other Little Rock law firms — Wright, Lindsey & Jennings, and Mitchell, Williams, Selig & Tucker — received bond counsel fees totaling more than $1 million. In most cases, the underwriting and bond counsel work was awar without competitive bidding.

The Rose firm represented Stephens Inc. and sometimes represented ADFA borrowers.

The late Vincent W. Foster Jr., the Rose Law Firm partner who later became deputy White House counsel and was the Clintons' personal lawyer, personally handled the Stephens Inc. account.

Hillary Rodham Clinton and Webster L. Hubbell, the No. 3 official in the Clinton Justice Department, also were Rose firm partners.

Bruce R. Lindsey, senior partner at Wright, Lindsey & Jennings, was Mr. Clinton's presidential campaign director and is now a senior adviser to the president.

ALAN DERSHOWITZ

Ethics primer for the special counsel

Robert B. Fiske, the special prosecutor selected to investigate the Whitewater-Madison matter, should quickly brush up on legal ethics in general and on the Code of Professional Responsibility in particular. The investigation will probably turn up no hard evidence of criminal behavior by President Clinton.

Even if Mr. Clinton as governor of Arkansas did use his influence to delay the closing of Madison Guaranty Savings & Loan Association, and even if he did so in exchange for campaign contributions traceable to bank funds — and there is currently no evidence of either — these elusive facts would be virtually impossible to prove.

What might be possible to prove, however, is that the Rose law firm, and some of its partners, may have played fast and loose with the Rules of Professional Conduct. Those Rules, with some variations, govern the conduct of lawyers in virtually every state, including Arkansas. In particular, Rule 1.7 prohibits lawyers from engaging in conflicts of interest. And the Rose firm's representation of the Federal Deposit Insurance Corp. in its claims against Madison after it previously was the lawyer for Madison appears to constitute a classic conflict of interest.

Exacerbating this conflict may be a letter written by Vince Foster to the FDIC soliciting the FDIC's business. In that letter, Mr. Foster apparently failed to advise the FDIC of the law firm's prior representation of the bank. If that failure to disclose a material fact was willful, it could constitute fraud. Federal bank regulators are now looking into this matter.

Then there is the potential exposure of the Rose firm to massive civil liability if it helped to cover up Madison's shaky financial condition. In recent years, both accounting and law firms have been held liable for failure to disclose adverse financial information about which it knew or should have known. The Rose firm may be particularly vulnerable on this score, because in 1985, Hillary Rodham Clinton and another partner used an audit by Frost and Co. to show that Madison was financially solvent, and then in 1989 another partner of the same firm sued Madison on behalf of the FDIC, alleging that the audit was bogus. That partner was Webster Hubbell, who is now the No. 2 person in the Justice Department, and whose father-in-law borrowed more than $500,000 from Madison Guaranty and failed to repay it.

At a more general level is the appearance and, perhaps, reality of conflict that always exists when the spouse of a high public official practices law in front of judges, administrators and others whose careers may be influenced by that official. There can be little doubt that clients sought out Hillary Rodham Clinton precisely because her husband was the governor. Regardless of whether the governor actually influenced — directly or indirectly — any decisions in cases in which his wife was counsel, the appearance of influence is inescapable.



Exacerbating this conflict may be a letter written by Vince Foster to the FDIC.

Professor Paul Rothstein of Georgetown Law School, a knowledgeable expert on legal ethics, urges "leniency" in this area: "Unless you want to say the wife of an important man can never apply her trade, you've got to be lenient on that. You don't want to disable professional wives from practicing their trade."

But many spouses of public officials have made the decision to withdraw from practicing the kind of law that creates the appearance of improper influence. There are many ways of practicing law — both profitably and usefully — without even coming close to the line of impropriety. Hillary Rodham Clinton's practice of law was so close to her husband's base of influence that many will ask the question, just how good a lawyer Mrs. Clinton really would have been if her husband had not been the governor?

These and other ethics issues may become the focus of the special prosecutor. I hope he will take these issues seriously, not so much to criticize particular individuals for past derelictions but to educate the American public about this relatively hidden but widely practiced genre of elite influence peddling and questionable ethics. Because this form of "cheat elite" is so prevalent among big city lawyers and law firms, I have decided to begin my legal ethics course this semester with a survey of the ethics issues surrounding Whitewater-Madison. My goal is to sensitize law students to the kinds of ethical problems they are likely to encounter when they begin to practice law.

As a Democrat who voted for President Clinton, I wish Bill and Hillary Clinton had been better sensitized to these issues when they studied legal ethics at Yale Law School in the 1970s. I hope nothing negative turns up against the first family. But as a law professor, I understand the importance of a full and open investigation of Whitewater-Madison that will sensitize a generation of future lawyers to the ethical pitfalls of practicing law at the highest levels of government.

Alan Dershowitz, a professor at Harvard Law School, is a nationally syndicated columnist.

ISSUES

OTHER SUBJECTS THE CONGRESS MAY DEAL WITH THIS SESSION

Budget amendment hangs in balance

A constitutional amendment requiring a balanced budget, increasingly popular as frustration with government spending grows, faces a stern test in the Senate soon after Congress reconvenes. Election year pressures will make it more difficult for Democratic leaders, who oppose the idea, to stop it. But an improving economic picture is taking some pressure off: President Clinton says his new budget estimates a 1995 deficit of $180 billion, well under previous projections.



AP

DOLE: Fears support is eroding

Senate Minority Leader Robert Dole, R-Kan., says he fears support is eroding in the face of strong opposition from powerful Appropriations Chairman Robert Byrd, D-W.Va. "I think they're short (on votes)," Dole says. "Sen. Byrd is a pretty good opponent." House Speaker Thomas Foley, D-Wash., who opposes the amendment, has promised supporters a House vote if it passes the Senate. The amendment fell just short of the two-thirds majorities it needs in the House and Senate two years ago.

INDEPENDENT COUNSEL: Increased attention to the Clintons' involvement in the Whitewater land affair gives impetus to renewal of the independent counsel law. The Senate reauthorized the measure last year even though Republicans opposed it out of frustration at Lawrence Walsh's six-year, $37 million inquiry into the Iran-contra scandal. The House is expected to move rapidly to approve the bill.

INFORMATION HIGHWAYS: Congress seems ready to put rules on emerging information highways to catch up with technology and communications industry mergers. Three bills have been introduced. A version likely to pass would free telephone companies and cable TV companies to compete against one another for video and phone business, smooth out regulations to govern all communications companies, and set up safeguards to make sure one company doesn't monopolize service in any community.

RADIATION TESTS: Congress will try to sort out whether to compensate people — at least 800 — unknowingly involved in government-backed radiation experiments between 1944-72. Prospects for other key environmental laws are less certain. Key legislation in need of renewal: Clean Water Act, Safe Drinking Water Act, Superfund and the Endangered Species Act. Of the four, Congress seems most likely to act on the two clean-water laws.

MINING OVERHAUL: Final action is possible on an overhaul of the Mining Act of 1872 governing use of public lands, another Clinton administration priority. A conference committee will resolve differences between versions approved by the House and Senate. The House wants mining companies to pay an 8% royalty on the total value of all they mine; the Senate wants an industry-backed plan calling for a 2% royalty, minus all costs.



AP

FOLEY: Reform proposal far too harsh

FINANCE REFORMS: The House and Senate may work out dramatically different campaign finance bills passed last year. The Senate bill bans political action committees and penalizes campaigns that don't adhere to spending limits. The House bill permits PACs to contribute up to $5,000 to campaigns and provides candidates abiding by spending limits with free communications vouchers. A ballyhooed effort to reform lobbying resumes with the House expected to follow the Senate in approving tighter spending disclosure rules. The House may ban members and their staff from accepting almost any gift, meal, entertainment or travel expenses from lobbyists. House Speaker Thomas Foley, D-Wash., and others say the proposal is far too harsh. On other congressional reforms such as switching to a two-year federal budget, Congress bogged down last year because of internal committee wrangling, demonstrating the difficulty of asking members to cede any of their power.

EDUCATION CHANGES: The Educate America Act, billed as the administration's landmark education reform bill, is set for Senate action this month. The House last year passed the bill, which aims to overhaul education with voluntary standards in key subjects, more challenging curriculum and improved teacher training.

FOREIGN AID: The Senate's foreign aid overseers are taking a sharp look at assistance to R[illegible]a and other former Soviet republics. Committee Chairman Patrick Leahy, D-Vt., is holding a hearing today because he's "disturbed by the apparent lack of an overall stategy" for U.S. assistance.

U.S. pushes to bolster trade ties

Move seen aiding world security

TOKYO — The Clinton administration last week started putting into action a plan to boost economic growth at home and promote peace around the world by strengthening U.S. ties with key developing economies.

The strategy's cornerstones: The belief that as trade grows between two countries, so does each country's standard of living. And the belief that economic advancement and trade ties enhance global security.

The White House pitched those arguments during the bitter debate over the North American Free Trade Agreement. And it is now looking to expand the doctrine to other countries.



THE ECONOMY
By Mark Memmott

Treasury Secretary Lloyd Bentsen, who spent the past week spreading the word in Asia, summed up the idea this way for bankers in Thailand: "Promoting growth, opening markets and expanding trade create jobs for our citizens and support stability, harmony and democracy throughout the world."

Bentsen is the public face on the administration's high-level effort to sell its strategy. Starting Jan. 11, he traveled to Moscow to join talks on aiding Russia's emerging free market economy. Then he went to Indonesia and Thailand, two nations with midsize economies the U.S. would like to do more business with. Then he went to China — the biggest potential consumer market in the world because of its 1 billion people.

Sunday, he stopped in Japan to try to get trade talks moving, but that wasn't the focus of the trip. In Indonesia, Thailand and China, Bentsen pressed leaders to let foreign financial services firms do business in their countries. He also stressed the U.S. commitment to the Asia-Pacific Economic Cooperation group, a 16-nation organization that seeks to integrate economies of countries that border the Pacific Ocean.

At each stop in Asia, Bentsen and his aides also hammered at these points:

▶ As nations open their markets to competition from foreign goods and services, they may lose some jobs in the short run. But they stand to gain jobs in the long run, in part because their exports will grow in industries where they have competitive advantages and because their consumers and many businesses will be able to buy goods and services at lower prices. That would give consumers more money to spend on other things. And open markets would help companies be more competitive because their cost of materials and supplies would decline.

> **"Liberalization is a process. It doesn't happen by just flicking a switch."**
>
> **— Lloyd Bentsen**

▶ The U.S. wants to do more business with emerging economies and is willing to be patient even if they want to take several years — or more — to open their markets to U.S. companies. "Liberalization is a process. It doesn't happen by just flicking a switch. We are prepared to consider transitional arrangements" that give companies in other countries a chance to adjust to foreign competition, Bentsen said in Bangkok.

▶ The U.S. is a good alternative to Japan and Europe for nations seeking investors for their economies.

Bentsen is pushing hard on financial services because, he says, it "is like the nervous system. It sends signals to the industrial muscle, directing capital and investment to the projects that promise the highest return."

While Bentsen was in Asia, he said the White House hasn't forgotten other areas of the world where emerging economies are booming. Latin America, he has said, will get renewed attention later this year.

"We're seeing trade cooperation replace security confrontation," Bentsen said in Indonesia. "Trade and growth promote stability and prosperity and they promote security."

68

G.O.P. CHALLENGES CLINTON'S AGENDA

Promises Fight on Most Issues — Dole Issues Warning on Whitewater Hearing

By RICHARD L. BERKE
Special to The New York Times

WASHINGTON, Jan. 22 — Setting an acrimonious tone as the election year opens, Republican leaders put President Clinton on notice today that they were ready to fight him on virtually every major issue on his agenda, from crime to health care to welfare.

Senator Bob Dole, the Republican leader, went a step further at the winter meeting of the Republican National Committee here, suggesting that Mr. Clinton's involvement in the Whitewater real estate deal when he was Governor of Arkansas might be used to the Republicans' benefit during the fall Congressional campaigns.

"If the Democrats don't want to have a hearing, they're going to suffer the consequences," Mr. Dole said of the Democrats' unwillingness to hold Congressional hearings on Whitewater. He said he was not fully reassured by Attorney General Janet Reno's appointment this week of an independent counsel, Robert B. Fiske Jr., to investigate the matter.

Kemp Urges Caution

But most of the speakers at the committee's three-day winter meeting, which ended today, emphasized policy differences with the Administration. Jack F. Kemp, who like Mr. Dole is mentioned as a possible Presidential contender in 1996, was most critical of the President's health care plan.

Asserting that the country's health care system was a "problem" and not a "crisis," Mr. Kemp echoed Mr. Dole's comments that Mr. Clinton was moving too fast on trying to overhaul the system. "President Clinton is trying to scare the American people into thinking that we have to radically nationalize," Mr. Kemp declared in a luncheon speech today.

But on the issue of violence, Mr. Kemp departed from many other speakers here who sought to outdo one another in trying to appear toughest on the need to lock away criminals. He cautioned the party against becoming too fixated on building prisons in its zeal to score political points.

"There's got to be something in between gun control on the left and just building more prison space on the right," said Mr. Kemp, the Secretary of Housing and Urban Development in the Bush Administration.

After his speech, Mr. Kemp told reporters that he was concerned that the Republican Party not appear excessive or insensitive to racial tensions. "Very frankly," he said, "there is a message that we have to be very careful that our symbols and words and actions and policies to the inner cities is not just, more prisons.' "

Reliving Victories

The recent polls showing that Mr. Clinton's popularity has rebounded only seemed to encourage Republicans to attack the President harder. "I know that President Clinton is going to try to steal the crime issue," Mr. Dole said, "and try to steal the welfare issue and try to steal the immigration issue. He'll probably get credit for health care."

The only thing the Republicans were giving Mr. Clinton credit for was the party's victories in every major election last year. It was a mantra heard in almost every speech here.

"The powerful principles that we forgot to talk about enough over the last few years but which unite us as Republicans have catapulted us back to victory in 1993," said Haley Barbour, the party chairman.

Despite the upbeat talk, the Republicans are still adjusting to the notion of a Democrat in the White House, and they were hard-pressed to explain Mr. Clinton's improved standing in recent polls.

At a news conference on Thursday at the opening of party's conference, Mr. Barbour said Mr. Clinton's popularity reflected in part positive economic news. But the chairman said former President George Bush, not Mr. Clinton, deserved the credit. "You have seen President Clinton inherit a very strong economy," Mr. Barbour said.

Look at News Media

Mr. Barbour then offered a second explanation for Mr. Clinton's popularity: that Congress not in session, Mr. Clinton had been able to dominate the news media. But he did not point out that the coverage was far from all glowing because much was devoted to Mr. Clinton's involvement in the Whitewater deal and to accusations from Arkansas state troopers about Mr. Clinton's private life while he was Governor.

Perhaps because the accusations do not appear to have dented Mr. Clinton's ratings, Mr. Barbour backed off from his comments to reporters last week that the party would attack the President on character issues. Asked about such allegations this week, Mr. Barbour was strikingly less critical, saying, "I think the President should get the benefit of the doubt."

Yet today Mr. Dole was not so willing to let Whitewater drop although he had said last Sunday that he might forgo his call for Congressional hearings depending on who was chosen as independent counsel. "We're not after anybody," he said today, "but we do have some oversight responsibilities." He disputed that he was trying to make too much of Whitewater, saying, "We're not looking for a 24-hour TV Bobbitt-type thing."

The New York Times

How to Whitewash Whitewater

Dirty Trickery and Other Nixonian Tips for Besieged Bill

By Robert Hirschfeld



ILLUSTRATIONS BY ROB SHEPPERSON FOR THE WASHINGTON POST

BEFORE THE Republicans begin salivating over the prospect of Bill Clinton's downfall from the Whitewater/Madison Guaranty controversy, the public ought to consider an important point: Democrats are too inept to orchestrate a scandal on the grand scale of their opposition.

The GOP is expert on scandal, having refined it to an art form over several administrations. While Clinton may have shown favoritism to a small-time savings and loan operator and assorted other cronies, Republicans are capable of subverting the Constitution. There's no comparison.

What the Republicans have got on to is the basic secret of scandal management: The best defense is to make the scandal indefensible. Smartly making their misdeeds intricate, obtuse and all-encompassing, they ensure immunity because the press and public can't possibly absorb it all. For example, during the Iran-contra hearings, countries were referred to by letters and people by code names. It sounded like a high-stakes game of Bingo. Independent prosecutor Lawrence Walsh spent seven years trying to sort out this mess and obtain convictions, but he got basically nowhere. And if you can figure out all the byzantine connections in the BCCI bank fraud case (never mind BNL), then you may even be able to tackle the job of amortizing your business car properly on your income taxes.

The Clintons ought to borrow a page from the Republicans in handling their defense of Whitewater. True, the tawdry affair is complex enough that for the last year or two the evening news had a hard time explaining it with its signature cartoon graphics. But the media are now catching on. What's needed is additional complication. Here are some key elements the Clintons can concoct in order to defuse the issue:

■ *Link Madison to BCCI.* Claim that a secret slush fund was created to launder money wire transfers to a BCCI branch in Baghdad. Hint that the CIA was involved and bank records could be withheld for national security reasons.

■ *Create a "patriotic" cause as the impetus for it all.* Have someone from the Arkansas National Guard appear in full uniform to give a spirited explanation of how socialist forces were rising up in Grenada and threatening U.S. global security, so supplies for building bunkers were sold to Saddam Hussein and the profits diverted to a Panamanian hit squad that was training to invade the island carrying a Bible and a cake in the shape of an assault weapon. Go on the offensive and suggest that anyone attacking the Clintons's involvement with Whitewater doesn't care about the freedom of our country.

■ *Use wiretaps.* Release hundreds of hours of secret tape recordings of phone calls, including one between Bill Clinton and James McDougal that is missing 18 minutes of conversation just after McDougal utters the words "they'll never find out. . . ."

■ *Claim that Neil Bush was on the board of directors of Madison Guaranty.* The public barely flinched when it found out that the Silverado S&L, on whose board the former president's son once sat, had failed at a cost of several hundred million dollars to the taxpayer. So linking Neil Bush to Madison will insulate the Clintons if they're connected to a mere $60 million bailout.

■ *Stage a break-in.* Organize a group of thieves—real plumbers would be appropriate—to break into the Arkansas Republican headquarters to steal any files it may have on opposition research.

■ *Engage in dirty tricks.* Release supposed entries from Sen. Packwood's diaries in which he writes of Republican Senate leaders accepting bribes. This might bring Bob Dole to tears during a press conference in front of the Capitol during snow flurries.

■ *Use selective amnesia.* How can the Clintons be expected to remember all the petty details in this case when they have more important things to think about, such as being the leader and the First Lady of the free world? The words "I don't recall" should become Clinton's mantra.

■ *Continue to stonewall.* The Clintons have already honed this technique but they shouldn't get fainthearted now. Drag the release of information out over such a long period of time that the press and public will finally lose interest. Let this story pass from hysterical press inquiry into historical indifference.

■ *Insist on a congressional committee investigation.* Let all the key players involved testify before a joint committee under immunity so they can spill their guts and then be insulated from prosecution by a special counsel.

■ *Have Socks write a book.* There's nothing like having an adorable First Pet deflect adversity and create a warm fuzzy feeling toward 1600 Pennsylvania Avenue.

Robert Hirschfeld is a writer and television producer in Washington.

66

THRIFT INDUSTRY

Former U.S. Prosecutor Named As Whitewater Investigator

Aiming to separate politics from a federal probe into the past financial dealings of President Clinton and Hillary Rodham Clinton with the operator of a failed Arkansas thrift, Attorney General Janet Reno tapped a respected Republican and former federal prosecutor for the job.

Reno chose Robert B. Fiske Jr., using her authority to appoint special counsels in extraordinary circumstances. The move may give Democrats the upper hand in efforts to quash GOP calls for a separate congressional investigation. *(Weekly Report, p. 61)*

In a Jan. 20 news conference with Reno, Fiske quickly demonstrated his independence, vowing to question the president and Mrs. Clinton under oath and telling members of Congress that he does not want them to meddle while he does his work.

Fiske's appointment quickly followed Clinton's acquiescence in demands for an investigation independent of the Justice Department.

Fiske, 63, is a Wall Street lawyer who served as a New York-based U.S. attorney from 1976-80. He will investigate the Clintons' investment in the failed Whitewater Development Co. real estate venture and their relationship with James B. McDougal, manager of the failed Whitewater project and former owner of Madison Guaranty Savings and Loan. The Arkansas thrift failed in 1989 at an estimated $68 million cost to taxpayers.

Rigorous Probe Likely

Although the president's decision to accept an independent counsel largely succeeded in calming a political and media firestorm that had threatened to consume his presidency, it is plain that Fiske plans a rigorous investigation that the Clintons may find discomfiting.

Beyond the Clintons' financial dealings, Fiske said he will look into the apparent suicide of White House aide and Clinton friend Vincent W. Foster, who in recent years was legal adviser on Whitewater to the Clintons.

By Andrew Taylor



REUTERS

Special Counsel Robert B. Fiske Jr. is introduced Jan. 20 by Attorney General Janet Reno.

