Rose pays for Hubbell's sins, may sue

BY ANDREA HARTER
Democrat-Gazette Business Writer

The Rose Law Firm has begun repaying $125,000 owned to various clients as a result of Webb Hubbell's overbilling, the firm's chief operating officer said Thursday.

Ron Clark said the firm began reimbursing more than a dozen clients this week and plans to pay the remainder in coming weeks. Of the more than $394,000 Hubbell admitted overbilling the firm and a select list of clients, the law firm itself took the hardest hit — estimated to be $269,000.

Hubbell pleaded guilty Tuesday in U.S. District Court to mail fraud and tax evasion charges. Published reports said the plea was entered to avert a possible indictment by the Whitewater grand jury.

Clark stopped short of saying the firm plans to sue Hubbell, a 20-year partner in the firm, a former Little Rock mayor and one-time U.S. associate attorney general, for the overcharges.

"We intentionally did not make that decision earlier out of deference to the criminal investigation," Clark said. "Now that that appears to be over, we'll make that decision. ... We're trying to take care of our clients now."

Rose filed ethics complaints against Hubbell for the improper billing practices earlier this year. In March, Hubbell resigned as a senior Justice Department official. He is a longtime friend and supporter of President Clinton and a former law associate of first lady Hillary Rodham Clinton, previously a Rose partner. He is also the former chief justice of the

See HUBBELL, Page 14A

Clinton appointee pulls off case

BY PATRICIA MANSON
Democrat-Gazette Federal Reporter

Citing his concern about the appearance of one Clinton appointee passing judgment on another, a federal judge Thursday stepped aside from Webb Hubbell's case.

U.S. District Judge Bill Wilson said he will let another judge sentence the former No. 3 official in President Clinton's Justice Department on two felony counts.

Wilson

"The bottom line is, not only must you do justice, but you must have the appearance of doing justice," Wilson said.

The judge said he was confident he could be fair and

See JUDGE, Page 15A

Judge

Continued from Page 1A

impartial. But any "reasonable, fair-minded person" might question a sentence imposed by a Clinton-appointed judge on a former Clinton administration official, he said.

U.S. District Judge George Howard Jr. was randomly selected to take over Hubbell's case from Wilson. Howard was nominated to the federal bench by former President Jimmy Carter.

Wilson removed himself from the case two days after the former associate attorney general pleaded guilty to two felonies in a plea bargain with Whitewater independent counsel Kenneth Starr.

Hubbell entered his plea in a courtroom filled with spectators who included lawyers saddened at the downfall of one of their own.

In a voice cracking with emotion, Hubbell pleaded guilty to charges of mail fraud and tax evasion. He admitted he padded expense accounts and client bills to the tune of $394,000 while a partner at Little Rock's Rose Law Firm and then evaded taxes on that money.

The maximum penalty on each count is five years in prison and a $250,000 fine, but Hubbell's sentence will be determined in large part by federal sentencing guidelines. The plea agreement does not guarantee Hubbell a particular sentence.

The agreement does require him to cooperate in Starr's investigation of business affairs in Arkansas over the past two decades. At the center of that inquiry is the Whitewater Development Corp.

Bill and Hillary Rodham Clinton were among Whitewater's partners. Other partners included Susan McDougal and her then-husband, James, owner of Madison Guaranty Savings and Loan Association.

Hubbell's father-in-law, Little Rock businessman Seth Ward, was employed by a Madison real estate subsidiary. Ward and his son took out almost $1.5 million in loans from Madison, which failed in 1989 at a cost to taxpayers of $65 million.

When Hubbell faced Wilson in court this week, it was a meeting between two men who rose to prominence in Arkansas legal and judicial circles.

Hubbell's ascent began when he joined the Rose Law Firm in 1973. Partners at Rose, one of the region's most prestigious law firms, included Hillary Clinton.

Elected to the Little Rock Board of Directors in 1978, Hubbell served on that body until 1984, spending two of those years as mayor.

In 1984, Gov. Bill Clinton appointed his longtime golfing partner to the Arkansas Supreme Court to serve as chief justice. Hubbell remained in that post until 1985.

Hubbell was tapped for public service again in 1993, when Clinton, now president, nominated him as associate attorney general. Hubbell resigned from that post in March after his former partners at Rose accused him of padding his expense account and overcharging the firm's clients.

Like Hubbell, Wilson's star rose in the legal community.

Except for the 3½ years he spent in Vietnam, Wilson practiced law in Arkansas from 1968 until he took the federal bench last year.

During those years, Wilson built a reputation as an outstanding trial lawyer who was recognized for his work in First Amendment law, business litigation, criminal defense and family law and personal injury litigation. Wilson's law firm represented Roger Clinton, President Clinton's brother, in a 1984 drug case.

Wilson was involved in state Democratic Party activities and, like Hubbell, is a friend of the Clintons.

In a telephone conference Thursday, Wilson cited that mutual friendship as one of the factors prompting him to remove himself from Hubbell's case. Wilson also pointed to the fact that he and Hubbell, although they had never faced off in court, had been active in the state's legal community and judicial system.

Wilson conducted the 11-minute conference as he drove to St. Paul, Minn., for a judicial conference. Lawyers for the defense and prosecution gathered in Wilson's chambers in Little Rock, while the judge spoke from a car phone somewhere between Salina, Kan., and York, Neb.

Attending the conference were Hubbell's local defense attorney, Jack Lassiter, and Hickman Ewing Jr. and Amy St. Eve, both with Starr's office.

Hubbell and his other defense attorney, John W. Nields of Washington, D.C., were not at the conference.

None of the lawyers in the case sought Wilson's recusal, but they did not object to it either.

Wilson was typically colorful and homespun during the conference. He told participants he was driving though snow and ice "so I hope the expletives will be deleted" — there were none — and said that although he knew Hubbell, "we've never been social friends, or visiting friends as people might say in Scott County."

Arkansas Democrat Gazette 12/9/94

Dec. 1941

✓

DER 156

Hubbell

Continued from Page 1A

Arkansas Supreme Court.

Sixteen clients are listed in federal court documents, including two federal agencies, but no specific overbilling amounts are included. Debbie Gershman, a spokesman for independent counsel Kenneth Starr, said she wouldn't release the specific amounts overcharged nor the home-office locations.

According to federal records, some clients Hubbell overcharged are: The Resolution Trust Corp., the federal agency that manages and sells the assets of failed savings and loans; the Federal Deposit Insurance Corp.; Environmental Systems Co., Little Rock; American Cemetery Association, Washington, D.C.; Air Products and Chemicals Inc., which has an office in Little Rock but is headquartered in Allentown, Pa.; Universal Underwriters, Overland Park, Kan.; Worthen Banking Corp., Little Rock; American Council of Life Insurance, Washington, D.C.; Tyson Foods Inc., Springdale; Lovett & Foster Ltd., Little Rock; Sturgis Estate, Arkadelphia; and Central Texas Iron Works, Waco, Texas.

Other clients on the list were Flintkote, Brickel Financial Service Inc., Money Mortgage Inc. and Champion Enterprises.

It could not be immediately determined where those companies are based.

Archie Schaffer III, spokesman for Tyson Foods, said he did not know how much money Tyson was due, nor the specifics of the poultry company's dealings with Rose.

"I have no idea. I didn't know about it until I read it in the newspaper and I only believe about 30 percent of what I read in the newspaper," Schaffer said, adding that Tyson counsel Jim Blair was out of town and could not be reached for further details.

Rose's Clark said the client list was accurate, but he would not say whether it was complete. Court records said the overcharges occurred from 1989 through 1992.

"We are still conducting an investigation. Our clients are real sensitive. The list is accurate, but whether it (list) is all or not, I'm not going to get into that," Clark said.

Ron Clark

Patricia Black, general counsel to RTC Inspector General John Adair, said the investigation Congress ordered targeting Rose's relationship with the RTC, and specifically its billing records, is continuing.

"We are currently doing an audit. I do not have a total amount," Black said. Rose — RTC's counsel on the failed Madison Guaranty Savings and Loan Association case as well as other cases — billed the RTC more than $2 million since the agency was created in 1989, Black said.

She said the FDIC initially hired Rose for Madison. After the RTC was created to handle savings and loan failures, Madison and Rose were passed to the RTC.

She could not confirm if Hubbell had worked on the Madison case or what account Hubbell had wrongly billed the RTC.

Last month, the RTC won a court battle with Rose, forcing the firm to turn over its client list to the RTC.

Madison is central to the Whitewater Development Corp. investigation because the S&L was owned by James McDougal, partner with the Clintons in Whitewater, a failed 230-acre residential development in Marion County.

Hubbell's father-in-law, Seth Ward, and brother-in-law took out almost $1.5 million in loans from Madison before it collapsed in 1989 at a cost to taxpayers of $65 million.

Several companies and organizations that Hubbell overcharged expressed surprise Thursday at the revelation that they were owed money by Rose.

"The plot thickens," said Steve Morgan, executive vice president for the American Cemetery Association in Washington, D.C.

He became acquainted with Rose after his trade organization was named in an antitrust lawsuit in Little Rock, along with several local cemeteries, in late 1989-90.

"I couldn't tell you the amount, but I'm sure they only billed us no more than a few thousand dollars. They were only our in-state counsel," Morgan said. "Besides, I never heard the name (Hubbell) until he came up here (Washington)."

A spokesman for the American Council on Life Insurance was surprised the trade organization's name was on the list. He did not comment further.

Curt Bradbury, chief executive officer and chairman of Worthen, said his company "took a small hit. It was an insignificant amount."

For most matters, Worthen uses its corporate attorney, Wright Lindsey and Jennings.

Bradbury said Worthen had contacted Rose and was expecting a refund. He would not release a specific amount.

A receptionist at Lovett & Foster, a certified public accounting firm in Little Rock, said no one was available to answer questions about the charges, and officials for Environmental Systems Co. were out of state.

According to the plea agreement, Hubbell has to file amended tax returns to report income he received from overbilling the clients. Federal prosecutors estimate he owes $130,291 in taxes.

No sentencing date has been set.

Arkansas Democrat Gazette 12/9/94

Bill's pal McDougal due for W'water indictment

WASHINGTON — President Clinton's former business partner has been notified that he is a target in the Whitewater investigation and likely will be indicted.

James McDougal, the ex-owner of the collapsed savings and loan at the center of the Whitewater investigation, got a written invitation to undergo questioning by prosecutors and FBI agents.

The three-paragraph "target letter" also warned McDougal that he's the focus of "numerous investigations" by the prosecutors, his attorney, Sam Heuser of Little Rock, Ark., said yesterday.

"Mr. McDougal has given me every indication in the past that he has no desire to be interviewed by the independent counsel," Heuser added. "My feeling is that, absent any type of interview, this thing would result in an indictment and trial."

McDougal was the Clintons' partner in the Whitewater real estate venture, in which they said they lost $69,000.

McDougal also controlled Madison Guaranty Savings and Loan, the failed thrift seized by regulators in 1989 at a cost to taxpayers of more than $60 million.

Special prosecutor Kenneth Starr is investigating whether depositors' funds were improperly used to keep the Whitewater venture solvent or improperly channeled to back one of Clinton's Arkansas gubernatorial campaigns.

The prosecutor's letter arrived Tuesday, the day another long time Clinton friend, former Associate Attorney General Webster Hubbell, pleaded guilty to two felonies in the Whitewater affair.

With Hubbell as a cooperating witness, Whitewater prosecutors are exploring whether he or anyone else in the Clinton administration interfered with two early Whitewater-related criminal inquiries.

Meanwhile, the federal judge in Hubbell's case in Little Rock removed himself from considering the matter further, citing his close relationship with Clinton — who nominated him for the post. U.S. District Judge William Wilson Jr. said he was confident he could be fair and impartial in hearing the case, but he said he was concerned about appearances if he presided.

Newt retreats in drug-flap fracas

By DAVE EISENSTADT
Daily News Washington Bureau

WASHINGTON — House Speaker-to-be Newt Gingrich backed off charges yesterday that drugs and other badges of the counter-culture infest the Clinton White House.

But the Georgia Republican still refused to apologize.

The closest Gingrich would come was, "If I had to say it over again, I probably wouldn't have said it."

Somewhat trying to distance himself from his remarks Sunday, Gingrich told reporters that the White House drug-use comments "produced a larger effect than I intended."

However slight the backtracking, Gingrich again said yesterday that he's striving to cool the hot partisan rhetoric and become more statesmanlike.

"This is a change that began the day after the election," Gingrich said. "I have got to learn to be more careful about what I say."

Even as he road-tests a softer touch, he can't seem to lay off the kind of partisan bluster that prompted Clinton chief of staff Leon Panetta to call Gingrich an "out-of-control talk-show host."

Gingrich described a recent public opinion poll as evidence that "it is the Republican Congress the American people want to lead, not the President."

In reality, the survey by the Times Mirror Center found that while people have embraced policies espoused by Republicans, they are deeply divided over whether the Democrats in the White House or the congressional GOP should be in charge.

Meanwhile, House Democratic Whip Rep. David Bonior (D-Mich.) called on Republicans to appoint an independent counsel to investigate a pending ethics complaint against Gingrich.

It charges that he improperly used a college course to raise his political profile and enlarge campaign coffers.

As it stands, Gingrich will appoint the GOP members of the House ethics committee that will be investigating him.

Friday, December 9, 1994 DAILY NEWS

A-

Column 3 please

155

The Washington Times FRIDAY, DECEMBER 9, 1994

Guilty pleas . . . beginning of a cascade?

Independent counsel Kenneth Starr, the chief inquisitor of the Whitewater investigation, grabbed the White House's attention this week. He got felony convictions against real-estate appraiser Robert Palmer and former Associate Attorney General Webster L. Hubbell.

Mr. Starr wants to determine whether Bill Clinton's ascent to power was fueled by idealism or by corruption. As part of this week's dealing, Palmer and Hubbell have agreed to help him find out.

The issues involved are quite simple. The allegations collected under the Whitewater label fall into two categories: pre-Inaugural and post-Inaugural. The first set involves assertions that the future president received financial assistance from people who later benefited from lax enforcement of the law.

Although the methods of scrapping up cash for Mr. Clinton varied, the modus operandi didn't. The then-governor's pals are said to have helped underwrite his career with money siphoned illicitly from others. All the while, these folks managed to avoid getting hugged by the long arm of the law.

Mr. Starr argues that in some instances, the president's pals effectively printed money by misleading federal banking officials. To understand the clever scheme, consider an example.

The counts against the real-estate appraiser, Palmer, say he deliberately overstated the value of property that had been purchased with loans from the Madison Guaranty Savings and Loan. The fake assessments enabled James McDougal, a Clinton business partner and contributor who ran the thrift in the mid-1980s, to overstate the value of Madison's holdings.

Investigators assert that McDougal & Co. lent themselves cash on the basis of these inflated evaluations — in effect stealing money from depositors. Some of this cash made its way into Bill Clinton's political coffers. For example, Mr. McDougal held an April 1985 party that raised $35,000 to retire some of Mr. Clinton's debt from the previous year's race. At least three people whose names appeared on cashier's checks drawn from Madison say they never gave.

Furthermore, Mr. Clinton took out personal loans at a handful of institutions around the state but used the dough for re-election activities. While the borrowing probably passed legal muster, the president's supporters may have repaid the notes in ways that violated campaign-finance and other laws.

Although Whitewater includes dozens of other issues, most can be explained as old-fashioned "I'll scratch your back if you'll scratch mine" politics — in which Mr. Clinton reputedly suffered from a very itchy spine.

This brings us to Part 2, in which Mr. Starr must determine whether the administration engaged in a vigorous, bare-knuckled crusade to cover up the aforementioned scandals.

One famous case will give the flavor of the inquiry.

Investigators at the Resolution Trust Corp., the institution that helps shut down failed savings and loans, warned superiors in 1993 that something rotten had gone on at Madison Guaranty. But when they made their fears known, their bosses suspended the watchdogs and questioned their professional behavior. The overseers expressed concern about the taping of comments by April Breslaw, an RTC employee who had been working for years on the Madison case —and had dealt extensively with a lawyer named Webb Hubbell.

The RTC, with help from Capitol Hill Democrats, refused to give Republican members of Congress records that could have uncovered the money trail into Clinton campaigns. But that wasn't the only instance in which administration officials tried to whitewash Whitewater.

Soon after Mr. Clinton took the oath of office, Hubbell fired all 93 U.S. attorneys, an unprecedented act of muscle-flexing. One of the replacement attorneys, Paula Casey, effectively shut down the Whitewater investigation. She later backed out of the matter, admitting she had been an old Clinton protege and campaign worker.

As the designated Justice Department "point of contact" with the White House, Hubbell also influenced the handling of controversial issues, including the Travel Office fiasco, the Justice Department's treatment of the suicide of Vincent Foster Jr. and the investigation of improper contacts between the White House and the Treasury Department about Whitewater.

Rep. Jim Leach, Iowa Republican, the next chairman of the House Banking Committee, says he doesn't want to pillory the president. He just wants to figure out whether anything improper happened at the Madison Guaranty Savings & Loan.

So far, an intransigent Clinton team has refused to help. But Mr. Starr has given Mr. Leach and Sen. Al D'Amato the Webb Hubbell telescope.

Hubbell is one of the few people who was around for the pre- and post-Inaugural phases of the nascent scandal. And he can do something that nobody to date has been able to do: banish suspicions about Whitewater by publicizing some facts.

Tony Snow is a Washington-based editorial page columnist for the Detroit News and is nationally syndic

Webster Hubbell, until recently No. 3 power in the Justice Department, might be the "most dangerous man in America." That is the appraisal of James Ring Adams, the financial journalist who has been covering Whitewatergate since the first drip. And, by the way, will the Clintons now persist in deriding it as a "side show"? And, by another way, is it not a bit brazen for Bill Clinton to continue throughout this past week to cast himself as a champion of people "who play by the rules"?

Mr. Adams has been reading every document he can lay his hands on and many that government investigators only recently obtained. This has not been easy.

The Clintons have kept hiding them. When Vince Foster died, Hillary Clinton's chief of staff, upon her orders, took some from Mr. Foster's office and locked them in the White House. Asked about her aide and the missing documents, Mrs. Clinton said, "I don't think that she did remove any documents." She said this almost a year after Mr. Foster's suicide, during her celebrated press conference last spring, where she also explained the Miracle of the Munificent Cattle Futures. Not until the following August did the White H acl edge the purloining of the papers and Hillary's role.

Well, through all the lies and legerdemain, Mr. Adams has been sedulously reading documents. Now that Hubbell has copped a plea, it is abundantly apparent that investigators have been reading, too. That Hubbell would admit to crimes that could send him up the river for years is ominous for the Clintons. A plea bargain is a compromise with prosecutors to avoid more serious charges. If Hubbell is willing to admit to two felonies, from what weightier sentences is he trying to save himself?

What songs might he now be singing to prosecutors? It is known that Hubbell was close to Bill Clinton. My agents tell me he was even closer to Hillary, with whom he repeatedly worked on many shaky deals at the Rose Law Firm. Hubbell may be trying to avoid sentencing for deeds done back in his Arkansas heyday. But he may also be trying to avoid a felony plea on deeds done in Washington during Mr. Clinton's presidency. The most serious charge might be obstruction of justice.

There may have been two instances of this to which he was privy. One would be squelching the criminal referrals on Madison. We know these referrals disappeared into the Justice Department's Criminal Fraud Division. Surely the Independent Counsel would like to know who in the Criminal Fraud Division did the squelching, what contact they had with Hubbell, and what their record in Criminal Justice has been. Another obstruction charge might arise from the treatment of David Hale. Mr. Hale is the Little Rock judge who last fall was under threat of indictment for making unethical loans with Small Business Administration monies. He also claims that Gov. Clinton put the arm on him to make such a to the Clintons' business partner Susan McDougal.

My agents tell me Robert B. Fiske at the time of his departure was also looking into Hubbell's contacts in the fall of 1993 with U.S. Attorney Paula Casey in Little Rock. What were Hubbell's contacts? Was he being encouraged by anyone in the White House? When Mr. Clinton came to office, all U.S. attorneys were summarily fired. Mrs. Casey, a former law student of Mr. Clinton's, was brought in. Did Hubbell have a hand in these firings? Did he have a hand in attempting to silence or to discredit Mr. Hale? How many other politically sensitive cases might have been stifled?

If Hubbell talks, he could be lethal. Mr. Adams believes that in the Justice Department a number of people were willing to be rolled on politically sensitive cases. Hubbell might be able to tell who the soft touches were. There might be other government lawyers and investigators who are culpable. Mr. Adams has written that one Federal Deposit Insurance Corp. lawyer approved all Hubbell's bills, even those now found fraudulent. This was April Breslaw, who acknowledged a prior relation with Hubbell and who is, get this, the Washington official who flew to Kansas City to tell Jean Lewis of the Resolution Trust Corp. to leave the Clintons' Whitewater investment out of the Madison Guaranty Savings and Loan investigation. Jack Ryan, acting head of the RTC, protected Miss Breslaw and disciplined Mrs. Lewis. I await his confirmation hearings with relish.

Hubbell might also be able to shed light on some of Hillary's stupendous deals. He was managing partner at the Rose Firm when Hillary was representing the government in an Illinois suit against her friend and Bill Clinton's financial supporter, Dan Lasater. The $3.3 million suit was settled for $200,000. Was there a conflict of interest here? Where else were there conflicts of interest, obstructions of justice, and general malfeasance?

The operative words in Hubbell's plea bargain agreement appear in Point No. 16: The defendant agrees "to cooperate by providing full, complete, accurate, and truthful information concerning matters under investigation by the office of the Independent Counsel." If Hubbell lives up to that agreement and the Independent Counsel asks the right range of questions, history is in the making. Bil. Clinton promised a moral rebirth of the Republic if elected. That promise may be realized, but it is going to take a while.

R. Emmett Tyrrell, Jr. is editor-in-chief of The American Spectator.

The Washington Times FRIDAY, DECEMBER 9, 1994

Co eagu es b ast Travelgate charges against ex-director

Dale denies theft, admits funds mix

By Paul Bedard
THE WASHINGTON TIMES

Associates of Billy Ray Dale yesterday defended the former White House travel office director against charges he bilked $68,000 from a media-funded pool used to pay reporters' expenses on presidential trips.

One day after Mr. Dale was indicted on two counts of embezzlement, his former subordinates and longtime friends described the 32-year federal worker as a "country boy" apt to celebrate anniversaries at a fast-food restaurant, not the Palm.

"Billy didn't steal any money," said former travel office aide John McSweeney.

"He has no interest in living any lavish lifestyle — he lives in Clinton, Md.," said former travel office worker Barney Brasseaux. "I worked with Billy for 11 years and know him to be very honest."

The indictment did not indicate what Mr. Dale allegedly did with the money, but the Justice Department is expected to charge that he purchased a boat and built a lakefront house with it, allegations his former workers scoffed at.

"We used to make fun of Billy. He's a country boy . . . who'd probably spend his 20th wedding anniversary at Kentucky Fried Chicken," said Mr. McSweeney.

Mr. Dale, 57, has denied using any of the money for personal use.

But in a failed plea agreement deal with the Justice Department, he conceded to depositing travel office checks into his personal checking account. Mr. Dale contends he always withdrew an equal amount from a box of c i at his home and put it into petty cash at the office.

His attorney, Steven C. Tabackman, argued yesterday that Mr. Dale did not violate laws by comingling travel office and personal funds.

Mr. McSweeney said the indictment is the outgrowth of the "Travelgate" affair, in which President Clinton's cousin Catherine Cornelius, former White House administrator David Watkins and Hollywood producer Harry Thomason tried to restructure the travel office and divert business to a Little Rock, Ark., travel firm with ties to the Clintons and an air charter company partly owned by Mr. Thomason.

Investigative reports by the White House and the General Accounting Office slammed the trio for their actions, and the White House eventually apologized for the affair.

The White House fired the entire travel office in May 1993, but the administration later found jobs for five of the seven dismissed workers. A sixth has retired.

While none of the travel office workers interviewed yesterday could provide any evidence of White House pressure behind the Dale indictment, some suggested Mr. Clinton's defense of Travelgate was read by White House and Justice Department officials as a signal to prosecute.

But White House Counsel Abner Mikva said last night that "the White House does not seek to influence the Department of Justice either to indict or not to indict someone."

Mr. McSweeney said the seven-man travel office was first alerted that their jobs were in jeopardy the day after Inauguration Day 1993, when callers to the travel office asked for Miss Cornelius and described her as their boss.

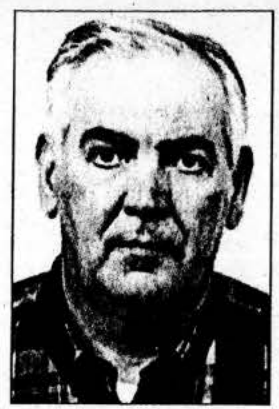
He and other former travel officials said the president had the right to replace the office staff with political appointees, but they said they are angry that White House officials kicked them out after making false criminal charges against them.

Mr. McSweeney said Mr. Dale kept handwritten records of every payment the office made and check it received.

Justice Department lawyers, however, have charged that the files are missing or don't exist, clouding Mr. Dale's alibi that he can account for every expense.

"I've never had a reason at any time to question his integrity," said former travel office worker John Dreylinger.

Mr. Tabackman has charged that the documents were stolen or destroyed.



The Justice Department is expected to charge that Billy Ray Dale bought a boat and built a house with money embezzled from the travel office.

. is ce c ears 2 F3 agents in '92 Idaho shooting death

Sniper accidentally shot white supremacist's wife

By Jerry Seper
THE WASHINGTON TIMES

The Justice Department will not seek criminal indictments against an FBI sniper who killed the wife of white separatist Randall Weaver during a standoff in Idaho in August 1992.

The department also will not seek to indict the sniper's supervisor, who is the former head of the FBI's hostage-rescue team.

Department officials, who spent 17 months looking into the bloody 11-day siege that claimed three lives, found insufficient evidence to show that FBI agents used excessive force, sources close to the probe said.

The decision not to prosecute was made by Assistant Attorney General Deval Patrick, who heads the department's civil rights division, according to the sources. The investigation was conducted by the department's Office of Professional Responsibility and included a review of court records, federal reports and interviews of those involved.

Department investigators had taken a critical look at FBI agent Lon Horiuchi — who testified last year that he accidentally shot Vickie Weaver as she stood in the cabin's doorway — and his ex-boss, agent Richard Rogers, who gave the kill order.

Justice Department spokesman John Russell yesterday did not return calls seeking comment.

Mrs. Weaver, 42, was killed Aug. 22, 1992, in the doorway of her cabin near Naples, Idaho. Her son, Samuel, 13, died a day earlier, shot by deputy U.S. marshals during a firefight that also claimed the life of Marshal William F. Degan, 42.

Sen. Larry E. Craig, who sought the Justice Department probe, yesterday continued to demand that it be made public. The Idaho Republican's aides said the senator remains concerned about an "active effort" within Justice to suppress the report.

Mr. Craig has said FBI Director Louis J. Freeh told him this year he shared the senator's desire to have the report made public as soon as possible.

Weapons charges against Randall Weaver led to the 1992 siege.

The long-awaited Justice report had targeted suspected mishandling and falsification of evidence used against Weaver at a resulting trial, and on the actions of federal agents and agencies involved in the siege. The inquiry began shortly after Weaver was acquitted in the death of Marshal Degan.

Mr. Patrick, in a memo written in October as a part of the department's inquiry, said there was no evidence to show that Mr. Horiuchi intended to shoot Mrs. Weaver, although he questioned whether the shooting was the result of provocation on the part of those inside the Weaver cabin.

But department investigators, according to sources, were told agents at the scene believed they were in danger from Weaver and Kevin Harris, 25, who lived at the cabin, because the two men were always armed when on the property.

It was not clear yesterday if the FBI intends to discipline anyone in the siege, although the matter is under review by Mr. Freeh. The director told agents privately after the Justice probe began he expected at least two agents would be indicted.

During a meeting at the FBI's Tysons Corner field office, he said indictments were a "virtual certainty," although he did not identify potential targets, according to agents familiar with the meeting.

While much of the department's inquiry centered on agents Horiuchi and Rogers, some law enforcement officials familiar with the Idaho siege believe the two men's actions were based on false and misleading information from U.S. marshals at the scene.

Court records show the Marshals Service never told the FBI the Weaver adults always carried rifles when they left their cabin, or that deputy marshals at the site had killed Samuel Weaver during an aborted ambush near the cabin.

An FBI reconnaissance team member testified that after finding the boy's body, he thought, "My God, the Weavers are killing their own children." Even after the body was found, marshals at the scene never acknowledged that they had shot the boy.

The FBI's hostage-rescue team was called Aug. 21, 1992, after Marshal Degan was killed. Marshals had taken charge of the scene from the Bureau of Alcohol, Tobacco and Firearms after a bench warrant was issued for Weaver's arrest in the sale of two shotguns whose barrels had been cut below the legal limit.

In July 1993, an Idaho jury acquitted Weaver, 45, and Mr. Harris, 25, in the Degan death. Jurors said Mr. Harris, who said he shot Marshal Degan after Samuel Weaver was hit, acted in self-defense. They also rejected charges that the two men conspired to force a confrontation with federal officers.

Weaver was convicted of failing to appear for trial on weapons charges and was sentenced to 18 months in prison. He was released in December 1993.

Hubbell judge recuses himself

Citing ties to Clinton, he leaves sentencing to another

By Jerry Seper
THE WASHINGTON TIMES

U.S. District Judge William R. Wilson yesterday withdrew from the Whitewater case of former Associate Attorney General Webster L. Hubbell, who pleaded guilty to felony mail fraud and income tax evasion.

The judge accepted guilty pleas from Hubbell, a longtime friend and political confidant of President Clinton's, on Tuesday in Little Rock.

Judge Wilson, appointed to the bench by Mr. Clinton, told prosecutors and defense lawyers in the case during a telephone conference he had decided to recuse himself because of his social and professional connections to the president.

Another judge will be named to sentence Hubbell, who made a plea agreement with Whitewater independent counsel Kenneth W. Starr on charges that he defrauded Little Rock's Rose Law Firm and its clients of $394,000 and failed to pay $120,000 in federal income taxes.

During the telephone conference, Judge Wilson said it was "well known" that he and Hubbell had been named by Mr. Clinton to high government positions and that he had known the president and first lady Hillary Rodham Clinton socially during their days in Arkansas. Mr. Clinton appointed Judge Wilson in 1993.

Mrs. Clinton was a partner with Hubbell at the Rose firm and a partner with Hubbell and former White House Deputy Counsel Vincent W. Foster Jr. in a business partnership known as Midlife Investors Inc.

"Mr. Hubbell has the right to enter a guilty plea. I have no problem with the plea portion of the case," Judge Wilson said, adding that his ties to the Clintons and the fact that both he and Hubbell "were active in legal affairs in Arkansas" meant he could not continue in the case and meet an "appearance of justice."

"It's not fair to Mr. Hubbell or to the office of the independent counsel," Judge Wilson said. "I appreciate the confidence expressed in me by both Mr. Hubbell and the independent counsel."

Hubbell entered his guilty pleas during an emotional hearing after the case had been assigned to Judge Wilson by random computer selection in the U.S. District Court Clerk's Office. The computer will now be used to select a new judge to impose sentencing on Hubbell.

Hubbell, the No. 3 official at the Justice Department when he resigned in March, faces up to 10 years in prison and fines of $500,000, although his agreement with Mr. Starr to testify in the Whitewater probe could result in a lesser sentence. Under federal guidelines, Hubbell's prison sentence could be as little as 27 months.

The Starr inquiry is continuing, with a possible indictment next week of James B. McDougal, owner of Madison Guaranty Savings & Loan Association and a partner with his wife, Susan, and the Clintons in Whitewater Development Corp., a northern Arkansas real estate project. Madison and Whitewater are focuses of the Starr probe.

Mr. Starr in a note this week advised Mr. McDougal that he is the focus of "numerous investigations" by Whitewater investigators. The note said Mr. McDougal should submit to questioning by prosecutors and FBI agents.

Mr. McDougal's attorney, Sam Heuer, told reporters in Little Rock yesterday that his client is unlikely to agree to be questioned in view of what he described as a target letter from Mr. Starr. He said the note is the first step toward a probable indictment.

He also said Mr. McDougal probably would not plead guilty.

"Jim's living in a trailer, and he has serious medical problems. I just don't see it," Mr. Heuer told the Associated Press.

Jackson defends dig at Christian right

By Rod Dreher
THE WASHINGTON TIMES

The Rev. Jesse Jackson is standing by his statements comparing the Christian Coalition to Nazis, slave owners and Jim Crow segregationists.

"The ideological kinship is right down through the years," Mr. Jackson said yesterday. "It's not a personal thing. They've been rather consistent to opposing remedies to historical errors."

The minister and Democratic political activist caused a stir with remarks delivered in Chicago and New York last week in which he likened activists from the "religious right" to white supremacists in other historical eras.

Anti-Defamation League head Abraham Foxman, a staunch critic of the Christian right, was among those denouncing Mr. Jackson's comments as too extreme.

In an interview with The Washington Times, Mr. Jackson said his comments had been taken out of context. "I don't want these statements misinterpreted. I'm not seeking a confrontation. I'm seeking understanding. I'm seeking an end to polarization."

He said he had only been trying to make the point that some, but not all, Christians in Nazi Germany and in the segregated South violated the true spirit of their faith by supporting evil, often in the name of Christianity.

"I didn't call anybody a Nazi," he said.

The Chicago Sun-Times quoted Mr. Jackson as having said the forebears of today's Christian Coalition "laid down a suitable, scientific, theological rationale for the tragedy in Germany."

Mr. Jackson said yesterday that the Christian Coalition "didn't kill anybody, but the complicity and indifference to the suffering of people other than their own basic orientation is the same."

Of the Christian Coalition's hostile reaction to his analogies, Mr. Jackson said: "I'm surprised that they're surprised."

The minister said examples of un-Christian positions taken by the religious right include opposing U.S. efforts to restore Haitian President Jean-Bertrand Aristide to power, opposing affirmative action and congressional redistricting creating majority black districts, and "opposing a woman's right to self-determination," meaning abortion.

On Wednesday, House Republicans voted to end funding to all congressional caucuses. Rep. Kweisi Mfume, Maryland Democrat and head of the Black Caucus, likened the action to the imprisonment, torture and killing of Muslims in Bosnia-Herzegovina, calling it "ethnic cleansing."

Mr. Jackson said the line was not too harsh, and he accused House Republicans of trying to short-circuit progress by blacks, women and Hispanics.

FTC Challenge To B.A.T Plan Faces a Setback

By Suein L. Hwang
And Edward Felsenthal
Staff Reporters of The Wall Street Journal

The Federal Trade Commission's effort to block B.A.T Industries PLC's acquisition of American Tobacco Co. was dealt a serious blow yesterday when a judge ripped apart the testimony of a key FTC witness.

In a heated session in federal court in New York, Judge Milton Pollack sharply criticized numerous assertions made by Lewis Tatem, an FTC economist, and even questioned Mr. Tatem's credentials for serving as an expert witness. The FTC had been counting on Mr. Tatem, who was scheduled to be its last witness, to outline the oligopolistic history of the cigarette industry and support its argument that the acquisition would lead to higher cigarette prices.

Instead, Mr. Tatem and senior FTC litigator Allee A. Ramadhan found themselves mostly on the defensive. "If this is the basis of an injunction, I'll tell you now it doesn't send me anywhere," warned Judge Pollack, referring to a piece of evidence intended to show that tobacco companies had "signaled" their prices to each other in 1993. He said the FTC might as well have selected evidence gathered "in World War II."

"If you don't come up with any better evidence than this, it doesn't entitle you to a finding of tacit collusion," the judge later said.

Judge Pollack's comments, which punched holes in a number of arguments the FTC considered its strongest, left some agency attorneys hanging their heads. Several in the back of the courtroom whispered among themselves in dismay over the judge's treatment of Mr. Tatem.

Held to High Standard

Some antitrust lawyers who aren't involved in the case said the judge seems to be holding the government to an unusually high standard. In many respects, these lawyers say, the FTC has a textbook case against B.A.T because both parties agree that the acquisition will increase concentration in the industry beyond the limits outlined in 1992 federal guidelines on mergers.

Ordinarily, a violation of the mathematical formula in these guidelines puts the burden on the merging companies to show that their combination won't lead to higher prices. In making its case, B.A.T is relying heavily on a decision last year by the U.S. Supreme Court, which said that the U.S. tobacco industry was competitive enough that companies wouldn't be able to coordinate an effort to raise prices.

The judge seems to be going along with B.A.T's argument that the Supreme Court decision "is sufficient to rebut the prima facie case that the FTC has brought," says James "Mit" Spears, a Washington lawyer who was general counsel of the FTC during the Bush administration. "It probably doesn't bode too well for the commission's case."

Spokeswomen for both the FTC and B.A.T declined to comment.

With its proposed $1 billion acquisition, [illegible]ould become the third-largest to[illegible]mpany in the U.S., with an 18% [illegible]are. Market leader Philip Morris [illegible] RJR Nabisco Holdings Corp.

The FTC is seeking a preliminary injunction to give it time to further investigate the effect of the plan on competition in the industry. If it loses the effort in court, it could still try to undo the acquisition in administrative proceedings.

Qualifications Questioned

Judge Pollack's comments suggest he is skeptical of the FTC, which is expected to rest its case today. The judge even expressed doubts about Mr. Tatem's understanding of tobacco marketing. To rule out any of the possible "innocent reasons" for price increases in an industry, "you must have a very intimate understanding of the process," he said. "Do you think you have that in-depth understanding of that industry?"

Mr. Tatem said he believes he understands the way the market operates in a "basic way," but later he conceded that he had been studying the issue only since June. "You studied it during the summer, and that was your background, the basis of which you were able to rule in or rule out tacit collusion," the judge replied.

At another point, the judge asked Mr. Tatem if he had ever "engaged in business" for himself. "I'm not deprecating being an egghead, but it's one thing being on the job and it's another thing reading someone else's viewpoint," he said.

GOP Softens Plan to Grant Line-Item Veto

By Phil Kuntz
Staff Reporter of The Wall Street Journal

WASHINGTON—For the second time in two days, House Republicans appeared to be backing away from some of the fine print in their "Contract With America."

Incoming Speaker Newt Gingrich (R., Ga.) indicated yesterday that Republicans now favor giving the president line-item veto authority only temporarily. The bill distributed with the contract would have given the president permanent power to veto specific spending items and targeted tax benefits in legislation without having to reject an entire bill.

Long backed by Republicans, the line-item veto proposal is causing consternation within the party now because it could help President Clinton block parts of the GOP agenda. There also has been talk of delaying the effective date until 1996 to protect the Republicans' first-year agenda of tax cuts.

At a breakfast meeting with reporters Mr. Gingrich said he would recommend a legislative line-item veto with a provision eliminating the power after a certain period unless Congress extends it.

Signed by just about every House Republican candidate and incumbent on Sept. 27, the contract promised floor votes within the first 100 days of the 104th Congress on 10 specific bills. But Mr. Gingrich said yesterday that the measures could be changed in committee before coming to the floor, and he specifically mentioned that Republicans are rewriting their welfare bill.

Spokesman Tony Blankley said after the breakfast that Mr. Gingrich didn't intend to signal any change in plans and that the veto bill will be introduced as it appears in the contract and brought to the floor, where it will be subject to amendment. "We're not backing off the contract," Mr. Blankley said. "Newt was speculating on ways that it may need to be changed to get through the process." In the interview, Mr. Gingrich's comments included no such caveat.

Mr. Gingrich also defended a proposal to weaken a separate contract provision on tax increases requiring a three-fifths super-majority vote for any bill that increases revenues. Now Republicans want to limit the hurdle to increases in income-tax rates; they would allow other revenue increases to pass by majority votes. Mr. Gingrich agreed with a reporter's characterization that the exception was "big enough to drive a truck through," but insisted the change was merely "a technical decision."

On another contentious issue, Mr. Gingrich said he opposed cutting Social Security to reduce the deficit, but indicated several times that he would be willing to discuss the matter later, perhaps in five years. "You have to take Social Security off the table," he said. "When you finish dealing with everything else, if you've done it right, you will have earned the trust of the American people to look at Social Security." Rep. Gingrich has said he wants to balance the budget within five to eight years.

On other issues, Mr. Gingrich:

- Said he regretted having publicly called President and Hillary Clinton counterculture McGovernites and for suggesting that one-fourth of the White House staff had used drugs in recent years. But he didn't retract either statement.
- Defended his proposal to kill federal funding for the Corporation for Public Broadcasting, which he said catered to an "elite group" and was no longer needed in an age of expanding cable choices.

In other action, House Democratic Whip David Bonior (D., Mich.) called for the Ethics Committee to hire an independent counsel to investigate a pending complaint against Mr. Gingrich. The panel is reviewing whether Mr. Gingrich improperly used tax-deductible donations to finance a supposedly nonpartisan college class that critics say actually was aimed at promoting his political agenda.

Also calling for an independent counsel was Richard Phelan, the lawyer hired by the Ethics Committee six years ago to investigate Mr. Gingrich's complaint against then-Speaker Jim Wright, who later resigned under fire. Mr. Gingrich has denied wrongdoing.

Hubbell Judge Withdraws Due to Clinton Connection

By a Wall Street Journal *Staff Reporter*

LITTLE ROCK, Ark. — The federal judge who heard the guilty plea of former Associate Attorney General Webster Hubbell has withdrawn from the case because of the appearance caused by his relationship with Bill and Hillary Rodham Clinton.

U.S. District Judge William R. Wilson informed lawyers involved in the case yesterday that he would not sentence Mr. Hubbell. Judge Wilson, a Democrat who was active in Arkansas politics, was appointed to the federal bench by President Clinton. He also has represented Virginia Kelley, the president's late mother, and Roger Clinton, his half brother.

Mr. Hubbell, one of the president's closest friends, pleaded guilty Tuesday to mail fraud and tax evasion. He admitted to bilking the Rose Law Firm, where he and Mrs. Clinton were once partners, and some of his former clients out of almost $400,000. He could be sentenced to up to 10 years in prison and fined up to $500,000.

In a statement, a lawyer for Mr. Hubbell said his client had "no objection" to Judge Wilson's recusal. A spokeswoman for Whitewater independent counsel Kenneth Starr had no com-

THE WALL STREET JOURNAL FRIDAY, DECEMBER 9, 1994

71

Hubbell Judge Steps Aside In Sentencing

Wilson Cites Conflict In Recusing Himself

Reuter

LITTLE ROCK, Ark., Dec. 8—The federal judge who accepted the guilty plea of former associate attorney general Webster L. Hubbell withdrew from the case today, meaning that another judge will impose sentence on Hubbell.

U.S. District Judge William R. Wilson said it was "well known" that both he and Hubbell were appointed by President Clinton and that he knew the Clintons socially.

Hubbell pleaded guilty Tuesday to charges brought by Whitewater independent counsel Kenneth W. Starr of defrauding the Rose Law Firm of Little Rock and some of its clients of at least $390,000 by submitting false expense reports and over-billing.

Wilson, speaking from his car via cellular telephone, told attorneys assembled in his court chambers that he was recusing himself from the case. Reporters were present during the teleconference.

Hillary Rodman Clinton was a partner with Hubbell in the Rose firm. President Clinton appointed Hubbell to the Justice Department in 1993, and Hubbell resigned last March when allegations of financial irregularities in the Rose Firm surfaced.

"Mr. Hubbell has the right to enter a guilty plea. I have no problem with the plea portion of the case," Wilson said.

Wilson said his past relationship with the president and First Lady and the fact that both he and Hubbell "were active in legal affairs in Arkansas" meant that he could not continue in the case and meet "the appearance of justice."

The judge noted that he drew Hubbell's case by random computer assignment in the U.S. District Court Clerk's office.

The computer will now select another federal judge to impose sentence on Hubbell.

Hickman Ewing, senior counsel to Starr, said Starr had "no basis" for Wilson to disqualify himself.

Hubbell, a close friend of the Clintons, could be sentenced to 10 years in prison and fined $500,000 plus making restitution.

Governors' Head Hits GOP Budget Proposal

Dean Wants States Protected on Funding

By Dan Morgan
Washington Post Staff Writer

The chairman of the National Governors' Association, Vermont Gov. Howard Dean (D), yesterday accused the new Republican leadership of Congress of putting on a "political show" in proposing a constitutional amendment to balance the federal budget without including a key fiscal safeguard demanded by the states.

Dean said a Republican decision to frame the amendment so it will not prohibit passage of federal laws that cost states money was "very disappointing" and "very hypocritical of the new Republican leadership."

Republican sources said at a Wednesday night meeting of GOP governors with congressional Republican leaders it was clear the lawmakers intended to propose regular legislation to deal with governors' concern about federally mandated but unfunded programs, rather than make it part of a separate constitutional amendment on balancing the budget.

"There seems to be agreement to work on two tracks," said Rep. Rob Portman (R-Ohio), who is drafting an unfunded mandate bill in the House. He said dealing with unfunded mandates through legislation would be quicker and would avoid constitutional questions.

Sen. Don Nickles (R-Okla.), part of the transition team in the Senate, said he also opposed the idea of trying to pass a constitutional amendment on unfunded mandates largely because of complexity of the issue.

"I have a hard time seeing how you can write an unfunded mandate amendment without making it many, many pages," he told reporters yesterday. "I could see a 20-page amendment. I think we need to be very cautious."

Republican governors have indicated support for a balanced budget amendment and they plainly want to avoid a rupture with the new Capitol Hill leadership, but they have made clear they will be as determined as Democratic counterparts in fighting tendencies in Washington to shift fiscal problems to the states.

"Generally we want to see that we get balance, and that we don't end up with the national government prescribing and the states paying," said Utah Gov. Mike Leavitt (R), head of the Republican Governors' Association.

Leavitt said he preferred a single constitutional amendment that would balance the budget and outlaw unfunded federal mandates, but that appeared to be "politically unrealistic."

The deep feelings elicited by the issue highlight the potentially explosive nature of federal-state relations as the Republican majority in Congress maps unprecedented cuts in federal spending.

The stakes for the states in the budget cutting that will unfold next year are enormous. The federal government provides some $230 billion a year to states, and federal dollars account for about 20 percent of state budgets.

The money includes federal grants under Medicaid, welfare, highway, education, housing and many other programs.

Much of this money will be subject to the budget ax, since other major sources of spending reductions, such as Social Security and defense, have been ruled off-limits by Republicans.

"States are going to have to do with less," Leavitt acknowledged. But he said governors could live with this if Washington gave them more flexibility on how to use federal funds and eased the burden of regulations and programs for which no money was provided.

Dean, in town yesterday to meet White House officials and chair a panel on children's issues, said no state legislature "in its right mind" will approve a constitutional amendment that does not include safeguards against unfunded mandates because "what they're really doing is asking state taxpayers to raise taxes."

"I think it's very hypocritical of the new Republican leadership to pretend they're not going to raise taxes and are going to balance the budget, when they're going to force states to raise taxes. It's an old ploy. I'm very disappointed that the new speaker is going to adopt the traditional ways of Congress."

Responding to Dean, Portman said, "I think it's only fair to give the statutory remedy a chance to work. His statement misses the point that we are going to pass a tough statute."

Staff writer Dan Balz contributed to this article.

✓ 43

A Judge Quits Hubbell Case In Little Rock

Says Ties to Clintons May Raise Questions

By STEPHEN LABATON
Special to The New York Times

WASHINGTON, Dec. 8 — A Federal judge today removed himself from the criminal case of former Associate Attorney General Webster L. Hubbell, citing a potential conflict of interest because of his political and professional relationships with Mr. Hubbell and members of President Clinton's family.

The decision by Judge Bill Wilson of Federal District Court in Little Rock, Ark., to recuse himself has no legal effect on Mr. Hubbell's guilty plea. But it means that a judge with fewer ties to the President and Mr. Hubbell will have to be selected to impose his sentence.

On Tuesday, Mr. Hubbell pleaded guilty to two felony counts and admitted that he stole at least $394,000 from his law partners and clients while in private practice. The sentencing guidelines set a possible prison sentence of 21 to 27 months, but that range may be increased if investigators find that he stole more money, or decreased if he offers substantial help to the prosecutors.

Mr. Hubbell's plea was part of a recent flurry of activity in an investigation that had produced little in the way of concrete actions through its first 11 months. On Monday an Arkansas real estate appraiser, Robert W. Palmer, pleaded guilty to conspiring to inflate transactions used to support loans made to Madison Guaranty Savings and Loan Association, which was owned by the Clintons' partner in the Whitewater real estate venture, James B. McDougal.

And today a lawyer for Mr. McDougal, Sam Heuer, said that he had recently been informed by the Whitewater special counsel, Kenneth W. Starr, that his client was the focus of several investigations.

The case against Mr. Hubbell grew out of questions about his billings that members of the Rose law firm of Little Rock, where Mr. Hubbell was a partner, have said they first raised in the spring of 1993, shortly before he faced Senate confirmation hearings.

Attorney General Janet Reno, who was among Mr. Hubbell's strongest supporters when the allegations against him were made earlier this year, said today that lawyers from the Rose firm never mentioned their suspicions when they were interviewed by agents of the Federal Bureau of Investigation in their routine background check of Mr. Hubbell.

Judge Wilson had long been active in Arkansas politics. He served in the 1980's as the state's Democratic chairman, and was one of Mr. Clinton's earliest appointments to the Federal bench last year.

Lawyers in Arkansas said that before he became a judge, Mr. Wilson provided legal advice to members of Mr. Clinton's family. Both Mr. Hubbell and Judge Wilson were also active in the local bar association.

At a hearing in his chambers in Little Rock today in which he participated by telephone, Judge Wilson said that he had told the lawyers for the prosecution and the defense of his relationships to the Clintons and to Mr. Hubbell before the plea was accepted, but that he had now decided to step down from the case to avoid the appearance of not being impartial.

Among other possible conflicts, the judge said that both he and Mr. Hubbell had been appointed by Mr. Clinton and that Mr. Hubbell had acknowledged stealing from the Rose firm, whose partners at the time included Hillary Rodham Clinton.

Both Judge Wilson and the lawyers involved in the Whitewater investigation said he had been randomly selected by computer for the Hubbell case. His replacement from among the other members of the Federal bench in Little Rock is also expected to be selected by computer.

Mr. Heuer, Mr. McDougal's lawyer, said he had recently written to the independent counsel to inquire about his client's status. Investigators have been examining whether Madison, which failed in 1989 at a cost to taxpayers of more than $60 million, improperly funneled any money to either Whitewater or to Mr. Clinton's re-election campaign for Arkansas governor in 1984.

Mr. Starr's office responded this week to Mr. Heuer's letter by stating that his client was the focus of numerous investigations. Mr. Heuer and other lawyers have taken the response to mean that Mr. McDougal could be indicted if he failed to reach an agreement with prosecutors.

Mr. McDougal has refused past requests to be interviewed by investigators. As a result, Mr. Heuer said, an indictment might be inevitable.

"All throughout," Mr. Heuer added, Mr. McDougal has "maintained he would prefer to tell his story to an independent jury of his peers."

A G.O.P. House Leader Presses Attack on Clinton Foreign Policy

By STEVEN GREENHOUSE
Special to The New York Times

WASHINGTON, Dec. 8 — The new chairman of the House Foreign Affairs Committee, Benjamin A. Gilman of New York, today criticized President Clinton's foreign policy virtually across the board.

Mr. Gilman did so without the vitriol of his counterpart in the Senate, Jesse Helms, chairman of the Foreign Relations Committee, but his remarks still held little comfort for the Clinton Administration.

In his first news conference since the Republicans captured Congress in last month's elections, Mr. Gilman called for lifting the arms embargo against Bosnia, adding new restrictions to the nuclear agreement with North Korea and placing new limits on the use of American troops as United Nations peacekeepers.

Mr. Gilman, whose committee has been renamed the International Relations Committee, seized on a theme that Republicans have concluded is the best way to attack Mr. Clinton on foreign policy: The President has not shown firm and forceful leadership in world affairs.

"Instead of a strong, steady signal on foreign policy coming from the nation's capital, regrettably the world has heard a series of wavering notes sounded by an uncertain trumpet, leaving our allies concerned and our adversaries confused to our nation's purposes with regard to foreign policy," said Mr. Gilman, who represents all of Rockland County and parts of Westchester, Sullivan and Orange Counties.

Republican staff members of his committee are recommending that he call a series of hearings early next year. Republican heavyweights, like former Defense Secretary Dick Cheney and former Secretary of State Henry A. Kissinger, would be called to criticize Mr. Clinton's foreign policy.

Mr. Gilman vowed to push ahead with legislation that would prohibit the United States, except in rare circumstances, from sending troops to serve as United Nations peacekeepers under foreign command. It would also cut Washington's financial contribution to United Nations peacekeeping.

Although Mr. Gilman said he would work closely with Senator Helms, he acknowledged differences with him in several areas, including Mr. Helms's fierce hostility toward the United Nations. In addition, while Mr. Helms called the peace talks between Syria and Israel a fraud and rejected sending American troops to the Golan Heights to monitor a peace agreement, Mr. Gilman seemed to favor the idea.

The White House could take some solace that Mr. Gilman came off as a lawmaker who wanted to cooperate with the Administration.

"In our committee, we intend to do all that we can to help the Administration re-establish and present a consistent and coherent voice on foreign policy that the American people and the world community need and expect," he said.

THE NEW YORK TIMES, FRIDAY, DECEMBER 9, 1994

112

✓

12

Judge Wilson had long been active in Arkansas politics. He served in the 1980's as the state's Democratic chairman, and was one of Mr. Clinton's earliest appointments to the Federal bench last year.

Lawyers in Arkansas said that before he became a judge, Mr. Wilson provided legal advice to members of Mr. Clinton's family. Both Mr. Hubbell and Judge Wilson were also active in the local bar association.

At a hearing in his chambers in Little Rock today in which he participated by telephone, Judge Wilson said that he had told the lawyers for the prosecution and the defense of his relationships to the Clintons and to Mr. Hubbell before the plea was accepted, but that he had now decided to step down from the case to avoid the appearance of not being impartial.

Among other possible conflicts, the judge said that both he and Mr. Hubbell had been appointed by Mr. Clinton and that Mr. Hubbell had acknowledged stealing from the Rose firm, whose partners at the time included Hillary Rodham Clinton.

Both Judge Wilson and the lawyers involved in the Whitewater investigation said he had been randomly selected by computer for the Hubbell case. His replacement from among the other members of the Federal bench in Little Rock is also expected to be selected by computer.

Mr. Heuer, Mr. McDougal's lawyer, said he had recently written to the independent counsel to inquire about his client's status. Investigators have been examining whether Madison, which failed in 1989 at a cost to taxpayers of more than $60 million, improperly funneled any money to either Whitewater or to Mr. Clinton's re-election campaign for Arkansas governor in 1984.

Mr. Starr's office responded this week to Mr. Heuer's letter by stating that his client was the focus of numerous investigations. Mr. Heuer and other lawyers have taken the response to mean that Mr. McDougal could be indicted if he failed to reach an agreement with prosecutors.

Mr. McDougal has refused past requests to be interviewed by investigators. As a result, Mr. Heuer said, an indictment might be inevitable.

"All throughout," Mr. Heuer added, Mr. McDougal has "maintained he would prefer to tell his story to an independent jury of his peers."

Company News:
Tuesday through Saturday,
Business Day

212
NY Times
12-9-94

AM-Whitewater,520
Judge Withdraws From Hubbell Case, Cites Appearance of Conflict
By JAMES JEFFERSON= Associated Press Writer=

LITTLE ROCK, Ark. (AP) The federal judge who accepted former Associate Attorney General Webb Hubbell's guilty plea in the Whitewater investigation stepped down from the case Thursday, citing his close relationship with President Clinton.

U.S. District Judge William R. Wilson Jr. said he was confident he could have been fair and impartial in sentencing Hubbell, but he questioned the appearance of his handling Hubbell's case.

Wilson noted both he and Hubbell were Clinton appointees and personal friends of Clinton and first lady Hillary Rodham Clinton. He said he and Hubbell were active members of the local legal community.

``Under all the facts I've listed, I believe I'm going to recuse,'' Wilson announced in a call to W. Hickman Ewing Jr. of independent counsel Kenneth Starr's office and Jack Lassiter, Hubbell's attorney. ``I should recuse because of the appearances.''

Both attorneys said they had no reason to doubt Wilson would be objective in sentencing Hubbell, but neither protested his removal.

On Tuesday, Wilson accepted Hubbell's guilty plea to two felonies and a scheme that prosecutors said defrauded his former law partners and clients of nearly $400,000. Wilson agreed to release Hubbell without bail, pending sentencing, for which no date was set.

Just nine months after he stepped down as the nation's third-highest law enforcement official, Hubbell, a longtime confidant of Clinton, became the first administration official to admit to criminal activity as a result of the Whitewater probe.

Under a plea bargain, Hubbell, 46, will cooperate with Starr's wide-ranging investigation into the business activities of the Clintons and other prominent Arkansans.

What brought Starr's office into the Hubbell case were two clients who were over-billed: the Federal Deposit Insurance Corp. and the Resolution Trust Corp., which hired Rose to handle matters related to the failure of Madison Guaranty Savings and Loan, the thrift at the center of the Whitewater investigation.

Madison Guaranty was owned by James McDougal, who with his wife Susan was a business partner with the Clintons in Whitewater Development Corp., a real estate venture in the Ozarks.

McDougal, however, has more to worry about these days than whether he will be indicted by Starr. The former business partner of the Clintons said Thursday that his response to an invitation he received Tuesday from Starr's office to interview him will depend partly on his physical condition.

``It depends, No. 1, on whether I'm still here after Wednesday,'' McDougal, 54, said in a telephone interview. He said he will undergo an arteriogram Tuesday and surgery Wednesday in Little Rock, to try to ``ream out my clogged arteries.'' He expects to be in the hospital 10 days.

McDougal has been at the center of the Whitewater investigation, and the note from Starr's office warned him that he is the focus of ``numerous investigations,'' his attorney, Sam Heuer, said.

McDougal was indicted four years ago for bank fraud in the $65 million failure of Madison Guaranty, but he was acquitted.

**** filed by:APE-(--) on 12/08/94 at 18:45EST ****
**** printed by:WHPR(103) on 12/09/94 at 08:12EST ****

(urgent)
(ED: complete writethru judge removes himself from Hubbell case)
Judge in Hubbell case steps down

LITTLE ROCK, Ark., Dec. 8 (UPI) A federal judge Thursday removed himself from the case of former Associate Attorney General Webster Hubbell, who pleaded guilty this week to charges stemming from the Whitewater probe.

U.S. District Judge William Wilson, who was appointed by President Clinton, told lawyers in a conference call that after hearing the facts of the case during Hubbell's hearing Tuesday, he decided to recuse himself because there might be a perceived conflict of interest.

The government attorneys had no objection to Wilson's decision and Hubbell's lawyer had no immediate comment. The action is not expected to jeoparadize the case. Another judge will be selected to replace Wilson.

Wilson said he would listen to objections, but the chances of him changing his mind ``were slim.''

Wilson said his personal friendship with Clinton and first lady Hillary Rodham Clinton would be perceived as a conflict of interest by the public. He said he was also concerned that Mrs. Clinton, a former partner of Hubbell's in the Rose Law Firm, was a victim of Hubbell's crime.

Hubbell pleaded guilty Tuesday to tax evasion and mail fraud charges, admitting he overbilled his law firm on work for the government and other clients. The charges were not directly related to the focus of the Whitewater probe.

Wilson said personally he did not feel he had a conflict of interest, but said the test is how the public might perceive his handling of the case. He said he was taking the action ``because of appearance of a conflict.''

Wilson said was acquainted with Hubbell but did not consider himself a close friend of the former Little Rock mayor and Arkansas Supreme Court justice.

Hubbell has agreed to cooperate with special prosecutor Kenneth Starr in the Whitewater investigation and has not been sentenced. The maximum penalty on each count is five years in prison and a $250,000 fine.

Wilson is the only federal judge in Little Rock who was appointed by Clinton.

Meanwhile, the lawyer for former Madison Guaranty Savings & Loan owner Jim McDougal said his client has been officially notified by letter that he is a target of the Whitewater investigation.

Attorney Sam Heuer said Wednesday that it was unlikely that McDougal would negotiate with Starr. In 1989, the government lost a case against McDougal alleging mismanagement of the failed savings and loan.

Prosecutors are facing a dilemma in dealing with McDougal because of possible double jeopardy questions, since he was prosecuted once before in connection with his management of Madison and the government lost the case.

Starr is investigating whether Clinton benefited from McDougal's efforts to fund their joint venture in the Arkansas land deal with funds from the savings and loan that failed at a cost of $65 million to taxpayers.

Earlier this week, Robert W. Palmer, a Little Rock real estate appraiser, pleaded guilty to a conspiracy charge. He admitted back- dating appraisals for Madison. He has agreed to cooperate with Starr and has not been sentenced.

**** filed by:UPI-(us) on 12/08/94 at 12:36EST ****
**** printed by:WHPR(103) on 12/09/94 at 08:13EST ****

BC-HUBBELL-COLUMN op-ed:PH
The sorry tale of Webster Hubbell
Knight-Ridder/Tribune News Service
(c)1994, Philadelphia Inquirer
X X X
The following editorial appeared in The Philadelphia Inquirer on Thursday, 12-8:
X X X
It's the Webster Hubbells, finally, who keep the stereotypes from taking complete root. For every Welfare Queen, for every gun-toting stickup man, for every nameless, faceless drug pusher, a Webster Hubbell comes along to remind us that liars, cheats and thieves come in suits and ties, too.
And, too often, with resumes as long as your arm: Webster Hubbell, before he ascended to associate attorney general in the Clinton Justice Department, had been Mr. Integrity, author of Arkansas' ethics law, a taker of Washington's taxis, not its limousines.
But there he was in Arkansas on Tuesday this former Little Rock mayor, this vetter of cabinet members pleading guilty to frauds of the grubbiest, most indefensible sort: jacking up his legal bills to clients (which included the federal government) by $390,000 ``to pay off credit card bills at fur salons and lingerie shops.''
The formal counts were income-tax evasion and mail fraud. And his years-long scam of cheating, covering up and denial would have been bad enough by itself.
But Hubbell is a Friend of Bill from way back, and a former law partner of Hillary Rodham Clinton. As such, he was strategically placed at the gates of the Justice Department while the whole world was in an uproar over the penny-ante Nannygate troubles of Zoe Baird and Kimba Wood.
That placement, and his ability to throttle investigations up or down, was already an issue among Republicans who claimed that Justice was slow to get started on a probe of the Whitewater affair. And there is suddenly more meat on that bone.
Hubbell is not the first White House appointee to fall from grace. Indeed, most of President Nixon's inner circle ended up wearing prison garb. And, Ronald Reagan's attorney general, Edwin Meese, was facing revolt from within and charges of limply pursuing Iran-contra leads, by the time he mercifully quit.
But Bill Clinton had campaigned against sleaze. He promised higher standards. And by betraying that trust, Webster Hubbell has left the President doubly wounded: He revives questions about the President's Arkansas past, and he also casts a shadow over Mr. Clinton's ability to move on.
If there is a mitigating factor in the sorry episode, it is that the President apparently did not willfully overlook Hubbell's misdeeds.
Even the FBI's vaunted background check now the subject of some internal soul-searching had given him a clean bill of health.
Philadelphia Inquirer

**** filed by:KR-F(--) on 12/08/94 at 17:16EST ****
**** printed by:WHPR(103) on 12/09/94 at 08:13EST ****

PM-AR--Whitewater, 1st Ld-Writethru,770
McDougal Worries About Health; Tucker Lawyer Says Nothing in Sight
EDS: Subs lede to CORRECT `say' to `says'
AP Photos XAKA101, XAKA102 and LR101 of Dec. 8
tptpfonfls
By BILL SIMMONS= Associated Press Writer=

LITTLE ROCK (AP) Jim McDougal says his response to a request by the independent Whitewater counsel's office for an interview will depend partly on what happens next week in an operating room.

``It depends, No. 1, on whether I'm still here after Wednesday,'' McDougal said in a telephone interview.

McDougal, 54, of Caddo Valley, a central figure in the Whitewater investigation, is not in the best of health.

The former business partner of President Clinton and first lady Hillary Rodham Clinton said he will undergo an arteriogram Tuesday in Little Rock, then surgery Wednesday in Little Rock to try to ``ream out my clogged arteries.'' He expects to be in the hospital 10 days.

Meanwhile, Gov. Jim Guy Tucker's lawyer says Tucker has received a number of subpoenas from the independent prosecutor investigating the Whitewater affair, but nothing else like a letter identifying him as a target.

``Not a thing no letter, no call, no writ, no fax,'' said Tucker attorney John Haley late Thursday. ``So all I know is pretty much nothing at all.''

He said he takes the silence as a sign that the investigators have no problem with Tucker.

``I assume that if they had some intention to do something to him, they would have talked to him,'' Haley said.

McDougal, though, got a written invitation Tuesday to undergo questioning by federal prosecutors.

The note also warned him that he's the focus of ``numerous investigations,'' lawyer Sam Heuer said. Heuer characterized it as a ``target letter.'' According to the U.S. attorney's manual, a target is someone who is likely to be indicted.

The ex-owner of the collapsed Madison Guaranty Savings and Loan Association, McDougal has been at the center of the Whitewater investigation. He was indicted four years ago for bank fraud in Madison's $65 million failure, and acquitted.

Independent counsel Kenneth Starr is investigating the Clintons' finances and whether they benefited from Madison Guaranty when Clinton was governor of Arkansas.

From 1978-92, the Clintons, McDougal and McDougal's former wife, Susan, were owners of Whitewater Development Corp., a real estate venture in the Ozarks 150 miles north of Little Rock that had its checking account at Madison Guaranty.

McDougal said his surgery will be ``an incision from my navel to my aorta,'' and will involve some danger. Doctors hope it will relieve him of severe leg pain from clogged veins behind his knees, he said.

McDougal said he is at the stage in life where his physical health deteriorates: ``It's patch, patch, patch.''

In 1986, McDougal suffered a stroke. He had an operation that year to clean out a carotid artery that had caused blackouts. He also has been battling manic depression for several years.

As for the governor, his lawyer said, ``if these were ordinary times, I would say Tucker is not at risk. But these are not ordinary times. Somebody's spending $2 million a month on an investigation. I don't know how far they'll go to try to hang up some scalps.

``Of course, indictment is easy. If a prosecuting attorney decides somebody should be indicted, it'll happen.''

Tucker, who has denied wrongdoing, did business with McDougal and Madison, as well as with another Whitewater figure and his business: David Hale, a

former municipal judge, and his Small Business Administration-backed investment bank that was shut down in 1992 by the SBA because of its losses.

``We've had three or four subpoenas since the first one (early in the year), at least two,'' Haley said. ``They are what I call vacuum-cleaner subpoenas they have a bazillion names and firms on them. The investigators are just doing their job. They have hundreds of subpoenas out, literally.''

Haley said he had no idea what Starr and his staff might be working on that would pertain to Tucker.

A corporation in which Tucker was a partner borrowed $150,000 from Hale's company and $1.05 million from Madison to enable Tucker to buy a small sewer and water utility from Madison in the 1980s.

Tucker later disputed the deal with Madison and federal regulators reduced the value of the utility and the accompanying debt by half. Tucker got out of the deal later, and, regulators say, the loan was never repaid.

**** filed by:APW-(AR) on 12/08/94 at 23:44EST ****
**** printed by:WHPR(103) on 12/09/94 at 08:12EST ****

Politics & Policy: Hubbell Judge Withdraws Due to Clinton Connection

LITTLE ROCK, Ark. -- The federal judge who heard the guilty plea of former Associate Attorney General Webster Hubbell has withdrawn from the case because of the appearance caused by his relationship with Bill and Hillary Rodham Clinton.

U.S. District Judge William R. Wilson informed lawyers involved in the case yesterday that he would not sentence Mr. Hubbell. Judge Wilson, a Democrat who was active in Arkansas politics, was appointed to the federal bench by President Clinton. He also has represented Virginia Kelley, the president's late mother, and Roger Clinton, his half brother.

Mr. Hubbell, one of the president's closest friends, pleaded guilty Tuesday to mail fraud and tax evasion. He admitted to bilking the Rose Law Firm, where he and Mrs. Clinton were once partners, and some of his former clients out of almost $400,000. He could be sentenced to up to 10 years in prison and fined up to $500,000.

In a statement, a lawyer for Mr. Hubbell said his client had "no objection" to Judge Wilson's recusal. A spokeswoman for Whitewater independent counsel Kenneth Starr had no comment.

**** filed by:WSJ-(--) on 12/09/94 at 02:18EST ****
**** printed by:WHPR(103) on 12/09/94 at 08:12EST ****

Arkansas Democrat Gazette 2/8/94

Clinton's sin: Trusting a friend

John R. Starr

Wishfully thinking, New York Sen. Alfonse D'Amato opined that the decision of Bill Clinton's friend Webb Hubbell to plead guilty to income tax evasion and mail fraud "doesn't bode well" for the president.

Technically, D'Amato is correct. It doesn't bode well for Clinton. Neither does it bode ill for him. As D'Amato should be and probably is smart enough to know, it doesn't bode for Clinton in any shape, form or fashion.

D'Amato is doing what the *Wall Street Journal* did recently — trying to tar Clinton with misdeeds of his friends. Clinton is so fearful of suffering from guilt by association that, after a proper expression of sympathy for an old friend, he sent one of his high-priced lawyers out to try to distance him from Hubbell's misdeed.

"This matter simply does not concern the president, the first lady or Whitewater in any manner," said attorney David Kendall.

What Kendall got big bucks for saying, I will say for free. As much as I might like to, I cannot conceive of a way that the Clintons might be involved in the wrongdoing to which Hubbell pleaded guilty. Clinton's only "sin" is that he trusted an old friend enough to give him a job in Washington.

Not hard enough

I got a call on Wednesday from fellow who thought I came down too hard on the Robinwood grinches who darkened the Osborne Christmas lights.

I was angry — an emotion I seldom feel any more — and disgusted with the grinches when I wrote the column, so I considered the possibility that I had mistreated them and reread the column and reread it.

The caller was wrong. I didn't come down on them or the grinchy Arkansas Supreme Court nearly hard enough.

What I'd like to do — and would if posting signs on highway right-of-way were not illegal — would be to put signs at entrances to Robinwood saying, "You are now entering Grinchville. Abandon all Christmas spirit ye who enter here."

What's the problem?

Pardon me for always seeming to wind up with the embarrassing question, but if Jim Guy "Too Shy" Tucker hasn't done anything wrong, why is he fighting so hard to quash a Resolution Trust Corp. subpoena that is part of an investigation that, if he is telling the truth, would clear his name?

No joking matter

For some perverse reason, the Rev. G. Avery Lee of New Orleans was inspired (but not by his Lord) to write the following to *Time* magazine:

"When Congressmen Newt Gingrich was a graduate student at Tulane University, I baptized him by immersion into the membership of the St. Charles Avenue Baptist Church. Perhaps I didn't hold him under long enough."

As a layman who abhors the kind of organized religion that the Rev. G. Avery practices, I was offended by that letter. I would have been offended if it had been written by a layman suggesting that Gingrich's preacher should have held him under longer.

To me, it seems unconscionable that a preacher would make a joke about the sacrament of baptism. If the Lord pays any attention to what his alleged servants are doing, I'd think he would be offended too.

Or maybe he wouldn't. After all, isn't he responsible for creating the Rev. G. Avery and setting him on earth a few bricks shy of a load?

The sound of silence

I didn't hear Sen. Barbara Boxer say it, but a source who keeps up with such things says, and callers to talk shows are saying, that just a few weeks ago, she was saying that a proposal to add $20 billion to military spending was "insane."

Since her poster boy, Bill Clinton, has now proposed a $25 billion increase in defense spending, Sen. Barb has been uncharacteristically silent while she figures out whether she can get away with claiming that the real reason she criticized the $20 billion figure was that it was too low.

John R. Starr is the former managing editor of the Arkansas Democrat-Gazette. His column appears every day.

Leach to delay Whitewater hearings

BY TERRY LEMONS
AND JANE FULLERTON
Democrat-Gazette Washington Bureau

WASHINGTON — Rep. Jim Leach, R-Iowa, said Wednesday that he expects a new round of congressional hearings into the Whitewater Development Corp. affair will start in late spring or early summer of 1995.

Leach, the incoming House Banking Committee chairman, said he wants to "move cautiously" on hearings so Congress will not impede independent counsel Kenneth Starr's investigation.

"The reason I want to delay ... is so all the facts come on the table," Leach said in an interview on CNN. "Hopefully, this summer this thing can be over."

The incoming Senate Banking Committee chairman, Sen. Alfonse D'Amato, R-N.Y., has said Senate hearings on Whitewater could begin in late January.

Hearings in the Republican-controlled Congress would be more sweeping than the limited review conducted during Democratic-run hearings in late July and early August in the House Banking Committee and Senate Banking Committee.

The initial hearings focused on Washington elements of the Whitewater affair, principally contacts between Department of the Treasury officials and members of the Clinton administration. New hearings probably would focus on other Washington elements of the case and the Arkansas phase of Starr's investigation.

Leach and D'Amato have said they might ask questions of former Associate Attorney General Webb Hubbell.

"Hubbell might well be able to provide a perspective," Leach said.

Hubbell, a former Little Rock mayor and former chief justice of the Arkansas Supreme Court, pleaded guilty Tuesday to felony mail fraud and tax evasion charges related to overbilling at Little Rock's Rose Law Firm. The plea was reached as part of an agreement to cooperate with Starr's investigation.

Leach said his committee would not rush into Whitewater hearings.

"The House Banking Committee is not going to move hastily," he said. "We're going to cautiously review the circumstances. We're going to take into consideration what the independent counsel is doing."

Leach said speculation that a special House Whitewater committee will be created is untrue. He also repeated his belief that Whitewater does not involve criminal questions involving the president that could lead to an impeachment situation.

"There may be political embarrassment, ... but I do not think this needs to go into the realm of anyone thinking we have a crisis constitutionally," he said. "... We do not."

