Like lots of other taxpayers, Bill and Hillary Clinton wrote a check to the Internal Revenue Service yesterday.

Their federal income taxes totaled $70,228 -- about 24 percent -- of an adjusted gross income of $290,697, according to copies of the return released by the White House. The Clintons made a $4,085 payment.

Vice President Gore and his wife, Tipper, reported $622,838 in income for 1992, including $461,529 from royalties on hardcover sales of his best-selling book, "Earth in the Balance: Ecology and the Human Spirit," according to their tax return. They paid $166,979 in federal taxes, or 27 percent.

The Gores donated $50,000 of the royalties to the University of Tennessee to establish a chair focusing on global environmental issues in honor of the vice president's late sister.

The Gores listed $61,876 in itemized deductions, including $1,928 in other charitable donations, most in the form of equipment donated by Tipper Gore's family plumbing business to the Salvation Army for victims of Hurricane Andrew.

They paid no state taxes, a spokeswoman said, because Tennessee does not have an income tax, Gore was exempt as a member of the Senate from Virginia taxes, and Tipper did not owe any.

As has been the case for many years, Hillary Rodham Clinton provided the bulk of the Clintons' income. She reported wages of $203,172 from the Rose law firm in Little Rock, Ark. She reported nearly $110,000 in income from the firm the previous year. A spokeswoman noted that her salary from the firm was based on a five-year average, not her work last year when she spent most of her time campaigning for her husband. In addition, she received 15 months worth of her pay during calendar 1992.

Hillary Clinton also reported receiving $32,400 in directors' and speaking fees and a $13,199 capital gain on the sale of her interest in a partnership that owns the firm's office building.

The president was paid $34,527 as governor of Arkansas.
The Clinton's took $39,190 in itemized deductions, including $18,576 in state and local taxes and $19,452 in charitable donations.

They also reported a $1,000 gain from the sale of their interest in Whitewater Development Corp., a land deal that became an issue last spring after disclosure that a partner, James McDougal, had been the head of a troubled state-chartered savings and loan. Spokeswoman Ricki Seidman said the Clinton's sold their half-interest in the unsuccessful 230-acre Ozark Mountain resort development back to McDougal and his wife.

Though the Clinton's said they lost thousands of dollars on the investment, they listed its initial value for tax purposes as zero. "They decided to take the most conservative position," Seidman said. "The IRS needs extensive documentation to establish basis and not all the documentation was available, so they declined to show the loss."

LANGUAGE: ENGLISH

LOAD-DATE: October 14, 1993
Judging from their 1992 tax return, President Clinton and his family appear to be members in good standing of a very elite group - the wealthiest 1% of all taxpayers.

The Clintons' adjusted gross income: $290,697. AGI is total income minus some items, such as contributions to certain pension plans. As of 1989, the latest year for which statistics are available, only 787,000, or 0.7%, of taxpayers had AGI of $200,000 or more.

All in all, the Clintons look like the kind of country-club Republicans they criticized during the campaign. "You can't say the Clintons look like typical tax-and-spend liberals," says Tom Ochsenschlager, a partner with accounting firm Grant Thornton.

The Clintons probably will earn less this year. Hillary Rodham Clinton, who has been the family's breadwinner, has given up all outside income while the couple are in the White House. But they'll hardly be paupers: President Clinton's new $200,000 salary, plus their investment earnings, should keep them in the golden 1%.

Last year was an unusually lucrative one for Hillary Rodham Clinton, as she received $203,172 from Rose Law Firm, including accelerated payment in December of her share of the firm's 1992 profits. Ordinarily, that payment would have been made in January. On the couple's 1991 return, she reported income of only $110,000 from the firm.

Other highlights from the Clintons' 1992 tax forms:

- The couple earned capital gains of $16,336, mostly from the sale of the first lady's interest in the Rose firm's Little Rock office building, which is owned by the firm.