The president vowed to cooperate fully with the probe. "Whatever they want to do, we'll be glad to do it," he said Jan. 20 on Cable News Network's "Larry King Live." "The main thing I want to do is to just have that turned over to him so we can go back to work.... I don't want to be distracted by this anymore."

Top Republicans continued to press for a congressional investigation, but Fiske said such an endeavor might impede his job. "I think the history of these situations is that it is difficult to conduct this kind of investigation at the same time a congressional investigation is going on," Fiske said.

But on the day of Fiske's appointment, Senate Minority Leader Bob Dole, R-Kan., renewed his call for congressional hearings. "What I'm hoping is that, rather than pursuing a select committee, that one of the [Banking] committees will do it on their own," Dole told reporters. "I know there are efforts under way to get that done. If we have an objective hearing, there is no reason to have another hearing."

Republicans could bring the issue to a head by forcing votes in the Banking committees or on the floor on whether to conduct an inquiry.

But facing opposition from Democratic leaders and the chairmen of the Banking committees, who have rejected a congressional investigation, they almost certainly would lose any such vote. And it is not clear that Republicans, who in the past have opposed congressional investigations that paralleled criminal probes, would gain political advantage in the process.

Fiske To Issue Public Report

Fiske and his team of lawyers will completely take over the investigation from the Justice Department, relieving a team that Reno assembled in November 1993 after news accounts disclosed that lawyers for the Resolution Trust Corporation, the thrift cleanup agency, had forwarded a criminal referral to Justice.

Fiske said he has not set a timetable, nor has he determined how big a staff he will hire.

He said his investigation will focus on possible violations of criminal law relating to Whitewater and Madison. But he also said he will issue a public report, which conceivably could touch on broader ethical questions involving political and business relationships among the Clintons and their associates in Little Rock in the mid-1980s.

Those include multiple aspects of the Whitewater investment, ties between Madison and Whitewater and ties between Madison and Clinton's 1984 gubernatorial campaign.

In addition, Fiske will take over the loan fraud prosecution of David Hale, a Clinton associate who claims Clinton pressured him to make a $300,000 loan from his Capital Management Services investment firm to Susan McDougal, wife of the thrift's owner. More than $100,000 of the loan ended up in Whitewater accounts. ■

Counsel Prepares for Clinton Inquiry

By STEPHEN LABATON
Special to The New York Times

WASHINGTON, Jan. 21 — After being briefed by Federal officials on what has been learned so far about President Clinton's land dealings in Arkansas, the new independent counsel in the case was back at his Wall Street law firm today, completing personal business and taking the first steps toward finding a staff of prosecutors.

The counsel, Robert B. Fiske Jr., intends to open an office soon in Little Rock, Ark., which he said on Thursday would be "the center of gravity" for the investigation. Colleagues at his law firm and lawyers who worked with him when he was the United States Attorney in Manhattan in the 1970's said today that he had a wide pool of professional acquaintances to draw upon for the investigation.

Mr. Fiske was described today as being eager to assemble a staff quickly. He has apparently decided not to limit his search to the circle of lawyers he has come to know in Manhattan. Indeed, several of his senior aides from his days as United States Attorney said today that even if asked, they would not be able to leave their practices to spend months in Arkansas working on the case.

Mr. Fiske has also said that he intends to continue to rely on the Federal Bureau of Investigation to assist in the inquiry, as previous independent prosecutors have also done in other cases.

Review of Findings

Officials in Washington said today that Mr. Fiske spent Thursday hearing what the Justice Department and Federal Bureau of Investigation have already discovered about the connections between the Whitewater Development Company, an Arkansas real-estate concern partly owned by the Clintons in the 1980's, and the Madison Guaranty Savings and Loan Association.

Before Madison failed in 1989, it was headed by James and Susan McDougal, the Clintons' partners in Whitewater, a 200-acre vacation home development along the White River in northern Arkansas.

The Justice Department had been investigating whether Madison improperly funneled money into Whitewater or into Mr. Clinton's 1984 reelection campaign when he was Governor of Arkansas. Another Justice Department investigation that will be folded into the Fiske inquiry concerned a note left by Vincent W. Foster Jr., the deputy White House counsel and longtime friend of the Clintons who committed suicide last July.

Mr. Foster, a former law partner to Hillary Rodham Clinton, had worked extensively on the Clintons' finances and shortly after his death, the White House counsel, Bernard W. Nussbaum, transferred a file on Whitewater from Mr. Foster's office to the Clintons' personal lawyer.

Last week, after Ms. Reno was ordered by the White House to appoint a special counsel, she instructed the Justice Department to all but shut down its investigations into Whitewater and the Foster note.

Aides to the Attorney General said she decided that it would be counterproductive for prosecutors in the Justice Department to continue investigating the various matters connected to Whitewater and Mr. Foster's death while a new independent counsel was being sought. Nonetheless, they said that since subpoenas had already gone out to several witnesses, Ms. Reno took steps to make sure that all evidence was being preserved for Mr. Fiske.

The subpoenas that had been issued by a Federal grand jury in Little Rock demanded records from Gov. Jim Guy Tucker of Arkansas; former Senator J. W. Fulbright, Democrat of Arkansas; Steve Smith, an aide to the Clintons and an Arkansas banker, and Seth Ward 2d, the father-in-law of Associate Attorney General Webster Hubbell. Mr. Fulbright had financial dealings with Madison; Mr. Hubbell, a close friend of the President, was also a partner of Mrs. Clinton and Mr. Foster at the Rose Law Firm in Little Rock.

A subpoena does not imply wrongdoing and is only a demand for documents or testimony. Still, the scope of the subpoenas suggested that the Justice Department had engaged in a broad search for evidence in an attempt to put together the pieces of the often confusing dealings of Whitewater and Madison through the 1980's.

The appointment of Mr. Fiske seems at least for now to have ended any efforts by the Republicans to hold hearings on Whitewater and the Clintons. Republican aides said the lawmakers would await the outcome of the investigation before deciding whether to press for hearings.

The decision is an important early victory for Mr. Fiske. Lawrence E. Walsh, the independent counsel in the Iran-contra affair, has said that the Congressional hearings in that inquiry substantially impaired his ability to make cases against many of the important figures who were granted immunity in exchange for their testimony.

Mr. Walsh is a former law partner and mentor of Mr. Fiske, although they have not practiced for many years and their styles have been described by colleagues as different.

It was Mr. Fiske's hallmark as a Federal prosecutor to drop any investigations in which he thought he could not make a case. Moreover, Mr. Fiske is by all accounts expected to take a considerably more active role in overseeing this investigation than in leaving it to younger prosecutors.

"He's simply not going to give whoever he hires the kind of authority that Walsh did," said Alan Levine, a former prosecutor who worked side-by-side with Mr. Fiske in a successful prosecution of Anthony Scotto on labor racketeering charges 15 years ago. "He will be very involved in this."

THE NEW YORK TIMES, SATURDAY, JANUARY 22, 1994

WHAT HAPPENED WHEN



Cartoonists & Writers Syndicate — Cummings, Winnipeg Free Press, Winnipeg, Canada

A Whitewater Chronology



Wellesley College Photo
The Clintons in 1979

Summer, 1978 — Bill Clinton, the Arkansas state attorney general, and his wife, Hillary, a Little Rock attorney, become 50-50 partners with James and Susan McDougal to buy 230 acres along the White River in northern Arkansas, planning to profit by selling lots as vacation home sites.

1979 — In January, Clinton sworn in as Arkansas governor for two-year term. The four partners form the Whitewater Development Corp. Due to high interest rates, land sales are poor.

1982 — McDougal buys Madison Guaranty Savings and Loan. Clinton loses re-election for governor.

1984 — Federal regulators say Madison Guaranty is in trouble because of McDougal's unsound lending practices. Hillary Clinton's Little Rock law firm is hired to represent Madison. Clinton wins back governorship.

1985 — McDougal hosts a political fund raiser to pay off Clinton campaign debt. Federal investigators are now trying to determine whether some of the $35,000 raised came illegally from Madison Guaranty, disguised as private contributions.



AP Photo (Democrat-Gazette)
Madison Guaranty Savings and Loan in Little Rock.

Hillary Clinton later represents Madison Guaranty before a Clinton-appointed state regulator, seeking permission for an unusual stock offering to provide much-needed cash for the shaky savings and loan. Permission granted, but the stock offering is never made.

1986 — David Hale, the head of an agency funded by the federal Small Business Administration to help minority businesses, lends $300,000 of SBA money to Susan McDougal. Some of that money is used to buy land that ended up in Whitewater Development Corp.

1989 — Madison Guaranty is declared insolvent and taken over by the federal government.



Reuter Photo
McDougal

1992 — President-elect Clinton and his wife sell their share of Whitewater to McDougal, claiming they lost $68,900 on the venture.

1993 — In July, Deputy White House counsel Vincent Foster shoots himself in an apparent suicide. The Clintons' records on Whitewater are removed from Foster's office and sent to his personal lawyer. These records are later surrendered to the Justice Department.

1994 — On Jan. 12 and under public pressure, Clinton asks Attorney General Janet Reno to name a special counsel to investigate the Whitewater matter. On Jan. 20, she names New York attorney Robert B. Fiske, a Republican with a reputation for integrity.

— George DeWan

He'll Question the Clinton

Whatever is found in the Whitewater investigation by the newly appointed special counsel, Robert B. Fiske, the public is likely to believe it.

Fiske, a 63-year-old, Brooklyn-born Republican, has a rock-solid reputation for integrity on both sides of the political fence. A Yale graduate with a law degree from the University of Michigan, he had two stints as a public prosecutor with the U.S. Attorney's office in New York, where he had a 95 percent conviction rate in more than 4,000 indictments and criminal charges, including the case of drug dealer Nicky Barnes. But Fiske has logged more time as a high-profile defense attorney in the prestigious Wall Street law firm of Davis, Polk and Wardwell. A resident of Darien, Conn., he has three grown children, is an avid fisherman and sails on Long Island Sound.

WRITE US: What's your impression so far on the Whitewater affair?

PAGE RESEARCH: LYNDA RU

BURT SOLOMON

FROM WATERGATE TO WHITEWATER

Twenty years ago, when a previous President had a scandal on his hands, strategists at the House Judiciary Committee would argue with one another about how broadly to fashion a subpoena for the White House to furnish, notably, the Watergate tapes. Richard L. Cates, who was a senior associate special counsel for the committee's impeachment inquiry, recalled that he was a purist, in favor of asking for anything that might elucidate the motives of Richard M. Nixon and his coterie. In trying to frustrate the politically judicious instincts of committee chairman Peter W. Rodino Jr., D-N.J., Cates remembers that he could usually count on an ally—another senior associate special counsel, Bernard W. Nussbaum.

"At least in the beginning, Bernie was responsible . . . for the procedural aspects" of issuing subpoenas, Cates, who now practices law in Madison, Wis., added. Nussbaum was "in on all of it" in preparing the subpoenas and in trying to siphon information from the White House, according to Richard H. Gill, a Montgomery (Ala.) lawyer who held the same rank. Nussbaum had the widest-ranging duties among the four or five deputies to John M. Doar, the head of the impeachment staff. He served as a troubleshooter for Doar and as his senior trial lawyer—examining witnesses in private, for instance, and preparing them for public hearings.

Having helped to fell the 37th President, Nussbaum is now trying to protect the 42nd; as the White House counsel, he is on the receiving end of the demands for evidence. But how successfully he's been serving his client is problematic. President Clinton passed into his current crescendo of political woe from his dealings in Whitewater Development Co. when it became known that Nussbaum had removed a file on Whitewater from the office of his deputy, Vincent Foster Jr., after Foster's suicide last summer. As Clinton and his wife were pondering how to handle the outcry, someone close to the White House said, Nussbaum strongly urged them not to release any of the documents because "you don't have to." The White House, bowing to the political pressure, agreed to turn the documents over to a special counsel, but in a way that prevents the public from seeing them.

The President's wife, who's thought to be the wellspring of the White House's resistance to laying out the facts about



Whitewater, also happened to have worked with Nussbaum on the House impeachment staff. He was one of the several senior-level officials who interviewed young lawyers seeking one of three dozen jobs as low-level counsels on the 46-lawyer staff; among those hired was Hillary Rodham, several months out of Yale Law School.

Chatting in the White House sometime in the past year, Hillary Clinton told former Rep. Charles E. Wiggins, R-Calif., who was Nixon's firmest defender on the Judiciary Committee and is now a judge on the U.S. Court of Appeals for the Ninth Circuit, that she'd served as something of a gofer, doing whatever she was assigned. Regarded as bright and reliable, she was part of a pool of generalists who read a lot of law and accomplished what Cates described as "busy work [that] had to be done." She and Nussbaum were among the half of the impeachment staff that did four-fifths of the exciting, historic work, according to Robert D. Sack, a New York City lawyer who shared Nussbaum's rank on the staff.

Unlike the Watergate scandal, the Whitewater matter has nothing to do with a President's behavior in office. But these veterans of Watergate aren't blind to the irony. "It appears to me somewhat inconsistent," Wiggins said in an interview, "for former staffers who sought information from the White House to now be in the White House and refuse to give information when [it's] requested [by] Congress."

"Of course, there's irony about the mere fact that Bernie Nussbaum has [Nixon counsel] John Dean's job," Sack said, and that "Hillary Rodham sleeps in the same bed—at least in the same bedroom, I assume—that Nixon slept in."

But if these go-betweens from Watergate to Whitewater are trying to avert the sort of candor they once demanded, it isn't surprising. From the first, Clinton and his inner circle have showed a temperament and a talent for keeping things close to the vest. During the presidential transition, each official had to sign a confidentiality pledge; just one or two copies were printed of the preliminary proposals on health care.

Once the Administration took office, a similar obsession for secrecy suffused the effort—headed by Hillary Clinton—to plan an overhaul of the nation's system of health care. The White House refused, until leaks to the news media forced its hand, to make public the names of the 500-plus experts it had asked to participate. (Ira C. Magaziner, who was in day-to-day charge, wouldn't give some of the experts the home telephone numbers of others. *The New Republic* reported this month.) Enterprising reporters who cover the White House aren't having an easy time prying.

An aversion to outside scrutiny has never seemed far from the surface in Clinton's White House, even since the route to the press secretary's office in the West Wing was reopened last spring. Associate attorney general Webster L. Hubbell, a former law partner of Hillary Clinton's, has instructed federal agencies handling Freedom of Information Act requests to return to the White House any documents discovered that originated there. *Newsday* reported on Jan. 10. ABC News may go to court to force the Commerce Department and the U.S. Trade Representative's Office to release files on tobacco exports for a network documentary.

Perhaps a parsimony with information should have been expected from a White House crawling with lawyers, from the President on down. "Most lawyers are that way," former Rep. Robert F. Drinan, D-Mass., who sought to impeach Nixon as a Judiciary Committee member and now teaches at Georgetown University Law Center, noted. The tussle between the tight-lipped lawyers and the talkative masters of spin that typically erupts in a White House facing scandal isn't a fair fight in this one. ■

ıton Land Dream Turns ɔ Political Nightmare

ry: The Arkansas investment was a basic get-rich ıe bad. But ties to banker weave a complex web.

LAS FRANTZ
AM C. REMPEL
WRITERS

E ROCK, Ark.—Many he dream of getting rich al estate, and Bill Clin- the attorney general of was no different from others when he and his d that dream in 1978 by partners in a venture Whitewater Estates.

Vade, the real estate o handled sales for r, said he remembers ing him about his hopes g money—and perhaps ing down—on scenic the Ozark Mountains of rkansas.

"It's really pretty up there," Wade said Clinton told him shortly after the Clintons and two friends bought 230 acres in 1978. "Why don't you pick me out a lot? I might retire up here."

Today, Whitewater has turned into a political nightmare for President Clinton and his wife, Hillary Rodham Clinton, becoming the subject of a broad federal investigation into the their financial dealings during their years in Arkansas.

The fundamental allegation by critics is that the project was a "sweetheart" deal arranged by the Clintons' Whitewater partner, James B. McDougal, to provide the Clintons with risk-free profits

Please see WHITEWATER, A5

WHITEWATER

Continued from A1

without any investment by them.

There are also questions about whether money from McDougal's savings and loan was mingled in the venture's accounts to help keep the project afloat.

There have also been suggestions that political clout from Clinton, who moved on to the governorship, may have subsequently helped delay the foundering S&L's day of judgment before federal regulators and that Clinton's campaign treasury may have benefited from donations from the S&L.

When it was disclosed in December that Whitewater records were removed from the office of White House deputy counsel Vincent Foster after his suicide last July—and then that the papers were kept from investigators—suspicions escalated rapidly.

Clinton gave in to subsequent congressional and public pressure and agreed to the appointment of a special counsel, who is now beginning to investigate the affair.

The expanding trail of leads and political charges drew much attention to Whitewater, the affair, but left Whitewater, the real estate venture itself, only more obscure.

In recent weeks, Times reporters have interviewed more than 30 people associated with the project and reviewed hundreds of pages of records in an attempt to reconstruct what happened.

Aspects of the venture remain tangled in an underbrush of small-time real estate deals and missing documents. However, the evidence now available seems to offer more support than contravention for two core claims made by the Clintons: that rather than rewarding them financially, Whitewater was a money-loser and that during the key phases of the project, the Clintons seemed to exercise little management control.

At the same time, the records and interviews document several transactions that raise questions about the venture:

- How much was paid for a prime lot at the development, one that Wade said had originally been set aside for Clinton, and where did the money go?
- What does a loan taken out by Hillary Clinton to help Whitewater indicate about her involvement in the project?
- Is there a connection between the eventual sale of the Clinton-McDougal interest in the venture and the messy finances of McDougal's S&L?

THE PARTNERSHIP

It was McDougal who in 1978 came up with the idea to cash in on the Sun Belt land boom by developing lots for vacation and retirement homes along the White River. The waterway is famous for its trout fishing and rafting. Similar developments were springing up in Florida, Georgia and Texas.

McDougal had known Clinton since they

James M. Lyons, a Denver lawyer who examined the Whitewater transactions for the Clintons.

McDougal told the Associated Press that he believes that the Clintons lost far less in Whitewater. He said his "records" showed a loss for them of about $9,000. But he acknowledged that his "records" were his memory.

POWER OF ATTORNEY

Whitewater continued to be a financial problem for the Clintons into the late 1980s. Occasionally, property buyers defaulted on their purchases and the lots were returned to the development company for resale.

Wade, who was the agent for those lots as well as his own, said completing the resales was difficult because of turmoil in the McDougals' personal lives.

McDougal's S&L had collapsed, and he was unemployed, under investigation and under psychiatric care for severe depression, according to records. His marriage had broken up, and his wife had moved to Los Angeles.

"I couldn't find Jim or Susan, and we had these two lots we needed to sell," Wade said. "So I called Mrs. Clinton and asked her to see about getting a power of attorney to approve the sales."

On Nov. 28, 1988, Hillary Clinton wrote a letter to McDougal asking for a power of attorney authorizing her to sell the lots and pay off the bank loans.

"I hope we'll be able to get all that behind us by the end of the year," she wrote.

Hillary Clinton's letter has raised questions about whether the Clintons were, in fact, passive investors or whether she had taken direct action in managing the ill-fated project and is thereby more directly linked to questionable dealings at the venture and at Madison Guaranty.

Lindsey said McDougal never returned a signed power of attorney. Wade said McDougal contacted him shortly after receiving Hillary Clinton's letter and approved the sales.

The Clintons remained partners in Whitewater Development until late 1992, when they sold their interest to McDougal for a nominal $1,000. The transaction was handled by Foster.

McDougal said last fall that Whitewater was his first money-losing venture in real estate, and he regretted the losses sustained by the Clintons. "I wanted to help Bill Clinton make some money," he said.

But today there is little to show for the development. A handful of mobile homes and fishing shacks are scattered across the largely undeveloped land, along with a couple of homes.

John Lauramoore, a carpenter, now lives in one of the homes, the model built with Hillary Clinton's money on Lot 13.

"What happened to Clinton happened to a lot of developers," Lauramoore said. "He went in on a land deal to make a buck and lost his shirt."

whitewater times - a1700
ATTN: National editors) (Includes optional trims)
Evidence Shows Whitewater a Money-Loser for Clintons (Little Rock)
By Douglas Frantz and William C. Rempel= (c) 1994, Los Angeles Times=

LITTLE ROCK, Ark. Many have had the dream of getting rich through real estate, and Bill Clinton, then the attorney general of Arkansas, was no different from countless others when he and his wife chased that dream in 1978 by becoming partners in a venture known as Whitewater Estates.

Chris Wade, the real estate agent who handled sales for Whitewater, said he remembers Clinton telling him about his hopes for making money on scenic property in the Ozark Mountains of northern Arkansas.

``It's really pretty up there,'' Wade said Clinton told him shortly after the Clintons and two friends bought 230 acres in 1978. ``Why don't you pick me out a lot? I might retire up here.''

Today, Whitewater has turned into a political nightmare for President Clinton and his wife, Hillary Rodham Clinton, becoming the focus of a broad federal investigation into the their financial dealings during their years in Arkansas.

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In recent weeks, Los Angeles Times reporters have interviewed more than 30 people associated with the project and reviewed hundreds of pages of records in an attempt to reconstruct what happened.