D'Amato said Tuesday that he plans to subpoena Whitewater testimony given by President Clinton and first lady Hillary Rodham Clinton to former special counsel Robert Fiske Jr. if the testimony isn't turned over voluntarily to the Senate Banking Committee.

The depositions were given at the White House in June. The testimony has been kept under seal. D'Amato said he will bring up the subject in a meeting he hopes to have next week with Starr.

"We're entitled to them, and now we're going to go forward," D'Amato said. "When we were in the minority, Democrats would not let that happen."

The Clintons' personal lawyer, David Kendall of Washington, declined to comment on D'Amato's request.

The New York Daily News contributed to this article.

Associated Press

PREPARING FOR SUMMIT — U.S. Trade Representative Mickey Kantor (left), accompanied by Commerce Secretary Ron Brown (in back) and Treasury Secretary Lloyd Bentsen, gestures in the White House briefing room.

Administration hopes high for Summit of Americas

BY RANDY LILLESTON
Democrat-Gazette Washington Bureau

WASHINGTON — The Clinton administration hopes to build on its trade policy successes when the Summit of the Americas opens today at Miami, administration officials said Wednesday.

"What we're looking at is what we can do in reshaping this hemisphere over the next 10 years," said Treasury Secretary Lloyd Bentsen. "We're going to talk about integrating these economies.

"How do you cut the costs of doing business? How do you help the capital flow? How do we finance the infrastructure products in the projects? What do we do about the bridges and the highways?"

Leaders from 34 of the 35 nations in the Western Hemisphere will attend the summit. Only Cuba is without a representative. Administration officials said Cuba was not invited because its leader, Fidel Castro, was not democratically elected.

The administration been touting the summit for weeks. Thomas F. "Mack" McLarty, a senior administration adviser and former White House chief of staff, has been heavily involved in organizing the event.

Aides from the various nations begin meeting today to discuss economic and trade issues, including a reduction of tariffs, drug trafficking, environmental standards and providing private American money for Latin American investments.

President Clinton is scheduled to give a speech Friday with an informal dinner scheduled for Friday night.

A formal dinner is scheduled for Saturday night. There are private meetings scheduled Saturday between leaders of the nations.

An open session Sunday will feature the signing of a declaration of principles.

Besides trade and economic issues, administration officials hope to use the summit as a forum for reducing the drug trade and its related effects. For example, money laundering — which Bentsen said was a $300 billion per year business worldwide — will be discussed.

But trade will be the focus, administration spokesmen said. The declaration to be signed Sunday "will be a concrete statement with concrete ... dates of achieving the goals that we are about," U.S. Trade Representative Mickey Kantor said Wednesday.

The administration hopes the summit will lead to a framework for extending the North American Free Trade Agreement to the hemisphere. The agreement, approved by Congress last year, drops most tariffs and many trade barriers among the United States, Canada and Mexico. It is expected an offer will be made at the summit to bring Chile into NAFTA.

Arkansas Democrat Gazette 12/8/94

Arkansas Democrat Gazette

As Hubbell crashes, lawyers stop and stare

BY NOEL OMAN
Democrat-Gazette Capitol Bureau

A number of lawyers not connected to Webb Hubbell's criminal case showed up in U.S. District Court at Little Rock on Tuesday to watch him plead guilty to two felonies.

Hubbell's case, which centers on overbilling at Little Rock's Rose Law Firm, has attracted intense interest in the state's legal community.

Even the thousands of Arkansas lawyers who were not there Tuesday undoubtedly were discussing the Hubbell affair Wednesday. The case is remarkable not only because it involves a former associate attorney general and confidant of President Clinton's but also because a lawyer is facing a possible prison term for overbilling, an almost-unheard-of proposition in the state.

- Rep. Jim Leach to delay Whitewater hearings 8A
- Starr examining suspension of RTC inspectors 8A
- Extent of overbilling by attorneys is largely unknown 8A

John Wesley Hall Jr., a well-known Little Rock criminal defense lawyer, was among those who attended the proceedings Tuesday in U.S. District Judge Bill Wilson's courtroom. Hall said he was in the building on another case.

"I always find it interesting

See HUBBELL, Page 11A

Hubbell

Continued from Page 1A

when lawyers take a fall because of the abuse of their position," Hall said. "This was an abuse of the firm, their clients and the government."

No one could recall Wednesday a case in which an Arkansas lawyer admitted criminal liability for padding expense accounts and client billings. Whether that is because it is an ignored abuse or a rare occurrence is a matter of debate.

"Some lawyers do it with impunity because they know nothing will ever happen to them," Hall said.

The dean of the University of Arkansas at Little Rock Law School, Howard Eisenberg, said he resists the "assertion that what one lawyer did corroborates lawyer bashing. In fact, you could make the opposite argument. ... The rules of professional conduct do work."

The rules governing lawyers' conduct include a requirement that lawyers must report colleagues who are believed to have violated the profession's ethical standards.

Most complaints are generated by unhappy clients.

The Rose firm, where Hubbell was a managing partner when he left, reported Hubbell to the state Supreme Court Committee on Professional Conduct after months of negotiations failed to produce the documentation Hubbell said he had for expenses questioned by senior partners. Hubbell left in January 1993 to join the Clinton administration.

In a three-page statement issued after Hubbell's plea Tuesday, Rose's chief operating officer, Ronald Clark, confirmed the firm made the complaint.

The statement did not specify when the complaint was made, but sources said it likely occurred about the time Hubbell resigned from his Department of Justice post in March.

The director of the Supreme Court committee, James Neal, refused comment Wednesday when asked about the Rose complaint.

He also refused to comment on whether, in light of Hubbell's guilty plea to two felony charges, the committee will begin disbarment proceedings against the 46-year-old lawyer.

Disbarment proceedings against lawyers following felony convictions are routine and usually result in a lawyer surrendering his license.

Hubbell's law license remains active, according to the clerk's office of the Arkansas Supreme Court.

Hubbell admitted to committing mail fraud and tax evasion, each of which carries a maximum five-year prison sentence.

Supporting the charges was a paper trail of evidence amassed by staff members of Starr's predecessor, special counsel Robert Fiske Jr. On at least 400 occasions from 1989 through 1992, Hubbell charged his law firm and its clients for personal expenses.

Sources said the case against Hubbell largely was completed before Starr replaced Fiske on Aug. 5. Fiske had come under fire from Republicans for not being aggressive enough.

Fiske was appointed in January by Attorney General Janet Reno.

Starr was appointed by a three-judge panel that said the fact that Fiske was named to the post by a Clinton cabinet member cast a shadow on the investigation's independence.

"Certainly, the lion's share of the work had been done," a source said.

Julie O'Sullivan of Fiske's staff headed the Hubbell investigation, tracking instances of overbilling.

"She really nailed it," the source said.

O'Sullivan left the staff when Fiske did.

Starr's senior counsel, Hickman Ewing Jr., told Wilson that the purchases passed to the firm or clients by Hubbell even included items from a fur salon and a lingerie shop.

Hubbell used the scheme to pay off balances on 10 personal credit card bills, including three American Express cards, three Visa cards and four MasterCards.

Hubbell's clients included the Resolution Trust Corp. and the Federal Deposit Insurance Corp.

While Hubbell's crimes have little to do with the central allegations involving Clinton in the Whitewater Development Corp. affair, his testimony could be helpful to Starr in determining whether Clinton appointees interfered with the investigation of the case.

Wilson said he will adhere to federal minimum sentencing guidelines in passing a sentence.

No sentencing date has been set.

The agreement Hubbell signed Tuesday requires him to file amended tax returns for the years 1989-92. The federal investigation determined that Hubbell owes $130,291 for those years.

The agreement also allows Hubbell to request that he serve his sentence at a particular federal prison. Under the agreement, he may report on his own to the facility.

Eisenberg said Hubbell was not treated too leniently by the government, considering that he had no prior criminal record and a long record of public service.

"This is no slap on the wrist by any means," Eisenberg said. "I would suggest that this is a fairly harsh sentence for someone from his background."

The Scripps Howard News Service contributed to this article.

157

Whitewater affair will not go unsolved, legal experts agree

By John Aloysius Farrell Boston Globe

WASHINGTON The week's news from Little Rock, Ark., makes one thing increasingly clear, according to legal authorities: The Whitewater affair will not go down in history as an unsolved mystery.

In classic prosecutorial fashion, the Whitewater special counsel's office has now ''turned" a formidable stable of players in the murky Arkansas saga. To escape long jail terms, witnesses such as former Deputy Attorney General Webster Hubbell, who pleaded guilty Tuesday to mail fraud and tax evasion, have agreed in plea bargains to cooperate with investigators.

With several such witnesses in hand, and hints of more to come, legal experts here say that special counsel Kenneth Starr, a Republican, should now be able to get to the bottom of Whitewater matter, and the tangents involving the failed Arkansas land deal.

''I've got to tell you, when a guy like Webster Hubble comes in, he's got to know a lot, if not everything, because he was very close to the Clintons and their entire operation," said a lawyer with extensive participation in the case but, like most of Washington, no specific knowledge of what Hubble has agreed to tell Starr.

Moreover, and to President Clinton's dismay, the GOP takeover of Congress guarantees that the president will spend much of his last two years in office at the mercy of his political foes, who can be expected to use subpoenas and televised hearings to disclose embarrassing details of the first family's personal and political affairs.

Indeed, Sen. Alfonse D'Amato of New York, the incoming chairman of the Senate Banking Committee, says he will begin public hearings on Whitewater in late January or early February, and continue with his investigation for months.

''It's quite obvious what this is all about: the 1996 elections," said lawyer Robert Bennett, who represents Clinton on the Paula Jones sex harassment case and handles Whitewater matters for Harold Ickes, deputy White House chief of staff.

When assessing the political impact on Clinton, partisans from both sides point to how congressional Democrats harassed President Bush over ''scandals" such as Iraqgate and the so-called ''October surprise," and suggest that the Republican investigators will be no less aggressive, poking not only into Whitewater, but possibly into Clinton's handling of the White House travel office flap, the controversial personal life of Housing Secretary Henry Cisneros, and Hillary Rodham Clinton's lucrative commodity trades.

All of which appears to ensure that the Whitewater scandal will yield up its secrets. If there is any silver lining for the Clintons so far, it is this: In all the reams of court documents and congressional transcripts that have come to light to date, there is no conclusive allegation that they have broken the law.

The latest investigation to be completed in the form of a 300-page draft report by the Senate Banking Committee on its lengthy Whitewater probe this year appears to support the conclusions of former Whitewater special counsel Robert Fiske, who cleared the Clinton administration of serious wrongdoing in two well-publicized matters, sources say.

According to sources who have read the Senate report, it supports Fiske's conclusions that White House lawyer Vincent Foster did indeed commit suicide, and though the draft report makes no conclusions of its own confirms facts that support Fiske's assessment that White House and Treasury Department staffers broke no federal law when they discussed the pending investigation of the Madison Guaranty savings and loan, a thrift that had ties to the Clintons and involvement in the Whitewater development.

Clinton's advisers do fear that Madison's owner James McDougal, a business partner in the Whitewater real estate deal with the Clintons

and Arkansas Gov. Jim Guy Tucker could face charges now that Little Rock appraiser Robert W. Palmer has pleaded guilty to falsifying Madison's records in a transaction involving Tucker. Like Hubbell, Palmer has agreed to cooperate with the prosecutor.

The White House is concerned that presidential aide Bruce Lindsey, an old Arkansas friend of the Clintons, has been questioned, along with others, about the financing of Clinton's gubernatorial campaigns.

And then there is David Hale, a former Little Rock judge who is also cooperating with Starr, and who has said Clinton pressured him to make improper loans to McDougal.

But ''I would be very surprised if Starr came up with anything," said one attorney with knowledge of the Whitewater case, assessing the Clintons' legal culpability. ''Anything Starr finds will be old, the quality of the proof questionable. These are problem witnesses. I don't know how he would show knowledge or intent to commit a crime. Maybe he'll find some ethical stuff. Some sloppiness."

The politics of Whitewater is a different matter, and the draft Senate report shows why.

Though the current Democratic majority has given the Clinton White House something of a vote of confidence, the incoming Republican majority is calling on Starr to investigate five administration officials on charges that they lied to Congress during last summer's hearings: effectively reopening the entire question of the White House-Treasury discussions.

D'Amato says his staff ''has developed evidence which strongly suggests that certain individuals may have purposely misled Congress." He lists former deputy Treasury secretary Roger Altman, general counsel Jean Hanson and chief of staff Joshua Steiner, as well as White House aides George Stephanopoulos and Ickes.

Though D'Amato now says he is comfortable with the verdict that Foster committed suicide, the senator says he will kick off his investigation by focusing on the manner in which Foster's papers were disposed of by the White House staff.

Before he was replaced last summer, Fiske was close to concluding that White House aides acted lawfully in their search of Foster's office and disposal of his papers. But just as he was ready to absolve Clinton's staff, according to knowledgeable sources, Fiske's investigators found a new lead.

Succeeding Fiske, Starr has pursued the Foster papers case with a new round of interviews that included Stephanopoulos. ''It was a real low-key follow-up," said Stanley Brand, who represents Stephanopoulos. ''They specifically asked him about any conversations he might have overheard on the day after Foster died. He heard no conversations, so it was a dry hole."

D'Amato also says that, with Starr's approval, he will try to question Hubbell. Lawyers and aides working on the Whitewater case differ on what such an effort might yield.

Though all agree that Hubbell is a witness quite close to the Clintons, lawyers familiar with political corruption cases say the wording of Hubbell's agreement with Starr is a strong indication that the president's old friend has not proffered any smoking gun to the counsel.

''The plea did not legally affect the Clintons adversely in any way," said a source close to the Clintons.

150

D'Amato demands Clintons' testimony about Whitewater

Vows subpoena for sealed depositions

By Jerry Seper
THE WASHINGTON TIMES

Sen. Alfonse M. D'Amato, who takes over the chairmanship of the Senate banking committee in January, will ask Whitewater independent counsel Kenneth W. Starr to release secret testimony by President and Mrs. Clinton in his investigation.

Mr. D'Amato, who will reopen Whitewater hearings in late-January or early-Feburary, plans to ask Mr. Starr for copies of the Clintons' depositions taken separately at the White House in June by former Whitewater special counsel Robert B. Fiske Jr., aides to the New York Republican said yesterday.

The three-term GOP senator told reporters in New York he would subpoena the documents if Mr. Starr declines to make them available to the committee. The request is expected to come during a meeting Mr. D'Amato and Mr. Starr have planned for next week.

Mr. D'Amato believes that getting the depositions is a committee priority, the senator's aides said.

Debbie Gershman, spokeswoman for Mr. Starr, declined comment yesterday on the pending D'Amato request.

Mr. Fiske, who was replaced by Mr. Starr in August, interviewed the Clintons on June 12 during separate sessions in the White House residence as part of the Whitewater investigation.

The Clintons, according to Clinton administration officials, denied any knowledge at the time of improper contacts between White House aides and Treasury Department officials about Whitewater and told Mr. Fiske they continued to believe that former White House Deputy Counsel Vincent W. Foster Jr., a close personal friend and lawyer who was handling their Whitewater affairs, committed suicide in July as authorities have said.

The private interviews — Mr. Clinton for 90 minutes and Mrs. Clinton for one hour — took place at the White House under a deal with prosecutors that kept the first couple from having to appear before a federal grand jury.

Mr. Clinton was the fourth consecutive president to be questioned in a criminal probe.

At the time, Whitewater investigators said the June interviews were the first of at least two planned interviews by Mr. Fiske of the Clintons.

It is not clear if second interviews have taken place, although Mr. Fiske limited his first round of questions to the so-called "Washington phase" of the Whitewater inquiry — the death of Mr. Foster, contacts between Treasury and the White House over a government probe of Madison Guaranty Savings and Loan Association, and the handling of papers in Mr. Foster's office the night he killed himself.

Mr. Fiske, according to sources, had planned to question the Clintons on issues related to Madison's failure, which cost taxpayers $50 million, and on their ties to suspected financial irregularities involving Whitewater Development Corp., an Arkansas real estate venture involving the Clintons and Madison's owner, James B. McDougal.

The June 12 interviews were conducted under oath, according to former White House Counsel Lloyd Cutler. They have since been sealed.

At the time, law enforcement sources said the president and his wife were asked about their knowledge of briefings given to White House officials by Treasury officials on the Resolution Trust Corp.'s (RTC) ongoing investigation of Madison.

Sen. Alfonse M. D'Amato believes that getting the depositions is a committee priority, the senator's aides said.

Three Treasury officials involved in the briefings were Deputy Secretary Roger C. Altman, who headed RTC at the time; General Counsel Jean Hanson, who told former White House Counsel Bernard Nussbaum about the RTC probe; and Chief of Staff Josh Steiner, one of two persons at Treasury who discussed RTC's hiring of former U.S. Attorney Jay B. Stephens, a Republican, to look into Madison.

Mr. Altman and Mrs. Hanson have since resigned. Disclosure of the White House briefings and the ensuing uproar over them led to Mr. Nussbaum's resignation.

White House Press Secretary Dee Dee Myers has said the Clintons would cooperate if additional questions are asked.

In addition to Mr. Fiske, Mr. Cutler, David Kendall, the president's personal attorney; a Fiske associate and a stenographer were present during the interviews.

Fired travel chief indicted

White House sees vindication in embezzlement charges

By Paul Bedard
THE WASHINGTON TIMES

Billy Ray Dale, former director of the White House travel office, was indicted yesterday on two charges of embezzling as much as $68,000 from the media-funded pool used to cover reporters' expenses on presidential trips.

The long-awaited indictment is an outgrowth of the 1993 "Travelgate" affair, in which a distant Clinton cousin, White House Administrator David Watkins and Hollywood producer Harry Thomason tried to take over the office for personal gain and divert official business to a travel firm in Little Rock, Ark.

The indictment does not say what Mr. Dale did with the money, but his attorney said the Justice Department may charge that the cash was used to build a weekend camp on Lake Anna, Va., and to buy a boat.

Mr. Dale, 57, repeatedly has denied the charges but has admitted depositing some checks issued to his office into his personal account.

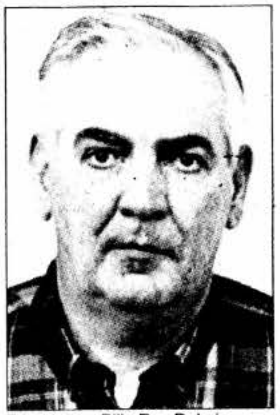
He has said that for every dollar of travel office money he deposited into his personal account, he withdrew an equal amount from a box of cash in his home in Clinton and put it into petty cash at the office.

The indictment sets the stage for a trial in the middle of next year and has prompted new moves on Capitol Hill to investigate the matter.

Steven C. Tabackman, Mr. Dale's attorney, plans to make last year's firing of the travel staff a central issue in the trial and may seek testimony from several current and former White House officials, including first lady Hillary Rodham Clinton.

Mrs. Clinton repeatedly was briefed about the travel office problems and once told an official to get "our people" in top slots, a comment she later said she could not recall.

"The White House is using this case to vindicate their mishandling of the travel office affair," Mr. Tabackman said.



Friends say Billy Ray Dale is being made a scapegoat.

A former travel office employee who worked for Mr. Dale said: "The charges are being made for political reasons. Billy is the scapegoat to protect the Clinton administration."

Dale supporters say the White House pressured the FBI to investigate charges of kickbacks and mismanagement to clear the way for firing the travel staff. No such allegations were made against the office during the Carter, Reagan and Bush administrations.

Mr. Dale's friends also accuse White House officials of taking or destroying handwritten records detailing his cash-management system.

White House aides, while conceding they mishandled the firings and the probe of allegations against Mr. Dale, said they feel vindicated by the indictment.

Mr. Dale faces a maximum penalty of 20 years in prison and $500,000 in fines if convicted.

The grand-jury indictment was handled by Stuart M. Goldberg and Raymond N. Nulser, who work in the Justice Department's public integrity section. U.S. District Judge Harold Greene will hear the criminal case.

The travel office arranges airplane charters, ground transfers, hotel rooms and filing centers for media covering presidential trips. After the trips, news organizations are billed for their shares of the costs, and reimbursement checks are made to the travel office, which deposits them in a Riggs Bank account.

When he is arraigned next Thursday, Mr. Dale faces two criminal counts.

The first count charges that from February 1988 to April 1991 he deposited 55 reimbursement checks into his personal account.

Of those 55 checks, totaling $54,188.61, the indictment charges that Mr. Dale converted 41 to personal use. The statute of limitations bars charges concerning the other 14 checks because they were handled more than five years ago.

The indictment does not disclose the value of the 41 checks and only describes six of them.

Justice Department spokesman Carl Stern declined "for reasons of legal strategy" to specify the amount prosecutors will try to prove Mr. Dale converted to his own use.

The second count charges that Mr. Dale, on five days between February 1992 and January 1993, withdrew $14,000 from the travel office account for petty cash for his own use.

Mr. Tabackman said Mr. Dale always had large sums of money in his house. When the travel office needed petty cash for tips and other small expenses on trips, Mr. Dale would deposit a travel office check into his personal account and take an equal amount out of his personal cash file and add it to the office petty cash.

Mr. Dale and the six other travel staffers were fired in May 1993 after an audit by an independent firm found they kept sloppy records. The White House called in the FBI to investigate, a move that raised concerns of White House pressure on the Justice Department.

The White House later acknowledged that it mishandled the firings and provided government jobs to five of the fired workers. A sixth has retired.

The Washington Times THURSDAY, DECEMBER 8, 1994

11-9

Take the Money and Hide

Yesterday on this page we carried Tim Ferguson's report on Willie Brown's amazing coup d'etat to retain the Speakership of California's Assembly. Today's tea-party report comes from Boston.

In a 48-hour blitzkrieg session only four weeks after their re-election, Massachusetts legislators conspired with GOP Governor Bill Weld to ram through an immediate 55% pay increase for themselves. They declared the measure "an emergency law, necessary for the immediate preservation of the public convenience" and attached it to an appropriations bill. Translation: It can't be overturned by a voter initiative.

Talk radio has been deluged with callers, and calls to Governor Weld's office ran 99.5% against the pay hike last week. He now says he is "undecided" on whether or not he will veto the pay raise. Voters have three times before rejected legislative pay increases, the last time in 1988 by a stunning 83% vote.

"Surprise" pay raises aren't the only bad news Massachusetts voters got last week. They may see their approval of measures to repeal rent control and impose term limits thrown out by courts on a technical violation created by—who else?—state legislators.

Last summer, a lengthy ballot prompted the legislature to drop the requirement that each initiative be summarized on the ballot. The result was massive confusion, as voters had to carry explanatory sheets into the polling booth. After the election, four voters claimed the lack of ballot summaries violated the Constitution and sued to overturn all the results. Last week, a state judge found their suit has a "substantial likelihood" of success and blocked the law repealing rent control from taking effect.

The "in your face" stiffing of the public's will in Massachusetts is proof of how difficult overturning decades of status quo thinking will be. Still, it's a comfort to know the citizens of the former Massachusetts Bay Colony have a tradition of knowing how to deal with such matters.

Asides

Reprinted from March 3, 1994

Who Is Webster Hubbell?-VI

The War of the Roses seems to have erupted in Arkansas, with the Washington Post reporting that the Rose Law Firm is investigating billing irregularities by former partner Webster Hubbell, now associate attorney general and (well, you know the rest). The Justice Department yesterday issued Mr. Hubbell's statement declaring, "I did not overbill the RTC or other clients," and assuring curiosity-seekers that the inquiry is "in no way out of the ordinary."

Over at the White House, Press Secretary Dee Dee Myers described President Clinton's reaction: "He stands by Webb." She said Chief of Staff Mack McLarty had questioned Hubbell about the report and "received assurances from Webb that it wasn't true and the President is satisfied by that."

"A Journal Briefing: WHITEWATER"

The Wall Street Journal has published a bound collection of editorial page commentary on Whitewater, complete through the congressional hearings and the appointment of a new special prosecutor–586 pages, $14.95 plus $5.00 shipping and handling, call 1-800-635-8349, Extension 11.

REVIEW & OUTLOOK

Who Was Webster Hubbell—II

Heads wagged on March 2, 1993, when we first asked editorially, "Who Is Webster Hubbell?" In Mr. Hubbell's case, our series of "Who Is?" editorials made it out to Roman numeral VI, starting over with "Who Was" on his resignation. But with Mr. Hubbell's plea to two felony counts in a federal courtroom in Little Rock, we are not gloating, but apprehensive over our long-standing discomfort with the institution of the Independent Counsel.

Especially so since those first four "Who Is?" editorials about Webster Hubbell never included the word "Whitewater." Our interest back then was what it has been from the day we first noticed the prominence of four members of Little Rock's Rose Law Firm in Bill Clinton's presidency, to wit: Who has been doing what for whom—and *why*? This is not the same question that Kenneth Starr or any Independent Counsel is charged with pursuing.

The special prosecutor's charge, quite properly but very narrowly, is to determine if laws were broken. And Mr. Starr's prosecutors have uncovered real crimes by Mr. Hubbell for which he deserves time in jail. In bargaining over his guilty plea, he promised cooperation with the continuing investigation. We don't know if Mr. Hubbell was required to make a proffer of likely testimony, and remain to be persuaded that his cooperation will be more than pro forma.

All the more so since he entered the plea before District Judge William R. Wilson. Bill Clinton appointed Judge Wilson to the federal bench in September 1993, when Mr. Hubbell was still Associate Attorney General. In private practice Mr. Wilson has represented Bill Clinton's mother, Virginia Kelly, and his brother Roger Clinton. Lest we be accused of impugning Judge Wilson, recall the chorus that ruled Judge David Sentelle's lunch with Lauch Faircloth in the Senate dining room rendered him unfit to appoint a successor to prosecutor Robert Fiske.

With whatever cooperation they elicit from Mr. Hubbell, Mr. Starr's investigators will now probe such questions as whether the White House's handling of Vincent Foster's Whitewater files after his death constitutes obstruction of justice.

But that's not what we want to know.

To put it differently: What if Mr. Starr's investigation concludes that all the White House's activities around the files walked right up to the bright line marked "obstruction of justice," but in strictly legal terms didn't cross it? Does that mean the public isn't entitled to know anything of what the Independent Counsel discovered about the file-handling? As the Independent Counsel law is written, Mr. Starr is under no obligation to divulge anything not directly relevant to *illegal* activities.

But that means the voters may never learn what the *political* activities of the Clinton Little Rock milieu have been about. With Webster Hubbell, the big question isn't whether he stiffed his Rose partners. The big question is, what happened at the Department of Justice? What is the origin of the decision to sack all sitting U.S. attorneys? How and why was Clinton friend Paula Casey appointed U.S. attorney for Little Rock?

And what was going on at Justice, for example, when Mr. Hubbell was providing such services as cutting Attorney General Janet Reno out of the loop to brief Mr. Clinton on Waco? After Philip Heymann quit as Deputy Attorney General, he told U.S. News: "When it comes to giving regular Justice input into administration policies, we have relied too exclusively on Webb Hubbell's free and comfortable access to the White House." He added that "there are costs to such an informal and ad hoc approach."

Webster Hubbell

We should hope that at this juncture in all the diverse incidents now flying under the banner "Whitewater," at least serious people would recognize that the real "costs" are being charged to the integrity of the country's politics, not merely to whatever statutes an Independent Counsel can bring before a grand jury. Along those lines, we'd suggest that strictly criminal issues ought to be investigated not by creating secretive and ultimately unaccountable creatures such as the Independent Counsel, but by the Department of Justice.

The Department is an ongoing institution, even when a Presidential crony is Associate Attorney General, and we'd like to see it given the opportunity to prove that it merits public trust. Precisely such an opportunity was at hand in November 1993 when, after consulting with Philip Heymann, criminal division head John Keeney sent three career lawyers from the fraud section to investigate Whitewater. About a month later, Justice lawyers were threatening to subpoena Whitewater files that the White House had removed from the office of Vincent Foster after his death and sent to the Clinton lawyers at Williams & Connolly in Washington. A month later, this effort was displaced by Janet Reno's appointment of Special Counsel Robert Fiske. News reports this week about the Hubbell plea noted that the second Independent Counsel is still chasing the provenance of those same Whitewater files.

What we fear is that Webster Hubbell will now disappear into the secret maw of the Independent Counsel's interrogations. Under those circumstances, some appropriate venue must be found to let voters form opinions about the political meaning of a confessed crook's tenure at Justice. The only answer is congressional hearings, both by Senator D'Amato and Congressman Leach. We hope to hear Mr. Hubbell testify under oath, in public, about what he did for whom—and why. Let the voters make of it what they will.

THE WALL STREET JOURNAL, THURSDAY, DECEMBER 8, 1994

BC-WHITEWATER-MCDOUGAL

Clinton's former partner to be indicted-report

WASHINGTON, Dec 8 (Reuter) - President Clinton's former business partner James McDougal has been notified that he is now officially a target of a Whitewater probe by independent counsel Kenneth Starr, the Washington Post reported Thursday.

In an interview with the paper, McDougal's attorney Sam Heuer said he believed Starr was nearing an indictment of the former owner of the failed Madison Guaranty Savings & Loan.

McDougal got a three-paragraph letter informing him that he is a target of the probe, and such letters are commonly sent by prosecutors preparing to seek a grand jury indictment.

Heuer said prosecutors invited McDougal to come in for an interview, but he thought it was doubtful that he would bargain with Starr's office.

``I think they'd love to make a deal with McDougal,'' the paper quoted Heuer as saying. But he added, ``It looks to me as if we're heading for a trial.''

Former Associate Attorney General Webster Hubbell, one of Clinton's closest friends, pleaded guilty Tuesday to mail fraud and income tax evasion in a case brought by the Whitewater special prosecutor.

Hubbell admitted the charges brought by Starr, who said Hubbell had defrauded his former law firm and some of its clients of ``at least'' $394,000 over a four-year period ending in 1992.

McDougal, another close friend, brought the president and Hillary Clinton into the Whitewater venture in the late 1970s. He was cleared in an earlier case charging mismanagement at Madison.

But prosecutors have focused on other possible financial misdeeds, including the possibility that Madison funds wound up in a Clinton gubernatorial fund, the paper said.

REUTER

**** filed by:RB--(--) on 12/08/94 at 02:18EST ****
**** printed by:WHPR(JEL) on 12/08/94 at 09:17EST ****

BC-WHITEWATER-DAMATO

D'Amato to subpoena Clinton's Whitewater testimony -- paper

NEW YORK (Reuter) - Republican Sen. Al D'Amato plans to subpoena the Clintons' secret Whitewater testimony if it isn't turned over voluntarily to the Senate Banking Committee, the Daily News reported Wednesday.

D'Amato, who will take over the Banking Committee in January, said he will make it a priority to get the depositions that President Clinton and first lady Hillary Rodham Clinton gave to former Whitewater special prosecutor Robert Fiske in June, the paper said.

The New York senator said he wants to bring the issue up in a meeting with the new independent counsel, Kenneth Starr.

``We're entitled to them, and now we're going to go forward,'' D'Amato was quoted as saying. ``When we were in the minority, Democrats would not let that happen.''

A spokesman for D'Amato confirmed the Daily News account.

D'Amato, who has been a vocal critic of the Clinton administration, has said he would investigate possible impropriety related to Whitewater, a catch-all term for a controversy generated by Clinton business dealings in Arkansas more than a decade ago.

He has supported Banking Committee hearings on questionable contacts between White House and Treasury Department officials on investigations into Clinton's ties to the head of a failed savings and loan institution in Arkansas.

REUTER

**** filed by:RB--(--) on 12/07/94 at 11:48EST ****
**** printed by:WHPR(JEL) on 12/08/94 at 09:20EST ****

PM-AR--Whitewater-Hubbell, 1st Ld-Writethru,960
Eds: ADDS 2 grafs after 14th graf with comments from Ron Clark; picks up prvsly 15th graf, bgng: Hubbell admitted ...
Clinton Friend Falls From Top Government Job to Potential Jail Term
AP Photos LR101, LR102 of Dec. 7; LR101, LR102, LR103 of Dec. 6
kktpdbphstffonflshou
By KELLY P. KISSEL= Associated Press Writer=

LITTLE ROCK (AP) Confident to the end, Webster Hubbell's voice finally cracked as he said the words that sealed his remarkable free-fall from the pinnacles of government power.

``Your honor, I plead guilty,'' a disgraced Hubbell told a federal judge Tuesday, admitting to two felonies and a scheme that prosecutors said defrauded his former law partners and clients of nearly $400,000.

Just nine months after he stepped down as the nation's third-highest law enforcement official, President Clinton's golfing buddy and longtime confidant became the first administration official to admit to criminal activity as a result of the Whitewater probe.

Afterward, he offered a simple apology for tarnishing the confidence once entrusted to him.

``I deeply regret that my actions have afflicted my family and friends and those who have placed me in a position of trust,'' the former associate attorney general said.

``I know today is a very painful day for them. If the consequences of my action were only mine, this could be easier, but they're not,'' he said.

From Arkansas to Washington, Hubbell had once been considered a man above reproach.

He was a football hero, playing for the Arkansas Razorbacks' storied 1969 Sugar Bowl team. He was chairman of the state bar association's ethics committee. He was a state Supreme Court justice.

And he was leading a secret life.

He padded his pockets at the expense of 15 clients and the Rose Law Firm where he worked with Hillary Rodham Clinton. He falsely billed federal banking agencies for Whitewater-related work. He lied on his tax return.

``I think this is a time for all of us to reflect on what is an unfortunate day, but nonetheless is necessary and is part of an ongoing investigation,'' special prosecutor Kenneth Starr said.

Under a plea bargain, Hubbell, 46, will cooperate with Starr's wide-ranging investigation into the business activities of the Clintons and other prominent Arkansans.

During an hour-long hearing in U.S. District Court, prosecutors described a scheme in which Hubbell, as a private attorney, billed clients or the Rose firm for personal expenses he had charged to several credit cards.

Assistant special counsel W. Hickman Ewing Jr. said the amount totaled at least $394,000 between 1989 and 1993. There were 400 separate occasions on which Hubbell fraudulently tapped Rose accounts, Ewing said.

Ronald Clark, chief operating officer at the Rose firm, said in a statement that he and his colleagues regretted the financial misconduct by a former member of the firm.

``We first discovered the misconduct, we investigated the facts and voluntarily reported them to the proper authorities,'' Clark said.

Hubbell admitted to mail fraud and tax evasion, two felonies.

Each charge carries a maximum of 5 years in prison and a $250,000 fine. U.S. District Judge William R. Wilson agreed to release Hubbell without bail, pending sentencing. No date was set.

Under federal sentencing guidelines discussed in court, Hubbell could face 27 to 33 months in prison if Wilson chose to impose concurrent sentences. Hubbell also could ask the court for a shorter sentence or probation.

What brought Starr's office into the case were two clients who were overbilled: the FDIC and Resolution Trust Corp., which hired Rose to handle matters related to the failure of Madison Guaranty Savings and Loan, the

thrift at the center of the Whitewater investigation.

The S&L was owned by James McDougal, who with his wife Susan was a business partner with President and Mrs. Clinton in Whitewater.

Calling Hubbell ``an old friend,'' Clinton said he and his wife, Hillary, were saddened by Tuesday's events.

``We should remember that Webb is a man who has given much to his family, his community and his country,'' Clinton said in a statement released by the White House. ``The matter is in the hands of the court, and I don't think it would be appropriate to say anything more than that.''

Upon arriving in Washington, Hubbell was entrusted by the president to review high-level nominees for the new administration. He was appointed to Justice, but resigned in March after questions came up about his billing at the Rose firm.

At the time, Hubbell confidently insisted his resignation was to protect the administration from unwanted publicity and declared he had done nothing wrong. But Starr's office found plenty wrong.

On the tax evasion charge, prosecutors alleged Hubbell underreported his income by more than $100,000 in 1992. They said he paid federal income taxes of $32,193 that year but should have paid $71,358.

Starr also accused Hubbell of mailing false bills to the FDIC.

With Hubbell's cooperation, Whitewater prosecutors want to explore whether there was any political interference by the Clinton administration during the early Whitewater investigations.

Hubbell also could be used to explore Clinton ties to Madison Guaranty.

**** filed by:APW-(AR) on 12/07/94 at 09:47EST ****
**** printed by:WHPR(JEL) on 12/08/94 at 09:19EST ****

BC ARKANSAS-WHITEWATER

Arkansas governor critical of prosecutor

LITTLE ROCK, Ark. (Reuter) - Arkansas Gov. Jim Guy Tucker, who reportedly may be indicted, accused the special federal prosector in the Whitewater affair of pursuing him for political purposes.

Tucker is one of several Arkansas political figures whose finances are being investigated by Whitewater special prosector Kenneth Starr.

``Clearly, politics are a major consideration in this,'' Tucker said, referring to reports in national newspapers that Starr may indict him.

While in private business in the 1980s, Tucker frequently borrowed large sums of money from Madison Guaranty Savings and Loan, whose owners were partners with President Clinton and his wife Hillary Rodham Clinton in the Whitewater resort.

Starr, who served in the Reagan administration, has subpoenaed thousands of Tucker's financial documents. Reports in national newspapers such as The New York Times and the Los Angeles Times said the prosector is considering an indictment against Tucker.

``I would certainly not expect to be indicted by anyone who is making a fair decision on any of my business involvements because I have done nothing to justify an indictment,'' Tucker told a news conference.

He said he had no business connection with former U.S. Associate Attorney General Webster Hubbell, the Arkansan who pleaded guilty Tuesday to mail fraud and tax evasion in the Whitewater case.

Tucker was openly sarcastic about Starr's use of plea bargains in the Hubbell case and in two other convictions in the Whitewater investigation.

``You start promising people they can get two years off here and three years off that if they'll just give the right answer to a question and you know what'll happen,'' Tucker said.

It was Tucker's second angry blast at Starr.

In November, Tucker issued a statement in response to a news account predicting his indictment that accused Starr's office of ``recklessly loose procedures'' and ``near-routine'' leaks that the governor said were ``deliberate and for political purposes.''

REUTER

**** filed by:RB--(--) on 12/07/94 at 20:47EST ****
**** printed by:WHPR(JEL) on 12/08/94 at 09:18EST ****

AM-Whitewater,360
URGENT
Clinton Business Partner Told He's Probe Target
tpwdc
By PETE YOST= Associated Press Writer=

WASHINGTON (AP) President Clinton's former Whitewater business partner has received a letter from prosecutors telling him he is the focus of ``numerous investigations,'' his lawyer said Wednesday night.

The letter targeting James McDougal, which arrived Tuesday, includes an invitation to the former savings and loan owner to be interviewed by Whitewater prosecutors, attorney Sam Heuer said in a telephone interview from Little Rock.

``This starts a process that leads generally in other cases to indictment,'' Heuer said.

He said it was unlikely that his client would agree to an interview in view of his ``target'' status. According to the U.S. attorney's manual, a target is someone who is likely to be indicted.

Heuer expressed annoyance that prosecutors for independent counsel Kenneth W. Starr gave no indication in their letter what areas of the Whitewater affair they wanted to discuss with McDougal.

``With a multimillion-dollar budget it might have been nice to let us know what they were looking at,'' said Heuer.

Heuer said he and his client went through much the same process in 1989 before McDougal's indictment on bank-fraud charges relating to land deals at his failed Madison Guaranty Savings and Loan. McDougal was subsequently acquitted of those charges.

Heuer said the letter refers to McDougal as the focus ``of numerous investigations'' by Whitewater prosecutors.

According to Heuer, McDougal is in fragile health with blockage of an artery in one of his legs, a situation the lawyer said he would bring to Starr's attention shortly.

Starr is investigating the finances of the president and Hillary Rodham Clinton and whether they benefited from Madison Guaranty, a McDougal-owned S&L in Arkansas that collapsed at a cost to taxpayers of $65 million.

The Clintons and McDougal and his former wife, Susan, were owners of Whitewater Development Corp., a real estate venture in the Ozarks that had its checking account at Madison Guaranty.

**** filed by:APW-(AR) on 12/07/94 at 23:35EST ****
**** printed by:WHPR(JEL) on 12/08/94 at 09:18EST ****

Bentsen resigns; Rubin chosen to succeed him

By Carl P. Leubsdorf Dallas Morning News

WASHINGTON President Clinton accepted Treasury Secretary Lloyd Bentsen's resignation ``with deep regret'' Tuesday and named former New York investment banker Robert Rubin to succeed him.

``It's been a great time to be treasury secretary, and it's a great time to be bowing out as treasury secretary,'' the former Texas senator said during a brief ceremony in the White House Rose Garden. ``We've got the best (economic) numbers that we've seen in 30 years.'' As the sun poked through the clouds on an unusually mild December morning, the 73-year-old treasury secretary quipped, ``The sun always shines on Bentsen.''

He said he planned to move back to Houston, where he has a new home, and re-enter private business.

``I loved having you here every day, and I'm really going to miss you,'' Clinton said. He added that Bentsen had agreed to return regularly during the next two years to advise him as ``part of a seasoned kitchen Cabinet.''

The long-anticipated resignation, which is effective Dec. 22, will deprive Clinton of the most politically experienced member of his Cabinet and one with close ties to both parties in Congress.

Although Bentsen's successor is highly regarded in the financial world, he is not nearly as well-known on Capitol Hill.

Initial reaction indicated Rubin would have little trouble winning confirmation from the Republican-controlled Senate in January. Sen. Bob Dole, R-Kan., who will be the new majority leader, said he expected to back Rubin because of his qualifications and his ``honesty and integrity.''

Rubin, 56, was chairman of the Goldman, Sachs & Co. investment firm when he resigned two years ago to direct Clinton's new National Economic Council.

Administration officials said Erskine Bowles, former head of the Small Business Administration and a deputy White House chief of staff, was a likely successor to Rubin, but no final decision had been made.

Meanwhile, the officials, who asked not to be identified, said a new agriculture secretary could be selected as early as this week. Secretary Mike Espy resigned, effective at the end of the year, in the midst of an ethics investigation into his acceptance of gifts from private businesses.

In addition, there are reports that Commerce Secretary Ron Brown will leave the administration early next year to head Clinton's 1996 re-election campaign.

(EDITORS: NEXT 4 GRAFS OPTIONAL TRIM)

But Bentsen was the focus of attention Tuesday. Among those showering praise was a longtime Texas colleague in the Senate, Republican Sen. Phil Gramm.

``From Hidalgo County judge to secretary of the treasury, Lloyd Bentsen has dedicated his life to building a remarkable career of public service,'' Gramm said in a statement. ``The administration is losing one of its most credible voices.''

``That's nice,'' Bentsen said when told of Gramm's statement.

Before switching parties, Gramm challenged Bentsen's Democratic renomination to the Senate in 1976, and the two had a cool relationship during the eight years they served as senators from Texas.

(END OPTIONAL TRIM)

Bentsen said he told Clinton of his retirement plans in September, well before the Republican takeover of Congress that is likely to complicate the last two years of the nation's first Democratic administration in a dozen years.

``That was not a part of my decision at all,'' he told Texas reporters.

Bentsen said he timed his departure to coincide with what would have been the end of his fourth Senate term, which he previously had decided would be his last.

``It just was the appropriate time, and I had paid my dues in public service,'' Bentsen said. He added that the president ``urged me to stay ... at that point and over a period of time.''

(EDITORS: NEXT 6 GRAFS OPTIONAL TRIM)

The secretary also issued a handwritten letter to fellow Texans in which he thanked them ``for letting me work for you.''

``When you sent me to Congress, my goal was to make a difference and we did,'' Bentsen said. But he added, ``No matter where I went, I always came back and told (his wife) B.A., `Nothing beats Texas.'

``By Christmas, we'll be home with family and friends.''

The Bentsens recently bought a home in Houston, and they plan to sell their Washington townhouse. Bentsen stressed, ``I'm not retiring,'' but he said he had not decided what kind of business to enter.

Before his election to the Senate in 1970, he was in the insurance business.

He said he had not ruled out working with one of his sons, Lloyd III, who is a venture capitalist, or Lan, who is in real estate. ``Both of them called me and said they're making up business cards,'' he said.

(END OPTIONAL TRIM)

At the White House ceremony, Clinton and Bentsen hailed the administration's success in reducing the federal budget deficit and in helping to create more than five million jobs in less than two years.

``By any stead, he ranks as one of the outstanding economic policymakers in this country since World War II,'' the president said, citing Bentsen's service as a congressman, senator, 1988 Democratic vice presidential nominee and chairman of the Senate Finance Committee.

(EDITORS: STORY CAN TRIM HERE)

``I have really enjoyed serving you,'' Bentsen told the president.

Clinton and Bentsen had strong praise for Rubin.

``He's the consummate honest broker who brings economic wisdom, common sense and common decency to every one of our challenges,'' the president said. ``Bob Rubin will be a worthy successor to Lloyd Bentsen.''

However, some analysts noted that Rubin won't provide the administration with the same political clout as Bentsen.

``Rubin is a reasonably good substitute,'' said David Wyss of DRI-McGraw Hill in Lexington, Mass., an economic forecasting service. ``But he doesn't have that clout in the Senate and friendships with people'' such as Senate Majority Leader Bob Dole.

``If ever Bentsen was needed, he is needed now to be able to work effectively with a much more conservative Congress,'' said David Jones, an economist at Aubrey G. Lanston & Co.

Webster Hubbell pleads guilty to tax evasion, mail fraud

By Thomas G. Watts Dallas Morning News

LITTLE ROCK, Ark. Webster L. Hubbell, once the highest-ranking Arkansan whom President Clinton brought with him to Washington, pleaded guilty Tuesday to tax evasion and mail fraud charges.

The plea was part of an agreement reached last week with Whitewater independent counsel Kenneth W. Starr, in which the Justice Department's former No. 3 official promised to cooperate with investigators in return for acknowledging his guilt on only two counts.

Hubbell's plea made him the first Clinton

✓ / 461

administration figure and fifth person overall to be convicted in the Whitewater investigation.

The charges stemmed from Hubbell's billing practices while managing partner of the Rose Law Firm in Little Rock, Ark., and had nothing to do with any of the central Whitewater-related allegations.

The White House was quick to emphasize that distinction.

``This matter simply does not concern the president, the first lady or Whitewater Development Company in any way,'' said David Kendall, Clinton's attorney in Washington.

``The charges are totally unrelated,'' he said.

Nonetheless, Starr and his predecessor, Robert B. Fiske Jr., agreed to pursue the Hubbell case under their broad mandate to investigate anything that could have been linked to Whitewater or a savings and loan owned by a former Clinton business partner.

Starr was asked after Hubbell's court appearance Tuesday why Whitewater investigators wanted to talk with him.

``I really can't say anything more,'' he replied, saying simply that he was looking forward to Hubbell's cooperation. Little Rock real estate appraiser Robert Palmer pleaded guilty to conspiracy charges under a similar arrangement on Monday.

In a statement issued by the White House, Clinton called Hubbell ``an old friend.''

``Hillary and I were saddened by today's events. We should also remember that Webb is a man who has given much
to his family, his community and his country,'' the president said. ``The matter is in the hands of the court, and I don't think it would be appropriate to say anything more at this time.''

Hubbell, 46, served as an attorney for Madison Guaranty Savings and Loan, a defunct thrift once owned by James B. McDougal, the Clintons' partner in the Whitewater land development.

He represented the S&L in a $60 million lawsuit against an accounting firm, agreeing to settle the case for $1 million. And his father-in-law and brother-in-law received at least $1.5 million in loans from Madison Guaranty and participated in other deals with McDougal.

It also has been reported that investigators want to talk with Hubbell about delays in how the Justice Department handled a report by the Resolution Trust Corp. concerning Madison Guaranty operations that mentioned the president and Hillary Rodham Clinton as possible witnesses.

Part of Congress' Whitewater hearings last summer dealt with questions of possible political interference with the RTC investigation during Hubbell's tenure as associate attorney general. Officials from the White House, the Treasury Department and the RTC denied any interference.

The heart of the Whitewater investigation is whether funds were diverted from Madison Guaranty to Whitewater Development Co. or Clinton's gubernatorial campaign. The probe has been broadened in recent months to include those with ties to Whitewater, Madison Guaranty or the Clinton campaigns.

(EDITORS: STORY CAN TRIM HERE)

Hubbell entered the courtroom of U.S. District Judge William R. Wilson hand-in-hand with his wife, Susie, and joked with her and his lawyers. He smilingly shook hands with Starr, who clapped him lightly on the back.

By the time Wilson asked how he intended to plead, the jocularity was gone and the former chief justice of the Arkansas Supreme Court responded in a quavering voice, ``Your honor, I plead guilty.''

Later, he said softly: ``Today I plead guilty to fraud and tax evasion. I take full responsibility for my actions and accept the consequences for them.''

He said he regretted the pain he caused his family and friends and asked them to accept his statement ``as a full apology.''

The government charged that he defrauded the Rose Law Firm and some of its clients including the RTC and the Federal Deposit Insurance Corp. out of at least $394,000 between 1989 and 1993 to pay for personal services and purchases.

Assistant independent counsel Hickman Ewing told the court that Hubbell often would have Rose checks sent directly to pay his accounts at 10 credit card companies. The checks indicated that the payments were for services he provided clients or the law firm.

However, after he left the firm last year officials there began questioning some of the payments and asked him to account for the bills. Ewing said Hubbell never provided any supporting documents. The firm eventually filed a complaint with state court officials complaining about his billing practices.

When Whitewater investigators began examining Hubbell's bank and credit card records they found that at least $394,000 had been spent on purely personal expenses including one bill from an unnamed Dallas clothing store and another at Victoria's Secret in Little Rock.

The mail fraud charge stemmed from a bill that Hubbell sent to the RTC in 1990 that claimed the charges were for work he did, when actually it was to cover personal expenses.

Ewing said Hubbell evaded $71,358 in 1992 federal income taxes. He claimed an income of $194,966, when it was actually $309,168.

(EDITORS: STORY CAN TRIM HERE)

For the man who was Clinton's frequent golfing partner and close friend, the fall was steep.

A tall, beefy man at 6-foot-5 and nearly 300 pounds, Hubbell was a star on the University of Arkansas football team that won the Sugar Bowl in 1969. Although drafted by the Chicago Bears, he did not play professionally because of a knee injury.

He took up law and rose to become managing partner in what is said to be the oldest law firm west of the Mississippi River and one that also had Hillary Clinton as a partner.

In addition to his appointment to the Arkansas Supreme Court by President Clinton and his chairmanship of the state bar association's ethics committee, Hubbell served as mayor of Little Rock and was seen frequently around the town's restaurants and golf courses.

On Tuesday he was a convicted felon who is likely to be disbarred.

He faces 10 years in prison and fines totalling $500,000. No date was set for sentencing.

The Dallas Morning News
Wednesday, December 7, 1994

BURL OSBORNE, *Publisher and Editor*

JEREMY L. HALBREICH, *President and General Manager*

RALPH LANGER, *Senior Vice President/Executive Editor*
ROBERT W. MONG JR., *Managing Editor*
RENA PEDERSON, *Vice President/Editorial Page Editor*

Senior Vice President
J. WILLIAM COX, *Operations and Administration*

Vice Presidents
RICHARD STARKS, *Advertising*
BARRY PECKHAM, *Circulation*
BARBARA VAN PELT, *Marketing*
REGINALD K. BROWN, *Finance*
JAMES M. CORREU, *Production*
GROVER D. LIVINGSTON, *Information Management*
ELLEN SILVA WILSON, *Human Resources*
NANCY BARRY, *Community Services*

EDITORIALS

SECURITY CONFERENCE

NATO expansion could create problems

The two-day meeting of the Conference on Security and Cooperation in Europe this week was a long-overdue discussion on how to make the forum the key component of a new security structure for Europe.

Sadly, that discussion now comes at the expense of Bosnia. Sadder still was that no new plans were discussed at the meeting in Budapest, Hungary, to bring the Bosnian war to an end. One of the factors in the Bosnian impasse is also the reason it is not easy to devise a new European security arrangement: the dispute between the U.S. and Russia over their post-Cold War roles in Europe.

At the heart of this dispute is the U.S. plan to expand the North Atlantic Treaty Organization to include the former Eastern European satellites of the old Soviet Union. Having rightly proposed the "Partnership for Peace" to bring the Czech Republic, Poland and Hungary under the NATO umbrella, the Clinton administration has speeded up the timetable for granting these countries NATO membership. Russia is not being made the same offer, and is understandably unhappy with the arrangement.

For the Clinton foreign policy team to rush foolishly to expand NATO is to undermine its own efforts to create a secure and stable Europe. A new NATO area that ended at Russia's borders could ignite Russian nationalism. Russian Foreign Minister Andrei Kozyrev sent that message last week when he surprised administration officials by holding up his government's full cooperation under the partnership. Russian President Boris Yeltsin bluntly stated as much in Budapest. "Europe has not yet freed itself from the heritage of the Cold War (and) is in danger of plunging into a Cold Peace," he said in reference to plans for the Western alliance.

President Clinton should take heed.

A top German defense official told a group of U.S. journalists recently that expanding NATO should be a corollary of expanding the European Union, that NATO should proceed to include new members as there are new union members. We agree with that approach. The emerging democracies need the help of Western democracies more on the economic front now than on the security front. Securing democratic principles and strong economies is the best security they can have. The same goes for Russia.

There can be no new viable security structure in Europe that doesn't include Russia. President Clinton was right when he stated that the Conference on Security and Cooperation in Europe has the "unique tools" to foster European integration. For now, he should first bolster the organization, which includes all current NATO members and all former Warsaw Pact members, before expanding NATO.

Voice cracking, Hubbell pleads guilty

Two felonies mark downfall of noted lawyer

BY NOEL OMAN
AND PATRICIA MANSON
Democrat-Gazette Staff Writers

Webb Hubbell's fall from grace became official Tuesday afternoon in a Little Rock courtroom.

The former associate attorney general, once managing partner of one of the region's most prominent law firms, pleaded guilty to two felonies as part of a plea bargain with Whitewater independent counsel Kenneth Starr.

Hubbell's voice cracked with emotion as he entered guilty pleas to charges of mail fraud and tax evasion.

In a hearing in U.S. District Court, one of President Clinton's closest friends admitted he improperly billed at least $394,000 in personal expenses to the Rose Law Firm and its clients and then evaded paying taxes on that money. On the tax eva-

See HUBBELL, Page 12A

Hubbell

• Continued from Page 1A

sion charge, federal prosecutors said Hubbell underreported his income by more than $100,000 in 1992. They said he paid federal income taxes of $32,193 that year but should have paid $71,358.

The admission from Hubbell prompted expressions of sympathy from Clinton and the first detailed statement from the embattled Rose firm, which has been at the heart of the Whitewater Development Corp. affair.

"Webb Hubbell is an old friend, and Hillary and I were saddened by today's events," Clinton said in a prepared statement. "We should also remember that Webb is a man who has given much to his family, his community and his country.

"The matter is in the hands of the court, and I don't think it would be appropriate to say anything more at this time."

Hubbell was a partner with first lady Hillary Rodham Clinton at the Rose firm.

Ronald Clark, Rose's chief operating officer, said in a statement that he and his colleagues "sincerely regret that a former member of this firm has engaged in financial misconduct. We first discovered the misconduct, we investigated the facts and voluntarily reported them to the proper authorities."

Hubbell entered his plea before U.S. District Judge Bill Wilson of Little Rock, a man he has known for years.

There were about 50 spectators in Wilson's courtroom, most of them reporters. But the crowd also contained some Little Rock lawyers. The city's legal community has been in shock over the downfall of a respected colleague, former mayor and former chief justice of the Arkansas Supreme Court.

In an emotion-packed but silent setting, spectators had to strain to hear as Hubbell, speaking in a wavering voice, apologized for his wrongdoing.

With his wife, Suzy, looking on, Hubbell said:

"Your honor, today I pled guilty to fraud and tax evasion. I want this court to know that I take full responsibility for my actions and accept the full and complete consequences of

"I deeply regret the pain that my actions have inflicted on my family, my friends and those who have placed me in a position of trust. To each of them, I ask for them to accept this as a sincere apology.

"I know this is a very painful day for them, and I know it is a very painful day for my friends and family. If the consequences of my actions were only mine, this would be a lot easier, but they are not.

Starr

"But to each of them and to this court, I hope by pleading guilty today and accepting the consequences of my actions and my actions alone, that I have taken the first step in the process of easing my friends' and my family's pain, earning their respect once again and, hopefully, ultimately justifying their faith in me.

"Thank you, your honor."

Hubbell is expected to cooperate with Starr in his wide-ranging investigation of business affairs in Arkansas during the past two decades.

Starr is expected to question Hubbell about whether there was political interference by the Clinton administration in the early investigations that spawned the Whitewater affair. Hubbell was the No. 3 official at the Department of Justice, but as liaison to the White House, his influence was considered as great as that of Attorney General Janet Reno.

The mail fraud and tax evasion charges each carry a maximum penalty of five years in prison and a $250,000 fine. Federal sentencing guidelines will determine Hubbell's sentence, which Starr declined to estimate. Hubbell's plea agreement with the government did not include a promised sentence.

When Wilson eventually sentences Hubbell, one of the state's best-known lawyers will be passing judgment on another of the state's high-profile attorneys.

If any doubt existed about Hubbell's culpability, it quickly

Arkansas Democrat Gazette 12/7/94

evaporated when Starr's senior counsel, Hickman Ewing Jr., outlined the independent counsel's case against against Hubbell.

Federal agents followed a paper trail Hubbell left beginning in 1989. They documented more than 400 instances through 1992 in which Hubbell billed his law firm or its clients for personal expenses totaling $394,000, Ewing said.

Ewing said Hubbell used a Rose firm account to pay bills owed to 10 credit card companies for personal purchases. The shops where Hubbell used the credit cards ranged from a Dallas clothing store to the lingerie store Victoria's Secret at Little Rock's Park Plaza mall.

Federal investigators found that Hubbell billed personal expenses to at least 14 of the firm's clients, including such high-profile concerns as Tyson Foods Inc. of Springdale, Worthen Banking Corp. of Little Rock and Environmental Systems Co. of Little Rock.

Ewing said Hubbell's former partners began an inquiry into his billing practices after noticing Hubbell had "forgiven" a large amount of expenses allegedly advanced to clients. Clark's statement confirmed that the inquiry began shortly after Hubbell left the firm in January 1993.

Hubbell has ties to Madison Guaranty Savings and Loan Association. His father-in-law, Little Rock businessman Seth Ward, and his brother-in-law took out almost $1.5 million in loans from Madison. Ward was employed by a Madison real estate subsidiary.

Madison failed in 1989 at a cost to taxpayers of $65 million.

Madison was owned by James McDougal, who now lives near Arkadelphia. McDougal was partners from 1978-92 with Bill and Hillary Clinton in Whitewater, a failed 230-acre residential development along the White River in Marion County.

Gov. Jim Guy Tucker also had extensive business dealings with McDougal and Madison during the 1980s.

Starr was not gloating over snaring the first member of the Clinton administration in the Whitewater inquiry. The former solicitor general in the Bush administration referred respectfully to Hubbell as "judge."

Starr also abandoned his usual reserve and stepped outside the role of prosecutor in expressing disappointment over Hubbell's precipitous fall.

"Judge Hubbell has accepted responsibility for his actions and has expressed in open court his sorrow for the pain he has caused, and I think that this is a time for all of us to reflect on what is an unfortunate day but nonetheless is necessary," he said. Starr said he was "looking forward" to Hubbell's cooperation.

The president's personal attorney, David Kendall of Washington, sought to distance his client from Hubbell.

"This matter simply does not concern the president, the first lady or Whitewater ... in any way," Kendall said. "The charges here are totally unrelated. They arise out of Mr. Hubbell's personal income tax returns and individual billing procedures as an attorney in private practice in Little Rock before he came to Washington.

"The president and Mrs. Clinton have fully cooperated with the investigation of the independent counsel insofar as it concerns them."

212

Arkansas Democrat Gazette 12/7/94

✓

162

evaporated when Starr's senior counsel, Hickman Ewing Jr., outlined the independent counsel's case against against Hubbell.

Federal agents followed a paper trail Hubbell left beginning in 1989. They documented more than 400 instances through 1992 in which Hubbell billed his law firm or its clients for personal expenses totaling $394,000, Ewing said.

Ewing said Hubbell used a Rose firm account to pay bills owed to 10 credit card companies for personal purchases. The shops where Hubbell used the credit cards ranged from a Dallas clothing store to the lingerie store Victoria's Secret at Little Rock's Park Plaza mall.

Federal investigators found that Hubbell billed personal expenses to at least 14 of the firm's clients, including such high-profile concerns as Tyson Foods Inc. of Springdale, Worthen Banking Corp. of Little Rock and Environmental Systems Co. of Little Rock.

Ewing said Hubbell's former partners began an inquiry into his billing practices after noticing Hubbell had "forgiven" a large amount of expenses allegedly advanced to clients. Clark's statement confirmed that the inquiry began shortly after Hubbell left the firm in January 1993.

Hubbell has ties to Madison Guaranty Savings and Loan Association. His father-in-law, Little Rock businessman Seth Ward, and his brother-in-law took out almost $1.5 million in loans from Madison. Ward was employed by a Madison real estate subsidiary.

Madison failed in 1989 at a cost to taxpayers of $65 million.

Madison was owned by James McDougal, who now lives near Arkadelphia. McDougal was partners from 1978-92 with Bill and Hillary Clinton in Whitewater, a failed 230-acre residential development along the White River in Marion County.

Gov. Jim Guy Tucker also had extensive business dealings with McDougal and Madison during the 1980s.

Starr was not gloating over snaring the first member of the Clinton administration in the Whitewater inquiry. The former solicitor general in the Bush administration referred respectfully to Hubbell as "judge."

Starr also abandoned his usual reserve and stepped outside the role of prosecutor in expressing disappointment over Hubbell's precipitous fall.

"Judge Hubbell has accepted responsibility for his actions and has expressed in open court his sorrow for the pain he has caused, and I think that this is a time for all of us to reflect on what is an unfortunate day but nonetheless is necessary," he said. Starr said he was "looking forward" to Hubbell's cooperation.

The president's personal attorney, David Kendall of Washington, sought to distance his client from Hubbell.

"This matter simply does not concern the president, the first lady or Whitewater ... in any way," Kendall said. "The charges here are totally unrelated. They arise out of Mr. Hubbell's personal income tax returns and individual billing procedures as an attorney in private practice in Little Rock before he came to Washington.

"The president and Mrs. Clinton have fully cooperated with the investigation of the independent counsel insofar as it concerns them."

212

Arkansas Democrat Gazette 12/7/94

✓

16

Clinton nominates Rubin to succeed Treasury Secretary Lloyd Bentsen

By Robert A. Rankin
Knight-Ridder Newspapers

WASHINGTON The next treasury secretary might best be described as a Wall Street millionaire with conservative economic views and a bleeding-heart liberal's social conscience.

In fact, Robert Rubin just might be the quintessential Clinton Democrat except that unlike Clinton he is highly organized and invariably successful.

On Tuesday, Clinton nominated Rubin, as expected, to succeed Treasury Secretary Lloyd Bentsen, who announced that he will leave government effective Dec. 22, confirming recent widespread reports.

Rubin's appointment was welcomed both on Wall Street and on Capitol Hill. Even Senate Republican Leader Bob Dole of Kansas called Rubin ``a man of honesty and integrity" and said he supports his nomination. Easy Senate confirmation is expected, not least because Rubin's leadership at Treasury is expected to mirror Bentsen's.

Every treasury secretary exerts great influence over U.S. tax, trade, debt and financial policies.

Both men back cuts in the federal deficit, lower barriers to trade and spurs to private investment as keys to jobs, growth and prosperity. Both worked closely together on Clinton's major economic victories drafting the 1993 economic plan and championing the big NAFTA and GATT market-opening trade agreements.

Rubin and Bentsen also both tried unsuccessfully to shrink Clinton's massive health-reform plan, failing in internal administration debates to overcome Hillary Rodham Clinton.

(EDITORS: BEGIN OPTIONAL TRIM)

``I think it's a natural replacement. He and Mr. Bentsen have worked very closely together and share similar views," said Joseph Carson, senior vice president and chief economist for Dean Witter in New York. ``You always want a treasury secretary who inspires global confidence. I think (Rubin) does that. ... I think Wall Street's view will be very positive."

Bentsen acknowledged his closeness to Rubin when announcing his resignation at a ceremony in the White House Rose Garden.

``Back in Arkansas when the president asked me, he said, `Who do you think I should appoint as secretary of the treasury?,'" Bentsen recalled. ``And I said, `Bob Rubin.' And he said, `That's funny. ... Bob Rubin told me you.'"

Bentsen, 73, and Rubin, 56, are old friends; Rubin once managed Bentsen's personal finances while working at Goldman Sachs, the big Wall Street investment bank. Rubin rose to chair the firm and rolled up a net worth reported at over $50 million in almost three decades work there.

After his 1992 election, Clinton drafted Rubin to head his National Economic Council. His success at coordinating economic policy formation there is recognized as one of the few organizational successes in an administration now infamous for sloppy work.

As NEC chairman, Rubin cultivated the role of ``honest broker," making sure all views were heard. He took pains to keep his own public profile low, letting Bentsen be the administration's primary economic spokesman.

(END OPTIONAL TRIM)

For all the similarity of their economic views however, Rubin and Bentsen differ in two critical areas political background and social policy views.

Bentsen was a 22-year veteran of the Senate, while Rubin's political experience has been limited primarily to fund-raising for Democrats. That could hamper Rubin's effectiveness in brokering deals on Capitol Hill with the new Republican-majority Congress, many analysts though not all believe.

``I'm not sure that really would be such a handicap. There really wasn't much evidence that Bentsen's background helped all that much," argued Dean Baker, an economist with the Economic Policy Institute, a union-backed liberal think tank.

(EDITORS: BEGIN OPTIONAL TRIM)

``(Bentsen) rarely got votes from Senate Republicans, and even conservative Democrats were often ready to buck him, like Boren and Breaux," Baker said, alluding to Sens. David Boren, D-Okla., and John Breaux, D-La.

(END OPTIONAL TRIM)

In addition, Rubin's views on social policy are notably more liberal than the moderate Bentsen's. For example, Rubin rarely makes a speech without emphasizing that American civilization is endangered by untended social decay.

(EDITORS: BEGIN OPTIONAL TRIM)

Even as he accepted Clinton's nomination Tuesday, Rubin stressed such concerns, rare for a treasury secretary: ``Mr. President, I believe as you believe that we must deal with the problems of our public education system, the problems of our inner cities, the problems of our ever-worsening income disparity, and the challenge of strengthening and expanding the nation's middle class."

In an interview last year, Rubin explained how he reconciled his social liberalism and fiscal conservatism: ``I believe very strongly that the country has to have a vibrant economy, because if you have that, then you can do a lot of things, including many social programs."

(END OPTIONAL TRIM)

The Republican Congress may make Rubin's social views irrelevant, however.

``As a practical matter, he's really boxed in by the budget, and obviously, the whole world has changed since the election," said Baker of EPI. If Clinton wins re-election and Rubin remains treasury secretary in a second term, perhaps then he might use his new stature to promote social-welfare policy, ``but for the next two years, they're going to be playing defense," Baker observed.

Rubin is a native of New York City, grew up in Miami Beach, and is a graduate of Harvard University and Yale Law School.

XXX

Ex-Justice official, Clinton friend pleads guilty to fraud, tax evasion

By Aaron Epstein Knight-Ridder Newspapers

WASHINGTON Only nine months ago, Webster L. Hubbell was the popular No. 3 official at the Justice Department, a golfing buddy of the president, and the key link between the White House and the nation's top law enforcers.

Now he is a confessed felon.

On Tuesday, the disgraced ex-mayor of Little Rock, Ark., pleaded guilty in his hometown to charges of mail fraud and tax evasion.

Hubbell, 46, admitted that, as a lawyer in private practice, he bilked his former law firm's corporate and government clients of $394,000 from 1989 to 1993, using the money to pay personal expenses.

In addition to defrauding clients, he confessed that he underreported his 1992 income by $114,000 and shortchanged the government of $39,000 in income taxes.

``Webb Hubbell is an old friend," President Clinton said, ``and Hillary and I were saddened by today's events. We should also remember that Webb is a man who has given.

T48

much to his family, his community and his country."

As part of a plea bargain, the burly Hubbell agreed to cooperate with special prosecutor Kenneth Starr's investigation of the involvement of the Clintons and others in the Ozarks real estate venture known as Whitewater.

Hubbell, who was a partner of Hillary Rodham Clinton in the Rose Law Firm of Little Rock, had no known involvement in Whitewater.

But, conceivably, he could help the Whitewater investigators because of his work at Rose, his longtime friendship with the Clintons and his ties to Madison Guaranty Savings & Loan.

Madison, which collapsed in a morass of bad loans, was owned by the Clintons' partner in Whitewater, James B. McDougal.

Hubbell's father-in-law and brother-in-law borrowed nearly $1.5 million from Madison. Hubbell himself received $400,000 in legal fees from the federal government for obtaining a $1 million settlement of a $60 million lawsuit that arose from Madison's collapse.

Hubbell handled the case for federal thrift regulators even though other Rose lawyers, including Hillary Clinton, had done legal work for Madison Guaranty before its collapse. Hubbell has said he informed the regulators in advance of the potential conflict of interests.

The federal government took over the savings and loan in 1989 at an ultimate cost to taxpayers of more than $47 million.

Prosecutors now want Hubbell's help in determining whether the expenses of the money-losing Whitewater venture contributed to losses at Madison, and whether Clinton, while governor of Arkansas, gave favored treatment to the ailing savings and loan. The Clintons have denied any wrongdoing.

In addition, Hubbell is likely to be asked whether the Clinton administration interfered in the government's Madison investigations, which gave rise to the Whitewater affair.

But the president's lawyer, David Kendall, said he saw no connection between Hubbell's legal troubles and the president.

``This matter simply does not concern the president, the first lady or the Whitewater Development Co. in any way,'' Kendall said. ``The charges here ... arise out of Mr. Hubbell's personal income tax returns and individual billing procedures as an attorney in private practice in Little Rock before he came to Washington.''

Hubbell, who faces a maximum penalty of 10 years in prison and $500,000 in fines, told the Internal Revenue Service he earned $195,000 in 1992 but admitted he actually made $309,000. He reported owing $32,200 in taxes but actually owed more than twice that much $71,300.

U.S. District Judge William R. Wilson released Hubbell without bail. No date was set for sentencing.

Last March, Hubbell abruptly quit the Justice Department, where he was an admired and respected associate attorney general, after his former partners at the Rose Law Firm acknowledged that they were investigating him for massive overbilling of clients.

A former football player and onetime chief justice of the Arkansas Supreme Court, Hubbell skillfully ran interference between the White House and Attorney General Janet Reno.

Hubbell, who is 6-foot-5 and now weighs almost 300 pounds, was the star offensive tackle for the University of Arkansas Razorbacks football squad that won the Sugar Bowl game in 1969.

``Quarterbacks and running backs,'' he once remarked, ``are remembered for their achievements. Offensive linemen are remembered for their mistakes.''

Moderate Democratic group wants to forge its own national `contract'

By David Hess Knight-Ridder Newspapers

WASHINGTON Stung by the extraordinary political success of the Republican ``Contract with America,'' some Democrats are proposing to counterattack by making some promises of their own.

A formal Democratic pledge could help the party rally around a set of shared principles, define its appeal to voters and breathe fresh life into a badly battered political institution, they say.

Proposed alternatives to the GOP's 10-point contract have come this week from the moderate Democratic Leadership Council, departing House Speaker Thomas Foley, D-Wash., and others.

They say Democrats might set themselves apart from the new Republican rulers in Congress with such pledges as a promise to protect the poor and young from the effects of future federal budget cuts.

But even while the Democrats searched for ways to sing in harmony, the postelection backbiting within the party continued Tuesday as moderates argued with liberals over who was to blame for the Republican landslide.

Rep. David McCurdy, D-Okla., the DLC chairman who was defeated by Republican Jim Inhofe in a Senate bid, laid most of the blame for the Democrats' woes at the feet of President Clinton.

Clinton campaigned successfully in 1992 as a moderate, McCurdy said at a DLC meeting here, ``but governed as something else. ... For while Bill Clinton has the mind of a new Democrat, he retains the heart of an old Democrat.''

That approach, McCurdy charged, is not selling to American voters.

(EDITORS: NEXT 2 GRAFS OPTIONAL TRIM)

At a breakfast with reporters, Foley acknowledged that Democrats were still so busy flaying each other that they barely had time to consider how to build a united front against Republicans.

But there are alternatives, Foley and DLC leaders said, arguing that there are ways to produce a Democratic contract that would appeal to both moderates and liberals in the party, while defining their differences with Republicans.

(END OPTIONAL TRIM)

The DLC is calling for a GI Bill for workers, under which federally backed loans would be provided to displaced workers who wanted to go to college or vocational school.

DLC also is proposing modest changes in health care and major welfare reforms, a campaign against teen-age pregnancy, more money for conventional armed forces and big cuts in federal subsidies to agribusiness, aerospace firms, the energy industry and other corporations.

Foley said Tuesday that Democrats should ``reduce the deficit in a way that would protect vulnerable communities the young and the poor.''

That appears to be in conflict with the GOP's proposal to impose deep cuts in domestic spending including food stamps, aid to the disabled, welfare and other social programs.

Foley also proposed that Democrats should continue to press for significant health care financing reform, although they will have to propose a far more modest plan than the comprehensive Clinton reform that was rejected by Congress.

The GOP's contract contains no provision for health care reform.

The outgoing House leader also suggested that any welfare reform should provide some remedial education and

job training for recipients, along with a provision for public-service employment if jobs in the private sector aren't available.

Many Republicans, including incoming Speaker Newt Gingrich, R-Ga., have scoffed at that approach, saying it would cost too much and require a larger job-placement bureaucracy at a time when government should be cut back.

Foley said Democrats must continue to provide unrestricted aid to states and cities to fight crime.

Republicans also intend, in their contract, to provide more crime-fighting money to states but the bulk of it would have to be spent for new prisons. They also would shift money from urban crime-prevention programs to prison construction.

Foley urged Democrats to continue to press for congressional reforms and for a downsizing of the federal bureaucracy.