- The Clintons earned $13,893 in interest. Sources include bank accounts and bonds. Of that, $6,624 was from tax-exempt bonds issued by Arkansas.

- President Clinton earned a $34,527 salary last year as governor of Arkansas.

- The Clintons paid $6,318 in mortgage interest, presumably on a condominium they own with her mother.
USA TODAY, April 19, 1993

- The Clintons sold their interest in Whitewater Development, a company they and another couple created in 1978 to develop land in Arkansas' Ozark Mountains. The Clintons reportedly sank $69,000 into the project. They sold their interest in December for $1,000, leaving a loss of $68,000, which they apparently claimed in previous years.

The Clinton's '92 gifts

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Source: USA TODAY research

GRAPHIC: GRAPHIC, b/w; Source: USA TODAY research; PHOTO, b/w, Danny Johnston, AP

LANGUAGE: ENGLISH
LEVEL 1 - 2 OF 9 STORIES

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August 6, 1995, Sunday, Late Edition - Final

SECTION: Section 1; Page 20; Column 1; National Desk

LENGTH: 1687 words

HEADLINE: Whitewater Papers Cast Doubt on Clinton Account of a Tax Underpayment

BYLINE: By JEFF GERTH and STEPHEN LABATON

DATELINE: WASHINGTON, Aug. 5

BODY:

In March 1992, Bill Clinton, running for President, acknowledged that he and his wife, Hillary, had improperly claimed tax deductions for interest payments that had actually been made by the Whitewater Development Company, not by themselves. Mr. Clinton and his aides said the couple's accountant had simply made a mistake, and he pledged to reimburse the Government.

But no payment was made to the Government until almost two years later, on Dec. 28, 1993.

A few days before that reimbursement, Justice Department investigators had begun seeking the Clintons' Whitewater files. Those files, some of them made public by the White House on Friday, contained letters that now cast doubt on Mr. Clinton's account of the deductions: they show that Mrs. Clinton knew that the company had made the payments for which she and her husband later claimed the deductions, on their 1984 and 1985 tax returns.

The Clintons were not legally obligated to reimburse the Government for any error that old. They never announced the payment and did not file an amended tax return, choosing instead to quietly send a check for $4,900 to the Treasury Department's Bureau of the Public Debt.

In a prepared statement issued on Friday in response to a reporter's questions, the couple's personal lawyer, David E. Kendall, described the payment but declined to discuss the reason for the 22-month delay. He noted that it would have been less expensive if the Clintons had made the payment earlier; most of the $4,900 was interest on the tax underpayment.

A cryptic 1993 letter in a file found in the office of Vincent W. Foster Jr. after his suicide indicates a plan, never realized, for the Clintons' 1992 tax return to correct "an erroneous tax deduction" taken earlier.

Mr. Foster, deputy White House counsel, worked on the Clintons' 1992 return. In the letter, written on April 5, 1993 -- 10 days before the return was due -- he told another Clinton lawyer that an improper deduction related to Whitewater "was intended" to be corrected on it. No such correction ever appeared on the return, though.

Asked about Mr. Foster's letter, Mr. Kendall said in his prepared statement that "we cannot now ascertain what was meant by that vague reference." Mr.
Kendall's statement did not address a question that had also been put to him, as to whether Mrs. Clinton had been involved in decisions about how to correct the deductions.

In a note found in one of his files, Mr. Foster, long after Mr. Clinton had publicly acknowledged error in the matter, appeared to be still troubled by the Clintons' having taken deductions for payments that had actually been made by the corporation. The scribbled note spoke of the "propriety of taking" personal interest deductions "for debt which should be corp."

At issue were payments made on one of the loans obtained to finance land purchases and improvements by Whitewater, the Arkansas land venture in which the Clintons joined with James and Susan McDougal in 1978. The partners hoped to quickly resell the lots, but the real estate market sagged, interest rates soared, and the company's losses mounted along with its loan payments.