Aspects of the venture remain tangled in an underbrush of small-time real estate deals and missing documents. However, the evidence now available seems to offer more support than contravention for two core claims made by the Clintons: that rather than rewarding them financially, Whitewater was a money-loser and that during the key phases of the project, the Clintons seemed to exercise little management control.

At the same time the records and interviews document several transactions that raise questions about the venture:

How much was paid for a premier lot at the development, one that Wade said had originally been set aside for Clinton, and where did the money go?

What does a loan taken out by Hillary Clinton to help Whitewater indicate about her involvement in the project?

It was McDougal who in 1978 came up with the idea to cash in on the Sunbelt land boom by developing lots for vacation and retirement homes along the White River. The waterway is famous for its trout fishing and rafting. Similar developments were springing up in Florida, Georgia and Texas, and Arkansas already had one of the best-known such communities in the nation.

``I thought this was going to be a sure winner,'' McDougal said of the Whitewater project in an interview last fall.

On Aug. 2, 1978, the Clintons, McDougal and his wife, Susan, formed a partnership and paid $203,000 for the land. The couples borrowed the entire purchase price from two small Arkansas banks.

More than a year later, they transferred the land to the newly formed

The Perils of Practicing Law in High Places

■ **Whitewater:** Whatever the outcome, this is already a textbook case of dancing at the edge of an ethics precipice.

By ALAN M. DERSHOWITZ

Whoever investigates the Whitewater-Madison Guaranty matter should quickly brush up on legal ethics in general and on the Code of Professional Responsibility in particular. The probe will probably turn up no hard evidence of criminal behavior by President Clinton. Even if, as governor, Clinton used his influence to delay the closing of Madison Guaranty Savings & Loan, and even if he did so in exchange for campaign contributions traceable to bank funds—and there is currently no evidence of either—these elusive facts would be virtually impossible to prove.

What might be possible to prove, however, is that the Rose law firm, and some of its partners, may have played fast and loose with the rules of professional conduct. Those rules, with some variations, govern the conduct of lawyers in virtually every state, including Arkansas. One of those rules prohibits lawyers from engaging in conflicts of interest. And the Rose firm's representation of the Federal Deposit Insurance Corp. in its claims against Madison after it previously was the lawyer for Madison appears to constitute a classic conflict of interest.

Exacerbating this conflict may be a letter written by Vincent Foster to the FDIC soliciting the agency's business. In that letter, Foster apparently failed to advise the FDIC of the law firm's prior representation of the bank. If that failure to disclose a material fact was willful, it could constitute fraud. Federal bank regulators are now looking into this matter.

Then there is the potential exposure of the Rose firm to tremendous civil liability if it helped to cover up Madison's shaky financial condition. In recent years, both accounting and law firms have been held liable for failure to disclose adverse financial information about which they knew or should have known. The Rose firm may be particularly vulnerable on this score, because in 1985, Hillary Rodham Clinton and another partner used an audit by Frost and Co. to show that Madison was financially solvent, and then in 1989 another Rose partner sued Madison on behalf of the FDIC, alleging that the audit was bogus. That partner was Webster Hubbell, who is now the No. 2 person in the Justice Department, and whose father-in-law borrowed more than $500,000 from Madison Guaranty and failed to repay it.

At a more general level is the appearance and, perhaps, reality of conflict that always exists when the spouse of a high public official practices law in front of judges, administrators and others whose careers may be influenced by that official. There can be little doubt that clients sought out Hillary Rodham Clinton precisely because her husband was the governor. Regardless of whether the governor actually influenced—directly or indirectly—any decisions in cases in which his wife was counsel, the appearance of influence is inescapable.

Paul Rothstein of Georgetown Law School, a knowledgeable expert on legal ethics, urges "leniency" in this area: "Unless you want to say the wife of an important man can never apply her trade, you've got to be lenient on that. You don't want to disable professional wives from practicing their trade."

But many spouses of public officials have made the decision to withdraw from practicing the kind of law that creates the appearance of improper influence. There are many ways of practicing law—both profitably and usefully—without even coming close to the line of impropriety. Hillary Rodham Clinton's practice of law was so close to her husband's base of influence that many will ask just how good a lawyer Mrs. Clinton would have been if her husband had not been the governor.

These and other ethics issues may become the focus of the special prosecutor. I hope he will take these issues seriously, not so much to criticize particular individuals for past derelictions but to educate the American public about this relatively hidden but widely practiced genre of elite influence-peddling. Because this form of "cheat elite" is so prevalent among big-city lawyers and law firms, I plan to begin my legal ethics course this semester with a survey of the ethics issues surrounding Whitewater-Madison. My goal is to sensitize law students to the kinds of ethical problems they are likely to encounter when they begin to practice law.

As a Democrat who voted for President Clinton, I wish Bill and Hillary Clinton had been better sensitized to these issues when they studied legal ethics at Yale Law School in the 1970s. I hope that nothing negative turns up against the First Couple. But as a law professor, I understand the importance of a full and open investigation of Whitewater-Madison that will sensitize a generation of future lawyers to the ethical pitfalls of practicing law at the highest levels of government.

Alan M. Dershowitz teaches at Harvard Law School and writes a syndicated column.

GOP Lawyer Picked to Examine Whitewater

■ **Presidency:** Ex-N.Y. prosecutor Fiske is chosen as special counsel by Reno. He says he plans to question the Clintons about tangled S & L affair.

By ROBERT L. JACKSON
TIMES STAFF WRITER

WASHINGTON—Fulfilling a White House promise made in response to GOP demands, Atty. Gen. Janet Reno on Thursday appointed former U.S. Atty. Robert B. Fiske Jr., a Republican, as special counsel to look into the tangled Whitewater affair.

Fiske immediately pledged "a complete, thorough and impartial" inquiry into the matter, which involves investments by President Clinton and his wife, Hillary, in an Ozark Mountain resort and loans to the Clintons by a failed savings and loan.

Fiske also indicated that he is likely to take the unprecedented step of taking sworn statements from a sitting President. Asked if he planned to question the Clintons, Fiske replied: "I would certainly expect before this investigation is over, I would question both the President and the First Lady, and it would be under oath."

A President has never been put under oath in an independent counsel investigation, although former President Ronald Reagan agreed to give a videotaped deposition in the trial of an Iran-Contra defendant.

Clinton indicated later that he was willing to be questioned by Fiske. "Whatever he wants to do . . . I didn't do anything wrong," Clinton said during an appearance on CNN's "Larry King Live."

The President also said that he is eager to have the issue settled. "The main thing I want to do is to just have that turned over to him so we can go back to work," Clinton said. "I just want to do my job."

In announcing her appointment, Reno praised Fiske for his reputation of "fairness and impartiality" and said that the ex-prosecutor from New York fulfilled her pledge last week to appoint someone "ruggedly independent."

The new appointee, with Reno standing at his side, said he would recruit additional "experienced former prosecutors from across the country" to take over total control of the investigation from the Justice Department. Investigators will look into possible criminal wrongdoing in the cases of Whitewater Development Corp. and Madison Guaranty Savings & Loan.

Senate Minority Leader Bob Dole (R-Kan.), who has led demands by his party for appointment of a special counsel, said he did not know Fiske personally but felt he was "extremely well-qualified."

Fiske, 63, was appointed in 1976 as Manhattan's federal prosecutor during the Gerald R. Ford Administration and was known as a hard-driving, hands-on U.S. attorney who focused on white-collar and organized crime prosecutions.

He was so well regarded in law enforcement circles that Democrat Jimmy Carter kept him in place after assuming the presidency in 1977. He has become a Wall Street lawyer prominent in white-collar defense work since leaving government service in 1980. He is a past president of the American College of Trial Lawyers.

Fiske told reporters Thursday that he demanded and received "very broad authority" from Reno as a condition of accepting the appointment. He said he would take a leave of absence Monday from his Manhattan law firm and would open an office in Little Rock, Ark., where a federal grand jury has been hearing witnesses in recent weeks.

His first steps will include obtaining a full briefing from Justice Department investigators who have been working on the Whitewater case, along with subpoenaed documents they have obtained. But he stressed that he would hire "a totally new staff of lawyers . . . so that we may conduct a truly independent investigation."

"I should have people working for me who are not at the same time reporting to the attorney general," he explained.

Fiske will have assistance from a cadre of FBI agents, as is customary for independent counsels. FBI Director Louis J. Freeh "has assured me the FBI will be at my complete disposal," he said.

He said the suicide last July of deputy White House counsel Vincent Foster "would be one of the things" encompassed by his probe. Among papers found in Foster's office after his death was a file on the Clintons' Whitewater investment.

Central questions to be answered in the Whitewater affair include whether the Clintons, as half-owners of the land-development venture, were aware that their partner and longtime friend, James B. McDougal, may have been co-mingling funds from his savings and loan in the land business' accounts.

Also at issue is whether Clinton's political influence as governor helped keep the high-rolling S & L open longer than it otherwise would have been, increasing the cost to the federal government of its eventual federal bailout. Bank examiners say the cost to taxpayers was $47 million.

Complicating the investigation is McDougal's notoriously sloppy record-keeping, officials said.

Fiske said that he would complete his investigation "as quickly as I can consistent with doing the job right." Asked if that might take several months, he said "probably more than months."

Reno originally opposed demands from Congress that she appoint a special counsel, saying anyone she selected would be subject to charges of not being truly independent. The government had had a mechanism in place under which a panel of federal judges would appoint such independent counsels, but Congress allowed the statute to lapse.

Reno capitulated, however, when Clinton, reacting to congressional and public pressure, asked her to make an appointment. She said Thursday that she had taken every precaution to guarantee Fiske's "complete independence."

"I wanted him to define the scope of his investigation and his staff," Reno said. "I wanted him to be as independent as possible. I don't expect him to report to me, I expect him to report to the American people. And I don't expect to monitor this investigation."

Under Fiske's legal mandate, he has full authority to seek criminal indictments from a federal grand jury without Justice Department approval. At the end of his inquiry, he is required to make a full public report of his findings.

As to calls for a parallel congressional investigation of Whitewater, Fiske said, "I'm not concerned about that at this point."

But he acknowledged that given the propensity of Congress to grant limited immunity from prosecution to important witnesses, "history shows it is difficult to conduct criminal investigations at the same time as congressional investigations."

Fiske was a law partner and early adviser to Lawrence E. Walsh, the independent counsel who just completed a seven-year probe of the Iran-Contra scandal. Walsh found that congressional grants of immunity caused convictions to be overturned in two instances.

Fiske, however, said the two investigations are "totally different."

White House Press Secretary Dee Dee Myers said the President would have no comment on Fiske's selection. "We asked the attorney general to appoint a special counsel, and she did. We have nothing more to say," Myers told reporters.

As to Fiske's statement that he would seek to question the Clintons under oath, Myers said: "He hasn't done it yet. We'll deal with that when it comes."

Dole, meeting reporters in Topeka, Kan., greeted the appointment with cautious optimism. "I don't know Robert Fiske," he said. "But my reaction is to wait and see what happens. They've chosen someone. That's what we asked them to do.

"As far as I know, people who know him think he is extremely well-qualified, is independent," Dole said.

He added: "He has some Republican leanings . . . but some of the conservative Republicans have not been happy with him."

Dole was referring to opposition from conservatives when former Atty. Gen. Dick Thornburgh once proposed Fiske as his top deputy during the George Bush Administration. Conservatives, including Republican senators on the Judiciary Committee, raised such strong objections that Fiske's appointment was dropped.

Fiske had incurred their ire when he chaired the American Bar Assn.'s committee that evaluated potential court nominees. Conservatives blamed him for the ABA's tepid endorsement of the 1987 Supreme Court nomination of Robert H. Bork, who ultimately was blocked by the Senate.

A graduate of Yale University and the University of Michigan law school, Fiske personally tried several important cases during his government career, obtaining the convictions of narcotics kingpin Leroy (Nicky) Barnes and Mafia-connected labor racketeers Anthony Scotto and Anthony Anastasio in two celebrated cases.

In both public and private life, Fiske has been known for his passion for detail.

Popular among former colleagues at the Justice Department and in his Manhattan law firm, he has a talent for breaking down a case to its essence and then arguing persuasively in court, associates said.

In recent years, Fiske was among defense attorneys who represented legendary Washington lawyer and power broker Clark M. Clifford in his successful battle against bank fraud charges in the BCCI banking scandal.

Sen. Alfonse M. D'Amato (R—N.Y.), who knows Fiske personally, calls him "one of the most honorable and most skilled lawyers anywhere."

Profile: Robert B. Fiske Jr.



■ **Born:** Dec. 28, 1930.

■ **Hometown:** Darien, Conn.

■ **Education:** Bachelor's degree from Yale University, 1952; law degree from University of Michigan, 1955.

■ **Career highlights:** Worked for law firm of Davis, Polk, Wardwell, Sunderland & Kiendl from 1955 to 1957. The following year, worked for U.S. Court of Appeals in Southern District of New York as assistant U.S. attorney. In 1961, rejoined his old law firm as an associate and in 1964 was made a partner. In 1976, President Gerald R. Ford named him U.S. attorney for Southern District. Returned to his law firm in 1980, where he currently works. He has been president of American College of Trial lawyers.

■ **Personal:** Married Janet Tinsley, three children.

Specia cou se ca ed as 'honest as they come'

By Sam Vincent Meddis
USA TODAY

Wall Street lawyer Robert Fiske Jr. Thursday accepted what could be Washington's most thankless job.

As special counsel in the Whitewater case, Fiske will likely face political heat whatever the findings of his investigation into President Clinton's Arkansas land dealings.

But those who know Fiske, former U.S. attorney in Manhattan, say an irreproachable reputation for integrity should help stem any questions about his probe's outcome.

"This guy is just . . . as honest as they come," says Nick Akerman, a former Watergate prosecutor who later served as assistant U.S. attorney under Fiske. "If he says there's nothing there, then you can believe there's nothing there."

Fiske, at a press conference, pledged a "complete, thorough and impartial investigation" that would likely include taking sworn testimony from Clinton and Hillary Rodham Clinton, who have denied any wrongdoing.

Attorney General Janet Reno, directed by Clinton to appoint an independent counsel after intense political pressure last week, said she chose Fiske because he "exemplifies public service at its best."

Fiske, 63, has served under both Democratic and Republican administrations. He was appointed U.S. attorney for the prestigious Southern District of New York by President Ford in 1976, but was kept in office until 1980 by President Carter.

Senate Minority Leader Robert Dole, R-Kan., who had called for a special counsel for Whitewater, took a wait-and-see attitude on Fiske.

"People who know him think he is extremely well-qualified, is independent," Dole said, but noted that Fiske has rubbed some conservative Republicans the wrong way.

Fiske's chance to become deputy attorney general during the Bush administration was derailed after conservative complaints about Fiske's involvement in the American Bar Association's screening of potential judges. Fiske was accused of hurting Reagan administration judicial nominees by sharing their names with liberal groups.

GOP National Committee Chairman Haley Barbour says he doesn't know Fiske, but is willing to "give him the benefit of a doubt."

So, in effect, Reno got a person with the presumed independence that a Republican label imparts, but also with no apparent political ax to grind.

Fiske's appointment comes only two days after special counsel Lawrence Walsh issued a final report on his probe of the Reagan administration's Iran-contra scandal.

Fiske's first brush with special investigations came when he helped Walsh, a former law partner, pick a staff to probe the Iran-contra matter.

Walsh says the Whitewater case appears far less complicated. "I don't get the sense that Whitewater is that complex or all that big a deal," Walsh told Reuters Thursday.

Though he said he couldn't set a deadline, Fiske promised to conclude his probe as quickly as possible. But he added that his investigative task is quite broad: to see "whether any individual or entity" violated federal laws in dealings with the Whitewater Development Co. and the Madison Guaranty Savings & Loan.

The probe also will focus on the July suicide of White House deputy counsel Vincent Foster. Among items found in his office was a file on Clinton's Whitewater investment.

Arkansas governor served with subpoena

By Dennis Cauchon
USA TODAY

LITTLE ROCK — Gov. Jim Guy Tucker said Thursday a federal grand jury has issued 83 subpoenas for documents related to Whitewater Development Co., including one to him.

Tucker did business with James McDougal, owner of a failed savings and loan and partner with Bill and Hillary Rodham Clinton in Whitewater. McDougal was to go before the grand jury Thursday, but his appearance was postponed until Feb. 17 to give him time to gather records, said Sam Heuer, his lawyer.

But newly named special counsel Robert Fiske Jr. said he asked that McDougal's appearance be delayed while he hires a staff. Donald Mackay, a Justice Department investigator who had been handling the case, withdrew his request for a special Whitewater grand jury.

FBI agents have spent the last month conducting interviews and collecting documents on Whitewater, including 2,600 pages at the Arkansas Securities Commission. The files include a "Dear Hillary" letter written by a state savings and loan regulator about McDougal's S&L.

Tax bill is 19 months overdue

Whitewater has made President Clinton a tax deadbeat in his home state.

Whitewater is 19 months late in paying Arkansas' annual corporate tax, according to the secretary of State's office. The tax, due June 1, 1992, totals $300 with penalty and interest.

The Clintons owned 50% of Whitewater until December 1992, when they sold to partner James McDougal for $1,000. The Clintons "would not be responsible for the taxes," said White House adviser Bruce Lindsey.

Rates boost housing starts to 4-year high

Beth Belton
USA TODAY

Pent-up demand and the lowest mortgage rates in decades boosted 1993 housing starts to a four-year high.

And don't expect rising interest rates from an improved economy to stifle the housing boom until 1995, experts say.

Single-family housing starts jumped 7.5% last year to an annual rate of 1.29 million, the Commerce Department said Thursday. It was the second straight annual increase after five straight years of declines.

"This is not an aberration. Strong housing starts are part of a fundamental strengthening of the economy that will continue through 1994," says Robert Davis, chief economist at Savings & Community Bankers of America trade group.

The housing report said:

▶ Starts rose 6.2% last month over November, the fifth straight monthly increase.

▶ Single-family starts climbed 3.5% in December to 1.3 million, the best showing since February 1984.

▶ Starts of apartments and condominiums jumped 27.3%.

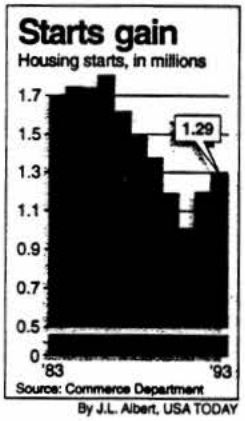
Starts began to recover in 1992, when they rocketed 18.8%. That has been a boon to the economy because home buyers usually buy an average $5,000 in new furniture, refrigerators and other housewares.

Davis thinks demand will remain strong although the average 30-year fixed mortgage rate could climb to 7½% this year. The average rose to 7.05% this week, up from 6.99% last week, the Federal Home Loan Mortgage Corp. said Thursday. The rate hit a 25-year low, 6.74%, in October.

"Higher rates won't be enough to stop this. People want new houses, they want to move up, switch," Davis says.

Housing starts this year will rise to an annual rate of 1.54 million, Davis predicts. James Padinha, economist at First Interstate Bancorp., is less bullish. He projects 1.3 million.

"We're expecting another very strong year," says home builder Donald Neuerman. Sales at his SilverLakes Partnership in Pembroke Pines, Fla., i 48% in 1993.



Insurers enduring blizzard of claims

By Anne Willette
USA TODAY

Insurers, already staggering from the Los Angeles earthquake, are being flooded with claims for burst pipes, leaky roofs and damaged gutters caused by frigid temperatures.

More claims are expected from the cold than the quake, but damage costs in California might be greater. "It's straining our claims department," says Steve Wasdick of Aetna.

The '94 freeze will go into record books as a catastrophe in at least 20 states, from Illinois to South Carolina to Maine. That means at least 1,000 claims have been filed in each state and property damage will top $5 million in the area. State Farm, USA's largest home insurer, has received 9,600 claims. Allstate reports 8,400.

Damage costs are unknown. Insurers expect more claims once the weather warms and homeowners find broken pipes and leaking roofs. Two winter storms have cracked the top 10 for insured losses:

▶ $1.8 billion for a 24-state storm in March 1993.

▶ $880 million for wind, snow and freezing in 41 states in December 1983.

Ruptured pipes are common, especially in the South where plumbing isn't insulated to withstand sustained cold. Water trapped in pipes freezes and expands, so pipes burst.

Repair costs: A few hundred dollars if a pipe is exposed in a basement to thousands of dollars if it's behind a second-story wall. Then, drywall, floors and ceilings can be soaked. "Although it's very silent and doesn't threaten anyone personally, it economically is a big, big problem," State Farm's Jerry Parsons says.

In three Ohio homes this month, frozen pipes led to major fires when owners used blow torches to thaw them. A hair dryer is safer; a plumber even better. To prevent freezing, homeowners should:

▶ Open kitchen, bathroom cabinets to help heat pipes.

▶ Keep faucets slightly open to relieve pressure.

77

F ske says he war ts Clin ons o give testimony under oath

By Jerry Seper
THE WASHINGTON TIMES

Robert B. Fiske Jr., a Wall Street lawyer and former U.S. attorney in New York, was named yesterday as special counsel to investigate President and Mrs. Clinton's involvement in the Whitewater-Madison affair and said he expects to take their testimony under oath.