Gingrich and his allies have a much more ambitious plan for reducing the size of the government. They would abolish some agencies and cut off most of the funding for many other programs.

(EDITORS: STORY CAN TRIM HERE)

Finally, Foley said, ``we ought to find a way to guarantee virtually the GI Bill type of opportunity to every American serious about their education. We need to give everyone with talent and ability the opportunity to go as far as they can."

Republicans are vowing to slash funding for job training programs and for college loans.

House GOP votes to take away space, funds from congressional caucuses

By Nolan Walters Knight-Ridder Newspapers

WASHINGTON The Congressional Black Caucus and 27 similar special interest organizations in Congress will have to fend for themselves, after House Republicans voted Tuesday to cut off their federal funding.

``This is the year to decisively shrink Congress," said incoming Speaker Newt Gingrich, R-Ga.

The decision by the House Republicans will impact organizations that often have been at the forefront of legislative battles including the Hispanic caucus, the women's caucus and the Black Caucus.

While the GOP vote doesn't outright ban the organizations, many of them believe they will have a tougher time surviving without some financial support from Congress.

A caucus is an organization in which like-minded members of Congress band together to share information and resources and promote legislation. Some rely heavily on taxpayer dollars.

The GOP's action compounds problems being faced by liberal groups such as the Black Caucus that have seen their power plummet after two years of unprecedented influence during the beginning of President Clinton's term.

Leaders of the Black Caucus, the Hispanic Caucus and perhaps others planned to respond formally Wednesday. Some of their members have suggested racial bias in the GOP action a charge the Republicans vehemently deny.

Other supporters of the affected caucuses complained that the Republicans were sacrificing worthwhile organizations on the altar of symbolism.

``Most hungry people here in America and overseas are children. I don't think the mandate sent to Washington by the American people included abandoning helpless children," said Rep. Tony Hall, D-Ohio, chairman of the Congressional Hunger Caucus.

``This doesn't have anything to do with shrinking the size of government. It has to do with options for getting information outside of the committee system," said Sen. James Jeffords, R-Vt., a founder of the Arts Caucus.

Jeffords said he understood that money already raised by his caucus was being shifted to money that will be controlled by Gingrich in his role as speaker.

While the arts caucus was originally formed to blunt President Reagan's attacks on the National Endowment for the Arts, it also sponsors less controversial projects such as a competition for students to display their art in the Capitol.

The groups, some of which are associated with outside foundations, have been supported by dues that members of Congress donate from their office budgets, which are paid by taxpayers.

Since the Senate has not taken any action on the caucuses, it might be possible for them still to receive money through the Senate side. But House funding now seems dead unless the full House membership overturns the GOP members' decision next year.

Some 16 of the groups also received free office space, but the overall potential savings is a relatively small $5 million. Another 112 caucuses receive no federal financial aid via members' contributions.

(EDITORS: STORY CAN TRIM HERE)

The special caucuses (technically known as Legislative Service Organizations) expected to lose federal funding are:

The Democratic Study Group, the House Republican Study Group, House Wednesday Group, Congressional Automotive Caucus, Caucus on Children and Families, Human Rights Caucus, Hunger Caucus, Narcotics Abuse and Control Caucus, Rural Caucus, Space Caucus, Steel Caucus, Textile Caucus, Tourism Caucus, Northeast-Midwest Caucus, Older Americans Caucus, Arms Control Caucus, California Delegation Caucus, Arts Caucus, Black Caucus, Border Caucus, Women's Issues Caucus, Hispanic Caucus, Populist Caucus, Sunbelt Caucus, Environment and Energy Caucus, Federal Government Service Task Force, New York State Caucus and Pennsylvania Delegation Caucus.

X X X

Leaders who will shine at the summit

By Mary Beth Sheridan
Knight-Ridder Newspapers

MIAMI Zedillo will bring power. Cardoso will bring brains. Menem will bring a Cuba initiative, gung-ho trade plans and a magnetism that ``women are throwing themselves at," according to a serious scholar.

Fujimori will bring who knows?

The leaders of Mexico, Brazil, Argentina and Peru are likely to be among the stars of this weekend's Summit of the Americas. But none are likely to upstage the biggest attraction of all Bill Clinton.

``Remember, all these presidents already know each other from Ibero-American summits and Group of Rio summits. So Clinton is the new guy on the block," said Peter Hakim, president of the Inter-American Dialogue, a think-tank in Washington.

``Everybody wants to hear what he says."

In the absence of Cuban President Fidel Castro, voluble Argentine President Carlos Menem is the Latin American leader most likely to grab headlines, analysts say.

``He'll be the hero for some, and the jerk for others," summed up Eduardo Gamarra, acting director at Florida International University's Latin American and Caribbean Center.

Sighed one foreign leader: ``He's a bazooka."

job training for recipients, along with a provision for public-service employment if jobs in the private sector aren't available.

Many Republicans, including incoming Speaker Newt Gingrich, R-Ga., have scoffed at that approach, saying it would cost too much and require a larger job-placement bureaucracy at a time when government should be cut back.

Foley said Democrats must continue to provide unrestricted aid to states and cities to fight crime.

Republicans also intend, in their contract, to provide more crime-fighting money to states but the bulk of it would have to be spent for new prisons. They also would shift money from urban crime-prevention programs to prison construction.

Foley urged Democrats to continue to press for congressional reforms and for a downsizing of the federal bureaucracy.

Gingrich and his allies have a much more ambitious plan for reducing the size of the government. They would abolish some agencies and cut off most of the funding for many other programs.

(EDITORS: STORY CAN TRIM HERE)

Finally, Foley said, ``we ought to find a way to guarantee virtually the GI Bill type of opportunity to every American serious about their education. We need to give everyone with talent and ability the opportunity to go as far as they can."

Republicans are vowing to slash funding for job training programs and for college loans.

House GOP votes to take away space, funds from congressional caucuses

By Nolan Walters Knight-Ridder Newspapers

WASHINGTON The Congressional Black Caucus and 27 similar special interest organizations in Congress will have to fend for themselves, after House Republicans voted Tuesday to cut off their federal funding.

``This is the year to decisively shrink Congress," said incoming Speaker Newt Gingrich, R-Ga.

The decision by the House Republicans will impact organizations that often have been at the forefront of legislative battles including the Hispanic caucus, the women's caucus and the Black Caucus.

While the GOP vote doesn't outright ban the organizations, many of them believe they will have a tougher time surviving without some financial support from Congress.

A caucus is an organization in which like-minded members of Congress band together to share information and resources and promote legislation. Some rely heavily on taxpayer dollars.

The GOP's action compounds problems being faced by liberal groups such as the Black Caucus that have seen their power plummet after two years of unprecedented influence during the beginning of President Clinton's term.

Leaders of the Black Caucus, the Hispanic Caucus and perhaps others planned to respond formally Wednesday. Some of their members have suggested racial bias in the GOP action a charge the Republicans vehemently deny.

Other supporters of the affected caucuses complained that the Republicans were sacrificing worthwhile organizations on the altar of symbolism.

``Most hungry people here in America and overseas are children. I don't think the mandate sent to Washington by the American people included abandoning helpless children," said Rep. Tony Hall, D-Ohio, chairman of the ngressional Hunger Caucus.

``This doesn't have anything to do with shrinking the size of government. It has to do with options for getting information outside of the committee system," said Sen. James Jeffords, R-Vt., a founder of the Arts Caucus.

Jeffords said he understood that money already raised by his caucus was being shifted to money that will be controlled by Gingrich in his role as speaker.

While the arts caucus was originally formed to blunt President Reagan's attacks on the National Endowment for the Arts, it also sponsors less controversial projects such as a competition for students to display their art in the Capitol.

The groups, some of which are associated with outside foundations, have been supported by dues that members of Congress donate from their office budgets, which are paid by taxpayers.

Since the Senate has not taken any action on the caucuses, it might be possible for them still to receive money through the Senate side. But House funding now seems dead unless the full House membership overturns the GOP members' decision next year.

Some 16 of the groups also received free office space, but the overall potential savings is a relatively small $5 million. Another 112 caucuses receive no federal financial aid via members' contributions.

(EDITORS: STORY CAN TRIM HERE)

The special caucuses (technically known as Legislative Service Organizations) expected to lose federal funding are:

The Democratic Study Group, the House Republican Study Group, House Wednesday Group, Congressional Automotive Caucus, Caucus on Children and Families, Human Rights Caucus, Hunger Caucus, Narcotics Abuse and Control Caucus, Rural Caucus, Space Caucus, Steel Caucus, Textile Caucus, Tourism Caucus, Northeast-Midwest Caucus, Older Americans Caucus, Arms Control Caucus, California Delegation Caucus, Arts Caucus, Black Caucus, Border Caucus, Women's Issues Caucus, Hispanic Caucus, Populist Caucus, Sunbelt Caucus, Environment and Energy Caucus, Federal Government Service Task Force, New York State Caucus and Pennsylvania Delegation Caucus.

X X X

Leaders who will shine at the summit

By Mary Beth Sheridan
Knight-Ridder Newspapers

MIAMI Zedillo will bring power. Cardoso will bring brains. Menem will bring a Cuba initiative, gung-ho trade plans and a magnetism that ``women are throwing themselves at," according to a serious scholar.

Fujimori will bring who knows?

The leaders of Mexico, Brazil, Argentina and Peru are likely to be among the stars of this weekend's Summit of the Americas. But none are likely to upstage the biggest attraction of all Bill Clinton.

``Remember, all these presidents already know each other from Ibero-American summits and Group of Rio summits. So Clinton is the new guy on the block," said Peter Hakim, president of the Inter-American Dialogue, a think-tank in Washington.

``Everybody wants to hear what he says."

In the absence of Cuban President Fidel Castro, voluble Argentine President Carlos Menem is the Latin American leader most likely to grab headlines, analysts say.

``He'll be the hero for some, and the jerk for others," summed up Eduardo Gamarra, acting director at Florida International University's Latin American and Caribbean Center.

Sighed one foreign leader: ``He's a bazooka."

Hubbell pleads guilty to fraud

May aid Whitewater probe

By Jerry Seper
THE WASHINGTON TIMES

A1

LITTLE ROCK, Ark. — A trembling Webster L. Hubbell, President Clinton's longtime friend and political confidant, choked back tears yesterday in federal court as he pleaded guilty to felony charges of mail fraud and income tax evasion.

Hubbell, 46, the No. 3 official at the Justice Department when he resigned in March, confessed to using the mails to defraud Little Rock's Rose Law Firm — where he was a partner with Hillary Rodham Clinton — and its clients of $395,000 and evading more than $120,000 in federal income taxes.

In his plea agreement with Whitewater independent counsel Kenneth W. Starr, Hubbell opened the possibility of providing key testimony in the ongoing Whitewater probe.

"I accept full and complete responsibility for my actions and deeply regret the damage I have caused my family, my friends and those who have placed me in positions of trust," Hubbell told U.S. District Judge William R. Wilson in an emotional statement.

"I sincerely apologize," he said, his voice barely audible even in the silence of the courtroom.

Hubbell's wife, Suzanna, his daughter and his sister were seated in the front row. They wept during his statement to the court.

Mr. Clinton said in a written statement that he and Mrs. Clinton were "saddened" by the guilty plea.

"We should also remember that Webb is a man who has given much to his family, his community and his country," Mr. Clinton said of his longtime golfing partner. "The matter is in the hands of the court and I don't think it would be appropriate to say anything more at this time."

The Clintons' personal attorney, David Kendall, immediately tried to distance them from the criminal conviction.

"This matter simply does not concern the president, the first lady, or Whitewater Development Company in any way," Mr. Kendall

see **HUBBELL**, *page A16*

HUBBELL

From page A1

said in a prepared statement.

Meanwhile, another Clinton associate, White House senior aide Bruce Lindsey, was appearing before the federal grand jury in Little Rock. The Arkansas Democrat-Gazette reported that he had appeared before the grand jury in the past two weeks.

Hubbell faces 10 years in prison and fines totaling $500,000. He was released on his own recognizance pending completion of the pre-sentencing report, due in about seven weeks.

Mr. Starr declined during a brief appearance after the hour-long court hearing to comment on what cooperation Hubbell might be able to provide Whitewater investigators, although he said he was "looking forward" to Hubbell's involvement in the case.

It is believed the Starr inquiry has included a look at Mr. Hubbell's role in campaign financing for Mr. Clinton's past gubernatorial races and at possible obstruction-of-justice charges involving Resolution Trust Corp. criminal referrals in an RTC investigation of Arkansas' Madison Guaranty Savings & Loan Association.

The Clintons were partners with Madison's owner, James B. McDougal, and his wife, Susan, in Whitewater Development Corp., an Arkansas real estate venture. Madison, which failed in 1989 at a cost to taxpayers of $50 million, and the Whitewater partnership are major focuses of the Starr probe.

At the time of the RTC referrals to the Justice Department, which suggested that Mr. Clinton had benefited from a check-kiting scheme involving Mr. McDougal and the thrift, Hubbell served as associate attorney general and was considered the Clintons' liaison at Justice.

Hubbell, a former Little Rock mayor, also could offer information to prosecutors about White House contacts with federal regulators looking into Madison, and provide information on the inner workings of the S&L, since Hubbell once represented the federal government in a Madison-related case, sources close to the investigation have said.

Hubbell, a former managing partner at the Rose firm, was accused of diverting money he billed Rose clients to pay for personal expenses, including purchases at the lingerie shop Victoria's Secret. He is the second Whitewater figure in two days to plead guilty to felony charges. The separate plea agreements — to unrelated charges — call for Hubbell and real estate appraiser Robert W. Palmer to "cooperate fully" with Mr. Starr's ongoing probe.

Court filings by Mr. Starr and senior independent counsel W. Hickman Ewing Jr. show that some of the billings Hubbell diverted to his personal expenses were charged to the RTC and the Federal Deposit Insurance Corp., two Rose clients.

The government, in a case outlined to the court by Mr. Ewing, a former U.S. attorney in Tennessee, said Hubbell "knowingly participated in a scheme to defraud and to obtain money and property from the Rose Law Firm ... by means of false and fraudulent pretenses and representations."

Mr. Ewing told the court that Hubbell:

- Fraudulently obtained funds from bank accounts maintained by the Rose firm in the form of client advance checks to pay for personal expenses and purchases.
- Created, submitted and signed fraudulent documents claiming billable expenses when the expenses were not proper. Through the scheme, Hubbell got at least $394,000 through the payment of personal expenses with Rose checks.
- Concealed the fact that he had obtained client advance checks by falsely telling the firm he was using the checks to pay for legitimate business expenses or case-related expenses.

Some of the clients Hubbell was accused of bilking were the RTC, the FDIC, American Cemetery Associates, Worthen Bank, the American Council of Life Insurance and Tyson Foods Inc., a longtime supporter of Mr. Clinton.

Hubbell, once appointed by Mr. Clinton as chief justice of the Arkansas Supreme Court, violated federal mail-fraud statutes when he knowingly sent a fraudulent bill to the FDIC.

The government said Hubbell also claimed income of $194,966 in 1992 and paid taxes of $32,193. With income from the Rose firm, which he did not claim on his tax forms, Hubbell actually made $309,168 and owed taxes totaling $71,358.

During an extensive review of the accusations, Mr. Ewing told the court that the government estimated that Hubbell had failed to pay $120,000 in federal income taxes he owed between 1989 and 1992.

Mr. Ewing, who described Hubbell as a "very trusted member" of the Rose firm whose actions had not been questioned, said he had overbilled clients on at least 400 separate occasions.

He noted that many purchases with the money were for clothing and that $26,000 in Rose advance checks had been used by Hubbell to pay for meals at various Little Rock restaurants, although the government made no attempt to find out which of them were fraudulent.

"We were not counting them, deciding to give him the benefit of the doubt," Mr. Ewing told Judge Wilson.

During the hearing, Hubbell glanced several times at his wife, smiling faintly. His hands shook as he tried to drink water from a glass, and his eyes were teary when Judge Wilson allowed him to leave the courtroom, ordering spectators, including the media, to remain in their seats.

On Monday, Palmer, the owner of a Little Rock appraisal firm, pleaded guilty in an agreement with Mr. Starr to falsifying and backdating appraisals for Madison, some of which were used to justify loans to Arkansas Gov. Jim Guy Tucker, former Little Rock municipal judge David L. Hale, who also has pleaded guilty in the probe, and Mrs. McDougal. About $100,000 of Mrs. McDougal's unpaid $300,000 loan went into a Whitewater account.

Mr. Tucker, who has denied any wrongdoing, has been mentioned as a possible indictment target in the Starr investigation. Hale signed a plea agreement earlier this year and has been a frequent witness before a grand jury here looking into the Whitewater accusations.

AP

Whitewater independent counsel Kenneth Starr answers questions about Webster Hubbell's plea agreement.

WEBSTER LEE HUBBELL

Age: 46

Family: Wife, Suzanna Ward; four children

Education: Bachelor's degree in electrical engineering and law degree from the University of Arkansas.

Career highlights: Drafted by the Chicago Bears to play football, he chose law instead. He joined the Rose Law Firm in his hometown of Little Rock, Ark., where his partners included Hillary Rodham Clinton. He served a one-year term on the Arkansas Supreme Court and held various political posts, including mayor of Little Rock. In 1993 President Clinton appointed him associate attorney general, a post he resigned in March.

Hobbies: Playing golf and collecting art prints

Source: Cox News Service

The Washington Times

121

Clinton receives a tsk-tsk welcome

DLC's reception is bittersweet

By Frank J. Murray
and Donald Lambro
THE WASHINGTON TIMES

A1

President Clinton last night won the applause if not the hearts of the same "New Democrats" who earlier in the day had bitterly described him as a "transitional figure" whose heart was in the wrong place.

Mr. Clinton faced such an assessment from Rep. Dave McCurdy, Oklahoma Democrat and chairman of the centrist Democratic Leadership Council (DLC), which Mr. Clinton helped found.

Mr. McCurdy blamed his loss in a race for an open Senate seat squarely on Mr. Clinton.

He said the president won election as a "moderate Democrat, a new Democrat, a DLC Democrat, but he governed as something else."

"While Bill Clinton has the mind of a New Democrat, he retains the heart of an Old Democrat," Mr. McCurdy said, hammering on the extent to which Mr. Clinton included a liberal agenda in his program.

Last night's emcee at the DLC gathering was Sen. Joseph I. Lieberman, whose Connecticut constituents just re-elected him to a second term.

"President Clinton, Mrs. Clinton, welcome home," Mr. Lieberman said as Mr. Clinton arrived with the first lady at 9:30 p.m.

"We are so full of celebration," Mr. Lieberman said as he introduced a Clinton imitator from the Capitol Steps comedy troupe who softened the blow by joking that the president was not going to come because he thought the

see **CLINTON**, *page A16*

CLINTON

From page A1

whole thing was a Republican trap.

With lines like "It's a whole Newt world," there were jokes about Mr. Clinton asking Russian President Boris Yeltsin how to dissolve the whole Congress.

Mr. Clinton got a courteous reception at the DLC's "Gala Ball," where dance-floor action was upstaged by partygoers grabbing early spots along the crimson velvet rope to be closest when Mr. Clinton did a round of handshaking.

Former Rep. Lindy Boggs recalled how Mr. Clinton gave up the DLC chairmanship to run for president with so much hope from the DLC.

The president was planning to outline how his administration would handle the second half of his term in a manner more to the liking of his DLC colleagues, who have felt betrayed by the politically disastrous turn of events in the fall elections.

Earlier, the DLC ended two days of self-analysis by accusing Mr. Clinton of being too liberal and warning that the Democrats will cease to be a national party if they don't win back middle-class voters.

The centrist group also had harsh words for the Democratic National Committee. Sen. Dianne Feinstein of California denounced its spending on promoting the Clinton health care plan, on costly campaign consultants and on generic TV ads. She called the practice "an egregious waste of money."

In dissecting the reasons behind their political losses, though, DLC leaders urged Mr. Clinton and party leaders to embrace more conservative policies aimed at appealing to the Democrats' core constituency, which deserted the party in the Nov. 8 elections.

Mr. McCurdy blamed his defeat on the strong anti-Clinton sentiment in his state, and he expressed skepticism that the White House has "gotten the message" of last month's election.

"We don't want to hear words, we want to see action and results," he said. "Until there is action, we are going to see Democrats bear a heavy burden around the country in future elections."

In a further sign of growing disaffection with the administration, he urged the DLC to become more independent of the party and the White House. "It is time to put aside our role as cheerleaders for the second-stringers in the administration," he said.

Perhaps the most sobering post-election analysis came from Al From, the DLC's president, who warned that unless the party changes its policies to recapture middle-class voters, "we will not be a national party at the beginning of the next century."

Mr. From cited election statistics showing that Democrats have lost some of their oldest and most important constituencies:

- Middle-class voters earning between $30,000 and $70,000 voted for Republicans over Democrats by 54 percent to 46 percent.
- Defeated Democratic Gov. Mario Cuomo of New York was able to attract only 51 percent of union households and only 39 percent of the Roman Catholic vote, "which used to be the core of our Northeast constituency."
- In the Midwest, where every governor is a Republican, the losing Democratic gubernatorial candidate in Ohio won only 35 percent of the union vote.
- The Democrats' problems were even worse in the South, where defeated Sen. Jim Sasser of Tennessee failed to carry a single income group, even those making less than $15,000 a year.

In what appeared to be a last-minute program change, Stanley Greenberg, Mr. Clinton's pollster, did not personally present the polling data he developed on the elections for the DLC meeting. White House officials reportedly were angry with the way he portrayed his findings.

His written report, published in the DLC's magazine, said Democrats lost in November because of "the spectacle of a Democratic president ... who promised change but seemed unable to produce it."

"When you call the president a schmuck, how can you continue working for him?" said a former Democratic national chairman who requested anonymity. "He should have been fired, but this is a White House that can't seem to fire anyone."

122

prejudge any of that."

(End optional trim)

The rumors of a bankruptcy filing an almost unthinkable turn of events for the affluent, conservative county spread from Wall Street to Washington to California through the day.

Rep. Christopher Cox, R-Calif., had been the first to appear on television hinting at a bankruptcy filing. Cox, a former securities lawyer, said he had been in contact with county officials as the financial crisis exploded and will hold hearings to sort out what happened and find ways to prevent such catastrophes in the future.

Early Tuesday, county supervisors were roused at 3 a.m. and called to the Hall of Administration in Santa Ana for a 4 a.m. briefing. But because of potential violations of the state's open meeting laws, the supervisors had to be sequestered in different parts of the building, with information shuttled among them from the county's financial advisers.

The bankruptcy filing apparently was triggered when CS First Boston Corp., one of several large brokerages that has lent the county money to purchase securities, demanded additional collateral for its loans on Tuesday after the county failed to make a payment.

When the county was unable to put up the cash demanded, CS First Boston seized $2 billion of the county's securities that had been held as collateral for the loans, according to Wall Street traders familiar with the situation.

The brokerage firm then dumped those securities, mostly U.S. government agency bonds, on the bond market near the close of trading about 5 p.m. EST, a move that stunned traders, dealers said.

CS First Boston officials would not comment on their relationship with the county or on any actions the brokerage might have taken on Tuesday.

(Begin optional trim)

Meanwhile, the brokerage with the closest relationship to the county Merrill Lynch & Co. said it had not asked for additional collateral and had no plans to cut off credit to the county.

Peer Swan, chairman of the Irvine Ranch Water District which had threatened to pull its remaining $300 million investment out of the pool learned of the county's worsening troubles early Tuesday.

In speaking with Matthew Raabe, the acting county treasurer, Swan learned that ``a couple of Wall Street firms" had securities coming due and wanted to be paid off immediately. He had no further details.

``This is high-stakes poker," Swan said. ``I can understand from an investment firm's perspective that this is a bad situation and they have shareholders who are very concerned. However, investment firms also have to realize that if they pull the plug, that's it. And that's a hard pill to swallow."

(End optional trim)

State officials were monitoring the situation, but had not taken any action Tuesday.

The state Attorney General's Office had lawyers ``looking all day at the situation," a spokesman said.

Spokesman Dave Puglia said the federal Securities and Exchange Commission, which is investigating the Orange County financial crisis, ``has made contact with us," adding, ``we're working with them in any way that can be helpful."

But Puglia also said the office was rebuffed by the SEC earlier Tuesday after state attorneys requested access to all information on the on-going financial crisis. The two sides agreed to discuss the dispute further on Wednesday.

Puglia said the attorney general's office has been in contact with Orange County, ``but we have not been made privy to the discussions or decisions of the board."

Sources said that neither the SEC nor the Commodity Futures Trading Commission plans to take any major action in the near future concerning the Orange County situation, except to continue their very active investigations.

Clinton Friend Hubbell Admits to 2 Felonies (Little Rock)

By Sara Fritz=(c) 1994, Los Angeles Times=

LITTLE ROCK, Ark. Former Associate Attorney General Webster L. Hubbell, one of President Clinton's closest friends, agreed Tuesday to cooperate with the Whitewater independent counsel and entered a guilty plea to charges that he had billed his legal clients fraudulently for at least $394,000 in personal expenditures between 1989 and 1992.

Once the nation's third-ranking law enforcement officer, Hubbell, 46, admitted to committing two felonies mail fraud and tax evasion each of which carries a maximum five-year jail sentence. He almost certainly will go to prison, even though his sentence could be reduced in exchange for supplying information to Whitewater counsel Kenneth W. Starr.

While Hubbell's crimes have virtually nothing to do with the central Whitewater allegations against the president, lawyers familiar with the case said his testimony could be helpful to Starr in determining whether Clinton appointees made any effort to interfere with the government's early investigation of the case.

Starr told reporters outside the courthouse that he is ``looking forward" to Hubbell's cooperation with the inquiry, which so far has centered primarily on allegations that federally guaranteed savings and loan money may have been funneled improperly to Clinton through his investment in the Whitewater real estate development in the Ozarks.

Hubbell's courtroom confession also caused obvious personal and political embarrassment for the president, a frequent golf partner who once described Hubbell as ``my best friend," and first lady Hillary Rodham Clinton, who was Hubbell's partner at the Rose Law Firm of Little Rock.

Until he resigned from the Justice Department last March 14, Hubbell was a close legal adviser to the White House and one of the most visible Arkansans in the Clinton administration.

Not surprisingly, David Kendall, the president's lawyer, sought to distance the Clintons from Hubbell's crimes. ``This matter does not concern the oresident, the first lady or Whitewater Development Corp. in any way," Kendall said.

In a contrite statement to the court at the close of the one-hour hearing in which he entered his plea, Hubbell indicated that he was painfully aware of the embarrassment he had caused the Clintons, the Rose Law Firm and his family.

``I deeply regret that my actions have reflected on my family, friends and those who have placed me in positions of trust," Hubbell told Judge William R. Wilson. ``If the consequences of my actions were only mine, this would be a lot easier."

Once widely admired in this town as a former college football star, former state Supreme Court chief justice and a former mayor, Hubbell was clearly shaken by the experience of publicly confessing to private acts of greed that will tarnish his reputation and cause him to lose his license to practice law. His voice cracked, as if choking

back tears.

In detailing the evidence that had been gathered against Hubbell, W. Hickman Ewing Jr., an assistant to the independent counsel, told a remarkable tale of a highly successful, well-paid attorney who on at least 400 occasions charged his law firm and its clients for his own family's extravagant expenditures at a variety of fancy shops in Little Rock and Dallas, including a fur salon and Victoria's Secret.

According to Ewing, Hubbell frequently used checks drawn on the Rose Law Firm's partnership banking account to pay off personal credit card bills. He then would add these charges to the bills sent to a wide variety of the firm's clients.

Among the clients who were bilked in this manner were the Federal Deposit Insurance Corp. and the Resolution Trust Corp., both of whom had hired the Rose Law Firm to assist in the cleanup of several savings and loan failures in Arkansas.

(Optional add end)

The prosecution cited one bill that Hubbell submitted to the FDIC on March 7, 1990, for work that the Rose Law Firm did in pursuing the government's case against Frost & Co., an accounting firm, for negligence in auditing the accounts of Madison Guaranty Savings & Loan. Madison was owned by James B. McDougal, Clinton's partner in the Whitewater investment.

The bill asked the FDIC to reimburse the Rose Law Firm $612 for so-called ``publications costs" and $694.29 for ``deposition costs." But Ewing said that the FBI traced both of those expenditures back to personal credit card purchases by Hubbell and his family.

Hubbell did not charge his clients for all of the personal bills that he paid from the law firm checking account, however. In some cases, Ewing said, Hubbell simply ``wrote off" the charge meaning that the law firm itself shouldered the cost.

It was the extraordinary number of these so-called ``write-offs" by Hubbell that first caught the attention of his law partners after he went to Washington to join the administration in January 1993. When they questioned him, he promised to provide the firm with documentation to support the write-offs.

But, as Ewing told the judge, ``it never came."

Moreover, Hubbell filed tax returns for the years 1989 through 1992 that did not reflect any of the income he received from his fraudulent billing practices, according to the government. In 1992, for example, he received income of $309,168, but reported only $194,966. Overall, it is estimated that he failed to pay the government $130,291 in taxes owed.

Normally, plea bargains such as the one between Hubbell and Starr are used as a way for the prosecution to obtain information from the defendant and for the defendant to limit his legal liability.

For Clinton, Hubbell's Fall
More Personal Than Political (Washn)
By John M. Broder=
(c) 1994, Los Angeles Times=

WASHINGTON The fall of Webster L. Hubbell is a political blow to President Clinton, but is an even deeper wound on a personal level.

In a short statement, the president said he was ``saddened by today's events." White House aides noted that Hubbell's plea bargain on fraud and tax evasion charges was unrelated to the Clintons' legal problems arising from the Whitewater affair.

But it is not hard to imagine that the president's anguish over his close friend's fate compounds the grief he still feels over the July 1993 suicide of Hubbell's former law partner and White House attorney Vincent W. Foster Jr.

A source close to the Clintons said Tuesday that their reaction is one of ``sadness, surprise and empathy for (Hubbell's) family."

But one source familiar with Clinton's thinking says that despite his sympathy for Hubbell, the president did not feel responsible for his friend's fall, which was the result of fraudulent actions Hubbell undertook while in private law practice in Little Rock, Ark. Clinton believes that Hubbell brought his problems on himself by cheating the government and his partners at the Rose Law Firm, the source said.

Clinton's real pain will be in the loss of a close confidant, a man with whom he could share a golf outing or a quiet drink. Hubbell's value to the president was often his mere unquestioning presence and his laconic companionship.

``They were personally very close, friends for a long, long time," said Skip Rutherford, a Little Rock public relations consultant and a friend of both men. ``He was more than a personal friend, someone to go to the football games with, to call up to go out to dinner. Webb was somebody that Clinton could just relax with."

(Optional add end)

Hubbell's relationship with the Clintons dates to the mid-1970s, when Hillary Rodham joined the Rose Law Firm to work alongside Hubbell and Foster as her husband moved to Little Rock to become Arkansas' attorney general.

Hubbell's financial dealings in the early 1980s came under scrutiny during his confirmation hearings. Roy Drew, a broker with the local E.F. Hutton office and a next-door neighbor of Hubbell, urged the Senate Judiciary Committee to investigate Hubbell's profits from a 1983 deal.

Drew, a longtime critic of the Clintons , said Hubbell instructed him to buy 500 shares of Arkansas Louisiana Gas Corp Inc. (Arkla), a regulated natural gas utility with a mediocre reputation.

Hubbell sold the bulk of his shares seven weeks later for a substantial profit, shortly before it was revealed that Arkla was a potential takeover target. Thomas F. ``Mack" McLarty, Clinton's boyhood friend and former White House chief of staff, was then on Arkla's board of directors and later became its chief executive.

Drew suspected that Hubbell benefited from inside information in his Arkla trading, but no impropriety was ever established by the Senate panel.

In 1984, Clinton appointed Hubbell to be chief justice of the Arkansas Supreme Court, to fill a six-month vacancy. Three years later, Clinton called upon his friend again, to chair a commission charged with writing a new ethics statute for the state.

Meanwhile, Hubbell, Foster, Hillary Clinton and a fourth young Rose partner, William H. Kennedy III, engineered a coup that ousted the firm's managing partner and essentially took over management of the august 150-year-old firm.

Although several partners left Rose following the ``Gang of Four" takeover, no bitterness was directed toward Hubbell, who remained highly popular within the firm as a mediator among senior partners and a big brother to the younger lawyers.

But that changed earlier this year, when government investigators began intensive scrutiny of the Rose firm as part of the wide-ranging Whitewater investigation. Rose partners made known that that they had found irregularities in Hubbell's billings and expense accounts, a sign of their unhappiness with the attention Hillary Clinton and her friends had brought upon the firm.

back tears.

In detailing the evidence that had been gathered against Hubbell, W. Hickman Ewing Jr., an assistant to the independent counsel, told a remarkable tale of a highly successful, well-paid attorney who on at least 400 occasions charged his law firm and its clients for his own family's extravagant expenditures at a variety of fancy shops in Little Rock and Dallas, including a fur salon and Victoria's Secret.

According to Ewing, Hubbell frequently used checks drawn on the Rose Law Firm's partnership banking account to pay off personal credit card bills. He then would add these charges to the bills sent to a wide variety of the firm's clients.

Among the clients who were bilked in this manner were the Federal Deposit Insurance Corp. and the Resolution Trust Corp., both of whom had hired the Rose Law Firm to assist in the cleanup of several savings and loan failures in Arkansas.

(Optional add end)

The prosecution cited one bill that Hubbell submitted to the FDIC on March 7, 1990, for work that the Rose Law Firm did in pursuing the government's case against Frost & Co., an accounting firm, for negligence in auditing the accounts of Madison Guaranty Savings & Loan. Madison was owned by James B. McDougal, Clinton's partner in the Whitewater investment.

The bill asked the FDIC to reimburse the Rose Law Firm $612 for so-called ``publications costs" and $694.29 for ``deposition costs." But Ewing said that the FBI traced both of those expenditures back to personal credit card purchases by Hubbell and his family.

Hubbell did not charge his clients for all of the personal bills that he paid from the law firm checking account, however. In some cases, Ewing said, Hubbell simply ``wrote off" the charge meaning that the law firm itself shouldered the cost.

It was the extraordinary number of these so-called ``write-offs" by Hubbell that first caught the attention of his law partners after he went to Washington to join the administration in January 1993. When they questioned him, he promised to provide the firm with documentation to support the write-offs.

But, as Ewing told the judge, ``it never came."

Moreover, Hubbell filed tax returns for the years 1989 through 1992 that did not reflect any of the income he received from his fraudulent billing practices, according to the government. In 1992, for example, he received income of $309,168, but reported only $194,966. Overall, it is estimated that he failed to pay the government $130,291 in taxes owed.

Normally, plea bargains such as the one between Hubbell and Starr are used as a way for the prosecution to obtain information from the defendant and for the defendant to limit his legal liability.

For Clinton, Hubbell's Fall
More Personal Than Political (Washn)
By John M. Broder=
(c) 1994, Los Angeles Times=

WASHINGTON The fall of Webster L. Hubbell is a political blow to President Clinton, but is an even deeper wound on a personal level.

In a short statement, the president said he was ``saddened by today's events." White House aides noted that Hubbell's plea bargain on fraud and tax evasion charges was unrelated to the Clintons' legal problems arising from the Whitewater affair.

But it is not hard to imagine that the president's anguish over his close friend's fate compounds the grief he still feels over the July 1993 suicide of Hubbell's former law partner and White House attorney Vincent W. Foster Jr.

A source close to the Clintons said Tuesday that their reaction is one of ``sadness, surprise and empathy for (Hubbell's) family."

But one source familiar with Clinton's thinking says that despite his sympathy for Hubbell, the president did not feel responsible for his friend's fall, which was the result of fraudulent actions Hubbell undertook while in private law practice in Little Rock, Ark. Clinton believes that Hubbell brought his problems on himself by cheating the government and his partners at the Rose Law Firm, the source said.

Clinton's real pain will be in the loss of a close confidant, a man with whom he could share a golf outing or a quiet drink. Hubbell's value to the president was often his mere unquestioning presence and his laconic companionship.

``They were personally very close, friends for a long, long time," said Skip Rutherford, a Little Rock public relations consultant and a friend of both men. ``He was more than a personal friend, someone to go to the football games with, to call up to go out to dinner. Webb was somebody that Clinton could just relax with."

(Optional add end)

Hubbell's relationship with the Clintons dates to the mid-1970s, when Hillary Rodham joined the Rose Law Firm to work alongside Hubbell and Foster as her husband moved to Little Rock to become Arkansas' attorney general.

Hubbell's financial dealings in the early 1980s came under scrutiny during his confirmation hearings. Roy Drew, a broker with the local E.F. Hutton office and a next-door neighbor of Hubbell, urged the Senate Judiciary Committee to investigate Hubbell's profits from a 1983 deal.

Drew, a longtime critic of the Clintons , said Hubbell instructed him to buy 500 shares of Arkansas Louisiana Gas Corp Inc. (Arkla), a regulated natural gas utility with a mediocre reputation.

Hubbell sold the bulk of his shares seven weeks later for a substantial profit, shortly before it was revealed that Arkla was a potential takeover target. Thomas F. ``Mack" McLarty, Clinton's boyhood friend and former White House chief of staff, was then on Arkla's board of directors and later became its chief executive.

Drew suspected that Hubbell benefited from inside information in his Arkla trading, but no impropriety was ever established by the Senate panel.

In 1984, Clinton appointed Hubbell to be chief justice of the Arkansas Supreme Court, to fill a six-month vacancy. Three years later, Clinton called upon his friend again, to chair a commission charged with writing a new ethics statute for the state.

Meanwhile, Hubbell, Foster, Hillary Clinton and a fourth young Rose partner, William H. Kennedy III, engineered a coup that ousted the firm's managing partner and essentially took over management of the august 150-year-old firm.

Although several partners left Rose following the ``Gang of Four" takeover, no bitterness was directed toward Hubbell, who remained highly popular within the firm as a mediator among senior partners and a big brother to the younger lawyers.

But that changed earlier this year, when government investigators began intensive scrutiny of the Rose firm as part of the wide-ranging Whitewater investigation. Rose partners made known that that they had found irregularities in Hubbell's billings and expense accounts, a sign of their unhappiness with the attention Hillary Clinton and her friends had brought upon the firm.

R pp es of Wh ewa er n ex-C n o a de's g il y p ea

By Bill McEntire, AP

HUBBELL: Arrives at Little Rock federal court to plead guilty to mail fraud and tax evasion

By Dennis Cauchon
USA TODAY

LITTLE ROCK — Former associate attorney general Webster Hubbell pleaded guilty Tuesday to mail fraud and tax evasion for overbilling clients — including the federal government — at least $394,000.

Hubbell's guilty plea is the most important obtained so far by Whitewater special prosecutor Kenneth Starr. Hubbell is a former law partner of Hillary Rodham Clinton and golfing buddy of President Clinton.

He agreed to cooperate with Starr in exchange for possible sentence reduction. It's unclear whether Hubbell has anything important to tell about Whitewater — his crime is not related directly to the Clintons, any White House staffers or the controversial real estate development.

But the conviction of the one-time No. 3 official in the Justice Department is embarrassing politically and keeps the Whitewater controversy alive.

Hubbell, 46, fighting back tears in federal court, took full blame: "I deeply regret the pain my actions inflicted on my family, friends and those who have placed me in a position of trust," said the 6-foot-5-inch, 290-pound former Arkansas football tackle. "If the consequence of my actions were mine alone, this would be a lot easier."

Hubbell admitted he used at least $394,000 from the Rose Law Firm to pay for personal expenses from January 1989 to December 1992. He used the money to pay off 10 credit cards that had charges ranging from clothes from Victoria's Secret to furs to a $1,000 check to his wife.

An undisclosed amount was billed to 10 Rose Law Firm clients, including the Federal Deposit Insurance Corp. and the Resolution Trust Corp., which were overseeing the savings and loan bailout. The Rose Law Firm absorbed the rest of the losses.

Hubbell admitted falsely claiming his 1992 income was $194,966, rather than the actual $309,168. Since January 1989, he avoided $130,291 in taxes by underreporting income. The plea bargain has no effect on his Internal Revenue Service debt.

Federal sentencing guidelines call for Hubbell to get a 27- to 33-month sentence without parole. But Starr — as only prosecutors can — agreed to let federal Judge Bill Wilson give a shorter sentence in exchange for Hubbell's cooperation.

Said Starr, "This ... is an unfortunate day but ... a necessary and important part of the investigation."

Hubbell is a former Arkansas Supreme Court chief justice and former Little Rock mayor. He once chaired the state bar association's ethics committee.

"He is one of the kindest, most honest and intelligent people I have ever known," said former Arkansas Supreme Court justice John Purtle. "This charge is 100% political by people who want to tear down the Clinton administration and don't care if they destroy a good man in the process."

Purtle and lawyer John Wesley Hall, who has served as an expert witness in billing cases, say such practices are common and seldom result in criminal charges.

"But if you're going to climb as high as Webb, you've got to prepare to be shot at, and he wasn't," Hall said.

Hubbell had represented and overbilled federal regulators who took over Madison Guaranty Savings & Loan, owned by James and Susan McDougal.

The McDougals and the Clintons were 50-50 partners in the 230-acre vacation project called Whitewater. Some Republicans say McDougal funneled Madison S&L money to the Whitewater project — a charge denied by McDougal and Clinton.

As a lawyer for the regulators, Hubbell settled a suit against Madison's auditors for $1 million, including $400,000 in fees for the Rose Law Firm — a deal seen by some Republicans as suspiciously generous. Hubbell's father-in-law was also a large borrower from Madison, creating the appearance of a conflict of interest.

At the Justice Department, Hubbell might have had information on whether the White House staff tried to impede the Whitewater probe or lied to Congress.

In an intriguing twist, Wilson, a long-time Clinton friend, was appointed to the federal bench by Clinton and once represented Clinton's brother, Roger, in a cocaine case.

Bentsen: 'I have lived the American dream'

WASHINGTON — As he relaxed in his office Tuesday and reflected on his more than 20 years in the nation's capital, outgoing Treasury Secretary Lloyd Bentsen said he doesn't like much of what he sees.

"There's a receding tide of toleration" that is weakening public confidence in government and threatening the economy's well-being, Bentsen said.

Too often these days, the secretary and former senator warned, political sides go to war on issues and forget that "toleration and cooperation" are critical if the government is going to be effective.

What they need to do, he said, is respect each other's opinions. And then work together to forge compromises. President Clinton, Bentsen said, will reach out to Republicans and to Democrats who have opposed some of his plans in the past. It will be up to the incoming, Republican-controlled Congress to respond.

> **"He fights hard for what he believes in. He treats his adversaries with respect, something all would do well to follow. And at the end of the day, he has worked hard to find common ground for the common good."**
>
> **— President Clinton on Lloyd Bentsen**

Bentsen, during a conversation with a small group of reporters in his office and at Monday's White House ceremony announcing he will retire Dec. 22, was in almost a bittersweet mood, especially for a normally reserved Texan.

At the White House, he spoke with obvious pride about his years in the public sector. "I have lived the American dream," Bentsen said. "From being raised during the Depression on a Texas farm to serving in both houses of Congress, having a business career, and both running for the second-highest job in the country and serving in the cabinet."

And by the end of his official farewell when Bentsen, 73, thanked his wife, B.A., for being "the best partner any man could have over these past 51 years," she and staff members were in tears.

Later in his office, the secretary was still reflective — but reserved. He said he's leaving because he had always intended to retire at the end of this year, when his last term in the Senate would have expired had he not left Capitol Hill to join Clinton's cabinet. His greatest accomplishment? "The success we've had with the economy" in '92 and '93.

Bentsen plans to return to Texas and go into business. He wouldn't get specific. "A number of people have tried to talk to me (about ventures), but I've put them all off."

— Mark Memmott

NESDAY, DECEMBER 7, 1994 · USA TODAY

A turning point for Clinton administration

Political problems take toll

By Judy Keen
USA TODAY

Lloyd Bentsen stood beside President Clinton in the Rose Garden Tuesday announcing his resignation. "It's a great time to be bowing out," the Treasury secretary said.

The healthy economy, Bentsen quickly added, makes this the right time for him to exit.

But the administration nears its halfway mark at a political low point. As Clinton and his aides search for a way to turn the tide, more changes — in personnel, priorities and strategy — are inevitable.

The president seemed already to regret the loss of Bentsen's guidance and Washington wisdom. "I'm really going to miss you," Clinton told him.

Even as he said farewell to Bentsen, Clinton certainly knew that later Tuesday in Little Rock, his friend and former associate attorney general, Webster Hubbell, would plead guilty to two felonies and become the Whitewater probe's first high-profile indictment.

Clinton issued a statement later asking people to remember "Webb is a man who has given much to his family, his community and his country."

The White House faces the new year knowing Whitewater — independent counsel Kenneth Starr's ongoing investigation and Republican-led congressional hearings — remains a dangerous political issue.

And with Clinton continuing to be mired in the polls, he faces a slew of other problems:

▶ Clinton will give a speech next week defining his new legislative agenda in the face of the Republican-controlled Congress. While he seems determined to move toward the political center, Clinton hasn't settled yet on a formula for dealing with the Republicans' Contract with America.

Some of his aides say Clinton still doesn't believe the Republican election sweep was a referendum on his own performance — despite evidence to the contrary.

▶ Clinton is eager to demonstrate his commitment to working Americans by proposing a middle-class tax cut in his 1996 budget. But aides say it may prove impossible to include it without balancing it against politically risky cuts in entitlement programs like Medicare.

▶ Clinton must fill several vacancies this month, including agriculture secretary, Democratic National Committee chair and White House political director.

Agriculture Secretary Mike Espy, who was criticized for taking gifts from firms he regulates, leaves at year's end.

Clinton may face more personnel changes soon: Commerce Secretary Ron Brown may leave his post to head Clinton's re-election campaign and possible GOP hearings on HUD Secretary Henry Cisneros' finances could increase pressure on him to depart.

Clinton aides insist no major midterm course correction is in the works or needed.

"I think the president is very centered, he's very focused, he very much, I think, has a developed feeling about his core beliefs," says senior adviser Thomas "Mack" McLarty.

"I think he's going to stand on his principles and at the same time reach out and try to achieve consensus."

Mark Mellman, a Democratic pollster who advises the White House, says those who wonder whether Clinton can rebound should remember how nimbly he's regained his equilibrium in the past.

The president, Mellman says, is wise to let Republicans set the agenda for now.

"We don't want to play defense. If you're playing defense, you're losing. But letting the Republicans have some room to show what they've got is important. Both God and the devil are in the details."

Clinton, Mellman and other advisers believe, doesn't need a dramatic staff shake-up to reshape his image and reclaim political momentum.

Instead, they are advising that the president use his speech next week to state clearly what he stands for and contrast it with Republicans' rhetoric and promises.

"I don't think we want a direct frontal assault on the Republican program," Mellman says. "We want a flanking attack . . . that makes clear to the American public the cost of some of these initiatives."

Of course, Clinton has reshaped himself and redefined his agenda before — perhaps too often, his aides admit. Exit polls and focus groups from last month's election showed people still don't have a real sense of what he stands for.

Senior adviser Mark Gearan says Clinton has spent the weeks since the election reflecting on his core beliefs and will try again in his speech next week to articulate them.

Clinton "will be returning to his roots, which is an administration to protect the middle class," says Gearan. "Those are the people that sent him here and that is what will be guiding this administration."

Clinton may admit some errors, Gearan says, but doesn't think he needs to engineer a policy earthquake.

"We have made mistakes and we are mindful of that," he says. "But we will continue with the agenda that sent him here, which is hard-working average families."

Says senior adviser George Stephanopoulos: "When the American people see the president fighting for them and for what he believes in, politics will take care of itself."

Clinton, lauding Bentsen in the Rose Garden, sounded less than eager for the combat that may lie ahead.

Describing Bentsen, Clinton said, "He treats his adversaries with respect, something all would do well to follow. And at the end of the day he has worked hard to find common ground for the common good."

No easy comeback, polls show

By Richard Benedetto
USA TODAY

President Clinton's midterm poll numbers suggest he has a lot of comeback work to do if he expects to win a second term.

If the 1996 election were held today, he'd lose to an unnamed Republican candidate. And he'd even lose a three-way race with either Ross Perot or Jesse Jackson running as independents.

A new USA TODAY/CNN/Gallup Poll also finds Clinton unable to convince even half of the American people to give him passing grades on his management of key issues and problems.

The newly elected Republican majority in Congress enjoys greater public confidence.

Clinton's 42% job approval is the lowest of the last nine presidents, except for Ronald Reagan, who was at 41% approval at the same point in December 1982.

But Reagan at that time was mired in a recession. Clinton's anemic ratings come with the U.S. economy on the upswing.

Also, a majority says Clinton is doing worse than expected, and half say the first two years of his presidency have been a failure.

"So many voters have been disappointed by him, compared to the expectations that attended his inauguration," says Democratic pollster Alan Secrest. "Once burned, twice shy."

Clinton strategist Paul Begala dismisses midterm poll numbers as poor predictors of re-election chances.

"George Bush was doing better than Clinton at midterm and he was defeated; Ronald Reagan was doing worse, and he was re-elected," he observes.

He also questions whether matching Clinton against an unnamed candidate is relevant.

"It's Bill Clinton, warts and all, against this perfect, 'ideal' Republican," he says.

But GOP strategist Eddie Mahe Jr. says with the economy so good, and Clinton's numbers so bad, a comeback is tough:

"We're in the middle of good, solid economic growth; there's no way the economy is going to be better in 1996 than it is now."

The poll, on issue after issue, rates Clinton below 50% — ranging from a high of 44% approval in foreign affairs to a low of 31% on taxes.

Gettysburg College political scientist Shirley Ann Warshaw says Clinton's stock plummeted with his health-care plan.

"His attempt to nationalize health care undermined his entire domestic agenda," she says.

Other Clinton problems stem from character issues:

▶ Only 50% say Clinton is tough enough for the job.

▶ Less than half, 41%, say he shares their values.

▶ Only 44% call him honest and trustworthy.

And the country is split on whether he's up to the job as commander in chief: 47% say he is, 49% say he's not.

94

Hubbell Pleads Guilty to Two Felony Counts, As New Round of Whitewater Inquiries Begins

By Viveca Novak
And Ellen Joan Pollock
Staff Reporters of The Wall Street Journal

It's Whitewater season again, and how.

And while not a word was uttered about Bill Clinton when former Associate Attorney General Webster Hubbell pleaded guilty to two felony counts in a Little Rock, Ark., federal courtroom yesterday, the plea was the kickoff for a new round of investigations embroiling the president and his friends.

Whitewater activity has intensified greatly this week, as independent counsel Kenneth Starr showed his muscle for the first time with two indictments in Little Rock. But perhaps more significantly, the upheaval of the November elections put President Clinton's Whitewater antagonists in power on Capitol Hill — chief among them Sen. Alfonse D'Amato, the New York Republican who will take the gavel of the Banking Committee and promises a fresh round of hearings early next year.

Kenneth Starr

Little of the Whitewater evidence made public so far touches the Clintons directly, but the newly energized investigations are expected to take the inquiry right into the White House family quarters. That will keep Whitewater in the public eye well into the 1996 campaign. The political damage to the president could be devastating, even if the legal impact isn't.

"This will be happening all during the year leading up to the presidential election," observes Stephen Hess, an expert on the presidency at the Brookings Institution. "It becomes a bit like the sorcerer's apprentice, with the administration trying to sweep out all the water that's coming in." Whitewater is also a drag on the White House's ability to be effective. "This knocks the administration off an offensive agenda," says Kenneth Duberstein, a top aide in the Reagan White House when the Iran-Contra scandal was escalating. "This becomes a defensive priority for the White House and for the Hill Democrats."

Meanwhile, Sen. D'Amato has ambitious plans. He is quick to point out that with his new chairmanship he'll also acquire crucial subpoena power, something Republicans lacked when he played a starring role in the Banking Committee's Whitewater-related hearings last summer. At a time when many Republican leaders on Capitol Hill are pledging to trim committees, Sen. D'Amato is considering setting up a hefty Banking subcommittee to focus exclusively on Whitewater, he said in an interview this week. The special unit could be as large as the committee itself, he says, and might include members of other panels that lay claim to parts of the affair, including Judiciary and Small Business.

Alfonse D'Amato

The size and focus of such an apparatus raise, for some, the prospect of an inquisition. But even as he's engineering a new investigative mechanism, Sen. D'Amato says that the probe will be judicious, to the point where he's willing to delay, if necessary, the start of new hearings beyond his late-January, early-February target. "We'd rather err on the side of doing the job the right way, of being more deliberate," he says, adding that nothing will be done without consulting Mr. Starr, who has accelerated his pace in Little Rock.

Mr. Hubbell pleaded guilty yesterday to one count of mail fraud and one count of tax evasion. He admitted to defrauding Rose Law Firm, where he was a partner, and his clients, out of about $394,000. The defrauded clients include the Resolution Trust Corp., the Federal Deposit Insurance Corp., Tyson Foods Inc. and Worthen Bank, among others. Mr. Hubbell also admitted to underreporting his income to the Interal Revenue Service. At at the plea hearing, prosecutor W. Hickman Ewing Jr. said Mr. Hubbell had a tax deficiency of $130,291 over a four-year period ending in 1992.

Mr. Hubbell could be sentenced to as much as five years in prison and fined as much as $250,000 on each of the two charges.

As is standard in such pacts, Mr. Hubbell promised to cooperate with prosecutors. But people familiar with the breadth of his knowledge insist he knows little that could shed new light on Whitewater.

In a statement, Mr. Clinton's lawyer, David Kendall, said the Hubbell plea "simply does not concern the president, the first lady or the Whitewater Development Corp. in any way." Rose Law Firm said that it had uncovered no similar billing irregularities by former White House aides Vincent Foster and William Kennedy or Hillary Clinton, all of whom were once partners at the firm.

Other facets of the Whitewater probe are leading more clearly into the White House. A priority for both Mr. Starr and Mr. D'Amato is to solve the mystery of what happened to Whitewater files when they were removed from the office Mr. Foster after his suicide. Eventually the papers were turned over to Mr. Kendall and have been made available to Mr. Starr. "Under whose orders were they removed?" Mr. D'Amato says he wants to know. "Where were they removed to? How were they dispatched to various people? Have some been destroyed?"

Those were questions Robert Fiske, the first independent counsel, also was trying to answer until he was replaced by Mr. Starr last August. Before his removal on technical grounds involving separation of powers, Mr. Fiske uncovered new evidence that spurred him to probe further into whether removal of the documents constituted an obstruction of justice, lawyers familiar with the inquiry say.

This portion of the investigation "intensified" after Mr. Starr took over, according to a lawyer familiar with the inquiry's progress. Almost immediately, for example, George Stephanopoulos was interviewed briefly by Federal Bureau of Investigation agents about the matter. He was unable to provide any new information on the whereabouts of the contents of Mr. Foster's office, according to Stanley Brand, his lawyer.

Senate Republicans especially are eager to explore a detour the Whitewater documents took on the way to Mr. Kendall's office. Last summer, the White House conceded that Maggie Williams, Hillary Clinton's chief of staff, put the documents in a safe in the White House family quarters, where they stayed for several days before being turned over to Mr. Kendall's firm. One Republican lawyer said this unanswered issue is "not going away." Edward Dennis, Ms. Williams's lawyer, declined to comment.

Other portions of Mr. Starr's investigation create potentially thorny problems for the president. James McDougal, the Clintons' partner in their Whitewater real-estate investment, says he expects, as early as this week, to receive from Mr. Starr a so-called target letter indicating his expected indictment. The former owner of Madison Guaranty says Mr. Starr's office told his lawyer to expect the letter, which is likely to lay out allegations and questions involving the failure of the thrift.

Mr. Starr is investigating on other fronts, including:

- Figuring out whether funds from Madison were improperly funneled to the Whitewater real-estate project or to Mr. Clinton's 1984 gubernatorial campaign.
- Examining whether loans Mr. Clinton took out for his 1990 gubernatorial campaign from Perry County Bank were properly handled. Earlier this fall, Mr. Starr sought information about those bank accounts from senior White House aide Bruce Lindsey, who was Mr. Clinton's campaign treasurer.
- Determining whether transactions involving Arkansas Gov. Jim Guy Tucker contributed to the collapse of Madison Guaranty. This appears to have little connection to Mr. Clinton, but Senate Banking Republicans last summer tried to make it appear that the president was in a position to tip off Mr. Tucker to a federal investigation. In fact, the two aren't close political allies.

Of course, the renewed attention on Whitewater could be politically tricky for Republicans, too. Results of a late-November CBS poll show that 64% of all respondants thought Whitewater hearings are unnecessary, including 53% of Republicans in the sample and 65% of independents, whom the GOP hopes to woo.

But don't expect the president's opponents to pass up any opportunity to cause him pain and to exploit voters' doubts about his credibility. Anti-Clinton activist Floyd Brown recently answered a reporter's query, "How are you?" this way: "I'm good. We're taking over Washington, how could I not be good? In my estimation, 1995 is going to be the year of Whitewater."

Secretary Bentsen Departs

PRESIDENT CLINTON undoubtedly meant it when he said yesterday that he is going to miss Lloyd Bentsen, his secretary of the Treasury, who is resigning. In its first two years, this administration's major achievements have been in economic and commercial policy. That's been the part of the administration that has worked most reliably and effectively. Since Mr. Bentsen is to be replaced by an ally at the White House, Robert Rubin, the Treasury's positions are not likely to change much. But Mr. Bentsen, a former senator and chairman of the Finance Committee, brought to his job a kind of experience and judgment that the Clinton Cabinet needed, and still needs.

Mr. Clinton's three most influential and dramatic victories were last year's budget bill and the two trade bills. Passed by the narrowest of margins, the budget bill is now pushing the federal deficit sharply downward. Last year's trade bill, establishing the North American Free Trade Agreement, was passed only after weeks of furious debate, and the worldwide trade bill went through after a struggle this fall that was only comparatively less fierce than the earlier one. All three of these bills are now bringing broad benefits to the economy, encouraging a recovery that had been a slow and limping affair. In his press conference yesterday, Mr. Clinton spoke glowingly of the 5 million jobs that the expansion has generated over these two years. Mr. Bentsen had a strong hand in those victories, and is entitled to a substantial share of the credit for their results.

Mr. Rubin is well equipped for the primary job of any secretary of the Treasury: to act as the president's ambassador to the restless and perennially suspicious financial markets in New York and abroad. He has spent most of his career in those markets and is respected there. But he cannot bring to the Treasury the same deep knowledge of Congress that Mr. Bentsen commanded.

As secretary, Mr. Rubin's chief responsibility will be to fend off raids on the Treasury over which he presides. The administration is beginning to move toward a tax cut for the middle class, and the new Republican majority in Congress is in favor of that and more. With a presidential election ahead, the competition for applause can get out of hand quickly, and it will be neither easy nor painless to ensure that any tax cut is fully offset by real spending cuts and real increases in other revenues.

Mr. Rubin is also aware that the dry and technical business of the Treasury—the details of taxation, financial regulation and macroeconomic policy—work powerfully to influence American society. At the White House yesterday he touched briefly on the deeply ominous widening of the disparities between rich and poor in this country. The next secretary of the Treasury may find that, like the last one, he sometimes is the decisive voice in an administration that has yet to develop a sure sense of direction.

The Hubbell Plea

IT IS TRUE that Webster Hubbell's admission of tax evasion and mail fraud in a Little Rock court yesterday is linked to work performed in private practice in Arkansas before he came to Washington. And it is also true that while Mr. Hubbell faces the possibility of spending some time behind bars for falsely billing clients, including the federal government, for more than $390,000, he is not the central figure in the independent prosecutor's probe of the affair called Whitewater. But there is no way the White House can distance itself from this terrible story and its implications. Mr. Hubbell was no bit player in the Clinton administration or in the political and professional lives of the Clintons. He is a former high administration official in whom the president and First Lady have for years reposed an enormous amount of trust and confidence, with whom they have been associated as co-investors, co-workers and confidants. Now it turns out that Mr. Hubbell—former head of the Arkansas bar's ethics committee, ethics officer for his law firm, author of his state's ethics laws and vetter of the ethics of prospective administration personnel—was, by his own account, a thief.

Mr. Hubbell was the Rose partner whom then-governor Clinton tapped to become chief justice of the Arkansas supreme court. He was mayor of Little Rock. In Washington he ended up in one of the nation's top law-enforcement jobs, that of associate attorney general. Within the Justice Department and throughout the administration, it was understood that for all policy and political issues involving the White House, Mr. Hubbell was *the* man. For that reason, and his insight into many issues directly and tangentially related to the Clintons' financial and political dealings in Arkansas, he is now of special interest to independent counsel Kenneth Starr.

Mr. Hubbell has pledged to cooperate with Mr. Starr's investigation. Prosecutors hope Mr. Hubbell's testimony will shed light on several Whitewater-related matters, including (1) the Rose firm's relationship with the failed Madison Guaranty Savings and Loan, and a potential conflict of interest concerning Mrs. Clinton's representation of Madison before a state regulator appointed by her husband and (2) whether any White House, Treasury or Justice Department officials here or in Little Rock tried to sidetrack a Resolution Trust Corp. criminal referral involving the president.

Since Whitewater became an issue, administration officials have continually blamed Republicans and the press for Mr. Clinton's problems, charging that he has been relentlessly and unfairly scrutinized. That can't be said about Mr. Hubbell's case. It was his law firm that undertook the inquiry into his billing for expenses that led to his resignation from the administration. No one can look at the confession he made yesterday and conclude that anyone but Mr. Hubbell brought on his disgrace.

Ambushed in Budapest

BILL CLINTON'S European cares blossomed in Budapest. He'd gone there to explore the security uses of the 53-nation talkshop known as the Conference on Security and Cooperation in Europe (CSCE). Twice he was ambushed. The president of Bosnia delivered a tirade against "the weakness of the West." The president of Russia professed to find an echo of the Cold War in NATO's efforts to bring in Central Europeans.

In the past the CSCE steadied postwar borders and legitimized global discussion of Soviet-bloc human rights. But at Budapest it could move only partway to take on peace-keeping in Armenia/Azerbaijan as the first security test that many members favor. Most members dragged, being no more eager for costly intervention in Nagorno-Karabakh than in Bosnia. Russia also dragged, not winning its goal of CSCE sponsorship of Russian peace-keeping but not permitting CSCE control of CSCE peace-keeping either.

Bosnian President Izetbegovic, in his complaints about American policy in particular, works to widen a growing split. The Democratic administration is now pursuing an ally-oriented "peace strategy," which critics see as appeasement. Newly ascendant Republicans promise a battle-oriented, get-even policy that the administration calls an invitation to open-ended war.

Each policy line promises more than it can deliver. The best available course would borrow from both sides. U.N. ground peace-keepers, whom Serbia has made hostages against NATO bombing, had best be withdrawn. That would create a humanitarian nightmare, but it would let NATO make a new decision on use of air power—a decision on which it would need to consult Russia. The Muslim-led Bosnian government would have new access to arms but would be pressed to stay at the negotiating table all the same.

At Budapest, Boris Yeltsin strenuously objected to NATO enlargement. A year ago the "Russia-first" tendency of American policy might have guided Washington, but it has come to support eventual admission of the Central European democracies. Part of this stiffening flows from Russia's one-sided 19th-century type of tilt to the chief aggressors, the Serbs.

Many Russians are confused and anxious about NATO expansion, or still gripped by the mental habits of empire. They need to think about it harder. They also need to be assured and shown that expansion can reduce uncertainty in a hypersensitive part of now-independent Europe and that the resulting continental poise would benefit them as well as others.

Truth Is Stranger ...

FOR YEARS it had been sort of nagging at us that the saga of the British royal family was more like the great TV soap opera "Dallas" than it was like, say, Shakespeare's history plays, those powerfully dramatic renderings of royal glory, infamy and lust. But it seemed a reach. Now, of course, the idea is suddenly everywhere, and there's no need to be shy about it at all in view of the report out of London that Queen Elizabeth II has given a Canadian company the right to explore for oil on the Windsor Castle grounds. The managing director of the company is quoted in a wire story as saying that the deal includes permission to sink a test well in her majesty's garden.

It was bound to come to this. The correspondences with the real—that is to say, the fictional—Dallas of TV were just too strong to be accidental or to think that there wasn't some active imitation involved on the other side of the Atlantic. It is, of course, true that Prince Charles and J. R. (the crown prince of the Ewing family) don't have everything in common, but surely there is a lot of likeness there. They both seemed to have the same attitude, more or less, toward their marriage vows, for instance, and as a result have—or had—marriages with much in common. Princess Di as Suellen, the much put upon and deceived and, finally, unmanageable spouse whose chief hold on both her sometimes husband and his family is her male child, John Ross, is not entirely farfetched. Princess Fergie may not look like Pam and Prince Andrew may not be nearly so virtuous and long-suffering as Bobby, but their subplot marital drama and their evident continuing attraction to each other through the turbulence of separation has a familiar ring—at least to viewers of "Dallas." We will concede that Britain's Queen Mother, known widely as the Queen Mum, does not look at all like Barbara Bel Geddes. But surely, from everything one has read about the royal family, the Queen Mum has almost precisely the same outlook and role as "Dallas's" venerable Mama (a k a Miss Ellie), who, the faithful will remember, just kept sitting there at the table looking simultaneously scandalized, patient, forgiving and flummoxed by the gruesome carryings on of her progeny. May we remind you as well that, just like Windsor Castle, poor old South Fork was ravaged by a fire. (Thank God, everybody who mattered was all right.)

The implications of all this, we must say, are fairly grim for the royal family. It's not just that the exploring company doesn't think the oil production will be profitable. Even if it turns out to be a veritable Saudi Arabia out there in Windsor Park, near London, the connection with the Ewing family fortune and the TV program's own fortunes are not all that encouraging. "Dallas," we are sorry to remind fans of the British royal family, is no more. The whole genre came to be seen as out of date—and it got canceled.

Hubbell Pleads Guilty to Fraud Charges

Ex-Justice Official Billed $390,000 In Phony Expenses and Inflated Fees

By Susan Schmidt
Washington Post Staff Writer

A1

LITTLE ROCK, Ark., Dec. 6—Former associate attorney general Webster L. Hubbell, a pillar of this state's legal establishment and one of President Clinton's longtime confidants, pleaded guilty today to billing the federal government and other legal clients for more than $390,000 in inflated fees and phony expenses.

Hubbell, 46, appeared before U.S. District Judge William R. Wilson in the downtown courthouse where he built a career as a first-rate litigator and a man of great goodwill and integrity. Today, he stood ashen-faced before Wilson to plead guilty to one count each of income tax evasion and mail fraud. Each count carries a possible five-year prison sentence and a fine of up to $250,000.

"If the consequences of my actions were only mine, this would be a lot easier. But they are not," said Hubbell, his voice choked with emotion. "I deeply regret the pain my actions have caused family, friends and those who placed me in a position of trust." The usually jovial Hubbell managed only a few wan smiles meant to reassure his wife, Suzanne, a grown daughter and his sister-in-law, seated in the courtroom's front row. Hubbell said he hoped his guilty plea would be a first step toward "earning their respect once again."

Whitewater independent counsel Kenneth W. Starr and one of his assistants, Hickman Ewing, said they were prepared to prove that Hubbell billed the Rose Law Firm and his clients there—including the federal government—for his own and his family's personal expenses. Prosecutors said that while working as a private attorney from 1989 to 1992, he submitted more than 400 fraudulent bills to cover credit card purchases at such places as clothing stores, including a Victoria's Secret lingerie shop, and a fur salon.

Hubbell, the widely respected former mayor of Little Rock and a Clinton appointee to a brief term as chief judge of the Arkansas Supreme Court, faces roughly two years in prison without parole under the terms of the plea bargain. The agreement says that if Hubbell cooperates, prosecutors could recommend a lighter sentence, which would nevertheless likely include some jail time. "We're looking forward to his cooperation," Starr told reporters after today's court appearance.

The agreement calls for Hubbell's cooperation in the wide-ranging inquiry, which focuses on the president and Hillary Rodham Clinton's Arkansas finances and campaign fund-raising. It has grown to include an examination of White House contacts with other agencies about the Whitewater probe and Justice's handling of a sensitive request for criminal investigation that named the Clintons as potential witnesses. The matter languished at Justice during a period when Hubbell, Hillary Clinton's former law partner, was essentially running the department.

For the White House, the plea represented both a personal blow for the Clintons and a potential political liability as the incoming Republican-led Congress vowed to resurrect the Whitewater controversy early next year. The plea stunned Hubbell's friends and associates here and in Washington, where Hubbell

HUBBELL, From A1

played a key role in early administration appointments.

In a written statement, President Clinton expressed regret, but the White House worked to separate itself from Hubbell and to suggest that his problems have nothing to do with the Clintons.

"Webb Hubbell is an old friend and Hillary and I were saddened by today's events," Clinton's statement notes. "We should also remember that Webb is a man who has given much to his family, his community and his country. The matter is in the hands of the court and I don't think it would be appropriate to say anything more at this time."

Clinton's lawyer David Kendall said, "This matter simply does not concern the president, the First Lady or Whitewater Development Corp. in any way. The charges here are totally unrelated—they arrive out of Mr. Hubbell's personal income tax returns and individual billing procedures as an attorney in private practice in Little Rock before he came to Washington."

Sources close to the Clintons said Hillary Rodham Clinton, who worked closely with Hubbell on some cases, was not informed of the billing dispute either as it was first emerging or when it turned into a question of illegality. Rose partners "did not come to see her or communicate with her," a source said.

Hubbell's steadfast refusal to acknowledge the billing improprieties when they were discovered by the firm greatly compounded the price he is now paying, members said.

Some Rose attorneys said that if Hubbell had tried to rectify the situation and reimburse the firm and his clients in early 1993, Rose partners might simply have filed a confidential legal ethics complaint about him.

But Hubbell ignored their demands, the lawyers said. He refused to turn over credit card receipts to back up his expense records or to make restitution.

Prosecutors said Hubbell wrote checks to cover his expenses out of a "client advance" bank account maintained by the firm. Hubbell made up "fictitious" business expenses such as copying or travel, then had the firm bill clients. In some instances, he "wrote off" or deducted those purported business expenses when client bills were sent out, leaving the Rose firm to pick up the tab.

The government also charged that Hubbell inflated a number of hours he and other attorneys spent on various cases.

He used the money to pay bills on 10 different credit cards, the government said.

Among the clients Hubbell overcharged were two federal agencies that hired the Rose firm to pursue damages from officials of failed savings and loan institutions. The Resolution Trust Corp. and the Federal Deposit Insurance Corp. were on a list of 16 clients that were overcharged. Others included Tyson Foods Inc. and Worthen Bank.

The mail fraud count in the plea agreement concerns a bill for more than $1,300 in phony expenses that Hubbell sent the FDIC on March 7, 1990. Ewing told the court that some of that money actually went to pay for lingerie and clothing at a store in Dallas.

Hubbell also admitted evading income taxes in connection with the billing scheme. He reported income of $194,966 in 1992, but the added reimbursement for phony expenses he obtained that year pushed his true income up to $309,168, the government said. He is liable for unpaid taxes dating to 1989.

The Rose firm, which has been racked with turmoil since the Clintons came to Washington, issued a statement today noting that it took steps to uncover Hubbell's activities and report them to authorities. Rose officials said that they are in the process of reimbursing their clients and that the firm itself suffered the bulk of the financial losses caused by Hubbell's actions.

"We sincerely regret that a former member of this firm has engaged in financial misconduct," said a statement issued by managing partner Ronald M. Clark.

There are conflicting accounts of exactly when Rose partners learned of the seriousness of the billing improprieties.

One Rose source said the internal investigation began in the fall of 1992, before Hubbell left the firm for Washington.

Clark insisted, however, that the only problem that had arisen by then was the dispute over bills from a company owned by Hubbell's in-laws. The more serious billing issues came to the firm's attention in April 1993, he said. Ewing told the court today that the firm did not discover the billing problem until after Hubbell had gone to Washington.

Clark and another Rose senior partner, Jerry Jones, went to Washington on May 7, 1993, before the Senate vote on Hubbell's confirmation to try to get him to provide documentation for questionable expenses. "He said they could all be explained—we felt confident that he would do so," Clark said.

At the time of the FBI's extensive background check into Hubbell, Clark said, "we had no reason to believe any of this was going on."

On May 28, 1993, Hubbell was confirmed by the Senate to Justice's No. 3 job with responsibility for a broad array of noncriminal matters, including civil rights. Throughout the confirmation process, there was no hint of billing problems back in Arkansas.

In the late fall of 1993, the press reported that Hubbell may have had conflicts of interest when he took on an RTC lawsuit involving Madison. Several months later, in late February 1994, at the insistence of Republicans on the Senate Banking Committee, the RTC and FDIC inspectors general began investigations of Rose's handling of a number of their lawsuits against officials of failed S&Ls.

In early March, the firm prepared to file an ethics complaint and go public with allegations. The story leaked out instead.

Hubbell insisted that the claims stemmed from a simple dispute over his compensation. But to the astonishment of many who knew him, he said he could not fight the allegations while in the public eye. With agreement from the White House, he abruptly resigned.

One source who was questioned in October said the independent counsel's staff was trying to determine whether other Rose lawyers similarly inflated their bills and expenses.

Investigators had time sheets for all the Rose lawyers, the source said, and asked about the billing practices of Hillary Clinton and former White House deputy counsel Vincent Foster, who committed suicide in July 1993.

Clark said today that the firm did a cursory review of client bills sent out by Foster, Hillary Clinton and a another Rose partner who went to the White House, William Kennedy III. He said they found no irregularities.

Hubbell may be able to shed light on aspects of the Rose firm's relationship with Madison Guaranty Savings and Loan, a focus of Starr's investigation. Hillary Clinton represented the S&L in a matter before a state regulator appointed by her husband. Madison was owned by James McDougal, the Clintons' partner in the Whitewater real estate venture.

Staff writer Ann Devroy in Washington contributed to this report.

WEDNESDAY, DECEMBER 7, 1994 THE WASHINGTON POST

33

OVER

As the Veil of Propriety Is Lifted, Disbelief Sets In at Justice Dept.