In a sworn statement that was among the documents made public by the White House on Friday, Mrs. Clinton told investigators for the Government's Resolution Trust Corporation earlier this year that she had always expected that Whitewater would be responsible for repaying the loan in question. She also said that whenever tax issues had arisen over Whitewater, she or the Clintons' accountant had obtained the relevant information from the McDougals.

Also included in the documents released on Friday were letters from the Whitewater file sought by the Justice Department in late 1993. Among the letters is one dated Oct. 4, 1984, in which Mr. McDougal, at Mrs. Clinton's request, forwarded a Whitewater corporate check for her to send to the bank to pay interest and principal on a loan that Mr. Clinton had obtained in connection with the Whitewater operation.

Although the improper deductions were relatively small, they are part of a broader pattern. Almost all the Clintons' $42,000 investment in Whitewater was deducted on their personal tax returns as interest payments even though, according to questions raised later by Mr. Foster and others who tried to reconstruct Whitewater's tangled finances, the couple may not have been entitled to several of those deductions.

Mr. Kendall asserts that the Clintons' tax returns are correct except for the interest deductions in 1984 and 1985. It remains unclear why the reimbursement to the Government for the tax underpayment was delayed so long, but Mr. Kendall denies that there was any effort to hide it.

The Clintons have said the mistake arose because their accountant relied on the lending bank's statements, which did not identify who had made the interest payments.

But a tax lawyer who has reviewed the newly public documents said this defense would not have met Internal Revenue Service standards dealing with negligence penalties. The lawyer, Lee A. Sheppard, a contributing editor of Tax Notes, widely regarded as the leading journal on tax matters, said Mrs. Clinton should have known better than to take the deductions. As a corporate lawyer, Mrs. Clinton would have been held to a higher standard of care than the average taxpayer, added Ms. Sheppard, who analyzed the Clintons' taxes in connection with a coming article in the journal.
"She can't avoid negligence penalties by blaming the problems on her accountants," Ms. Sheppard said. "A judge would say that reliance was unreasonable and she should have known better than to take those interest deductions."

From Whitewater's beginning in 1978, just before Mr. Clinton was first elected Governor of Arkansas, he and his wife sought tax advantages from the venture. That year they took an interest deduction of $10,130, even though that "interest on the Whitewater debt was only partially due in 1978," according to a report prepared recently for the R.T.C.

And in 1980, the Clintons wrote a check for $9,000 that was used to reduce the principal on Whitewater's main bank debt, according to the R.T.C. report. On that year's tax returns the Clintons deducted the $9,000 as an interest payment to Mr. McDougal, a claim whose appropriateness was questioned by Clinton campaign accountants in 1992.

The deductions that led to the back tax payment by the Clintons in late 1993 also have their roots in 1980, when Mrs. Clinton, acting as a surrogate for Whitewater, borrowed $30,000 from a bank controlled by Mr. McDougal. The loan was to pay for a model prefabricated house to help market Whitewater's lots.

As part of the transaction, Mrs. Clinton took title to the land on which the house would sit, Lot 13. The next year the property was sold. Payments on the loan continued to be made by Whitewater, a fact emphasized by Mrs. Clinton when she responded in 1982 to a past-due notice from the bank. "I ask that you speak with Mr. or Mrs. McDougal, who have made all the arrangements for this loan," she wrote, according to the R.T.C. report. "It has been my understanding that the loan has been paid out of proceeds from sales by the White Water Development Corporation."

The next year Mrs. Clinton's bank loan was retired with $20,800 that Mr. Clinton obtained from another institution, Security Bank in the town of Paragould, Ark.

The new loan faced the same troubles. In October 1984, after Mr. Clinton received a final payment notice from the bank, Mrs. Clinton wrote to Mr. McDougal, reminding him that the loan stemmed from the prefabricated house and asking him to take care of it.

He replied three days later, forwarding Mrs. Clinton a corporate check for $4,811 made out to Security Bank "to pay the interest and make a $2,000 principal reduction on the note," according to the R.T.C. report. He reminded Mrs. Clinton that "we receive monthly payments on the sale of the house and must use the proceeds to retire this note."