"I would certainly expect that before this investigation is over that I would question both the president and the first lady and that it would be under oath," Mr. Fiske said.

Mr. Fiske, 63, a law partner of Iran-Contra independent counsel Lawrence E. Walsh, was appointed by Attorney Gen. Janet Reno.

The investigation of Clinton ties to an Arkansas land deal and a failed Little Rock savings and loan also will include a review of the July 20 suicide of White House Deputy Counsel Vincent W. Foster Jr. Mr. Foster was the Clintons' personal lawyer, and documents on the Whitewater-Madison affair were taken from his office less than three hours after his body was found.

White House officials said the Clintons, who under bipartisan congressional pressure requested the special counsel, planned to cooperate with the inquiry but did not elaborate. Press Secretary Dee Dee Myers said no request had been made for the president and first lady to testify under oath, adding: "We'll c with that when it comes."

Mr. Fiske, whose expertise includes white-collar crime, antitrust violations and securities law, said the investigation will proceed as "quickly as possible" and he planned to meet immediately with Justice Department officials to review information they have gathered.

He declined yesterday to say how long the inquiry will last but said he will issue a report to the public when the probe is complete.

"It's important for the country to get this done and get it done as quickly and as thoroughly and as fairly as possible," he said.

Miss Reno, who made the announcement at a news conference in the Willard Hotel, said she did not expect Mr. Fiske to report to her and did not plan to monitor his investigation.

The attorney general said she essentially called a halt to the Justice Department's ongoing Whitewater-Madison probe to give Mr. Fiske the opportunity to take the lead in the investigation. She also said she had not talked with Mr. Clinton about the appointment and did not inform White House officials of her choice.

"A week ago I said I was looking for someone who would be fair and impartial, who has a reputation for integrity and skill, someone who would be ruggedly independent," Miss Reno said. "I think Mr. Fiske fits that description to a T."

Mr. Fiske said he was "totally satisfied" he would have the "independence and complete authority to do this job right" and pledged that the inquiry would be "complete, thorough and impartial."

Mr. Fiske, although a Republican, has key ties to the Clinton Justice Department. A Ford administration appointee as U.S. attorney in New York in 1976, Mr. Fiske stayed in the job through 1980, working during the Carter years for Philip Heymann, then chief of the Justice Department's criminal division. Mr. Clinton named Mr. Heymann deputy attorney general, the No. 2 post at Justice.

The Clinton appointee who heads Justice's criminal division, Jo Ann Harris, worked as an assistant to Mr. Fiske in New York and was recommended by him for advancement to department headquarters in Washington.

Senate Minority Leader Bob Dole, one of the first in Congress to call for an outside investigator in the case, said yesterday he did not know Mr. Fiske but would "wait and see what happens" before making any decision.

"They've chosen someone. That's what we asked them to do," he said. "As far as I know, people who know him think he is extremely well-qualified, is independent."

Rep. Jim Leach described Mr. Fiske as "a quality appointment." The Iowa Republican is investigating the Whitewater-Madison affair as the ranking GOP member of the House Banking Committee and has sought documents and records to see if any financial irregularities occurred.

Mr. Fiske has not won overwhelming endorsements from conservatives in his party in the past. They were able to derail his proposed nomination as deputy attorney general during the Bush administration, citing his involvement with the American Bar Association's screening of potential judges.

Several conservative GOP senators accused him of revealing the names of potential judicial nominees to various liberal groups, enabling them to target the candidates before their nominations became public.

Mr. Fiske, according to guidelines established by Miss Reno, will have the authority to investigate whether "any individuals or entities committed violations of federal law," including Mr. and Mrs. Clinton and others involved with the couple through Madison Guaranty Savings and Loan Association and the Whitewater Development Corp.

The guidelines also give Mr. Fiske the authority to look into Capital-Management Services Inc., a Little Rock lending agency that gave a $300,000 Small Business Administration (SBA) loan to Susan McDougal, wife of Madison owner James B. McDougal.

The McDougals and Clintons were joint partners at the time in the Whitewater real estate venture.

Capital-Management's president, David L. Hale, a former Little Rock municipal judge now under indictment for unrelated SBA fraud charges, has said Mr. Clinton pressured him to give the SBA loan to Mrs. McDougal. About $110,000 of the loan eventually found its way into the Whitewater account.

Mr. Fiske, according to the guidelines, also has the authority to investigate "other allegations or evidence of violation of any federal criminal law by any person or entity" that might surface during his investigation.

A defense lawyer in the recent prosecution of key defendants in the Bank of Credit and Commerce International fraud investigation, Mr. Fiske said he would take a leave of absence from his law firm, Davis Polk & Wardwell, beginning Monday to start the inquiry.

He said he planned to move his offices to Little Rock — "the center of gravity" — and would hire his own staff to ensure that the investigation was "truly independent" from the Justice Department.

"I've come to the conclusion that without in any way reflecting in any slightest way against their ability and competence, that in order to conduct a truly independent investigation, I should have people working for me who are not also reporting to the attorney general," he said.

Mr. Fiske also said he was assured by FBI Director Louis J. Freeh the bureau will be "at our complete disposal" and a meeting with Mr. Freeh has already been scheduled.

Miss Reno, who narrowed her search for a special counsel to Mr. Fiske earlier this week and decided on the New York lawyer on Wednesday, steadfastly balked earlier at bipartisan calls for the appointment of an outside investigator to look into the Whitewater-Madison matter.

Her position changed Jan. 12 when the Clintons reversed an earlier White House stand to announce they would support the appointment of a special counsel. Minutes later, Miss Reno said she would appoint someone "ruggedly independent."

WHITEWATER-MADISON QUESTIONS

Special counsel Robert B. Fiske Jr. will be looking at a tangled financial web known as the Madison Guaranty Savings and Loan Association, owned by James B. McDougal, and the Whitewater Development Corp., an Arkansas real estate venture, to determine whether any illegalities occurred — and whether President Clinton and his wife were involved. Expected questions include:

- If the Clintons lost $68,900 on their Whitewater investment, why didn't they declare capital losses on their taxes at any time during their 14-year involvement with the partnership?
- Did the Clintons have a financial liability in the Whitewater project, or the venture structured to enable the Clintons to receive half the profits with little or no investment?
- Why did Hillary Rodham Clinton borrow, as an individual, $30,000 on one of the 42 lots at the Whitewater project and divert the cash to the Whitewater account?
- Were funds from Madison used to help Clinton pay off a $50,000 personal loan he obtained from a rural Arkansas bank to settle 1984 gubernatorial campaign debts?
- What role did McDougal play in a fund-raiser at Madison S&L in 1985, during which he raised $35,000 to help pay off Clinton's campaign debts?
- Did Mrs. Clinton violate conflict-of-interest laws by accepting $2,000 a month in legal fees to represent Madison before state banking regulators who had been appointed by her husband?
- Did intervention before state banking regulators in 1985 on the part of Mrs. Clinton and the Rose Law Firm, where she was a senior partner, keep Madison in operation long after it became insolvent?
- Did the Rose firm violate conflict-of-interest laws by suing Madison on behalf of the federal government in 1989, four years after it represented the S&L before state regulators?
- Were Whitewater records illegally removed from Vincent W. Foster's office during a July 20 search three hours after the deputy White House counsel committed suicide?
- What repayment responsibilities did Clinton and McDougal have in the 1980 payoff of a $22,000 loan they jointly obtained in 1978 as the original down payment on the Whitewater project?
- Did Clinton pressure the head of a Small Business Administration lending company in Little Rock to loan McDougal's wife, Susan, $300,000, and was $110,000 of the loan diverted to Whitewater?

The Washington Times

ROBERT B. FISKE JR.

Special counsel to investigate Whitewater-Madison

Born: Dec. 28, 1930, in New York City

Family: Wife, Janet Tinsley Fiske; three children, Linda, Robert and Susan

Education: Bachelor's degree, Yale University, 1952. Law degree, University of Michigan, 1955.

Career highlights: Associate, Davis, Wardwell, Sunderland and Kiendl, New York, 1955-57; assistant U.S. attorney, southern district of New York, 1957-61; associate, Davis, Polk and Wardwell, New York, 1961-64; partner, Davis, Polk and Wardwell, 1964-76 and 1980-present; U.S. attorney, southern district of New York, 1976-80.

Source: Who's Who in America

The Washington Times

FRIDAY, JANUARY 21, 1994 The Washington Times

7.9

President pledges to cooperate with probe

By Frank J. Murray
THE WASHINGTON TIMES

A1

President Clinton said last night that he and his wife will cooperate with special counsel Robert B. Fiske Jr. in the Whitewater-Madison probe, including testifying under oath.

He said the story would have ended sooner if he had yielded earlier on the counsel issue.

"What they want to do, I'll do it. Whatever he wants to do," Mr. Clinton replied to the question of whether he and Hillary Rodham Clinton will testify under oath on their roles in the Arkansas financial dealings. He was interviewed on the CNN program "Larry King Live."

Mr. Clinton reluctantly asked Attorney General Janet Reno to appoint a special counsel after insisting for several weeks that he would not do so. He said he was not involved in the selection of Mr. Fiske, a Republican and former U.S. attorney and a law partner of Iran-Contra counsel Lawrence Walsh.

The president, beginning his second year in office yesterday, defended Miss Reno, who has been criticized on a number of issues, including her insistence that a special counsel was not warranted and that a Justice Department investigation was sufficient.

"She has a feel for simple justice. She has a steel backbone," Mr. Clinton said, responding instantly when asked if she would stay.

"If it's up to me, she is. She's done a fine job," he said.

Mr. Clinton was making his second appearance on the CNN call-in program of his presidency, the first

see **CLINTON**, *page A18*

CLINTON

From page A1

since July 20 when his appearance was cut short when news reached the White House that Deputy Counsel Vincent W. Foster Jr. had killed himself.

Last night Mr. Clinton echoed one of Mr. Foster's last complaints — that in Washington good people are ruined for sport.

The president blamed the new scrutiny that public officials face when Mr. King pressed him about the embarrassing pullout of his second choice to replace Defense Secretary Les Aspin.

"It's just too brutal, what you're put through," Mr. Clinton said. He said, quickly, that he doesn't feel that way for himself.

"I like it. The only thing I ever cared about that was my family ... especially Hillary and Chelsea. They didn't sign on for all that." He was not asked to offer examples of ill treatment of his wife and daughter.

Mr. Clinton said the examination of new issues for political appointees complicated his choice of an attorney general and the assistant attorney general for civil rights, a job that remains vacant.

"Because the rules changed on the household help issue. That had never been an issue before. All of a sudden it was a big issue."

Reflecting on Lani Guinier's withdrawal, he said, "People's writings became an issue for jobs other than the Supreme Court."

On a day when he had planned to proclaim his freshman year a success at home and abroad, Mr. Clinton was silenced by frigid weather, which he blamed for the cancellation of a major speech at Georgetown University in which he was to claim success for first-year achievements and explain his 1994 goals.

But he got the good news of improved popularity in three polls taken after his trip to Russia, although two of those polls showed Mrs. Clinton's popularity off sharply.

The cold wave that shut down the government's Washington offices, idling 360,000 employees, did not prevent Miss Reno dominating the news by naming the special counsel to investigate the Clintons' finances.

The White House fell silent on her choice of Mr. Fiske, and his statements that he wants to question the president and first lady under oath, and that he wants to investigate the links between Mr. Foster and the Clintons' Whitewater investment. The White House said it would have "no comment" for the duration of the investigation.

"We asked the attorney general to appoint a special counsel, and she did. We have nothing more to say," White House Press Secretary Dee Dee Myers said.

And the administration was not quite past retired Adm. Bobby Ray Inman's embarrassing withdrawal from his nomination to replace Les Aspin as defense secretary.

White House Chief of Staff Thomas F. "Mack" McLarty discussed the post with Sen. Sam Nunn, the Georgia Democrat who reportedly was angered when he was passed over for Mr. Aspin during the presidential transition. Mr. Nunn said he is not interested this time.

"I can't discuss that, or I'd have to discuss all the other personalities on the list," Mr. Clinton said last night. He said Mr. Nunn would have made a great defense secretary.

It was Mr. Clinton's sixth appearance on Mr. King's show, including four interviews in four months during the 1992 campaign.

The program was broadcast live from the White House Library, where the last appearance also originated. Mr. Clinton had agreed to let that July 20 program run over the scheduled hour, but that decision was reversed when police notified the White House of the death.

Later that night longtime Arkansas associates of the president's secretly searched Mr. Foster's office and removed files relating to Whitewater.

On his first anniversary, President Reagan's popularity stood at 49 percent in troubled economic times. President Bush's rating after one year was 76 percent as the nation rallied behind his invasion of Panama and the capture of Manuel Antonio Noriega.

"Clinton is doing significantly better. What has caused that are a better economy and ... some foreign policy success," said Robert Teeter, the former Bush pollster who conducted the Journal-NBC survey with Democrat Peter Hart.

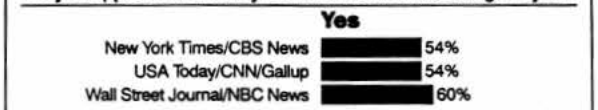
Mr. Clinton spent much of the day in the Oval Office looking ahead to Tuesday night's State of the Union message, which David Dreyer and Robert Boorstin have been drafting and redrafting for weeks.

The centerpiece of the legislative agenda Mr. Clinton will lay out when Congress returns Tuesday is health care reform, whose chances for passage this year are uncertain. He also will emphasize welfare reform, a plan for two years of job training after high school graduation and the anti-crime bill he is counting on to quell gang violence.

POLLS APPROVE

President Clinton ended his first year in office with five or six of every 10 Americans approving of his job performance. These telephone polls, conducted during the weekend, each had a sampling error of 3 percentage points.

Do you approve of the way President Clinton is doing his job?



The Washington Times

White House Tries to 'Cook' Business Revolt

"Earlier today, I received a call from the White House . . ."

That's how Lodwrick Cook, chairman of Atlantic Richfield Co. (Arco) and pal of President Clinton, began a Jan. 12 faxed letter urging his fellow CEOs not to oppose the Clinton health care plan.

So far he's failed, but the opera isn't over until the First Lady sings. Let's peek behind the curtain at what has become a frantic White House lobbying campaign to prevent further political damage to its redesign of one-seventh of the U.S. economy. Collars must be tightening in the war-room.

Keep in mind that one secret to Mr. Clinton's political success has been at least some business support. In 1992 he reeled in Silicon Valley entrepreneurs upset with Darmanomics. During last year's tax battle he enlisted 68 big-time CEOs to provide the political cover of a White House photo-op. Arco's Mr. Cook was one of them.

Mr. Clinton has a similar strategy this year for health care, only more so. Because voters refuse to pay higher taxes, business is supposed to be the tax collector for the health care state. This is done in the Clinton plan through the "employer mandate," which means that businesses must provide health insurance to all workers while government sets all of the rules. It's a sly scheme of stealth financing, because it disguises state control (and responsibility) through a business middleman.

But such a scheme won't sell in Congress unless enough businesses volunteer to play tax collector. Small business hit the barricades against the plan early. So the White House has been counting on Big Business, which it hopes it has lured with special favors (such as a $6 billion-a-year bribe for early-retiree health benefits). Well, maybe not.

The biggest shock for the Clintons is opposition from the Business Roundtable, which is hardly a bastion of Reaganite free enterprise. The Roundtable includes the biggest of the big in corporate America, established managers more than risk-takers. Its CEOs are respected pooh-bahs who don't like political fisticuffs.

Yet when the Roundtable's health care task force inspected the Clinton plan, it voted 14-1 to reject it. (Chrysler, which gets a big benefit in the Clinton plan, was the dissenter.) Instead, the task force threw its support behind the more free-market bill sponsored by Tennessee Democratic Rep. Jim Cooper. The CEOs don't like everything about Cooper either, but they favor it "as a starting point." The Cooper bill "avoids unnecessary governmental regulations and new off-budget entitlement programs," says a draft of the Roundtable position leaked to me.

That's when the White House hit the phones. Bob Rubin, Roger Altman and even the Rose Law Firm's most famous former S&L lawyer lobbied the CEOs not to back Cooper. In case charm failed, Energy and Commerce Chairman John Dingell was also asked to weigh in. "He told them that if they endorsed a specific plan, it would make it hard for them to fix the Clinton plan some time later," says Mr. Dingell's spokesman. Sure, and the Grand Inquisitor was only interested in saving souls.

A few CEOs naively fell for this line. In his letter to other Roundtable members, Arco's Mr. Cook wrote that "the White House tells me they are making some progress in developing a final plan but need additional time." Hello? Final plan? The White House listened to business for a year while writing the Hillary plan, ignoring the advice.

Its strategy now is to prevent any credible opposition from forming, brazen the Clinton plan through the House on a partisan vote, force moderate Democrats to compromise on its terms, then break a Republican Senate filibuster. Most of Hillary's plan would then be law. The last thing the White House wants is for a moderate alternative such as Cooper to emerge, since that could let a coalition of Democrats and Republicans stop the Clinton plan cold. That's why Mr. Dingell wants to railroad a bill though his committee by early April, before an alternative can gel.



L.M. Cook

It's also why he and the White House want to deny Mr. Cooper the Roundtable's support. So far their lobbying has only half worked. Despite the arm-twisting, the Roundtable Policy Committee voted 45-14 in a conference call last week for Cooper over Clinton. But bowing to Arco's Mr. Cook and others, the CEOs put off a final decision until they meet face to face on Feb. 2. This gives the White House time to schmooze more CEOs to stay neutral, or to impress them with State of the Union salesmanship.

Perhaps Mr. Cook and other Clinton CEOs are just politically naive, mere babes in the Beltway. But it's also fair to point out that Arco wouldn't suffer the way small companies would under the Clinton plan. With 26,000 employees it is big enough to opt out of bureaucratic "health alliances." It could also pass on its early retiree health costs to Uncle Sam. And it's always nice to have a friend in the White House to help with those nasty Clean Air rules.

If these CEOs are motivated by more than self-interest, they might recall the fate of poor Roy Vagelos. The Merck CEO was schmoozed himself in 1992; he even lent the Merck campus for a Clinton speech. Yet within weeks Merck was being denounced as just another drug profiteer. Politicians on a mission don't listen to reason; they only heed the raw power of a united opposition.

Potomac Watch

By Paul A. Gigot

Fiske, in Probe of Whitewater, Plans To Take Testimony From the Clintons

By JOE DAVIDSON
Staff Reporter of THE WALL STREET JOURNAL

WASHINGTON—Robert Fiske Jr., who was appointed independent counsel to investigate President Clinton's investment in **Whitewater Development** Co., said he would take testimony from the president and Hillary Rodham Clinton under oath.

Mr. Fiske, a former U.S. attorney in New York, promised a "complete, thorough and impartial" probe of the Whitewater affair.



Robert Fiske Jr.

Attorney General Janet Reno said at a news conference that she chose Mr. Fiske because he is an "excellent prosecutor" who is "ruggedly independent."

"I have talked with Mr. Fiske and told him that I want him to do everything he thinks proper and appropriate to make sure that he is truly independent," she said.

Mr. Fiske personally wrote the charter that outlines his duties. "The specific language," he said, "authorizes me to investigate whether any individuals or entities have committed a violation of any federal criminal law relating in any way" to the president's or Mrs. Clinton's relationships with **Madison Guaranty Savings & Loan Association**, a Little Rock, Ark., thrift; Whitewater Development; or **Capital Management Services** Inc., a failed Little Rock investment company.

The Clintons were partners in Whitewater with James McDougal, owner of now-defunct Madison, and his former wife, Susan, who received a $300,000 loan from Capital Management. David Hale, a former municipal judge who owned Capital, has charged that the Clintons and Mr. McDougal pressed him into making the loan as a way of bolstering Madison. In addition, the Resolution Trust Corp. has asked for an investigation of possible diversion of funds from Madison to Whitewater and to pay certain campaign and other debts of then-Arkansas Gov. Clinton in the mid-1980s.

Mr. Fiske also will look at the involvement in Madison-related matters by Associate Attorney General Webster Hubbell. Mr. Hubbell, who was Mrs. Clinton's law partner, was hired by federal regulators to sue Madison's accountants to recoup taxpayer money spent when the thrift failed. The regulators later said they didn't know the firm had a long relationship with Madison.

The Clintons' Whitewater papers were kept by former White House Deputy Counsel Vincent Foster, who committed suicide. Mr. Fiske said he will investigate the suicide to the extent it involves Whitewater-related events.

Last night, Mr. Clinton said he didn't know in advance about the selection of Mr. Fiske, and said he "absolutely" would cooperate with the investigation. Asked by talk-show host Larry King on CNN about Mr. Fiske's plan to take sworn testimony from him and his wife, Mr. Clinton said, "Whatever they want to do, we will be glad to do it."

"The main thing I want to do is to just have that turned over to him so we can go back to work," he added. "I just want to do my job. I don't want to be distracted by this any more. I didn't do anything wrong."

Mr. Fiske plans to open an office in Little Rock. He added that he would submit reports to Congress on his activities. The new independent counsel isn't required to report to Ms. Reno.