By Sharon LaFraniere and Pierre Thomas
Washington Post Staff Writers

41

It was nothing but a billing dispute among law partners, Webster L. Hubbell told his colleagues at the Justice Department just nine months ago. Nothing out of the ordinary. Nothing that couldn't be resolved.

And they believed him, because Hubbell, former chief justice of the Arkansas Supreme Court, former ethics officer of his law firm, author of the state's ethics law, had a reputation for integrity much of Washington could envy. The fact that the president trusted him to vet top Cabinet officials was only one example of how much faith those who knew him had placed in him over the years.

Hubbell didn't give the impression he even cared about money—or about power, for that matter, although he had plenty of the latter by virtue of his long, close friendship with both Bill and Hillary Rodham Clinton.

Threads dangled from the sleeves of his lackluster suits. He took the Metro from his small Bethesda apartment to his fifth-floor office at the Justice Department, where he was the third-highest official. His financial disclosure form showed he was well-off, with assets of $1.6 million. But his manner never did.

So yesterday, Hubbell's former co-workers at the Justice Department—home of the congenitally suspicious and skeptical—could only marvel about how well they had been fooled. "Oh, my God," said one top official upon learning of Hubbell's admission that he bilked his clients, including the federal government, of more than $390,000. "This seems totally out of character."

From what Hubbell told them, "we viewed this as an internal squabble at his law firm, involving the Young Turks at the office rising up against the senior people who had gone to work in Washington," the official said.

How the Justice Department missed the misdeeds of one of its own is not an idle question. The FBI background interviews prior to Hubbell's confirmation in May 1993 as associate attorney general failed to yield any information on the conduct that led to yesterday's guilty plea, according to Justice and congressional sources. One FBI source said the bu-

See JUSTICE, A19, Col. 1

JUSTICE, From A1

reau will likely do an internal review of why a background check of Hubbell apparently did not turn up questions about his billings at the Rose Law Firm.

At least one Rose lawyer had voiced concerns to firm partners about apparent irregularities even before Clinton was elected, according to a source. But lawyers at the firm said that no charges they would describe as serious were made before Hubbell's confirmation.

"There was nothing to suggest this in the [FBI] file, and I looked at the closed part," said Sen. Dennis DeConcini (D-Ariz.), a member of the Senate Judiciary Committee that approved Hubbell's confirmation last year. "I'm really surprised."

No less bewilderment was heard in Little Rock, Ark., where Hubbell was once mayor. "There was a Webb Hubbell nobody knew," said one former legal associate.

One of the strongest believers in Hubbell, Attorney General Janet Reno, had nothing to say yesterday. She cited the need to protect the independence of the special prosecutor who handled Hubbell's guilty plea as the reason for her silence about the man she once called a "tireless crusader for doing the right thing."

Hubbell was nominated as associate attorney general in April 1993, after spending two months at the Justice Department as a liaison between the White House and Stuart M. Gerson, who served as acting attorney general until Reno took office. Shortly after moving into the attorney general's office, Reno said that discovering Hubbell there was "one of the best things to happen to me."

After The Washington Post first published a report of Hubbell's false billings early last March, Reno said she had known nothing about the allegations until shortly before she read about them in her morning newspaper. But she said Hubbell had satisfactorily explained the matter, and she had full confidence in "his honesty, his candor, his professionalism, and the sacrifices he's making to serve the American people."

Hubbell resigned from the Justice Department on March 14, saying that he was having "discussions" with his former Rose Firm partners, but was "confident . . . [that] all outstanding matters will be resolved satisfactorily."

"He was trustworthy, likable and extremely competent, a man of fairness," said one Justice Department official. "He certainly was not a highliver. . . . He wouldn't even take a taxi and wouldn't ever think of taking a limo."

How trusted was Hubbell? He helped Gerson, a holdover from the Bush administration, run the Justice Department for months while the White House flailed about, looking for an attorney general. After Reno was appointed, Hubbell continued to serve as the principal contact with the White House on major policy issues.

It was Hubbell, not Reno, who spoke to the president last year after a tear-gas assault by federal agents on the Waco, Tex., compound of the Branch Davidian religious sect provoked a fire that killed about 80 cultists.

Hubbell also passed on potential appointees for the Clinton transition team, including Henry Cisneros. Only after Hubbell submitted his report on Cisneros's payments to his former mistress did the transition team settle on Cisneros as housing secretary.

Said one Justice Department official of Hubbell: "I don't think anyone knew."

As the Veil of Propriety Is Lifted, Disbelief Sets In at Justice Dept.

By Sharon LaFraniere and Pierre Thomas
Washington Post Staff Writers

It was nothing but a billing dispute among law partners, Webster L. Hubbell told his colleagues at the Justice Department just nine months ago. Nothing out of the ordinary. Nothing that couldn't be resolved.

And they believed him, because Hubbell, former chief justice of the Arkansas Supreme Court, former ethics officer of his law firm, author of the state's ethics law, had a reputation for integrity much of Washington could envy. The fact that the president trusted him to vet top Cabinet officials was only one example of how much faith those who knew him had placed in him over the years.

Hubbell didn't give the impression he even cared about money—or about power, for that matter, although he had plenty of the latter by virtue of his long, close friendship with both Bill and Hillary Rodham Clinton.

Threads dangled from the sleeves of his lackluster suits. He took the Metro from his small Bethesda apartment to his fifth-floor office at the Justice Department, where he was the third-highest official. His financial disclosure form showed he was well-off, with assets of $1.6 million. But his manner never did.

So yesterday, Hubbell's former co-workers at the Justice Department—home of the congenitally suspicious and skeptical—could only marvel about how well they had been fooled. "Oh, my God," said one top official upon learning of Hubbell's admission that he bilked his clients, including the federal government, of more than $390,000. "This seems totally out of character."

From what Hubbell told them, "we viewed this as an internal squabble at his law firm, involving the Young Turks at the office rising up against the senior people who had gone to work in Washington," the official said.

How the Justice Department missed the misdeeds of one of its own is not an idle question. The FBI background interviews prior to Hubbell's confirmation in May 1993 as associate attorney general failed to yield any information on the conduct that led to yesterday's guilty plea, according to Justice and congressional sources. One FBI source said the bu-

See JUSTICE, A19, Col. 1

JUSTICE, From A1

reau will likely do an internal review of why a background check of Hubbell apparently did not turn up questions about his billings at the Rose Law Firm.

At least one Rose lawyer had voiced concerns to firm partners about apparent irregularities even before Clinton was elected, according to a source. But lawyers at the firm said that no charges they would describe as serious were made before Hubbell's confirmation.

"There was nothing to suggest this in the [FBI] file, and I looked at the closed part," said Sen. Dennis DeConcini (D-Ariz.), a member of the Senate Judiciary Committee that approved Hubbell's confirmation last year. "I'm really surprised."

No less bewilderment was heard in Little Rock, Ark., where Hubbell was once mayor. "There was a Webb Hubbell nobody knew," said one former legal associate.

One of the strongest believers in Hubbell, Attorney General Janet Reno, had nothing to say yesterday. She cited the need to protect the independence of the special prosecutor who handled Hubbell's guilty plea as the reason for her silence about the man she once called a "tireless crusader for doing the right thing."

Hubbell was nominated as associate attorney general in April 1993, after spending two months at the Justice Department as a liaison between the White House and Stuart M. Gerson, who served as acting attorney general until Reno took office. Shortly after moving into the attorney general's office, Reno said that discovering Hubbell there was "one of the best things to happen to me."

After The Washington Post first published a report of Hubbell's false billings early last March, Reno said she had known nothing about the allegations until shortly before she read about them in her morning newspaper. But she said Hubbell had satisfactorily explained the matter, and she had full confidence in "his honesty, his candor, his professionalism, and the sacrifices he's making to serve the American people."

Hubbell resigned from the Justice Department on March 14, saying that he was having "discussions" with his former Rose Firm partners, but was "confident . . . [that] all outstanding matters will be resolved satisfactorily."

"He was trustworthy, likable and extremely competent, a man of fairness," said one Justice Department official. "He certainly was not a highliver. . . . He wouldn't even take a taxi and wouldn't ever think of taking a limo."

How trusted was Hubbell? He helped Gerson, a holdover from the Bush administration, run the Justice Department for months while the White House flailed about, looking for an attorney general. After Reno was appointed, Hubbell continued to serve as the principal contact with the White House on major policy issues.

It was Hubbell, not Reno, who spoke to the president last year after a tear-gas assault by federal agents on the Waco, Tex., compound of the Branch Davidian religious sect provoked a fire that killed about 80 cultists.

Hubbell also passed on potential appointees for the Clinton transition team, including Henry Cisneros. Only after Hubbell submitted his report on Cisneros's payments to his former mistress did the transition team settle on Cisneros as housing secretary.

Said one Justice Department official of Hubbell: "I don't think anyone knew."

Persisting on Whitewater

Whitewater is back, without televised Senate hearings for the moment. The affair has returned in humbler guise — the patient prosecutorial efforts of Kenneth Starr, the independent counsel. He has now reached two plea bargains — from Robert Palmer, a land appraiser whose phony estimates appear to have enriched his associates at great cost to the American taxpayer; and from Webster Hubbell, personally installed by the President as political manager of the Justice Department.

It is important to review what these developments mean and do not mean for Mr. Clinton and Hillary Rodham Clinton. The downfall of even so close an associate as Mr. Hubbell does not mean that the Clintons have done anything wrong. Similarly, Mr. Palmer seems more closely tied to Jim Guy Tucker, the Governor of Arkansas. But the Palmer case establishes beyond a doubt that there were serious problems of mismanagement and political favoritism at Madison Guaranty, a savings and loan operated by James McDougal, the Clintons' business parther in the Whitewater Development Corporation.

This makes all the more pressing the questions that the Clintons, their campaign aides and the White House have refused to answer for three years. Why would they suffer grave political damage, periods of near-paralysis in the Government and the loss of friends to resignation and legal problems rather than answer straightforward questions about their finances? No one save Mr. and Mrs. Clinton knows the answer to that mystery.

In any case, questions that were valid in 1992 are more so now that Mr. Starr has cast new light onto Madison's tangled affairs. Were depositors' or Mr. McDougal's funds used to the Clintons' benefit in the Whitewater real estate venture, in which the Clintons had a 50 percent interest? If neither, why did the Clintons claim losses of $47,000, when Mr. McDougal — on paper an equal partner — claimed twice that amount? Was someone putting money into Whitewater on the Clintons' behalf, and if so, what did that do to their income tax obligation?

Given Mr. McDougal's role as a fund-raiser and banker for the campaign, were Madison funds used to pay off Mr. Clinton's 1984 campaign debts? Did Mr. McDougal and his savings and loan receive favorable treatment from Clinton-appointed bank regulators, increasing the cost to taxpayers when Madison collapsed?

Compared with the scope of these unanswered questions, Mr. Palmer, the appraiser, seems like small fry. But in fact he was the foundation upon which Mr. McDougal built his fraudulent savings and loan, creating fictitious values that allowed Mr. McDougal to pursue his schemes.

It is unclear what, if anything, Mr. Hubbell has to tell about Whitewater, Madison and Mrs. Clinton's legal work for the savings and loan. But as our colleague William Safire observes, the prosecutor and Congress must review Mr. Hubbell's work at Justice in light of what we now know about his standards as an attorney. A key question is whether the Department, under his political stewardship, tried to bury criminal referrals made by banking officials about Madison Guaranty's dubious lending practices. These referrals were not acted upon in a timely way and might never have surfaced had not investigators gone public with their frustrations.

Mr. Starr's apparent progress seems to have dissuaded Senator Alfonse D'Amato from quickly reopening full-scale hearings. Mr. D'Amato will be the new chairman of the Senate Banking Committee, and he is clearly eager to exercise its legitimate oversight role in Madison's failure. But he was the soul of deference on television last weekend, leaving the firm impression that he will continue to honor Congress's commitment not to compete with the important Arkansas phase of Mr. Starr's investigation until Mr. Starr agrees.

Mr. D'Amato's caution makes sense, at least for now. The Republicans would be foolish to act vindictively — especially when Mr. Starr seems to be making plenty of headway on his own. As a result, those who have questioned the entire business of investigating Whitewater have been answered. There is every reason for the special prosecutor and Congress to keep seeking answers.

Mr. Clinton Will Miss Mr. Bentsen

Treasury Secretary Lloyd Bentsen's resignation is bad news to a battered White House. Mr. Bentsen knows best what the Administration desperately needs to learn: how to deal with a Republican-led Congress. His consistent voice for policy moderation will be missed among a chorus of advisers who remain befuddled about what the voters meant when they rejected the Democrats.

Mr. Bentsen's clout on Capitol Hill was important to Mr. Clinton's major legislative victories. He fought hard within the Administration, and then in Congress, for a budget that would cut the deficit and raise spending on training and education — beating back advice from White House pollsters who pushed Mr. Clinton to promise a tax cut he knew the Government could not afford.

He also overcame bad advice from Democrats like the majority leader, Richard Gephardt, and independents like Ross Perot to scuttle Nafta, the free-trade accord with Mexico and Canada. He rounded up desperately needed votes in the Senate last week for the GATT trade agreement.

Mr. Bentsen marshaled votes against a balanced-budget amendment that, among other glaring faults, would have stymied the Government's ability to fight off recession. He also deserves praise for refraining from taking cheap shots at the Federal Reserve Board for raising interest rates as the economy grew at a rate he knew was unsustainable.

Mr. Bentsen did not always win. His advocacy of a politically feasible health-care bill lost out to First Lady Hillary Clinton's grander plan.

And at times, he carried caution too far. He did not push for ambitious policies — overhauling the tax code, for example — that could address profound economic problems like the nation's stagnant productivity or pathetically low savings rate.

Mr. Bentsen has thus left a void that the Republicans intend to fill, unfortunately, with tax policies to reward the rich and punish the poor.

Robert Rubin, another fiscal moderate, who runs the President's National Economic Council, will be nominated to replace Mr. Bentsen. He is a wise choice; as one Administration official observed, Mr. Rubin, the wealthy former head of Goldman Sachs, has the "highest ratio of money to ego" in Washington. He is a seasoned financial expert who wins policy fights without bruising the feelings of his White House colleagues.

But even if Mr. Rubin counsels his President well, he will find it hard to replace Mr. Bentsen in one respect. Mr. Clinton will have lost the one Cabinet Secretary who came with built-in credibility in Congress.

Private Lessons for New Lawmakers

By Al Kamen
Washington Post Staff Writer

Glasnost on the Potomac, the Republicans weigh in.

There's been much rhetoric from Gingrich and Co. about opening up the activities of the House of Representatives to give Americans a better understanding of how their government works, along with excoriation of secret Democrat dealmaking.

They haven't taken over yet, but early signs are not altogether promising. The Heritage Foundation's orientation session this week in Baltimore for freshman legislators—where they learn how to "Be Like Newt" and how to find the cloakroom—is largely closed to the media. No C-SPAN. Nothing.

The only sessions reporters can attend are meals.

This contrasts mightily with the policy of Harvard's Kennedy School of Government—when it hosted similar sessions. Then most sessions were open to the media. The exceptions were the "informal" sessions, where "participants talked about their personal experiences" in a "sharing time" setting, said Kennedy School aide **Donna Watkins-Steiling**.

Dave Mason, Heritage's expert on congressional reform issues, said the closed sessions would be better because the "members-elect won't ask the kinds of questions in open sessions that they would ask in closed sessions," and therefore "won't learn as much. They won't want to ask what might appear to be stupid questions but aren't," he said.

Seventy of the nearly 100 new members have signed up, including some senators and two incoming Democrats, Mason said.

The media will be kept in a room adjacent to the ballroom for the orientation, presumably primed to ambush hapless students during breaks.

Heritage is providing bus service to Baltimore for those who want it, but says it will not use Air Force jets to transport the legislators, something that happened when the sessions were in Boston.

Mason argued that the closed-session policy is not new. It was in effect two years ago when Heritage first began the orientations. Maybe so, but no one cared two years ago.

Assigned Reading

■ Incoming House speaker **Newt Gingrich's** eight-book recommended reading list for GOP House members—also on his college course reading list—is packed full of action thrillers for budding policy junkies and futurists.

After the Declaration of Independence, the Federalist Papers and **Alexis de Tocqueville's** "Democracy in America," the eight-book list is the Essential Newt. The 20-year-old "Washington: The Indispensable Man," by **James T. Flexner**, extols a figure whose greatness Gingrich thinks the left has trivialized but who is a character of great note.

The remaining four books are Gingrich as futurist. "Creating a New Civilization: The Politics of the Third Wave," by **Alvin and Heidi Toffler**; **Mary E. Boone's** "Leadership and the Computer" talks about how corporations can use computers to increase productivity and effectiveness, which can lead to a "virtual Congress" in Gingrich's view, through the information superhighway. **Peter F. Drucker's** 27-year-old classic, "The Effective Executive," is a how-to book on managing time.

The last book, "Working Without a Net: How to Survive and Thrive in Today's High Risk Business World," is by **Morris R. Shechtman**, a self-described corporate psychotherapist who sees constant change as the rule in a world with no more lifelong jobs, no more security, predictability or permanence. Democrats will find this especially useful.

Foreign Relations Staff Cut

■ The blood has been let on the Democratic side of the Senate Foreign Relations Committee. Stalwarts such as longtime staff director **Geryld B. Christianson** and spokesman **Frank A. Sieverts**, both former foreign service officers, are "available and looking" for work along with other staffers.

Incoming ranking minority member **Sen. Claiborne Pell (D-R.I.)**—**Sen. Joseph R. Biden Jr. (D-Del.)** has decided not to challenge him for the seat—is for the most part keeping the core staff who were into the bunker last time the Republicans ran the Senate. That would include **Janice M. O'Connell**, who assists **Sen. Christopher J. Dodd (D-Conn.)**, on Latin America issues, **Nancy H. Stetson**, who assists **Sen. John F. Kerry (D-Mass.)** on State Department budget matters, **George W. "Bill" Ashworth**, who backstops Pell on disarmament matters. Legal counsel **Edwin K. Hall**, a more recent arrival, is to be the minority staff director.

Foggy Bottom's Passport to Budget Worries

■ Speaking of the Senate Foreign Relations Committee, the point man on the State Department budget for incoming chairman **Jesse Helms (R-N.C.)** is none other than **Steven K. Berry**, a former State Department official who came under fire in the controversy over Clinton's passport records.

That was the '92 campaign dust-up in which State Department employees searched the passport files of Clinton and his mother looking for evidence that Clinton wanted to renounced his citizenship because of the Vietnam War.

Berry, then an acting assistant secretary of state for legislative affairs, recently sued his former colleagues for $3 million on the grounds that they improperly monitored his phone calls at the State Department and damaged his reputation.

Some folks at State are a bit uneasy seeing Berry in his new role, fearing he might seek revenge. Those who know him say they shouldn't worry for that reason, but there's no doubt the Foggy Bottom crowd will not like his numbers.

Park Service Wants It in Writing

■ The National Park Service, arguably the most popular government agency, is not taking calls, thank you. A call to the public inquiries line gets a recording from a metallic voice that says: "Thank you for calling the office of park information. We are unable to respond to your request by telephone. . . . Kindly mail your questions to us . . . attention public inquiries."

A CLINTON FRIEND ADMITS MAIL FRAUD AND TAX EVASION

Ex-Justice Official Pleads Guilty to Fraud

ACTS IN PLEA AGREEMENT

Hubbell, Ex-Justice Official and Close Ally of the President, to Cooperate in Inquiry

A1

By STEPHEN LABATON
Special to The New York Times

LITTLE ROCK, Ark., Dec. 6 — Webster L. Hubbell, a trusted friend of Bill Clinton and former law partner of Hillary Rodham Clinton who became one of the nation's top law-enforcement officials, admitted today that he stole at least $394,000 from his law partners and more than a dozen clients, including the Federal Government, before he arrived in Washington last year.

In a Federal district court here, Mr. Hubbell pleaded guilty to two felony counts of mail fraud and tax evasion. His head bowed, he confirmed that on more than 400 occasions he submitted bills to cover personal expenses from 1989 to 1992 and concealed the theft with phony expense vouchers and inflated accounts of the hours he worked for clients.

Mr. Hubbell also failed to report the income to pay taxes on the money, including on the tax return he filed last year for 1992 while serving as the White House's liaison to the Justice Department.

Once referred to by Mr. Clinton as his closest friend, Mr. Hubbell spoke today in a voice choking with emotion as he asked forgiveness for betraying the faith of those who cared most for him.

"I want this court to know that I take full responsibility for my actions and accept the full and complete consequences for them, which are substantial," he said slowly and barely audibly, supported by his lawyer, John Nields, and pausing regularly in a futile attempt to keep his composure. "I know it is a painful day for my family and friends. I hope that by pleading guilty I've taken the first step of easing my friends and family's pain, and only hope it will justify restoring their faith in me."

Outlining the case he was prepared to try against Mr. Hubbell, the prosecutor, W. Hickman Ewing Jr., said Mr. Hubbell had systematically taken money from the Rose law firm here, often by simply filling out expense vouchers and taking the proceeds to pay off charges he had incurred on three American Express

Continued on Page B11, Column 1

Continued From Page A1

cards, three Visa cards and four MasterCards. He said the expenses included such items as clothing purchases in Dallas and at a Victoria's Secret store in Little Rock.

Mr. Ewing said investigators had found that the expenses he billed included more than $26,000 at restaurants, which the prosecutors decided not to count as part of the $394,000 total because they could not determine how much of the food expenses were personal and how much were for business.

As part of the plea agreement, Mr. Hubbell pledged to provide "substantial assistance" to the investigation being conducted by the Whitewater special counsel, Kenneth W. Starr.

The charges against Mr. Hubbell are only tangentially related to the thrust of Mr. Starr's inquiry, but the prosecutor's charter gives him the authority to act on any he crimes he learns of in the course of investigating the Whitewater real estate venture. Some of Mr. Hubbell's fake billings were for work his law firm was doing for Federal regulators looking into the failure of a savings association, Madison Guaranty, owned by the Clinton's partner in the Whitewater development project.

Mr. Hubbell, who resigned as Associate Attorney General in March after reports emerged of a dispute with his former partners at the Rose firm here over his billings, has yet to be debriefed by the Whitewater prosecutors.

What he intends to tell them remains shrouded in secrecy. That has fueled a sense of anxiety at the White House and one of opportunity among Congressional Republicans. It may be many months before it becomes known whether he turns into a significant witness for the prosecution, or is merely its highest ranking casualty.

This evening, the White House made public a written statement in which Mr. Clinton expressed sadness about what had befallen his longtime golfing partner and confidant.

"Webb Hubbell is an old friend, and Hillary and I were saddened by today's events," Mr. Clinton said in the statement. "We should also remember that Webb is a man who has given much to his family, his community and his country. The matter is in the hands of the court, and I don't think it would be appropriate to say anything more at this time."

David E. Kendall, the Clintons' personal lawyer, today tried to distance his clients from Mr. Hubbell. "This matter simply does not concern the President, the First Lady or the Whitewater Development Company in any way," Mr. Kendall said.

On each count, Mr. Hubbell faces a maximum of five years in prison and a fine of up to $250,000, although the range under the sentencing guidelines used by judges that is in today's plea agreement is from 21 to 27 months. That range may be increased if investigators find that he took more than $394,000. And it can be decreased if he cooperates with the Whitewater prosecutors, who under the plea agreement are required to request a reduction in his sentence if in their judgment he provides "substantial assistance."

Mr. Starr said here today that he was looking forward to Mr. Hubbell's cooperation.

For 15 years, Mr. Hubbell has been among the closest of the Clintons' confidants. As Governor, Mr. Clinton appointed him to serve briefly as the

Webster Hubbell, a Clinton friend, will aid the Whitewater prosecutor.

Chief Justice of the Arkansas Supreme Court, and later, he was enlisted to help draft an ethics law. What makes Mr. Hubbell's agreement to assist prosecutors so significant is that if he were so inclined, he is in a position to give an insider's account of several areas being examined by Federal investigators, including these:

¶Mr. Hubbell was a partner to Mrs. Clinton at the Rose law firm in the 1980's, and was the Clintons' spokesman during the Presidential campaign to respond to questions related to some of their business interests and personal finances. He could provide information about how Mrs. Clinton came to be retained by Madison Guaranty Savings and Loan to do work before a state securities commissioner appointed by then-Governor Clinton. Madison, which failed in 1989, had been owned and operated by the Clintons business partners in Whitewater, James B. McDougal and his then-wife Susan. The savings association is being investigated for improperly funneling money into Whitewater and into Mr. Clinton's 1984 gubernatorial campaign. And the Rose firm is being investigated over whether it failed to disclose conflicts of interest who hired it to sue Madison's accountants after Madison collapsed.

¶After the 1992 election, Mr. Hubbell was one of the transition's senior officials responsible for vetting appointments to the cabinet and other top positions, and is thus in a position to know about many of the young Administration's closely held secrets.

¶Finally, Mr. Hubbell was at the Justice Department at the time it was handling several highly sensitive referrals for criminal investigations made by Federal regulators that touched on the Clintons. He is certain to be questioned by the Whitewater prosecutors about how the Justice Department handled the referrals that related to Madison, and about how the department treated allegations by a former Arkansas municipal judge who says he was pressured by Mr. Clinton to approve an improper Federally insured loan to Mrs. McDougal.

Mr. Hubbell becomes the highest ranking Justice Department official to stand convicted of crimes since the fall during the Watergate scandal of Attorney General Richard G. Kleindienst and Attorney General John Mitchell.

Under questioning by the Federal District Judge Bill Wilson, Mr. Hubbell said he was under medication for high blood pressure, but that the drug had no effect on his judgment.

"I am at myself," he said.

A few moments later, when the judge asked him to enter a plea, he paused, looked down and said: "Your honor, I plead guilty."

Although Mr. Hubbell's title made him the No. 3 official at the Justice Department, in practice he was much more than that. Arriving in Washington months before Janet Reno was nominated to lead the department, he took over the office that is attached to the Attorney General's suite and was, for all practical purposes, running the department. After she became Attorney General in April 1993, he became her ally and helped to smooth her often turbulent relationship with the White House.

The criminal investigation into Mr. Hubbell's billing practices began after the Rose firm filed an ethics complaint against him in March, about the same time he resigned from the Justice Department.

The firm has been under investigation by Federal regulators for possible conflict of interest violations. It represented Madison in the 1980's, and after it collapsed, Mr. Hubbell represented Federal regulators in a lawsuit against Madison's accountants. In addition, Mr. Hubbell's father-in-law, Seth Ward, whose company had been a client of Mr. Hubbell's, was engaged in lawsuits against Madison.

2

STORED PLUTONIUM MAY BE A DANGER, GOVERNMENT SAYS

CONTAINERS COULD LEAK

Deadly Radioactive Substance Was Put Aside Temporarily During 80's Arms Cuts

By MATTHEW L. WALD

American nuclear weapons plants have thousands of containers of plutonium that could spill their deadly contents before the material is properly disposed of, posing significant risks to workers and some risks to the public as well, the Department of Energy said yesterday.

The plutonium, 26 metric tons in liquids, solids and powders at 13 sites around the country, was left over when production of nuclear arms materials abruptly stopped in the late 1980's. Because few thought the shutdown would become permanent, much of the plutonium is being stored in forms that can leak.

"The containers were really only intended to hold the stuff until we got around to recycling it in the next weapons campaign," Dr. Tara O'Toole, Assistant Secretary of Energy for Environment, Safety and Health, said yesterday in a telephone conference call with reporters. Now, she said, radiation from the plutonium is breaking down metal and plastic in the containers; several have already leaked, prompting an extensive study.

Some containers are so old that no one knows the form of the plutonium inside. Lawrence Livermore National Laboratory, in Livermore, Calif., has 282 such containers, of which 8 are bulging because of "unanticipated conditions," according to the Energy Department report, which was released yesterday.

Dr. O'Toole made her comments after the study was reported in the Rocky Mountain News on Monday. The study identified Rocky Flats, near Denver, as being the most vulnerable, but also noted problems at the Savannah River site, near Aiken, S.C.; Hanford, near Richland, Wash.; the Los Alamos National Laboratory in New Mexico; Oak Ridge, Tenn., and the Pantex Plant near Amarillo, Tex.

Some data in the report had been released before, but the department's overview, detailing 299 safety and health problems, gave a dismal impression.

"Over all, the department's inventory of plutonium presents significant hazards to workers, the public and environment, and little progress has been made to aggressively address the problem," the report said. "At nearly all major sites, this assessment identified conditions which pose hazards to workers, and several sites have vulnerabilities that could affect the public and environment."

The Energy Department is still working on plans to repackage the material and said it may take 10 to 20 years to find a long-term solution to the storage and disposal problems.

Arjun Makhijani of the Institute for Energy and Environmental Research, which has been critical of the Energy Department, said: "What they have done to turn off the weapons complex, in everyday terms, is like turning off your car, including power steering and power brakes, when you're going down the road at 60 miles per hour. You lose all the tools for controlling the beast."

The plutonium is in various forms; some of it is not in containers at all, but in piping, air ducts and process tanks. No one is certain how much is in pipes and ducts, Dr. O'Toole said, but "we think we know where most of it is."

The material in tanks could concentrate itself in a way that could cause an accidental nuclear chain reaction, and the plutonium in ducts and pipes could also accidentally come together into a "critical mass" during cleanup operations, officials said. Such a chain reaction would not produce much of a blast but could give off a life-threatening shower of neutron radiation in the immediate area, experts said.

Plutonium stored in plastic bags or metal cans attacks its packaging in several ways. In some cases radiation breaks down plastic and makes hydrogen gas. "Eventually you have a pressurized container, and that stuff leaks into the environment," Dr. O'Toole said.

She said that in other cases, the radiation weakens the metal in what the department calls tuna cans, small containers of plutonium, which expands like rust as it combines with oxygen, also rupturing containers.

The Energy Department's plutonium study, described as the largest the department has undertaken, concluded that packaging is "widely deficient for long-term storage," which Dr. O'Toole said meant 10 years or more.

Department officials said yesterday that they did not know how long it would take to repackage materials or to process them into more stable forms, or how much it would cost. At Rocky Flats, where plutonium was shaped into the form used in bombs, the Energy Department will spend $200 million to stabilize plutonium, Dr. O'Toole said.

Meanwhile, conditions in the 35 sites covered in the study are getting worse, the study said. Weapons plants have lost staff, Dr. O'Toole said, and preventive maintenance has been cut back.

Groups opposed to nuclear weapons described the risks as grave but said that, because of budget problems, a cleanup was not assured.

"The Republicans have been talking about cutting what is generally thought of as an environmental cleanup program, some green, tree-hugging program," said Daryl Kimball, a spokesman for the Physicians for Social Responsibility. "If you take a look at risks that are out there, one needs to think twice whether these programs can be reduced."

The design of some plants makes inspections difficult, the Energy Department's report said. At Rocky Flats, some containers with liquid plutonium solutions have neutron-absorbing material inside, to reduce the chance of an accidental chain reaction. That material can be inspected only by draining the tanks, but the tanks cannot be drained because Rocky Flats is shut down.

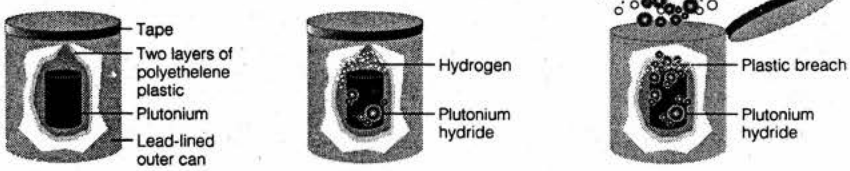
The report found numerous risks to workers, from the chance of an accidental chain reaction, which creates a localized shower of radiation, to the breakup of plutonium into fine particles, which can cause cancer if they are inhaled. It found several situations that could pose risks to the public, but said that all of them were unlikely to become problems.

Awaiting disposal, deadly radioactive material can eat through containers.

Those included five buildings at Rocky Flats with more than 8,000 drums containing plutonium and combustible materials, where large internal fires or explosions could break the building open. Some buildings at Rocky Flats are also vulnerable to earthquakes and airplane crashes.

Plutonium in solutions in large tanks at Savannah River, a plutonium manufacturing site, could accidentally concentrate and cause a nuclear reaction, allowing it to become airborne and be released to the environment, the study found. At the Mound laboratory site in Miamisburg, Ohio, a building that stores plutonium has no high-efficiency filters to protect the public in the event of packaging failure. At Hanford, in Washington state, where plutonium was manufactured and purified, 15 unused buildings have "plutonium remaining in equipment or underneath scalants such as paint," the report found.

The Breakdown of Plutonium Storage



STORAGE Five kilograms of plutonium metal wrapped in plastic, placed in a lead-lined outer can and sealed with tape 10 years ago.

BREAKDOWN Radiation from the plutonium breaks down the plastic, creating hydrogen, which interacts with the plutonium to form plutonium hydride.

DISPERSAL When the can is opened and the bag pulled, the bag disintegrates and oxygen from the air reacts chemically with the plutonium hydride to disperse the plutonium, contaminating the area.

Source: Los Alamos National Laboratory

The New York Times

THE NEW YORK TIMES, WEDNESDAY, DECEMBER 7, 1994

bc-gartner

COURT KEEPS LID ON WHITEWATER PAPERS
Gartner Commentary
For Immediate Release
By MICHAEL GARTNER=

CAMBRIDGE, Mass. If you have any outrage left if you haven't used it all up on Jesse Helms or Hillary Clinton or Newt Gingrich or whomever you're mad at this week direct it at David Sentelle, John Butzner and Peter P. Fay.

They are doing far more damage to you and to your country than are the front-page, household names you're used to grousing about.

Sentelle is a judge on the U.S. Court of Appeals for the District of Columbia circuit, and Butzner and Fay are senior appellate judges. They have issued a ruling in a case involving The Wall Street Journal, and they have told the Journal and the rest of the press that it can't even print what the ruling is.

Let me go over that one more time for you:

A court has ruled in an important case and told the press it can't tell you and me what it ruled.

It's outrageous.

It's bizarre.

It's unconstitutional.

But it has happened. In America.

Here are the facts:

In January, Attorney General Janet Reno appointed Robert Fiske to investigate the Whitewater matter. He looked into the death of Vincent Foster, the removal of documents from his office, and that whole mess alleged mess, at least involving the Clintons, Whitewater Development Corp. and Madison Guaranty Savings and Loan.

In August, after a change in the law about how investigations were to be handled, a special arm of the Circuit Court of Appeals took jurisdiction from the attorney general and replaced Fiske with Kenneth W. Starr. Fiske then turned in apparently his final report, filing it with the Circuit Court.

In October, The Wall Street Journal heard that Fiske had indeed filed his report and that it had been sealed by the court. The Journal then went to court and asked for a copy of the report if such a report exists.

Nothing happened.

Fiske and Starr filed responses with the court but didn't tell the Journal.

A Journal lawyer then called the office of each man and asked for a copy of his response.

Each ``refused to comment on that topic, and would not even disclose whether they had filed a response,'' a court document states.

In November, the court ruled on the Journal's request for a copy of the Fiske report. Presumably, the court said the Journal couldn't have it. But and here the outrage quadruples the court sealed its own response.

And it told the Journal it could not print a story saying what that response was.

This is known, in the language of the law, as a ``prior restraint.''

``Prior restraints on speech and publication are the most serious and the least tolerable infringement on First Amendment rights,'' the Supreme Court noted in 1976. The ``damage can be particularly great when the prior restraint falls upon the communication of news and commentary on current events,'' it added.

Not even the Pentagon Papers that explosive history of the war in Vietnam with reams of classified information were deemed too sensitive for our eyes. The Nixon administration tried to stop us from reading them it sought a prior restraint but the Supreme Court said no.

In appealing to the Supreme Court to overturn this prior restraint, lawyers for The Wall Street Journal wrote: ``It is inconceivable that there

can be any legitimate, much less extraordinary, reason for shielding the public from knowledge that'' and there the sentence ends. For the appeal is a public document, and therefore it cannot say what's under seal.

It implies that the Journal lawyers know what's in the sealed document, but if they do they aren't talking.

The Appeals Court ``did not even attempt to explain or justify the prohibition against publication before entering it,'' the brief states.

I called the Appeals Court and asked the clerk why the decision had been sealed. ``I can't answer it. I can't even discuss it,'' he said. ``There is no public record of it, so I can't speak about it.'' Perhaps I could speak to one of the judges, I said. ``The court speaks through me,'' he replied.

The Wall Street Journal appealed to Chief Justice William H. Rehnquist, and Monday he apparently sidestepped the issue.

So this is the situation:

Robert Fiske, the Whitewater investigator, presumably has written and filed a final report. The Wall Street Journal has asked to see a copy. The court apparently has said ``no.'' And the court has told The Wall Street Journal that it can't even tell that to anyone.

Why?

---= Gartner, editor of the Ames (Iowa) Daily Tribune, is former editor of The Louisville Courier-Journal and The Des Moines Register and former president of NBC News. Write to him care of Gannett News Service, 1000 Wilson Blvd., Arlington, Va. 22229-0001.

**** filed by:GN-F(--) on 12/06/94 at 16:23EST ****
**** printed by:WHPR(103) on 12/07/94 at 08:19EST ****

PM-AR--Whitewater-Hubbell, Ark Bjt,840
Clinton Friend Falls From Top Government Job to Potential Jail Term
AP Photos LR101, LR102 of Dec. 7; LR101, LR102, LR103 of Dec. 6
kktpstffonflshou
By KELLY P. KISSEL= Associated Press Writer=

LITTLE ROCK (AP) Confident to the end, Webster Hubbell's voice finally cracked as he said the words that sealed his remarkable free-fall from the pinnacles of government power.

``Your honor, I plead guilty,'' a disgraced Hubbell told a federal judge Tuesday, admitting to two felonies and a scheme that prosecutors said defrauded his former law partners and clients of nearly $400,000.

Just nine months after he stepped down as the nation's third-highest law enforcement official, President Clinton's golfing buddy and longtime confidant became the first administration official to admit to criminal activity as a result of the Whitewater probe.

Afterward, he offered a simple apology for tarnishing the confidence once entrusted to him.

``I deeply regret that my actions have afflicted my family and friends and those who have placed me in a position of trust,'' the former associate attorney general said.

``I know today is a very painful day for them. If the consequences of my action were only mine, this could be easier, but they're not,'' he said.

From Arkansas to Washington, Hubbell had once been considered a man above reproach.

He was a football hero, playing for the Arkansas Razorbacks' storied 1969 Sugar Bowl team. He was chairman of the state bar association's ethics committee. He was a state Supreme Court justice.

And he was leading a secret life.

He padded his pockets at the expense of 15 clients and the Rose Law Firm where he worked with Hillary Rodham Clinton. He falsely billed federal banking agencies for Whitewater-related work. He lied on his tax return.

``I think this is a time for all of us to reflect on what is an unfortunate day, but nonetheless is necessary and is part of an ongoing investigation,'' special prosecutor Kenneth Starr said.

Under a plea bargain, Hubbell, 46, will cooperate with Starr's wide-ranging investigation into the business activities of the Clintons and other prominent Arkansans.

During an hour-long hearing in U.S. District Court, prosecutors described a scheme in which Hubbell, as a private attorney, billed clients or the Rose firm for personal expenses he had charged to several credit cards.

Assistant special counsel W. Hickman Ewing Jr. said the amount totaled at least $394,000 between 1989 and 1993. There were 400 separate occasions on which Hubbell fraudulently tapped Rose accounts, Ewing said.

Hubbell admitted to mail fraud and tax evasion, two felonies.

Each charge carries a maximum of 5 years in prison and a $250,000 fine. U.S. District Judge William R. Wilson agreed to release Hubbell without bail, pending sentencing. No date was set.

Under federal sentencing guidelines discussed in court, Hubbell could face 27 to 33 months in prison if Wilson chose to impose concurrent sentences. Hubbell also could ask the court for a shorter sentence or probation.

What brought Starr's office into the case were two clients who were overbilled: the FDIC and Resolution Trust Corp., which hired Rose to handle matters related to the failure of Madison Guaranty Savings and Loan, the thrift at the center of the Whitewater investigation.

The S&L was owned by James McDougal, who with his wife Susan was a business partner with President and Mrs. Clinton in Whitewater.

Calling Hubbell ``an old friend,'' Clinton said he and his wife, Hillary, were saddened by Tuesday's events.

``We should remember that Webb is a man who has given much to his family, his community and his country,'' Clinton said in a statement released by the

White House. ``The matter is in the hands of the court, and I don't think it would be appropriate to say anything more than that.''

Upon arriving in Washington, Hubbell was entrusted by the president to review high-level nominees for the new administration. He was appointed to Justice, but resigned in March after questions came up about his billing at the Rose firm.

At the time, Hubbell confidently insisted his resignation was to protect the administration from unwanted publicity and declared he had done nothing wrong. But Starr's office found plenty wrong.

On the tax evasion charge, prosecutors alleged Hubbell underreported his income by more than $100,000 in 1992. They said he paid federal income taxes of $32,193 that year but should have paid $71,358.

Starr also accused Hubbell of mailing false bills to the FDIC.

With Hubbell's cooperation, Whitewater prosecutors want to explore whether there was any political interference by the Clinton administration during the early Whitewater investigations.

Hubbell also could be used to explore Clinton ties to Madison Guaranty.

**** filed by:APW-(AR) on 12/07/94 at 00:34EST ****
**** printed by:WHPR(103) on 12/07/94 at 08:17EST ****

PM-NE-MO--Rooney-Boys Town,410
Star of `Boys Town' Endorses Gingrich Plan for Orphanages
By JERRY NACHTIGAL= Associated Press Writer=

SPRINGFIELD, Mo. (AP) Mickey Rooney, who starred in ``Boys Town'' six decades ago, agrees with House Speaker-designate Newt Gingrich's endorsement of orphanages as a welfare alternative.

Rooney said he wrote to Gingrich offering his help in getting the proposal enacted.

``If this country can subsidize farmers and this and that, I certainly think you can spend, say, $4 million to build a campus with a commissary and beds in little houses where these children can be in a family setting,'' he said.

The government could better combat crime and delinquency among troubled youths ``by having a Boys and Girls Town in every state in the union,'' Rooney said Tuesday from Branson, where he was performing.

Gingrich, R-Ga., challenged first lady Hillary Rodham Clinton on NBC's ``Meet the Press'' Sunday to watch the 1938 movie before discounting orphanages.

Gingrich supports placing certain children in orphanages as an alternative to welfare payments to parents, a concept Mrs. Clinton has called ``unbelievable and absurd.''

Founded as a home for troubled youths in 1917, Boys Town became famous after the movie starring Rooney and Spencer Tracy, who won an Academy Award for his role. Boys Town, just west of Omaha, Neb., serves 20,000 troubled boys and girls in 16 centers nationwide.

Rooney, 74, a Boys Town supporter and spokesman for years, said a nationwide system of Boys and Girls Towns would help atone for the country's ``shameful'' history toward abused and neglected children.

``It's time we did something for them,'' he said. ``It's like they've been abandoned.''

Rooney said publicity about Gingrich's plan could be a boon for his bid for a TV series called ``Boys and Girls Town.''

Rooney said he wants to portray a Catholic priest patterned after Boys Town founder Father Edward Flanagan, with Billy Dee Williams as his assistant.

Rooney said he also wants to join Andy Williams, Glen Campbell, Mel Tillis, Tony Orlando and other past-prime entertainers who draw large crowds to their theaters in Branson, which attracts about 5 million tourists a year.

``I'm working on having a theater here next year,'' he said. ``We'll have a burlesque show. They have a lot of music here in Branson, but they don't have a lot of laughs.''

**** filed by:APW-(NE) on 12/07/94 at 00:28EST ****
**** printed by:WHPR(103) on 12/07/94 at 08:17EST ****

BC-DAMATO national:BC
D'Amato wants Clintons' Whitewater testimony
By Karen Ball
New York Daily News

WASHINGTON New York Sen. Alfonse D'Amato said Tuesday he plans to subpoena the Clintons' secret Whitewater testimony if it isn't turned over voluntarily to the Senate Banking Committee.

Meanwhile, Webster Hubbell, former associate attorney general, pleaded guilty to tax evasion and mail fraud in Little Rock, Ark., federal court.

Hubbell was the first administration official to go down over Whitewater, although his alleged crimes bilking his clients and law firm of $394,000 had only a remote link to the Clintons.

D'Amato, gearing up for Whitewater hearings when he takes over the committee next year, told the Daily News that a priority will be getting depositions that President Clinton and First Lady Hillary Rodham Clinton gave to ex-Whitewater special prosecutor Robert Fiske in June.

So far, their testimony has been kept under tight seal. The New York Republican said he'll bring it up in a meeting he hopes to have next week with the new independent counsel, Kenneth Starr.

``We're entitled to them, and now we're going to go forward,'' D'Amato said. ``When we were in the minority, Democrats would not let that happen.''

Clinton lawyer David Kendall declined to comment on D'Amato's request.

Hubbell's guilty plea was part of a deal he cut with Starr in which he agreed to cooperate in the Whitewater probe. But Hillary Clinton's former law partner has told friends that he has no incriminating information about the First Couple.

``Webb Hubbell is an old friend, and Hillary and I were saddened by today's events,'' the President said Tuesday. ``The matter is in the hands of the court, and I don't think it would be appropriate to say anything more at this time.''

Prosecutors charged that Hubbell defrauded his clients and the Rose Law Firm of nearly $400,000 through billing personal expenses to his business accounts.

His clients included the federal government in a case involving a savings and loans owned by the Clintons' partner in the Whitewater real estate deal.

**** filed by:KR-F(--) on 12/06/94 at 23:01EST ****
**** printed by:WHPR(103) on 12/07/94 at 08:17EST ****

(urgent)
Hubbell pleads guilty

LITTLE ROCK, Ark., Dec. 6 (UPI) Former Associate Attorney General Webster L. Hubbell, a close friend of President Clinton, pleaded guilty Tuesday to tax evasion and mail fraud charges stemming from the Whitewater investigation.

Hubbell, who resigned March 14 from the third-highest post in the Justice Department, admitted in the Little Rock courtroom of U.S. District Judge William Wilson that he had taken $394,000 in illegal expense payments from the Rose Law Firm.

Hubbell, 46, a former partner of first lady Hillary Rodham Clinton at the law firm, pleaded guilty to one count of tax evasion and one count of mail fraud. The maximum penalty on each count is five years in prison and a $250,000 fine.

Hubbell, his voice shaking, addressed the court and apologized for the pain his actions had caused his family, his friends, and ``people who have placed me in a position of trust.''

He said he accepted the consequences of his actions and said he hoped that his guilty plea and apology would be the first step in regaining the trust of his family and friends.

Hubbell, who was appointed to the Justice Department post by President Clinton, is the highest member of the administration to be linked to the federal investigation of the northern Arkansas land deal.

The charges against Hubbell were a spinoff of the probe into the Whitewater investments of the Clintons, and James B. McDougal, owner of the failed Madison Guaranty Savings & Loan.

Hubbell, as a partner in the Rose Law Firm, worked for the government in resolving the failures of savings and loans in Arkansas. Prosecutors found evidence that he had overbilled the government during that work.

Hubbell is a former chief justice of the Arkansas Supreme Court and former mayor of Little Rock. Clinton appointed Hubbell, his frequent golf partner, to the state's highest court when he was governor of Arkansas.

Hubbell promised to cooperate with Whitewater counsel Kenneth Starr in the investigation, and a provision of the agreement allows Hubbell some choice in selection of a prison if he receives a jail sentence.

The Clintons' attorney, David E. Kendall, said the charges were not connected to the president or first lady ``in any way.''

``This matter simply does not concern the president, the first lady, or Whitewater Development Co. in any way,'' Kendall said in a statement issued in Washington.

``The charges here are totally unrelated they arise out of Mr. Hubbell's personal income tax returns and individual billing procedures as an attorney in private practice in Little Rock before he came to Washington,'' he said. ``The president and Mrs. Clinton have fully cooperated with the investigation of the independent counsel insofar as it concerns them.''

However, critics have charged that Hubbell was the president's political watchdog within the Justice Department, and Republicans want Starr to investigate whether Hubbell tried to influence the Whitewater investigation when it was still being conducted by the department.

Attorney General Janet Reno, who was Hubbell's boss until he was forced out of the Justice Department and who praised him lavishly on his departure, issued a terse statement on the plea.

``Because the independent counsel law contemplates that the independent counsel will operate totally free from the influence, direct or indirect, of the Justice Department,'' Reno said, ``it would not be appropriate for me to comment on the activities of the independent counsel's office, and it has been my practice not to do so.''

On Monday, Little Rock real estate appraiser Robert W. Palmer, 44, pleaded guilty to a conspiracy charge stemming from the investigation. He admitted back-dating appraisals at Madison. He could get up to five years in prison and a $250,00 fine.

BC-WHITEWATER-HUBBELL 2NDLD

Hubbell pleads guilty in Whitwater probe case

(Eds: Adds Clinton reaction, grafs 6-7)

LITTLE ROCK, Ark. (Reuter) - Former Associate Attorney General Webster Hubbell, one of president Clinton's closest friends, pleaded guilty Tuesday to federal mail fraud and tax evasion charges stemming from the Whitewater investigation.

Hubbell admitted defrauding his former law firm and some of his clients of ``at least'' $394,000 through false billings and expense accounts.

Hubbell told the court ``I hope by pleading guilty today, I have taken the first step toward regaining the respect of my friends and associates.''

Hubbell resigned as the third ranking official of the Justice Department last March amid questions from his former law partners regarding his expenses and billings. Hubbell was a partner with Hillary Rodham Clinton in the Rose Law Firm at Little Rock.

``Your honor, I plead guilty,'' Hubbell told Federal District Court Judge Bill Wilson in Little Rock, the Arkansas capital.

Clinton issued a brief statement from the White House. It said, ``Webb Hubbell is an old friend and Hillary and I were saddened by today's events.

``We should also remember that Webb is a man who has given much to his family, his community and his country. The matter is in the hands of the court and I don't think it would be appropriate to say anything more at this time.''

The charges said that between 1989 and 1992, Hubbell defrauded clients, including the government, of $394,000. He was charged with both mail fraud and tax evasion.

Although he had no direct involvement in the Whitewater real estate venture in which the Clintons were partners, his case fell under independent prosecutor Kenneth Starr's jurisdiction because of work the Rose Firm performed for federal bank regulatory agencies involved with Madison Guaranty Savings and Loan, which collapsed.

REUTER

**** filed by:RB--(--) on 12/06/94 at 18:26EST ****
**** printed by:WHPR(103) on 12/07/94 at 08:18EST ****

bc-lawyers - a2129
(ATTN: National editors) (Includes optional trims)
Lawyer Overbilling Rears Head Again With Hubbell Case (Washn)
By Robert L. Jackson= (c) 1994, Los Angeles Times=

WASHINGTON Until five years ago, flamboyant Wall Street lawyer Harvey Myerson was as renowned for his lavish lifestyle as he was for the high-profile corporate clients he represented. That's when one of them blew the whistle.

Shearson Lehman Hutton, the major client of Myerson's law firm, went to federal authorities with suspicions that Myerson had overbilled for several years. A subsequent criminal trial in 1992 put Myerson out of business and into prison, convicting him of stealing more than $2.5 million from Shearson and five other clients.

Normally, overbilling is a subject only whispered about in the upper echelons of some law firms. Now, however, it has reared its head again in the case of former Associate Attorney General Webster L. Hubbell, a close friend of President Clinton and a former law partner of first lady Hillary Rodham Clinton. Hubbell, onetime chief justice of the Arkansas Supreme Court, pleaded guilty Tuesday to mail fraud and tax evasion charges in connection with overbillings for the Rose Law Firm.

The extent of bill-padding by much-sought-after attorneys is largely unknown. A Justice Department lawyer who has some familiarity with the abuse says: ``The larger the law firm, the more rampant the practice.''

Others, however, disagree. Joseph E. diGenova, a well-known Washington lawyer and former U.S. attorney for the District of Columbia, insists that overbilling ``is not a common practice because billing is highly controlled by most firms. Travel and other normal expenses are thoroughly itemized and identified for clients and most law firms have control mechanisms. Dining is a regular charge for clients because it often involves going out and getting information for a case. But expenses like country club memberships and clothes, that's a no-no.''

Still, Hubbell's case is only the latest in a long line.

In the Myerson prosecution, trial testimony showed that he had overbilled clients to pay for expensive jewelry and Caribbean trips for his friends and family as well as dry-cleaning for his toupee. His bills even had included ``counsel fees for Joseph Rahn,'' a brother-in-law who was not a lawyer and who provided no services.

As another part of the scheme, three young partners who were Myerson proteges said that they followed orders to inflate their hours or lose their jobs. One partner testified that he had billed as much as 10 hours in fees for a scant 12 minutes of work.

Last month, a federal grand jury in Miami indicted prominent attorney James F. Dougherty on 10 charges that he defrauded Lloyd's of London by submitting more than $5 million in inflated bills the largest amount ever alleged in an overbilling prosecution.

Dougherty, who had been investigating fraudulent insurance claims for a Lloyd's syndicate, had testified before a U.S. Senate subcommittee in 1991 about illicit practices that he had uncovered by the infamous Bank of Credit and Commerce International. He has denied any wrongdoing, saying Lloyd's was willing to spare no expense for his legal and investigative work.

(Optional add end)

American Bar Association rules of professional conduct set no maximum hourly fee for lawyers, saying only ``a lawyer's fee shall be reasonable.'' Complaints of shoddy practices or overbilling are usually handled by state and local bar groups and there is no national clearinghouse that keeps records of such cases. Officials seek to resolve complaints without referring them to law enforcement agencies.

Fees that an ordinary client might view as exorbitant often are paid routinely by wealthy litigants or large corporations locked in a multimillion-dollar winner-take-all court dispute.

For example, on the way to billing millions of dollars in legal fees in a bitter intrafamily business dispute involving the wealthy Haft family of Washington, the firm of Wilmer, Cutler & Pickering charged $2,700 for a lawyer's work on a memo about the meaning of ``irreparable injury.'' The attorney said she spent 13 hours on the subject.

A senior partner involved in the Haft case listed ``thinking about loan-closing issues'' as an explanation for one $320-an-hour fee. The litigants have not complained about any of those fees.

**** filed by:LAWP(--) on 12/07/94 at 03:16EST ****
**** printed by:WHPR(103) on 12/07/94 at 08:15EST ****

Whitewater: Proceed with caution

Few Americans, except for some extremely partisan Democrats, doubt the need to get to the bottom of the Whitewater affair. But all of us should be concerned about the spirit and the character of the investigations that Republican Sen. Alfonse M. D'Amato threatens to resume as early as January. The New York lawmaker is the presumptive chairman of the Senate Banking Committee, charged with looking into the infamous Arkansas land deal that went bad for President Clinton and his wife and their partner James B. McDougal, owner and operator of the failed Madison Guaranty Savings and Loan.

D'Amato, a fierce Clinton foe, has been emboldened by recent disclosures that Webster Hubbell, former No. 3 man in the Justice Department, the president's closest friend and Mrs. Clinton's former partner in the Rose law firm, has agreed to plead guilty to mail fraud and tax evasion charges. The very prospect that Hubbell might further implicate Clinton and further cripple his presidency has the new Republican majority in Washington salivating.

But here we advise prudence. The American people gave the GOP a clear mandate to live up to the terms of its "Contract with America." Moreover, voters want the new majority to make other serious changes in the way the federal government operates.

The wounds of the recent mid-term elections still hurt, and they will not heal for years — if ever. But the institution of the American presidency, not just Bill Clinton, may yet turn out to be the biggest casualty of the nasty scuffling, which included Whitewater, leading up to Nov. 8. The GOP must be careful to remember that its new power is not a license to further weaken the presidency by conducting vindictive and partisan inquiries into Whitewater.

Forget about Whitewater? Absolutely not. But the Republican-controlled Congress should take care not to rush into its own televised hearings and risk jeopardizing the investigation being conducted by independent counsel Kenneth Starr, a Republican and former federal appeals court judge. There will be plenty of time for lawmakers to conduct their hearings. Meanwhile, there are more pressing issues needing the attention of Sen. D'Amato and his Republican colleagues.

Democrats go on the defensive

■ The "New Democrats" group that promoted Bill Clinton wants to recreate him in a winning image.

By CECI CONNOLLY
Times Staff Writer

WASHINGTON — From the ashes of defeat, the group that brought you "New Democrat" Bill Clinton is attempting to reassert itself as the pre-eminent force in Democratic Party politics.

The self-described centrists at the Democratic Leadership Council say they have mapped out a strategy for hanging on to the White House and regaining control of Congress. All it takes is a return to the "New Democrat" agenda that got Clinton elected president in 1992.

As the DLC celebrates its 10th anniversary today with a series of speeches and a gala ball in Washington, though, many in the party are questioning the group's core philosophy and its ability to win at the polls. The first test

Democrats from 1A

will come tonight when Clinton comes home for what is being billed as his first major political address since the Nov. 8 elections.

"I'm going to encourage him to re-emphasize those roots," said Virginia Sen. Chuck Robb, one of the founders of the DLC. "I am hopeful that what he says will be compatible with, if not entirely embrace, the DLC agenda."

In the immediate aftermath of the elections, in which Democrats lost both the House and Senate, Clinton concluded Americans liked the changes he was making but were not satisfied with the pace of change.

"Sometimes it takes a little while for things to set in," responded DLC president Al From. "I'm confident the president will come out with an agenda along the lines of ours."

To help guide him, the DLC released a 10-point platform Monday that From predicts will enable Democrats to "capture the vital progressive center." It is the first substantive response by Democrats to their massive electoral losses and is evidence that the DLC hopes to become the party's idea mill of the future.

The DLC proposal, offered as an alternative to the GOP's 10-point "Contract with America," pitches increased trade, market-based health care reforms, a slimmer federal bureaucracy and solutions for a host of social programs from housing to teen pregnancy. Proponents of the agenda say it remains true to the DLC's theme of helping people help themselves.

Yet the document also highlights the substantive and political struggles yet to come in the Democratic Party. Many of the DLC ideas resemble Republican proposals, and Clinton has rejected other components of the blueprint — such as incremental changes in the health system — in the past.

John White, former chairman of the Democratic National Committee, describes the DLC as a "useful force within the party," but doubts the group's assertions that it can revamp the entire party. "A lot of what they put out is like Rockefeller — moderate to liberal Republicanism," he said.

The DLC was born in the Senate office of Florida's Lawton Chiles in the wake of President Reagan's 49-state landslide. Convinced their presidential nominees had wandered too far to the left, the handful of Southern and Western Democrats mapped out a strategy for regaining the presidency by winning back the middle class. They were known as Reagan Democrats.

It took eight years to achieve their dream.

"We've gone from a group that once was supposed to be a bunch of redneck Southerners to actually having some legitimacy," said Chiles, who will join in today's conference. "Clinton was a product of the DLC movement."

Although the DLC forefathers achieved their goal of the presidency, they have yet to prove their idea factory can develop and sustain a grass-roots political organization at all levels.

"There are some who feel that because we listened to the DLC we lost this election," said Rep. Jose Serrano, the New York Democrat who heads the Congressional Hispanic Caucus. "We spent some time trying to imitate Republicans; people chose the real thing instead."

Serrano and others note that prominent DLC leaders, including Chairman Dave McCurdy, lost at the polls in November, while more traditional liberals — such as minority officials and Sen. Edward Kennedy of Massachusetts — won.

More than half the candidates in the House Mainstream Forum, a centrist group that overlaps with the DLC, lost in November. And some of the DLC's brightest stars and biggest names were among the losers. In addition to McCurdy, Reps. Jim Cooper of Tennessee, Martin Lancaster of North Carolina and Eric Fingerhut of Ohio were among the DLC disappointments. Even the candidates who ferociously distanced themselves from Clinton are quick to blame him.

"This was a referendum on Bill Clinton and the Democratic Congress," said McCurdy, who lost in his Oklahoma Senate race. "A lot of us more moderate, centrist voices from the border states got caught up in the same wave."

The DLC officials say Clinton hurt the party when he went from centrist star to liberal millstone.

"The health care plan identified him as a proponent of big government; doing gays in the military identified him as a cultural liberal," said From. "Those damaged him significantly."

There are some indications Clinton will move right, as the DLC is urging. Moderates of both parties have praised his support of the recently passed General Agreement on Tariffs and Trade, and last week he announced a plan to increase defense spending by $25-billion.

Assuaging the DLC, however, could mean alienating members of Congress or core Democratic groups such as women and minorities, a proposition that has frightened Clinton and other Democratic politicians in the past.

"There will be no new policy initiatives coming out of the White House that do not involve the leadership here," said Sen. Christopher Dodd, D-Conn. "We're going to be in the cockpit, not just around to explain the crash landings."

St Petersburg Times

176

The Dallas Morning News
Tuesday, December 6, 1994

EDITORIALS

WHITEWATER

Plea bargain underscores investigation's merit

The Great Whitewater Political Scandal and Multimedia Extravaganza. At least, that's how *Arkansas Democrat-Gazette* columnist Gene Lyons dismissed the ongoing Whitewater investigation in an October *Harper's Magazine* piece.

But hold on; maybe the examination into the financial culture of Bill and Hillary Clinton's earlier Arkansas existence is not just a waste of taxpayer's time and money.

Consider the plea bargain ready to be struck between Whitewater independent counsel Kenneth Starr and Clinton friend Webster Hubbell, who until March was the Justice Department's third-ranking official. The case proves that sometimes only through intense heat are misdeeds uncovered. White collar-wrongs rarely walk into a prosecutor's office, do they?

The particulars of the Hubbell case involve an overbilling of the government and other legal clients by the former Rose Law Firm partner. His plea bargain is yet to be finalized, but apparently Mr. Hubbell — reported by some to be the president's best friend — will cooperate with the grand jury investigating Whitewater-related activities.

Of course, the primary focus of Mr. Starr's investigation is the way the now-defunct Madison Guaranty Savings and Loan operated. Perhaps the whole world now knows Madison's president, James McDougal, joined up with the Clintons to develop property along the White River.

After that, the tale runs in several directions: Did Mr. McDougal's Madison receive preferential regulatory treatment? Were Madison funds illegally diverted to the McDougal/Clinton Whitewater investment? Did the Clintons pay their fair share of Whitewater costs? Were Madison funds illegally transferred to the 1984 Clinton gubernatorial re-election effort?

Also, current Arkansas Gov. Jim Guy Tucker is coming under Mr. Starr's scrutiny for his Madison/McDougal relationship. Did Mr. Tucker misuse $135,000 in Madison loans? Did he fail to pay back federally guaranteed loans?

Sure, the public may get lost in this financial maze. And Mr. Lyons may have a point: Whitewater has had its share of hype.

But let's be direct here. The Whitewater affair is worth investigating for a simple reason: It matters how governments and financial institutions operate. It matters if high government officials have lawbreaking in their backgrounds. Mr. Starr should proceed onward with a careful investigation.

MORE ORPHANAGES?

Maybe, if they are local options

If Newt Gingrich had long championed assistance for neglected children, we might greet his proposal for more orphanages with applause. At one level, he's right: Some parents cannot or will not raise their children. Some families are better deconstituted, some children better off in an institutional setting. A helpful alternative in some instances might be a supervised group home.

But the tone of the congressman from Georgia's suggestion sounds more the Gingrich who stole Christmas. In the context of his ideology, the orphanage plan sounds purely punitive. The aim seems to be to punish young welfare recipients by taking away their children, rather than trying to give needy youngsters stable, caring environments.

His suggestion has other problems. It's expensive. Mr. Gingrich is mistaken if he thinks modern orphanages would slim welfare budgets. Buckner Baptist Children's Home, a Dallas institution founded in 1879, currently has 130 residents. The home spends about $100 per day, or $36,000 per year, on each child, regional director Mike Douris said. Modern staffing and licensing requires a large investment. The children he sees today may not be orphans, but they're more emotionally mangled than their turn-of-the-century counterparts, he said. Youngsters now are often victims of sexual and physical abuse, severe neglect, or drug users. Those problems take time and lots of professional staff — and therefore money — to resolve.

Many private and church agencies tend to focus on foster care or group homes for less-troubled children. It's cheaper and probably better for the kids. The community settings allow a more normal life for the youngsters, with youths going to local schools when possible. Mr. Gingrich should encourage development of more of these facilities. Local communities could be actively involved in determining the needs of their children and how best to meet them. The goal should be smaller units that would not trigger opposition from neighbors.

Given the reality of children's needs in the '90s, Mr. Gingrich's reference to the movie *Boys Town* as a model for new orphans' homes is outdated. But that's not to say we do not need creative approaches to welfare, even if it is a variation of an older concept like orphanages for those who literally have no safe place to go. Better still, Mr. Gingrich should turn attention to the root problem, which is preventing teen-age motherhood and unplanned pregnancies.

✓

166

Bentsen will soon announce his resignation; Rubin likely successor

By David LaGesse and Carl P. Leubsdorf
Dallas Morning News

WASHINGTON Treasury Secretary Lloyd Bentsen, the former Texas senator and one of the Clinton administration's most influential figures, will announce as early as Tuesday that he is stepping down, officials said.

Robert Rubin, head of the administration's National Economic Council and a former Wall Street investment banker, is the likely successor, the officials said Monday.

Answering questions after a speech Monday, Bentsen said reports of his resignation were ``premature,'' but pointedly did not deny them.

``I would say, in paraphrasing Mark Twain, the news is premature,'' Bentsen, 73, said after a speech at the National Press Club. ``You'll be among the first to know when it is news.''

But those speculating on his pending departure from Washington should not assume he would retire, Bentsen said.

``I think you rust out before you wear out,'' he explained.

Reports first circulated soon after Bentsen took office that he would leave his post before the end of President Clinton's term in January 1997. The reports recirculated several months ago when the treasury secretary bought a home in Houston.

For some time, Bentsen has declined to squelch speculation about his departure, only saying that at some point it would come true.

``Nothing is absolutely final, but I anticipate an announcement as early as this week,'' an administration official said, adding that it could come on Tuesday.

A White House background check of Rubin could delay the announcement, as administration officials hope to have a replacement in line before announcing Bentsen's departure. Rubin, a former co-chief of Goldman Sachs & Co. in New York, did not require Senate confirmation for his current post at the economic council, which advises the White House.

Bentsen probably would leave office before year's end, although Rubin could not begin his Senate confirmation process until the new Congress convenes next month, the official said.

Publicly, White House officials would not confirm or deny a the latest report in The Wall Street Journal Monday that Bentsen was leaving soon.

``Secretary Bentsen will make any decisions ... and any announcements about his future himself,'' White House press secretary Dee Dee Myers said in Budapest, where Clinton attended a European security conference.

One of the administration's senior statesmen, Bentsen came to the treasury post after 22 years as a senator from Texas, including six years as chairman of the Senate Finance Committee. His long political experience, including three earlier terms in the House, gave him extensive influence at the Clinton White House that extended beyond matters of finance.

But he focused his attention on the budget, where he championed efforts to reduce the deficit, and on trade. Last week's passage of the General Agreement on Tariffs and Trade enabled Bentsen to move forward with his plans to retire, according to two other administration officials.

His resignation would end speculation that he might become secretary of state, a post he has said he did not want.

``A lot of us wanted him to,'' said John White, a former Democratic national chairman from Texas and a close friend of Bentsen's. ``I never discussed it with him, but I sold it all over town, like a lot of fellows.

``And he never told us to stop.''

Bentsen's chances of replacing Secretary of State Warren Christopher may have dimmed with the Republican takeover of Congress, White said. Christopher appears to enjoy the support of Sen. Jesse Helms, R-N.C., the incoming chairman of the Foreign Relations Committee.

``That doesn't mean a fellow like Lloyd Bentsen couldn't be approved by the Senate Foreign Relations Committee,'' White said. ``He'd go through there like a dose of salts.''

Besides GATT, Bentsen also proved an effective lobbyist for the administration last year on the North American Free Trade Agreement. He often cited his youth growing up on a South Texas ranch as giving him personal passion for closer relations with Mexico.

Again on Monday, he cited the political and economic changes in Mexico that present the opportunity for closer ties. He recalled Mexican politicians invariably describing the United States as ``the colossus of the North.''

``Now they look at the United States as an opportunity for trade,'' Bentsen said at the Press Club.

But Bentsen has appeared less enthusiastic in his support for Clinton's health-care reforms, which he considered too broad in scope. The treasury secretary said Monday that he would advise Clinton against seeking a new U.S. health-care system.

``In lieu of what happened before, I would advise we build on the present system,'' Bentsen said.

He said he would push for efforts to contain costs and reform insurance laws to prevent, for example, the denial of coverage for persons with pre-existing conditions. ``Those are some things we can do, and we ought to do.''

Bentsen also spoke Monday of his hopes for the upcoming Summit of the Americas in Miami, where Clinton will host 33 Western Hemisphere leaders this weekend. Bentsen said he was optimistic that the leaders would agree on a date to conclude negotiations for a hemisphere-wide free-trade zone.

``I personally am working for that,'' Bentsen said. Bentsen appeared relaxed at the Press Club Monday, despite the new reports that he was leaving. But he avoided the crush of reporters who awaited his departure from the podium, in the process vaulting a pair of benches in the club's lobby.

X X X

(Staff writer Richard Whittle contributed to this report.)

X X X

Appraiser tied to Whitewater case pleads guilty in S&L conspiracy

By Thomas G. Watts Dallas Morning News

LITTLE ROCK, Ark. A real estate appraiser with ties to several Whitewater-related figures pleaded guilty Monday to a charge that he conspired with savings and loan officials to falsify financial reports.

The guilty plea makes Whitewater prosecutors four for four in the cases they have pursued.

Like the earlier three defendants, appraiser Robert W. Palmer. 44, reached an agreement with prosecutors for his cooperation in exchange for being charged only on one felony count of conspiracy.

Palmer reportedly performed the appraisal that enabled Gov. Jim Guy Tucker to purchase a water and sewer utility in 1986 for more than $1 million with loans from Madison Guaranty Savings and Loan, the defunct thrift at the center of the Whitewater case. A 1992 reappraisal put the worth of the utility at just $640,000.

The down payment in that deal came in a separate $150,000 loan from former Little Rock municipal judge David Hale, one-time owner of a loan company.

Hale has alleged that as governor, Bill Clinton pressured him to approve another loan to the wife of the president's partner in the Whitewater Development Co.

In the first cases resolved by Whitewater prosecutors, Hale and two other Little Rock lawyers pleaded guilty

earlier this year to defrauding the U.S. Small Business Administration.

The prosecutors' tally could grow Tuesday if Webster L. Hubbell, the former No. 3 official at the Justice Department and a longtime Clinton friend, pleads guilty as expected to felony charges of mail fraud and tax evasion.

He resigned last spring after reports that he overbilled clients including the federal government while a partner at the Rose Law Firm here.

A spokeswoman for Whitewater independent counsel Kenneth W. Starr said it was possible that another development in the investigation would occur Tuesday.

Other potential targets of the counsel include Gov. Tucker, James B. McDougal, the owner of Madison Guaranty, and his former wife, Susan.

Max Parker, a spokesman for Gov. Tucker, said the governor ''has no personal knowledge" of any appraisal work which Palmer ''may or may not have done" in connection with the utility he bought.

None of the cases brought by Whitewater prosecutors so far have any link to Clinton, first lady Hillary Rodham Clinton or their Whitewater real estate venture with the McDougals in northwest Arkansas.

In Palmer's case, prosecutors said he worked with Madison Guaranty officials in 1986 to create and backdate real estate appraisals to make it appear that the thrift was complying with Federal Home Loan Bank Board rules.

A 1984 audit by the bank board was sharply critical of Madison Guaranty for not maintaining proper real estate appraisals, among other things.

Thrift officials signed an agreement at the time to improve their record keeping.

On the eve of another audit, however, prosecutors said that Palmer worked with Madison Guaranty officials to remove non-conforming appraisals from loan files, create some appraisals and backdate others.

He later billed the thrift for more than $15,000, saying the bill was a ''real estate consultant fee" for a ''market feasibility and economic analysis."

Other Little Rock real estate appraisers said that Palmer had done considerable work with Madison Guaranty and other thrifts during the rapidly escalating real estate market in the early and mid-1980s.

''When Madison Guaranty and some of the others S&Ls were going strong in the 1980s, several appraisers were getting all kinds of business," said appraiser Tom M. Ferstl. ''Some of us couldn't get much work because we were too conservative."

Ironically, said Ferstl, once federal efforts to clean up the S&L debacle began, there was plenty of work for more conservative appraisers because they had not done any of the work that helped fuel the real estate boom.

U.S. District Judge G. Thomas Eisele did not set a sentencing date for Palmer, who faces a maximum sentence of five years in prison and-or a $250,000 fine.

Whitewater reels in appraiser

Minor player pleads guilty, will cooperate

BY NOEL OMAN
AND DON JOHNSON
Democrat-Gazette Staff Writers

A minor figure in the Whitewater Development Corp. affair pleaded guilty Monday to conspiring to draw up false property appraisals for Madison Guaranty Savings and Loan Association.

• Related article 12A

Robert Palmer, 44, the owner of a Little Rock real estate appraisal company, pleaded to the felony in U.S. District Court at Little Rock in an agreement that requires him to cooperate with Whitewater independent counsel Kenneth Starr. The agreement bars the government from prosecuting Palmer for any other crimes related to Madison, which failed in 1989 at a cost to taxpayers of $65 million.

During a federal court hearing, Palmer acknowledged that he was involved in a 1986 attempt to cover up Madison's failure to obey a supervisory agreement with the Federal Home Loan Bank Board. Madison had entered into the agreement in 1984 after federal regulators criticized the savings and loan for failing to maintain written appraisals for some real estate loans.

Madison was owned by James McDougal, who now lives near Arkadelphia. McDougal was partners from 1978-92 with Bill and Hillary Rodham Clinton in Whitewater, a failed residential development along the White River in Marion County.

McDougal also had extensive business dealings with Gov. Jim

See STARR, Page 12A

Starr

• Continued from Page 1A

Guy Tucker.

U.S. District Judge G. Thomas Eisele forced prosecutors Monday to reveal the name of one of the Madison officials with whom Palmer is accused of conspiring.