The Clintons nonetheless took a $2,811 interest deduction on their 1984 return.

In 1985, the Clinton loan at the Security Bank was past due again. This time Governor Clinton's state bank commissioner, Marlin Jackson, who owned Security Bank, acted as an intermediary to clean up the problem.

After talking to Mr. McDougal and Mr. Clinton, Mr. Jackson wrote the bank on Nov. 1, 1985, that Mr. McDougal would be sending a payment to cover the
interest as well as some principal. A $7,322 check on Whitewater's account was forwarded a few days later.

But on their 1985 tax returns the Clintons themselves deducted the $2,322 interest payment.

Over the next few years, with Whitewater no longer functioning, the Clintons took over the payments on this loan until they completed the sale of Lot 13 in 1988. They realized a profit of $1,600, which they reported on their tax return.

The tangled tale of Lot 13 did not surface again until 1992, when Mr. McDougall, in an interview with The New York Times, expressed irritation that he had put $100,000 more than the Clintons into Whitewater, including payments to the bank on Lot 13, and that Mrs. Clinton had then sold the lot for a profit to her and her husband.

In response, the Clinton campaign assigned a team of accountants to review the venture's finances. The accountants interviewed Mrs. Clinton in March 1992, according to Mr. Foster's files, but it is not known whether they discussed her correspondence on the issue.

Later that year Mr. Foster became involved in cleaning up unresolved financial issues from Whitewater, including the payment of back taxes. But, according to an Arkansas associate of Mr. Foster who spoke on condition of anonymity, Mrs. Clinton had some reservations about paying any more money for anything at all related to Whitewater.

According to Mr. Kendall, the matter was resolved on Dec. 28, 1993, when the couple made a payment of $4,900 to the Treasury. A payment was also made to an Arkansas charity, in the amount of $800: the sum of the state tax underpayment plus interest.

LANGUAGE: ENGLISH

LOAD-DATE: August 6, 1995
LEVEL 1 - 1 OF 9 STORIES

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August 13, 1995, Sunday, Late Edition - Final

SECTION: Section 4; Page 14; Column 1; Editorial Desk

LENGTH: 869 words

HEADLINE: The Whitewater Tax Questions

BODY:
For a close follower of Whitewater -- and it takes a close following to keep up -- the week's most interesting information came from L. Jean Lewis and from the reconstruction developed by Representative Jim Leach of the tangled relationship between then-Gov. Bill Clinton and James McDougal, the Clintons' partner in the Whitewater real estate venture. Together, they point to the question of the Clintons' tax returns. All along, taxes have seemed a powerful and logical reason for President Clinton's willingness to absorb damage to his popularity and credibility rather than yield a full public accounting of his and Mrs. Clinton's Whitewater finances.

Mr. Leach, an Iowa Republican, is the chairman of the House Banking Committee, which is conducting hearings into Whitewater at the same time that Senator Alfonse D'Amato of New York is conducting hearings in the Senate on the death of Vincent Foster. It now appears that before his death, Mr. Foster himself was deeply troubled by the Clintons' personal financial affairs.

There are two basic tax questions. One is whether the Clintons, who on paper were 50-50 partners with Mr. McDougal, were obliged to report as income money that he contributed to the Whitewater venture on their behalf. The other is whether they knowingly took improper deductions.

Mr. Leach's chronology -- backed up by a recent report commissioned by the Resolution Trust Corporation -- shows that Mr. McDougal paid large amounts on behalf of the Clintons to cover their share of Whitewater expenses and losses. A letter from Mr. McDougal in November 1986 informed the Clintons that the venture had run up $90,000 in losses and that Mr. McDougal and his wife had paid most of them.

The report prepared for the R.T.C. by the San Francisco law firm of Pillsbury, Madison & Sutro puts Whitewater's ultimate losses at $200,000 and confirms that Mr. McDougal took by far the bigger hit. Of the $200,000, Mr. McDougal paid about $158,000, the Clintons about $42,000.