Mr. Fiske, who is 63 years old, was named U.S. attorney for New York by President Ford in 1976, and he was retained by President Carter. A self-described "life-long registered Republican," Mr. Fiske said he would take a leave of absence from the law firm Davis Polk & Wardell, where he is a litigation partner.

Mr. Fiske said he won't use the career Justice Department people who had been investigating the Whitewater affair. Ms. Reno said she called those probes to a halt when she announced last week that she would appoint an independent counsel.

Rep. Jim Leach (R., Iowa), who had long urged Ms. Reno to appoint an independent counsel, called Mr. Fiske "a quality appointment, an individual of appropriate background and integrity."

Senate Minority Leader Bob Dole (R., Kan.), has called for a separate congressional investigation into the Whitewater affair. Mr. Fiske discouraged that, saying: "I think the history of these situations is that it is difficult to conduct this kind of investigation at the same time a congressional investigation is going on."

Mr. Fiske said he would give no interviews. That would come as no surprise to some lawyers who predicted that, based on his handling of the news media in other cases, he is likely to keep his distance from the press during his investigation. Said Carey R. Dunne, a partner at Davis Polk who has worked closely with Mr. Fiske: "He isn't the kind of lawyer who looks for the spotlight."

—Wade Lambert in New York contributed to this article.

Clinton Budget Would Put More Money Into Homeless

By a WALL STREET JOURNAL *Staff Reporter*

WASHINGTON – President Clinton will propose in his fiscal 1995 budget shifting resources in the Department of Housing and Urban Development toward caring for the homeless and away from public-housing programs.

The idea apparently is to target more money to the neediest. Moreover, administration officials believe homeless people need more counseling and social services, as well as emergency shelter.

Although the details won't be unveiled until Feb. 7, public-housing advocates already are protesting expected cuts in their programs, asserting that housing bore the brunt of budget cuts through the 1980s and shouldn't be hit again.

Administration officials say Mr. Clinton's $25 billion HUD budget will seek to increase annual federal spending on homelessness to more than $1.2 billion from about $800 million now. Both Mr. Clinton and HUD Secretary Henry Cisneros have emphasized their commitment to reducing homelessness as the top goal at HUD. Officials wouldn't confirm how much public-housing funds would be trimmed.

Public-housing officials and lobbyists say they expect steep cuts from the current $4.6 billion budget for building and modernizing public housing.

The squeeze at HUD reflects overall budget limits from last summer's agreement to cap domestic spending. For every spending increase President Clinton proposes, a similar cut must be found.

The Independent Counsel

ATTORNEY GENERAL Janet Reno has taken two important steps toward ensuring that the probe of the so-called Whitewater affair will be led by the "ruggedly independent" lawyer she had promised to appoint. Robert Fiske, named special counsel by Miss Reno yesterday, may fit the description. Mr. Fiske comes recommended for his legal skills, especially his ability to handle complex, high-profile cases like this. He served as chairman of the American Bar Association's standing committee that screened federal judges. He also brings a reputation for fairness and an impressive prosecutorial record as U.S. attorney in the prestigious Southern District of New York. That Mr. Fiske, a Republican, filled that position under former presidents Gerald Ford and Jimmy Carter says something about the regard political opposites have attached to his work. His selection, however, is almost rivaled in importance by the scope of his inquiry. Miss Reno has decided—wisely, we think—to leave that up to Mr. Fiske.

His general mandate is broad and sweeping: to find out whether there have been any violations of federal laws by anyone relating "in any way" to President and Mrs. Clinton and their relationships with the failed Madison Guaranty Savings & Loan Association, the Whitewater Development Corp.—in which the Clintons were equal partners with Madison's owner—and Capital Management Services. Nothing, it would appear, is off limits to Mr. Fiske. That includes not only looking into the question surrounding the Clintons' Whitewater partnership and that defunct company's relationship with Madison, but also whether the Clintons were aware of any financial improprieties relating to the flow of hundreds of thousands of dollars that may have passed through Whitewater's accounts. The alleged diversion of Madison funds into a Clinton gubernatorial campaign account will also come under scrutiny, as will Madison's possible lenient treatment by Arkansas regulators on Gov. Clinton's watch.

The probe will have two additional intriguing aspects. The Capital Management Services relationship involves the case of David Hale, the former Arkansas municipal judge who goes on trial soon for allegedly defrauding the Small Business Administration. Judge Hale has publicly charged that he was pressured by Mr. Clinton and his Whitewater partner, James McDougal, to make a $300,000 SBA-backed loan that turned up in Whitewater accounts. Besides giving his attention to that, Mr. Fiske says he will try to find out if the suicide of White House Deputy Counsel Vincent Foster was connected to any of the Clintons' Arkansas affairs. That's a tall order, especially since Mr. Fiske needs to be thorough at the same time that he needs to ensure that his probe is brought to an expeditious conclusion.

Attorney General Reno says she doesn't expect the counsel to report to her. "I expect him to report to the American people, and I do not expect to monitor him." That's important, and it's right. The credibility of the investigation depends not just on Mr. Fiske's skills but also on his independence.

Medicaid Abortions and the States

ABORTION RIGHTS advocates were surprised and disappointed last year when their effort to repeal the Hyde amendment was defeated. Since 1977, that provision in the Department of Health and Human Services appropriations bill had barred the use of federal Medicaid money to pay for abortions for the poor except in cases where the life of the mother was threatened. While the restriction still stands, it was modified somewhat last year so that federal funding is now also available for abortions when a pregnancy is the result of rape or incest. It is a modest expansion of a loophole and would probably raise the number of federally funded abortions from fewer than 200 a year to about 1,000, according to government estimates.

Some states, however, believe they have been blindsided by a federal directive issued last month that *requires* rather than *permits* coverage in rape and abortion situations. Apparently, Medicaid administrators in these states believed they would be able to continue to observe state laws that either prohibit or place conditions on the use of public money for this purpose. In the president's home state, for example, the constitution forbids such an expenditure, and Arkansas authorities have been in the forefront of opposition to Washington's interpretation of the new law. Louisiana, to cite another problem, will not have a legislative session until after the deadline for change and will have trouble providing funds for the state share of this expenditure. Pennsylvania now conditions funding of rape and incest abortions on the prompt reporting of a crime; Gov. Casey announced this week that he has no intention of complying with Washington's mandate, which would eliminate the conditions.

Federal authorities have a good legal case, though. For a few years in the early 1980s, rape and incest abortions were federally funded, but a specific provision in the law allowed states to decline the funds and refuse to provide the benefit. That provision is not in the current law. HHS also maintains that states must provide all medically necessary services, such as abortion, unless they are specifically prohibited by federal law. Since the Hyde amendment specifically allows federal funding of rape and incest abortions, they must be covered. As to conflicting state laws, Washington cites the Supremacy Clause of the U.S. Constitution on the precedence of federal over state law.

There is probably less here than meets the eye in terms of opposition in the states. The argument appears to be more over the complications of implementing the new law than the substance of the mandate itself. There will surely be debate in Congress, and there will probably be litigation, perhaps already guaranteed by Gov. Casey's announcement. But the federal government should prevail, not only because that side has the better legal argument but because the women affected—who are poor, the victims of grievous crime and involuntarily pregnant because of those crimes—desperately need the government's help.

57

'No a ?ublic' y Four, And Totally Thorough'

Fiske Known for Dogged Pursuit of Facts

By Eleanor Randolph
Special to The Washington Post

NEW YORK, Jan. 20—Robert B. Fiske Jr., the Wall Street lawyer named to investigate the Whitewater case, has made a reputation in the legal community as a quiet but tough lawyer whose strength is not in his voice or courtroom manner but in his dogged pursuit of the facts.

Attorneys who worked closely with Fiske when he was U.S. Attorney for southern Manhattan from 1976 to 1980 call him a Republican without a political agenda.

"He's not a publicity hound, and he's totally, totally thorough," said Elkan Abramowitz, who was chief of the criminal division for Fiske and is now a private attorney in Manhattan.

As a partner in the Wall Street firm of Davis Polk & Wardwell, the 63-year-old Fiske has in recent years mostly defended corporate clients, including Goldman Sachs; the nuclear reactor manufacturer for the Three Mile Island facility, and, briefly, Clark M. Clifford and Robert Altman in the BCCI case. But longtime friends and associates say he has keen prosecutorial skills that kept him in the New York U.S. Attorney's job during most of President Jimmy Carter's administration, even though he had been appointed by President Gerald R. Ford.

"He's the kind of prosecutor who will spend a lot of time learning the facts, investigating the facts, evaluating the facts," said Alan Levine, who worked with Fiske on the racketeering conviction of Brooklyn waterfront boss Anthony M. Scotto.

Levine, now in private practice in New York, recalled that in the Scotto case, a number of Democratic leaders appeared on the stand as character witnesses. Among them were former New York governor Hugh Carey and former mayors John V. Lindsey and Robert F. Wagner. Because of such political pressures, Fiske decided he should direct the case in person, Levine said.

When Carey and others took the stand to praise the longshoreman boss, Fiske asked them whether they had been in the room to see whether Scotto had received a packet of cash that was crucial to the case, Levine said.

"Very dramatically, he made the point that it was very nice to have all these friends in high places, but that they were not in the room when it all happened," said Levine.

In another famous case during Fiske's term, he convicted drug dealer Leroy "Nicky" Barnes, who was notorious for his ability to evade the law. After a New York Times article referred to Barnes as "Mr. Untouchable," Carter asked then-Attorney General Griffin Bell why the heroin kingpin was still on the streets. Bell called Fiske and Thomas Sear, who had been working on the case, and a conviction was obtained.

"The thing that really distinguishes him from other superstars is that he is one of the hardest working lawyers I have been with. It was a narcotics case, and he had no prior involvement with such cases. He took not just a senior role, but he got involved in the details, evidence, witnesses, all of it," said Sear.

FRIDAY, JANUARY 21, 1994 THE WASHINGTON POST

KEY ISSUES

WHITEWATER

Did the Clintons receive favorable treatment in their investment in the Whitewater Land Development Corp. with James McDougal and his former wife, Susan? Did the Clintons or Bill Clinton's Arkansas gubernatorial campaigns benefit from thousands of dollars that passed from McDougal's Madison Guaranty Savings & Loan, and other McDougal companies, into Whitewater's checking account?

MADISON GUARANTY

Was other money from Madison's depositors put into any of Clinton's Arkansas gubernatorial campaigns? Did Madison receive favorable treatment from Arkansas regulators appointed by Clinton because of the McDougals' personal and business relationship with the Clintons, or because of Hillary Rodham Clinton's legal work for Madison? Was there a conflict of interest in the Rose Law Firm's representation of the federal government in a lawsuit during the takeover of Madison, a former client of the firm?

CAPITAL MANAGEMENT SERVICES

Did Gov. Clinton or James McDougal play any role in arranging a federally backed small business loan to Susan McDougal for Whitewater's benefit?

VINCENT FOSTER

Is there any connection between the deputy White House counsel's suicide and the other matters under investigation?

THE WASHINGTON POST

THE UNFOLDING OF WHITEWATER

1978

Arkansas Attorney General Bill Clinton, Hillary Rodham Clinton and friends James and Susan McDougal borrow $203,000 to purchase 230 acres for a development called Whitewater Estates.

1980

McDougal, who served briefly as Gov. Clinton's economic development director, quits government to buy a small bank in Kingston, Ark. He loans $30,000 to Hillary Clinton to build a model house on a Whitewater lot. Payments on the personal loan sometimes are made by the land corporation, an arrangement that eventually causes tax problems for the Clintons. For McDougal, the loan to Hillary Clinton lets him avoid the appearance of lending money to his own company. Clinton loses reelection bid.

1982

Clinton wins another term as governor. McDougal buys a rural savings and loan in Woodruff County, and renames it Madison Guaranty.

1983

Clinton banking commissioner Marlin Jackson tells the governor he is worried because McDougal's Kingston bank is making too many loans outside its rural service area, including the $30,000 loan to Hillary Clinton. Madison opens a Little Rock office.

1984

Federal regulators criticize Madison's speculative land deals, insider-lending, and hefty commissions paid to the McDougals and others. Late in the year, regulators demand the thrift develop a plan to raise more capital.

Whitewater, overdrawn in its checking account at Madison, makes payments on two different loans at the Bank of Cherry Valley, though the company only took out one loan.

Clinton is reelected in the fall. Late in the campaign, he takes out a $50,000 personal loan — from the Bank of Cherry Valley — and puts it into his reelection fund.

1985

In January, Clinton appoints Beverly Bassett Schaffer as head of the State Securities Commission. She previously had worked for a law firm that represented Madison.

In April, James McDougal hires the Rose Law Firm for a $2,000-a-month retainer. Hillary Clinton helps prepare a proposal for a novel stock sale to help Madison meet federal regulatory requirements. Approval is swift, though the sale is never carried out.

Also in April, McDougal sponsors a fund-raiser to help Bill Clinton pay off the $50,000 debt owed to the Bank of Cherry Valley. The event raises $30,000. Federal investigators are trying to determine whether some of the money may have come directly from Madison rather than from legitimate campaign donations.

In May, Whitewater sells its remaining lots to one of McDougal's business partners for around $60,000.

1986

Federal officials issue another scathing report on Madison. That spring, Susan McDougal borrows $300,000 from a finance company owned by Little Rock Judge David Hale and funded by the Small Business Administration to help disadvantaged companies. Indicted seven years later for defrauding the SBA in an unrelated transaction, Hale alleged that Clinton and McDougal pressured him to make what they knew to be an improper loan because they needed funds for Madison. Clinton and McDougal have denied the charge.

Later in the year, McDougal is removed from the thrift under federal pressure.

That fall, using part of the proceeds of the Hale loan, McDougal buys $550,000 in land from the International Paper Co. under the Whitewater corporate name.

1988

In an apparent attempt to clear up Whitewater's affairs, Hillary Clinton asks McDougal for a power of attorney. The White House says it was not granted. McDougal says he had already shipped Whitewater's records to the governor's mansion.

1989

Madison, still open under the supervision of federal officials, is officially taken over by regulators. Losses will eventually total as much as $60 million. McDougal is indicted for bank fraud. Despite possible conflicts with its previous work, the Rose firm is hired by the federal government to represent it in a lawsuit against the S&L's accountants.

1990

McDougal is acquitted on bank fraud charges.

1992

In March, the New York Times questions whether McDougal "carried" the Clintons in the investment by providing more money than his partners, and whether McDougal received lax regulatory treatment from the Clinton administration. Denver lawyer James Lyons is asked by the Clinton presidential campaign to reconstruct Whitewater's books. The report says the Clintons lost $68,900 in the deal, but released no backup documents. When the Clintons sold their interest in the company back to McDougal, they claimed no losses on their taxes.

As the November election approaches, the Resolution Trust Corp. urges the Justice Department to open another criminal investigation of Madison, and focus on the trail of money from the thrift to other McDougal companies, including Whitewater. No action is taken.

1993

Under the direction of White House deputy counsel Vincent Foster, three years of overdue Whitewater taxes are filed. The returns contradict basic findings of the report Lyons issued during the campaign.

In July, Foster commits suicide on the same day federal officials obtain a search warrant for a raid on David Hale's Little Rock office as part of an investigation into SBA fraud. White House aides enter Foster's office and remove files pertaining to Whitewater, though that fact is not acknowledged until late in the year as the Justice Department retraces the suicide investigation.

Little Rock U.S. Attorney Paula Casey, a former law student of Clinton's, rejects the RTC's original criminal referral. Meanwhile RTC officials prepare a more detailed referral, again mentioning the Clintons as possible beneficiaries of banking practices that led to Madison's collapse. Casey recuses herself.

A team of prosecutors from Washington is assigned to the case. Having maintained Whitewater was a private matter that required no extensive disclosure of their records, the Clintons in December say they will ship their Whitewater material to the Justice Department. Days later, it is disclosed the Clinton's private attorney negotiated with Justice to turn over the documents under a subpoena.

1994

Clinton asks Attorney General Janet Reno to appoint an independent counsel in the case.

Robert B. Fiske Jr. appointed.

40

What's News—A1

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Business and Finance

TIME WARNER reinstituted a poison-pill provision in a defensive move aimed at keeping its big new investor Seagram at bay. The plan, which effectively limits an outside investor's ownership to 15%, comes just one day after Seagram became Time Warner's largest shareholder, boosting its stake to 11.7% from 10.4%.

(Article on Page A3)

* * *

Housing starts grew 6.2% in December, pushing homebuilding for 1993 to its highest level in four years. Separately, initial jobless claims increased 23,000 last week to 380,000.

The Dow Jones industrials rose 7.59, to 3891.96, the year's eighth record, amid the mixed economic news.

(Articles on Pages A2 and C1)

* * *

Tele-Communications said its purchase of a million TV set-top converters for interactive cable services will be delayed by nearly a year because industry standards aren't set.

(Article on Page B8)

* * *

Apple's profit plunged 75% for its first quarter although Macintosh shipments soared to a record. The computer company continues to feel the squeeze of shrinking profit margins.

(Article on Page A3)

* * *

QVC's Diller is weighing at least two ways of restructuring the company's $10.2 billion bid for Paramount without necessarily boosting the total price, people close to QVC say.

(Article on Page A3)

* * *

Two big drug companies posted fourth-quarter earnings that largely met expectations, reassuring investors that Pfizer's weak results didn't signal a drug industry trend. Bristol-Myers's profit fell because of a special charge and American Home's rose.

(Article on Page B2)

* * *

Japan's year-end trade statistics are expected to show that U.S. exports to Japan have picked up, but the bilateral trade imbalance hasn't budged, illustrating only limited success for President Clinton's strong-yen policy.

(Article on Page A2)

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Microsoft plans to offer software that gives Windows a new "look and feel" aimed at home computer users.

(Article on Page B2)

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Guinness and LVMH restructured their cross-ownership, permitting Guinness to focus its investment on businesses they have in common.

(Article on Page A8)

* * *

Prudential Securities didn't inflate payouts on its limited partnerships by borrowing funds to distribute to investors, a witness for the firm testified.

(Article on Page A4)

* * *

Short interest grew 2.8% on the New York Stock Exchange to a record 1.28 billion shares in mid-January.

(Article on Page C6)

* * *

GE reported a 10% gain in fourth-quarter profit. Revenue grew 12%, up from the 3% to 4% quarterly increases GE posted in the prior three periods.

(Article on Page A4)

* * *

Bankers Trust reported sharply higher fourth-quarter earnings. Two other banks, Bank of Boston and KeyCorp, also turned in improved results, while Society's earnings declined.

(Article on Page A4)

* * *

Markets—

Stocks: Volume 310,365,670 shares. Dow Jones industrials 3891.96, up 7.59; transportation 1814.00, off 12.87; utilities 220.41, up 0.33.

Bonds: Lehman Brothers Treasury index 5610.62, up 23.47.

Commodities: Oil $15.10 a barrel, off 12 cents. Dow Jones futures index 142.78, up 0.70; spot index 129.86, up 0.26.

Dollar: 111.40 yen, up 0.05; 1.7380 marks, off 0.0080.

World-Wide

AN INDEPENDENT COUNSEL SAID he would question the Clintons under oath. Robert Fiske Jr., appointed to investigate the president's investment in Whitewater Development, promised a "complete, thorough and impartial" probe of the affair. Fiske, a former U.S. attorney in New York, was named by Attorney General Reno, who called him an "excellent prosecutor" who is "ruggedly independent." Fiske personally wrote the charter that outlines his duties and authorizes him to investigate "whether any individuals or entities have committed a violation of any federal criminal law" relating to the Whitewater case. (Article on Page A16)

Fiske said he will investigate the suicide of former White House Deputy Counsel Foster to the extent it involves Whitewater-related events.

* * *

California residents face the likelihood of higher taxes to cover some of the repairs from Monday's quake, which caused damage of up to $30 billion. Clinton released an additional $100 million for road repairs and authorized the U.S. government to continue paying 100% of certain shelter and food costs. (Article on Page A3)

* * *

Russia's finance minister quit Yeltsin's cabinet, charging that "attempts are being made to stop the course of reform and even to move backward." But Prime Minister Chernomyrdin, in announcing his new cabinet ministers, tried to reassure the world that the government will stick to its market reforms. (Article on Page A9)

* * *

Federal government offices are due to reopen in Washington this morning after a one-day holiday at the request of local utilities, which feared a massive power failure because of a cold wave. A weeklong cold spell, affecting the Midwest, Northeast and parts of the South, has been blamed for at least 113 deaths.

* * *

Christopher plans to underscore U.S. support for implementing a pact on Palestinian self-rule when he meets with PLO chief Arafat and Israel's foreign minister in Oslo tomorrow. The secretary of state will attend the funeral of Norwegian Foreign Minister Holst, who played a key role in talks that led to the PLO-Israeli accord.

Israel's Rabin denied he ever pledged to retain the Golan Heights, and he said that a decision on exchanging the strategic plateau for peace with Syria would have to be made this year. The prime minister's statements appeared to be part of a campaign to gradually accustom Israelis to the prospect of losing the territory.