Stephen Learned, an associate counsel, reluctantly named Harry Don Denton of Little Rock, a former senior loan officer at Madison.

In a July 26, 1989, FBI report, Denton told investigators that "he and several others ... performed a 100 percent review of existing loan files, and appraisals were ordered to support these loans. This went on for a week to 10 days."

Palmer was one of five people Denton identified as assisting in the work.

Denton, now an assistant manager at Little Rock Regional Airport, Adams Field, said the news of Palmer's plea arrangement "comes as a shock to me, and I'm not prepared to comment."

"You need to know the name?" Learned asked Eisele when the judge asked with whom Palmer had conspired.

"It's part of my obligation here to satisfy myself that there is a conspiracy, that is, more than one person," Eisele said.

"There was at least one other person at Madison, the senior loan officer, Don Denton," Learned said.

"That's satisfactory," Eisele told him.

Meanwhile, Bruce Lindsey, a senior White House aide and former Little Rock lawyer, has appeared before the Whitewater grand jury in recent weeks, the *Democrat-Gazette* has learned. Lindsey was traveling in Europe with the president and could not be reached for comment Monday.

Starr's office declined to comment.

Lindsey, a former partner in the Little Rock firm Wright Lindsey & Jennings, was Clinton's 1990 gubernatorial campaign treasurer. It was reported in September that in the weeks before he was replaced by Starr, special counsel Robert Fiske Jr. expanded his inquiry to include Clinton's 1990 gubernatorial re-election campaign.

Clinton borrowed $180,000 from the Perry County Bank — an $80,000 loan in May 1990 just before the Democratic primary and two $50,000 loans on the eve of the November 1990 general election. The loans were unsecured and guaranteed personally by Clinton.

Lindsey has said much of the money was used for "get-out-the-vote" efforts. In Arkansas politics, such efforts traditionally are targeted at black voters in east and south Arkansas.

A plea agreement similar to Palmer's is expected to be announced today concerning Webb Hubbell, a former associate attorney general and former Little Rock mayor.

The *Democrat-Gazette* reported Friday that Hubbell has reached an agreement with Starr to plead guilty to two felony charges in connection with alleged overbilling at Little Rock's Rose Law Firm. The Resolution Trust Corp. and the Federal Deposit Insurance Corp. were among the Rose clients that reportedly were overbilled.

If the deal with Starr requires Hubbell to cooperate, it could open the door for a review of the Clinton administration's actions in the summer and fall of 1993 before the Whitewater affair attracted much attention.

Starr also is reviewing Tucker's business activities. An accountant whose firm once prepared tax returns for Tucker appeared before the grand jury last week, according to sources.

Tucker said Monday that he can't recall meeting either Palmer or the accountant, Mikel Wood of Sherwood.

Asked about Palmer, Tucker said he "wouldn't know him if he walked up and shook hands right now. The same might be said, by the way, of the accountant who testified last week. ... I wouldn't know him if he walked in the door."

Tucker has blamed recent news leaks on partisan politics.

Palmer's activities have been tied to Tucker and former Pulaski County Municipal Judge David Hale, who pleaded guilty in March to two charges in exchange for his cooperation with Fiske.

Palmer's activities for Madison included:

• A Feb. 14, 1986, appraisal of a utility company in south Pulaski County. His appraisal of $1.3 million was twice that of a 1992 appraisal by the RTC. A company owned by Tucker and R.D. Randolph, Castle Sewer

Arkansas Democrat Gazette 12/6/94

Whitewater's first catch

The charges don't involve Clinton, but they will hurt the president.

The first fish caught in the net cast by Whitewater investigators apparently is Webster Hubbell, longtime friend of President Clinton and former law partner of Hillary Rodham Clinton. Hubbell, who was U.S. associate attorney general before resigning early this year, reportedly has agreed to plead guilty to two felony charges, tax evasion and mail fraud, stemming from his financial dealings with the Rose Law Firm in Little Rock.

Hubbell might not be the big fish that Clinton's critics want Whitewater investigator Kenneth Starr to deliver. In fact, the charges have nothing to do with Whitewater, the failed Arkansas land development that has also become the name for the inquiry into possible illegal loans and illegal contributions to Clinton campaigns. But Hubbell's downfall nonetheless hurts Clinton, personally and politically. And his plea bargain could mean that Hubbell would be willing to testify against Clinton and other Whitewater players.

Vincent Foster and William Kennedy III, two former Rose Law Firm partners who were appointed White House lawyers, and Hubbell weren't just hanging on to the president's coattails when they went to Washington. The Clintons expected their friends to provide wise counsel and thoughtful leadership — to make a difference. The unforeseen ruin that has besieged the former partners troubles the president and first lady.

Hubbell lasted less than a year as third in command at the Justice Department; Foster committed suicide; and Kennedy, rebuked after the White House travel office scandal, quietly returned to Little Rock.

Politically, Hubbell's plea bargain is a reminder of Clinton's flawed judgments.

During the transition, Clinton had Hubbell screen Cabinet nominees for ethical concerns. Didn't anyone screen Hubbell?

Hubbell missed a few things, too. He screened Henry Cisneros, the secretary of Housing and Urban Development, who is now under review by the FBI for failure to disclose the extent of his payments to a former mistress.

Hubbell's plea bargain stems from accusations of overbilling Rose Law Firm clients hundreds of thousands of dollars. Those clients include the federal government and the Resolution Trust Corp., which helped bail out troubled savings and loans. That is Hubbell's loose connection to Whitewater, the land-development scheme that the Clintons were involved in with Arkansas businessman Jim McDougal and his former wife, Susan McDougal. The allegations of improper loans and Clinton campaign contributions involve the McDougals' failed savings and loan, Madison Guaranty Savings.

Once Starr gets around to investigating those charges — the essence of Whitewater — and congressional Republicans turn up the heat, more fish could begin to fry. If that happens, even if Clinton should be exonerated, he will never be able to wash his hands of the fishy smell.

The Des Moines Register 12/7/94

A voice in the darkness

Elizabeth Glaser helped a nation see the many faces behind AIDS.

Elizabeth Glaser made us look at AIDS and see women, children, wives, mothers, husbands, fathers, daughters, sons.

Then she made us hold up a mirror to ourselves. The reflection was blinding.

Glaser, 47, the wife of actor Paul Michael Glaser, died Saturday of complications from AIDS. She was infected 13 years ago through a blood transfusion, and unknowingly passed the virus along to her two children. Her daughter Ariel died in 1988 of AIDS at age 7. Her son Jake, 10, has shown no signs of developing AIDS.

After Glaser and her children tested positive for HIV, the virus that causes AIDS, she became a tireless crusader. In 1988, she co-founded the Pediatric AIDS Foundation and helped raise millions of dollars for the care and treatment of young AIDS victims. She lobbied the Reagan and Bush administrations for increased support for AIDS research, and moved a nation with her speech at the 1992 Democratic National Convention.

"I learned how unfair America can be," she told the hushed delegates, "not just for people who have HIV, but for many, many people, gay people, people of color, children. . . . When I tell most people about HIV in hopes that they will help and care, I see the look in their eyes. It's not my problem, they're thinking. Well, it's everyone's problem. . . . This is a crisis of caring."

The crisis hasn't subsided. To that, Elizabeth Glaser would say, as she did in her convention speech, "America has lost her path and is at risk of losing her soul. America, wake up!"

Elizabeth Glaser. A voice in the darkness, silenced too soon.

Little Rock real estate appraiser admits falsifying documents

By Aaron Epstein Knight-Ridder Newspapers

WASHINGTON In a deal that could shed light on the murky Whitewater affair, a Little Rock real estate appraiser Monday admitted falsifying documents and agreed to cooperate with prosecutors investigating the links between President Clinton and a failed savings and loan.

Robert Palmer, who appraised real estate for bankrupt Madison Guaranty, told a federal judge in Little Rock he was guilty of conspiring to backdate appraisal documents with an intent to deceive the government agency that regulated savings and loan associations.

Bill and Hillary Clinton were partners of Madison's owners, James and Susan McDougal, in the unsuccessful Whitewater housing development in the Ozarks of northern Arkansas.

Independent prosecutor Kenneth Starr is trying to find out whether the expenses of Whitewater contributed to losses at Madison and whether Clinton, while governor of Arkansas, gave favored treatment to the ailing thrift. The Clintons have denied any wrongdoing.

Although the backdated documents involved in the felony case against Palmer didn't include any for Whitewater properties, Palmer nonetheless could help the Whitewater inquiry, prosecutors said.

Palmer, who regularly appraised property for Madison, is known to have estimated the value of real estate that was used to back loans to companies owned by Arkansas Gov. Jim Guy Tucker and former municipal judge David Hale.

Hale, a key prosecution witness in the Whitewater inquiry, obtained an $825,000 loan in 1986 from Madison based on a Palmer appraisal. That transaction reportedly enabled Hale to make a $300,000 loan to Susan McDougal, one of the Clintons' Whitewater partners. Hale has asserted that then-Gov. Clinton pressured him to lend the money to Susan McDougal.

Madison made so many bad loans that the federal government took control of the thrift in 1989 at an eventual cost to taxpayers of more than $47 million.

U.S. District Judge Thomas Eisele suspended setting a sentencing date while investigators assess the extent of Palmer's cooperation. The maximum penalty for conspiracy is five years in prison and a $250,000 fine.

Meanwhile, Webster Hubbell, once the No. 3 official in the Clinton Justice Department and a close friend of the Clintons, may be the next person to plead guilty to criminal charges and cooperate with Starr.

Hubbell, 46, has agreed to plead guilty, possibly Tuesday, to mail fraud and tax evasion charges not related to Whitewater, according to published reports.

He quit his Justice Department job last March after it was disclosed that he was being investigated for allegedly overbilling law clients and the Rose Law Firm of Little Rock and improperly reimbursing himself for expenses.

Hillary Rodham Clinton and Hubbell were partners at Rose before Bill Clinton became president.

In another potential embarrassment for the Clinton administration, this one also unrelated to Whitewater, the former chief of the White House travel office is expected to be indicted for embezzlement this week by a federal grand jury.

Steven Tabackman, lawyer for former travel office official Billy R. Dale, said Dale expects to be accused of stealing $69,000 paid by news organizations for presidential trips. Dale, 57, denies the charge and will plead not guilty, his lawyer said.

Bentsen may be one of several Clinton officials leaving administration

By Robert A. Rankin
Knight-Ridder Newspapers

WASHINGTON The probable resignation of Treasury Secretary Lloyd Bentsen early next year highlights a fresh dilemma facing President Clinton even as he struggles to decide how to deal with the new Republican Congress.

Bentsen's departure could be one of several vacancies in Clinton's leadership team a prospect likely to create headaches for the president.

Commerce Secretary Ron Brown is expected to be drafted soon to head Clinton's 1996 re-election campaign. Brown is a former chairman of the Democratic National Committee.

Other key administration figures expected to shift from government to the campaign include Trade Representative Mickey Kantor, Deputy White House Chief of Staff Harold Ickes and, possibly, White House Press Secretary Dee Dee Myers though none has announced their departure yet.

If Bentsen goes, Clinton will lose his most valuable player in dealing with the Senate, where the fate of the Republican Party's new policies likely will be decided over the next two years.

Bentsen said coyly Tuesday that widespread news reports of his imminent resignation were ``premature." However, Treasury sources close to Bentsen said his early departure was likely, while cautioning that he and Clinton had not yet reached that decision conclusively.

What makes Bentsen, 73, something close to Clinton's irreplaceable man is the Texan's 20 years of service in the Senate before joining Clinton's cabinet in 1993. As chairman of the Senate Finance Committee which writes tax law Bentsen worked closely with leading Republicans such as incoming Majority Leader Bob Dole of Kansas and rising Finance Chairman Bob Packwood of Oregon.

Unlike the red-hot conservative ideologues leading House Republicans such as incoming Speaker Newt Gingrich, R-Ga. the Senate GOP leaders are practiced in the arts of pragmatic, bipartisan compromise. So is Bentsen, a conservative Democrat.

If Clinton and the GOP Congress are going to broker compromises on issues such as tax cuts, welfare reform and budget cutting, the deals most likely will be cut in the Senate and Bentsen is Clinton's best bet to produce an acceptable compromise.

Asked Monday to state unequivocally whether he was going to step down as treasury secretary, Bentsen toyed mischievously with his National Press Club audience:

``Let me tell you something absolutely unequivocally," the lanky, silver-haired Texan said. ``I am not going to retire. ... But now as to the question of when I'm going to leave Washington, I would say, in paraphrasing Mark Twain, the news is premature."

Bentsen reportedly has told friends he wants to return to private business, which may explain the distinction he made Monday between ``retirement" and ``leaving Washington."

Treasury aides close to Bentsen acknowledged that unlike previous rumors about his imminent retirement rumors that have dogged him for a year these reports are well-grounded.

At the same time, they and White House sources stress, Clinton knows he needs Bentsen and may prevail upon him to stay a while longer.

(EDITORS: NEXT 4 GRAFS OPTIONAL TRIM)

The pair will fly to Miami together Thursday on Air Force One to attend the Summit of the Americas conference and may discuss Bentsen's future then.

Bentsen has served Clinton as an elder statesman, wise in the ways of politics and markets after a lifetime's experience both as a self-made millionaire businessman and a veteran Washington figure.

The Washington Times TUESDAY, DECEMBER 6, 1994

The Clintons and the Whitewater 'sideshow'

By Mark R. Levin

Before the Nov. 8, 1994, congressional election, when the Democrats controlled both houses of Congress by large majorities, the Clintons and their spokesmen said they favored limited congressional hearings into the Whitewater matter. We were told that comprehensive hearings — such as those conducted during Watergate and Iran-Contra — would interfere with an ongoing criminal investigation. Demonstrating unprecedented deference to the executive branch, Congress waited for approval from federal prosecutors before holding its own limited hearings. But on Nov. 30, 1994, in response to recent calls for continuing Whitewater hearings, The Washington Times reported that Hillary Clinton "called the demands for new congressional Whitewater hearings a 'sideshow' that should be ignored to let the president fulfill his campaign promises to change the country." Of course, if Bill Clinton has failed to fulfill campaign pledges — such as his quickly dropped promise to cut middle class taxes — the blame is his.

More to the point, however, is Mrs. Clinton's revelation that the Clintons would view Whitewater hearings as a "sideshow." In other words, the earlier stated concern — that hearings might interfere with an ongoing criminal investigation — was poppycock.

In fact, it was always a stretch to believe that the Clintons and congressional Democrats feared full and thorough hearings because they might disrupt a criminal probe, the current focus of which apparently includes Clinton friends and at least one former administration official. Moreover, dare I say there can be no doubt that federal prosecutors are examining what, if any, connection exists between the Whitewater scandal and the Clintons. But the truth has now slipped past Mrs. Clinton's lips. The Clintons fear public Whitewater hearings. They and their allies have been stonewalling the American people. But with congressional obstructionists like House Banking Committee Chairman Henry Gonzalez out of the way, the Clintons know it is possible for Congress to finally conduct a serious, nonpartisan and comprehensive investigation into the Whitewater affair. And, of course, it can do so — as it has frequently in the past — without interfering with federal prosecutors by simply refusing to grant immunity to witnesses.

In contrast to the Clintons' resistance to public accountability, when President Reagan was faced with the Iran-Contra controversy — at a time when the Democrats regained control of the Senate (and retained control of the House) —Mr. Reagan took matters into his own hands and, among other things, acknowledged the importance of congressional hearings. No phony excuses or finger-pointing. For instance, in an address to the nation on Dec. 2, 1986, Mr. Reagan stated: "If illegal acts were undertaken, those who did so will be brought to justice. . . . I recognize fully the interest of Congress in this matter and the fact that in performing its important oversight and legislative role Congress will want to inquire into what occurred. We will cooperate fully with these inquiries." Can anyone imagine such a forthcoming and straightforward statement from the Clintons?

Whitewater raises serious and important questions that need to be answered. For instance, why was the Whitewater file in Vincent Foster's office removed to the residence in the White House after his death? Why was this fact kept secret from the public for months, and why didn't Mrs. Clinton mention it at her April news conference? Was the file tampered with?

There are other areas of inquiry. Did Mr. Clinton pressure former Arkansas judge David Hale to assist him by securing illegally a Small Business Administration loan? Mr. Clinton says it never happened. Mr. Hale apparently says it did. Arkansas state trooper L.D. Brown reportedly remembers Mr. Clinton pressuring Mr. Hale for help. They all can't be telling the truth.

Were some campaign contributions to Mr. Clinton's gubernatorial election laundered to conceal their origins? Did Madison Guaranty Savings and Loan Association — which was run by Clinton friend James McDougal and, at one time, paid Mrs. Clinton a monthly retainer when she practiced law with the Rose Law Firm — receive favored treatment as a result of Mrs. Clinton's contact with a Clinton-appointed state regulator? Were individuals at the Resolution Trust Corporation (RTC) — the agency responsible for, in part, overseeing S & L failures — pressured to go easy on Madison and the Clintons?

When numerous White House staffers received numerous "heads-up" from numerous Treasury Department officials about a criminal referral the RTC was sending criminal investigators at the Justice Department (which reportedly mentions the Clintons as witnesses and/or beneficiaries), did any of those individuals use the inside information to obstruct justice? Did any of these individuals later provide false statements to congressional or criminal investigators about their conduct?

There are those who, like Mrs. Clinton, believe Whitewater hearings would be a "sideshow." Even a few conservative commentators have expressed concern that the new Congress, and the Contract with America, not be sidetracked by Whitewater hearings.

But to agree with Mrs. Clinton's characterization of the proposed Whitewater hearings is to agree that the Whitewater affair is nothing but an invention of Mr. Clinton's political antagonists intended to ruin his presidency. That's not the case. As Mrs. Clinton should know, having served as a staffer on the House Judiciary Committee during Watergate, Congress has always exercised its authority to investigate allegations of governmental misconduct or corruption. Mrs. Clinton, and those who concur with her, are demanding extraordinary relief from the burdens of democratic government.

There is no reason why the new Congress cannot uphold its oversight responsibilities and also pass landmark legislation. I, for one, am confident these members can walk and chew gum at the same time.

Mark R. Levin is director of legal policy at Landmark Legal Foundation.

Down Under, they wonder how they keep from going under

The question of the week that Americans concerned about immigration policy need to think about is, "Why is the United States about to become like Australia?" The answer is that, aside from the massive illegal immigration that now oozes across our borders, recent patterns of legal immigration into this country will soon help shape our immigration debate more like the one Australians have long enjoyed.

Australia, like most other advanced Western countries (it's Western even though it's literally in the Far East), has endured more than its share of immigrants in the past few decades as its political elites decided they had some kind of duty to non-Australian and non-Western teeming shores. But, because Australia is an island and therefore has no land border across which illegal immigrants could sneak, illegal immigration has never been much of a problem Down Under. What has been a problem there is legal immigration, and that means immigrants with considerably more job skills, including Asians with some very advanced job skills in science, engineering, medicine and other highly technical fields that require no small amount of education. As a result, immigration policy in Australia is a major political football. What, you ask, is the connection?

Samuel Francis

The connection is that highly skilled legal immigrants are competition for professional elites, as illegal immigrants in this country generally are not. Hence, native Australian professional elites have created immigration as a politically important issue, while in this country, because the only jobs illegal immigrants usually take are those that belong to largely unskilled minorities, our elites can continue to cluck and coo about being a nation of immigrants.

But now, as a recent report in "Clearinghouse Bulletin," the newsletter of the environmentalist group Carrying Capacity Network, makes plain, new patterns of legal immigration to this country are beginning to look more like Australia's. Relying on a study from the National Science Foundation, the report finds that in 1992 the numbers of new foreign engineers and scientists granted permanent residency status here has risen to nearly 23,000 from a mere 14,000 in 1991.

The report also cites another recent article in American Engineer that discussed how U.S. immigration policies "have devalued the educations of huge numbers of younger scientists and engineers" who are native Americans (i.e., real native Americans, not Indians). "There is a glut of at least six new professionals for every projected opening at the B.S. and above degree level."

The Clearinghouse Bulletin article concludes that "the present high immigration levels of foreign high-tech workers contributes to unemployment of U.S. professionals, and depression of wages in the science and engineering fields, as well as strong disincentives for Americans to invest the time and money necessary to obtain advanced degrees in these fields." It traces the glut in high-skill legal immigrants to the dangerously flawed 1990 Immigration Act, which increased quotas to correct supposed skilled labor shortages. The result was to favor foreign high-tech professionals over Americans.

Add to the new immigration patterns the continuing facts of affirmative action discrimination against white males and you can bid a fond sayonara to native-born American engineers, scientists and perhaps other professionals. Even though many foreign degrees in these fields aren't exactly up to U.S. snuff, the immigrants will still push out better qualified Americans, especially as immigrants deliberately recruit other immigrants.

In their new book, "The Immigration Invasion," Wayne Lutton and John Tanton report how "Russian scientists, who came here as favored and subsidized refugees, are moving into the U.S. computer industry and are busy recruiting more citizens of the former Soviet Union now that travel restrictions have been eased."

What the new pattern of immigration means is that the immigration controversy will remain with us as professional elites begin to understand how their own professional futures are threatened. Those elites may imagine that "we" (meaning someone other than they) have obligations to invite the rest of the planet to come here and be carried on "our" (i.e., "your") taxes. But when it becomes clear to them that those burdens will crush them out of their own jobs, their own mortgages and the educations of their own children, they, like Australians, will start to imagine again.

Samuel Francis, a columnist for The Washington Times, is nationally syndicated.

The Washington Times TUESDAY, DECEMBER 6, 199-

Whitewater chronology

1978—Bill and Hillary Clinton and James and Susan McDougal purchase 203 acres in the Arkansas Ozarks to build vacation homes, forming a partnership known as the Whitewater Development Corp.

1984 — The Clintons improperly deduct $5,133 on their federal income tax returns for interest paid on $30,000 in bank loans made through Whitewater. The deductions save them about $1,000 in taxes.

1984 — The Arkansas Securities Department targets Madison Guaranty Savings and Loan Association, owned by Mr. McDougal, for closure as insolvent.

March 1984 — Mrs. Clinton receives the first payment of a $2,000-a-month retainer to help Madison fight efforts by the Securities Department to close the S&L. Mr. McDougal pays the fee in a deal he says was arranged by Mr. Clinton.

July 1985 — Madison's accounting firm, Frost and Co., says the S&L is solvent. The Frost report is used by Mrs. Clinton to help keep Madison in business.

October 1986 — A Federal Home Loan Bank Board report faults the thrift for risky investments in real estate, low cash reserves and shoddy records.

December 1987 — The McDougals personally deliver Whitewater records to the Governor's Mansion at the request of Mrs. Clinton.

1978 | 1979 | 1980 | 1981 | 1982 | 1983 | 1984 | 1985

November 1988 — Mrs. Clinton sends a letter to Mr. McDougal requesting power of attorney so she can extricate herself and her husband from the Whitewater venture.

March 1989 — The federal government shuts down Madison at a cost of $50 million.

July 1989 — Mr. McDougal is indicted on fraud charges in connection with Madison. He later is acquitted.

March 1992 — The New York Times reports ties between Mr. McDougal and the Clintons, their connections to Whitewater, and their illegal tax deductions.

The Clinton campaign issues a report saying the Clintons lost $68,900 on Whitewater.

The Clinton campaign denies a report in The Washington Times saying Mrs. Clinton received $2,000 a month to help Madison fight state regulators. In November 1993, the White House confirms that she received the retainer.

Fall 1992 — The Resolution Trust Corp. sends the Justice Department a 21-page referral naming the Clintons as "potential beneficiaries" of illegal activities at Madison.

December 1992 — The Clintons sell their half of Whitewater to Mr. McDougal and claim a $1,000 capital gain on their tax return. The sale was arranged by Vincent W. Foster Jr., the Clintons' personal attorney.

March 1993 — RTC Senior Vice President William Roelle briefs Deputy Treasury Secretary Roger C. Altman about the RTC referral, an RTC official says.

July 20 — Mr. Foster commits suicide. Documents related to Whitewater are among those secretly taken from his office by administration officials and turned over to the Clintons' new attorney, David Kendall.

July 22 — White House Counsel Bernard Nussbaum prevents U.S. Park Police and FBI investigators from looking through Mr. Foster's personal papers during a search of Mr. Foster's office.

Sept. 27 — Mr. Roelle informs the Treasury of nine additional criminal referrals.

Sept. 29 — Treasury General Counsel Jean Hanson alerts Mr. Nussbaum that RTC criminal referrals mentioned the Clintons. The next day she writes a memo to Mr. Altman about press inquiries concerning the referrals and Little Rock's Rose Law Firm, where Mrs. Clinton was a partner.

Oct. 31 — The Whitewater controversy is renewed when The Washington Post reports that federal regulators recommended that the Justice Department conduct a criminal investigation into Madison's failure.

Oct. 8 — Another set of RTC criminal referrals is sent to the U.S. attorney in Little Rock.

Oct. 14 — Mr. Nussbaum, Clinton adviser Bruce Lindsey and White House Communications Director Mark Gearan meet with Mrs. Hanson, Treasury Chief of Staff Josh Steiner and Treasury Communications Director Jack DeVore at the White House to discuss press inquiries.

Oct. 27 — The RTC's first criminal referral is rejected by Paula J. Casey, the U.S. attorney in Little Rock and a former law student of Bill Clinton.

Nov. 3 — Associate Attorney General Webster L. Hubbell, a former Rose Law Firm partner, recuses himself in the Whitewater case.

Nov. 4 — The Washington Times reports that the Clintons, who said they were "passive shareholders" in Whitewater, were active in the venture's management and that Mrs. Clinton had sought power of attorney over it.

Nov. 9 — Mrs. Casey recuses herself from the probe of Whitewater's ties to Madison and is replaced by Justice Department prosecutor Donald Mackay. Republicans call on Attorney General Janet Reno to nominate a special counsel to investigate the Whitewater-Madison affair.

Dec. 20 — The Washington Times reports that White House officials removed records on Whitewater from Mr. Foster's office after his suicide.

Dec. 21 — The White House acknowledges that records were taken but denies any wrongdoing.

Dec. 24 — Mr. Clinton instructs his personal attorney to turn over all Whitewater documents to the Justice Department amid calls for a special counsel.

1986 | 1987 | 1988 | 1989 | 1990 | 1991 | 1992 | 1993 | 1994

In addition to indictments expected from Mr. Starr against Clinton business associates, Mr. Clinton faces the prospect of further hear-

the financial dealings of
Guaranty Savings & Loan Association and Whitewater Develop-

KEY PLAYERS

President Clinton: With his wife, Hillary, he owned half of Whitewater Development Corp. He reportedly received $12,000 in campaign donations from co-owner James B. McDougal in the form of cashier's checks from Madison Guaranty Savings and Loan Association.

Hillary Rodham Clinton: A part-owner of Whitewater, she was a senior partner in the Rose Law Firm and a partner with Webster Hubbell and Vincent W. Foster Jr. in Midlife Investors. While her husband was governor in the mid-1980s, she received $2,000 a month to help Madison fight efforts by the Arkansas Securities Department to close the S&L for insolvency.

Vincent W. Foster Jr.: Was White House deputy counsel when he killed himself July 20, 1993. He was a partner with Mrs. Clinton in the Rose Law Firm and Midlife Investors and was the Clintons' attorney in their later Whitewater dealings.

James B. McDougal: Owned Madison Guaranty and, with then-wife Susan, half of Whitewater. He has been accused of diverting money from Madison to repay Mr. Clinton's 1984 gubernatorial campaign debts.

Susan H. McDougal: Was Mr. McDougal's partner in Whitewater while they were married. She has been accused of using part of a $300,000 loan from the Small Business Administration for her Little Rock advertising firm to purchase land for Whitewater. She defaulted on the SBA loan.

Webster L. Hubbell: The former associate attorney general and a close Clinton friend, he was a partner in the Rose Law Firm and Midlife Investors with Mrs. Clinton and Mr. Foster.

Continued on page A10

KEY PLAYERS

Continued from page A9

David L. Hale: Once a municipal judge in Little Rock, he has pleaded guilty to fraud charges as president of Capital-Management Servies Inc. He says Mr. Clinton and Mr. McDougal pressured him to approve a $300,000 SBA-guaranteed loan to Mrs. McDougal.

Jim Guy Tucker: The current Arkansas governor, he received more than $1 million in loans from Madison while his law firm represented it.

Bruce E. Lindsey: A longtime Clinton friend and White House senior adviser, he acknowledged helping arrange legal representation in Arkansas for Trooper Danny Ferguson, who was said to have refuted in a sworn affidavit other troopers' accusations that the president had offered him a job in exchange for helping hush up a story about sexual liaisons.

Bernard Nussbaum: The former White House counsel was reportedly the first person to search Mr. Foster's office after his suicide. He resigned after reports that he was briefed by the RTC on the Madison-Whitewater inquiry.

Margaret Williams: Mrs. Clinton's chief of staff, she accompanied Mr. Nussbaum and Ms. Thomasson in the post-suicide search of Mr. Foster's office.

L. Jean Lewis: The veteran Resolution Trust Corp. (RTC) investigator in Kansas City who had handled the agency's probe said in memos and other documents that "people at the top" of the RTC were concerned about the Madison inquiry.

Betsey Wright: A former Clinton gubernatorial aide suspected of being involved in questionable campaign financing in his 1984 race.

Dan. R. Lasater: A convicted cocaine dealer who was pardoned by Mr. Clinton when he was Arkansas governor, Mr. Lasater has come under investigation as a possible secondary source of questionable campaign money and other funds that were used to pay off private loans.

L.D. Brown: Arkansas state trooper who told Whitewater investigators that during a chance 1986 meeting at the state Capitol he overheard Mr. Clinton pressure Mr. Hale for financial assistance.

J. William Fulbright: A former U.S. senator from Arkansas who says he did not sign a personal campaign check to Mr. Clinton that was part of a fund-raising effort by Mr. McDougal.

David Kendall: The Clintons' personal attorney, he is handling their Whitewater dealings.

Robert B. Fiske Jr.: Appointed Whitewater special counsel by Attorney General Janet Reno. His grand jury probe of more than 20 contacts between White House and Treasury Department officials found insufficient evidence for criminal charges and concluded Mr. Foster's death was a suicide unrelated to the case.

Kenneth W. Starr: A former solicitor general and federal appeals court judge named independent counsel by a panel of three federal judges, replacing Mr. Fiske as head of the Whitewater probe.

Joshua Steiner: The Treasury chief of staff's diary became key to members of the Senate banking committee who said the diary provided "clear evidence regarding certain pertinent aspects of the Treasury contacts with the White House" over the RTC's Whitewater investigation.

Roger C. Altman: The deputy Treasury secretary and former RTC chief, resigned amid accusations that he misled Congress in testimony before the Senate banking committee about RTC contact with the White House over the Whitewater probe.

Lloyd Cutler: The former White House counsel who told the Senate banking committee White House officials were not aware of details from the RTC criminal referrals at an October 1993 White House meeting.

James Mulvenon: A Denver lawyer and Clinton friend, he reviewed Whitewater after it became a campaign issue. He concluded that the McDougals controlled the venture and that the Clintons lost $89,000.

Paula J. Casey: Was named U.S. attorney in Little Rock by Mr. Clinton. After refusing to do so earlier, she recused herself from the Justice Department's Whitewater investigation because of her familiarity with some of the parties involved.

Kenneth Peacock: An Arkansas businessman who says he never contributed to the 1984 Clinton campaign, his name is on a $3,000 cashier's check in the hands of the Justice Department.

Beverly Bassett Schaffer: A Clinton-appointed regulator of Arkansas savings and loans, she approved Madison's stock sale.

Patsy L. Thomasson: A White House aide who helped Mr. Nussbaum in the post-suicide search of Mr. Foster's office.

Chris Wade: A real estate agent who represented the Clintons and McDougals in Whitewater, he counters claims that it was a money-loser.

Jean Hanson: The Treasury general counsel, she alerted Mr. Nussbaum that RTC criminal referrals mentioned the Clintons and, with Roger Altman, gave a briefing on civil case procedures to White House advisers.

Whipping up Whitewater

By Jerry Seper
THE WASHINGTON TIMES

The Washington Times TUESDAY, DECEMBER 6, 1994

Whitewater, the catchall word for the ongoing federal investigation into President Clinton's ties to a failed Arkansas thrift and a one-time Ozarks land development, is expected to be heard with renewed fervor in January when Republicans take control of Capitol Hill.

Armed with the power to set the agenda, call hearings and issue subpoenas, Republicans on the Senate and House banking committees — headed by Sen. Alfonse M. D'Amato of New York and Rep. Jim Leach of Iowa — will revisit the Whitewater affair, last dealt with in August during hearings severely limited in scope by the Democrats.

Independent counsel Kenneth W. Starr also has intensified his efforts in the ongoing investigation. Sources close to the probe say Mr. Starr and his investigators have told potential targets and witnesses in the Whitewater case to "get on board or get out of the way."

In his first major prosecutorial effort, Mr. Starr yesterday concluded a plea agreement with a former Little Rock appraiser, Robert W. Palmer, who pleaded guilty in U.S. District Court to conspiracy in the backdating and falsifying of appraisals for Madison Guaranty Savings & Loan Association.

Mr. Palmer — who faces five years in prison on his guilty plea —has agreed to cooperate with Mr. Starr in the Whitewater probe.

Today, former Associate Attorney General Webster L. Hubbell, longtime friend of Presdident Clinton and former law partner of first lady Hillary Rodham Clinton, is expected to plead guilty to mail fraud and income tax evasion in a separate plea agreement with Mr. Starr. Mr. Hubbell is accused of improperly billing clients, including the federal government, for thousands of dollars in personal expenses.

Mr. Hubbell, sources said, has agreed to cooperate with Mr. Starr, whose investigation has targeted Madison and Whitewater Development Corp., a partnership involving the Clintons, Madison owner James B. McDougal and Mr. McDougal's wife, Susan. The McDougals have since divorced.

So begins the next chapter in a tangled tale that has dogged Mr. Clinton for more than a year.

Ignored at first by much of the major news media and kept alive largely by talk-radio critics of the president, the Whitewater scandal thus far has prompted the appointment of an independent counsel, led to televised congressional hearings, claimed the jobs of several top administration officials and tarnished the public image of the first couple.

The weeks ahead don't look any brighter for the White House.

In addition to indictments expected from Mr. Starr against Clinton business associates, Mr. Clinton faces the prospect of further hearings on Capitol Hill aggressively chaired by members of the opposing party, although both Mr. D'Amato and Mr. Leach have promised that the hearings —when scheduled — will be measured, fair and responsible.

"The Whitewater hearings will be resumed ... but this will not be a witch hunt," said Mr. D'Amato, who expects to call for new hearings beginning in late January or early February. He vowed they will be "responsible and thorough" and held in stages to avoid any conflict with Mr. Starr's Whitewater investigation.

Under Mr. D'Amato, the first phases of new hearings are expected to focus on the removal of documents from the office of White House Deputy Counsel Vincent W. Foster Jr. the night of his July 20, 1993, suicide, and the suspension — and later reinstatement — of three Resolution Trust Corp. (RTC) investigators who initiated the Whitewater probe.

Mr. Leach has adopted a similar plan, perhaps even more cautious.

"I feel very strongly that this is an issue that should be approached very cautiously and carefully. There will be no rush to judgment, and I will do my best to ensure there is no mean-spiritedness," he said. "If there is disclosure and accountability, my instinct would be largely to embrace it and not to have a water-torture approach.

"I've felt from the very beginning that the main issue involved in Whitewater is full disclosure and public accountability," he said. "Once that's established, it's an issue that can be put behind."

Mr. Leach, uncertain when Whitewater hearings will begin in the House, has vigorously sought records for several months outlining the financial dealings of Madison Guaranty Savings & Loan Association and Whitewater Development Corp. He said he expects to make similar requests for documents soon after taking over the committee on Jan. 4.

The RTC connection

Mr. McDougal is suspected of diverting funds from Madison, which failed in 1989 at a cost to taxpayers of $50 million, to several prominent Arkansas politicians, including Mr. Clinton, and of using Madison funds for the Whitewater project. Most of the accusations are outlined in RTC investigative reports turned over to the Justice Department in nine criminal referrals.

Mr. McDougal is suspected of diverting funds from Madison to several prominent Arkansas politicians, including Mr. Clinton, and of using Madison monies for the Whitewater project. Most of the accusations are outlined in RTC investigative reports turned over to the Justice Department in nine criminal referrals.

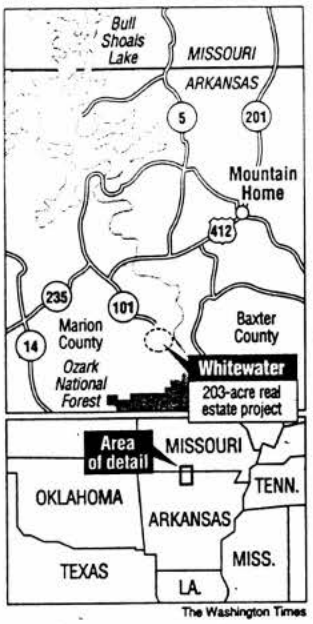
The referrals identified the Clintons as "potential witnesses" and said funds may have been illegally diverted from Madison to Whitewater. RTC investigators said they suspected that "numerous checks" were made payable to various Madison-related entities and had been routed through the Whitewater project, "all of which were signed by James or Susan McDougal."

RTC investigator L. Jean Lewis, one of those suspended and then later reinstated to face an unexplained in-house investigation of her conduct in the case, said in a February report that a review of six months worth of Madison and Whitewater records had found that a "majority of the checks" were used to pay off per-

1/9

✓

over
12(



sonal loans.

Mrs. Lewis said a complete review of all the available documents could prove that the "entire scam" amounted to "hundreds of thousands of dollars in what were essentially unauthorized loans."

The veteran investigator, who has declined numerous requests for media interviews, said in memos and other documents that "people at the top" of the RTC were concerned about the Madison inquiry. Part of that belief comes from a tape recording she made during a meeting with RTC lawyer April Breslaw, a member of the agency's Madison civil litigation team.

Miss Breslaw testified before the Senate banking committee that, despite the tape, she had "no recollection" of telling Mrs. Lewis RTC officials wanted to say Whitewater "did not cause a loss to Madison." She said no one advised her the Feb. 2 conversation with Mrs. Lewis was being recorded and that the RTC investigator "went out of her way to make the conversation appear casual" — even inviting her "to sit on the sofa in her office."

"I regarded the conversation as a cursory and unimportant chat at the end of a long day," she said. "I have no recollection of saying that anyone hoped for a particular outcome for the civil investigation."

Suggesting she had been lulled into a false sense of security during her talk with Mrs. Lewis, Miss Breslaw said she gave "no further thought" to the conversation until April, when Mr. Leach mentioned it during a speech on the House floor.

After Mr. Leach's speech, Miss Breslaw "categorically denied" that she had made the comments to Mrs. Lewis.

"Because I did not believe I made the remarks attributed to me, I denied making them in response to questions asked by some members of the press," she said, acknowledging that at the time she did not know they had been recorded. "I still have no recollection of making them."

Mrs. Lewis, who headed the RTC criminal investigation of Madison until her removal in November, did not appear before the House panel, although she had been invited to testify. Her attorney, Dallas lawyer Michael S. Forshey, said she believed the scope of the hearing was too limited for her to discuss her role in the case.

Getting Lewis off the case

Mrs. Lewis' ouster from the Madison investigation came after the RTC in Washington ordered that regional investigators in Kansas City, Mo. be "gagged" from discussing the ongoing probe. She was removed for refusing the order and later sought federal whistleblower protection rather than comply.

Mrs. Lewis said in a Jan. 6 memo that roadblocks had been erected to divert criminal referrals in the Madison case, and it was "beginning to sound like somebody, or multiple somebodies, are trying to carefully control the outcome of any investigation."

"The beginnings of a cover-up may have already started months ago," she wrote.

During the February meeting, Mrs. Lewis said in a memo, Miss Breslaw told her "head people" at RTC were concerned about her investigation and there were "certain answers" they would be happier about because it would "get them off the hook."

Two of the "head people" were identified as RTC Chief Executive Officer John E. Ryan and RTC General Counsel Ellen Kulka. They denied in appearances before the Senate and House committees that they had exerted any influence in the case.

In her memo, Mrs. Lewis said Miss Breslaw asked her "how we could get to a clear-cut answer as to whether or not Whitewater caused a loss to Madison. I stated that as far as I am concerned, there is a clear-cut loss," she wrote. "I also stated that any attempt to extract Whitewater as one entity from the rest of the McDougal-controlled entities involved in the alleged check kite will distort the entire picture."

Mr. Forshay said his client was the victim of "character assassination" during hearings before the House banking committee, where some members tried to "impugn and discredit" her personally.

In a letter to Rep. Henry B. Gonzalez, Texas Democrat and House banking committee chairman, Mr. Forshay said committee Democrats had tried during the August hearings to create a "false impression" that Mrs. Lewis did not attend hearings because of a pending book deal on the Whitewater probe.

"The members of your committee made no effort to ascertain the truth of this matter, but rather proceeded to cast aspersions on Mrs. Lewis based solely on a presumption that is absolutely false and without basis in fact," Mr. Forshay said. "Such an action does a tremendous injustice to the entire House banking committee and especially Mrs. Lewis."

Accusations about a book deal were led by Rep. Stephen L. Neal, North Carolina Democrat, and apparently stemmed from a letter to the committee from Mr. Ryan, the RTC's acting chief executive officer. He attached a "draft retention agreement telefaxed to Mrs. Lewis from a law firm."

Mr. Forshay said the agreement, which he described as "personal, confidential and privileged communication" between himself and his client, was in no way related to any pending deal with a publisher. He said the "intellectual property" referred to in the Ryan attachment was her use and ownership of the term "BITCH," an acronym for "Boys, I'm taking charge here."

"The initial slogan was conceived by Mrs. Lewis in 1987, when, following a deposition, the opposing lawyer in apparent frustration called Mrs. Lewis a 'bitch,'" he said. "My law firm has represented Mrs. Lewis with respect to this intellectual property since 1993."

Mr. Forshay denied that Mrs. Lewis "or anyone on her behalf" had taken any action on a book deal concerning her investigation of Madison or Whitewater. He said Mrs. Lewis had not sought publicity or notoriety with regard to the Whitewater probe.

"Clearly, if Mrs. Lewis was seeking publicity, she would have appeared at your committee's hearings and held press conferences before and after her testimony without regard to her concerns of potentially compromising the ongoing investigation of the independent counsel," he said.

Mr. Forshay said his client will be willing to testify before the panel "at the appropriate time."

Warnings from higher-ups

A second senior RTC investigator charged in August that top agency

Continued on page A10

219

V

122

Continued from page A9

managers in Washington had warned him against continuing an investigation into suspected financial irregularities involving Madison and Whitewater.

Richard Iorio, investigations supervisor at the agency's office in Kansas City, Mo., said he and his staff were warned in February that key agency officials discouraged the probe of Madison and were seeking to quash the investigation.

"Iorio and his staff were warned as early as Feb. 18, 1994, that certain key RTC managers would take a dim view of his office's investigation of Madison Guaranty," said Mr. Iorio's attorney, Joseph H. Bocock, in a letter to Mr. Ryan.

"Despite these warnings, his office proceeded to act to protect the public trust. These efforts must not be jeopardized by the very real possibility that the RTC will not independently conduct the current investigation," Mr. Bocock said.

Mr. Iorio, Mrs. Lewis and Les Ausen, a third senior investigator in the Madison case, were placed on administrative leave in August following the Whitewater hearings, pending an inquiry for what agency officials loosely described as possible "noncompliance with RTC policy and procedures."

The three were not advised of the reasons for the paid, 14-day leaves, and their single-page notifications listed no cause of action.

Mr. Bocock said Mr. Iorio, Mrs. Lewis and Mr. Ausen, as contract employees, could have been terminated on 90 days' notice but the agency chose not to do so in an effort to send a "strong chilling message" to other RTC officials "that those who investigate Madison may face allegations of wrongdoing."

Actions of the three RTC investigators initially were examined by the agency's Office of Human Resource Management instead of the Inspector General's Office — where in-house investigations are usually assigned. The probe was later transferred to the Inspector General's Office, where it continues.

In September, the RTC agreed to turn over records to Mr. Starr to explain why it placed the three investigators on administrative leave and ordered them to undergo the in-house probe. The independent counsel sought the records as part of a subpoena issued by a federal grand jury in Washington in what law enforcement authorities said was a cursory look into possible obstruction-of-justice charges.

No strings attached

Renewed Whitewater interest by the GOP-controlled committees is expected to be in sharp contrast to the limitations imposed by Democrats earlier this year.

Mr. Gonzalez of Texas, outgoing House banking committee chairman, gaveled Republicans to a near-standstill in August during a week's worth of Whitewater hearings. His actions even embarrassed some Democrats. Senate banking committee Chairman Donald W. Riegle, Michigan Democrat, was seen as fair and evenhanded, but was guided by a Senate resolution severely restricting questions and topics.

The Democratic limitations were the product of party-line votes to narrow the hearings to the first phase of then-Whitewater special counsel Robert B. Fiske Jr.'s investigation.

They focused only on contacts between the White House and the RTC regarding Madison and its ties to the Whitewater project, the Park Police investigation of the Foster death, and the White House handling of Mr. Foster's documents, including those removed from his office by White House officials after his body was found.

The limited hearings, however, were not without their embarrassing moments, both for Democrats and the White House.

Testimony before the Senate banking committee showed that Deputy Treasury Secretary Roger C. Altman, General Counsel Jean Hanson and Treasury Chief of Staff Joshua Steiner may have purposely misled Congress about their knowledge of the RTC Whitewater investigation and about their personal involvement in relaying information about it to the White House.

Mr. Altman, who headed the RTC at the time, reluctantly suggested during Senate banking oversight hearings in February that he had one contact with the White House over the RTC probe, which focused on Mr. and Mrs. Clinton, but later acknowledged during the Whitewater hearings that there may have been more than 40 contacts.

Another look at testimony

In September, all eight Republican members of the Senate banking committee asked Mr. Starr —who replaced Mr. Fiske in August — to review the sworn committee testimony of the three Treasury officials and to consider possible criminal charges.

"We have identified numerous passages of questionable testimony regarding those issues," wrote GOP Sens. Phil Gramm of Texas, Christopher S. Bond of Missouri, Connie Mack of Florida, Lauch Faircloth of North Carolina, Robert F. Bennett of Utah, William V. Roth of Delaware, Pete V. Domenici of New Mexico and Mr. D'Amato.

The senators cited several examples of what they described as misleading testimony, including:

- Mr. Altman's appearance before the committee on Feb. 24, at an oversight hearing, during which he was questioned about the nature and extent of the White House contacts, and on the handling of criminal referrals that the RTC had made that mentioned the Clintons.

They said the evidence was "overwhelming" that Mr. Altman's answers were "inaccurate and incomplete." In addition to concealing the number of contacts, they said Mr. Altman — who testified under oath — purposely attempted to mislead the committee.

- Mr. Altman's testimony that the "sole" purpose of one White House meeting was to discuss the statute of limitations as it applied to the Madison case. The senators said that based on evidence developed by minority staff investigators, Mr. Altman's testimony was "unequivocally false."

They said that at the Feb. 2 White House meeting, there was an "extensive discussion" of whether Mr. Altman should recuse himself in the Madison case and White House officials asked several questions about his recusal and about his possible replacement.

- Mr. Altman's testimony that the Feb. 2 meeting was the only session he had with White House officials about the Madison case. The senators said it is "now undisputed that there were numerous contacts which Altman failed to disclose."

They said Mr. Altman concealed other meetings and has offered "no credible explanation" for why he denied other contacts when responding to their direct questions. They also challenged his testimony that "to the best of my knowledge," the White House was not advised of the Madison probe by the RTC.

"There is highly credible evidence that these contacts were undertaken with the knowledge and at the direction of Mr. Altman," they told Mr. Starr in the letter.

- After receiving notice from the White House that his Feb. 24 testimony could be misleading, and similar advice from Mrs. Hanson, the senators said Mr. Altman submitted "carefully worded letters to the Committee purporting to correct the record."

They said that "conspicuously absent" from Mr. Altman's first two letters was any mention of "recusal" or "criminal referrals" and that he "affirmatively misrepresented" that in his contacts with the White House, he did not "seek advice, nor was it given."

- Mrs. Hanson "failed to act" when confronted with Mr. Alt man's "blatant attempt to mislead the committee." The senators said the evidence showed that Mrs. Hanson had knowledge at the time that Mr. Altman's testimony was false.

They said documentary evidence and sworn testimony found that Mrs. Hanson was "specifically requested in December to prepare a chronology of prior White House contacts," showing that the White House contacts were "something which was actively recalled by her and others at the Treasury Department as recently as December —less than two months before the Feb. 24 hearings."

- Mr. Steiner's diary provided "clear evidence regarding certain pertinent aspects of the Treasury contacts with the White House." The senators said the diaries contain the most accurate description of ongoing discussions between Treasury and the White House over the Madison affair.

They said despite the fact that Mr. Steiner "made every attempt in the course of his testimony at deposition and at the hearing to protect Altman and White House officials by departing from the plain meaning of his diary entries, it appears that in testifying, Steiner departed from the truth."

Dear Diary ...

Mr. Altman and Mrs. Hanson resigned after their credibility was challenged. Senate banking committee members, including Democrats, questioned whether they could effectively represent the administration.

It was Mr. Riegle who personally told the White House after the hearings that Mr. Altman should resign. "We've got to have relationships that we can depend upon. We've got to have relations that work, and are

The Washington Times TUESDAY, DECEMBER 6, 1994

3/9

full, complete, open and direct," he said. In a statement, Mr. Riegle said Mr. Altman's ability to serve the president "had been damaged and I support his decision to resign."

In a letter to Mr. Clinton, Mr. Altman said he regretted "any mistakes or errors of judgment I may have made" and hoped his resignation, which takes effect upon his successor's confirmation, would "help diminish the controversy."

In a separate letter to Treasury Secretary Lloyd Bentsen, Mr. Altman apologized for "any embarrassment which my misjudgments may have caused the Treasury." But he denied misleading Congress, saying "there was never any intent to withhold information."

Mr. Steiner did not quit, despite a demand from Mr. D'Amato that he step down. But the Treasury official was forced to disassociate himself from his own diary, which outlined efforts by the White House and Treasury to monitor the Whitewater affair. He told the Senate panel he had lied to his diary.

During the Senate banking committee hearings, Mrs. Hanson contradicted Mr. Altman's testimony that he did not order her to brief White House Counsel Bernard W. Nussbaum about the RTC inquiry into Madison. Mr. Nussbaum later also resigned over the briefings.

Mrs. Hanson testified she had been "tasked" by Mr. Altman to give a "heads-up" to Mr. Nussbaum at the White House about the RTC probe.

The Fiske-Starr switch

Mr. D'Amato and Mr. Leach have said they plan to work with Mr. Starr in an effort to avoid compromising his investigation. Mr. Starr inherited the probe from Mr. Fiske on Aug. 5 after a three-judge panel of the U.S. Court of Appeals in Washington questioned Mr. Fiske's independence from the Clinton administration.

In a late-afternoon announcement that stunned much of Capitol Hill, the panel said Mr. Fiske's appointment in January by Attorney General Janet Reno had raised possible conflict-of-interest concerns.

"It is not our intent to impugn the integrity of the attorney general's appointee but rather to reflect the intent of the [Independent Counsel Act] that the actor be protected against perceptions of conflict," the court said.

"As Fiske was appointed by the incumbent administration, the court therefore deems it in the best interest of the appearance of independence contemplated by the act that a person not affiliated with the incumbent administration be appointed," the court said.

The court order was signed by Judge David B. Sentelle, a judge on the U.S. Court of Appeals in Washington; John D. Butzner, senior judge for the 4th U.S. Circuit Court of Appeals in Richmond; and Joseph T. Sneed, senior judge on the 9th U.S. Circuit Court of Appeals in San Francisco.

In June, Congress passed the Independent Counsel Act, which allows court-appointed special prosecutors to investigate cases that might produce conflicts of interest for the Justice Department. It was signed into law on June 30 by Mr. Clinton. Under the act, the independent counsel is appointed by and answers to the court.

Miss Reno had asked the Court of Appeals on July 1 to appoint Mr. Fiske as the statutory independent counsel in the Whitewater affair, shortly after the Independent Counsel Act was signed. At the time, she called for the appointment "of an independent counsel ... because investigation by the Department of Justice of the allegations of violations of criminal law by McDougal and other individuals associated with Mr. and Mrs. Clinton ... would present a political conflict of interest."

She argued that Mr. Fiske should be named "so that he may continue his ongoing investigation without disruption and with the full independence provided by the act."

The court said, however, that Mr. Fiske's appointment would "not be consistent with the purposes of the act."

Democrats, questioning whether Mr. Starr was too partisan for the job and anxious over the timing of a luncheon he had with two anti-Clinton senators, challenged the appointment. But Chief Judge Harry T. Edwards of the U.S. Court of Appeals for the D.C. Circuit dismissed the complaints.

In a 16-page opinion, Judge Edwards said opponents to the Starr appointment had failed to "allege conduct prejudicial to the effectiveness and expeditious administration of the business of the courts."

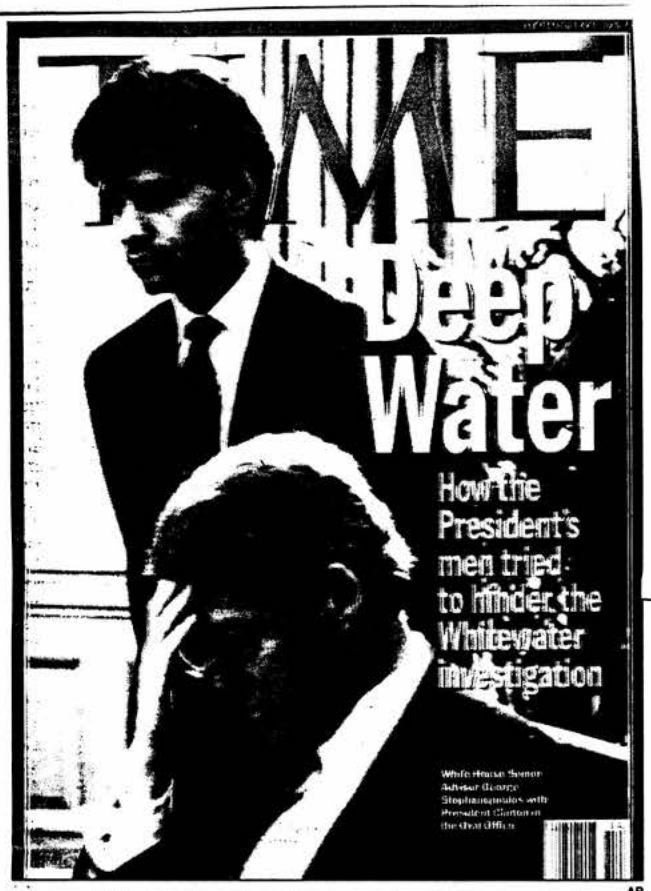
Judge Sentelle came under fire after The Washington Post reported that he had lunch with Sens. Jesse Helms and Lauch Faircloth, both North Carolina Republicans, before the appointment of Mr. Starr. All three have denied discussing Whitewater or Mr. Fiske at the meeting, which took place in the Senate dining room. Democrats, along with The Washington Post, charged he had appointed Mr. Starr, a longtime Republican, after the meeting with the two North Carolina senators and vocal Clinton administration opponents.

Judge Edwards did not inquire as to whether the three had in fact discussed the independent counsel appointment. Even if they had, Judge Edwards wrote: "It is hard to imagine how anyone could go about the task without seeking advice," Judge Edwards wrote, saying there was "no basis whatsoever for proceedings against this judge."

Doing business in Arkansas

Mr. Starr took over an investigation that was fully under way. More than 250 subpoenas had been served, thousands of pages of documents

✓
4/9



AP

It took a while before the nation's biggest media outlets began devoting coverage to the Whitewater story, as in the April 4 issue of Time.

had been reviewed and dozens of people had been interviewed.

The inquiry itself centers on the financial connections, if any, between Mr. Clinton, Mrs. Clinton, Whitewater, Madison, Mr. Mc Dougal, Mrs. McDougal, Capital-Management Services Inc., and its owner, David L. Hale.

The court gave Mr. Starr "full jurisdiction" to investigate and prosecute "whether any individuals or entities committed a violation of federal criminal law" involving Madison, Mr. McDougal, Mr. and Mrs. Clinton, Whitewater, and Capital-Management.

Hale, a former Little Rock municipal judge who pleaded guilty earlier this year to unrelated loan fraud involving Capital-Management, has said Mr. Clinton and Mr. McDougal, partners at the time in Whitewater, pressured him for an illegal $300,000 Small Business Administration loan to Mrs. McDougal — $110,000 of which found its way to Whitewater.

Posted to a Madison account, the loan was given to Mrs. McDougal as sole proprietor of a Little Rock advertising firm known as Master Marketing, a subsidiary of Madison. The balance has never been accounted for.

Documents outlining the loan were included in those seized during a July 1993 raid by the FBI on Hale's Little Rock office.

Hale, believed to be under limited federal protective custody, has emerged as a key figure in the Whitewater probe. Under a plea agreement signed by Mr. Fiske and maintained by Mr. Starr, he will testify for the government as a witness in the event the matter goes to trial.

The former judge, an ex-prosecutor and Sunday school teacher, pleaded guilty to two unrelated counts of SBA fraud earlier this year in a case involving the bogus transfer of $800,000 to Capital-Management. He has been a frequent witness before the grand jury in Little Rock looking into the Whitewater accusations.

Hale said he, Mr. Clinton and Mr. McDougal agreed to the amount of the loan and the terms of the agreement. The first figure asked was $150,000, he said, and they decided the check should be made out to Mrs. McDougal to make sure a woman's name appeared on the SBA loan application.

He said they all knew Mrs. McDougal did not legally qualify for the loan. At the time, the McDougals had filed a joint financial statement showing assets in excess of $3 million, including a $400,000 personal residence. SBA loans are meant for applicants who are disadvantaged or unable to obtain financial assistance elsewhere.

At a second meeting, Hale said Mr. Clinton told him the Clinton name could not be associated with the deal "anywhere in this, anywhere at all."

"I knew what was going on, as we all did," Hale said. "But we were friends, and that's just the way business is done in Arkansas."

Business in the kitchen

Hale also told the grand jury that Arkansas Gov. Jim Guy Tucker, who won re-election to a full term in the Nov. 8 midterm elections, and Mr. McDougal sought hundreds of thousands of dollars in loans after federal regulators began to close in on Madison as insolvent.

A former co-chairman for Mr. Tucker's unsuccessful 1978 U.S. Senate campaign, Hale testified that one loan he approved for $150,000 as part of an SBA investment program was mapped out on Mr. Tucker's kitchen table. He testified the 1985 kitchen-table meeting involved himself, Mr. Tucker and Mr. McDougal and was arranged by Mr. Tucker after an earlier session at the Little Rock offices of Madison. At the time, Mr. Tucker was a private citizen.

The loan was authorized under an SBA program aimed at small businesses owned, controlled or managed by "socially or economically disadvantaged individuals." Mr. Tucker's net worth was then $1.3 million.

Hale told the grand jury that Mr. McDougal and Mr. Tucker wanted to know how much financing they could get to help clean up money problems at Madison. He testified the two men said they were looking at several land deals for which they wanted financing and sought Hale's advice on ways to get cash.

Mr. Tucker has denied any wrongdoing in connection with loans his companies got from Madison and Capital-Management.

The grand jury is looking into accusations that funds from Capital-Management were used to cover losses at Madison and loans to Whitewater.

Investigators are seeking to penetrate what they believe is an inner circle of prominent Arkansas politicians and community leaders, all of them in debt to Madison or Capital-Management. They also are trying to determine whether Madison or Capital-Management funds were secretly funneled to Arkansas politicians, including Mr. Clinton.

Madison first surfaces

Interest in Madison arose in 1984, when the Federal Home Loan Bank Board (FHLBB) reported on the thrift's financial shortfalls. By 1986, regulators said the S&L's management and its board of directors, both headed by Mr. McDougal, had "failed to operate Madison in a safe and sound manner."

5/9

V

over

125

5, 1994 — The White House reveals that a subpoena has been issued for Whitewater records under terms negotiated Dec. 23 by prosecutors and Mr. Kendall.

Jan. 9 — Sen. Daniel Patrick Moynihan of New York is the first Democrat to join Republicans in calling for a special prosecutor or independent counsel.

12 — Bowing to pressure, Mr. Clinton asks that a special counsel be appointed to investigate the role he and his wife played in the Whitewater-Madison affair.

20 — Miss Reno appoints Robert B. Fiske Jr. as special counsel to investigate Whitewater.

Feb. 2 — Mr. Altman and Mrs. Hanson brief Mr. Nussbaum, Ms. Williams and Harold Ickes, White House deputy chief of staff, on civil case procedures.

Feb. 24 — Mr. Altman testifies before the Senate Banking, Housing and Urban Affairs Committee and subsequently sends the committee four letters amending his testimony on meetings with the White House.

Feb. 25 — Mr. Altman recuses himself from further Whitewater investigation and announces he will step down as interim head of the RTC.

March 5 — Mr. Nussbaum resigns.

March 8 — Mr. Clinton names Lloyd Cutler, an old Washington hand with influence and political savvy, as temporary White House counsel to help him through the Whitewater mess.

March 22 — Former Little Rock Municipal Judge David Hale, who has implicated Mr. Clinton in a Whitewater-related scheme, pleads guilty in U.S. District Court in Little Rock to conspiracy and mail fraud.

March 24 — Mr. Clinton reduces by $22,000 the amount he says he lost in the Whitewater venture — to $46,000.

Earlier in day, Rep. Jim Leach, Iowa Republican, says federally backed funds were skimmed in the Whitewater affair.

March 26 — News reports say Mr. Fiske is examining whether White House adviser George Stephanopoulos and Mr. Ickes inquired about removing Clinton critic Jay Stephens from a civil probe related to Whitewater.

May 5 — Mr. Fiske subpoenas the White House to turn over all documents relating to Mr. Foster's death.

June 12 — Mr. Fiske interviews the Clintons under oath about Whitewater.

June 30 — Mr. Fiske says his grand-jury probe of contacts between White House and Treasury Department officials found insufficient evidence for criminal charges.

Aug. 5 — Kenneth W. Starr is named independent counsel to head the Whitewater probe.

Dec. 1 — News reports say Mr. Hubbell has agreed to plead guilty to two felony counts being prepared by Mr. Starr.

In a March 1986 report, the FHLBB said Madison's insolvency was inevitable and issued a federal cease-and-desist order. Federal regulators said Mr. McDougal:

- Diverted substantial amounts of money from Madison projects to himself and others, including relatives, employees and friends, through his total control of the S&L.
- Used corporate resources, all federally insured, to propose and build several large land developments throughout Arkansas and elsewhere, although many were of "questionable economic worth."
- Booked Madison profits in a way to increase the S&L's net worth, allowing him to make additional investments and "direct cash to himself and other insiders."
- Funneled payments on development projects through business entities owned or controlled by Mr. McDougal, his wife, other Madison employees, relatives and "close friends."

Whitewater investigators, according to law enforcement sources, have been looking into similar accusations regarding Madison's direct ties to Whitewater and several powerful Arkansas politicians.

Investigators are examining alleged "shell corporations" set up by Mr. McDougal and looking into suspected check kiting and account overdrafts authorized by the S&L owner. Documents show Mr. Clinton and others, including Mr. Tucker, may have benefited from the schemes.

Mr. McDougal, removed by federal banking regulators from the Madison chairmanship in the summer of 1986, has denied any wrongdoing. He has described as "ridiculous" accusations by Hale that he pressured the former judge for loans.

Mr. Clinton has said he and his wife had no knowledge or information about Madison. During the 1992 presidential campaign, Mr. and Mrs. Clinton described themselves as "passive shareholders" in the Whitewater venture. They also denied having any Whitewater documents during the campaign.

A key witness

But Mrs. McDougal, now divorced and living in Nashville, Tenn., told federal investigators Mr. Clinton personally ordered her to deliver Whitewater documents to the governor's mansion "sometime before" an October 1991 announcement that he planned to seek the presidency.

She told investigators that Mr. Clinton asked for the records on a promise — never kept — that he would return them.

During a White House news conference held by Mrs. Clinton in April to insist that neither she nor her husband did anything wrong in Whitewater, the first lady reiterated claims that Whitewater partnership records had not gone to the mansion at her husband's or her request.

Mrs. McDougal, however, told Mr. Fiske she put the Whitewater records in a box that was delivered to the Little Rock mansion "by one of her brothers." Her brothers, William and James Henley, were Madison officers.

She told investigators the request for the Whitewater records came in a telephone call from Mr. Clinton. She told Mr. Fiske she expected the records to be returned but never saw them again.

Mrs. McDougal, an officer and owner at Madison who signed numerous corporate documents, could be a key witness against the Clintons in any trial that might result from the Whitewater probe. She can testify about several of the confusing areas of the Madison-Whitewater relationship.

Central to any testimony would be her firsthand knowledge of whether the Clintons personally benefited from funds funneled from Madison to the Whitewater project and whether any of that money was used to pay off the Clintons' personal loans or campaign debts, law enforcement sources said.

She also could testify about her involvement and that of Mr. Clinton in the $300,000 SBA loan she got from Capital-Management.

Mrs. McDougal also is believed to know about a November 1985 check for $7,500 from Madison Marketing, the advertising subsidiary she ran, to Whitewater that was used to make a payment on a personal loan by the Clintons.

Documents released by Mr. Leach show that $7,500 was diverted from Madison Marketing into a Whitewater account to make a payment on a $20,000 loan to the Clintons from Security Bank of Paragould, Ark.

Mr. Starr has subpoenaed records of a former attorney for Mrs. McDougal. The attorney, Tom Overby, said he was turning over records related to his representation of Mrs. McDougal in 1986, when federal regulators ousted her husband from the ailing Madison.

Shredding records

It was not clear when Whitewater records were given to Mr. Clinton at the mansion, other than before an Oct. 3, 1991, announcement that he intended to seek the presidency.

Three current or former employees at Little Rock's Rose Law Firm, where Mrs. Clinton was a senior partner, have said she summoned couriers from the firm to the mansion during the 1992 campaign and handed them records to be shredded at the firm's downtown office.

The shredding, the employees said, began after the New York Times reported on March 8, 1992, the couple's involvement in Whitewater. They said the records involved sealed, unmarked envelopes with instructions that they were to be shredded. The couriers made at least six "mansion runs" during the campaign, the employees said.

"There were a number of runs to the mansion by several different couriers," a former Rose employee said. "The instructions were always the same; the records were to be taken back to the firm and shredded."

Rose managing partner Ronald M. Clark has denied that any documents were improperly shredded, saying in a statement the firm had "actively made every effort to preserve all the files" connected to Whitewater. Not all of the suspected shredding involved documents from the mansion. Mr. Clark confirmed reports in the New York Times that some documents belonging to Mr. Foster had been shredded, but denied they were related to Whitewater.

Capital-Management was licensed by the SBA in 1979 as a specialized small-business investment company. In a report this March, the General Accounting Office said

Continued on page A12

6/9

V

126

Continued from page A11

oversight of Capital-Management was "clearly inadequate" and the firm was improperly operated.

The GAO said Hale entered into prohibited transactions, including loans to business associates and for real estate purchases, and "took advantage of the opening provided by the flexibility in SBA guidelines" to make loans to those with "questionable claims to program eligibility."

The GAO report was requested in November by Rep. John J. LaFalce, New York Democrat and chairman of the House Small Business Committee, after accusations that Mr. Clinton, while governor of Arkansas, and Mr. McDougal pressured Hale for the $300,000 Capital-Management loan.

What the trooper heard

On Oct. 19, The Washington Times reported that Arkansas State Trooper L.D. Brown told Whitewater investigators that during a chance 1986 meeting at the state Capitol he overheard Mr. Clinton pressure Hale for financial assistance.

Although Mr. Clinton has vigorously denied that he ever talked to Hale about a loan, Trooper Brown — a 14-year veteran who worked on the governor's security detail in the mid-1980s — told investigators there was no doubt Mr. Clinton was "pressuring Hale" for money.

The trooper, former president of the Arkansas State Troopers Association, said that during the Capitol encounter, Mr. Clinton told Hale that the former judge had to "help us out. We need to raise some money."

"David was kind of taken aback, a little bit shocked; he dropped his head," Trooper Brown said. "It was more than just a normal conversation. It was like this is the kind of thing you discuss behind closed doors."

Mr. Clinton has denied ever speaking to Hale about the loan. White House officials have called Hale a liar.

Trooper Brown has said he did not hear any specifics from the conversation, including a loan amount or its intended use, but was certain the governor was asking directly for financial assistance.

The trooper, who accused Mr. Clinton earlier this year of sexual improprieties, was subpoenaed by Mr. Fiske and has been interviewed by FBI agents assigned to the Whitewater case. He has refused to talk about any conversations he had with federal authorities.

A day after Trooper Brown's accusations surfaced, the White House vigorously denied that it had sought directly or through friends to influence his testimony. Mr. Clinton's personal attorney, David E. Kendall, said no one "at or connected with the White House put any pressure on L.D. Brown in any way at any time to testify in any fashion to anybody."

James R. "Skip" Rutherford, a Little Rock public relations executive and longtime Clinton supporter whom Trooper Brown said had tried to persuade him to be uncooperative with Whitewater investigators, also denied the accusation.

Mr. Rutherford said he met in "good faith" and at the trooper's request, adding that "allegations that I pressured him are categorically false, absolutely false."

A former vice president under White House senior adviser Thomas F. "Mack" McLarty at Arkla Inc., a giant gas distributor in Little Rock, Mr. Rutherford acknowledged he talked with White House senior adviser Bruce E. Lindsey and Clinton campaign official Betsey Wright after the Feb. 9 meeting with Trooper Brown, but he said the conversations were "just coincidences."

He said he, Mr. Lindsey and Miss Wright "talk frequently," and he mentioned to Mr. Lindsey and Miss Wright that Trooper Brown had sought advice about the Whitewater affair, but only as part of "passing conversations" about other topics.

"I put absolutely no importance on it at the time," Mr. Rutherford said.

Mr. Lindsey, through an aide, said he never told anyone that Mr. Rutherford and Trooper Brown had met. Miss Wright, executive vice president of the Wexler Group, a Washington lobbying firm, did not return telephone calls to her office for comment.

Damage control

Longtime friends of the Clintons, Mr. Lindsey and Miss Wright are no strangers to efforts to neutralize accusations of misconduct by the president.

Last year, after Arkansas state Troopers Larry Patterson and Roger Perry gave vivid descriptions of multiple sexual encounters involving Mr. Clinton, Mr. Lindsey immediately sought to contain the damage and dissuade the media from giving credence to the first on-the-record charges of sexual escapades by anyone other than women who claimed to have been involved with Mr. Clinton.

One of those efforts was recorded by ABC-TV's "World News Tonight" when Mr. Lindsey interrupted an on-the-air interview with Trooper Patterson's former supervisor, Buddy Young, whom Mr. Clinton appointed to a $92,000-a-year post as a regional director with the Federal Emergency Management Agency (FEMA).

Mr. Lindsey, who had no idea Mr. Young was in the middle of a live television interview with his speaker phone on, said after being told he was talking to ABC: "We may need you to do CNN, too, at some point."

Later, Mr. Lindsey acknowledged he had helped arrange legal representation in Arkansas for Trooper Danny Ferguson, who was said to have refuted in a sworn affidavit the other troopers' accusations that the president had offered him a job in exchange for helping hush up the story.

Miss Wright, who was Mr. Clinton's gubernatorial chief of staff, visited the Arkansas Governor's Mansion last year to urge Trooper Ferguson to back away from statements that Mr. Clinton offered federal jobs to discourage troopers from speaking out about his actions as governor.

After Miss Wright left Little Rock, attorneys for Trooper Ferguson issued a statement saying Mr. Clinton "never offered or indicated a willingness to offer any trooper a job in exchange for silence or help in shaping their stories."

Two days later, Trooper Ferguson seemed to contradict the statement, telling the Los Angeles Times that Mr. Clinton did discuss federal jobs for Trooper Perry and himself. In a taped interview with the Times, he said Mr. Clinton asked him whether he was interested in one of two federal jobs, either as a regional head of the FEMA or as a U.S. marshal.

Although White House officials attempted to describe the Ferguson statement as a sworn affidavit, the trooper never signed it. His attorney, Robert Barton, signed it, saying Trooper Ferguson had told him no federal job was offered as a quid pro quo for silence.

Miss Wright said at the time she had not gone to Little Rock at the request of Clinton administration officials but had called the White House to give her "observations" on what was happening.

What the White House knew

A major question in the Whitewater labyrinth — one of many —is what role the White House may have played in taking confidential information about the RTC probe directly to Mr. Clinton, and what the president may have done with the data.

Notes gathered during the Senate banking committee hearings revealed that Mr. Lindsey, the president's top Whitewater adviser, was briefed on the RTC criminal referrals twice in the week before an unusual private Oval Office meeting in October 1993 between Mr. Clinton and Mr. Tucker.

The unannounced half-hour session, from which photographers were barred and about which the governor afterward declined to talk with reporters, came after the names of Mr. Clinton and Mr. Tucker surfaced in secret White House briefings about the RTC investigation.

Former White House Counsel Lloyd N. Cutler, in testimony before the Senate banking committee, said White House officials were not aware of details from the referrals at the time of the White House meeting, on Oct. 6, 1993, and, as a result, Mr. Tucker could not have received a tip, or as Mr. Cutler called it, "a heads-up."

White House notes, however, suggest a different version.

Mr. Lindsey, who was designated by the president to track Whitewater developments, was told about the RTC criminal referrals on Sept. 29, 1993 — seven days earlier — by Clifford Sloan, an assistant White House counsel. Mr. Sloan, in notes he wrote the next day, said he talked to Mr. Lindsey about targets of the RTC investigation and about prospective witnesses.