These figures, of course, do not provide a complete picture of the Clintons' finances. But they show enough to raise this question. If thousands of dollars were being paid on the Clintons' behalf by a friend, should some of that money be counted as income to them? In that case, were they obligated to report the McDougal payments to the Internal Revenue Service and pay taxes on it? If so, do their tax returns for the 1980's show this?

Mr. Leach and his staff have also raised a second tax question -- whether the Clintons took improper deductions relating to their Whitewater investment. They charge that during the 80's the Clintons underpaid the I.R.S. by $13,272 by
improperly claiming Whitewater deductions for interest, land payments and other
advances.

The White House has branded these charges as the "same shopworn allegations"
that have been circulating for three years. It is impossible to tell whether Mr.
Leach's numbers are right. But last Sunday, Jeff Gerth and Stephen Labaton of
The Times reported that the Clintons had deducted interest payments of $2,811 on
their 1984 return and $2,322 on their 1985 return on bank loans that had in fact
been paid off by the Whitewater Company with checks written by Mr. McDougal.

Mr. Clinton acknowledged these improper deductions when he was running for
President in 1992 and blamed the error on his accountant. Nevertheless, he did
not make restitution until almost two years later, after Whitewater had become a
major public issue. The Times article further suggests that this was not an
accountant's error and that Mrs. Clinton knew full well that Whitewater had made
the payments for which she and her husband later claimed deductions.

Of course, it stands to reason that smart people like the Clintons could not
have been totally ignorant of where the money was coming from. Ms. Lewis, an
R.T.C. investigator, made this point nicely in a tape played for Mr. Leach's
committee last week. She said: "You don't turn a blind eye to your business
investments. And if you are not putting money in you have to wonder where the
money is coming from that's making your real estate payments."

Politically, this could be the heart of the matter. We now know that at the
time of his death, Vincent Foster was deeply worried about the Clintons' taxes
and the "can of worms" that an I.R.S. audit could become. The Clintons owe it to
the public to release the tax analyses they have commissioned and to waive their
privacy rights at the I.R.S. Then Congress could call the I.R.S. to explain if
the Whitewater payments made for the Clintons were taxable income and if they
paid the proper taxes.

It may take Kenneth Starr, the Whitewater independent counsel, to unravel all
the tax questions. He is the only person capable of deposing the Clintons and
the only person with access to all the relevant documents. But until he
completes his inquiry and publishes his findings, the tax question will fester,
and with it the larger question of whether the then-Governor and First Lady of
Arkansas were truthful taxpayers. There is hardly a more sensitive political
question than whether elected officials pay the taxes they levy on other
citizens.
"Was dread of further scandal a triggering cause of the apparent suicide?"

That central question, posed in this space a few weeks after Vincent Foster's body was found in a park where he may have shot himself, was long denounced as a "conspiracy theory."

But when The Washington Times discovered months later that Whitewater files were secretly spirited out of Foster's White House office, a firestorm forced the Clintons to appoint untainted counsel. Robert Fiske's first assignment: to explode the "conspiracy theory" that Whitewater worries had affected Foster's state of mind.

Fiske reported being told "Whitewater was not an issue of any significance within the White House during that period." He found "no evidence that matters relating to Whitewater, Madison Guaranty or CMS played any role in his death."

"No evidence" made the headlines. But with the Senate Banking Committee no longer under Democratic control, we now find that such evidence was there all along. Foster, working on the Clintons' tax returns, was in a sweat about their claim of loss in Whitewater. "A can of worms you shouldn't open," he noted. Because the Clintons' explanation during the campaign was deceptive, "Don't want to go back into that box."

The same urge to conceal Whitewater dealings permeated the White House as it resisted investigation into the motive behind Foster's death.

The Park Police are great if you have a cat up a tree, but the joke has always been that when they need muscle they send for the meter maids. Improperly assuming suicide, they made no search for a bullet and were fooled into failing to seal the dead man's White House office.