* * *

Japan's Parliament was poised to vote today on Prime Minister Hosokawa's package of political reform bills, which would alter the rules that have governed Japanese politics since World War II. The vote is expected to be close, with likely defections threatening the government's thin parliamentary majority. (Article on Page A9)

* * *

Clinton's fiscal 1995 budget will propose shifting HUD resources toward caring for the homeless and away from public-housing programs. Although details haven't been disclosed, public-housing advocates already are protesting the expected cuts in their programs.

* * *

The European Parliament called for the dismissal of Lord Owen, the European Union's mediator to the Yugoslav peace process, saying that he has been ineffective. The parliament, whose opinion isn't binding on the EU, also urged the use of military intervention to protect Bosnian civilians. Owen said he had no intention of quitting.

* * *

China has agreed to enforce compliance with international copyright laws in order to curtail the production of counterfeit compact disks, Treasury Secretary Bentsen said after meetings in Beijing. Also, China and the U.S. reached a verbal accord aimed at preventing the export of goods made with prison labor, he said. (Article on Page A4)

Hong Kong's governor accused China of being irrational in talks on the British colony's future and indicated Britain wouldn't make any more concessions. Patten also told a parliamentary panel in London that Britain would publish its version of why talks with China had broken down if the Chinese don't resume negotiations.

* * *

Vietnam and the U.S. agreed to hold talks aimed at settling $250 million in U.S. claims stemming from the 1975 Communist victory. Separately, the Clinton administration is expected to release soon a U.S. intelligence analysis that could lead to the lifting of an embargo against Hanoi.

Washington Wire

A Special Weekly Report From The Wall Street Journal's Capital Bureau

AMERICA'S AGENDA for 1994 is crime, welfare and health care.

With economic concerns receding, a new Wall Street Journal/NBC News poll finds crime and drugs are now the No. 1 issue on Americans' minds. Ninety-three percent say dealing with crime should be "an absolute priority" for Clinton and Congress this year; 83% cite welfare reform and 67% health care.

"The issue agenda is quite different than a year ago," say Democrat Peter Hart and Republican Robert Teeter, who conducted the Journal/NBC poll. "A year ago, it was the economy and the economy." Clinton plans to hit harder on crime in his State of the Union address. He will plug the long-languishing crime bill, and also may devote more passion to a new call for a higher moral order in American society.

The administration begins mapping plans to pull top officials – including Reno, Bentsen, Education's Riley and HUD's Cisneros – into more high-profile roles in crime fighting.

GET-TOUGH POLICIES are favored over other crime nostrums.

Fifty-seven percent say crime is either a "critical" or "major" problem in their own communities. When asked whether more emphasis should be placed on the causes of crime or on stricter punishment, Americans are closely divided. But when the talk turns to specifics, punishment is on their minds.

THE WALL STREET JOURNAL/ NBC NEWS POLL

In the poll, 76% say mandatory life-sentences for all three-time violent offenders would have a major impact on the problem. Strong majorities say making more crimes subject to the death penalty and toughening punishment for juvenile offenders would make a big difference; 52% say putting 100,000 more cops on the street would be a big help. But only 39% say building more prisons would be of much help, and fewer than one in five say higher fees on gun dealers or raising ammunition taxes would matter much.

ECONOMIC OPTIMISM SURGES, and Clinton seeks credit for it.

At 44%, the number of Americans saying the economy will improve over the next 12 months is the highest it has been since last January; concern over joblessness drops to its lowest level since Clinton took office. Asked who deserves most credit for the economy's upswing, 49% say the normal business cycle, 23% say Clinton and 11% say Bush; only 4% credit the Fed.

The White House has been laboring to convince reporters that Clinton deserves credit, arguing that his deficit-reduction initiative brought down long-term interest rates. Some economists say the government's estimate of fourth-quarter growth, which comes out next Friday, could be as high as 6%.

"The robust economy of the fourth quarter should continue into the first," says Lehman Brothers' Allen Sinai.

THE URGE TO MERGE among cable-TV and telephone companies is viewed with suspicion. In the poll, 55% believe such mergers will hurt consumers by concentrating too much power in the hands of a few companies, compared with 38% who believe such mergers will help consumers by making more options available.

HILLARY'S INVOLVEMENT in Whitewater seems to have done her little damage with the public. Fifty-one percent have positive views of her, largely unchanged from December. The finding suggests Democratic fears that her ability to sell health-care reform would be hurt are overblown.

HAVES AND HAVE-NOTS increasingly split over Clinton's health plan. Opposition among those who currently are covered by health insurance rises to 42% from 33%; conversely, support among those who aren't covered by insurance rises to 60%. Overall, Americans favor the plan by 42% to 39%, down from 47% to 32% a month ago.

DOLE PATROL: Hours before Inman's public withdrawal announcement, a White House official phoned to give the Senate GOP leader advance word – without mentioning that Inman was attacking Dole as a principal reason for his decision. In the poll, which was conducted before Inman's allegations, Dole was viewed positively by 42%, negatively by 23%.

MORE AID to Russia could come from international institutions.

Hoping that reforms remain on track, the administration talks with the IMF and World Bank about financing a "social safety net" for Russians to cushion the blow of factory closings and layoffs. But with the exodus of Russian reformers, U.S. officials watch to see what Yeltsin and Prime Minister Chernomyrdin do, not what they say.

Bentsen's new slogan: "We want to make sure that support advances as fast as the reforms." With the issue of North Korea's nuclear program receding from the headlines, Russia re-emerges as Americans' top foreign-policy priority in the poll.

Currently, 28% of Americans consider Russia an ally, 10% consider it an adversary, and 56% consider it neither.

MINOR MEMOS: Bring back gridlock? By 56% to 33%, Americans would rather have Congress and the presidency controlled by different parties. . . . Most people may not know exactly what the term "multimedia" means – but by 54% to 21%, their initial reaction to the idea is positive.

–RICH JAROSLOVSKY

LETTERS TO THE EDITOR

Whitewater Hearings: A Public Service

In "Whitewater Hearings: A Risk," The Post suggests that the legislative branch may come to the oversight table only after everyone else has finished dessert [editorial, Jan. 14]. Happily, the Constitution—and court decisions—say that Congress has a superior right to oversight.

In my 27 years at the House Banking, Finance and Urban Affairs Committee, I do not recall a single major oversight effort that was not conducted concurrently with other or potential civil and criminal investigations and prosecutions.

When Congress fails to take up oversight while issues are fresh, it loses the opportunity to mobilize public opinion behind reforms and, perhaps more important, to reassure the public that its government is willing to lay out the facts in public forums even when high officials may be pained. Special counsels, accountable to no one and operating behind closed doors at their own pace, are poor substitutes for the role that the Constitution gives Congress.

When Congress voted to provide hundreds of billions of dollars to clean up the savings and loan mess, there was an implicit understanding that the legislative branch would do its very best to find out what went wrong and "never let it happen again."

The House Banking Committee, under Chairman Henry Gonzalez, kept that pledge, conducting public hearings and buttressing these with a stream of inquiries to the agencies about lesser cases. He and his Senate counterpart, Don Riegle, have made the Resolution Trust Corp. and the Federal Deposit Insurance Corp. respond to detailed questions about who created the and what is being done to recover money owed the Treasury.

Probably no hearing brought the savings and loan mess home to the American public more dramatically than the Lincoln Savings-Keating hearings in the fall of 1992. Of course, the committee could have waited and let the civil suits and prosecutions run their course. But no trial had the impact of the open, unedited testimony of the participants and victims in the collapse of Lincoln and the waste of $2.5 billion of tax funds. Watching the tears of the senior citizens who lost their life savings in worthless Keating bonds brought home the human dimensions of the savings and loan crimes.

These appearances—and the resulting financial penalties in some cases—have reassured the public that no one—big or little, powerful or powerless—would escape accountability to the Treasury.

Madison-Whitewater is another prime example of questionable regulatory actions, delays in dealing with problems and the loss of tax monies in a savings and loan apparently operating under "public-be-damned" agement. Congress should approach it as such and should demand, as it has in dozens of other cases, all the documents from RTC and FDIC and the state regulatory agency—and on the maximum recovery of ance and tax money. True, Madison has become a volatile, high-profile case, but this is all the more reason for Congress to demonstrate that its oversight power applies to all.

Congressional oversight of the savings and loan industry has not involved "immunity" in any of the investigations, and not a single prosecution or civil recovery has been hampered. The Post editorial wrings its hands over this non-issue of witness immunity—an issue no one has raised—and sadly reverses its longstanding support for vigorous congressional oversight of the savings and loan mess.

JAKE LEWIS
Washington

The writer is a former staff member of the House Banking Committee and staff supervisor of several bank and savings and loan investigative teams.

New Jersey Experiment

CHRISTINE TODD Whitman, sworn in Tuesday as New Jersey's new Republican governor, decided to start off with a little happy surprise for the state's voters. Mrs. Whitman, you'll recall, was elected on a pledge to cut state taxes by $1.4 billion. She narrowly defeated Democrat James Florio, who could never quite overcome the wrath he incurred by enacting a large tax increase—$2.8 billion worth—at the beginning of his term. Voters were sufficiently unhappy that they backed Mrs. Whitman even though most told pollsters they didn't believe her tax cut promise. But she insisted in her inaugural address that she would do just as she promised—and proposed an immediate 5 percent income tax cut retroactive to Jan. 1 to prove she meant it. "I will not hedge," she said. "I will not backtrack."

Interestingly, if the first round of the tax cut proves to be a practical possibility, it will be because of the tough fiscal policies Mr. Florio pursued. The number of politicians willing to take large risks for unpopular policies is not as large as it should be. Perhaps it never is. And it should be noted that Mr. Florio got into trouble not just because he raised taxes but also because he made some unwise pronouncements when he was first elected in 1989, leaving voters with the impression that tax increases wouldn't be needed. Breaking campaign promises is generally not a wise practice. But sometimes, candidates make unwise promises. Admitting mistakes, as Mr. Florio did when he backtracked and sought the new taxes, takes courage. It could turn out that in damaging his own political prospects, Mr. Florio put his state on a sound fiscal course—and in the process made his successor's job easier. Perhaps in a few years the voters will thank him for it.

As for the new governor, Mrs. Whitman certainly has appealing personal characteristics—she's articulate, smart and seems determined to square what she does in office with what she said on the campaign trail. Mrs. Whitman insisted that she could enact her supply-side tax cut program "without cutting the state services on which so many of us depend" and "without driving up property taxes." That's a large challenge. The rest of the country will be watching closely to see whether—and how—she pulls it off.

Earthquakes and Social Bonds

"WHY US?" the citizens of the Los Angeles area have a right to ask. Why fires and droughts and riots and unemployment and now a devastating earthquake? Californians made living on the edge, both personally and geologically, look so easy for so long. Is tragedy now inherent to Southern California, a place once known for optimism, individualism, enormous mobility—social as well as geographic—and a rich ethnic and social diversity?

These sorts of Big Think questions are popular whenever new tribulations strike Southern California, partly, we suspect, because many outsiders are jealous of the people who live there and enjoy pondering their troubles. Others just don't understand the place at all.

The disruption created by the earthquake, and the reaction to it, do tell us something about how Southern California works: that despite all the bad raps that part of the state and its inhabitants take, it does not lack a powerful sense of community and a community will. We speak here not just of the many heroic stories of neighbors helping neighbors and strangers helping strangers, but of larger cooperative efforts at rescue and restoration that seemed to get underway at once.

But obviously Californians cannot begin to do it all. Aid from the federal government is essential. This is an issue on which President Clinton—always aware of California's political importance—has acted with proper speed. We doubt there are many people in the rest of the country who will begrudge the assistance that will now quickly flow to those whose homes and business have been destroyed by the accidents of the Earth's movement. Fortunately, calamities of this sort tend to mute regional rivalries and temporarily still the voices that normally cry out against acts of generosity sponsored by government. "There but for the grace of God go I" turns out to be a reasonable guide to social policy after all.

56

Wh i ewa er Specia Co nse Promises 'Thorough' Probe

By Michael Isikoff
Washington Post Staff Writer

A1

Robert B. Fiske Jr., selected yesterday by Attorney General Janet Reno as special counsel to investigate President Clinton's ties to a failed Arkansas saving and loan, pledged to conduct "a complete, thorough, and impartial" inquiry that he expects will include questioning the president and Hillary Rodham Clinton under oath.

A prominent New York lawyer and former U.S. attorney in Manhattan during the Ford and Carter administrations, Fiske quickly asserted his independence yesterday, outlining a wide-ranging inquiry into the Madison Guaranty Savings & Loan and the Whitewater Development Corp. without any apparent budgetary or time constraints.

Fiske, whose appointment was made on the first anniversary of Clinton's inauguration, said at a news conference that he intends immediately to set up an office in Little Rock, Ark., and replace current Justice Department prosecutors working on the case with a "totally new staff" of top-flight outside lawyers with prosecutorial experience.

He also emphasized he was given free rein by Reno to spell out his own jurisdiction and deliberately crafted his charter "very broadly."

"I think the charter is written so that I can do anything I feel I have to do to do this job right," Fiske said. "I have been told time and time again by the top officials of the Justice Department, including the attorney general, that there are no limits on what I can do."

Fiske's comments appeared to quickly raise the stakes in a criminal investigation that already has turned into a political headache for the White House.

WHITEWATER, From A1

After weeks in which the Clintons resisted demands for public disclosure of their Whitewater records and dismissed calls for a special prosecutor as politically inspired outcries from Republicans, congressional staff members noted yesterday that the Clintons were now facing a potentially open-ended inquiry into their Arkansas affairs that, as a practical matter, appears beyond the control of anyone in the administration.

Under the Justice Department regulation that authorized his appointment, Fiske can be dismissed at any time by the attorney general "for good cause." But Reno virtually precluded that possibility yesterday, saying she viewed Fiske "as the epitome of what a prosecutor should be" and emphasizing that she planned to play no role in overseeing or monitoring Fiske's activities.

"I expect him to report to the American people, and I do not expect to monitor him," she said.

White House press secretary Dee Dee Myers said the White House would have no comment. "We asked the attorney general to appoint a special counsel, and she did," Myers said.

Fiske's charter, which he wrote out by hand at the Justice Department late Wednesday afternoon, states that he will investigate "any individuals or entities" who have violated federal laws "relating in any way to President William Jefferson Clinton's or Mrs. Hillary Rodham Clinton's relationships with" Madison or Whitewater Development Corp., an Ozark real estate venture previously half-owned by the Clintons.

It also includes allegations related to Capital Management Services, a Small Business Administration-backed investment firm that loaned $300,000 to one of Clinton's partners in Whitewater. Fiske also will investigate any other related matters that come to his attention during the course of the probe.

"I would certainly expect," he said, "that before this investigation is over that I would question both the president and the First Lady and that it would be under oath."

Fiske also said in response to questions from reporters that his probe will include determining whether there was any connection to the Whitewater matter and the July 1993 suicide of Vincent Foster, the deputy White House counsel who handled some of the Clintons' affairs relating to the real estate firm.

Fiske said any allegations relating to another high-ranking administration official, Associate Attorney General Webster L. Hubbell, "would be embraced within the scope of the investigation, if the facts lead us in that direction." Hubbell is a former partner of Hillary Clinton and Foster in a Little Rock law firm that once represented Madison.

The choice of Fiske, 63, a Republican and senior partner in the New York firm of Davis, Polk & Wardwell, won praise yesterday from lawyers and former colleagues who described him as a tough-minded but judicious prosecutor.

"If you were creating the ideal special counsel from a test tube, you would come up with somebody who looked exactly like Bob Fiske in experience, reputation and abilities," said Arthur Liman, a prominent New York lawyer who served as chief counsel to the Senate committee that investigated the Iran-contra affair in 1987.

Former Republican attorney general Dick Thornburgh called Fiske a "first-rate lawyer" who was a "solid performer" as a U.S. attorney between 1976 and 1980.

But some Senate Republicans and GOP staff aides recalled that conservatives in 1989 had strongly opposed his prospective nomination to serve as deputy attorney general under Thornburgh.

At the time, Fiske became embroiled in a controversy over charges that he had undermined some Reagan administration nominees to the federal judiciary when he served as chairman of an American Bar Association screening committee from 1984 to 1987. Fiske ultimately withdrew his name from consideration.

Senate Minority Leader Robert J. Dole (R-Kan.), who led the Republican charge calling for a special prosecutor, said at a news conference in Topeka, Kan., yesterday, "I don't know Robert Fiske, but my reaction is to wait and see what happens."

The current Justice Department probe has been underway in Little Rock since November, centering on allegations that the Madison thrift improperly diverted depositors' funds into an account maintained by Whitewater as well as to Clinton's 1984 gubernatorial campaign fund. Madison was shut down in 1989 at a taxpayer cost of about $60 million, according to a recent government estimate. Allegations also have been raised in the news media that state regulators under Clinton's administration as governor gave lenient treatment to Madison, allowing it to stay open and swelling the final tab to the taxpayers.

Madison was owned by James McDougal, a former Clinton aide and longtime friend who, along with his ex-wife, Susan, was a business partner with the Clintons in Whitewater. McDougal had been subpoenaed to appear before a federal grand jury in Little Rock yesterday, but one result of Fiske's selection was to delay that appearance.

33

Stillness Along the Potomac

Make no mistake, the Big Chill is serious business. As the Times headline said yesterday, this week's record-and-bone-breaking cold has disrupted "power, travel, and life in general." Trains have been canceled, stores closed, emergency blackouts ordered. The one redeeming feature in all this misery is that we may learn to survive with a smaller Federal Government.

Actually, we may even learn to live with fewer lawyers, or at least with lawyers working fewer hours. The noted firm of Arnold & Porter sent everyone home at 4 P.M. Wednesday, causing high anxiety. "It's a major economic decision for an organization that bills by the hour," the firm's managing partner told The Washington Post.

Meanwhile, the Office of Personnel Management in Washington — responding to an emergency request by the Potomac Electric Power Company — closed government offices for all but "essential personnel" at 3:01 P.M. Wednesday and kept them closed yesterday. It told "essential staff" to dress warmly inside the office and to use the stairs instead of the elevators.

Think of the identity crises this worthy directive must have caused. People of unquestioned essentiality — the Chairman of the Joint Chiefs, for example — could obviously go to work confident that no cold wave could threaten their intrinsic importance. In fact, the Chairman could probably have done anything he wanted.

But what of those wretched souls on the very cusp of indispensability? Does one stay home and concede one's inconsequence? Or does one dress warmly, hustle to the Interior Department and climb the stairs only to hear the boss say, "You've overreached, Rutherford; go back to bed"?

Yet think of the pluses. Think of all those faxes that never needed answering, of all those lobbyists with nobody to buttonhole, of all those bad decisions that never needed taking. And — just possibly — of all those empty offices that never needed filling. Hillary Rodham Clinton's staff is larger than F.D.R.'s during the Depression, and Vice President Gore's is larger than F.D.R.'s during World War II. Are all those people necessary? Nature, for one brief, frozen moment, has imposed an answer.

A New Prosecutor

By choosing Robert Fiske as independent counsel to take over the Whitewater Development Corporation case, Attorney General Janet Reno has finally moved to clean up a mess that has embarrassed her Justice Department and the White House. Whether she has put Whitewater behind her will depend on whether Mr. Fiske, a moderate Republican, is perceived as the ruggedly independent lawyer she says he is.

Mr. Fiske made a promising start as he accepted the appointment yesterday. He produced his own charter of authority to investigate Arkansas land and banking cases that have raised questions about the dealings of the First Family when President Clinton was Governor of that state. Mr. Fiske said he expected to question the Clintons under oath before he was through.

A former United States Attorney in New York, Mr. Fiske plans to hire his own staff of prosecutors, distancing his work from a team that reports to Attorney General Reno. That, too, indicates that he understands the need for a public perception of an independent office.

He has critics, including some Republican conservatives who kept him from being the Deputy Attorney General in the Bush Administration. They wanted to punish Mr. Fiske because an American Bar Associationcommittee that he headed made only a lukewarm endorsement of the Supreme Court nominee Robert Bork.

Mr. Fiske's Wall Street practice has brought him clients like the manufacturer of the nuclear reactor at Three Mile Island and, at one stage of the fraud cases involving the Bank of Credit and Commerce International, no less a Democratic figure than Clark Clifford. With that kind of background, Mr. Fiske can be sure that his performance will be closely watched by both parties.

The new prosecutor willingly accepts the need to report to the public not only what prosecutions he brings but also those he decides not to bring, and why. If he carries out this assignment well, the wonder will remain: Why did Attorney General Reno, who insists that she prizes her own reputation for independence, fail to make this appointment before the White House requested it?

Fiske named; will look into White House aide's suicide

Whitewater counsel sets broad probe

By Michael Kranish
GLOBE STAFF

WASHINGTON – Attorney General Janet Reno yesterday named Robert B. Fiske Jr. as special counsel to investigate President Clinton's investment in the Whitewater Development Corp. Fiske said he accepted the job only after receiving a broad mandate that includes an examination of a White House official's suicide.

Immediately after being named, Fiske, a Republican, declared his independence from the Justice Department, saying he had insisted on "total authority to look into all appropriate matters."

That opened the door for Fiske to examine the complex web of business relationships that the president and his wife have had in Little Rock, Ark., for the last 15 years. Fiske said he intends to question the president and his wife, Hillary Rodham Clinton, under oath.