The president has said he was told of the referrals "sometime" in October 1993 but said he cannot recall who briefed him, where or when. He has said, however, he believes Mr. Lindsey told him of the referrals.

Mr. Sloan's notes show Mr. Sloan knew that:

- The Whitewater partnership was of interest to investigators, and that nine criminal referrals in the investigation had been forwarded to Washington.
- There were "allegations" concerning Mr. Tucker, former Sen. J. William Fulbright of Arkansas and Mr. McDougal in connection with the RTC inquiry.
- The RTC had concerns about the diversion of funds to Mr. Clinton's 1984 gubernatorial campaign and the campaign was being examined as a possible "co-conspirator."
- The Clintons both had been mentioned "in other charges as potential witnesses."
- The RTC investigation of Madison originated in Kansas City, and the White House had obtained the unlisted telephone numbers of RTC investigators.

Looking for the shell game

The referrals, according to federal law enforcement sources, said the Clintons and Mr. Tucker stood to benefit from kiting checks and from account overdrafts authorized by Mr. McDougal. They described Mr. Clinton and Mr. Tucker as principals in "shell corporations" created by

The Washington Times TUESDAY, DECEMBER 6, 1994

7/9

✓ over

127

Mr. McDougal.

Mrs. Hanson, according to her testimony on what she told the White House, said she told Mr. Nussbaum and Mr. Sloan that RTC referrals mentioned the Clintons and the Clinton campaign. Mr. Sloan later gave the information to Mr. Lindsey, who asked to be kept informed.

On Oct. 4 or 5, 1993 — less than a week after his initial briefing —Mr. Lindsey confirmed that he had received "news from a source outside the government" that there had been additional media inquiries about the referrals. The unidentified source said checks written on Madison accounts to Mr. Clinton's 1984 gubernatorial race were at issue in the nine referrals.

Mr. Lindsey later called campaign officials and obtained copies of the checks.

Mr. Cutler testified that it was Mr. Lindsey who briefed the president about the RTC referrals. "The president did not ask Mr. Lindsey to do anything and Mr. Lindsey did not suggest there was anything that could or should be done about the criminal referrals," Mr. Cutler told the Senate banking committee.

Mr. Lindsey's involvement in RTC briefings continued past the Clinton-Tucker meeting. Records show that on Oct. 7, 1993, Mr. Sloan told Mr. Lindsey about additional information he had received from Mrs. Hanson. The briefing is outlined in a memo.

"With regard to the subject Neil Eggleston and I spoke to you about one night last week, we have some additional information we'd like to give you in a brief update," Mr. Sloan wrote. The note does not elaborate or identify the specific subject in question.

A week later, in response to new press inquiries, Mr. Lindsey attended another briefing. The Oct. 14, 1993, briefing was arranged by Jack DeVore, who then headed the Treasury Department's public affairs office. Others were Mrs. Hanson; Mr. Steiner; Mr. Nussbaum; White House Communications Director Mark Gearan; Mr. Eggleston, an associate White House counsel; and Mr. Sloan.

It was during this meeting that press inquiries were described in detail and Mrs. Lewis was identified as the RTC investigator in Kansas City who had handled the matter. Less than a month later —on Nov. 10, 1993 — Mrs. Lewis was removed from the investigation.

Influence on a probe

The timing of the conversations goes to the heart of questions about whether the White House improperly tried to influence or squelch the RTC probe of ties connecting Madison, Whitewater and the Clintons.

"Insider notification of a possible mention in a criminal referral gives a political figure more than a [public relations] heads-up" Mr. Leach said during House banking committee hearings. "It gives a political figure two options: one, to attempt to sidetrack an investigation; two, to frustrate an investigation by possible destruction of documents."

Mr. Leach said White House advisers should have told Mr. Clinton not to meet with Mr. Tucker.

"Any lawyer who knew about this circumstance should have been compelled to advise the president not to meet," he said. "No American, including the president of the United States, is entitled to insider information on the development of criminal referrals that may relate to that individual."

Mr. Tucker played a key role in various financial dealings involving Madison and Capital-Management. He received $1.1 million in government-backed loans from the S&L and the lending company to companies he owned.

The Arkansas governor, who succeeded Mr. Clinton and whose Little Rock law firm at one time represented both Madison and Capital-Management, also was an officer of the Bank of Kingston, a rural Arkansas bank owned by Mr. McDougal, which lent $30,000 to Mrs. Clinton to build a model home on a Whitewater lot. This unsecured loan was later repaid by another bank loan.

Concerns about Mr. Lindsey do not stop at questionable Treasury-White House contacts. As the former Clinton gubernatorial campaign treasurer, Mr. Lindsey figures prominently in suspected irregularities involving Mr. Clinton's state campaigns, particularly why it was never publicly disclosed how it spent about $40,000 raised for the 1990 race.

The undisclosed payments are part of an apparent imbalance in the 1990 fund of about $2.5 million. Records of the 1990 campaign are in Mr. Starr's possession. He has also been looking into Mr. Clinton's 1984 race. Arkansas campaign laws require candidates to account for each and every dollar spent.

What is not in dispute is the fact that Mr. Lindsey, with help from Miss Wright, worked to settle various personal loans to Mr. Clinton or participated in other alternative financing to pay off Mr. Clinton's campaign debts during at least two gubernatorial races.

Following the money

Whitewater investigators, according to federal law enforcement sources, are trying to determine if Miss Wright or Mr. Lindsey violated federal campaign laws in raising the funds and, if so, if they later tried to cover it up.

The inquiry has focused on:

- Mr. Lindsey's involvement in a Clinton bank loan during the 1990 race, when he served as campaign treasurer. The $50,000 personal note to the Clintons was used by the campaign to help pay off debts, although it was never reported to the Internal Revenue Service as required by law.

The loan was part of nearly $180,000 in three loans taken out in 1990 by Mr. and Mrs. Clinton from the Perry County Bank in Perryville, Ark. It was targeted by Mr. Fiske as part of an expanded inquiry into the campaign practices of the governor and members of his staff, and has since been turned over to Mr. Starr.

- Miss Wright's involvement in questionable campaign contributions during the 1984 race, and her participation in a 1985 Clinton fundraiser hosted at Madison's Little Rock offices by Mr. McDougal.

As Mr. Clinton's former chief of staff, Miss Wright helped collect $35,000 raised at the fund-raiser to help repay a Clinton personal loan of $50,000.

The inquiry has moved the Whitewater affair into Mr. Clinton's recent political past. Whitewater critics have said the public was not interested in what Mr. and Mrs. Clinton did 16 years ago when the Whitewater partnership was formed.

Mr. Lindsey's suspected involvement in the Perryville loan, according to the sources, was a key part of the expanded Whitewater inquiry. The sources said investigators were trying to determine if the Clinton campaign generally and Mr. Lindsey specifically violated federal campaign financing laws by failing to disclose various loan transactions.

The three Perry County Bank loans were taken as personal notes by the Clintons and later re-loaned to the campaign.

Federal bank secrecy laws require banks and other financial institutions to report to the IRS any cash transaction in excess of $10,000. Investigators, the sources said, believe campaign officials wrote checks of less than $10,000 for expenditures to avoid the reporting requirement.

The checks, according to the sources, are believed to have been signed by Mr. Lindsey.

The Perryville bank was owned at the time by Herby Branscum Jr., former chairman of the Arkansas Democratic Party and a longtime Clinton supporter. After Mr. Clinton's successful 1990 re-election, Mr. Branscum was named to the State Highway Commission.

Miss Wright has drawn the attention of investigators for her role in the 1985 McDougal fund-raiser. Investigators, according to the sources, want to know whether Mr. McDougal, a longtime Clinton supporter, received political favors in exchange for his help in retiring several personal loans and campaign debts.

No records were kept by campaign officials to document the source of the $35,000 raised during the McDougal fund-raiser, despite campaign laws requiring that contributions be reported and that a list of contributors be maintained.

Other documents show, however, that not all of the money went to pay off the Clintons' $50,000 note — a personal loan from the Bank of Cherry Valley, Ark. A May 1986 campaign report shows that $8,000 of the $35,000 went to provide seed money for Mr. Clinton's 1986 re-election bid.

The records also show that as much as $14,000 of the funds raised by Mr. McDougal went unreported on Mr. Clinton's campaign filings — including $12,000 in four separate cashier's checks federal regulators suspect were illegally diverted from Madison.

Tracking the records

Whitewater investigators subpoenaed records describing more than $283,000 in personal loans to Mr. and Mrs. Clinton from four rural Arkansas banks. The subpoena called for "all documents" outlining the Clintons' involvement with the banks during an 11-year period beginning in 1978, the year they formed the Whitewater partnership with Mr. and Mrs. McDougal.

The subpoena, delivered to the Arkansas Bank Department, sought department records, regulatory examinations and other documents concerning the Bank of Cherry Valley, Citizens Bank & Trust of Flippin, the Bank of Kingston and Security Bank of Paragould.

It also asked for records involving the First Bank of Arkansas and First National Bank, both in Wynn. Those institutions bought the Bank of Cherry Valley, Citizens Bank and the Bank of Kingston.

The sources said investigators are trying to determine if Whitewater or Madison money was used to help retire the Clinton debts.

At least two of the so-called contributors at the McDougal fund-raiser — Mr. Fulbright and Ken Peacock, then a 24-year-old college student — said they did not sign $3,000 cashier's checks to Mr. Clinton or his campaign.

The Washington Times TUESDAY, DECEMBER 6, 1994

8/9

12

Mr. Fulbright's signature appears on an April 4, 1985, cashier's check drawn on a Madison account, although aides to the former senator told Mr. Fiske he did not write or authorize the check, the sources said. A prominent Arkansas Democrat who formerly headed the Senate Foreign Relations Committee and who once employed Mr. Clinton and Mr. McDougal as congressional aides, Mr. Fulbright lives in Washington and has been incapacitated by several strokes.

Mr. Peacock's father, Charles D. Peacock, a Madison official at the time, said he made the $3,000 contribution in his son's name without his son's knowledge. In an interview from his farm in Bald Knob, Ark., he declined to say why he denied involvement with the checks during interviews in November and December, adding only he expected to "get a chance" to explain his actions to federal investigators.

The two other checks were from Dean Landrum, a former employee of the elder Mr. Peacock, and from Mrs. McDougal. Mr. Landrum is dead; Mrs. McDougal has declined comment.

In a tape-recorded coversation in March 1992, Mr. McDougal told a Little Rock lawyer he knew that the contribution by Kenneth Peacock was fraudulent and had been made by the man's father, who not only was an officer and share holder at Madison, but a major borrower. A March 1986 Federal Home Loan Bank Board audit said Madison loaned more than $393,000 to businesses involving Mr. Peacock and members of his family.

"That crazy Charles Peacock — you know him? Charles was a director ... and, by the way, he can't be anything you might say [was] critical of the Clintons ... because the night we gave him [Mr. Clinton] that money, he gave him $3,000," Mr. McDougal said in the taped conversation.

Mr. Lindsey, a longtime Clinton friend and supporter, has denied any wrongdoing in connection with campaign contributions and loans.

A questionable associate

Another longtime Clinton associate who has attracted the attention of Whitewater investigators is Dan R. Lasater, a former thoroughbred owner and restaurateur who was one of Mr. Clinton's biggest gubernatorial campaign supporters.

Mr. Lasater, a convicted cocaine dealer who was pardoned by Gov. Clinton, has come under investigation as a possible secondary source of questionable campaign money and other funds that were used to pay off private loans. A part of that concern, according to sources, centers on Mr. Lasater's ownership of the Angel Fire Ski Resort in New Mexico, which he purchased in the mid-1980s.

The sale was handled by Patsy L. Thomasson, then the executive vice president of a Little Rock investment firm known as Lasater and Co. Inc., and now the director of the White House office of administration. Mr. Lasater was serving a prison sentence for conspiring to distribute cocaine at the time of the sale.

Mr. Lasater has declined comment. A receptionist at Phoenix Mortgage Co. in Little Rock, where he is now chairman, said he does not talk to reporters. Angel Fire currently is in bankruptcy, with about $40 million in outstanding claims.

A connection between the Lasater firm and Madison has been of interest to federal investigators for several months. A confidential securities agreement signed by the two firms on June 21, 1984, included the establishment of a Madison account within the Lasater organization to buy and sell securities.

The single-page agreement, signed by Mrs. McDougal as a Madison board member, was among documents seized in December by federal and congressional investigators looking into the Whitewater affair.

Mr. Lasater was sentenced in December 1986 to 30 months in prison on the cocaine conviction. He served four months at a halfway house and two months under house arrest. He was pardoned in November 1990 by Gov. Clinton and returned to live in Little Rock.

While he was under investigation by Arkansas State Police in a cocaine-distribution operation involving Mr. Clinton's brother, Roger, Mr. Lasater received more than $664 million in Arkansas bond-sales contracts, all of which were approved by Mr. Clinton. The Lasater firm was paid $1.6 million in brokerage fees from two dozen separate tax-exempt state bonds.

In 1987, when Mr. Lasater surrendered to federal authorities to begin his prison sentence, he relinquished control of Lasater and Co. to Miss Thomasson. As late as 1991, she was listed as president of the Phoenix Group.

In addition to the Angel Fire connection, Whitewater investigators are looking into several other matters involving Mr. Lasater, including:

- Mr. Clinton's personal lobbying of Arkansas legislators in 1985 to give Mr. Lasater a contract to sell $30.2 million in bonds for a state police radio system. The contract, ultimately approved, earned the Lasater firm $750,000.
- Mrs. Clinton's conflict of interest in representing the government in a $3.3 million Federal Deposit Insurance Corp. lawsuit against Mr. Lasater, which was settled out of court for $200,000. Mrs. Clinton, then a partner at the Rose Law Firm in Little Rock, represented the government, which had accused Mr. Lasater of fraud in the failure of First American Savings and Loan in Oak Brook, Ill.

By the time the suit was filed, Mr. Lasater had contributed thousands of dollars to Mr. Clinton's campaigns, sponsored campaign fund-raisers, and let both Mr. and Mrs. Clinton use his private airplane.

- The role of the Arkansas Development Finance Authority (ADFA) in the award of state tax-exempt bonds, underwriting contracts, and bond counsel fees for the Lasater firm and other investment groups, brokerage houses and law firms. ADFA was created in 1985 by Mr. Clinton to expand the state's authority to issue tax-exempt bonds to develop property in Arkansas.

Getting favored status

Investment bankers in Arkansas, and a former ADFA official involved in government bond contracts, said it was "common knowledge" that companies headed by political supporters of Mr. Clinton received favored status for government awards, including business loans through ADFA bond issues.

The former official, who asked not to be identified, alleged in a letter to the FBI that Clinton appointees engaged in "power brokering" to guarantee "single source bids for services that ensure repeat business to the same people."

The letter said many ADFA bond sales were intended "as political favors or repayments for campaign support." FBI officials have declined comment on the letter.

Mr. Lasater acknowledged at his cocaine-conspiracy trial that he lent Roger Clinton $8,000 to pay a drug debt. Investigators said later that the debt actually was only $4,000 and Roger Clinton had pocketed half the cash.

Roger Clinton, who worked as Mr. Lasater's driver, pled guilty in January 1985 to separate cocaine-distribution charges and served one year of a two-year sentence in federal prison in Texas. He was an unindicted co-conspirator a year later in the Lasater case.

Miss Thomasson, whom Mr. Clinton appointed chairman of the Arkansas Highway Commission, was not implicated in the cocaine investigation. She has not returned calls to her office for comment.

Now an aide to the president, Miss Thomasson was one of three persons who searched Mr. Foster's office less than three hours after his body was found in Fort Marcy Park, off the George Washington Memorial Parkway in Northern Virginia.

The late-night search of Mr. Foster's office was conducted by Mr. Nussbaum, who was Mr. Foster's supervisor; Miss Thomasson; and Margaret A. "Maggie" Williams, who is Mrs. Clinton's chief of staff.

Mr. Nussbaum told Park Police the three were in the Foster office for 10 minutes. But investigators who handled the Foster case, disputed that. They said the late-night visit to Mr. Foster's office lasted at least two hours.

The Washington Times reported on Dec. 20, 1993, that Whitewater documents had been taken from the Foster office on the day he died. Only after that report did the White House make the first acknowledgment that aides had taken records.

The Washington Times TUESDAY, DECEMBER 6, 1994

9/9

Vouge

129

Whitewater conviction first for Starr

By Jerry Seper
THE WASHINGTON TIMES

LITTLE ROCK, Ark. — Whitewater independent counsel Kenneth W. Starr rang up his first conviction here yesterday as a real estate appraiser pleaded guilty to conspiracy involving Madison Guaranty Savings & Loan Association loans.

Robert W. Palmer, who operated Palmer Properties Inc., entered the guilty plea before U.S. District Judge G. Thomas Eisele, admitting in a plea agreement with Mr. Starr to falsifying and backdating thousands of dollars in appraisals.

One of the bogus appraisals involved property that was used to help justify a $300,000 loan to Susan H. McDougal, wife of Madison owner James B. McDougal, according to court records. About $100,000 of that unpaid loan went into an account of Whitewater Development Corp., an Arkansas real estate partnership involving the McDougals, Gov. Bill Clinton and Hillary Rodham Clinton.

Palmer became the latest cooperating witness in a growing list of potential government witnesses in Mr. Starr's ongoing Whitewater probe.

Today, former Associate Attorney General Webster L. Hubbell, longtime friend of President Clinton and former law partner of Mrs. Clinton, is expected to plead guilty to mail fraud and income tax evasion in a separate plea agreement with Mr. Starr.

SPECIAL REPORT

In-depth look at Whitewater

In today's Washington Times is a special four-page pullout report on the Whitewater investigation:
- An in-depth look at where the investigation has been, where it's headed and who it's engulfing.
- The key players and what made them so.
- A step-by-step look at how the affair unfolded.

PAGES A9-12

Mr. Hubbell is suspected of overbilling clients, including the federal government, at Little Rock's Rose Law Firm.

David L. Hale, a former Little Rock municipal judge who owned Capital-Management Services Inc., signed a plea agreement with Whitewater investigators earlier this year.

Hale has told a federal grand jury here looking into the Whitewater affair that Mr. Clinton and Mr. McDougal pressured him for an illegal $300,000 Small Business Administration (SBA) loan to Mrs. McDougal. The McDougals are now divorced.

Hale, who had faced four felony counts, agreed to cooperate with Mr. Starr after pleading guilty to two counts of unrelated SBA fraud.

Madison and the Whitewater venture are at the heart of Mr. Starr's Whitewater investigation.

Palmer's potential testimony in the case could prove damaging to several officials at Madison and others who were involved in numerous questionable loans authorized by the thrift. Madison was closed by federal regulators in 1989 at a cost to taxpayers of $50 million.

Some of the falsified and backdated Palmer appraisals, according to Arkansas real estate records, involved Madison loans to Arkansas Gov. Jim Guy Tucker, who succeeded Mr. Clinton, and other loans involving Hale.

The records show that Mr. Tucker got loans of more than $1 million based on appraisals by Mr. Palmer on a Little Rock utility known as Castle Sewer and Water Co., although the property later was appraised by federal regulators at about half of the Palmer estimate. A second mortgage of $150,000 on the Castle property — also based on the Palmer appraisals — was held by Hale, the records show.

Palmer also appraised property near Little Rock that Hale sold in February 1986 for $825,000, a questionable land deal that allowed Hale to tell the SBA that Capital-Management was sufficiently leveraged to authorize the $300,000 SBA loan to Mrs. McDougal.

The February 1986 Hale deal is described in a "statement of facts" submitted to Judge Eisele by Mr. Starr as one of at least 25 improper appraisals conducted by Palmer.

The Palmer plea agreement was outlined during a hearing before Judge Eisele, who admonished the veteran Little Rock appraiser that he had the right to contest the accusations and demand a jury trial.

Palmer declined, pleading guilty in a firm voice to one felony count of conspiracy. He faces five years in prison and a fine of $250,000. Judge Eisele delayed sentencing for at least seven weeks, pending the completion of a pre-sentencing report by the court.

Mr. Starr declined comment on the agreement, saying during a brief statement after the hearing that Palmer "was cooperating with the federal government." He would not elaborate.

Mr. Tucker told reporters he did not believe he had ever met Mr. Palmer and denied any wrongdoing with regard to the Castle loan. Several of the loans Mr. Tucker got from Madison and Capital-Management were never repaid, records show.

During the hearing, Judge Eisele appeared to surprise Mr. Starr and associate independent counsel Stephen P. Learned, when he asked for the name of someone at Madison with whom Mr. Palmer had conspired to create improper appraisals and to backdate others.

After a pause, Mr. Learned gave the name of Don Denton, a senior loan officer at Madison, although he did not give any other information about Mr. Denton's suspected involvement. Outside the courtroom, Mr. Starr and Mr. Learned declined comment on whether Mr. Denton, who has acknowledged that questionable loans were made at Madison, faced indictment in the case or whether he had been approached as a possible witness.

Contacted by the Associated Press, Mr. Denton declined to comment, except to say, "This comes as a shock to me."

According to court filings yesterday by Mr. Starr, the government said Mr. Palmer:

- Conspired with others to produce false entries in Madison reports and financial statements with the intent to deceive auditors and examiners from the Federal Home Loan Bank Board (FHLBB).
- Was part of a conspiracy by Madison officials that was aimed at deceiving FHLBB examiners who were planning to begin an audit of Madison in March 1986.
- Assisted in removing from Madison's files previously prepared appraisals that were created so it would appear to bank examiners that Madison had complied with federal appraisal regulations.
- Created phony appraisals for Madison loans that had not previously had federally required appraisals in an effort to deceive federal examiners.
- Backdated the phony appraisals so that it would "falsely appear" to federal examiners that Madison had complied with appraisal obligations outlined in a 1984 audit.

According to Mr. Starr, Palmer did the questionable appraisals at Madison during a two-week period shortly before FHLBB examiners were due for the audit. The prosecutor said Palmer created and backdated appraisals so it would appear to federal examiners that they had been prepared "in a proper and timely manner."

In an effort to conceal his activities, Palmer submitted a $15,350 bill for "a real estate consultant fee," Mr. Starr said.

Palmer left the courthouse without comment. On Mr. Starr's recommendation, Judge Eisele released him on his own recognizance.

The Whitewater inquiry is focusing on suspected financial irregularities involving Madison and Whitewater and has centered on accusations that funds were illegally routed from the thrift to the real estate partnership.

The Starr inquiry also has focused on Hale's accusations regarding the SBA loan to Mrs. McDougal, which was never repaid.

About $100,000 of the McDougal loan ended up in a Whitewater account — where it was used by Mr. McDougal to purchase property.

The Resolution Trust Corp., in nine criminal referrals to the Justice Department, suggested that Madison funds had been routed to Mr. Clinton's gubernatorial campaigns and that Mr. McDougal was responsible for a suspected check-kiting scheme that benefited both Mr. Clinton and Mr. Tucker.

Mr. Clinton has denied any wrongdoing in the Whitewater affair.

see **STARR**, *page A13*

The Washington Times TUESDAY, DECEMBER 6, 1994

V over 15

Court muzzles paper, keeps Whitewater quiet

ot only are judges keeping the special osecut 's report secret, but they won't let the public know why.

CAMBRIDGE, Mass. — If you have any outrage left — if you haven't used it all up on Jesse Helms or Hillary Clinton or Newt Gingrich or whomever you're mad at this week — direct it at David Sentelle, John Butzner and Peter P. Fay.

They are doing far more damage to you and to your country than are the front-page, household names you're used to grousing about.

Sentelle is a judge on the U.S. Court of Appeals for the District of Columbia circuit, and Butzner and Fay are senior appellate judges. They have issued a ruling in a case involving *The Wall Street Journal*, and they have told the *Journal* — and the rest of the press — that it can't even print what the ruling is.

Let me go over that one more time for you:

A court has ruled in an important case and told the press it can't tell you and me what it ruled.

It's outrageous.

It's bizarre.

It's unconstitutional.

But it has happened. In America.

COUNTERPOINTS
By Michael Gartner

Here are the facts:

In January, Attorney General Janet Reno appointed Robert Fiske to investigate the Whitewater matter. He looked into the death of Vincent Foster, the removal of documents from his office, and that whole mess — alleged mess, at least — involving the Clintons, Whitewater Development Corp. and Madison Guaranty Savings and Loan.

In August, after a change in the law about how investigations were to be handled, a special arm of the Circuit Court of Appeals took jurisdiction from the attorney general and replaced Fiske with Kenneth W. Starr. Fiske then turned in — apparently — his final report, filing it with the Circuit Court.

In October, *The Wall Street Journal* heard that Fiske had indeed filed his report and that it had been sealed by the court. The *Journal* then went to court and asked for a copy of the report — if such a report exists.

Nothing happened.

Fiske and Starr filed responses with the court but didn't tell the *Journal*.

A *Journal* lawyer then called the office of each man and asked for a copy of his response.

Each "refused to comment on that topic, and would not even disclose whether they had filed a response," a court document states.

In November, the court ruled on the *Journal's* request for a copy of the Fiske report. Presumably, the court said the *Journal* couldn't have it. But — and here the outrage quadruples — the court sealed its own response.

And it told the *Journal* it could not print a story saying what that response was.

This is known, in the language of the law, as a "prior restraint."

"Prior restraints on speech and publication are the most serious and the least tolerable infringement on First Amendment rights," the Supreme Court noted in 1976. The "damage can be particularly great when the prior restraint falls upon the communication of news and commentary on current events," it added.

Not even the Pentagon Papers — that explosive history of the war in Vietnam with reams of classified information — were deemed too sensitive for our eyes. The Nixon administration tried to stop us from reading them — it sought a prior restraint — but the Supreme Court said no.

In appealing to the Supreme Court to overturn this prior restraint, lawyers for *The Wall Street Journal* wrote: "It is inconceivable that there can be any legitimate, much less extraordinary, reason for shielding the public from knowledge that" — and there the sentence ends. For the appeal is a public document, and therefore it cannot say what's under seal.

It implies that the *Journal* lawyers know what's in the sealed document, but if they do they aren't talking.

The Appeals Court "did not even attempt to explain or justify the prohibition against publication before entering it," the brief states.

I called the Appeals Court and asked the clerk why the decision had been sealed. "I can't answer it. I can't even discuss it," he said. "There is no public record of it, so I can't speak about it." Perhaps I could speak to one of the judges, I said. "The court speaks through me," he replied.

The Wall Street Journal appealed to Chief Justice William H. Rehnquist, and Monday he apparently sidestepped the issue.

So this is the situation:

Robert Fiske, the Whitewater investigator, presumably has written and filed a final report. *The Wall Street Journal* has asked to see a copy. The court apparently has said "no." And the court has told *The Wall Street Journal* that it can't even tell that to anyone.

Why?

COUNTERPOINTS' four columnists provide views from diverse perspectives on today's issues. **Wednesday:** Linda Chavez on practicing religion in the public square. **Thursdays:** Susan Estrich. **Mondays:** Tony Snow. **Tuesdays:** Michael Gartner.

Brave Newt world?

Is Newt Gingrich a brilliant political tactician who may change the nation's course?

Or is he a loose cannon, behaving — in the words Monday of White House Chief of Staff Leon Panetta — "like an out-of-control radio talk-show host"?

Judging from the House speaker-to-be's recent performance: Both.

On Sunday Gingrich, appearing on NBC's *Meet the Press*, rolled out the cannon: "I had a senior law enforcement official tell me that in his judgment, up to a quarter of the White House staff, when they first came in, had used drugs in the last four or five years," he said.

Gingrich provided neither attribution nor evidence. It was, as Panetta charges, outrageous. And that's consistent. From the start of his extraordinary rise from back-bench howler to speaker, Gingrich has played his politics fast and loose.

When he's had his facts straight, he's proved productive, for instance in exposing ethical transgressions that brought down House Speaker Jim Wright even as some of his Republican colleagues cringed.

But when he's fired his popgun wildly, as he did Sunday — and as he did in a pre-election salvo that implied Clinton policies somehow caused the tragic killing of two young boys by their mother in South Carolina — he's left ample reason to wonder if he's suited to high office.

Gingrich admitted as much on election night, saying in one TV interview after another that his back-bench tactics didn't fit in the speaker's chair. He'd change, he said.

Less than 24 hours later, he was back in the news, calling the Clintons "counter-culture McGoverniks." This even though Gingrich, like Clinton, admits to smoking marijuana in his youth.

Cleverness colors much of his bombast. When Sen. Jesse Helms says President Clinton needs a bodyguard to visit military bases, everybody cringes. Gingrich knows to be more playful, less ominous. But what a waste of time.

Why play clown prince when you've got real power and a mandate for change?

Gingrich's "Contract with America" was instrumental in driving his party to victory last month. And despite its ample helpings of fiscal voodoo, it's a starting point for the nation to decide just how much it wants to change its ways.

Perhaps Gingrich will grow into the job. Or perhaps, after years of obscurity, he'll never adjust. In the national spotlight, not even playfulness can cover irresponsibility and hypocrisy. Just ask Ross Perot.

Gingrich has a real opportunity to make the Republican agenda part of a real-world answer to our real-world troubles. If he prefers to play the buffoon, that would be an opportunity lost for him — and for us.

TUESDAY, DECEMBER 6, 1994 • USA TODAY

97

WASHINGTON

2 GOP senators target B-2 bomber

Two Republican senators Monday proposed cutting $125 million for the B-2 bomber, and money for guard and reserve expansion, and "pork barrel" military construction so other defense spending can be boosted. The proposals by Sens. John McCain, R-Ariz., and John Warner, R-Va., would make those cuts, while adding $90 billion to defense spending over five years, an increase they say is needed to maintain existing forces. A written Pentagon response said, "Any suggestion that there is a defense deficit is wrong."

WHITEWATER PLEA: Whitewater special prosecutor Kenneth Starr won his first conviction when Little Rock real estate appraiser Robert Palmer pleaded guilty to falsifying appraisal documents for Madison Guaranty Savings & Loan. Palmer has no direct link to President Clinton and did not appraise the Whitewater property. However, the failed Madison S&L was owned by James McDougal, Clinton's Whitewater partner. Former associate attorney general Webster Hubbell could appear in court today to enter a plea involving billing practices at the Rose Law Firm, where he and Hillary Rodham Clinton used to work.

LLOYD BENTSEN
▶ What happens if Treasury secretary leaves, 1B, 2B

GORTON HOSPITALIZED: Sen. Slade Gorton, R-Wash., suffered a mild heart attack while jogging in Boston. He was resting in stable condition in a Boston hospital, spokesman Tony Williams said.

QUAYLE DISCHARGE: Dan Quayle's doctors say the ex-vice president is improving and is likely to be released from the hospital today. Doctors concluded Quayle's blood was not thinned enough to release him Monday as planned, said Pam Perry of Indiana University Medical Center. Quayle was hospitalized a week ago with clots in both lungs.

TRAVEL OFFICE PROBE: Federal prosecutors are expected to seek an embezzlement indictment against former White House travel office chief Billy Dale. Steven Tabackman, Dale's lawyer, said he expects Dale, who headed the travel office from 1982 until his dismissal last year, to be accused of stealing $69,000 paid by news organizations for presidential trips. Dale will plead innocent, he said.

ELSEWHERE IN THE WORLD

Extradition revelations anger Irish Labor Party

Ireland's Labor Party pulled out of talks on reuniting the ruling coalition Monday after revelations about an extradition case that broke up the former government. Labor leaders had protested the appointment of former attorney general Harry Whelehan, who delayed the extradition of a priest accused of child molestation to Northern Ireland. The *Irish Times* reported Monday that Prime Minister Albert Reynolds knew Whelehan misled the Cabinet when he said the extradition was delayed for legal reasons. Reynolds resigned Nov. 17 after Labor pulled out of his government.

AP

GRACHEV: Threats and enticements

CHECHEN CRISIS: Russia's most powerful body, President Boris Yeltsin's Security Council, will decide this week whether a worsening crisis in the southern region of Chechnya is best solved by words or war. Defense Minister Pavel Grachev is patrolling the borders of Chechnya, which declared independence from Russia in 1991, issuing threats and enticements to rebels. He said the Security Council will make a decision on whether to invade at its meeting Thursday.

Yeltsin's security service acknowledged responsibility Monday for raiding a major Russian bank next door to Russia's White House. The acknowledgement was made just hours after Yeltsin ordered a probe of the five-hour raid and threatened to punish the culprits.

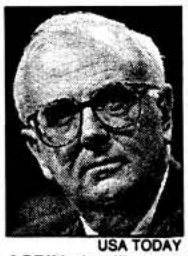
SADDAM WEAKENED: Iraqi President Saddam Hussein is losing control of the nation as a result of increasing economic hardship from Western-imposed sanctions, says Maj. Gen. Wafiq al-Samra'i, a former Iraqi intelligence chief, who defected to northern Iraq, controlled by Kurds.

Peace dividend is no guarantee, Aspin says

By Sam Vincent Meddis
USA TODAY

In the post-Cold War era, U.S. intelligence could "easily be more expensive" to operate than in the past, says former Defense secretary Les Aspin.

The classified intelligence budget is estimated at more than $27 billion, and cuts have been considered for years. But Aspin's comments, at a meeting Monday of the Association of Former Intelligence Officers, put those cuts in doubt.



USA TODAY

ASPIN: Intelligence costs could rise

Aspin, chairman of the President's Foreign Intelligence Advisory Board, is expected to head a congressionally mandated blue-ribbon panel that will review everything from scrapping the CIA to a radical restructuring of the U.S. spy machine's mission.

Halting cuts or increasing intelligence spending drew support from the incoming head of the House Intelligence Committee, Rep. Larry Combest, R-Texas.

"I'm glad to hear Les saying that," said Combest, who says the GOP leadership shares his concerns.

In his first detailed comments about the pending review, Aspin said that it is an "article of faith" in Washington that intelligence would cost less after the demise of the Soviet Union.

But he says "it's possible" that increased demands on intelligence — such as targeting terrorism and narcotics, and tracking environmental dangers and the spread of AIDS — could increase costs.

Combest noted that in these times of smaller military budgets it becomes necessary to spend more on intelligence as a kind of early warning system.

But Rep. Dan Glickman, D-Kan., departing chairman of the Intelligence Committee, disagreed:

"I can't see us, with our budget problems, spending more — but I think we could spend better."

91

Madison S&L Appraiser Pleads Guilty In Starr's First Whitewater Prosecution

By Ellen Joan Pollock
Staff Reporter of The Wall Street Journal

An appraiser for Madison Guaranty Savings & Loan pleaded guilty to one felony count of conspiracy in the first Whitewater prosecution by independent counsel Kenneth Starr.

Robert W. Palmer helped prepare at least 25 backdated appraisals so that it would falsely appear that Madison had complied with Federal Home Loan Bank Board loan documentation requirements, according to documents filed in federal court in Little Rock, Ark. The guilty plea has added significance because Mr. Palmer, who has agreed to cooperate with Mr. Starr's investigation, also handled appraisals on deals involving some of the central players in the Whitewater affair, including Arkansas Gov. Jim Guy Tucker and former municipal Judge David Hale.

Mr. Palmer's lawyers said in a statement that their client decided to plead "as a matter of conscience . . . because he failed to adhere to standards which he believes should have governed his conduct." David Hargis, one of Mr. Palmer's lawyers, said "a good-faith defense could have been constructed for Mr. Palmer" because he faced "marginal exposure."

According to the so-called criminal information filed yesterday, the appraisals were falsely constructed after the bank board criticized the way Madison documented real-estate loans in 1984. In 1986, in preparation for another bank board examination, Mr. Palmer and others created appraisals, removed information from loan files and backdated appraisals "so that it would falsely appear to bank board examiners that Madison had complied with the appraisal obligations imposed following the bank board's 1984 examination," the information said.

At a hearing yesterday, U.S. District Court Judge G. Thomas Eisele asked with whom Mr. Palmer had conspired. A representative for Mr. Starr said Don Denton, a former senior vice president at Madison. In an interview, Mr. Denton said that it "came as a surprise to me" that he was mentioned in connection with Mr. Palmer's plea.

Mr. Denton has cooperated with the independent counsel.

Mr. Palmer agreed to provide information to Mr. Starr's investigators as part of his plea arrangement. Although he could be sentenced to up to five years in prison and fined, the plea agreement says that Mr. Palmer will seek to be placed on probation. In the plea agreement, the independent counsel states that he will take no position on Mr. Palmer's sentencing so long as he "has provided substantial assistance in an investigation or prosecution."

Mr. Palmer was involved in several transactions being probed by Mr. Starr. According to people familiar with the Whitewater investigation, Mr. Palmer helped appraise Castle Sewer & Water, a small sewer system near Little Rock, Ark., that was purchased from Madison by a company partly owned by Gov. Tucker in 1986. Mr. Tucker's firm borrowed $1,050,000 from Madison to finance the transaction, but the value of the loan later was written down by about half, with the approval of federal regulators, after the company could no longer make its loan payments.

Mr. Starr has mounted an intense investigation of Mr. Tucker's business interests in recent months. Max Parker, a spokeswoman for Mr. Tucker, said the governor doesn't recall ever meeting Mr. Palmer, and that he only knew of one appraisal of Castle Sewer, which he said was conducted by another individual.

Mr. Palmer also allegedly was involved in the appraisal of three lots of land used to secure $825,000 in financing from Madison. According to people familiar with the Whitewater investigation, Mr. Hale, the former municipal judge, used $500,000 from that sale to recapitalize his firm, which made loans backed by the Small Business Administration. Soon after, he made a $300,000 SBA-backed loan to Susan McDougal, a partner with President and Mrs. Clinton in their Whitewater real-estate investment.

Mr. Hale has alleged that then-Gov. Clinton pressed him to make the loan to Ms. McDougal, who was then married to former Madison owner James McDougal. Mr. Clinton has vehemently denied that accusation. Mr. Hale pleaded guilty to defrauding the SBA earlier this year.

Court Denies Request By Journal to Open Whitewater Report

By a Wall Street Journal *Staff Reporter*

WASHINGTON — The federal appeals court in Washington has denied The Wall Street Journal's request that a final report by former Whitewater independent counsel Robert Fiske be made public.

The Nov 23 decision by the court's special division denied a petition by Dow Jones & Co., publisher of The Wall Street Journal, for a rehearing of the issue. It was made public yesterday only when U.S. Supreme Court Justice William Rehnquist ruled that Dow Jones's request that he unseal the lower court's first order was moot because the court had issued a subsequent order.

In its public decision, the appeals court ruled that "Mr. Fiske's reports are 'final reports' in name only, since any conclusions reached by Mr. Fiske are necessarily tentative and preliminary. Refusing to disclose his reports protects the reputations of individuals named in such reports who have not been, and may never be, charged with criminal conduct."

Mr. Fiske filed his report with the special division after he was succeeded by Kenneth Starr in August. In its public decision, the special division noted that Mr. Fiske and Mr. Starr had argued to the court "that much of the material contained in [the reports] consists of summaries of grand jury testimony and proceedings."

Mr. Fiske and Mr. Starr's responses to the Journal's motion were filed under seal, and the newspaper hasn't had access to the briefs. The court initially ruled that the Journal couldn't write about the court decision.

Robert Sack, counsel to Dow Jones, said, "The court of appeals with no apparent justification made a secret order based on secret briefs and then ordered the Journal not to report on it. That is absurd and outrageous, and we are disappointed that the chief justice did nothing about it. Dow Jones will continue to pursue the matter."

William S. Duffey Jr., deputy independent counsel, had no comment on the [illegible]. Mr. Fiske couldn't be reached.

Justices to Hear Case on Rulings By Arbitrators

By Paul M. Barrett
Staff Reporter of The Wall Street Journal

WASHINGTON — The Supreme Court agreed to consider how much power federal judges should have to second-guess certain procedural decisions by arbitrators in disputes involving securities and other commercial matters.

The justices said they would review a ruling by the federal appeals court in Philadelphia that said judges should have broad authority to reject a decision by arbitrators to hear a dispute.

The Philadelphia court's ruling, which conflicted with decisions of other federal appeals courts, was sharply criticized by lawyers for major exchanges and investment-industry groups, including the Chicago Board of Trade, Chicago Mercantile Exchange, National Futures Association and Philadelphia Stock Exchange. In friend-of-the-court briefs urging the Supreme Court to accept the case, the exchanges and trade groups asserted that the lower-court ruling would slow the resolution of disputes among investment firms, traders and other market participants.

The case involved a protracted battle between First Options of Chicago Inc., a so-called clearing firm that provides various services to traders, and Philadelphia investor Manuel Kaplan, president and sole shareholder of MK Investments Inc. After the stock market crash in October 1987, MK Investments, at the time a member of the Philadelphia exchange, ran up a $6.2 million deficit in its trading account with First Options. Mr. Kaplan and First Options negotiated a payment arrangement, but it fell apart and First Options took the dispute to the arbitration arm of the Philadelphia exchange.

A panel of arbitrators ruled for First Options, and ordered Mr. Kaplan and MK Investments to pay roughly $7 million. Mr. Kaplan appealed to the federal courts, asserting that the arbitrators lacked jurisdiction over the case.

The federal appeals court said judges should scrutinize such jurisdictional determinations closely. It said further that the arbitrators lacked jurisdiction over Mr. Kaplan personally, but did have jurisdiction over MK Investments. However, because MK Investments had been drained of all of its assets, the practical effect of the appeals court ruling was that First Options couldn't collect any money, according to its lawyers.

First Options appealed to the Supreme Court. The firm argued in its brief that the lower-court ruling undercut a longstanding "national policy favoring arbitration as a form of alternative dispute resolution." (*First Options of Chicago Inc. vs. Kaplan*)

By Lois Romano

WE'VE HEARD THAT . . .

Phoenix Suns megastar **Charles Barkley**, all 6 feet 4¾ inches of him, came to the rescue of Supreme Court Justice **Sandra Day O'Connor** yesterday when she needed a hand to top off her Christmas tree. Barkley was touring the court after lunching at the Monocle with Justice **Clarence Thomas**, Suns rookie **Trevor Ruffin** and black conservative pundit **Armstrong Williams**. Barkley, who has said he'll run for governor of his home state of Alabama in '98 as a Republican, told friends that Thomas is his political idol.

■ Retiring Sen. **George Mitchell** and ousted Rep. **Tom Foley** spent part of a brunch at the Hay-Adams Saturday sitting in a corner booking some of their upcoming free time with golf dates, right down to tee times. Mitchell's fiancee, sports agent **Heather MacLachlan**, joined the duo at CBS's annual event during Kennedy Center Honors weekend. The two will wed on Dec. 10 in New York City. The outgoing majority leader, 61, and MacLachlan, 35, are planning a small ceremony, the Portland [Maine] Press Herald said.

■ Media mogul **Ted Turner** named wife **Jane Fonda** among the important women in his life at the Women of Washington's first annual fund-raising luncheon yesterday—and then he cut to the chase on the subject. "When I married Jane, I was really marrying the women's movement," said Turner. "I'm sure my father—God rest his chauvinistic soul—was rolling around in his grave. . . . But I never met a woman I didn't like. No woman was ever mean to me and a lot of men were. I'm going to support women's issues as long as women are getting pushed around." Turner was honored by the group, along with **Delano Lewis**, president of National Public Radio, and **Stan Bromley**, Four Seasons Hotels regional vice president.

■ Sen. **Slade Gorton** of Washington state suffered a mild heart attack while jogging in Boston yesterday morning and is hospitalized at Massachusetts General Hospital in stable condition. "He's pain-free. Except for the fact that he had a mild heart attack, he's doing fine," said a spokeswoman in his office. "He ran a half-marathon at Thanksgiving." The Republican Gorton, 66, was visiting relatives at the time.

■ When asked about reports that **Billy Dale**, former head of the White House travel office, is about to be indicted for allegedly embezzling money for his personal use, Clinton friend **Harry Thomason** told us: "It's always sad to see someone in trouble. However I am not surprised. . . . All I ever said was that the travel office was not being operated in a business-like manner, which is why I suggested competitive bidding." Thomason, who was accused at the time the scandal broke of inquiring about White House charter business for an aircraft consulting company in which he was a partner, yesterday denied that the firm ever chartered planes and said, in fact, that it doesn't even have a charter certificate to do so.

■ **Oliver Stone** and **George Stephanopoulos** were nose-to-nose in conversation over dinner Friday night at Adams-Morgan's hot TomTom.

■ The next **Stephen Sondheim** musical will premiere at the Kennedy Center in the winter of 1996 after a workshop production next fall, according to this week's TheaterWeek magazine. Center officials would not comment yesterday on what the magazine described as "an epic musical comedy with humor and dance" about real-life literary brothers in the 1895-1935 period.

■ **Denise Brown**, sister of **Nicole Simpson**, will hold a press conference in New York today to announce the formation of the Nicole Brown Simpson Charitable Foundation for battered women. The first corporate sponsor is No Excuses Sportswear, best known in past years (and under a different owner) for choosing pinup girls like **Donna Rice** and **Maria Maples**.

■ When **Roger Ailes**, head of CNBC, was interviewing CBS correspondent **Bill Geist** about his new book, "Monster Trucks & Hair in a Can," he asked about rumors that Geist will replace **Andy Rooney**. Geist demurred, but he did note that Rooney looked "distressingly healthy" and admitted to pouring extra salt on Rooney's food in the CBS cafeteria.

Barkley, playing his new position.

Mitchell and Foley, teeing off; Turner and Fonda, cause-conscious.

THE WASHINGTON POST

ASSOCIATED PRESS

The Douglases (in '88), hanging on.

'Disclosure' & Denial

■ **Michael Douglas** tells Vanity Fair that two years ago, he checked into Arizona's Sierra Tucson clinic for treatment of substance abuse. But he strongly denies he was also treated for a sexual addiction, a prevalent rumor at the time.

"I want to make this really clear," he says. "I want to be plain about this, so listen. . . . There was a lot of tabloid journalism about my supposed sex addiction. . . . It's all [expletive]. That was a good story, but not the issue for me."

Douglas, promoting "Disclosure," which opens this week, says he went into rehab "to save my marriage, but I wound up saving myself."

Diandra Douglas also conceded that the marriage was in serious trouble a few years ago. "It's obviously no secret that this marriage had had its difficulties," she tells the magazine. "I'm not going to lie to you. I told Michael that he had to look at himself and his life or our relationship would be over."

DOONESBURY

By G.B. Trudeau

■ To former civil rights activist and politician **Julian Bond**, this Northwest abode, for $440,000. Bond was most recently heard from as a history prof at American University.

BY TYLER MALLORY FOR THE WASHINGTON POST

SOLD

With Mary Alma Welch

A New Appraiser for Whitewater

ROBERT PALMER'S line of work is probably familiar to most homeowners, builders and borrowers who have ever taken out loans secured by property. He is a real estate appraiser. Since establishing real estate values is less science than art, and a touch subjective, appraisers are expected to have good judgment, and above all else, be honest. Yesterday in a Little Rock federal courthouse, Mr. Palmer—who performed hundreds of appraisals for the failed Madison Guaranty Savings and Loan in Arkansas—pleaded guilty to backdating appraisals on loans made by Madison with the intent to deceive a federal agency. It was, as valuations go, a devastating self-assessment.

Mr. Palmer isn't the first appraiser to get drawn into an S&L scandal. A lot of appraisers have come under fire for reportedly inflating appraisals that contributed to the ultimate failure of many S&Ls. In this respect, Madison's collapse, which put the taxpayers about $50 million in the hole, was far from the nation's biggest failure. But Mr. Palmer is now front-page news, in part because Madison Guaranty was owned by Jim and Susan McDougal, two friends and former partners of then-governor Bill Clinton and Mrs. Clinton in an Arkansas land development venture called Whitewater. Independent counsel Kenneth Starr is said to be looking into whether Madison's depositors' funds were improperly used to back either the McDougals-Clintons' Whitewater deal or any of Mr. Clinton's gubernatorial campaigns. Whitewater prosecutors believe Mr. Palmer, who appraised property securing transactions for other prominent Arkansans linked to questionable Madison-backed deals, has something interesting to talk about. Mr. Palmer's agreement to cooperate with Mr. Starr's investigators would seem to bear that out. Mr. Palmer also confessed to camouflaging his bills for the backdated appraisals, which was done at the urging of Madison officials, according to prosecutors.

In banking literature it is said that the best test of an appraiser's work is the test of time. As the Madison failure and the unfolding investigation are showing, Mr. Palmer's work is not standing up very well. The test is whether the information Mr. Palmer offers the government about the Madison transactions and other insider business in Arkansas is reliable this time around.

The Price of Welfare Reform

THE CONGRESSIONAL BUDGET Office's report on President Clinton's welfare proposal might be thought of as a historical footnote with large implications for the future. The Clinton plan is likely to be reworked again by the administration and will certainly be reworked by the incoming Republican Congress. So it's fair to ask why a report on the old plan has much relevance now.

The answer is that the CBO report demonstrates a truth that many who talk about reforming welfare like to ignore: On balance, it's cheaper simply to write checks to the poor than to make a serious effort to bring welfare recipients into the work force. It costs a great deal to train people for jobs, to create the jobs themselves and to provide day care for the children of welfare recipients who have moved into them. Any welfare reform proposal that is serious about doing what the public says it wants done—having more people work for their money—will prove to be expensive.

The math is pretty simple. According to the CBO, the average mother who has two children gets $4,440 a year in welfare benefits. But enrolling the same person in a work program would cost $11,440 a year, counting the costs of child care, paying supervisors and providing wage subsidies. On issue after issue, the report notes that doing what people reasonably consider the right thing can raise costs. For example, the reform plan contains provisions designed to create incentives for work that allow welfare recipients to keep somewhat more earned income than they can now without losing welfare benefits. The plan also includes modest reforms designed to make it easier for welfare recipients to save money without losing benefits. But, of course, those sensible provisions cost federal and state government some money because they would slow the rate at which welfare benefits could be cut.

The CBO estimated that the Clinton administration underestimated what its own welfare reform program would cost over five years by $4.8 billion. The CBO argued that the administration overestimated what its various proposals would save and underestimated what they would cost. While the administration disputes the CBO's estimates of the plan's day-care costs, it's not picking a fight and expects to change the program enough to make the numbers work.

The CBO document might most usefully be studied by the incoming Republican majority, which has hopes of saving money by reducing welfare outlays. Of course, money can be saved by cutting whole groups of people off welfare. But congressional Republicans say their goal is not to punish the poor but to encourage sound values by promoting work and discouraging illegitimacy.

The message of this useful report is that it is far cheaper to talk about values than to promote them through government policy. The question that follows is: How do the reformers in both parties propose to deal with that?

S&L Figure Pleads Guilty In Arkansas

Appraiser to Help In Whitewater Probe

By Susan Schmidt
Washington Post Staff Writer

LITTLE ROCK, Ark., Dec. 5—In the first court action since his appointment, Whitewater independent counsel Kenneth W. Starr today secured a guilty plea from a property appraiser for a failed S&L who has agreed to cooperate as Starr dissects a series of complex financial transactions involving Arkansas politicians.

The case against Robert W. Palmer, 44, appears to be an early step toward building a broader case against the central figures in the Whitewater investigation. Tuesday, Starr is expected to appear in court again, this time with former associate attorney general Webster L. Hubbell, who has agreed to plead guilty to mail fraud and tax evasion and cooperate with Starr in an offshoot of the Whitewater investigation, according to knowledgeable sources.

The allegations involve Hubbell's billing of law firm clients, including the federal government. The White House has declined to comment on the case against Hubbell, one of President Clinton's closest friends and a former law partner of Hillary Rodham Clinton.

Palmer, an independent appraiser who did work for Madison Guaranty Savings & Loan during its 1980s boom years, was charged with fabricating appraisals during a period that is of keen interest to Whitewater prosecutors. In early 1986, Madison was coming under scrutiny by federal banking examiners, and

See WHITEWATER, A4, Col. 2

■ *Indictment due in White House travel office theft case.* *Page A4*

Arkansas Appraiser Pleads Guilty in Whitewater Probe

WHITEWATER, From A1

S&L officials knew that many questionable loans, including some to political figures, were not properly documented. Palmer supplied more than 25 phony appraisals to back up suspect loans, prosecutors said today.

For months, Whitewater investigators have been honing in on this time period because of allegations made by another cooperating witness, former Little Rock Municipal Judge David Hale. Hale, a Democrat who ran a venture capital company financed by the U.S. Small Business Administration, has charged that Clinton, Madison owner James B. McDougal and Gov. Jim Guy Tucker (D) pressured him in early 1986 to make loans that would help Arkansas' "political family." All of them have denied having such conversations.

Hale said the politicians wanted him to make loans that would help McDougal clean up Madison's books before the S&L came under federal scrutiny. One $300,000 loan was to a marketing firm owned by McDougal's former wife, Susan, and part of that amount was used to finance a land purchase by the Whitewater Development Corp., in which the McDougals and Clintons were partners. The Clintons have said they had no knowledge of the transaction.

Hale pleaded guilty March 22 to a two-count felony charge that included conspiracy and mail fraud and agreed to cooperate with then-Special Prosecutor Robert B. Fiske Jr. He faces 10 years in prison and his sentencing has been indefinitely delayed.

Starr, who took over the Whitewater probe in August, mentioned none of the loans involving politicians in the bare-bones statement of facts presented today before U.S. District Judge G. Thomas Eisele. Prosecutors told Eisele that if Palmer cooperates fully with their investigation, they will support his request for probation rather than jail time. He faces up to five years in prison.

In describing Palmer's work, the prosecutors specifically mentioned only one seemingly inconsequential loan in detail—the backdating of an appraisal on a single lot at a McDougal project called Maple Creek farms.

Associate independent counsel Stephen Learned described how Palmer, appraisers working for him and Madison officials falsified loan files to deceive federal bank examiners set to audit the S&Ls books in March 1986.

In a 1984 examination, Federal Home Loan Bank Board examiners had found serious deficiencies in Madison's loan files, and regulators warned then that the thrift had to start doing timely and accurate appraisals or face disciplinary action by regulators.

They wrote that "many of the practices are considered unsafe and unsound to the extent that the viability of the institution could be jeopardized." Madison ignored the warning, according to later findings by examiners. Instead, the S&L embarked on a furious campaign to recreate its books for the benefit of the arriving examination team.

In February 1986, there was a rush of lending activity between Madison, Tucker's companies and Hale's SBA-backed venture capital firm, Capital Management. Seven transactions totaling more than $2 million between Hale and Madison occurred on a single day, Feb. 28. Palmer's company supplied appraisals on some of those loans, according to a former Madison official.

As Madison prepared for the federal examination, Palmer and others created appraisals on some loans, doctored appraisals that didn't meet regulatory requirements and backdated others.

"To conceal the extent of the appraisal activity on the eve of the March 1986 exam," said the prosecution's court filing, Palmer—at the request of Madison officials—submitted a $15,350 bill for a "real estate consulting fee" instead of appraisal work.

"Was that a true and accurate statement of facts?" said Eisele to Palmer of the government's contentions.

"Yes sir, it was," said Palmer.

SUPREME COURT CALENDAR

The Supreme Court will hear oral argument today from 10 a.m. to 11 a.m. in the following cases:

No. 93-1504. *Celotex Corp. v. Edwards.* Whether a bankruptcy court can block payment of a debtor's previously posted appeal bond related to separate litigation. (One hour.)

✓

37

The Whitewater Gavotte

By Gilbert Cranberg

DES MOINES

The expected plea of guilty by Webster L. Hubbell, the former No. 3 official in the Justice Department, may seem like a big breakthrough in the Federal investigation of the Whitewater affair. But as the inquiry drags into its 11th month, it is still no more clear than ever before whether the independent counsel, Kenneth W. Starr, will uncover any evidence that Bill or Hillary Clinton broke any law, told any lie or violated any ethical standard in their financial dealings in Arkansas in the late 1970's and early 80's.

In part, that is because Mr. Starr is pursuing Whitewater as purely a criminal matter; what if any wrongdoing by the Clintons was at worst civil rather than criminal?

Robert B. Fiske Jr., the former independent counsel, had authority to treat the Whitewater affair as both a criminal and civil matter. But when he was replaced by Mr. Starr in August, the rules of the investigation changed.

Gilbert Cranberg, professor of journalism at the University of Iowa, is former editor of The Des Moines Register's editorial pages.

Mr. Fiske's position had been created by administrative regulation, since Congress had allowed the 1978 independent counsel law to lapse, and his marching orders were issued by the Justice Department. They directed him to search for violation "of any Federal criminal *or civil* law relating in any way to President William Jefferson Clinton's or Mrs. Hillary Rodham Clinton's relationships" with Whitewater, and "to seek indictments and to prosecute, *or to bring civil actions,*" when warranted. (Emphasis added.)

But when Congress reauthorized the independent counsel law this summer, it required that the counsel be appointed by a court, not the Justice Department. The new law limits Mr. Starr to determining whether there was a violation of any Federal criminal law. No leeway is allowed to consider civil infractions or noncriminal penalties.

Under the law, a special three-judge panel has jurisdiction over the independent counsel. When Attorney General Janet Reno asked the judges to keep Mr. Fiske on, she also proposed an ingenious way to keep the civil option alive regardless of whom they named. "To insure that the full scope of Mr. Fiske's independent civil jurisdiction continues uninterrupted and without limitation," she wrote, "it is my intention to continue Mr. Fiske's regulatory appointment for this purpose, or to name whomever the court may select as statutory independent counsel as an independent special attorney to handle all civil aspects of the investigation as she or he deems appropriate."

In fact, Ms. Reno has balked at actually bestowing civil authority on Mr. Starr. Carl Stern, the Justice Department's chief spokesman, says that's because it would be "unseemly" to do it "uninvited." Instead, Mr. Starr was advised that authority "to handle all civil aspects of the investigation" is his for the asking; as yet, he hasn't asked. (Mr. Starr's spokesman, Mark H. Tuohey, says the matter is under review.)

It may be that Mr. Starr only wants to adhere to the letter of the

Why Starr may never get to the bottom of things.

independent counsel law, or that he wants to avoid any appearance that his independence might be compromised by accepting a grant of authority from Ms. Reno. But it would be ironic if he rejected her offer.

After all, it was Representative Jim Leach of Iowa, perhaps the Clintons' leading Congressional antagonist on Whitewater, who first suggested to the Attorney General that the independent counsel have civil authority. "Care should be taken not criminally to implicate the White House," he said in April. "The last thing this country needs is a yearlong criminal trial of the President of the United States. It would divide the country and be unfair to the public as well as to the President."

Mr. Leach, the likely head of the House Banking Committee in the new Congress, said he saw the Clintons' role "pre-eminently as an issue of public ethics" — the propriety of a Governor's doing business with the head of an institution regulated by the state. If there were lapses, he said, there should be fines, tax penalties or other noncriminal remedies.

Only in America, perhaps, could a sitting President and his wife be targets of an all-out criminal investigation for blurry events that date back to 1978, when the inquiry's chief instigator doesn't even favor a criminal outcome. Mr. Starr could bring a bit of sanity to this batty scene by accepting Ms. Reno's standing invitation. □

Fewer Nurses to Answer the Buzzer

By Suzanne Gordon and Ellen D. Baer

ARLINGTON, Mass.

Across America, hospitals are reducing costs by cutting nursing care instead of trimmming administrators' salaries or curtailing expensive construction and redundant technology. As a result, patients are at risk.

In an American Hospital Association survey last June, 71 percent of hospitals said they were restructuring. And a new study by the New York State Department of Health predicts that 3,000 registered nurses would lose jobs in hospitals between 1995 and 1997. When hospitals downsize, registered nurses are often replaced with "unlicensed assistive personnel."

This year, the American Nurses Association surveyed hospital nurses in 50 states. Seventy percent of 1,835 said their employers were cutting staffs by leaving vacated positions unfilled; 66 percent reported layoffs or plans for them and 45 percent said the use of unlicensed personnel was increasing. Three-quarters of the nurses in hospitals with reduced staffs said patient care had eroded, and more than two-thirds thought patients' safety had been compromised.

Suzanne Gordon is writing a book about nursing. Ellen D. Baer is a visiting professor of nursing at New York University.

State licensing boards do not regulate the education of replacements. There are no requirements on the amount of training for unlicensed personnel and other staff "cross-trained" to do nursing work: housekeepers, maintenance people, central supply and transport personnel.

Training may vary from a few hours to six weeks. The unlicensed nurse substitutes may have no education in health care or even hold a high school diploma. Yet in many hospitals, they now insert catheters, read electrocardiograms and change sterile dressings.

Not only do registered nurses have to take care of more and sicker patients in less time than before and supervise untrained technicians, they are legally responsible for mistakes the aides make.

One major Eastern hospital discontinued its six operating-room head nurse positions. These nurses supervised the cleaning staff in the operating rooms. One result, a nurse told us, is that equipment like the heart and lung machine used in cardiac bypass surgery is not always properly cleaned between operations. One result is that in some calendar quarters post-surgical infection rates have almost doubled.

Are some hospitals ignoring research on the importance of proper nursing care? A study by Linda Aiken, a professor of nursing at the University of Pennsylvania, reported 7.7 percent lower mortality rates for Medicare patients hospitalized in medical centers known to provide good nursing care than in centers that do not place a high priority on such care.

Judith Shindul-Rotschild, assistant professor of nursing at Boston College, compared nursing practice and patient care in a number of Massachusetts hospitals in 1989 and 1994, surveying 928 and 856 nurses, respectively. In 1989, only two nurses reported difficulties in providing safe care because of inadequate R.N. staffing. In 1994, with the number of R.N.'s reduced and unlicensed personnel on the rise, 363 nurses reported such difficulties. In 1989, no nurses reported deaths that resulted from inadequate staffing levels; in 1994, nurses reported 15 such deaths.

Hospitals cut costs and safety.

A number of doctors are beginning to protest. At John L. Doyne Hospital in Milwaukee, Dr. George B. Haasler, chief of general thoracic surgery at the Medical College of Wisconsin, is concerned about the replacement of R.N.'s with assistants. "We see problems that are very complex — the sickest patients referred to us from other institutions," he said. "Every member of the care team has to be as educated as possible. Nursing assistants do not have the same educational background as nurses, who have from two to four years of education that concentrates on assessment skills and the biologic sciences. You can't just make a blanket statement that, to cut costs, nursing assistants can do the same kinds of things that nurses do, because they can't."

Dr. John Merritt O'Donnell, chairman of the department of surgical intensive care at the Lahey Clinic, in Burlington, Mass., said: "Nurses are the foundation of our health care system. Cutting labor costs by decreasing the nursing work force is irrational and naïve. There are certainly deserving targets for cuts — physician spending, pharmaceuticals, middle management and insurance. But don't cut nursing care." □

Appraiser on Madison Loans in Plea Accord

By STEPHEN LABATON
Special to The New York Times

LITTLE ROCK, Ark., Dec. 5 — Federal prosecutors today reached a plea agreement with a land appraiser who admitted to conspiring with executives of the savings association at the heart of the Whitewater case to inflate the estimates used to support loans.

Investigators have been told that the appraiser, Robert W. Palmer, significantly inflated estimates used to support loans made to Gov. Jim Guy Tucker of Arkansas, witnesses in the inquiry said.

The special Whitewater counsel, Kenneth W. Starr, is expected to decide shortly whether to bring charges against Mr. Tucker. Mr. Palmer, who agreed today to cooperate in any case Mr. Starr brings, would probably be an important witness at any trial of Mr. Tucker, people involved in the inquiry say.

At a hearing in Federal District Court, Mr. Palmer pleaded guilty to one count of conspiracy. He acknowledged that he agreed in 1986 with executives at Madison Guaranty Savings and Loan to replace problematic appraisals with bogus ones that appeared to conform to banking standards, just as Federal examiners were about to begin scrutinizing Madison's books.

Madison had been owned and operated by James B. McDougal and his then-wife, Susan, the business partners of Bill and Hillary Rodham Clinton in the Whitewater Development Corporation. Prosecutors said today that by 1986, Madison executives realized that they were violating the terms of an agreement reached two years earlier with Federal regulators to correct significant financial problems, including relying on inadequate and in some cases nonexistent appraisals to make highly speculative loans.

None of the material filed in court made reference to the Clintons, although according to one account provided to investigators by a former Arkansas municipal judge, David Hale, an inflated appraisal by Mr. Palmer played an indirect role in assisting Whitewater. Mr. Clinton has denied the account provided by Mr. Hale, who has pleaded guilty to two felony counts, and is awaiting sentencing.

On Tuesday Mr. Starr, the Whitewater counsel, is scheduled to formally enter the guilty plea of Webster L. Hubbell, a former senior Justice Department official who is a close friend of the President. Mr. Hubbell has been under investigation for submitting hundreds of thousands of dollars in improper expenses to his law firm and to the Government for work he had done involving Madison while he was in private practice.

A former bank officer at Madison, who has talked with investigators, has said Mr. Palmer did 90 percent of the appraisals for Madison, and that 90 percent of those were inflated. In reaching his commitment to assist prosecutors, Mr. Palmer is expected to be used as an important witness against Mr. Tucker should the Governor be indicted.

Reuters

Robert W. Palmer, an appraiser who admitted to inflating estimates used to support loans to Gov. Jim Guy Tucker of Arkansas, leaving Federal District Court in Little Rock yesterday after pleading guilty to a single charge of conspiracy.

Mr. Tucker, who won re-election in November to a second term, has denied doing anything improper.

Mr. Palmer received more than $60,000 in loans from Madison at the time he was doing many of his appraisals, according to Madison records. Among his more significant appraisals was one used to issue a $1.05 million loan to Mr. Tucker and an associate to purchase a water and sewer system for an Arkansas real estate development known as Castle Grande. Subsequent appraisals found the system to be worth about half of the loan, and when it defaulted it was one of the largest losses to Madison, which collapsed in 1989 at a cost to taxpayers of $60 million.

Should the Governor of Arkansas now be indicted?

Max Parker, Mr. Tucker's spokeswoman, said the Governor had no knowledge of Mr. Palmer's appraisal for the Castle Grande transaction.

By at least one account, Mr. Palmer may have also indirectly played a role in trying to assist the Whitewater Development Corporation. The independent counsel's office is examining whether Madison improperly funneled money into Whitewater or Mr. Clinton's 1984 gubernatorial campaign.

Madison records show that Mr. Palmer provided an inflated appraisal for a loan that was collateralized by a restaurant, Etta's Place, and two other parcels of land that had been owned by Mr. Hale and a former business associate. The 1986 appraisal, of $755,000, was for three times the price paid for the properties in 1982 and 1985.

Mr. Hale has told investigators that the appraisal supported a $825,000 loan from Madison that helped shore up his finances. At the time, Mr. Hale handled federally insured loans in Little Rock for the Small Business Administration. The Madison loan enabled Mr. Hale to issue an improper S.B.A. loan to Mrs. McDougal. Mr. Hale, a former municipal judge, has asserted that he provided the $300,000 S.B.A. loan after he came under pressure from both Mr. Clinton and Mr. McDougal, who knew that it would not be used by Mrs. McDougal, but to help conceal questionable transactions by Madison, including indirect financial help for Whitewater.

Mr. Clinton has denied that he ever put pressure on Mr. Hale to make the loan.

It remains unclear what happened to the $300,000. But some money from the loan appeared to wind up for a while in 1986 in Whitewater as part of a land deal. Mr. McDougal has said that the Clintons were unaware of that transaction.

REMEMBER THE NEEDIEST!

V 9
OVER

PAGE 6A WILL AID INVESTIGATION: Robert Palmer.
A guilty plea in Whitewater probe
Businessman admits backdating real estate papers

LITTLE ROCK, Ark. (AP) A businessman in the Whitewater investigation pleaded guilty Monday to backdating property appraisals at a savings and loan owned by President and Mrs. Clinton's former real estate partners.

Robert Palmer, 44, promised to cooperate fully in the investigation of the Clintons' finances and of Madison Guaranty Savings and Loan, the failed thrift once owned by Jim and Susan McDougal.

Palmer's work for Madison Guaranty links him to real estate transactions involving Gov. Jim Guy Tucker and former Municipal Judge David Hale, a key witness in the Whitewater investigation.

In a hearing before U.S. District Judge G. Thomas Eiselein, Palmer admitted he conspired to defraud federal bank investigators by making false entries on at least 25 appraisals for loans Madison Guaranty already had made.

The false documents were filed, he said, because Madison executives were anxious to have their files complete before federal auditors arrived.

Palmer said he did not file the false documents for personal gain, but that his actions were ``based on my personal failure to put aside personal relationships in performing my professional obligations.''

Assistant Independent Counsel Stephen Learned said Palmer conspired with at least one Madison executive, H. Don Denton, the one-time head of the failed S&L's loan department.

The McDougals were partners in 1978-92 with Bill and Hillary Rodham Clinton in the Ozarks real estate venture known as Whitewater.

Palmer is listed on Madison records as the appraiser for Madison's 1986 loan of more than $1 million to a corporation owned by Tucker.

The loan was for the purchase of a utility, Castle Sewer and Water, which provided utility service to residential and business customers south of Little Rock. When the utility was reappraised in 1992, its value was put at $640,000.

Tucker spokeswoman Max Parker said the governor ``has no personal knowledge'' of any appraisal work concerning the Castle transaction.

**** filed by:DIAL(--) on 12/06/94 at 03:03EST ****
**** printed by:WHPR(103) on 12/06/94 at 08:22EST ****

BC-WHITEWATER-PLEA 1STLD
Whitewater figure pleads guilty
(Eds: adds details, background)

LITTLE ROCK, Ark (Reuter) - A real estate appraiser who did work for Madison Guaranty Savings and Loan pleaded guilty in federal court in Little Rock on Monday in a case arising from the Whitewater investigation.

Robert Palmer admitted backdating appraisals on loans Madison Guaranty granted with the intent to deceive the Federal Home Loan Bank board.

Madison Guaranty's owner, James McDougal, was a partner with President Clinton and Hillary Rodham Clinton in the Whitewater housing development in north Arkansas. The Whitewater property was not among backdated deeds specified in the case against Palmer.

Whitewater prosecutor Kenneth Starr said Palmer had agreed to cooperate in his investigation. Sentencing was postponed.

Asked by Judge G. Thomas Eisele if his plea was ``completely voluntary,'' Palmer, 44, said, ``Guilty, your honor.''

Palmer also admitted disguising his bill for backdating the appraisals, which the prosecutor said was done at the request of unspecified Madison Guaranty officials.

Starr, meeting reporters outside the federal courthouse, said another ``announcement'' would be issued Tuesday.

It is widely believed that former Associate Attorney General Webster Hubbell, a close friend of Clinton, will plead guilty to tax evasion and mail fraud stemming from his billings while a partner at Little Rock's Rose Law Firm.

Hillary Rodham Clinton was among Hubbell's partners.

The Whitewater special prosecutor is attempting to determine, among other things, if Madison depositor's funds were improperly used to finance the resort and whether they were channeled to one of Clinton's Arkansas gubernatorial campaigns in the 1980's.

The Clintons have denied any knowledge of any impropriety.

McDougal was removed as chairman of the Madison in 1986 by the Federal Home Loan Bank Board. The thrift collapsed in 1989 at a cost to taxpayers of $65 million.

Arkansas Gov. Jim Guy Tucker has acknowledged borrowing hundreds of thousands of dollars from Madison Guaranty, often by simply calling McDougal and obtaining the loans on his signature, without submitting a loan application.

Tucker's financial affairs are also under the special prosecutor's scrutiny.

Tucker has adamantly denied any impropriety or illegality in any of his dealings with Madison Guaranty or McDougal.

Palmer was named in a March 3, 1988, criminal referral to the Federal Home Loan Bank Board by a Madison Guaranty vice president after he received $61,000 in loan proceeds from the thrift on property he had appraised.

According to the referral, Palmer failed to disclose his interest in the property in his appraisal report.

A 1984 report from the Federal Home Loan Bank Board was critical of Madison Guaranty's appraisal policy, citing several examples of improper or insufficient appraisals on which Madison made loans.

No government action was ever taken against Palmer until today.

REUTER

**** filed by:RB--(--) on 12/05/94 at 18:22EST ****
**** printed by:WHPR(103) on 12/06/94 at 08:21EST ****

AM-AR--Whitewater-Starr,210
URGENT
Appraiser Pleads Guilty; Will Help Whitewater Prosecutors

LITTLE ROCK (AP) A Little Rock businessman pleaded guilty Monday to filing false appraisals to clean up the books at a savings and loan owned by President and Mrs. Clinton's partners in the Whitewater land venture.

Under an agreement with Whitewater prosecutors, Robert Palmer promised to cooperate fully in the investigation of the Clintons' finances and of Madison Guaranty Savings and Loan, the failed thrift once owned by Jim and Susan McDougal.

Palmer's work for Madison Guaranty links him to Gov. Jim Guy Tucker and to former Municipal Judge David Hale, a key prosecution witness in the Whitewater investigation.

Palmer who performed hundreds of real estate appraisals for the McDougals' S&L admitted in federal court in Little Rock to submitting false and deceptive documents, a felony. The McDougals were partners with Bill and Hillary Rodham Clinton in the Ozarks real estate venture known as Whitewater.

The plea agreement comes as Whitewater independent counsel Kenneth Starr has stepped up activity in the last few weeks.

MORE

**** filed by:APW-(AR) on 12/05/94 at 16:54EST ****
**** printed by:WHPR(103) on 12/06/94 at 08:21EST ****

AM-Whitewater-Starr,530
Appraiser Pleads Guilty To Cooking Books at Madison Guaranty
AP Photos LR101,102,103,104
By KELLY P. KISSEL= Associated Press Writer=

LITTLE ROCK, Ark. (AP) A businessman in the Whitewater investigation pleaded guilty Monday to backdating property appraisals at a savings and loan owned by President and Mrs. Clinton's former real estate partners.

Robert Palmer, 44, promised to cooperate fully in the investigation of the Clintons' finances and of Madison Guaranty Savings and Loan, the failed thrift once owned by Jim and Susan McDougal.

Palmer's work for Madison Guaranty links him to real estate transactions involving Gov. Jim Guy Tucker and former Municipal Judge David Hale, a key prosecution witness in the Whitewater investigation.

Palmer admitted to U.S. District Judge G. Thomas Eiselein to conspiring to defraud federal bank investigators by making false entries on at least 25 appraisals for loans Madison Guaranty already had made.