Questions have been raised about whether the Clintons improperly profited in the Whitewater investment in exchange for pressuring Arkansas regulators to go easy on a failed savings and loan, Madison Guaranty Savings & Loan, which was owned by their business partner, James McDougal. Questions have also been raised about whether Hillary Clinton, a lawyer, had a conflict of interest in representing Madison.

While the Clintons reportedly had hoped the scope of the investigation would narrowly focus on their Whitewater investment, Fiske said he would examine "allegations or evidence of violation of any federal criminal law by any person or entity" that comes to his attention.

Fiske said he would investigate whether deputy White House counsel Vincent Foster's suicide was related to the Whitewater affair. Foster handled Whitewater documents, which were removed by White House officials after the suicide last year and were only recently delivered to the Justice Department.

"Questions have been raised about whether" Foster's suicide "is related to President Clinton or Mrs. Clinton's relationships with Madison Guaranty and Whitewater," Fiske said, "and that will be one of the things we will be trying to find out."

Fiske said he would conduct his investigation out of Little Rock.

Despite his broad mandate, Fiske is hampered by a 10-year statute of limitations on bank fraud and an order to focus only on federal violations. The Whitewater matter began in 1978 and could involve state violations. In addition, Fiske said his charter applied to criminal violations, leaving it unclear what he would do if he found that civil laws had been broken.

One of the last things that Fiske did before accepting the job was to consult with Paul Curran, a longtime friend who ran a similar investigation into then-President Jimmy Carter's business dealings. Curran, as a special counsel, spent seven months examining allegations that Carter transferred funds between his campaign and a peanut warehouse. Curran eventually sought no indictments and simply issued a report – a result that Clinton administration officials hope is repeated in the Whitewater case.

Appointment hailed

"I don't think the [Justice] Department could have made a better choice," Curran said in a telephone interview yesterday. "He is terrific, fair and expert at dealing with financial transactions."

Rep. Jim Leach, an Iowa Republican who has led the call for a Whitewater investigation, called Fiske a "quality" appointment. Haley Barbour, the chairman of the Republican National Committee, said he was glad Clinton "finally caved in" and agreed to the special counsel.

While several top Justice Department officials such as Deputy Attorney General Philip Heymann have long known Fiske, Reno said she had not met him until Wednesday.

"What impressed me was that he had been appointed US attorney by a Republican president, that he had been continued in office by a Democratic president," Reno said. "I had long heard of Robert Fiske as the epitome of what a prosecutor should be: effective, fair, absolutely vigorous, and a person with a reputation for the highest integrity."

The low-key New York City attorney has ridden a legal roller coaster in his career. He was appointed by a Republican to be US attorney in Manhattan and continued in that job under a Democrat. He was in line to be President George Bush's deputy attorney general but was removed from consideration at the behest of conservatives.

Fiske, 63, also helped his former law partner, independent counsel Lawrence Walsh, pick the staff for the Iran-Contra investigation.

Built reputation in NYC

During his time as US attorney in New York – a stint that spanned the Ford and Carter administrations – Fiske had a reputation for running a nonpolitical office and for personally handling major cases, such as the conviction of Leroy (Nickey) Barnes in a widely publicized narcotics case.

In 1989, Attorney General Richard Thornburgh intended to have Bush nominate Fiske as deputy attorney general. But conservative Republicans, led by then-Sen. Gordon Humphrey of New Hampshire, objected to Fiske, according to accounts at the time.

The conservatives, citing Fiske's chairmanship of an American Bar Association committee, said he had played a role in the failure of Robert Bork to be confirmed as a Supreme Court justice. Bush, under pressure from conservatives, dumped Fiske from consideration as a nominee.

Bork, reached at his home yesterday, said he did not hold a grudge against Fiske. Like so many people in Washington, he said, he was fascinated by Whitewater and eager to hear about what Fiske might find.

"There seems to have been a furious attempt to keep something from coming out," said Bork, who knows better than most people here what it is like to be put in the national spotlight. "Whether it is something serious or just something embarrassing, I guess we'll find out."

1A

NY Republican named to probe Whitewater case

By Carl P. Leubsdorf
Washington Bureau of The Dallas Morning News

WASHINGTON — New York lawyer Robert B. Fiske Jr. was named Thursday as special counsel in the Whitewater case and said he expected to question President Clinton and his wife under oath.

The 63-year-old Republican, picked by Attorney General Janet Reno, said he had "total authority

■ Clinton touts achievements. 7A

to look into all appropriate matters" involving Mr. Clinton's ties to an Arkansas real estate deal and a failed savings and loan.

That includes, he said, the suicide last July of White House deputy counsel Vincent Foster, a close friend of Mr. Clinton and first lady Hillary Rodham Clinton.

He promised a "complete, thorough and impartial investigation" and said his inquiry will supersede the probe now being conducted by career Justice Department lawyers.

"I would certainly expect that before this investigation is over that I would question both the president and the first lady and that it would be under oath," Mr. Fiske said.

White House officials said the Clintons would cooperate with the counsel. Asked about Mr. Fiske's statement that he planned to question them under oath, press secretary Dee Dee Myers said: "He hasn't done it yet. We'll deal with that when it comes."

Ms. Myers declined to comment on the choice of Mr. Fiske, a former

Continued from Page 1A.

U.S. attorney in New York and a longtime partner at a Wall Street law firm.

"We asked the attorney general to appoint a special counsel, and she did," Ms. Myers said. "We have nothing more to say."

Mr. Clinton last week dropped his opposition to a special counsel in the face of increasing political pressure. At his direction, White House counsel Bernard Nussbaum formally asked Ms. Reno to name one.

She announced her selection of Mr. Fiske on the first anniversary of Mr. Clinton's inauguration. The appointment was one of the few official events to take place on a day when frigid conditions and energy shortages forced governmental offices and private businesses to shut down.

During the Bush administration, Mr. Fiske was picked to be deputy attorney general. But conservative GOP senators blocked the selection, accusing him of cooperating with liberal groups during his involvement with the American Bar Association's screening of potential federal judges.

A partner in the Wall Street law firm of Davis, Polk & Wardwell, Mr. Fiske served for four years as U.S. attorney in New York, named initially in 1976 by a Republican president, Gerald Ford, and kept on by his Democratic successor, Jimmy Carter.

Senate Republican Leader Bob Dole of Kansas, who had called for a special counsel, told reporters that he didn't know Mr. Fiske.

"People who know him think he is extremely well-qualified, is independent," Mr. Dole said. "He has some Republican leanings."

Mr. Dole also noted, "Some of the conservative Republicans have not been happy with him."

Ms. Reno said that Mr. Fiske met the standard she set last week when she vowed to name someone who was impartial, had a reputation for integrity and skill, and was "ruggedly independent."

She said she did not consult with the White House nor inform officials there of her choice.

Mr. Fiske said his investigation would be based in Little Rock, Ark., because "that's where the center of gravity of this investigation is." He said he would hire "a totally new staff of lawyers" who are not involved in the ongoing Justice Department inquiry.

He said that the investigation would look into the ties among the Clintons and three Arkansas businesses — Madison Guaranty Savings and Loan Association, Whitewater Development Corp. and Capital Management Services.

Among the unanswered questions in the case are whether any of Mr. Clinton's actions as governor helped keep Madison alive and whether he knew of any possible diversion of its funds to his 1984 gubernatorial campaign or the Whitewater real estate venture, in which he and his wife were investors.

Madison failed in 1989 at a cost to taxpayers of at least $47 million.

"Questions have been raised" about whether Mr. Foster's suicide was related to the Whitewater case, Mr. Fiske added. "That will be one of the things we will be trying to find out."

Files on the Clintons' Whitewater holdings were reportedly removed from Mr. Foster's office after his death.

Mr. Fiske said he was unable to say whether his appointment would necessitate a delay in the scheduled March trial of David Hale.

Mr. Hale, a former Arkansas municipal judge, owned Capital Management Services and has alleged that then-Gov. Clinton pressured him to make a $300,000 loan to a company owned by Susan McDougal, who was a partner with the Clintons in Whitewater along with her former husband, James McDougal.

Mr. Clinton has denied the allegation. About $100,000 of the loan ended up in Whitewater's accounts.

Mr. Fiske did say, however, that the Justice Department lawyers had delayed Thursday's scheduled grand jury testimony in Little Rock by Mr. McDougal, who owned Madison Guaranty and is a principal figure in the case.

Mr. Fiske is a former law partner of Lawrence Walsh, who this week wound up his controversial investigation as a court-appointed special counsel in the Iran-contra case. Mr. Fiske helped Mr. Walsh set up his office for that investigation.

The law that led to Mr. Walsh's appointment has expired. Mr. Fiske was named by the attorney general under a separate statute and is responsible to her, though both Ms. Reno and the newly named counsel stressed that he would be totally independent.

Ms. Reno said she told him, "I wanted him to define the scope, I wanted him to define what he needed in terms of staffing and funding, so that he could be assured that he would be independent.

"I don't expect him to report to me. I expect him to report to the American people, and I do not expect to monitor him," the attorney general said.

Mr. Fiske said that he was "totally satisfied that I have the independence and complete authority to do this job right."

ROBERT B. FISKE Jr.

■ **Born:** Dec. 28, 1930
■ **Family:** Wife, Janet, three children
■ **Education:** B.A., Yale University, 1952; J.D., University of Michigan Law School, 1955
■ **Career:** Private law practice in New York, 1956-57, 1961-76, 1980-present, currently a partner with Davis, Polk & Wardwell; assistant U.S. attorney, Southern District of New York, 1957-61; U.S. attorney, Southern District of New York, 1976-80.

SOURCE: Who's Who in America

The Dallas Morning News

PM-ME--Mitchell, Bjt,310

Mitchell Hails Appointment Of Whitewater Special Counsel

PORTLAND, Maine (AP) Senate Majority Leader George J. Mitchell says he is pleased at the selection of Wall Street lawyer Robert B. Fiske Jr. as special counsel to investigate President Clinton's Whitewater real-estate venture.

Mitchell said he knew Fiske when the two served as federal prosecutors, Mitchell in Maine and Fiske in New York. The Democratic senator expressed confidence that Fiske will conduct a thorough, fair and independent review.

Mitchell said he disagrees with Republican demands that Congress look into questions about Arkansas-based Whitewater Development Corp., which was owned in part by Bill and Hillary Clinton, and its links to a failed savings and loan.

``I continue to believe that this is an appropriate review and there is no need for a congressional inquiry,'' he said Thursday following Attorney General Janet Reno's appointment of Fiske.

Looking ahead to the upcoming session, Mitchell said he expects the Senate to complete action on health care reform, welfare reform and a major crime bill.

``We will act also on education legislation, campaign finance reform and several environmental matters, including reauthorization of the Clean Water Act and the Safe Drinking Water Act,'' Mitchell said in a telephone interview from New York.

Mitchell said he expected Clinton's health care proposal would be altered somewhat by Congress but the overriding principle of universal coverage would be retained.

Approval of health care reform should be followed by a look at the welfare system, Mitchell said.

``If we pass health care reform we will have taken a major step toward welfare reform because most of the people on welfare are young women with small children,'' said Mitchell.

The major obstacle to those women leaving welfare is a fear that they will lose their health insurance, he said.

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(2grafinsert6thgraf x x x impartial investigation pickup7tggraf; Fisk also - adding Clinton's comment)
Whitewater counsel to question Clintons under oath
By MICHAEL KIRKLAND=

WASHINGTON (UPI) Special counsel Robert Fiske Jr. said Thursday he plans to question President Clinton and first lady Hillary Rodham Clinton under oath in probe of a failed Arkansas land deal.

Fiske, a lifelong Republican and former U.S. attorney, was named special coun criminal investigation Thursday by Attorney General Janet Reno.

Reno called Fiske, 63, a ``ruggedly independent'' special counsel, and said h ``exemplifies public service at its best.''

At a news conference following the attorney general's announcement, Fiske sai allowed him to frame the dimensions of the investigation.

Though Reno said she would not supervise Fiske and take no reports from him, special counsel acknowleged that he will have to make regular reports to Congres mandated by federal regulation.

He said it was too early to give a timetable on either the questioning of the reports to Congress. He also would not put a deadline on completing the probe, b promised a ``complete, thorough and impartial investigation.''

President Clinton, speaking Thursday on CNN's ``Larry King Live,'' said he an lady Hillary Rodham Clinton were prepared to meet with Fiske.

``Whatever they want to do, we'll be glad to do it,'' Clinton said. ``The main thing I want to do is to just have that turned ov can go back to work. I just want to do my job. I don't want to be distracted by

Fiske also said he would investigate last July's suicide of deputy White Hous Vincent Foster. Documents relating to the Arkansas land deal were taken from Fos office after his death, but were given to the Justice Department earlier this mo

``That will be one of the things we will try to find out,'' Fisk said of any possible connection between Foster's death and the

Despite calls from Republicans, Reno resisted naming a special counsel, sayin would be more proper for Congress to reenact a law that allowed the federal cour appoint an independent prosecutor. But Reno capitulated when the White House its asked for an independent investigator on Jan. 12.

Thursday Reno said she had not consulted with the White House before selectin as special counsel.

The Justice Department controls the investigation's finances, but Fiske said restrictions were placed on his budget.

Fiske also said he wants to set up an office in Little Rock, Ark. An earlier career Justice Department prosecutors in Little Rock was closed in anticipation special counsel appointment.

Fiske said he would meet with career prosecutors later Thursday, but said he not yet seen any of their paperwork.

Though no specific charges have been made against the president and the first allegations were raised that funds from a failed Little Rock savings and loan we improperly channeled to a land development company partly owned by the Clintons early 1980s.

There are also allegations that funds from the Madison Guaranty Savings & Loa improperly used to pay off a debt from one of Clinton's campaigns for Arkansas g

When Congress reconvenes next week, the House will immediately take up legisl that would reenact an independent counsel law already passed by the Senate.

Republican leaders on Capitol Hill have demanded more aggressive action, call both chambers of Congress to create select committees to investigate Clinton's involvement in the Whitewater affair.

Senate Republican leader Robert Dole charged last week that White House and R apparently were working in tandem to address the issue.

Reno said Thursday she supports the reenactment of the independent counsel la even if its function has been superseded by her appointment of Fiske.

Fiske said he is satisfied with his current status and will not seek to be na independent counsel.

Rep. Jim Leach, R-Iowa, who was one of the first Republicans on Capitol Hill special counsel to investigate the matter, praised Reno's choice. Leach said Fis the ``appropriate background and integrity'' to investigate the Whitewater affai

House Speaker Thomas Foley, D-Wash., also was quick to hail the choice.

``I applaud Attorney General Janet Reno's swift appointment of Mr. Fiske as s counsel and am confident there is now a process in place for a thorough, imparti expeditious investigation of these issues,'' Foley said.

Fiske was appointed U.S. attorney in New York by President Gerald Ford in 197 was retained until the end of his term in 1980 by President Jimmy Carter.

He is a partner in the New York City law firm of Davis Polk & Wardwell, but h leave for the special counsel's duties.

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PM-Whitewater-Lot 13, Ark Bjt,1250
At Whitewater, Business and Personal Lines Sometimes Blurred
By DAN SEWELL= and= BILL SIMMONS= Associated Press Writers=

LITTLE ROCK (AP) It's a three-acre lot, reachable only by a steep, unpaved road through Ozark Mountain woods an unlikely setting perhaps for a budding business and political controversy.

Yet a review of land and tax records indicates that transactions involving Lot 13 of the Whitewater Development Corp. were a complicated collection informal arrangements in which Bill and Hillary Rodham Clinton sometimes blurred the lines between partnership and personal property.

There was never a fortune involved, but the transactions could catch the attention of a special investigative counsel appointed Thursday to examine the Clintons' Whitewater partnership.

On paper, the Clintons owned Lot 13 and the loan against it, but the corporation they co-owned sometimes made the loan payments.

Its sale was no simpler. The property was sold by Mrs. Clinton, bought back out of bankruptcy when the first buyer faltered and then sold again, a review of land and tax documents shows.

Both times, the Clintons were the legal sellers. But the proceeds from the first sale went into an escrow account that White House senior adviser Bruce Lindsey said was controlled by Whitewater and did not go to them.

The Clintons kept the proceeds from the second sale, reporting a modest gain on their tax returns.

White House officials say the Whitewater dealings were all legal, but acknowledge their nature has led to many of the persistent questions that eventually brought Thursday's naming of Robert Fiske as special counsel.

``Between the parties in the company, the formalities are not important,'' Lindsey said in an hour-long interview. ``The way they did it shouldn't raise any questions.''

The Associated Press reviewed more than a decade of land and tax documents obtained in Arkansas, although some records tied to Whitewater are missing.

``We don't have all the Whitewater records,'' said Lindsey, a Little Rock attorney who often acts as the Clintons' spokesman on Whitewater.

One financial expert said the partial portrait available from documents suggests that the Clintons' Whitewater dealings were likely to have been legal under complex real estate and tax laws.

``Oftentimes, as long as the bookkeeping entries are accounted for properly, there is no tax issue,'' said Jack Porter, national director of tax partners at BDO Seidman, a national accounting firm.

Others say the lack of complete records makes it impossible to verify the Clintons' claim that they lost nearly $69,000 in the venture.

``Records for the deal appear to have been sloppy or not kept at all,'' said a Jan. 17 report in Tax Notes, weekly publication of the industry group Tax Analysts. That article concluded that the Whitewater deal raises tax questions because it's not clear whether the Clintons ``had income from corporate dividends or loan forgiveness.''

The Whitewater venture is included in a Justice Department investigation of the failed Arkansas savings and loan owned by James McDougal, Madison Guaranty Savings & Loan. The Clintons and McDougals have denied wrongdoing.

Whitewater began Aug. 2, 1978, when the Clintons joined with friends McDougal and his then-wife Susan McDougal to buy 230 acres of wooded, rocky land along the White River in the Ozarks. Land sales stamps placed on the deed at the time of the sale indicate a price of about $203,000, or roughly $880 an acre. The land came from a larger tract owned by a northern Arkansas company.

That purchase, the records show, was financed by two bank loans taken out by the Clintons and McDougals.

In 1979, they transferred the land to their newly formed Whitewater Corp. Tax stamps from that transfer suggest Whitewater took the land at a value of $250,000, raising the question of a profit in the transfer.

McDougal's attorney, Sam Heuer, said the increase reflected the partners'

payments on their loans and capital improvements they made on the land, such as surveys. It was a ``paper transaction,'' Heuer said.

The Clintons' involvement with Lot 13 began in December 1980, shortly after then-Gov. Clinton lost a bid for re-election.

Mrs. Clinton obtained a $30,000 mortgage from the Bank of Kingston, controlled by McDougal. The bank's president was Clinton gubernatorial aide Steve Smith.

Whitewater transferred the ownership of the three-acre lot to Mrs. Clinton, according to a warranty deed that lists no purchase price for the transfer. Mrs. Clinton used that property to secure the personal loan.

Chris Wade, an Arkansas real estate agent who sold and bought Whitewater lots, said the $30,000 loan was used when McDougal bought a modular home for Lot 13 to serve as ``a model home'' for potential buyers.

Lindsey said that although the loan was in Mrs. Clinton's name, it was used to benefit Whitewater. Under another informal arrangement, Mrs. Clinton lent the money to Whitewater, Lindsey said.

``It would be just a book entry in the company books, like `loan, H.R.C.,' or something like that. It doesn't have to be a formal thing placed in the public records,'' Lindsey said. ``Mrs. Clinton took out the loan. She immediately loaned it back to Whitewater.''

Records show that in 1981, the Clintons sold the property and model home to Hilman Logan, a Greenville, Miss., businessman who paid $6,000 cash and agreed to make monthly payments of $284 to the Bank of Kingston.

Although the documents formally list the Clintons as the sellers of the property, Lindsey said the proceeds from Logan went ``into the Whitewater account or to pay on the Bank of Kingston loan.''

In 1983, the Clintons paid off their original $30,000 loan with a new, lower-interest loan from Security Bank of Paragould, Lindsey said. That loan also was re-loaned to Whitewater, Lindsey said.

Although the new loan was also in the Clintons' name, Whitewater continued to make the payments, he said.

In 1984 and 1985, the Clintons improperly deducted interest payments on the loan that were, in fact, made by Whitewater. Lindsey said they corrected the mistake by paying more than $4,000 in additional taxes and penalties last year.

At some point, the cash-starved Whitewater company stopped making payments on the Clinton-Whitewater loan and the Clintons took over. The Clintons reported interest deductions on their own taxes from 1986 to 1988, when it was paid off.

Before then, the first buyer, Logan, had stopped making payments, filed bankruptcy and eventually died. In 1988, the Clintons bought Lot 13 from the bankruptcy trustee for Logan's estate. The deed indicates the price was $8,000.

Jeffrey Levingston, a Cleveland, Miss., attorney who was the bankruptcy trustee, said the price came to nearly $28,000 total, including the remainder of the loan. The $8,000 covered Logan's equity, he said.

About a month later in 1988, the Clintons sold the lot to John and Marilyn Lauramoore of Palmetto, Ga., for about $28,000. The Lauramoores live there now, in the modular home.

-END-OF-AUTOBREAK(1)-

-AUTOBREAK(2)-FOLLOWS

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BC-Top-Stories:-Worldwide-for-Jan.-21
' Top Stories: Worldwide for Jan. 21Clinton Pledges Cooperation With Whitewater Special Counsel

In an appearance on CNN's Larry King Live'' show, the U.S. president said he would cooperate fully with Robert Fiske Jr., the Wall Street lawyer named today to head the investigation into the Whitewater Development Co. affair. ``Whatever they want to do, we'll be glad to do it,'' Clinton said. Earlier in the day, Attorney General Janet Reno named Fiske to head the investigation into allegations of wrongdoing involving the investment of Clinton and his wife in Whitewater, an Arkansas development company, and its ties to the Madison Guaranty Savings and Loan, a failed Arkansas thrift. The 63-year-old Wall Street attorney said he expects to interview both President Clinton and Hillary Rodham Clinton under oath. (See story: NI EXE) Crippling Demand for Electricity Eases in Northeast U.S.

A day after Arctic temperature forced electric utilities to cut power to hundreds of thousands in the Northeastern and mid-Atlantic states, utility officials said conservation efforts helped reduce the demand. Federal offices in Washington, D.C. will re-open Friday at 10 a.m. EST after being closed Thursday to help reduce power demands in the Washington area. So far, about 101 people have died of weather-related causes since Jan. 14 as temperatures plummeted below zero from the Dakotas to the Atlantic, the Associated Press reported. (See stories: BBN42, NI EXE, UTI) Russian Finance Minister Quits; New Cabinet Unveiled

After days of threats amid a growing crisis, reformist Boris Fyodorov said he would not be part of Russia's new cabinet. The core of the new cabinet appointed by Russian President Boris Yeltsin and Prime Minister Viktor Chernomyrdin is dominated by conservatives opposed to rapid economic reforms, the Associated Press reported. Chernomyrdin said he would correct government policies that had emphasized ``restraining hyperinflation to restraining the hyper-fall in production.'' The ruble recovered somewhat after hitting record lows every day this week. (See story: NI SOV) Mandela Asks South African Blacks to Pay Rent, Utility Bills

African National Congress leader Nelson Mandela called on blacks to resume making the payments which they had refused to pay for years in protest of apartheid and poor living conditions, the Associated Press reported. Mandela called for an end to the boycott after signing an agreement with President F.W. de Klerk to set up new governing bodies for the townships. (See story: NI SAFRI) European Parliament Votes to Take Lord Owen off Bosnia Job

In a 160 to 90 vote, with 13 abstentions, the 518-member European Parliament said Lord David Owen hasn't fulfilled his task of bringing peace to the region, the Associated Press reported. The parliament has little power in foreign affairs and can only urge European governments to take action. Still, its statements are as seen as a reflection of public sentiment in Europe. (See story: NI YUGO) California Quake Death Toll Now at 51 as Refugees Face Rain

Tens of thousands of people driven from their homes by the 6.6-magnitude earthquake faced rain and a chilly night as they attempted to cope with the damage, the Associated Press reported. The San Fernando Valley has experienced about 1,500 aftershocks since Monday. Two were killed today when a helicopter crashed while inspecting an Atlantic Richfield Co. oil pipeline north of Los Angeles. (See stories: BBN42) Government Panel Releases Guidelines For Treating HIV Infection

A government panel offered primary care doctors in the U.S. advice on how to treat patients with early infection with the virus that causes AIDS, in an effort to overcome the reluctance of doctors, the Associated Press reported. The 196-page paperback book provides the latest research on drug treatment of HIV patients, how to prevent the opportunistic infections and other problems. The Agency for Health Care Policy and Research also published two consumer guides aimed at patients and parents of HIV-infected children. (See story: NI HEA) 19 Dead, 11 Wounded in Fighting in India's Kashmir Valley

Police said Muslim separatists fought with government troops in about a dozen spots in Kashmir, the Associated Press reported. Guerrillas ambushed a border police patrol, killing six officers and wounding six. The attacks may be linked to the Jan. 26 celebration of India's becoming a republic in 1950. Rebels have called for a boycott of the celebration. (See story: NI INDIA) -- James Finkle in the Tokyo newsroom (813) 3435-1947 -0- (BBN) Jan/21/94 15:12 EO (BBN) Jan/21/94 01:12 86

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b:-whitewater-ndy - a1912
(ndy) (ATTN: National editors) (Includes optional trims)
Veteran Prosecutor Fiske Takes Over Whitewater Probe (Washn)
By Timothy M. Phelps= (c) 1994, Newsday=

WASHINGTON Robert B. Fiske Jr., a veteran New York City prosecutor and criminal defense lawyer, took over the Whitewater investigation Thursday and immediately vowed to question the president and first lady under oath.

Fiske, a Republican, was named independent counsel Thursday by Attorney General Janet Reno, who said his service as U.S. attorney in Manhattan under Republican President Ford as well as Democrat President Carter proved that he is ``ruggedly independent.''

The partner in the Manhattan firm of Davis Polk & Wardwell wrote his own job description, a legal mandate that gives him broad powers to investigate any federal crime arising out of Bill and Hillary Rodham Clinton's relationship with their Whitewater land deal, with the now-failed Madison Guaranty Savings and Loan, or with a Capital-Management Services Inc. that provided a $300,000 Small Business Administration loan, some of which was invested in Whitewater.

Banking investigators have said that some money from Madison, whose failure in 1989 cost U.S. taxpayers at least $47 million, may have been illegally diverted into Clinton's campaign funds or into the Clintons' private investment in the Whitewater development in Arkansas. The Clintons have denied any wrongdoing.

Fiske, 63, said that he will look into whether the suicide last July of Vincent Foster, a White House lawyer and close friend of the Clintons', was related to the Clintons' connections with Whitewater and Madison. Files on Whitewater were removed by White House officials from his office after his death without being shown to police. When that became public in December it provoked the calls for an investigation.

But while Fiske described the scope of his investigation as broad, he also made it clear that it would focus on the Clinton's relationship with Whitewater, Madison and the loan company. It appeared that Foster's suicide, if not connected to the Clintons' relationship with those three entities, would fall outside his mandate.

He did say, however, that Associate Attorney General Webster Hubbell, the No. 3 person in the Justice Department, ``would be embraced within the scope of this resolution.'' Hubbell, a former law partner of Hillary Clinton, represented the federal government in a lawsuit against Madison's accountant even though his firm had previously represented Madison and Hubbell's father-in-law was an employee and debtor of the thrift.

Fiske said that his would be a criminal, not a civil, investigation, despite the fact that Rep. Jim Leach, R-Iowa, who was the first to call for an independent investigation, has said that any legal violations were civil in nature.

In part for that reason, Republican critics of the administration's handling of Whitewater said Thursday that congressional hearings may still be necessary.

Fiske said Thursday that such an overlap would make his job harder. ``It is difficult to conduct this kind of investigation at the same time a congressional investigation is going on,'' he said.

(Begin optional trim)

Sen Alfonse D'Amato, R-N.Y., was ebullient about the choice of Fiske. ``Bob Fiske is uniquely qualified for this position. He is a man of uncompromising integrity. He will unearth the truth for the American people'' the senator said in an interview.

Senate Minority Leader Bob Dole, R-Kan., was more cautious in his reaction.

``I don't know Robert Fiske, but my reaction is to wait and see what happens. They've chosen someone. That's what we asked them to do,'' said Dole, who had said a congressional investigation would not be necessary if a suitable investigator was named.

But Dole told a news conference in Topeka, Kan., that despite the appointment of Fiske, he didn't think ``there's any impediment to a congressional hearing.'' However, the chairmen of the House and Senate banking committees, which would conduct such a hearing, already have refused.

Leach said the case for hearings was still compelling, even if less necessary after Fiske's appointment.

(End optional trim)

Conservative Republicans blocked Fiske from becoming deputy attorney general during the Bush administration because they said he cooperated too closely with liberal groups while he was head of the American Bar Association's committee that screened nominees to federal judgeships.

Conservatives may also be discomfited by the fact that Fiske is a former law partner of Lawrence Walsh, the controversial Iran-Contra investigator. Fiske gave Walsh advice on choosing his staff.

Fiske, in a news conference held at the venerable Willard Hotel because federal as well as private offices were closed due to the cold weather, said he would make Little Rock, Ark., his base of operations.

``That's where the center of gravity of this investigation is,'' he said. He said he planned to hire a whole new staff from outside the Justice Department to help him with the investigation, but that he planned to start immediately debriefing the career prosecutors who have been working on the case since November.

Fiske refused to speculate on how long his investigation might take. Estimates have ranged from three months to more than a year.

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PM-AR--Whitewater-Tucker Subpoena,1st Ld-Writethru,1300
EDS: Gives more specific descriptions of subpoenaed firms, persons
,Governor Releases Subpoena From Federal Grand Jury
bcsphfonstp2houfls
By JOEL WILLIAMS= Associated Press Writer=

LITTLE ROCK (AP) A subpoena served on Gov. Jim Guy Tucker shows a federal grand jury is seeking records relating to a variety of James McDougal's businesses and associates, including President Clinton.

Tucker released the broad-ranging subpoena Thursday. His spokeswoman, Max Parker, said Tucker's personal lawyer, John Haley, will present whatever materials Tucker has to the grand jury.

Federal investigators are trying to determine whether McDougal improperly used funds of a savings and loan to benefit the Clintons or other friends and associates. They also are investigating Whitewater Development Co. Inc., a real estate venture in which the Clintons were partners with McDougal and his former wife, Susan.

The S&L, which was Madison Guaranty Savings and Loan, failed in 1989, costing taxpayers $47 million, according to federal regulators. The Clintons and McDougal have denied doing anything illegal.

The subpoena includes a two-page list of companies and individuals.

``I have been asked for a variety of documents which we're putting together relating to whether I have anything on Bill or Hillary Clinton. The answer is `no,''' Tucker said.

The subpoena asks Tucker for all materials relating to:

President Clinton or his wife, Hillary Rodham Clinton, or a Clinton campaign fund.

McDougal and his former wife, Susan, and their business ventures, including Masters Marketing and Madison Marketing, both of which McDougal said were owned by Mrs. McDougal. They did business with the S&L. The McDougals divorced in 1990.

Whitewater or any parent, subsidiary or related entity. McDougal said Thursday night he didn't recall Whitewater having any parent, subsidiary or related entity.

Whitewater Estates, which is a 230-acre real estate development which the Clintons and McDougals started in 1978 and turned over to Whitewater in 1979.

Madison S&L and its real estate division, Madison Financial. McDougal was owner of the S&L. He established and ran its real estate division.

Madison Real Estate Co., which was owned by Susan McDougal.

Madison Bank and Trust. and the Bank of Kingston. This bank, based in Kingston in northwest Arkansas, is one in which McDougal had a major interest for a few years after he and other members of an investor group bought it in 1980. It was the Bank of Kingston at that time and later the name was changed to Madison Bank and Trust.

Seth Ward, who had real estate dealings with Madison Financial, and P.O.M. Inc., which is a parking meter company at Russellville in which the Ward family has an interest. Ward is father-in-law of Webb Hubbell, who is a former law partner of Mrs. Clinton and is the No. 3 official in the U.S. Department of Justice.

Charles Peacock III and his business ventures, including Peacock Brothers and K&D Landscaping. Peacock was a stockholder of Woodruff S&L when McDougal bought it and changed its name to Madison Guaranty, McDougal said. Peacock remained on the board through most of the 1980s, he said.

Charles Peacock IV. McDougal said he came on the S&L board later.

Rolling Manor, which was one of McDougal's subdivisions. It involved land north of Mayflower in Faulkner County.

Pembrook Manor, a company McDougal said he owned 30 years ago.

Tucker-Smith-McDougal partnerships or business ventures. The names represent Gov. Tucker, James McDougal and Stephen Smith, who was an aide to Clinton when Clinton was attorney general and in Clinton's first term as governor. The trio had a land venture prior to Whitewater involving about

2,600 acres of land bought from International Paper Co. in north Arkansas, Smith said.

Tucker-McDougal partnerships or business ventures. McDougal said he and Tucker once bought an apartment building in Little Rock and converted it to condominiums.

Park Place, which is the 24-unit apartment complex that Tucker and McDougal converted to condos. It is adjacent to MacArthur Park in the capital city.

Great Southern Land Co., which was owned by McDougal and which undertook the purchase of land in Pulaski County from International Paper after a Whitewater purchase of the land fell through.

J. William Fulbright, a former U.S. senator for Arkansas for whom McDougal worked at one time and with whom McDougal undertook some business ventures.

Flowerwood Farms, which belonged to McDougal and which owned land in Pulaski County.

Castle Sewer and Water Corp., which McDougal described as one of Tucker's ventures. Castle obtained a $150,000 loan from Capital-Management Services Inc., which was operated by David L. Hale.

Southloop Construction Co., a venture in which Tucker and former Little Rock municipal judge David Hale, were partners.

The Communications Co., which McDougal said was a cable business owned by Tucker.

Cablevision Management Inc., which managed the Tuckers' cable TV investments and which was owned by the Tuckers.

County Cable Inc., a cable TV company which Tucker owned.

Tucker's wife, Betty.

Stephen Smith, who was not only an aide to Clinton in 1977-80 and a partner in some McDougal land ventures but also was a co-owner in the Bank of Kingston with McDougal for two or three years, and, for about a year, held perhaps a third of the Madison S&L stock, which he later transferred to McDougal in exchange for McDougal taking over payments of the bank loan which had enabled Smith to buy the stock. Smith said he got out of the loan because he couldn't afford the payments.

Julia Baldridge, who was Smith's wife at the time of some of his ventures with McDougal and who held a small number of shares in the Kingston bank. They divorced several years ago.

Chris V. Wade and his business ventures, including Ozarks Realty Co. and Ozark Aviation. Wade sold land for Whitewater and once traded a plane from his aviation company to Whitewater, which, according to McDougal, sold it for about $25,000, which he said was proper consideration. There have been reports that the plane was bought by Ward with a Madison S&L loan and wound up in Madison's possession for its own use.

Citizens Bank of Flippin, which loaned the McDougals and Clintons $182,000 in 1978, making up most of the $203,000 they spent to buy the 230 acres which became Whitewater Estates.

Maurice Smith, who has been a top Clinton gubernatorial aide, Clinton campaign official, and Clinton-backed state Highway Department director. He was owner of the Bank of Cherry Valley, which made both personal and campaign loans to Clinton.

Don Denton, a Little Rock banker who, McDougal said, went to work for Madison S&L in the mid-1980s. Denton became Madison's chief loan officer, McDougal said.

Robert Wilson, another Little Rock banker who worked at Madison, and Wilson's company, The Wilson Co. McDougal said Wilson wound up owning Madison and is operating it now.

-END-OF-AUTOBREAK(1)-

-AUTOBREAK(2)-FOLLOWS

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SPECIAL COUNSEL CLAIMS WIDE WRIT IN CLINTON INQUIRY

TO EXAMINE SUICIDE

President and First Lady Are to Be Questioned on Land Dealings

By DAVID JOHNSTON
Special to The New York Times

WASHINGTON, Jan. 20 — The special prosecutor chosen to investigate President Clinton's Arkansas land dealings said today that he planned a broad criminal inquiry that would include questioning the President and Hillary Rodham Clinton under oath and an examination of any possible links to the suicide of a senior White House aide.

The prosecutor, Robert B. Fiske Jr., is a New York lawyer and former Republican United States Attorney in Manhattan. Speaking with reporters today after Attorney General Janet Reno announced the selection, he said Ms. Reno had given him a wide grant of authority to conduct "a thorough, complete and impartial" criminal investigation.

Although Ms. Reno approved the scope of the inquiry, it was Mr. Fiske who actually set its parameters. In a highly unusual arrangement proposed by the Attorney General, he wrote his own formal statement of jurisdiction on a yellow legal pad as he sat alone Wednesday afternoon in a vacant office at the Justice Department, Ms. Reno's aides said. That was in keeping with Mr. Fiske's character; in addition to being well regarded for integrity, he is also known for his thoroughness. [Man in the News, page A16.]

Guards for Independence

Mr. Fiske's intention to review the circumstances of the death of Vincent W. Foster Jr., a White House lawyer, in July 1993, suggested that the inquiry would examine events in Washington as well as Arkansas. Mr. Foster, a longtime Clinton associate, kept a file on the Clintons' land dealings that was turned over to a private lawyer after the aide's death but not provided to the authorities until it was subpoenaed last month.

To assure Mr. Fiske's independence, Ms. Reno said she would not try to monitor his activities, nor would she ask him to report to her about his progress. Under Federal regulations, she can dismiss him, but only for "cause" or physical infirmity and even then would be obligated to explain her actions to Congress.

On a political level, the timing of the announcement — on the first anniversary of Mr. Clinton's inauguration — seemed to accentuate the crosswinds buffeting the White House. Just as Mr. Clinton finds his popularity rising after an up-and-down year, he also finds himself facing an open-ended grand

Continued on Page A16, Column 3

Continued From Page A1

jury inquiry into his past and the White House's handling of the land issues since he became President.

Mr. Fiske's past associates do not regard him as a prosecutorial gunslinger. But his reputation as a coolly determined investigator, combined with the breadth of his authority, suggest that the inquiry into the Clintons' real estate investments and the Foster suicide could remain a serious distraction for the Administration for a year or more.

But judging from the experience of previous prosecutors brought in to investigate complex cases, Mr. Fiske's appointment will probably provide Mr. Clinton at least a temporary respite from the persistent questions that forced him reluctantly to ask Ms. Reno to name an independent prosecutor. The case is now in Mr. Fiske's hands, and it is likely take him months to get up to speed.

The questions about the Clintons' land dealings center on a failed real-estate venture, the Whitewater Development Company, which was owned by the Clintons along with the owner of an Arkansas savings and loan association, James B. McDougal, and his wife. The sketchy records released so far have led to suggestions that Mr. McDougal might have improperly diverted money to Whitewater from his savings and loan.

Mr. Fiske would not predict how the long the inquiry would take, but said he was prepared to go "flat out" to complete it. "It's important for the country to get this done and get it done as quickly and as thoroughly and as fairly as possible," he said.

Interlude of Months

Still, it seemed probable that it would take months before Mr. Fiske could assemble his own team and possibly a year or more before he is able to interview relevant witnesses and fully assess the legal documents and financial data.

The White House was virtually closed for the day, with no press briefing scheduled, and aides to Mr. Clinton steadfastly declining comment on the appointment of Mr. Fiske.

But the White House officials insisted that the appointment of the special prosecutor had not been a factor in the President's decision to avoid public appointments.

A speech at Georgetown University was canceled because of the cold weather, they said, adding that Mr. Clinton had wanted a quiet day aside from that speech because he was weary from the rigors of his trip to Europe last week.

Mr. Fiske said his charter would enable him to comb any relevant area. That includes events in the 1980's when Mr. Clinton was Governor of Arkansas as well as issues that have arisen since he became President, including scrutiny of how the White House handled Mr. Foster's files about the Clinton's financial dealings.

Mr. Fiske's jurisdictional statement, which has the same legal weight as Justice Department regulation, which is enforceable as law, said the inquiry would examine "whether any individuals or entities committed a violation of any Federal criminal law relating in any way" to the Clintons' relationship to three companies.

These include Whitewater; Madison Guaranty Savings and Loan, the failed financial institution owned by Mr. McDougal, and Capital Management Services, a small investment firm set up to assist disadvantaged businesses.

Capital Management was owned by David Hale, a former municipal judge in Little Rock who is facing trial on fraud charges in the Arkansas capital. He has accused Mr. Clinton and Mr. McDougal of pressuring him to lend them money from his federally backed company. Mr. Clinton and Mr. McDougal have denied Mr. Hale's assertions.

Mr. Fiske said that beginning on Monday he would attend to housekeeping matters, like assembling a staff of prosecutors from outside the Government as he consults with Justice Department lawyers who have been conducting their own inquiry.

"In order to conduct a truly independent investigation, I should have people working for me who are not also reporting to the Attorney General," Mr. Fiske said.

Centering on Arkansas

He appears to be planning a low-profile inquiry, saying he is likely to base his operations in Little Rock. That, he said, is where the "center of gravity" of the case is located, including witnesses, documents and the grand jury that has already been convened in the case. But it is also far from the brighter glare of the spotlight in Washington.

Nevertheless, Mr. Fiske said he would investigate matters more closely tied to the White House, like the issues stemming from Mr. Foster's death. That could require convening a grand jury in Washington or stationing investigators here to work on aspects of the case relating to Mr. Foster, a possiblity that Mr. Fiske did not rule out.

Mr. Fiske said he would use the Federal Bureau of Investigation, whose agents have been working on the case for months. He said that Louis J. Freeh, the bureau's director, had promised him full cooperation, an arrangement that is considered routine in such cases.

Any attempt to question a sitting President about his own conduct either before or after taking office raises the prospect of a constitutional battle. A panoply of legal obstacles, in the form prior judicial rulings, make it exceedingly difficult for a prosecutor to subject a President to interrogation without an overwhelming showing that the evidence cannot be obtained elsewhere.

Land deals and a suicide will be examined.