The false documents were filed, he said, because Madison's executives were anxious to have the financial institution's files complete before the arrival of federal auditors.

Palmer said he did not file the false documents for personal gain, but that his actions were ``based on my personal failure to put aside personal relationships in performing my professional obligations.''

Assistant Independent Counsel Stephen Learned said Palmer conspired with at least one Madison executive, H. Don Denton, the one-time head of the failed S&L's loan department.

Palmer faces a maximum penalty of five years in prison or a fine of either $250,000 or twice any gain made or loss attributable to his actions. Palmer's plea agreement says he will ask for probation.

The McDougals were partners in 1978-92 with Bill and Hillary Rodham Clinton in the Ozarks real estate venture known as Whitewater.

Palmer is listed on Madison records as the appraiser for a 1986 loan of over $1 million by the S&L to a corporation owned by Tucker.

The loan was for the purchase of a utility, Castle Sewer and Water, which provided utility service to residential and business customers south of Little Rock. When the utility was reappraised in 1992, its value was put at $640,000.

Tucker spokeswoman Max Parker said the governor ``has no personal knowledge'' of any appraisal work which Palmer ``may or may not have done'' in connection with the Castle Sewer and Water transaction.

Palmer also did the property appraisal work for an $825,000 loan by the S&L to Hale's company on Feb. 28, 1986 a transaction that is under close scrutiny by the Whitewater prosecutor, sources close to the investigation have said.

The $825,000 loan enabled Hale to make a $300,000 loan guaranteed by the Small Business Administration to the Clintons' Whitewater partner, Susan McDougal. Hale alleges that he was pressured by then-Gov. Bill Clinton to make the $300,000 loan, which has never been repaid.

Clinton has denied any connection to the loan.

Palmer conducted the appraisal for the $825,000 Hale loan after the S&L had already loaned the money, according to a Madison Guaranty executive's statements to the FBI.

**** filed by:APE-(--) on 12/05/94 at 19:08EST ****
**** printed by:WHPR(103) on 12/06/94 at 08:20EST ****

BC-WHITE national:WA
Little Rock real estate appraiser admits falsifying documents
By Aaron Epstein
Knight-Ridder Newspapers

WASHINGTON In a deal that could shed light on the murky Whitewater affair, a Little Rock real estate appraiser Monday admitted falsifying documents and agreed to cooperate with prosecutors investigating the links between President Clinton and a failed savings and loan.

Robert Palmer, who appraised real estate for bankrupt Madison Guaranty, told a federal judge in Little Rock he was guilty of conspiring to backdate appraisal documents with an intent to deceive the government agency that regulated savings and loan associations.

Bill and Hillary Clinton were partners of Madison's owners, James and Susan McDougal, in the unsuccessful Whitewater housing development in the Ozarks of northern Arkansas.

Independent prosecutor Kenneth Starr is trying to find out whether the expenses of Whitewater contributed to losses at Madison and whether Clinton, while governor of Arkansas, gave favored treatment to the ailing thrift. The Clintons have denied any wrongdoing.

Although the backdated documents involved in the felony case against Palmer didn't include any for Whitewater properties, Palmer nonetheless could help the Whitewater inquiry, prosecutors said.

Palmer, who regularly appraised property for Madison, is known to have estimated the value of real estate that was used to back loans to companies owned by Arkansas Gov. Jim Guy Tucker and former municipal judge David Hale.

Hale, a key prosecution witness in the Whitewater inquiry, obtained an $825,000 loan in 1986 from Madison based on a Palmer appraisal. That transaction reportedly enabled Hale to make a $300,000 loan to Susan McDougal, one of the Clintons' Whitewater partners. Hale has asserted that then-Gov. Clinton pressured him to lend the money to Susan McDougal.

Madison made so many bad loans that the federal government took control of the thrift in 1989 at an eventual cost to taxpayers of more than $47 million.

U.S. District Judge Thomas Eisele suspended setting a sentencing date while investigators assess the extent of Palmer's cooperation. The maximum penalty for conspiracy is five years in prison and a $250,000 fine.

Meanwhile, Webster Hubbell, once the No. 3 official in the Clinton Justice Department and a close friend of the Clintons, may be the next person to plead guilty to criminal charges and cooperate with Starr.

Hubbell, 46, has agreed to plead guilty, possibly Tuesday, to mail fraud and tax evasion charges not related to Whitewater, according to published reports.

He quit his Justice Department job last March after it was disclosed that he was being investigated for allegedly overbilling law clients and the Rose Law Firm of Little Rock and improperly reimbursing himself for expenses.

Hillary Rodham Clinton and Hubbell were partners at Rose before Bill Clinton became president.

In another potential embarrassment for the Clinton administration, this one also unrelated to Whitewater, the former chief of the White House travel office is expected to be indicted for embezzlement this week by a federal grand jury.

Steven Tabackman, lawyer for former travel office official Billy R. Dale, said Dale expects to be accused of stealing $69,000 paid by news organizations for presidential trips. Dale, 57, denies the charge and will plead not guilty, his lawyer said.

**** filed by:KR-F(--) on 12/05/94 at 19:32EST ****
**** printed by:WHPR(103) on 12/06/94 at 08:20EST ****

-Whitewater-Hubbell, Ark Bjt,500
g Trouble for Clinton's Golfing Buddy, Hillary's Law Partner
S: Possible afternoon announcement on plea agreement from Little Rock; lead
spects uncertain
wdc
PETE YOST= Associated Press Writer=
WASHINGTON (AP) Until the Whitewater affair, Webster Hubbell was on an
beaten streak, an ex-college football star who hooked up with a high-powered
w firm.
His longtime friendship with Bill and Hillary Rodham Clinton led him to
e No. 3 post at the Justice Department.
Today, Hubbell is in such deep legal trouble that he has agreed to plead
ilty to mail fraud and tax evasion, a source close to the Whitewater probe
ld The Associated Press last week. A cooperation agreement with the
osecutor's office in Little Rock, Ark., could come as early as today.
Hubbell's problems are one part of the Whitewater picture this week. The
:her: a guilty plea Monday by a businessman for back-dating property
praisals at a savings and loan owned by President and Mrs. Clinton's former
eal estate partners.
Robert Palmer, 44, promised to cooperate fully in the investigation of the
lintons' finances and of Madison Guaranty Savings and Loan, the failed thrift
nce owned by James and Susan McDougal, the Clintons' Whitewater partners.
Palmer is listed in Madison Guaranty records as having links to real
state transactions involving Arkansas Gov. Jim Guy Tucker and former
unicipal Judge David Hale, a key prosecution witness in the Whitewater
nvestigation.
The charges against Hubbell apparently stem from allegations he
over-billed clients and the Rose Law Firm of Little Rock, where he and Mrs.
Clinton were partners before Clinton was elected president.
Hubbell and Clinton have been golfing buddies for years. Clinton appointed
Hubbell to fill out a term as chief of the Arkansas Supreme Court.
Hubbell, 46, chaired the state bar association's ethics committee and
later became mayor of Little Rock.
As a student, Hubbell played on the University of Arkansas team that won
the 1969 Sugar Bowl. He was drafted by the Chicago Bears but didn't make it to
the pros because of a knee injury.
His difficulties began in March of this year, when he abruptly resigned as
associate attorney general because the Rose firm was looking into whether he
had over-billed clients, including the Resolution Trust Corp.
Hubbell's father-in-law and brother-in-law took out nearly $1.5 million in
loans from Madison Guaranty.
In addition, investigators have looked into Hubbell's involvement with
Madison. While at the Rose law firm, Hubbell was paid by the government to
settle a lawsuit against an accounting company accused of negligence in
Madison Guaranty's collapse.
Hubbell settled the $60 million suit for $1 million, obtaining $400,000 in
fees for Rose. Hubbell insists he informed regulatory agencies that he had
previously represented the S&L.

**** filed by:APW-(AR) on 12/06/94 at 01:38EST ****
**** printed by:WHPR(103) on 12/06/94 at 08:19EST ****

Whitewater: Beginning of the end?

The former No. 3 official at the Clinton Justice Department and longtime friend of the first family, Webster Hubbell, now apparently stands ready to plead guilty to felony charges of mail fraud and income tax evasion brought by Whitewater Independent Counsel Kenneth W. Starr. An indictment of Mr. Hubbell had long been expected. A plea agreement was not, necessarily. Assuming Mr. Starr has obtained Mr. Hubbell's cooperation in exchange for reduced charges — and it is hard to imagine why Mr. Starr would agree to a plea arrangement without such cooperation — you might want to brace yourself, as the entire tangle of Whitewater may begin to unravel rather quickly.

It would be difficult to overstate either Mr. Hubbell's position in the Clinton inner circle or his importance, prior to his resignation, at the Justice Department. There have always been two sets of questions about Whitewater. The first set concerns the complicated series of financial transactions surrounding the Arkansas real estate development and its connection to the failure of Madison Guaranty Savings and Loan and Clinton gubernatorial campaigns. The second set concerns what happened in relation to the former once the Clinton administration took office in Washington. Mr. Hubbell was at the red-hot center of both.

In 1989, Mr. Hubbell was managing partner of the Rose Law Firm in Little Rock, where Mrs. Clinton was also a partner. The Federal Deposit Insurance Corp., which had by then taken over the insolvent Madison, hired the Rose firm to sue Frost and Co., an accounting firm that had produced an audit attesting to Madison's solvency, which the government now believed to be fraudulent. Mr. Hubbell, despite his initial claims that he was only tangentially involved in the case, was in fact extensively involved, and numerous irregularities in his billing for the case have since come to light. Mr. Hubbell eventually negotiated a settlement of the $60 million suit for only $1 million.

In 1985, Mrs. Clinton had represented Madison before state regulators considering closing the troubled thrift, in which she cited the Frost audit as a demonstration of Madison's solvency. Governor Clinton and Mrs. Clinton were then business partners of the owner of the thrift in the Whitewater real estate development. In addition, at the time Mr. Hubbell was pursuing the case against Frost, his father-in-law, Seth Ward, was in default on $587,000 in loans from Madison to a real estate subsidiary he ran. At Mr. Hubbell's urging, his father-in-law would go on to become a contingency-fee client of the firm in an unsuccessful suit that cost Rose a reported $1 million in expenses. Other lawyers in the firm subsequently questioned the propriety of the arrangement, as well as other aspects of Mr. Hubbell's billing, leading to his resignation from the Justice Department.

In the Washington phase, the question comes down to this: Was there any obstruction of justice in the ongoing criminal probe of the failure of Madison — or any other matter that might prove to be politically embarrassing to the Clintons? In early November 1993, Mr. Hubbell formally recused himself and his staff from any Justice Department decisions pertaining to Madison. In Little Rock, the Clinton-appointed U.S. Attorney (and former Clinton campaign worker) Paula Casey similarly recused herself at about the same time. But what was Mr. Hubbell's involvement in Madison and related cases in the time prior to his recusal? There had already been a number of contacts between high-ranking Treasury Department officials (who were overseeing the Resolution Trust Corp.'s probe of Madison) and White House officials, in which the White House received what officials have described as a "heads-up" on the case. Was that really the end of the matter?

Mr. Hubbell probably knows the answers to these questions, and he can provide invaluable information about what went on in Arkansas. But there was never any particular expectation that he *would* tell his story. Now there is.

The Clinton passport files

So, two years and $1.6 million later, the probe of Bush administration State Department employees who looked at Bill Clinton's passport file is over. The grand result? "We have ended the investigation and are bringing no charges in the passport matter," said Joseph diGenova, the independent counsel who conducted the investigation.

During the 1992 presidential campaign, readers will recall, Bush appointees at State examined Mr. Clinton's old passport file — and that of his mother, Virginia Kelley as well. When this came to light there was hell to pay. The Justice Department Inspector General, Sherman Funk, investigated the file search and accused the employees of conducting it to gather political dirt for use in the campaign. Mr. Funk referred the case to Justice for a criminal investigation. There was a very large brouhaha on the subject at Clinton campaign headquarters and among congressional Democrats, and Al Gore intoned ominously about George Bush's campaign tactics. And it ended with Attorney General William Barr appointing Mr. diGenova to see whether any laws had been broken. He has now determined that none were.

Mr. diGenova declines to comment on the specifics of his report unless or until the judicial panel that received it decides to make it public. But according to The Washington Times' Michael Hedges, sources close to the investigation revealed that the report is highly critical of Mr. Funk's decision to refer the matter for criminal charges, and it determines that the case never should have gone to a special prosecutor.

To many, that seemed obvious, even at the time Mr. diGenova was appointed. The fact is, that search was undertaken in response to a Freedom of Information Act (FOIA) request. In other words, some member of the press heard a rumor somewhere that Mr. Clinton had once contemplated renouncing his citizenship or some such and then requested any information on that subject available at the State Department. In the secrecy of their hearts, Bush appointees at State may have fervently hoped to find information damaging to their boss' opponent. But, as Mr. diGenova has now officially concluded, they did nothing illegal in responding to the FOIA request. Secret hopes just aren't illegal in the United States.

What *is* illegal, on the other hand, is releasing material from someone's personnel file. That is a violation of the Privacy Act, and that is precisely what two Clinton appointees at the State Department did in September 1993. They rifled 160 personnel files and revealed information in two of them to The Washington Post, which, of course, published the information posthaste. The people who had their privacy invaded were Jennifer Fitzgerald and Elizabeth Tamposi. Ms. Fitzgerald had been linked romantically to George Bush in the rumor mill. And Ms. Tamposi was the one who had directed the search of Mr. Clinton's passport file (and had been fired from her job as a result). In other words, no one could even begin to argue that the action was anything but payback of a particularly nasty sort. The two perpetrators were fired. But though leaking personnel information to The Post was an absolutely unambiguous violation of the Privacy Act, Mr. Funk did not deem it worthy of a criminal referral to the Justice Department. And Attorney General Janet Reno simply refused to respond to Republicans' calls for a special prosecutor.

At the time, this page suggested asking Mr. diGenova to broaden his inquiry into the passport search to include the invasion of personnel files. Having closed the passport case, Mr. diGenova clearly cannot do that. That doesn't mean, however, that this blatant abrogation of the Privacy Act should go unpunished — or that the reluctance of the Clinton administration to deal with it properly should go uninvestigated. This case cries out for thorough hearings in the 104th Congress.

The Washington Times MONDAY, DECEMBER 5, 1994

WASHINGTON

Possible plea bargain for ex-Clinton aide

Whitewater special counsel Kenneth Starr plans an announcement today in Little Rock amid reports that former associate attorney general Webster Hubbell will enter a plea bargain to mail fraud and tax evasion charges. Hubbell's charges appear to stem from claims he overbilled clients and his former firm as a private lawyer. Hubbell and first lady Hillary Rodham Clinton were law partners at the Rose Law Firm before coming to Washington. Hubbell resigned in March.

AP

HUBBELL: Fraud, tax charges

Starr's office also said a separate announcement could be made Tuesday. *The Washington Post* reported that it concerns a plea bargain with an appraiser who did work for Madison Guaranty Savings & Loan, controlled by Jim McDougal, the Clintons' partner in the Whitewater land deal.

SECURITY SNAFU: A metal security gatepost popped up unexpectedly Sunday as President Clinton returned to the White House from church, damaging a van in his motorcade. None of the five White House aides was hurt in the incident, which occurred seconds after the Clintons' limousine went through the gate. Officials said a metal post that retracts into the ground popped up, hitting the bottom of the van, activating air bags and shattering a side window.

CLINTON SPEECH: President Clinton plans a speech Tuesday night to the Democratic Leadership Council that will mark his first formal attempt to set his legislative priorities for dealing with the GOP majority in Congress. The DLC, a group of moderate Democrats that Clinton helped found, has been urging the White House to move to the political center. The group will lay out its alternative to the GOP Contract with America at a news conference today.

MILITARY READINESS QUESTIONS: U.S. military readiness is sagging across the armed services, says a Republican report by Rep. Floyd Spence, R-S.C., incoming House National Security Committee chairman. The report says 28 Marine and Navy tactical air squadrons were forced to ground half their planes in September. It also found Army tank crews forced to pretend they were driving their tanks during training exercises and Air Force crews in Europe overextended by missions over Bosnia-Herzegovina and northern Iraq. The Pentagon said President Clinton's commitment last week to put an additional $25 billion into the defense budget over the next six years shows readiness concerns are being addressed.

WORLD ROUNDUP

Moscow sending troops to rebel republic's border

Moscow is moving troops to the borders of the Chechnya region to support earlier threats it will clamp down if the Russian-backed opposition and the region's separatist leader, Chechen President Dzhokhar Dudayev, do not lay down their arms. A key figure, former Russian parliament chairman Ruslan Khasbulatov, abruptly left the troubled region for Moscow, saying the buildup of Russian troops made his mediation work between the separatist government and opposition forces "superfluous." Chechnya, a mainly Muslim area of about 1 million, declared independence in 1991.

ASSAD STILL HOPEFUL: Syrian President Hafez Assad said he hasn't lost hope for an accord with Israel. "Syria wants peace. The road to this peace is not constructed, but despite that, Syria has not lost hope," Assad's spokesman says he told a U.S. delegation. The statement came less than a week after the Syrian leader accused Israel of making impossible conditions for peace.

Agence France-Presse

ASSAD: 'Syria wants peace'

AILING LEADER: Lucien Bouchard, Canada's opposition leader in Parliament and a driving force for Quebec separation, is battling for his life against a flesh-eating c His left leg was amputated to stop the rapid spread of the disease, necrotizing myositis, which destroys muscle tissue. The 1-in-a-million bacterial infection can kill within 24 hours. Bouchard, 55, should survive but "there is still a risk," said physician Patrick D'Amico. Victims face incredible odds: 80% die. The leader of the Bloc Quebecois Party was to be a key player in next year's campaign for the separation from Canada of the mainly French-speaking province.

— Jim Fox in Montreal

ARAFAT AND JERUSALEM: Jordan and the Palestinian authority apparently have settled their dispute over Jerusalem, clearing the way for a visit by PLO chief Yasser Arafat to Amman in mid-December. Agreement was reached during talks between Jordan's Crown Prince Hassan, who heads a royal committee on Jerusalem, and Faisal Husseini, the PLO chief's adviser on the holy city.

FERRY DISASTER: At least 107 people were still missing two days after a ferry sank when it collided with a freighter in Manila Bay. At least 38 people were killed in the Friday collision between the ferry Cebu City and the Singapore-registered Kota Suria.

Bigotry has no birthright

My two cents ... I've never met anyone who intellectually chose his or her country of birth, color of pigment or sexual orientation, so all bigotry is idiotic. ... There is absolutely no reason in the world for baseball to be exempt from antitrust violations. ... Knocking the media has replaced patriotism as the last refuge of scoundrels. ... All bullies back down when you challenge them. ... No television shows stretch the limits of taste more than **Jenny Jones** and **Richard Bey**. ... I wonder about folks who don't read newspapers. ... I love **Dennis Hopper's** Nike commercials.

LARRY KING'S PEOPLE

News & Views

If Utah's **Jeff Hornacek** were a New York Knick, they'd name two candy bars after him. ... Alcorn State's **Steve McNair** was the USA's best college quarterback this year by a mile. ... Nobody gets more done for *their* welfare than the super-rich in the USA. ... The best and most incisive piece written about novelist **Tom Clancy** was **Rich Cohen's** profile in last week's *Rolling Stone*. ... Everybody and his brother is against big government except for that part of big government that directly benefits them. ... People who are anti-union don't know the history of this country. ... I love **Sid Caesar's** comment about the current state of comedy: "Wit is not a four-letter word."

Frank Sinatra's *Duets II* is one heckuva CD that I play over and over again. ... I urge you again, read **Neal Gabler's** wonderful bio of Walter Winchell and thank me. ... TNT's **Pat Haden** has become, arguably, the premier color analyst in football.

Show Boat is one of the great Broadway revivals of all time. ... How well do hot cakes really sell? ... I have never heard a reason why school prayer has anything to do with education. ... Why am I having these terrible thoughts about baseball and 1995? ... I remember the doomsayers who said South Africa couldn't work with **Nelson Mandela** on top.

Among other things this will be remembered as the year of the concussion in the NFL. ... Why do sportscasters keep using the same redundant phrase "Same exact play?" ... *The Santa Clause* is a wonderful holiday movie for all ages. ... **Heath Shuler** in Washington is going to be a super NFL quarterback.

I love when some of those daytime TV talk shows pander to every gross taste and then bring on a psychologist for five minutes at the end to give it credibility. ... I've been in the business more than 37 years, and I've yet to see my first media conspiracy gathering. ... Is there a difference between lavender and purple?

Make **Mario Cuomo** the baseball commissioner, give him some power and let's get on with it. ... This U-Mass college basketball squad is no fluke, my friends. ... Every time I see **Barry Levinson's** *Avalon*, I like it more and more. ... If **Louis Farrakhan** had a daily talk show, his numbers would go through the roof. ... One of the great joys of my life was knowing Jackie Robinson.

Larry King Live is seen nightly on CNN and simulcast on the Westwood One radio network and USA TODAY's *Sky Radio on United Airlines.*

Abroad at Home

ANTHONY LEWIS

Jefferson Still Lives

BOSTON

When Newt Gingrich said after the election that one of his first priorities was to put prayer back in public schools, he enlisted Thomas Jefferson as a supporter. In the Declaration of Independence, he noted, Jefferson wrote that men's rights had come from "their creator."

"Voluntary school prayer is not ancillary," Mr. Gingrich said. "It is the core of being American."

Mr. Gingrich used to be a college history teacher. But there could hardly be a more grotesque misreading of history than the notion that Thomas Jefferson would favor government action to arrange religious observance of any kind.

"At his orders, Jefferson's tombstone at Monticello describes him not as a former President but as the father of the University of Virginia and the author of the Declaration and of the Virginia Statute for Religious Freedom. He took special pride in the last, a law that he and James Madison struggled for nine years to get through the legislature.

The Virginia Statute not only rejected official support for a single, established church. It forbade neutral support for all denominations: which is what some Americans want government to do today. The statute's principles informed the religion clauses of the First Amendment, which was drafted by Madison.

Anyone unfamiliar with Jefferson's views — and their extraordinary strength — should read Prof. Merrill D. Peterson's essay on the subject in the current issue of The Atlantic Monthly. It has powerful application to the renewed debate about school prayer.

Supporters of prayer legislation argue that the country needs an affirmation of religious beliefs to give it a common sense of moral values that it now lacks. But Mr. Peterson writes that "the whole thrust of Jefferson's philosophy was to reject . . . any idea that a shared community of religious beliefs or of moral values, other than the value of freedom itself, was necessary to society."

Would the 'sect of one' favor school prayer?

In his campaign for President in 1800, Jefferson was attacked as an atheist. In fact he believed in God despite his dislike of priesthoods and his rejection of biblical revelation. According to Mr. Peterson, "he said he was a sect of one."

"Jefferson believed that diversity of creeds and separation of church from state would actually strengthen religion in America. The prediction has proved true. Religion has thrived in the absence of state involvement. The United States is by far the most religious of Western countries.

The strength of religious feeling is reflected in the campaign, continuing over three decades now, for prayer in schools. It was in 1962 that the Supreme Court found unconstitutional a New York State rule requiring prayer in classrooms.

But even for those offended by the 1962 decision, there is a great difficulty in the way of overturning it by constitutional amendment. How can that be done without hurting the very two elements that have nourished religion here, separation and diversity?

Americans are more diverse in their beliefs now than ever. How can any prayer be read in a classroom without offending some of the children or their families? Allowing dissenting students to leave the room is not an answer, as the Supreme Court said, because the pressure to conform will make the prayer not truly "voluntary."

Gary Bauer, a leading voice of the right on social issues, said recently that it was "extremely unhealthy for as much as 70 percent of the country to want something like this and continually be thwarted by the courts or lack of action by politicians." To the contrary, it would be unhealthy — and against the whole meaning of American constitutionalism — for a majority to force its views on minorities on such a question.

The answer may lie in a Federal law calling for a period of silence in schools, which the First Amendment would almost certainly allow. Then each child could have his or her own reflections, religious or otherwise.

On the Jefferson Memorial in Washington is carved his statement: "I have sworn upon the altar of God, eternal hostility against every form of tyranny over the mind of man." He wrote that about activities of the clergy.

Jefferson and John Adams, political opponents and longtime friends, both died on July 4, 1826, the 50th anniversary of the Declaration of Independence. Adams's last words were, "Jefferson still lives." We shall see whether he does. □

Essay

WILLIAM SAFIRE

And Then There Were Two

WASHINGTON

The man President Clinton called his closest friend, who was also the longtime law partner of Hillary Clinton, is apparently about to confess to being a crook.

Webster Hubbell has been widely reported to have agreed to plead guilty to mail fraud and tax evasion, and has declined ample opportunity to deny these reports. Independent Counsel Kenneth Starr has scheduled an announcement today, presumably about the plea bargain.

If Mr. Hubbell does become the first member of the Clinton Administration to plead guilty to felonies, we would then have to "walk back the cat" to realize that Mr. Clinton, when President-elect, entrusted the ethical vetting of his prospective appointees to a criminal.

As Associate Attorney General, this presumed lawbreaker's mass firing of all United States Attorneys may have helped delay the Whitewater investigation. That political sweep, unprecedented in its suddenness, cleared the way for the appointment of a trusted Clinton aide, Paula Casey, to take charge of Federal law enforcement in Little Rock, where questions had been raised by the Resolution Trust Corporation about political fixings for the Madison S.& L.

After Ms. Casey declined action and bucked the file back to Mr. Hubbell's Justice Department in Washington, the case that would have embarrassed the Clintons and the Rose Law Firm languished in limbo. Had not the frustrated R.T.C. investigators sent in a second criminal referral — with an explicit Clinton connection that got into the newspapers — the Whitewater scandal would have been squelched. Not until November 1993, after publicity exploded, did Mr. Hubbell and Ms. Casey recuse themselves.

We have seen, thanks to Senator Alfonse D'Amato's perseverance in Senate hearings, how White House lawyers improperly manipulated the Treasury Department in containing the scandal; did anything similar happen at Justice?

The White House, staggered by the news of plea-bargaining by the man who had been its de facto Attorney General, is pretending — through an anonymous spokesman — that Hubbell's putative crimes have only to do with his own phony bills and do not touch on Whitewater.

But Hubbell was the most dominant of "the Four Musketeers," as the quartet from Little Rock's Rose Law Firm were styled as they descended on Washington. When the body of one of the four, Vincent Foster, was found dead, it was Hubbell who brushed aside a Park Police officer trying to investigate.

Out of the "Four Musketeers."

If Hubbell has decided to talk about the Rose Law Firm's dealings on Madison S.& L. to reduce his time in prison, he may be induced to involve William Kennedy III, who also handled administration at the firm.

This is the former Rose partner who used the F.B.I. as White House patronage police, clearing out the Travel Office for Clinton cronies and cousins. Kennedy worked closely with Vince Foster in the White House Counsel's office.

Clintonites are concerned he might know too much about the detoured disposition of what is left of Foster's Whitewater file, which Hillary Clinton has gone to such lengths to keep from public scrutiny. Faced with a Congressional inquiry into his travel-office zealotry, Kennedy recently quit.

Were we unfair to be suspicious of Whitewater concealment? If Hubbell confesses, we would know that the most intimate F.O.B. is a thief. If he is charged with less criminal conduct than the special prosecutor has reason to believe he has committed, then Mr. Hubbell would owe the sentencing judge evidence of unstinting cooperation on other prosecutions.

Call the roll of the "Four Musketeers" who marched to Washington to right wrongs:

One, who kept the Clintons' Whitewater file in his office, is dead by his own hand, under mysterious circumstances, with the bullet never found;

The second, who settled previous conflict-of-interest charges for the swinging firm, and who staffed the Department of Justice with prosecutors he could rely on, is now probably on his way to jail, singing to shorten his stay;

A third, who carried out orders from the other three in Little Rock and Washington, has gone home, career shattered and family broken, to await grand jury and Congressional subpoenas to elicit the truth about;

The fourth, who shares an increasingly lonely life with the President of the United States. □

31

PM-AR--Whitewater-Starr, 1st Ld-Writethru,320
Whitewater Investigator Plans Announcement This Week
Eds: SUBS lede to correct verb tense; picks up 2nd graf, bgng Debbie Gershman ...; Lede prospects uncertain
db2phfonfls

LITTLE ROCK (AP) Whitewater investigator Kenneth Starr was expected to make an announcement today on an undisclosed subject.

Debbie Gershman, Starr's spokeswoman, said Saturday the office would make an announcement this afternoon in Little Rock and possibly make another announcement Tuesday afternoon. She declined further comment.

A source close to the Whitewater investigation told The Associated Press last week that Webster Hubbell, formerly the No. 3 man in the Justice Department, had agreed to plead guilty to mail fraud and tax evasion charges.

The charges apparently stem from allegations he overbilled clients and the Rose Law Firm of Little Rock, where he and first lady Hillary Rodham Clinton were partners before President Clinton was elected.

One of the announcements would presumably provide details of Hubbell's plea bargain; the other may involve the announcement of indictments stemming from the Whitewater investigation.

Starr's office has been heading a federal investigation into the Whitewater Development real estate company in Arkansas and President and Mrs. Clinton's involvement in the business when Clinton was governor of Arkansas.

The investigation has included a review of the failed Madison Guaranty Savings & Loan Association in Little Rock and its owner James McDougal of Arkadelphia, a former business partner of the Clintons and former business associate of Jim Guy Tucker, now governor.

Hubbell, 46, resigned as associate attorney general in March amid reports of complaints about his billing and expense practices at the Rose Law Firm.

Hubbell also is a former Little Rock mayor and served as chief justice of the Arkansas Supreme Court as a Clinton appointee.

**** filed by:APW-(AR) on 12/05/94 at 01:21EST ****
**** printed by:WHPR(JEL) on 12/05/94 at 08:07EST ****

questions."

Even with the challenges, Patrick is having at least a bit of fun. He described his first ride with Clinton on Air Force One earlier this year: "I was trying so hard to be cool," he said. "But I wasn't cool at all. I mean, you don't even have to sit down when Air Force One takes off."

Whitewater troubles heating up again

(Sunday release)

By David Warsh Boston Globe

The troublesome matter known as Whitewater is heating up again. Former Associate Attorney General Webster Hubbell is expected to plead guilty to a couple of felony counts of fraud next week, as the special prosecutor zeroes in on the Rose Law Firm, in which both he and Hillary Rodham Clinton were partners. As the Republicans take over Congress, it's worth thinking for a moment about where this thing is headed.

The bad news is that there is a common thread running through several seemingly unrelated stories with Little Rock datelines. Each episode has to do with the temptations periodically put before the Clintons, usually Hillary Rodham Clinton, by some of the more ambitious citizens of her home state.

Quite aside from the mechanisms of paying for their periodic political campaigns, it is clear that the first family of Arkansas like first families everywhere was occasionally offered opportunities not entirely on the up and up.

The good news is that the picture that has emerged so far is one of two fundamentally honest people operating in a pretty yucky environment. The chicken industry, in the bond business, in real estate development and nursing homes who would have been pleased to find a way to put some money in their pockets in hopes of eliciting future favors.

But as each new opportunity was presented, the Clintons seem to have sized it up, then decisively backed away. Except, just possibly, the last time. That now seems to be what the cat-and-mouse game is about.

To understand where the investigation may be headed, it helps to recall something of the Clintons' biographies. As a young Yale-trained lawyer, Bill Clinton returned to Arkansas to teach law in 1973. His wife-to-be joined him a year later and helped run his first campaign, an ultimately unsuccessful post-Watergate try for a congressional seat that nevertheless promised a bright political future. Two years later he was attorney general of the state; two years after that he was governor at 32, the nation's youngest, poor but thoroughly happy.

It was about this time, on the eve of Bill Clinton's being elected governor, that the first well-ventilated episode occurred. Acting on the advice of James Blair, a business lobbyist and lawyer as well as a family friend, Mrs. Clinton put $1,000 of her own money into cattle futures, the first of a series of bold bets. Less than a year later she quit the market, having made a $99,537 profit. She never traded futures again.

On Mrs. Clinton's recollections of the event, it is easy to believe that, in a time of unusual duress (their child was about to be born) she was eager to put some money aside; that it dawned on her only slowly that she may have been the beneficiary of special treatment; and that she quit the market as soon as it became clear to her that trading on tips from the lobbyist for the state's biggest chicken business might give the appearance of impropriety. The sequence of events has been exhaustively examined by the press.

In the episode known as Whitewater, events were larger and more complicated, but the pattern basically the same. A small-time banker named James McDougall and his wife threw in as partners with the Clintons in a plan to develop as vacation homes a tract along he Whitewater River in the Ozarks. The Clintons eventually cut their ties with McDougall, having made no money on their investment. But McDougall went on to bankrupt one of the state's bigger savings and loan institutions, leaving behind a welter of questions about the relationship of his thrift to Bill Clinton's campaigns.

The result of a good deal of wariness on the Clintons' part was that, when Bill Clinton finally was elected president in 1992, the family didn't have a great deal of money to finance the move to Washington. Lacking a house of their own, for example, the Clintons stayed in the Arkansas governor's mansion overlong. Once in Washington, they were somewhat better financed, thanks to the hefty raise of a presidential salary and perks. Even then, an attempt to raise a private fund fell flat, according to one lawyer who was consulted over the details, because it would be deemed to consist of political contributions.

Now attention has turned to the Rose Law Firm. As independent counsel Kenneth Starr has gone forward, his focus has shifted to the division of responsibility between the Rose partners, according to those who have followed the investigation, both privately and in the press. One issue seems to have to do with the size of Mrs. Clinton's severance package from the firm.

Hubbell, a former mayor of Little Rock, is reported to be preparing to plead guilty to having improperly billed $400,000 in personal expenses to his clients and the firm. Much of Mrs. Clinton's work was done for him; he was one of her mentors in the firm. Thus the independent counsel will be curious to know, did he improperly influence her compensation? Did she work there long enough or bill enough hours to earn her settlement? For the press, relying on periodic net worth statements released by the Clintons, the issue is complicated by the effect of the deaths of Clinton's mother and Mrs. Clinton's father. But it seems susceptible to an answer by the special counsel.

The matter is tinctured further by the apparent determination of the Clintons to keep the lid on their Arkansas affairs once they went to Washington. But interest in questions about the Clintons' business dealings deepened suddenly with the suicide of Vincent Foster, a Rose partner serving as a White House aide; they darkened with the widespread recognition that Clinton friends like Hubbell and Roger Altman occupied positions at Justice and Treasury, departments strategic to any inquiry. Both have since resigned, although Hubbell has continued to be an occasional visitor to the White House.

The public is about to get a real glimpse of the workings of a small law firm, both before and after lightning strikes and the husband of one of its partners is elected president of the United States. Let the scandalmongers wallow in the economics of the firm. It may just turn out that Mrs. Clinton was doing enough business to justify every penny she took home; it may turn out that she was the victim of a supervisor who committed fraud. In due course, the independent counsel will complete his investigation, and the matter will spring to life or be set aside

The larger question here, of course, has to do with what it takes to remain in public life. Politicians wield enormous power, and business interests are forever seeking ways to influence their decisions. Yet few legitimate business opportunities are available to those who choose to remain in office throughout their careers. So how's a young family to make any money? "Mighty carefully, or not at all" would seem to be the answer.

✓ 85

OVER

heritage of New England and celebrated the rich rural folklore of the region.

The audience was full of New England expatriates, sensible souls whose hard exteriors nevertheless melt away with the very mention of Portland Light and who know that the Down East town of Calais is pronounced like the thick hardened spots on the hands of Maine fishermen.

The three musicians are, of course, fixtures in Maine, but they have developed a core of loyal followers in the capital region. They regularly play at the Birchmere, a well-loved bluegrass joint in Alexandria, Va., and have made more appearances at the Barns of Wolf Trap in suburban Virginia than any other musical group.

They prompted their greatest response the other night with their signature song, "Portland Town," which has become a kind of anthem for transplanted New Englanders who acknowledge that they can't ever shake their attraction to the coast of Maine. Their paean to Portland concludes:

Of all the places I could go,
She's still the fairest port I know,
She works the seas and tills the farms.
And holds her children in her arms.

Could the electoral loss be a win for Clinton in the long run?
By David Shribman Boston Globe

WASHINGTON Final congressional approval of the General Agreement on Tariffs and Trade on Thursday night did more than end a bitter debate over trade policy in the capital. It also ended the first phase of the Clinton era.

For two years, President Clinton has tried to muscle his program through Capitol Hill. He didn't win an overhaul of the health care system or an economic stimulus, but he did get much of what he wanted: a deficit-reduction package, an education initiative, a crime bill, gun-control legislation and two important trade agreements.

Even so, the president is on the defensive. The Republicans control not only Congress but also the national conversation. Indeed, White House officials worry about the danger that Newt Gingrich, who is in line to be speaker of the House, will effectively assume the role of prime minister in Washington, leaving Clinton with the leftover role of head of state.

In recent days, it has become increasingly clear that the devastating Democratic defeat in last month's midterm elections will force the president to abandon the course of the first half of his term, the relentless struggle on Capitol Hill that produced a string of successes but no overarching theme.

"You'll see a lot more of the president in Boston than on Capitol Hill," said Sen. Daniel Patrick Moynihan, D-N.Y., who next month is to relinquish his seat as chairman of the Finance Committee.

Being deprived of the chance to push for legislative achievements may actually provide an important opportunity for a president who came to office talking about change but who hasn't yet articulated a larger purpose to his tenure in the White House. He had no large mission, only a laundry list of programs.

Now he is liberated freed from the Democratic chairmen, who in many ways were as big an obstacle to change as his Republican rivals; freed from the need to chalk up legislative victories; freed, even, from the burdens of the expectations he created for his own presidency.

The president's struggle now is for political survival, not for legislation.

JOVER

And the president's own survival will be guaranteed only if he meets the very tests he set out for the survival of the Democratic Party. He must speak and act in a way that helps to prepare the nation for the 21st century socially, culturally, economically. He must set a vision for the country, speak of American values and provide the nation with a sense of comfort about itself and its president.

The Republicans almost certainly will try to force the president to compete on their turf on Capitol Hill. "The president's going to have to react to what goes on up here," Sen. Ted Stevens of Alaska, who will be a powerful figure in the new Republican Senate, said defiantly.

Clinton will begin 1995 as perhaps the weakest first-term president of the modern era. Already Democratic strategists and party elders are advising the president to steer away from a legislative strategy. "There's not much that's doable," Moynihan said.

That judgment reflects the conviction that the administration won't have much sway even in the Democratic Caucus. A hallway conversation between two senators just the other morning illuminates the new reality on Capitol Hill: The lawmakers, who recalled the predominant role the administration assumed in the health care debate, were talking about welfare reform. They agreed that at most the White House could play and this is the telling phrase "an advisory capacity" in congressional deliberations on welfare.

That phrase may be humbling to a president whose instincts lead him to the fine print of governing, but it suits the challenge that Clinton faces.

"The task ahead of the president is to convince America he is moving an agenda, that he is setting the same priorities that the average American is on a daily basis and fighting for it with a certainty," said Sen. John Kerry of Massachusetts. "He has to re-establish confidence with the American people. That's what we all have to do right now."

For Clinton, at least, the landscape may not be as bleak in the country as it is on Capitol Hill. The consumer-confidence index released this week by the Conference Board indicates that Americans feel better about the economy than they did even a year ago.

Clinton opened his campaign three years ago by saying that George Bush was in a state of denial about America's problems. Inside the White House there's frustration, even despair, that Clinton is in a state of denial about his successes. The other day, a senior Democrat sidled up to Clinton and told him to claim some success. The president indicated he would. The 1996 presidential campaign is thus under way.

XXX

(David Shribman is chief of the Boston Globe Washington bureau, 1130 Connecticut Ave. NW, Suite 520, Washington, D.C. 20036.

Politics Today; RELEASE: 12/4/94

GATT TELLS YOU NOTHING
By Jack W. Germond and Jules Witcover

WASHINGTON President Clinton's success in winning approval for the General Agreement on Tariffs and Trade (GATT) tells us absolutely nothing about his likely relationship with Congress over the next two years. On the contrary, it may have sent a misleading signal.

This was an easy one. Once Senate Minority Leader Bob Dole signed on behind the agreement last month,

In addition, Pennsylvania's governor, U.S. senators and representatives will name 24 or more delegates, Lees said. ``Gov. Casey will have a selection, and so will Governor-elect Tom Ridge," she said. ``Those who are in office and those who will be in can appoint delegates."

Aside from those, President Clinton will select 100 delegates to the national conference, Lees said.

To qualify as a state delegate, a participant must:

Reside in Pennsylvania.

Own, work for or be a corporate officer of a small business.

Be willing to pay all expenses to the national conference.

Delegate candidates who have not yet begun to campaign will have to hurry, Lees said. The winners will be announced during the lunch break on Thursday.

The registation fee is $40 in advance, $50 at the door.

X X X

Call the White House Conference on Small Business at 202-724-0891.

Clinton plans to go back to his `New Democrat' roots

By John Aloysius Farrell Boston Globe

WASHINGTON President Clinton plans to address the nation soon, speaking in personal terms about his ``New Democrat" roots and his commitment to working families, in a major strategic response to the election of a Republican Congress, according to White House aides.

A forum has not been selected for the speech, scheduled for the week of Dec. 11, but it is expected to be the most visible element of a multipart effort, including staff changes, designed to rescue Clinton's embattled presidency and prepare for his re-election campaign.

The debate within the White House over how best to respond to the GOP election success last month is drawing to a close, said one senior official. There will be no dramatic ideological shift, the official said, but rather a renewed concentration on the ``New Democrat" themes of work and responsibility, a strong national defense and help for America's working families, all of which served Clinton well in the 1992 presidential campaign.

Indeed, in his first meeting with the incoming leaders of the 104th Congress, Clinton struck broad agreement Friday with GOP Sen. Robert Dole of Kansas and Rep. Newt Gingrich of Georgia on several measures that have long been part of his ``New Democrat" crede: a line-item veto, a limit on unfunded federal mandates to the states and cities, and a measure to apply laws passed by Congress to the legislators themselves.

Though the expected White House personnel changes and other specific policy ramifications like the size or shape of a proposal to cut taxes on the middle-class have not been nailed down, Clinton's overall direction is now apparent, and will be spelled out in his speech, aides say.

``He's going to his roots," said a senior adviser, ``to the people who sent him here, the average working families.``

Clinton offered several signs of his strategy this week, aides said.

The president scored a pre-emptive political strike on a Republican Congress and shored up his status as commander-in-chief by proposing Thursday a $25 billion hike in defense spending.

The Rose Garden announcement, in which Clinton was surrounded by military brass, was an example of the power that the president still wields to command the national agenda even with an opposition Congress. Though he angered liberals, Clinton's announcement is expected to win him support at the Pentagon, among the ranks of enlisted men and women and in critical political states, like California, whose large defense industries are hurting.

And then, in a satellite address to the National League of Cities Friday, in which he hailed rosy low U.S. employment figures, Clinton used some variation of the words ``work," ``jobs" or ``working families" more than 40 times as he raised ``New Democrat" themes such as welfare reform, national service, lifelong job training, and the need to ``attack problems that feed dependency, including the runaway problem of teen pregnancies."

``It's no secret that the landscape in Washington shifted dramatically last month, but what must not shift is my commitment and your commitment to continue to work for what will actually help hardworking middle-class Americans," said Clinton.

Clinton said he will cooperate with the Republicans in Congress on incremental health care changes, welfare reform and a bill to restrict the number of unfunded federal mandates in which Congress orders states and cities to set up social programs without providing federal funds to run them.

To that list, White House aides added the line-item veto, reductions in the size of congressional staff and political reforms that regulate lobbying and campaign fund raising and apply laws passed by Congress to the legislators themselves.

But Clinton warned in his talk to city officials that there were other issues like the recently-passed ban on assault weapons on which he will not compromise. Said one aide, ``There will be areas where we will have to fight if they try to diminish the crime bill, for example, or push an extreme social agenda."

(EDITORS: STORY CAN TRIM HERE)

Clinton's emerging strategy is not without its vulnerable spots.

The legal woes of former Associate Attorney General Webster L. Hubbell though so far unrelated to his relationship with the Clintons showed how the ongoing Whitewater development investigation can be counted to flame up from time to time.

And liberals indicated they will not blindly support a ``New Democrat" agenda. Rep. Barney Frank, D-Mass., expressed his ``grave disappointment" in Clinton's plan to boost defense spending.

``I regret very much that the president has given in to right-wing pressure to provide money to an already overfunded defense budget," said Frank, promising to lead efforts to curb hikes in the Pentagon budget.

And Republicans were skeptical of Clinton's ability to shuck the liberal image that he earned when fighting in his first two years for gays in the military and a massive health care plan.

``The voters won't view his actions as those of principle, but as just another tap dance," predicted GOP pollster Bill McInturff.

Senate Democrats pick South Dakota's Daschle as new leader

By Jill Zuckman Boston Globe

WASHINGTON A generational tug of war that split Massachusetts' senators gave Thomas Daschle of South Dakota a one-vote edge to be the Senate Democrats' new leader and resulted in Sen. John F. Kerry being rewarded with a minor leadership post.

Clinton meets with new congressional GOP leaders

By Kathy Lewis Dallas Morning News

WASHINGTON The new Republican congressional leaders met with President Clinton for the first time Friday, but didn't discuss the contentious issues of taxes, welfare reform and health care.

``It was a very positive meeting and indicates a willingness to really try to get some things done for the country in the early weeks of January," said probable incoming House Speaker Newt Gingrich, R-Ga.

Sen. Bob Dole of Kansas, the incoming Senate majority leader, also declared the White House meeting a good start.

``Certainly, it's in his interest and in our interest where possible to be together," he said afterward.

``I think the president understands that there's a lot of support out there in the country among Democrats, independents and Republicans to try to change the way we do our business here."

But the GOP leaders said they recognized the time frame for bipartisan cooperation was limited because of the approaching 1996 presidential campaign. They also said they did not discuss with Clinton the more difficult and divisive issues.

``We didn't get down to the T's," Dole said when asked about possible tax cuts.

In recent days, Dole tried unsuccessfully to get the Clinton administration to agree to a capital gains cut in exchange for GOP support of the new global trade agreement, but had to settle for Treasury Secretary Lloyd Bentsen's willingness to consider the issue next year.

The GOP leaders also said they didn't get around to talking about welfare reform. There's widespread bipartisan support on the need to do something, but considerable differences between the parties on the details.

They also did not talk about any possible health care revisions that might be possible in the absence of broad health care reform.

``We only had an hour," Gingrich joked.

Clinton is the first Democratic president in 40 years to have to deal with a Republican-controlled Congress.

Before meeting with the Republicans, he also met at the White House with the newly elected Democratic leaders of Congress.

Sen. Tom Daschle of South Dakota, who will be the Senate minority leader, signaled that Democrats on Capitol Hill would not merely follow the president's lead. They will cooperate on many issues, Daschle said, but, ``clearly, we have our own agenda as well."

Rep. David Bonior of Michigan, who will be the second-ranking Democrat in the House, said his party would propose a tax cut for middle-income Americans. He said Clinton ``was nodding his head in agreement." Earlier, Clinton vowed to fight any move that would ``explode the deficit."

``So, while I favor a middle-class tax cut and I don't rule out working with the Republican Congress on some of their ideas," the president said, ``my standard will be: Will it help increase incomes for the middle class, will it promote jobs and growth and can we pay for it?"

The now-famous ``Contract With America" that House GOP candidates signed last fall includes a capital gains tax cut and a $500 tax credit for each child.

Dole emphasized to reporters that Congress will keep a strict 4&1/2-day schedule from January through the spring break, and Gingrich stressed that little could be accomplished in 1996.

``The fact is when you get into a month before (the first presidential primary in) New Hampshire ... it just gets very hard ... But that gives us 10 months to prove we can get things done for Americans," he said.

The Republican leaders said they believed they could reach early agreement with the White House and Democrats on a line-item veto provision, relieving states and cities of some federal restrictions, and that they could win early passage of a bill ensuring that members of Congress are covered by the same laws as everyone else.

Dole said he also believed cooperation was possible on telecommunications and Superfund issues.

He said he had asked Clinton for more consultation with members of Congress on foreign policy and the president pledged to do so.

Clinton did not speak with reporters after the meeting, but earlier in the day he reiterated his pledge to cooperate with the new Congress. He vowed, however, not to compromise on principles.

``Cooperation for me cannot mean abandoning principle, abandoning the hard work we have already accomplished together," he said.

(EDITORS: STORY CAN TRIM HERE)

The GOP leaders also have said cooperation does not mean compromising on principles.

In an address by satellite hook-up to the National League of Cities meeting in Minneapolis, Clinton spelled out areas where he believed a bipartisan effort could produce legislation next year, citing welfare reform as a prime candidate.

``Every American wants this and we're going to do it and do it together," he said.

He vowed to oppose any attempts to repeal the assault weapons ban passed this year and to fight any legislative proposal that would threaten the economic recovery or increase the deficit.

The meeting with the GOP leaders came one day after a successful bipartisan effort to win congressional approval of the new world trade pact called the General Agreement on Tariffs and Trade.

Clinton told the mayors, ``It's no secret that the landscape in Washington shifted dramatically last month."

Despite the election results, he said, ``what must not shift is my commitment and your commitment to continue to work for what will actually help hard-working middle-class Americans."

Clinton legal woes return to spotlight

By Thomas G. Watts Dallas Morning News

LITTLE ROCK, Ark. After an autumn lull, President Clinton's problems with Whitewater and a sexual harassment lawsuit are taking center stage again.

Whitewater independent counsel Kenneth W. Starr is expected to press soon for the first indictments in the case.

One of his targets Webster L. Hubbell, the former No. 3 official at the Justice Department and one of Clinton's best friends reportedly has agreed to plead guilty to tax evasion and mail fraud. He will cooperate with the special grand jury investigating Whitewater-related activities, law officials said.

In Washington, Republicans are signaling their interest in quickly pressing new Whitewater inquiries when they take control of the new Congress next month.

And a federal judge in Little Rock is nearing a decision on whether a sexual harassment lawsuit filed against Clinton by former state employee Paula Corbin Jones should proceed now or wait until the president leaves office.

None of this is welcome news to those in Arkansas who appreciated the Whitewater respite.

``People are thankful that it died down," said Howard Eisenberg, dean of the University of Arkansas-Little Rock law school. ``But the anticipation is that with the

Republicans getting a majority in Congress that things will heat up again. We've been in kind of a limbo."

The special Whitewater grand jury originally was empaneled to investigate whether funds were illegally diverted from the defunct Madison Guaranty Savings and Loan to the Whitewater Development Co. in which the Clintons once owned an interest or Clinton's gubernatorial campaigns. It has gradually broadened to look at the financial dealings of others.

The allegations against Hubbell center on whether he overbilled the government and other clients while working as a partner at the Rose Law Firm, the former employer of first lady Hillary Rodham Clinton. Hubbell resigned as associate attorney general in March amid controversy over the allegations.

Although Hubbell's case is not directly linked to the Clintons' Whitewater financial dealings, his apparent plea bargain brings the scandal into the president's circle of Arkansas confidants.

Much of the immediate speculation in Little Rock is over the chances of an indictment against recently elected Gov. Jim Guy Tucker,
a Democrat who was lieutenant governor under Clinton. He had financial dealings with Whitewater-related businessmen during the 1980s.

Tucker received loans from Madison Guaranty owned by the Clintons' Whitewater real estate partner, James McDougal and David Hale, a former loan-company operator. Hale, who has pleaded guilty to federal fraud charges, has alleged that as governor, Clinton pressured him to approved a $300,000 loan to McDougal's former wife, Susan.

The Resolution Trust Corp., which is charge of closing the financial books on Madison Guaranty, has sent referrals to the U.S. Justice Department saying that Tucker misused $135,000 in Madison loans. Investigators also are looking into federally backed loans that Tucker received from Hale's Capital Management Services Corp., some of which were not repaid.

Tucker has denied any wrongdoing in the loans. He angrily denounced reports on Thanksgiving Day that he was about to be indicted.

``I have had absolutely no indication from the special prosecutor that an indictment is under consideration," he said in a statement.

On Wednesday night he said of Starr's investigation, ``We're not into a fact-finding process. This is a political process."

(EDITORS: NEXT 9 GRAFS OPTIONAL)

Tucker received 60 percent of the vote in last month's election, and Democratic officials have rallied around him.

``The voters heard all the charges, they heard all the rumors and they voted for Governor Tucker resoundingly," said Skip Rutherford, a Little Rock advertising executive and former Arkansas Democratic chairman.

``We're dealing with pure speculation at this point," he said.

He and Bynum Gibson, the current party chairman, said there have been no discussions about what might happen if Tucker were forced from office which would not be required unless he were convicted of felony charges, not simply indicted.

``No discussions and no anticipation of it," said Bynum, a lawyer in southeast Arkansas.

There has been talk among Republicans, however.

``Well, that's kind of a sensitive little topic," said Mike Huckabee, the Republican lieutenant governor and conservative Baptist minister who would take over the state reins if Tucker were forced out.

``An indictment is not a conviction, and that (an indictment) hasn't even happened yet," Huckabee said. ``That's why I think it's so inappropriate for me or any other elected official to comment on the rumors that are going around."

Republican state chairman Asa Hutchinson also was circumspect, but added, ``I've let it be known that if that (an indictment) happens then we will need to talk about it."

(END OPTIONAL TRIM)

Tucker is the not the only other potential target of Starr's investigation. Other principals in Whitewater-related dealings include James McDougal and his ex-wife, Susan.

James McDougal, who now lives in a trailer home in Arkadelphia, has said he expects to be indicted although he reminds reporters that he was acquitted of misusing Madison funds in a 1989 criminal case.

Susan McDougal had been working in Memphis, Tenn., as a temporary office worker and recently was ordered to stand trial for allegedly embezzling more than $150,000 from famed conductor Zubin Mehta and his wife while working for the couple in California. Her attorney said that he offered her cooperation to Starr investigators last week, but was met with disinterest.

Senate Republicans this week urged Starr to open another front in the Whitewater inquiry as well.

Sen. Alfonse D'Amato of New York, who will chair the Banking Committee in the new GOP-led Congress, joined other panel members in a letter to Starr. They asked the counsel to investigate possible perjury by White House aides George Stephanopoulos and Harold Ickes during congressional hearings last summer. The White House says investigators already examined those questions.

A spokeswoman for Starr said that he has ``received the request and is reviewing it."

She also said that Starr would have no comment on the investigation or any possible indictments.

So far there has been no direct link in any of the possible indictments that would suggest wrongdoing by Clinton or his wife.

The case that does directly involve the president, however, is expected to heat up again soon.

U.S. District Judge Susan Webber Wright has been considering Clinton's request for limited immunity while in office against Jones' sexual harassment lawsuit. The request has been under study since late October, and Judge Wright is expected to reach a decision soon.

Jones filed her $700,000 suit last May, charging that Clinton had her brought to a suite in a Little Rock hotel by an Arkansas state trooper in 1991 where he touched her and asked her to perform a sex act. Clinton was governor at the time, and Jones a state employee.

Jones said in her suit that she refused and left the room, but was humiliated and worried whether she would be fired from her state job.

Clinton, who has denied that the encounter occurred, and his lawyers have filed court papers arguing that his tenure as president would be overwhelmed by the lawsuit unless court action is delayed until after he leaves office.

Her attorneys opposed any delay, and Judge Wright's decision is certain to be appealed no matter which way it goes.

Another lawsuit by Jones this one for $30 million against Penthouse magazine this week failed to stop publication of several semi-nude photographs of her that were taken by a former boyfriend several years ago.

By week's end, copies began appearing on newsstands.

Starr hitting close to Clinton circle with his first target

BY NOEL OMAN
Democrat-Gazette Capitol Bureau

The date was Nov. 7, 1992, four days after Bill Clinton's election as president.

On what might have been his first day off since announcing his presidential bid 13 months earlier, Clinton headed to Chenal Country Club in far west Little Rock to play 18 holes of golf that Saturday afternoon.

His partner?

Webb Hubbell.

Two years later, Hubbell appears to have become the first target of independent counsel Kenneth Starr, who took over the Whitewater investigation in August.

Sources have told the *Arkansas Democrat-Gazette* that Hubbell, a former associate attorney general, will plead guilty to felony charges of mail fraud and tax evasion in connection with alleged overbilling when he was a partner at Little Rock's Rose Law Firm.

Hubbell, a close friend of the president and former colleague at Rose of first lady Hillary Rodham Clinton, has extensive knowledge of the business and personal dealings that comprise the Whitewater Development Corp. affair.

Hubbell's agreement with Starr follows a pattern developed earlier this year with former Pulaski County Municipal Judge David Hale.

Hale pleaded guilty March 22 to two federal charges in a plea bargain with independent counsel Robert Fiske Jr., Starr's predecessor.

Starr replaced Fiske on Aug. 5.

But whereas Hale was a relatively obscure municipal judge and never a Clinton confidant, Hubbell is quite the opposite.

When Clinton became president on Jan. 20, 1993, Hubbell was installed at the Department of Justice in an office adjacent to the attorney general's office. For all practical purposes, he headed the department for several months before Janet Reno was confirmed as attorney general.

Even after Reno began work, Hubbell was the liaison to the White House — the person at the Justice Department with the president's ear. After the fire at the Branch Davidian compound in Waco, Texas, in the spring of 1993, White House officials contacted Hubbell before Reno.

In a story in *The New York Times Magazine*, columnist William Safire rated Hubbell's clout as equal to Reno's.

Like Hale, Hubbell is likely to cooperate with federal prosecutors in the wide-ranging Whitewater investigation.

The criminal charges against Hubbell are the first brought by Starr and the first against any administration official, current or former, related to Whitewater.

Reports that Hubbell had engaged in questionable billing began emerging in March. The beginning of the end for Hubbell came March 2 when *The Washington Post* reported on its front page that the Rose firm was investigating whether he had overbilled clients and used firm money to pay for personal expenses.

A complaint against Hubbell was filed by Rose with the Arkansas Supreme Court Committee on Professional Conduct.

Later, it was disclosed that Hubbell had billed the government more than $20,000 during a 20-day period in August 1990 for work on a lawsuit brought against the Frost & Co. accounting firm of Little Rock on behalf of the government. That was despite Hubbell's contentions that he had only an "indirect" involvement in the case.

According to the bill, Hubbell averaged more than eight hours per day of work on the case between Aug. 4 and Aug. 23, 1990, at a fee of $125 per hour.

The bill submitted to the Federal Deposit Insurance Corp. showed that Hubbell worked 8.4 hours on Sunday, Aug. 19, 1990, on "trial preparation" even though the case never went to trial. The cost to the taxpayers was $1,050 for that day of work.

Rose billed the government $400,879 for the case, which was settled with Frost & Co. for $1 million.

Hubbell's federal financial disclosure form for 1992 listed $310,000 in income from Rose, which he said included some deferred earnings from 1991. Attorneys familiar with the investigation said Hubbell improperly billed almost $400,000 in expenses to the firm and its clients, including the FDIC and the Resolution Trust Corp. Sources said Hubbell wrote checks from a firm account to cover what may have been personal expenses.

Webb Hubbell

Born: Jan. 18, 1948, at Little Rock.

Education: B.A., University of Arkansas at Fayetteville, 1970; J.D., University of Arkansas at Fayetteville, 1973.

Occupation: Lawyer.

Residence: Washington

Hubbell

Background: Associate attorney general, 1993-94; former managing partner of the Rose Law Firm at Little Rock; Little Rock Board of Directors, 1978-84; Little Rock mayor, 1979-81; chief justice of the Arkansas Supreme Court, 1984.

Personal: Married to Suzanna Ward Hubbell, four children.

69

Senate should drop W hitewater probe

The Potomac patter is consistent. The new Republican majority, the old hands say, is sure to convene hearings next year on the Whitewater scandal.

It would be delicious indeed to see the Senate Banking Committee do the job that the House and Senate Democrats of the last Congress failed to do.

Congress, after all, does have some obligation to find out what President William Rodham Clinton knew and when he knew it. It would be turnabout and fair play for the GOP majority to torture this president in the same way Presidents Reagan and Bush were tortured by committee investigations aimed at overturning the verdicts of voters.

But it also would be stupid.

Already, Sen. Al D'Amato, the New York Republican who will head the banking committee, is said to have interviewed a former Reaganite assistant attorney general about becoming chief counsel to the investigation. The attorney, Tex Lezar, lost a bid last month to be lieutenant governor of Texas.

He is a close friend of Judge Kenneth Starr, the independent counsel appointed to the Whitewater case. In fact, when Democrats tried to short-circuit Starr's appointment, they accused him of being a partisan Republican, citing

his campaign contributions s to GOP candidates such as Lezar.

D'Amato may relish the ' TV expo- sure. Lezar may want to aug igment his friend's investigation. B But as they say in Washington, it w would be wrong.

To open another set of Wl Whitewa- ter hearings would be carry ying coals to Newcastle:

● Judge Starr, a respecte ed jurist, can be counted on to tote hi is own load. He was able to join the ie investi- gation begun by Robert Fish ike with- out apparent turmoil or loss is of momentum.

● To conduct hearings pa arallel to the probe of an independent it counsel is to ape the Democrats, wit lth their propensity for piling on. It i is a waste of money and it obscu ures the reasons voters elected a Re epublican majority. They want a purpc oseful Congress that will rein in sp pending, reform welfare and chop aw way the excesses of the Great Societ ty. They don't want duplication, even n if they knew the hearings earlier this year had all the substance of a Stalin show trial.

● Were there no independent counsel, maybe hearings would be necessary. But here they are not. In addition, voters already have found the president wanting on ethical and personal questions. They expressed their doubts loudly last month.

To reopen the hearings is to follow the lead of the Democrats who began interminable Iran-contra hearings even after a national election showed the issue to be of little moment to most voters.

What information is coming out of the Starr investigation points to substance. The current Arkansas governor, Jim Guy Tucker, is said to be a target.

In the gray areas — Clinton's juggling of campaign funds, allegedly using minority set-aside programs for business ventures and Hillary Rodham Clinton's loaves-and-fishes miracle gains in the commodities market — the independent counsel is sure to comment.

If Congress isn't persuaded that the findings are conclusive, then — and only then — it should scratch its perfectly understandable itch.

Dick Williams is a veteran Atlanta commentator.

Atlanta Journal / Constitution

✓

172

Arkansas Democrat Gazette

Hubbell inquiry far from over, GOP says

BY TERRY LEMONS
Democrat-Gazette Washington Bureau

WASHINGTON — Congressional Republicans said Friday they will continue pursuing questions about former Associate Attorney General Webb Hubbell's connection to the Whitewater Development Corp. affair.

The *Arkansas Democrat-Gazette* reported Friday that Hubbell, a former Little Rock mayor, had reached an agreement with independent counsel Kenneth Starr to plead guilty to felony charges of mail fraud and tax evasion. The charges are in relation to alleged overbilling when Hubbell was a partner in Little Rock's Rose Law Firm.

Sen. Alfonse D'Amato, R-N.Y., said he still has questions about Hubbell, who resigned March 14 from the Department of Justice to devote time to the billing dispute with his former Rose colleagues.

• Starr hits close to Clinton circle with first target 18A
• D'Amato wants to know why investigator was taken off savings and loan case 18A

D'Amato will become the Senate Banking Committee chairman when Republicans take charge of Congress on Jan. 4. He has promised to pursue an expanded round of Whitewater hearings.

Incoming House Banking Committee Chairman Jim Leach, R-Iowa, told CNN that he

See HUBBELL, Page 19A

Hubbell

• Continued from Page 1A

wants Hubbell to appear before the committee.

"I can assume ... he will be called," Leach said.

Leach wanted to bring Hubbell before the committee earlier this year, but the move was blocked by outgoing Chairman Henry Gonzalez, D-Texas.

Leach said Hubbell's deal with Starr "underscores the seriousness of the Whitewater investigation."

"The actions of Mr. Hubbell and the Rose Law Firm will be the subject of proper review," Leach said.

Hubbell was a partner at the Rose firm with first lady Hillary Rodham Clinton. Hubbell, a close friend of President Clinton's, later was appointed as the Justice Department's third-highest official.

A lawyer familiar with Starr's investigation told The Associated Press on Friday that obtaining Hubbell's cooperation "on this and other matters has been the plan from the start."

Another lawyer said Starr is almost certain to delve into conversations Hubbell might have had about criminal cases related to the Whitewater affair. The source said Starr might use telephone records and calendars during Hubbell's Justice Department tenure to study the Clinton administration's actions.

Both lawyers spoke on condition of anonymity.

As part of a plea bargain, defendants routinely agree to cooperate with prosecutors. If the deal with Starr requires Hubbell to cooperate, it could open the door for a review of the Clinton administration's actions in the summer and fall of 1993 before the Whitewater affair gained much attention.

A Justice Department official said Starr has not yet requested phone records or calendars related to Hubbell's tenure there.

D'Amato said he is "still waiting" on a report from federal regulators on a Federal Deposit Insurance Corp. case relating to the Rose firm. The review was begun in February after complaints by D'Amato.

"They owe us that report," D'Amato said.

Rose billed the FDIC $400,879 for a case against Frost & Co., the Little Rock accounting firm that represented the failed Madison Guaranty Savings and Loan Association. Frost & Co. settled with the government for $1 million.

The FDIC initially ruled that Hubbell and the firm did not violate conflict-of-interest regulations even though it once had represented Madison. D'Amato demanded a new investigation, alleging that Hubbell did not make Rose's representation of Madison clear to the government.

Rep. Jay Dickey, R-Ark., who has known Hubbell for years, said he was shocked by reports about the felony counts.

"I hate the turn of events," Dickey said.

He said renewed attention on Whitewater-related issues "could hurt the image of our state again. I just want us to get to the bottom of this and move on."

Democratic members of Arkansas' congressional delegation could not be reached for comment.

White House officials said they would have no comment on Hubbell's situation.

Hubbell refused to answer questions when contacted by reporters while jogging outside his Washington home Friday morning. He is expected to enter his plea in U.S. District Court at Little Rock next week.

Sources said Starr had set Thursday as a deadline for Hubbell to accept the plea arrangement or face a broader indictment. As of Thursday morning, Hubbell continued to refuse the offer, made days earlier. Sources said he was concerned about the possibility of serving a prison sentence.

By the end of the day Thursday, facing an imminent indictment, he had changed his mind and signed the plea agreement, a law enforcement official said. The central element of the negotiations apparently concerned what sentence the government would recommend to the court.

Prosecutors declined to give any details.

Hubbell's friends in Little Rock reacted to the news of his impending plea with a mixture of sadness and disbelief.

"I am saddened by it and shocked," said Lamar Pettus, a Fayetteville lawyer and past president of the Arkansas Bar Association. "The message that I would like to give Webb is to tell him that he and his family are in my prayers."

Former Little Rock Mayor Lottie Shackelford, a vice chairman of the Democratic National Committee, said she was "very, very surprised" by Hubbell's situation.

David Hargis, a Little Rock lawyer, said there is "not a finer man" than Hubbell. Hargis said he was asked by Hubbell's friends to make a statement on the former associate attorney general.

"I ask this nation to demonstrate kindness and mercy to this gentle and wonderful man," Hargis said. "Nothing is to be gained from savage pontification. Webb Hubbell is a better man than any who would vilify him."

The Associated Press, The New York Times and Democrat-Gazette staff writers Pat Manson and Randy Lilleston contributed to this article.

✓

68

Hubbell's Plea Agreement May Yield Whitewater Clues

By Susan Schmidt
Washington Post Staff Writer

A decision by former associate attorney general Webster L. Hubbell to cooperate with the Whitewater independent counsel in exchange for reduced charges could help in a renewed effort to determine whether anyone at the White House, the Treasury Department or the Justice Department tried to derail a criminal investigation involving President Clinton.

Hubbell agreed to plead guilty to mail fraud and tax evasion in connection with his law firm billings, and final details of the plea agreement were being worked out yesterday, sources familiar with the negotiations said. If all goes as planned, a plea agreement would be filed in federal court in Little Rock, Ark., early next week.

The White House yesterday carefully distanced itself from Hubbell's legal problems. "This disposition, if it happens, doesn't concern either of the Clintons or Whitewater Development in any way," said a source close to the Clintons. "The reported charges are unrelated and arise out of Mr. Hubbell's personal billing procedures as an attorney in private practice in Little Rock before he came to Washington." Hubbell declined to comment yesterday.

HUBBELL, From A1

The terms of Hubbell's plea agreement, including the extent to which he will cooperate or can offer information, are not yet clear.

Independent counsel Kenneth W. Starr is reexamining contacts the White House had with other agencies in 1993 while a request for a criminal investigation that touched on the Clintons made its way through the Justice Department. Hubbell was the White House point of contact at the department and was running it early in the Clinton administration, a period when the Whitewater criminal referral sat stalled at the agency.

Starr is also actively investigating White House contacts with the Treasury Department over civil and criminal investigations that involved the Clintons. That issue was explored in a three-month grand jury probe by Starr's predecessor, Robert B. Fiske Jr., who found insufficient evidence to bring criminal charges.

The contacts were then the subject of two weeks of congressional Whitewater hearings this summer, in which Hubbell surfaced in a minor role. It has been widely known that Starr was reviewing the congressional testimony, but not that he has actively renewed the investigation.

In recent weeks, his staff has been reinterviewing some of those involved in the contacts controversy, sources said.

The cast of players includes many current and former top White House and Treasury officials. Among them at the White House are aides Bruce Lindsey, Thomas F. "Mack" McLarty, Harold Ickes and George Stephanopoulos. At Treasury, Deputy Secretary Roger C. Altman and general counsel Jean E. Hanson were forced from their jobs after the congressional hearings.

Attorneys for several of the principal players said they were not aware a new round of interviews is being conducted.

Hubbell's expected guilty plea early next week is only tangentially related to the central part of Starr's investigation into the Clintons' Arkansas finances, the failed Madison Guaranty Savings & Loan, and the Rose Law Firm, where Hubbell and Hillary Rodham Clinton were partners.

Hubbell's former Rose firm colleagues accused him of billing the firm and his clients for hundreds of thousands of dollars in phony expenses, including some to two federal agencies. After weeks of delicate negotiations, he agreed to plead guilty to one count each of mail fraud and tax evasion rather than face indictment. Under federal sentencing guidelines he could receive several years in prison without the possibility of parole, depending on the amount of losses detailed in the agreement.

The independent counsel, who has a broad mandate to investigate suspected wrongdoing, was already examining the legal work Hubbell and Hillary Clinton did for Madison when questions surfaced publicly in March about Hubbell's billing practices, prompting his abrupt resignation from the Justice Department.

One source who has been questioned said the independent counsel's staff is trying to figure out whether other Rose lawyers were similarly inflating their bills. The counsel's staff had time sheets for all Rose lawyers, the source said, and specifically asked about the practices of Hillary Clinton and former White House deputy counsel Vincent Foster, who committed suicide in July 1993.

Hubbell may be able to shed light on other aspects of the Rose firm's relationship with Madison. Starr's office and the Resolution Trust Corp. are looking into potential conflicts of interest concerning Hillary Clinton's representation of Madison before a state regulator appointed by her husband and Hubbell's subsequent representation of the RTC when it sued Madison's accountants. The federal government contends it did not know when it hired Hubbell that Rose previously represented Madison and that it only belatedly learned that Hubbell's father-in-law was an employee of a Madison subsidiary.

Hubbell and the U.S. attorney in Little Rock, Paula Casey, a Clinton appointee, are among those whose actions are being scrutinized by Starr in his examination of the criminal referral on Madison, which languished for a year at Justice and the U.S. attorney's office in Little Rock. Both recused themselves once the Whitewater matter surfaced publicly.

During the Whitewater hearings, former White House counsel Lloyd N. Cutler was asked about any contacts the White House may have had with Hubbell while he was at the Justice Department. Cutler testified that Bernard Nussbaum, his predecessor in the White House counsel's office, had a discussion with Hubbell about the appointment of a Whitewater counsel. He said Hubbell cut the discussion off quickly, reminding Nussbaum that he was recused from the case. At the Rose firm, one of Arkansas's most prestigious, Hubbell, Hillary Clinton and the Foster were partners, close friends and even invested money together. Hubbell is also a confidant and golfing companion of President Clinton.

A genial bear of a man, Hubbell was once a University of Arkansas football hero. He went on to become a big player in Arkansas legal and political circles, serving stints on the state Supreme Court and as mayor of Little Rock.

Until the allegations about his dealings with the RTC and his billing practices surfaced publicly during the past year, Hubbell's integrity was beyond reproach. He was the Rose firm's ethics officer, in fact, and was tapped by then-Gov. Clinton in the late 1980s to write the state ethics laws. In the Justice Department, where he quickly won friends, many career officials were incredulous at allegations against him.

Hubbell has remained in Washington since quitting his Justice post, doing consulting work out of an office provided by friends at the 19th Street merchant banking firm of G. William Miller & Co.

33

White House Apprehensive About Reports That Ex-Official Has Agreed to Plead Guilty

By STEPHEN LABATON
Special to The New York Times

WASHINGTON, Dec. 2 — White House officials expressed surprise and apprehension today about reports that Webster L. Hubbell, a close friend of President Clinton, had agreed to plead guilty to felony charges and cooperate with Whitewater prosecutors in their expanding investigation.

Bracing themselves for a new round of political criticism, the officials nonetheless said they did not believe the plea agreement would have any significant legal ramifications for the White House. They said Mr. Hubbell, once the No. 3 official in the Justice Department, did not have any incriminating information about either Mr. Clinton or Hillary Rodham Clinton.

"The disposition of this case, if true, does not concern either of the Clintons or Whitewater," said a close aide to the President. "The charges are totally unrelated and arise out of Mr. Hubbell's billing practices in Little Rock."

Privately, though, some officials expressed concern that the plea agreement would bring Whitewater back to the fore and that Republicans would point to it as another sign of a tarnished Presidency.

Congressional Republicans said Mr. Hubbell's decision had made Whitewater hearings next year imperative and that it was now inevitable that they would demand his testimony. "We had requested Hubbell as a witness last year and the majority turned us down," said Representative Jim Leach, the Iowa Republican who will head the House Banking Committee in January. "It can be expected that he will be called in 1995."

Senator Alfonse M. D'Amato, the New York Republican who will head the Senate Banking Committee, said the plea agreement "confirms the need for Congress to continue its investigation into the many unanswered questions concerning the Whitewater controversy."

Mr. Clinton has referred to Mr. Hubbell as his closest friend. He was also Mrs. Clinton's partner at the Rose Law Firm through the 1980's, a period now being examined by the Whitewater independent counsel, Kenneth W. Starr.

As it had on Thursday, Mr. Starr's office declined today to comment about the Hubbell investigation. Although Mr. Hubbell has agreed in principle to plead guilty to two felony counts, lawyers were described as still working on the wording of the formal plea agreement. Until it is formally completed, Mr. Starr's office did not want to make any comments that might jeopardize it or make Mr. Hubbell reconsider.

People involved in the investigation said Mr. Hubbell had agreed in principle to plead guilty to two counts rather than face an indictment with more counts and potentially stiffer penalties that Mr. Starr was prepared to seek on Thursday.

They said that Mr. Hubbell was expected to sign a plea agreement soon and that it would be entered in Federal court as early as next week. The plea that he agreed to sign would contain two felony counts related to phony expenses that he is said to have charged to the Rose firm. For months, he has been under investigation for reportedly overcharging his law firm and the Federal Government for its representation of regulators involved in a savings and loan case.

The charges contained in the draft indictment are only marginally related to the Arkansas real estate venture that has given the Whitewater inquiry its name. Some of the false billings under investigation are said to have involved work Mr. Hubbell did for Federal regulators examining Madison Guaranty Savings and Loan, the institution owned and operated by the Clintons' partner in Whitewater, James B. McDougal.

Mr. Starr has the authority to investigate any crimes arising out of the failure of Madison.

In recent months, Mr. Hubbell told friends and associates that the investigation only concerned a petty billing dispute between him and his former law partners, leaving some of those close to him shocked this morning on hearing that he would confess to two felony counts.

Friends of Mr. Hubbell said he had resisted the plea agreement for some time, apparently concerned about the potential jail time he faced. It remains unknown how the prosecutors will structure the plea and what potential sentence he now faces.

He has four children, two in college and two at private schools in Washington, and is described by associates as facing enormous legal bills that would have only grown at a trial.

He was placed at the Justice Department months before Janet Reno became Attorney General. Although he held the title of Associate Attorney General, the No. 3 position, in practice he was much more than that, acting as the conduit between the White House and the Justice Department on a wide array of sensitive and important matters.

Often characterized by the Administration's critics as a Mr. Fix-it, he was well-liked by career officials and political appointees within the Justice Department as a soft-spoken, easygoing person.

... NEW YORK TIMES, SATURDAY, DECEMBER 3, 1994

No Charges to Be Filed for Search of Clinton Files

By DAVID JOHNSTON
Special to The New York Times

WASHINGTON, Dec. 2 — The independent prosecutor investigating whether any Bush Administration officials acted illegally in the 1992 search of Bill Clinton's passport files said he would bring no charges in the two-year-old inquiry.

The prosecutor, Joseph diGenova, said on Thursday that he had completed his investigation and was finishing a report summarizing his findings, but he declined to discuss them. The report will be submitted to a panel of appellate judges who will decide whether to make it public.

Although Mr. diGenova, a former United States Attorney here, would not comment further on his findings, which were first reported today by The Louisville Courier-Journal, lawyers who have followed the case said the draft report is a searing rebuke of Sherman Funk.

Mr. Funk is the former Inspector General at the State Department who initially investigated the search of Mr. Clinton's passport files and concluded that Bush Administration officials had tried to embarrass Mr. Clinton before the election by digging into Government files to determine whether he had sought years earlier to renounce his citizenship.

The lawyers said Mr. diGenova's report concludes that Mr. Funk exerted pressure on his investigators to reach their conclusions quickly without adequately examining the facts and that he released a report two weeks after the election that proved to be sloppy and inaccurate. The lawyers also said that Mr. diGenova's report concludes that Mr. Funk's findings should have never been used as the basis for seeking a criminal inquiry.

Mr. Funk was quoted today by the Associated Press as saying he had "no choice" but to file the report with the Justice Department. William P. Barr, who was Attorney General at the time, sought the criminal inquiry, shortly before the independent counsel statute expired on Dec. 15, 1992.

In requesting an independent prosecutor, Mr. Barr cited Janet Mullins, a State Department employee who was the White House political director at the time that Mr. Clinton's files were searched, as the focus of scrutiny because of evidence that she had misled Mr. Funk's investigators about her role. The lawyers said today that Mr. diGenova concluded that Mr. Funk was wrong about her role.

State Department employees carried out the search late in the 1992 Presidential campaign after rumors began circulating that Mr. Clinton might have sought to renounce his citizenship when he was in England as a Rhodes scholar.

At the State Department, several mid-level political appointees ordered an expedited search, which found no evidence to support the rumors about Mr. Clinton. Mr. Funk concluded that the State Department employees had tried to hurt Mr. Clinton politically in the waning days before the election.

10

BC-CLINTON-HUBBELL

Clinton friend agrees to help Whitewater probers

NEW YORK, Dec 2 (Reuter) - A close friend of President Bill Clinton has agreed to cooperate with federal prosecutors investigating the first couple's failed investment in an Arkansas vacation resort called Whitewater, The New York Times reported on Friday.

Webster L Hubbell, named by Clinton as the number three official in the Justice Department two years ago, was forced to resign in March in connection with false billings he allegedly submitted to the government while in private practice with a Little Rock law firm in which Hillary Rodham Clinton was a partner.

The newspaper, quoting ``people familiar with the inquiry,'' said Hubbell, apparently concerned about serving a prison sentence, on Thursday signed a plea agreement in which he agreed to plead guilty to mail fraud and tax evasion in connection with the billings scandal.

It said his decision to cooperate with prosecutors was an embarrassment to Clinton, still reeling from last month's congressional election defeat at the hands of Republicans, who are now preparing broader Whitewater hearings.

The question of whether Clinton or his wife misused their influence when he was governor of Arkansas to promote their interests in the Whitewater investment has dogged them since his 1992 presidential campaign.

The charges against Hubbell, a close friend of the Clintons' for over 15 years, are the first against any administration official, current or former, related to Whitewater, the newspaper said.

The charges themselves are only tangentially related to Whitewater.

Some of the false billing involved work Hubbell did for federal regulators examininig a failed Arkansas savings and loan association, Madison Guaranty, owned by the Clintons' partner in the Whitewater venture, James McDougal.

Madison itself is a central focus of the Whitewater investigation, which seeks to determine if the savings institution made improper payments to either the Whitewater Development Corporation venture or Clinton's campaigns for governors.

REUTER

**** filed by:RB--(--) on 12/02/94 at 11:57EST ****
**** printed by:WHPR(JEL) on 12/05/94 at 08:10EST ****

AM-BRF--Mrs Clinton-Arts,190

First Lady Calls For Continuing Federal Funding of Arts

WASHINGTON (AP) Federal funding for the arts and humanities is like yeast because ``it helps grow the local and state support,'' first lady Hillary Rodham Clinton said Friday.

Mrs. Clinton addressed a meeting of the President's Committee on the Arts and the Humanities, of which she is honorary chair. She talked about the uncertainty of arts funding under the new Republican-controlled Congress.

``I hope that each of us will take seriously the challenge that will confront support for the arts,'' she said.

John Brademas, chairman of the committee, echoed her concerns.

``We have all read about the threats to the very concept of federal support, which has been part of our system for almost 30 years now,'' Brademas said. ``Let's remember that there is a lot that we do not know about the new Congress' priorities. Let us also remember that there is a vast network across the country of artists, scholars, cultural organizations and citizens who benefit from these programs and will be willing to tell their senators and representatives about these benefits.''

**** filed by:APE-(--) on 12/02/94 at 14:54EST ****
**** printed by:WHPR(JEL) on 12/05/94 at 08:10EST ****

AM-Hubbell Friend,440
Lawyer Friend Says Hubbell `Loving, Humane, Compassionate'
pyphhkfon

LITTLE ROCK (AP) A lawyer friend of Webster Hubbell, the former No. 3 man in the U.S. Justice Department, said Friday that ``there is not a finer man'' than Hubbell.

Hubbell, 46, reportedly will plead guilty to federal felony charges of mail fraud and tax evasion, possibly involving overbilling while he was at the Rose Law firm in Little Rock.

A former law partner of first lady Hillary Rodham Clinton, Hubbell has been under investigation by Kenneth Starr over allegations that he overbilled legal clients, including the Federal Deposit Insurance Corp.

The charges are expected to come in Starr's ongoing Whitewater investigation, a source close to the investigation has told The Associated Press.

Hubbell, a former Arkansas Supreme Court chief justice and former Little Rock mayor, has not commented on the possible charges. He resigned March 14 as associate attorney general amid disclosures that his billings as a private lawyer were being questioned.

David Hargis, a Little Rock lawyer, said Friday that he's been asked by numerous friends of Hubbell's to make a statement in support of him. Hargis stressed that he doesn't know if the news accounts are true that Hubbell plans to plead guilty.

But ``I ask this nation to demonstrate kindness and mercy to this gentle and wonderful man,'' Hargis said. ``Nothing is to be gained from savage pontification. Webb Hubbell is a better man than any who would villify him.''

Hargis was a classmate of Hubbell's at the University of Arkansas and played on the Razorback football team with Hubbell. Hargis and Hubbell put out the Arkansas Law Review together and the two have been friends since 1966.

Hargis continued, ``There is not a finer man, there is not a more loving, humane, and compassionate man. Whatever his decisions may be, we stand anchored beside him. The world must understand that behind his massive bulk, stands the most sensitive man. And as he walks through hell which he will do and as I have seen him do before he will deeply feel the agony, though he may not show it.''

The wide-ranging Whitewater investigation has included questions surrounding the business activities of Gov. Jim Guy Tucker and President Clinton when Clinton was governor of Arkansas, as well as the failed Madison Guaranty Savings and Loan Association and its owner James McDougal of Arkadelphia.

**** filed by:APW-(AR) on 12/02/94 at 17:27EST ****
**** printed by:WHPR(JEL) on 12/05/94 at 08:09EST ****

bc-pols-damat
D'AMATO EAGER TO FLEX MUSCLE
By JOHN MACHACEK=
Gannett News Service=
WASHINGTON It's payback time for Alfonse D'Amato.

Flexing his muscle as incoming chairman of the Senate Banking, Housing and Urban Affairs Committee, the New York Republican is moving to reopen the GOP-driven Whitewater hearings that were restricted by Democrats last year.

No matter that a CBS poll last week showed nearly two-thirds of Americans believe further hearings unnecessary. For D'Amato, there must be a full accounting of the Clinton administration's actions involving a failed Arkansas savings and loan owned by a former associate of Bill and Hillary Clinton.

D'Amato also says he'll push the Senate to investigate the Justice Department now that a federal appeals court has reversed the mail-fraud conviction of his brother, Armand.

``I had to be quiet (during a five-year Justice Department prosecution of his brother). I had to endure ... having all that thrown at me. Who gives you back your reputation?'' D'Amato said in an interview this week. ``I may reveal what I know to be a horrible political prosecution.''

D'Amato was not charged in the case. But he was rebuked after a Senate ethics probe concluded he had improperly allowed his brother to use his Senate office in connection with the charges. The probe cleared D'Amato of other influence-peddling charges brought by political opponents in the late 1980s.

Today, D'Amato feels vindicated on all fronts.

Last month, New York elected its first Republican governor in 20 years, despite GOP concern during the campaign that D'Amato's past problems were a liability for Gov.-elect George Pataki.

New York City Mayor Rudolph Giuliani once a potential threat to D'Amato's leadership of the state Republican party, has become a GOP outcast for endorsing Mario Cuomo the defeated Democratic incumbent.

Over Thanksgiving weekend, D'Amato and his allies ousted state Senate Majority Leader Ralph Marino, the Long Island Republican who worked to block Pataki's nomination. One of their own, state Sen. Joseph Bruno of the Albany area, is the new majority leader.

``My perfect trifecta,'' D'Amato said after Election Day of the Republican takeover of Congress, Pataki's victory and the overturning of his brother's fraud conviction in late October.

The victories kept coming this week. Friday, D'Amato was elected chairman of the National Republican Senatorial Campaign Committee, which raises money and provides advice for Republican candidates. The position gives him a voice in the Senate GOP leadership group.

Next week, he expects to be formally installed as Senate banking committee chairman. The panel oversees banking, the financial services industry, housing and urban programs.

In the interview, D'Amato said that while Whitewater tops his agenda he wants to restart hearings as quickly as possible one of his other priorities is giving the ``working poor'' a greater chance at homeownership.

He said he had asked his staff to ``revisit'' the issue of finding alternatives to public housing projects while promising to ``protect'' current low income housing subsidies from the GOP budget cutting axe.

D'Amato has ruled out trying to revive former Housing and Urban Development Secretary Jack Kemp's program to help people living in public housing buy their homes a program declared unworkable by the Clinton administration but mourned by other conservatives.

But he said he favors ``reform and consolidation'' of existing HUD programs to give states and localities more leeway in spending available federal housing funds for subsidizing downpayments and mortgage interest for low income families who want to buy homes.

``If we think this election was a vote for change and I think it was it was a vote for less government bureaucracy and more independent initiative,''

D'Amato said.

On other banking issues, D'Amato:

Called for greater protection for mutual fund investors, especially senior citizens, who mistakenly believe that securities purchased from a federally insured bank carry federal guarantees. ``I don't want to regulate, but we want proper disclosure'' on risky products, he said.

Said he wouldn't try to cap credit card interest rates a proposal he made three years ago when banks uniformly raised rates even though the cost of money was down. ``There is more competition now and banks are maintaining rates notwithstanding the fact that the cost of money is going up,'' he said.

Applauded interest rate hikes by the Federal Reserve Board. D'Amato was the only banking committee member to oppose Fed chairman Alan Greenspan's renomination a few years ago. ``That was because he was raising rates while the economy was flagging; the real estate industry was in total collapse and he exacerbated it,'' D'Amato said. ``Now we have ... real signs of inflation.''

Distanced himself a little from the House GOP's ``Contract with America.'' He favors a ``modest cut'' in the capital gains tax, increased tax credits for children and families, and tax deductions for the self-employed. But he seemed to oppose drastic cuts in spending that the House GOP would have to make to pay for contract proposals.

``We should shrink the deficit by not getting into new government programs,'' he said. ``We'll see if we have the courage.''

But D'Amato said he is still ``Senator Pothole'' willing to bring home the bacon for his state. ``I'll do everything and anything possible to protect the interests of the state.''

**** filed by:GN-F(--) on 12/02/94 at 17:48EST ****
**** printed by:WHPR(JEL) on 12/05/94 at 08:09EST ****

AM-CA--McDougal Plea,270
Whitewater Figure Pleads Innocent to Embezzlement
tplossdlda

SANTA MONICA, Calif. (AP) A key figure in the Whitewater affair pleaded innocent Friday to charges she embezzled money while working as a bookkeeper for symphony conductor Zubin Mehta.

Susan McDougal is accused of forging checks and making unauthorized credit card purchases while working for former Los Angeles Philharmonic conductor Mehta and his wife, Nancy.

Ms. McDougal faces one count of grand theft with a special allegation that it involved more than $150,000; one count of check forgery; three counts each of fraudulent use of credit cards and income tax evasion; and two counts of making false financial statements.

If convicted, she faces a maximum seven-year prison sentence, said Deputy District Attorney Jeffrey Semow.

A pre-trial hearing was set for Jan. 12, Semow said.

Ms. McDougal and her ex-husband, James McDougal, were partners with President Clinton and Hillary Rodham Clinton in the Whitewater real estate investment.

The investigation into the Whitewater matter is expected to intensify next month when Republicans take over Congress.

Leonard Levine, Ms. McDougal's lawyer, has said his client's problems with the former conductor stem from a falling-out with Nancy Mehta.

Ms. McDougal claims the expenditures were agreed-upon overtime payments for added responsibilities she took on as bookkeeper.

Among the credit card bills in dispute are trips Ms. McDougal took to Arkansas and Texas, one of which included a $9,000 shopping spree.

**** filed by:APW-(CA) on 12/02/94 at 23:40EST ****
**** printed by:WHPR(JEL) on 12/05/94 at 08:09EST ****

PM-Whitewater,560
Hubbell Plea Bargain Poses Intriguing Prospect for Prosecutors
By PETE YOST= Associated Press Writer=

WASHINGTON (AP) Planning to delve into possible political interference by the Clinton administration, prosecutors in the Whitewater affair are interested in talking to their latest catch former Justice Department official Webster Hubbell.

They want to know about any conversations Hubbell, who was associate attorney general, might have had about two criminal cases that spawned Whitewater, say two lawyers familiar with the investigation by prosecutor Kenneth Starr.

Obtaining Hubbell's cooperation ``on this and other matters has been the plan from the start,'' said one of the lawyers.

Hubbell has agreed to admit to mail fraud and tax evasion, a source close to the investigation told The Associated Press on Thursday. The charges appear to stem from allegations he overbilled clients and his former firm as a private lawyer. As part of a plea bargain, defendants routinely agree to fully cooperate with prosecutors.

According to the two lawyers, speaking on condition of anonymity, Starr plans to find out whether the U.S. attorney's office in Little Rock, Ark., was interfered with when it handled:

Criminal allegations by the Resolution Trust Corp., the government's S&L cleanup agency, about the failed Madison Guaranty Savings & Loan Association, an Arkansas firm once owned by the Clintons' Whitewater business partners. Hubbell and Hillary Rodham Clinton were partners at the Rose Law Firm in Little Rock, which at one time did legal work for Madison Guaranty.

The case against former municipal judge David Hale, who repeatedly told prosecutors that he had information linking President Clinton to an improper federally backed loan.

What is drawing the prosecutors attention: U.S. Attorney Paula Casey in Little Rock is a former Clinton campaign worker and her office in the fall of 1993 brushed aside Hale's allegations touching on the Clintons.

In March, after the Whitewater affair erupted and a special prosecutor was appointed, Hale became a cooperating witness, pleading guilty to a pair of felonies in exchange for his information about Arkansas politicians.

Hale is talking to the Whitewater prosecutor on a range of subjects including a $300,000 federally backed loan to one of the Clintons' Whitewater partners that was never paid back. Hale said he was pressured by Clinton to make the loan.

One of the two lawyers suggested prosecutors might use telephone records and calendars during Hubbell's Justice Department tenure as a road map to examining whether the Clinton administration interfered in the two probes.

Hubbell resigned in March.

The fall of a close friend is yet another blow to a Clinton administration already facing a Whitewater onslaught from Capitol Hill when Republicans take over Congress in January.

A key congressional Republican, Rep. Jim Leach of Iowa, said the news about Hubbell ``underscores the seriousness of the Whitewater investigation.''

``The actions of Mr. Hubbell and the Rose Law Firm will be the subject of proper review'' by Congress ``at the proper time,'' added Leach, who likely will chair the House Banking Committee.

And Sen. Alfonse D'Amato, R-N.Y., who will head the Senate Banking Committee, said the ``apparent guilty plea of Webb Hubbell confirms the need for Congress to continue its investigation into the many unanswered questions concerning the Whitewater controversy.''

**** filed by:APE-(--) on 12/03/94 at 00:51EST ****
**** printed by:WHPR(JEL) on 12/05/94 at 08:08EST ****

Hubbell to plead guilty

WASHINGTON, Dec. 2 (UPI) Former Justice Department official Webster Hubbell has agreed to plead guilty to two felony counts and will cooperate with prosecutors investigating the Whitewater affair, The New York Times reported Friday.

Hubbell agreed to plead guilty to mail fraud and tax evasion in connection with false billings he submitted to the government when he was in private practice with the Rose law firm in Little Rock, Ark., the same firm where Hillary Rodham Clinton was a partner, the newspaper said.

Hubbell, a close friend of President and Mrs. Clinton, resigned his post as the No. 3 official in the Justice Department in March.

The charges against Hubbell are indirectly related to Whitewater, the Arkansas real estate venture in which the Clintons invested. Some of the alleged false billings covered work for federal regulators examining a failed Arkansas thrift, Morgan Guaranty, owned by James McDougal, the Times reported.

McDougal was the Clintons' partner in the Whitewater venture.

The charges are the first brought against any official stemming from the Whitewater probe and the first brought by special prosecutor Kenneth Starr, who took over the investigation in August.

The Times reported that Whitewater investigators had been looking to see whether Hubbell played any role in the Justice Department's handling of criminal referrals made by savings regulators about Morgan Guaranty. The failed savings and loan eventually cost the government $60 million.

The Whitewater investigation has been looking into whether Madison Guaranty was used to funnel improper payments to either the Whitewater land venture or to Clinton's campaigns when he ran for governor of Arkansas.

**** filed by:UPI-(us) on 12/03/94 at 13:22EST ****
**** printed by:WHPR(JEL) on 12/05/94 at 08:08EST ****

the Democratic dominance of the South. The first cracks came in presidential elections with Barry Goldwater and Richard M. Nixon. During the past 30 years, the GOP has slowly but steadily translated that re-alignment down the ballot, finally achieving a massive breakthrough in November, when white Southern antipathy toward President Clinton propelled the GOP to gains of 19 House and three Senate seats across the eleven states of the Confederacy plus Oklahoma and Kentucky. Fully two-thirds of Southern whites voted Republican in the midterm election, exit polls found.

Today, with 73 representatives, Southern Republicans both outnumber Southern Democrats in the House and constitute the largest geographic block of Republicans.

To the extent the new Southern Republicans reflect racial divisions, it is in the manner of conservatives from other regions: partly in their hard-line positioning on racially tinged ``wedge" issues such as crime and welfare, but even more importantly in their hostility toward taxes and government spending. Those attitudes reflect the priorities of white suburban constituents, who see themselves reaping little benefit from government programs and believe that taxes too often redistribute income from those who work to those who do not.

``They represent the current generation of winners in American life," said Emory University political scientist Merle Black.

(Begin optional trim)

From that perspective, the Southern Republicans by and large bring to policy debates an intuitive hostility toward virtually all forms of government activity, except defense spending and some middle-class entitlements. If the Northern- and Midwestern-dominated GOP of earlier years mostly sought to resist the expansion of government, the Southern-flavored Republican Party of the 1990s wants actively to tear down government.

``We have seen the growing voter shift in attitude more clearly than most Americans because the change in our part of the country has been more stark," Gramm said. ``We believe the American people want a fundamental change in government."

The aggressive anti-government agenda of Gramm, Gingrich and Armey may provoke clashes with throwback GOP moderates from other regions who are more cautious about slashing spending and dismantling the social safety net, including Hatfield; his Oregon colleague Bob Packwood, who will chair the Senate Finance Committee; Kansas Sen. Nancy Landon Kassebaum and perhaps Dole himself.

But these regional differences are less pronounced among younger Republicans, who both in approach and ideology model themselves more on Gingrich and Gramm than Dole, notes one House GOP leadership aide.

Glaser Dies of AIDS (Los Angeles)

By Burt A. Folkart=

(c) 1994, Los Angeles Times=

LOS ANGELES Elizabeth Glaser, whose agonizing story of how she and her two children became infected with AIDS brought a tearful silence to the floor of the 1992 Democratic presidential convention, died Saturday.

Glaser was 47 when she died of AIDS complications at her Santa Monica, Calif., home, said Carol Pearlman, an associate at the Pediatric AIDS Foundation which Glaser helped found.

The wife of actor Paul Glaser (of ``Starsky and Hutch" fame) and mother had in the five years since she first disclosed her tragedy to the Los Angeles Times become an unlikely but highly visible lobbyist in the international battle against the disease that eventually claimed her.

She told The Times that her family's nightmare had begun in 1981, when she was nine months pregnant with Ariel, her first child.

She was hemorrhaging and was taken to a Los Angeles hospital where she received seven pints of blood. The baby was delivered successfully.

In 1985 Ariel became seriously ill, and

didn't respond to treatment. The girl and her family were finally tested for human immunodeficiency virus. Glaser tested positive, and it was determined she had passed the virus to Ariel through her milk. She also had transmitted the virus to her second child, Jake. Her husband was the only family member who remained uninfected.

After her daughter's death, Glaser knowing that her privacy was at risk went to Washington and cornered congressional representatives seeking help to both fight the AIDS battle and raise the public's consciousness about who was at risk.

She had set up meetings with Ronald and Nancy Reagan, Barbara Bush, Kitty Dukakis, Surgeon General C. Everett Koop and Barbara Bush.

She concluded that Washington wasn't doing enough.

Glaser turned to newfound friends in Congress; subsequently, the budget for pediatric AIDS was raised from $3.3 million to $8.8 million.

She also co-founded the Pediatric AIDS Foundation with Susan DeLaurentis and Susan Zeegen, and helped raise millions for care and treatment of young AIDS victims. In eight months she had acquired $2.2 million to finance 40 research grants.

In 1992, after countless personal appearances and pleas for assistance, she was asked to share the Democratic platform in New York with a gay man who also was a Clinton aide Bob Hattoy. He too had the AIDS virus.

They followed Jimmy Carter and Jesse Jackson to the podium and after the soaring political rhetoric of those two national leaders an uneasy quiet began to settle over the delegates.

``Exactly four years ago," Glaser told them, ``my daughter died. She did not survive the Reagan administration. I am here because my son and I may not survive another four years of leaders who say they care but do nothing."

The silence captured on national television continued as both victims spoke.

``She taught me to love," Ariel's mother said of her little girl, ``when all I wanted to do was hate; she taught me to help others when all I wanted to do was help myself."

Glaser born Elizabeth Meyer in New York City held a degree in psychology from the University of Wisconsin and a master's degree in early childhood education from Boston University.

She had been a Head Start teacher in Denver and then taught at the Center for Early Education in Los Angeles before being named director of programs and exhibits at

Vover

the Children's Museum in Los Angeles.

She met the man who was to become her second husband in 1980 when he was one of the best-known TV actors in the country and they married that same year.

Both remained dedicated to each other throughout their years long travail, him saying in 1989 that ``we have grown up a helluva lot. It was either grow up or perish."

``Lesser men would have walked," she said very simply of him. ``He didn't (even) flinch."

In September, in one of her final public appearances, Glaser had returned to New York for a benefit for her Pediatric AIDS Foundation. Weak and emaciated, she received a presidential citation from Hillary Clinton.

Services will be private with a memorial service pending.

D'Amato to Press Reopening of Whitewater Investigation (Washn)
By Elizabeth Shogren=
(c) 1994, Los Angeles Times=

WASHINGTON Signaling his intention to move aggressively in reopening the Senate's Whitewater investigation, the prospective chairman of the Senate Banking, Housing and Urban Affairs Committee said Saturday he plans to hold hearings on the issue as soon as late January or early February.

Sen. Alfonse M. D'Amato, R-N.Y., who as chairman of the banking panel would be the Senate's chief Whitewater investigator, said he is inclined to create a special subcommittee which he would chair to handle the Whitewater probe. By doing so, he said, senators who are not members of the banking panel also could participate.

The Whitewater affair has been a nagging embarrassment for President Clinton since early in his term and is likely to become even more so now that Republicans have assumed control of Congress.

In an early indication of the high priority D'Amato places on Whitewater, he and six other Republicans on the banking panel wrote to Whitewater prosecutor Kenneth W. Starr last week asking him to investigate whether senior White House aides George Stephanopoulos and Harold M. Ickes lied during Whitewater-related testimony before Congress last summer.

While he has yet to receive a response from Starr, D'Amato said testimony given during depositions and at Senate hearings raise questions about the ``truthfulness" of the two men. D'Amato, speaking on CNN's ``Evans & Novak" program, said his first priority will be to hold hearings on the handling of Whitewater-related documents that were removed from White House Deputy Counsel Vincent Foster's office after he committed suicide in July 1993.

``There were allegations that some may have been destroyed or shredded or sent to various places and were under control of the White House personnel and maybe even (first lady Hillary Rodham) Clinton," D'Amato said. ``We have not finished and completed that task, and that is what we're going to start with."

Acknowledging that he would need Starr's approval before undertaking such a probe, D'Amato said he intends to meet with the prosecutor on the subject soon. Starr's predecessor in the Whitewater case, special counsel Robert B. Fiske Jr., had asked Congress to refrain from holding hearings on that issue and other Whitewater matters under investigation.

While the House is seen as the likely body to take the lead on many conservative priorities in the new Congress such as welfare reform, tax cuts and a presidential line-item veto D'Amato is expected to move more swiftly than his counterpart, moderate Rep. Jim Leach, R-Iowa, who is expected to head the House Banking, Finance and Urban Affairs Committee.

The Whitewater Development Corp. was a failed Ozark real estate project jointly owned by James B. McDougal and then-Arkansas Gov. Clinton and his wife. The central focus of the Whitewater inquiry is whether either Clinton or his campaign were improperly enriched by money from the now-defunct Madison Guaranty Savings & Loan, which McDougal also owned. The inquiry spread to questions of propriety in the Clinton administration's subsequent handling of the affair.

(Optional add end)

Meanwhile, Starr's office is expected to make Whitewater-related announcements early this week in Little Rock, Ark.

One is likely to be the official confirmation of a plea bargain with former Associate Attorney General Webster L. Hubbell, a close friend and golfing partner of the president and a former law partner of Hillary Clinton. Late last week, sources said Hubbell had agreed to plead guilty to two felony charges of tax evasion and mail fraud arising from the investigation, making him the first major political figure to be snared in the probe.

D'Amato said Saturday that he suspected that Hubbell had been involved in obstructing the inquiry while he was at the Justice Department.

The senator said if Hubbell has agreed to cooperate with the investigation in the plea agreement, it ``doesn't bode well for the White House."

While expressing his determination to be thorough, D'Amato stressed that his committee would not be a renegade outfit. ``We're going to look to cooperate with the special counsel," he said.

He declared that he would not pursue a re-examination of the circumstances surrounding Foster's death, as some Republicans had requested. D'Amato said he does plan, however, to bring Paula Casey, a former campaign worker whom Clinton hired as a U.S. attorney in Little Rock, before his Senate panel.

Sen. Arlen Specter, R-Pa., recently charged that Casey was appointed specifically to derail the Whitewater investigation.

``I think her conduct was bizarre at the least," D'Amato said of Casey, who has resigned her post.

In other matters, D'Amato said he also would push for early passage of a cut in the capital gains tax and would support Federal Reserve Chairman Alan Greenspan's policy of increasing interest rates to control the growth of the economy and inflation a policy that has come under attack by Democrats on the committee.

Though ``Unacceptably High," U.S. Crime Rate Drops Slightly (Washn)
By Robert L. Jackson=
(c) 1994, Los Angeles Times=

WASHINGTON While it still remains ``unacceptably high," serious crime in the first six months of 1994 fell by 3 percent nationally from the same period last year, the FBI said Saturday.

The semi-annual decline followed annual decreases of 2 percent in 1993 and 3 percent in 1992.

Federal officials offered no explanation for the trend nationally or locally and cautioned against too much optimism.

``Any decline in reported crime is welcome, but the level of crime is still unacceptably high and it must be substantially reduced," said a statement accompanying the report.

Gerald M. Caplan, a former federal law enforcement official who is dean of the McGeorge School of Law in Sacramento,

THE WASHINGTON POST SUNDAY, DECEMBER 4, 1994

Starr to Release Details Of Hubbell Plea Bargain

By Susan Schmidt
Washington Post Staff Writer

Whitewater independent counsel Kenneth W. Starr plans two announcements this week to detail plea agreements he has reached with former associate attorney general Webster L. Hubbell and an appraiser who did work for the failed Arkansas savings and loan that is at the center of Starr's investigation.

Starr's office announced yesterday that it would issue statements Monday afternoon and Tuesday afternoon in Little Rock. The office provided no further information.

Sources said one of the announcements will be Hubbell's decision to plead guilty to one count each of mail fraud and tax evasion, an agreement finally concluded in detail Friday after weeks of negotiation. Sources said the other announcement by the independent counsel will concern a plea bargain with an appraiser who did work for Madison Guaranty Savings & Loan association.

Criminal charges are expected soon against other Madison figures, sources said. Starr is continuing his investigation.

Madison's owner, James B. McDougal, was President and Hillary Rodham Clinton's business partner in the Whitewater real estate venture. Madison, Whitewater and the Rose Law Firm, where Hubbell and Hillary Clinton were partners, are central elements in Starr's investigation.

Starr's investigation of McDougal, the Clintons and Arkansas Gov. Jim Guy Tucker, a major Madison borrower, is continuing.

The allegations against Hubbell concern his billing practices while he was at the Rose firm, before his arrival in Washington with the Clinton administration in early 1993. His former partners have accused him of billing the firm and his clients—including two federal agencies—for hundreds of thousands of dollars in phony expenses.

Depending on the amount of losses detailed in the plea bargain, Hubbell could be sentenced to several years in prison under federal mandatory sentencing guidelines. He apparently has agreed to cooperate with Starr's investigation.

Sen. Alfonse M. D'Amato (R-N.Y.), who will be chairman of the Senate Banking Committee in the next session of Congress, said yesterday that Hubbell's decision "doesn't bode well for the White House."

But D'Amato, appearing on CNN's "Evans and Novak" said he hopes to hold hearings soon on Whitewater but that he would not call Hubbell as a witness without consulting Starr. He said the hearings would concentrate on the way officials handled papers relating to Clinton's Whitewater investments that were taken from deputy White House counsel Vince Foster's office after his suicide in July 1993.

"There were allegations that some [documents] may have been destroyed or shredded or sent to various places and were under control of the White House personnel and maybe even Mrs. Clinton," D'Amato said.

Burned in the Capital's Hot Sun

By JEFF GERTH

WASHINGTON

WEBSTER L. HUBBELL once was the epitome of power and probity in Little Rock, whether it was briefly heading the Arkansas Supreme Court or drafting an ethics law for his close friend the Governor, Bill Clinton. After Mr. Clinton was elected President in 1992 Mr. Hubbell continued his role as his ethical gatekeeper, quietly screening Cabinet nominees.

When Mr. Hubbell and three other senior partners left the Rose Law Firm to join the Clinton Administration it seemed like a natural transition, from state capital to nation's capital, and a new era, the Washingtonization of the Rose firm. No one could have foreseen the perils that lay ahead. No one could foresee that lives would be tainted, even ruined, and that the firm itself would be put under a cloud.

Last week Mr. Hubbell agreed in principle to plead guilty to two felony charges, tax evasion and mail fraud, stemming from his financial dealings with the firm, according to people familiar with the case. What started out as a billing dispute over hundreds of thousands of dollars between the firm and Mr. Hubbell eventually became part of the Whitewater affair, the highly visible inquiry by the independent counsel Kenneth Starr into the financial dealings of the President and his wife.

It is perhaps illuminating to contrast the way this matter is ending with the firm's last sensitive internal dispute, in 1988. That case, which Mr. Hubbell helped to resolve, ended when the firm's managing partner left and Federal regulators reached a still-sealed, confidential agreement with the firm. Rose and its insurer paid $3 million to the Government to settle conflict-of-interest charges in connection with the failure of a savings and loan.

The current management of the Rose firm, the lawyers who eventually decided to press charges against Mr. Hubbell, replaced a generation of leaders who departed with the election of Bill Clinton: Hillary Rodham Clinton, Mr. Hubbell, who became third in command at the Justice Department, and two top litigators, Vincent W. Foster and William H. Kennedy 3d, who became White House lawyers.

Despite these losses the firm seemed poised by 1993 to capitalize on its new stature and confident about its prospects. It gave a lavish party in Washington at the time of the inauguration, opened a new office in the capital and even turned down some foreign countries that had sought representation.

The Clinton Presidency was just six months old when Mr. Foster, who was deputy White House counsel, committed suicide. A note he left behind about Washington's harsh spotlight left scars among his friends in Washington and Little Rock.

Soon after taking office, both Mr. Foster and Mr. Kennedy had become enmeshed in efforts, later much criticized, to overhaul the White House travel office. Mr. Kennedy was reprimanded by the White House because his decision to bring in the Federal Bureau of Investigation created the perception that the law-enforcement agency was being used for political purposes.

Once Mr. Hubbell was in place as Associate Attorney General, a job he held for about a year until he resigned early this year, Mr. Kennedy took over some of the responsibilities of screening Administration candidates for ethical concerns.

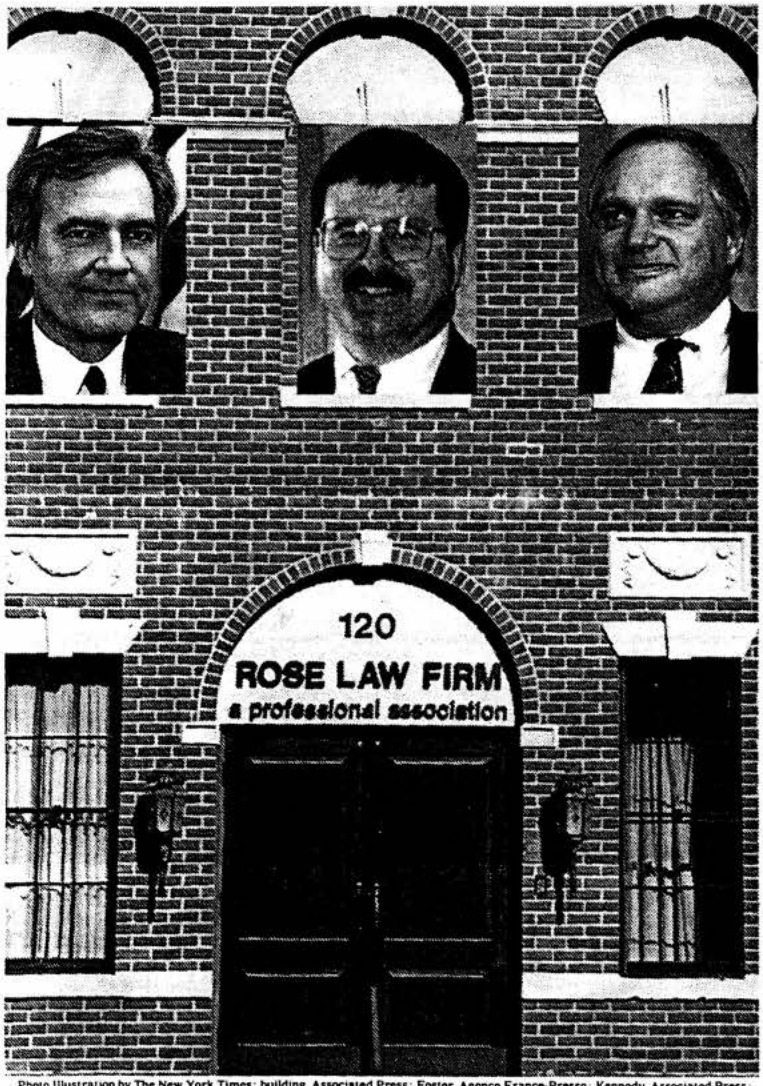


Photo Illustration by The New York Times; building, Associated Press; Foster, Agence France-Presse; Kennedy, Associated Press; Hubbell, Jose R. Lopez/The New York Times

The Rose Law Firm in Little Rock, Ark., where Vincent W. Foster, left, William H. Kennedy 3d and Webster L. Hubbell, right, had their early successes.

Arkansas Travelers

Mr. Clinton's Cabinet faced few public hurdles during the confirmation process, but the adequacy of disclosures by the Secretary of Housing and Urban Development, Henry G. Cisneros, is now under review by the F.B.I. Mr. Hubbell is the lawyer who screened Mr. Cisneros.

Mr. Kennedy's responsibilities for screening appointees were eventually removed, and he quietly left the White House last month to return to Little Rock.

About the same time, the Rose firm told reporters it was closing its small office in Washington. The Washington office never grew into the profit center that was envisioned but, ironically, it played a small role in the legal problems that still haunt the firm.

Since the firm had a Washington office, Federal regulators had a basis to sue in the capital, where Federal investigators felt more comfortable, rather than in Little Rock, to obtain the sensitive list of the law firm's clients dating back to the mid-1980's. The regulators, under pressure from Congress, are looking into possible conflicts of interest between the firm's work for the Government and its work for savings and loan institutions.

OVER

27

AM-AR--Tucker-RTC, Ark Bjt,310
RTC Appeal of Tucker Subpoena in Federal Appeals Court= jslid
By The Associated Press=

Written arguments are due next month in the Resolution Trust Corp.'s effort to subpoena financial records from Arkansas Gov. Jim Guy Tucker.

The RTC has challenged a ruling in U.S. District Court in Washington that blocked enforcement of the subpoena. The federal agency in charge of the savings and loan bailout wants information from Tucker about his dealings in 1980 with Jim McDougal, as well as information on Tucker's personal finances.

In October, Tucker's lawyers successfully argued that the RTC does not have authority to enforce a subpoena in the Washington circuit for a case involving alleged activities in Arkansas.

``The court may reach parties like Tucker, who live outside the jurisdiction, only if it is authorized to do so by federal statute, the local long-arm statute or the federal rules of civil procedure,'' U.S. District Judge Harold Green wrote.

The federal statute does not explicitly give the RTC power to issue a subpoena in one circuit court aimed at someone who lives in another circuit, Green said.

The RTC has appealed to the U.S. Court of Appeals for the District of Columbia.

The RTC issued similar subpoenas to McDougal. Green ordered enforcement of those subpoenas because McDougal did not challenge them in court.

McDougal owned Madison Guaranty Savings and Loan in Little Rock, which failed in 1989. His activities are part of the Whitewater special counsel's investigation. Tucker had business dealings with Madison and McDougal in the 1980s.

Bill and Hillary Rodham Clinton were partners with McDougal and his then-wife, Susan, in the Whitewater Development Corp., which owned a residential development along the White River in Marion County.

**** filed by:APW-(AR) on 12/04/94 at 13:14EST ****
**** printed by:WHPR(JEL) on 12/05/94 at 08:07EST ****

BC-GL-WARSH-COL
The Boston Globe David Warsh Column
By David Warsh, The Boston Globe Knight-Ridder/Tribune Business News

Dec. 4--The troublesome matter known as Whitewater is heating up again. Former Associate Attorney General Webster Hubbell is expected to plead guilty to a couple of felony counts of fraud next week, as the special prosecutor zeroes in on the Rose Law Firm, in which both he and Hillary Rodham Clinton were partners. As the Republicans take over Congress, it's worth thinking for a moment about where this thing is headed.

The bad news is that there is a common thread running through several seemingly unrelated stories with Little Rock datelines. Each episode has to do with the temptations periodically put before the Clintons, usually Hillary Rodham Clinton, by some of the more ambitious citizens of her home state.

Quite aside from the mechanisms of paying for their periodic political campaigns, it is clear that the first family of Arkansas -like first families everywhere - was occasionally offered opportunities not entirely on the up and up.

The good news is that the picture that has emerged so far is one of two fundamentally honest people operating in a pretty yucky environment. Tchicken industry, in the bond business, in real estate development and nursing homes - who would have been pleased to find a way to put some money in their pockets in hopes of eliciting future favors.

But as each new opportunity was presented, the Clintons seem to have sized it up, then decisively backed away. Except, just possibly, the last time. That now seems to be what the cat-and-mouse game is about.

To understand where the investigation may be headed, it helps to recall something of the Clintons' biographies. As a young Yale-trained lawyer, Bill Clinton returned to Arkansas to teach law in 1973. His wife-to-be joined him a year later and helped run his first campaign, an ultimately unsuccessful post-Watergate try for a congressional seat that nevertheless promised a bright political future. Two years later he was attorney general of the state; two years after that he was governor - at 32, the nation's youngest, poor but thoroughly happy.

It was about this time, on the eve of Bill Clinton's being elected governor, that the first well-ventilated episode occurred. Acting on the advice of James Blair, a business lobbyist and lawyer as well as a family friend, Mrs. Clinton put $1,000 of her own money into cattle futures, the first of a series of bold bets. Less than a year later she quit the market, having made a $99,537 profit. She never traded futures again.

On Mrs. Clinton's recollections of the event, it is easy to believe that, in a time of unusual duress (their child was about to be born) she was eager to put some money aside; that it dawned on her only slowly that she may have been the beneficiary of special treatment; and that she quit the market as soon as it became clear to her that trading on tips from the lobbyist for the state's biggest chicken business might give the appearance of impropriety. The sequence of events has been exhaustively examined by the press.

In the episode known as Whitewater, events were larger and more complicated, but the pattern basically the same. A small-time banker named James McDougall and his wife threw in as partners with the Clintons in a plan to develop as vacation homes a tract along he Whitewater River in the Ozarks. The Clintons eventually cut their ties with McDougall, having made no money on their investment. But McDougall went on to bankrupt one of the state's bigger savings and loan institutions, leaving behind a welter of questions about the relationship of his thrift to Bill Clinton's campaigns.

The result of a good deal of wariness on the Clintons' part was that, when Bill Clinton finally was elected president in 1992, the family didn't have a great deal of money to finance the move to Washington. Lacking a house of their own, for example, the Clintons stayed in the Arkansas governor's mansion overlong. Once in Washington, they were somewhat better financed, thanks to the hefty raise of a presidential salary and perks. Even then,

an attempt to raise a private fund fell flat, according to one lawyer who was consulted over the details, because it would be deemed to consist of political contributions.

Now attention has turned to the Rose Law Firm. As independent counsel Kenneth Starr has gone forward, his focus has shifted to the division of responsibility between the Rose partners, according to those who have followed the investigation, both privately and in the press. One issue seems to have to do with the size of Mrs. Clinton's severance package from the firm.

Hubbell, a former mayor of Little Rock, is reported to be preparing to plead guilty to having improperly billed $400,000 in personal expenses to his clients and the firm. Much of Mrs. Clinton's work was done for him; he was one of her mentors in the firm. Thus the independent counsel will be curious to know, did he improperly influence her compensation? Did she work there long enough or bill enough hours to earn her settlement? For the press, relying on periodic net worth statements released by the Clintons, the issue is complicated by the effect of the deaths of Clinton's mother and Mrs. Clinton's father. But it seems susceptible to an answer by the special counsel.

The matter is tinctured further by the apparent determination of the Clintons to keep the lid on their Arkansas affairs once they went to Washington. But interest in questions about the Clintons' business dealings deepened suddenly with the suicide of Vincent Foster, a Rose partner serving as a White House aide; they darkened with the widespread recognition that Clinton friends like Hubbell and Roger Altman occupied positions at Justice and Treasury, departments strategic to any inquiry. Both have since resigned,

although Hubbell has continued to be an occasional visitor to the White House.

The public is about to get a real glimpse of the workings of a small law firm, both before and after lightning strikes and the husband of one of its partners is elected president of the United States. Let the scandalmongers wallow in the economics of the firm. It may just turn out that Mrs. Clinton was doing enough business to justify every penny she took home; it may turn out that she was the victim of a supervisor who committed fraud. In due course, the independent counsel will complete his investigation, and the matter will spring to life or be set aside.

The larger question here, of course, has to do with what it takes to remain in public life. Politicians wield enormous power, and business interests are forever seeking ways to influence their decisions. Yet few legitimate business opportunities are available to those who choose to remain in office throughout their careers. So how's a young family to make any money? ``Mighty carefully, or not at all'' would seem to be the answer.

END!C$2?GL-WARSH-COL
-END-OF-AUTOBREAK(1)-
-AUTOBREAK(2)-FOLLOWS

**** filed by:KR-F(--) on 12/04/94 at 13:11EST ****
**** printed by:WHPR(JEL) on 12/05/94 at 08:08EST ****

Arkansas Democrat Gazette 12/2/94

H bbell w'll plead gu 'lty, sou 'ce says

BY DON JOHNSON
Democrat-Gazette Staff Writer
© 1994, Little Rock Newspapers, Inc.

Webb Hubbell, former associate attorney general and a former Little Rock mayor, has reached an agreement with the independent counsel to plead guilty to two felony charges, waiving a possible indictment Thursday by the Whitewater grand jury, according to a source familiar with the investigation.

Also, sources said Mikel Wood of Sherwood, whose accounting firm Gov. Jim Guy Tucker used for about two years, appeared before the grand jury Wednesday.

Hubbell

The grand jury was expected to consider a possible indictment against Hubbell on Thursday, but that became moot when the agreement with independent counsel Kenneth W. Starr was reached, according to the source.

Hubbell, 46, will admit to mail fraud and tax evasion charges, the source said. Hubbell's sentence could range from a minimum of 33 months to a maximum of 41 months.

The independent counsel's office will prosecute Hubbell through an "information" that waives the need to seek an indictment. The information is a written statement of the essential facts of the offense charged. Routinely, an information is filed when the person has reached an agreement to plead guilty.

Hubbell is one of President Clinton's and first lady Hillary Rodham Clinton's closest friends. Hubbell was a partner with Hillary Clinton at the Rose Law Firm before being appointed by the president as a senior Justice Department official. He resigned in March when his former law partners filed an ethics complaint against him for improper billing practices.

Hubbell did not return telephone calls to his Washington office. Hubbell's attorney, John Nields of Washington, also did not return calls.

The New York Times reported Thursday that Starr was considering whether to offer Hubbell a plea bargain in exchange for his cooperation in the widening investigation.

Hubbell had been asked to testify before the grand jury earlier in the week, but had declined.

See HUBBELL, Page 13A

Hubbell

• Continued from Page 1A

Hubbell's billing practices as an attorney with the Rose Law Firm had been presented to the grand jury, the source said. The evidence indicated that Hubbell had improperly billed expenses to the Resolution Trust Corp., the Federal Deposit Insurance Corp. and other clients. The evidence indicates Hubbell billed about $600,000 in expenses to the Rose firm and [illegible] Hubbell allegedly wrote about 400 checks [illegible] about [illegible] personal expenses. [illegible] for the independent counsel's office declined comment Thursday on the Hubbell agreement.

Independent counsel Starr also is weighing possible indictments against Tucker, according to published reports. For a year or two, the governor used Massey & Wood, accounting firm, but he has no recollection of Mikel Wood preparing any returns," Max Parker, Tucker's press secretary, said Thursday.

Wood's accounting firm, Massey & Wood Ltd. of Sherwood, prepared Tucker's 1986 and 1987 income tax returns, Parker said. Wood wouldn't comment Wednesday.

Tucker, elected to a four-year term last month, refused during his campaign for governor to release his income tax returns. Tucker did release some financial statements that he claimed went far beyond the disclosure required of public officials.

Hubbell's father-in-law, Seth Ward, also testified before the grand jury earlier this week.

Ward did not return telephone calls to his home Thursday. He told the *Wall Street Journal* on Wednesday that he was told he was not a target, "only a witness."

Ward said the questions he answered related to Madison Guaranty Savings and Loan Association, once owned by James McDougal — a key figure in the Whitewater affair, but had nothing to do with the Rose firm.

Ward was questioned about the 1985 purchase of an airplane by McDougal, according to the source. The airplane was later sold to Ward.

Hubbell to plead guilty to two felonies

First Whitewater conviction near

By Jerry Seper
and Carleton R. Bryant
THE WASHINGTON TIMES

A1

Webster L. Hubbell, former associate attorney general and a longtime friend of President Clinton, reportedly will plead guilty to two felony counts prepared by Whitewater independent counsel Kenneth W. Starr.

A source close to the investigation said Mr. Hubbell, a former law partner of Hillary Rodham Clinton, has agreed to plead guilty to charges of mail fraud and tax evasion, according to the Associated Press.

The maximum penalties for mail fraud are five years in prison and a $250,000 fine for each instance of fraud. The same penalties apply for tax evasion.

A conviction of Mr. Hubbell, a close political confidant of the president, would be Mr. Starr's first conviction in the Whitewater probe. Other indictments are expected soon.

Mr. Starr had been investigating whether Mr. Hubbell, 46, had overbilled clients, including the Federal Deposit Insurance Corp. (FDIC), as a senior partner at the Rose Law Firm in Little Rock.

A spokeswoman for Mr. Starr

see **HUBBELL**, *page A14*

HUBBELL

From page A1

declined comment yesterday.

John Nields, Mr. Hubbell's attorney, also declined comment, as did senior White House aide Bruce Lindsey, a confidant of both Mr. Clinton and Mr. Hubbell, AP reported.

Citing "distractions," Mr. Hubbell in March resigned as associate attorney general after The Washington Times had reported his former Rose partners were considering filing ethics charges against him. An internal Rose investigation found he failed to document hundreds of thousands of dollars in expenses billed to clients.

The source would not say whether the charges were directly related to the suspected overbillings.

Mail fraud can occur if a lawyer posts false bills to clients. Tax evasion can folllow if such billings prompt someone to be reimbursed for expenses not actually incurred.

In recent days, The Washington Times, The Washington Post, the Los Angeles Times and the Associated Press have reported that Mr. Hubbell's activities at the Rose firm had come under Mr. Starr's scrutiny in his Whitewater investigation. In fact, The Washington Times reported yesterday that a Hubbell indictment was imminent.

Grand jurors were considering accusations that Mr. Hubbell billed Rose for as much as $100,000 in personal expenses, some of which was charged back to clients, including the federal government, according to sources close to the probe.

The accusations, the sources said, are based on information from several Rose firm partners, many of whom were questioned by FBI agents assigned to Mr. Starr, and on documents collected by investigators that purportedly note suspected billing irregularities by Mr. Hubbell.

The documents, submitted to grand jurors, include records initially sought by Mr. Starr's predecessor, special counsel Robert B. Fiske Jr. Mr. Fiske expanded the Whitewater probe this year from a look into financial problems at Madison Guaranty Savings and Loan Association and Whitewater Development Corp. to include the Hubbell billings.

Other records came from the Resolution Trust Corp. (RTC), a Rose client that was responsible for overseeing Madison after the thrift was closed by federal regulators in 1989 at a cost to taxpayers of $50 million.

Sources said the grand jury last week reviewed the Rose firm's internal investigation into Mr. Hubbell's suspected improper billings. The law firm's inquiry also was explained to grand jurors by at least one Rose partner who was called by Mr. Starr to testify.

Investigators were trying to determine whether Mr. Hubbell charged Rose for personal expenses by listing them on billings submitted to the firm's accounting office as client or business expenses, the sources said. Records collected by investigators also show that Mr. Hubbell may have made improper billings directly to several clients, the sources said.

The billings included cash and credit-card purchases by Mr. Hubbell; his wife, Suzanna; and his four children at several Little Rock stores. Included in the purchases were items from at least four upscale boutiques in an area of Little Rock known as Pulaski Heights, a fashionable section of the city less than a mile from where the Hubbells lived.

Mr. Hubbell served as managing partner at Rose until his January 1993 appointment by Mr. Clinton to the Justice Department's No. 3 position.

Rose lawyers had done legal work for Madison before the collapse of the S&L, owned by the Clintons' Whitewater partner James B. McDougal. In fact, Mrs. Clinton in 1985 represented Madison to block the thrift's closure by Arkansas bank regulators appointed by her husband, who was Arkansas governor.

Afterward, Mr. Hubbell was paid by the government to settle a lawsuit against an accounting company, Frost and Co., accused of negligence in Madison Guaranty's failure.

Mr. Hubbell settled the $60 million suit for $1 million, obtaining $400,000 in fees for Rose. Amid questions he had a conflict of interest, Mr. Hubbell has said he informed regulatory agencies that his firm had previously represented the S&L.

Mrs. Clinton, also a senior Rose partner, had used a Frost audit to convince state regulators to allow the S&L to stay open.

Mr. Hubbell had other ties to Madison as well.

His father-in-law, Seth Ward, an officer of a Madison subsidiary, defaulted on two Madison loans, totaling $587,793.

• *Rowan Scarborough and Ruth Larson contributed to this article, which is based in part on wire service reports.*

HUBBELL'S WOES

A chronology of former Associate Attorney General Webster L. Hubbell's troubles.

February 1993: While serving a temporary 120-day appointment with no title at the Justice Department, Mr. Hubbell is accused of intervening in the retrial of Rep. Harold E. Ford, Tennessee Democrat, reversing the department's position on a jury-selection issue.

April 1: Attorney General Janet Reno announces the selection of Mr. Hubbell as associate attorney general, calling him "one of the great men in America."

April 19: On the day of the government's tear-gas assault on the Branch Davidian compound near Waco, Texas, Miss Reno says that Mr. Hubbell, and not she, was in communication with President Clinton about the assault.

May 18: Mr. Hubbell tells the Senate Judiciary Committee that he resigned his membership from the exclusive Country Club of Little Rock because it allowed only one black member to join during his 15-year membership.

May 18: The Washington Times reports that over a 90-day period in 1983, Mr. Hubbell made a $3,500 profit from a $9,100 investment in the stock of Arkansas-Louisiana Gas Co., a firm whose executive vice president was Thomas F. "Mack" McLarty, then the White House chief of staff.

Sept. 29: The Washington Times reports that Mr. Hubbell helped engineer a nursing home deal that Iowa authorities criticized as a profiteering scheme.

March 2, 1994: The Washington Post reports that the Rose Law Firm has been investigating whether Mr. Hubbell overbilled clients and then used the money for personal expenses. Mr. Hubbell confirmed that his former partners questioned him about his billing practices, but he denied ever overbilling any clients.

March 5: The Washington Times reports that Mr. Hubbell billed taxpayers more than $20,000 for work on a Madison Guaranty Savings and Loan Association matter during one 20-day period in August 1990, despite his contention that he had only "indirect" involvement in the case.

March 11: The Washington Times reports that Mr. Hubbell's former partners at the Rose Law Firm are considering filing ethics charges against him after an internal probe found that he failed to document hundreds of thousands of dollars in expenses billed to clients.

March 14: Citing "distractions," Mr. Hubbell resigns as associate attorney general.

Nov. 24: The Los Angeles Times reports that Whitewater independent counsel Kenneth W. Starr is investigating Mr. Hubbell over allegations of financial irregularities.

Yesterday: The Washington Times reports that an indictment against Mr. Hubbell is imminent, adding that grand jurors in Little Rock are considering charges he billed the Rose Law Firm for as much as $100,000 in personal expenses, some of which was charged back to clients, including the federal government.

Yesterday: Mr. Hubbell agrees to plead guilty to felony counts of tax evasion and mail fraud.

The Washington Times

DECEMBER 2, 1994 The Washington Times

Ex-Justice Department Official to Plead Guilty to 2 Counts of Improper Billing

By Ellen Joan Pollock
Staff Reporter of The Wall Street Journal

Former Associate Attorney General Webster Hubbell agreed to plead guilty to two criminal counts stemming from allegations that he improperly billed his former law firm and clients for personal expenses.

A person close to Mr. Hubbell said he agreed yesterday to plead guilty to one count of tax evasion and one count of mail fraud. Mr. Hubbell had been negotiating with Whitewater independent counsel Kenneth Starr in recent days. Two lawyers familiar with those talks said prosecutors had given Mr. Hubbell a deadline of yesterday to plead guilty. If he hadn't come to an agreement, they say, he would have been indicted yesterday. It is expected to take several days to complete the full plea agreement, the lawyers said. Mr. Hubbell and the Whitewater prosecutors also have been negotiating a prison sentence, which will be recommended to a federal judge.

Lawyers and a spokeswoman for Mr. Starr in Washington and Little Rock wouldn't comment. Mr. Hubbell's lawyer couldn't be reached, but has previously declined to comment on the status of his negotiations with the Whitewater prosecutors. The White House and Ronald Clark, the managing partner of the Rose Law Firm, where Mr. Hubbell was once a partner, also declined to comment last night.

Significance of Plea

The significance of Mr. Hubbell's plea goes well beyond the charges themselves. He was one of a handful of close friends of President Clinton from Little Rock to assume key administration posts, and he was a former law partner of Hillary Rodham Clinton's. Since resigning from his senior Justice Department post in March, he has remained friendly with the Clintons, attending White House functions when foreign dignitaries and the victorious Razorback basketball team paid calls.

Mr. Hubbell, a former mayor of Little Rock, left the Justice Department after the Rose Law Firm uncovered evidence that he had improperly billed personal expenses to the firm. It eventually reported the alleged breaches to Arkansas state ethics authorities. The allegations appear to have little or nothing to do with the heart of the investigation into the Clintons' Whitewater real-estate investment or the failure of Madison Guaranty Savings & Loan. But they have been probed extensively by Whitewater prosecutor Robert Fiske and his successor, Mr. Starr.

Two Agencies Were Billed

Lawyers familiar with the investigation say Mr. Hubbell improperly billed roughly $400,000 in expenses to the Rose firm and, to a lesser degree, his clients. Those clients include two federal agencies, the Resolution Trust Corp. and the Federal Deposit Insurance Corp., which he represented in matters involving failed thrifts. The RTC and the FDIC are conducting their own investigations of the billing irregularities.

According to lawyers familiar with the investigation, Mr. Hubbell wrote checks from a firm account to cover the allegedly personal expenses. Many of the checks were made out to credit-card companies.

Help-Wanted Listings Reach Highest Level In Over Four Years

By a Wall Street Journal *Staff Reporter*

NEW YORK—Help-wanted advertising surged in October to its highest level in more than four years as employers' cautions appeared to ease, the Conference Board said.

The board's seasonally adjusted index of U.S. advertising volume rose to 128, the highest since July 1990, when it reached 132. The 11-point jump in October from the previous month is the index's sharpest increase since October 1983, when it rose 10 points. The index read 107 in October 1993.

The latest month's data show employers may be "breaking through the wall of caution" about aggressively looking for job applicants, said Ken Goldstein, an economist for the Conference Board.

The index has been sporadic in the past several months, dropping to 117 in June from 121 in May. The index's previous 1994 peak was 122, set in July. The measure uses 1967 as a base of 100.

The Conference Board, which has surveyed advertising volume since 1951, is a nonprofit business-research group that follows advertising volume in 51 major newspapers across the country.

Among regions, the South-Atlantic region, which has been strong over the past two years, showed the steepest drop for the three months ended in October, down 4.6%. The typically troubled New England region posted a slight 1.1% drop. But declines in those regions aren't expected to continue as the economy and labor market improve, Mr. Goldstein said.

The Mountain region showed the sharpest increase during the three months with a gain of 9.6%, followed by the West South Central, with a 9% rise. The East North Central showed a 7% gain and the East South Central climbed 6.6%. The Pacific, with the slowest economic recovery, posted a 5% gain.

The Conference Board's index is considered a barometer of change in the supply of jobs because ad volume is sensitive to labor-market conditions.

CLINTON ASSOCIATE IS REPORTEDLY SET TO PLEAD GUILTY

WHITEWATER OUTGROWTH

Hubbell, Former High Official at the Justice Dept., Would Admit to Two Felonies

A1

By STEPHEN LABATON
Special to The New York Times

WASHINGTON, Dec. 1 — Webster L. Hubbell, a close friend of the President and Hillary Rodham Clinton and a former senior official at the Justice Department, has agreed to plead guilty to two felony counts and to cooperate with Whitewater prosecutors, people involved in the investigation said today.

The decision represents a significant blow to the White House, where Mr. Hubbell was once one of the inner circle from Little Rock, widely known to be one of the First Family's closest confidants.

He has agreed to plead guilty to mail fraud and tax evasion in connection with false billings he submitted to the Government while he was in private practice with the Rose law firm in Little Rock.

The charges Mr. Hubbell was facing are only tangentially related to the Arkansas real-estate venture that has given the Whitewater inquiry its name. Some of the false billing to which he has agreed to plead guilty involved work he did for Federal regulators examining the failed savings and loan association owned by the Clintons' partner in Whitewater, James B. McDougal.

The Whitewater special prosecutor, Kenneth W. Starr, had set today as Mr. Hubbell's deadline to accept the agreement or face a broader indictment, the people involved in

Continued on Page A20, Column 1

NATO Affirms Unity

Capitalizing on an American decision to stop pressing for air strikes against the Serbs, NATO ministers formally put their differences on the Bosnian war behind them.

Article, page A14.

Former Clinton Official Is Said To Be Ready to Admit to Felonies

Continued From Page A1

the case said.

The agreement is both the first criminal charge brought by Mr. Starr, who took over the case in August, and the first against a former Administration official.

As former law partner of Mrs. Clinton at the Rose Law Firm of Little Rock and a golfing companion of Mr. Clinton, Mr. Hubble's cooperation with investigators could potentially assist them in a wide array of areas. At the very least, the plea agreement and Mr. Hubbell's cooperation will further distract a White House already bracing for Republican hearings early next year that will bring Whitewater and other Arkansas deals of the 1980's back into the spotlight.

Mr. Hubbell's close relationship with the Clintons evolved over nearly 15 years in Little Rock, where he was mayor while Mr. Clinton was Governor. When the new Administration came to Washington, he was installed as a senior official at the Justice Department months before Janet Reno became Attorney General.

Along with two other partners from the Rose Law Firm, Vincent W. Foster Jr. and William Kennedy, Mr. Hubbell arrived in Washington last year as part of the Clintons' closest group of friends. Mr. Foster committed suicide last year. Mr. Kennedy, who was rebuked in a White House review of its handling of the travel office, decided recently to return to Arkansas.

As Associate Attorney General, the No. 3 man in the Justice Department, Mr. Hubbell had been the liaison between the Justice Department and the White House until he stepped down in March amid accusations that while in private practice he had improperly billed the Government for legal work.

For months, he had been under investigation for overbilling the Government for his work in connection with the failure of Madison Guaranty Savings & Loan, an Arkansas thrift that was owned by operated by Mr. McDougal. Madison, which failed at a cost to taxpayers of $60 million, has been the central focus of an investigation into whether it was used to make improper payments to either Whitewater or Mr. Clinton's gubernatorial campaigns.

The investigators had also been examining whether Mr. Hubbell played any role in the Justice Department's handling of criminal referrals made by savings regulators about Madison. Those referrals were delayed for months by bureaucrats.

The Rose law firm and Mrs. Clinton did legal work for Madison before its collapse. After it failed and was taken over by Federal regulators, Mr. Hubbell represented the Government in a lawsuit against the savings and loan's accounting firm.

With evidence mounting that Mr. Hubbell may have improperly billed the Government for hundreds of thousands of dollars, Federal investigators spent the last few weeks trying to reconstruct his finances. After issuing subpoenas for his credit card records, they blanketed Little Rock merchants with grand jury subpoenas to try to reconstruct his purchases.

At his former law firm, which is itself the subject of several Federal investigations, Mr. Hubbell received little support. His former law partners also turned against him, testifying before the grand jury in Little Rock and providing evidence that he had overbilled clients.

Reached at his home in Washington this evening, Mr. Hubbell declined to discuss the plea arrangement.

"I'd love to talk to everybody, but I just can't comment," he said.

Throughout the day, rumors swirled around the White House about the fate of Mr. Hubbell, and by the evening, a senior official said the President did not know whether his friend had decided to take a plea or face a trial.

✓

3

PM-Whitewater-Hubbell, Ark Bjt,770
Clinton Friend to Plead Guilty in Whitewater Probe
AP Photo NY168 of Dec. 1
tpwdc
By RON FOURNIER= Associated Press Writer=

WASHINGTON (AP) One of President Clinton's closest friends, former Associate Attorney General Webb Hubbell, plans to plead guilty to two felony charges brought by the Whitewater prosecutor, a source close to the investigation says.

The source, speaking on condition of anonymity, said Hubbell, 46, would admit to tax evasion and mail fraud under an agreement with independent counsel Kenneth Starr.

Hubbell, a former law partner of first lady Hillary Rodham Clinton, has been under investigation by Starr over allegations that he overbilled legal clients, including the Federal Deposit Insurance Corp.

The source would not say whether the charges were directly related to the alleged overbillings. It could not be immediately learned whether Hubbell has agreed to cooperate with prosecutors as part of the plea. It also was not known when Hubbell would enter his plea.

Several news organization had reported over the last week that Starr was close to seeking an indictment of Hubbell. But the former Little Rock mayor and longtime golfing pal of Clinton agreed to enter a guilty plea, said the source.

The Arkansas Democrat-Gazette reported in a copyright story today that the Whitewater grand jury had been expected to consider a possible indictment of Hubbell on Thursday, but that became moot when the agreement with Starr was reached.

Hubbell's lawyer, John Nields, declined comment Thursday. Starr and White House aide Bruce Lindsey, a confidant of both Clinton and Hubbell, also declined comment, their offices said.

A mail fraud charge could arise if a lawyer sent false bills to clients. And if such billings led someone to be reimbursed for expenses not actually incurred, that could lead to tax evasion charges.

Hubbell resigned March 14 as the No. 3 Justice Department official amid disclosures that his billings as a private lawyer were being questioned by his former colleagues at the Rose Law Firm in Little Rock.

The Associated Press reported in March that documents suggested the Rose Law Firm, under Hubbell's supervision, may have double-billed the government for at least $29,400 for cleanup work involved in the failed S&L at the center of the Whitewater inquiry.

Other reports have indicated his law firm also questioned hundreds of thousands of dollars in billings to other clients and the firm.

Ron Clark, spokesman for the Rose firm, declined to comment Thursday evening.

``We're not going to have any comment on the situation now, unless and until the independent counsel announces something,'' he said.

Starr took over the matter as part of his sweeping investigation into the business dealings of the Clintons and other prominent Arkansans.

The failure of Madison Guaranty, which cost taxpayers an estimated $60 million, is now a focus of the Whitewater prosecutor's probe because it was involved in fund-raising for Clinton's gubernatorial campaign and his Whitewater land venture.

Rose firm lawyers, including Mrs. Clinton, had done legal work for Madison before the S&L collapsed.

Afterward, Hubbell was paid by the government to settle a lawsuit against an accounting company accused of negligence in Madison Guaranty's failure.

He settled the $60 million suit for $1 million, obtaining $400,000 in fees for Rose. Hubbell said his actions did not pose a conflict of interest because he informed regulatory agencies that his firm had previously represented the S&L.

In another tie to Madison, Hubbell's father-in-law and brother-in-law took out nearly $1.5 million in loans from the S&L, which was owned by the Clintons' Whitewater business partners, James and Susan McDougal.

The Democrat-Gazette reported that Hubbell's father-in-law, Seth Ward, testified to the Whitewater grand jury this week.

Ward did not return telephone calls to his home Thursday. He told the Wall Street Journal on Wednesday that he was told he was not a target, ``only a witness.''

Ward said the questions he answered related to Madison Guaranty Savings and Loan Association, once owned by James McDougal a key figure in the Whitewater affair, but had nothing to do with the Rose firm.

Ward was questioned about the 1985 purchase of an airplane by McDougal, according to the Democrat-Gazette's source. The airplane was later sold to Ward.

**** filed by:APW-(AR) on 12/02/94 at 01:38EST ****
**** printed by:WHPR(103) on 12/02/94 at 08:20EST ****

Arkansas Democrat Gazette 12/1/94

Perplexing case of Webb Hubbell

The widely reported imminent criminal indictment of Webb Hubbell for a pattern of cheating on his expenses as a Rose Law Firm partner — declared in recent days by two leading national newspapers and tipped to me three weeks ago by a secondhand source claiming to be in the know — has left me reflective and addled.

In 1987, when then-Gov. Bill Clinton appointed a commission to write a bill governing public official ethics and lobbyist disclosure, and then called a special legislative session seeking to enact it, his point man was Webb Hubbell.

As the Legislature arrogantly blocked the bill, Hubbell wandered the halls of the Capitol looking as downcast as Bill Becker during a workers' compensation dispute. I respected Hubbell's efforts, knowing that some at his law firm, which represented powerful lobbying interests, disapproved of his role.

Then in December 1992, during the transition period leading to Clinton's presidency, Warren Christopher called a news conference at the Old State House to announce and explain new ethics rules that would govern and restrict Clinton administration officials' ability to cash in on their positions or convert their public service into private lobbying for profit.

There, in the back, sat Webb Hubbell. I asked what he was up to, having no idea that he would soon depart the Rose firm to become associate attorney general of the United States. He mentioned shyly, as was his custom, that he'd done a little work on hese ethics rules for the Clinton transition peration.

So to summarize: The man Clinton rned to on issues of public ethics now nds accused of essentially defrauding

maybe hundreds of thousands of dollars from his partners.

In July of this year, I went to Washington and had breakfast with Hubbell three months after he'd resigned from the Justice Department to contest with undistracted vigor, he said, the charges against him.

He'd lost weight — intentionally through walking, not as a result of stress, he said. But he was clearly troubled. He was doing some unspecified "consulting" work, since it took time to secure a law license in the District of Columbia.

Eventually I turned our discussion to the matter of his representing his father-in-law's parking meter company on a contingency basis and allegedly sticking his Rose partners with $100,000 in expenses.

He looked me straight in the eye and said, "I didn't cheat on any (bleeping) expenses."

Back in Little Rock, I spoke with a Rose firm official who advised that the parking meter matter was a "red herring." The charges were broader than that, he told me.

Then I received a mailing from Hubbell. His handwritten note explained that he had been thinking about my line of questioning concerning whether he'd do it all again: pull up roots and move to D.C. to work in the Clinton Justice Department. Absolutely, he said.

By way of amplification, he enclosed a bound booklet entitled, "In Honor of Webb Hubbell From His Friends and Colleagues at the Justice Department."

Inside were 70 pages of tributes, typewritten and handwritten, from Justice Department officials with whom he'd worked for more than a year.

Some were downright syrupy, but the recurring theme was that Hubbell had impressed these colleagues in terms of character and openness.

One note was from Stuart Gerson, the Republican appointee who served as acting attorney general for the first weeks of the Clinton administration, which couldn't seem to nominate a confirmable attorney general. His role put him in a close working relationship with Hubbell, who was on the scene as the No. 3 Justice Department official and, according to wide reports, the Clintons' eyes and ears.

Theirs could easily have been a wary relationship. But Gerson wrote: "There was, not too long ago, a short span of time when the Department of Justice inarguably operated without regard to politics, party or even program. If that time was not golden, it was at least silver-plated, and Webb Hubbell was at the heart of it... Webb Hubbell showed independence of judgment, intellectual courage and, as everyone who worked with him will attest, great decency. The cost of public service has become too high, but as he leaves, Webb's account balances in all of these qualities are undiminished."

So maybe I'm not alone in the difficulty I encounter with what I read and hear about forthcoming indictments.

John Brummett's column appears every Tuesday, Thursday, Saturday and Sunday.