A carton of documents was taken out of Foster's office that night, the frustrated police chief said soon afterward. Bernard Nussbaum, then White House counsel, claimed it was only a basket of trash, later retrieved. We now know that several Clinton aides were poking around the dead man's office; Whitewater files were taken out by Hillary Clinton's chief of staff and hidden in a closet.
LEVEL 1 - 7 OF 9 STORIES

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July 19, 1995, Wednesday, Late Edition - Final

SECTION: Section A; Page 1; Column 5; National Desk

LENGTH: 1066 words

HEADLINE: Details Emerge On Whitewater As Panel Starts

BYLINE: By STEPHEN LABATON

DATELINE: WASHINGTON, July 18

BODY:

With a theatrical flourish and a few revelations, the Senate today began months of scheduled hearings about Whitewater and the personal finances of the President and Hillary Rodham Clinton.

The hearings, conducted by a special committee on Whitewater, are supposed to examine the White House's handling of papers in the office of deputy counsel Vincent W. Foster Jr. after he killed himself in a Virginia park two years ago. In Mr. Foster's office were personal papers of the Clintons, including files about their investment in Whitewater, a land-development venture in Arkansas.

The committee's lead witness, who barely began his testimony before the hearing halted for the day, was Webster L. Hubbell, the former Associate Attorney General who was sentenced last month to 21 months in prison for taking almost $500,000 from his clients and former law partners at the Rose Firm of Little Rock, Ark. At the Rose Firm, Mr. Hubbell had been partners with Mr. Foster and with Mrs. Clinton, and he has been one of Mr. Clinton's closest friends.

Mr. Hubbell's testimony produced no bombshells, but some new details emerged about Mr. Foster's office papers, about Whitewater and about Madison Guaranty Savings and Loan Association. Madison was owned and operated by a partner of the Clintons in Whitewater, James B. McDougal. Investigators have been examining whether the savings association provided federally insured money to either Whitewater or a Clinton campaign for governor.

The disclosures included these:

* Handwritten notes by Mr. Foster in the spring of 1993 contradict an important conclusion of the report prepared by the former independent counsel in the case, Robert B. Fiske Jr., about the circumstances surrounding Mr. Foster's death. Mr. Fiske concluded in his report that there was no evidence that Mr. Foster or the White House had any concerns about Whitewater during the first half of 1993. But Mr. Foster's notes, which were found in his files, show that he was deeply concerned about how the Clintons would account for their investment on their 1992 tax returns and whether the returns would be cited by critics as evidence that Mr. McDougal had protected them against losses.

* Contradicting an account provided by Mr. Hubbell and the Clinton campaign three years ago, Mr. Hubbell today acknowledged that Mrs. Clinton had helped
to bring Madison as a client to the Rose law firm in 1985. At the time, Madison was seeking permission from Arkansas regulators appointed by Governor Clinton to do a novel recapitalization. Mr. Hubbell and the campaign had previously said that a young associate at the firm had brought in the Madison account and that Mrs. Clinton had not been involved.

*Mr. Hubbell also testified that after the 1992 campaign, he took custody of many of the campaign records, including Whitewater and Madison records. He said he kept them in his house and turned them over to the Clintons' lawyers at the firm of Williams & Connolly in November 1993. While he had the papers, the Justice Department was considering whether to take action on a request by regulators to begin a criminal investigation of Madison. Mr. Hubbell officially removed himself from all aspects of the Madison case in the fall of 1993.

Senator Bob Bennett, Republican of Utah, said today in a statement at the hearing that the depositions of two White House officials, Bernard W. Nussbaum and Tom Castleton, showed that the papers were moved from Mr. Foster's office to the third-floor residence section of the White House after Mr. Foster died so that the Clintons could review them.

Mark D. Fabiani, a special associate White House counsel, said after the hearing that the Clintons never reviewed the papers and that they remained in a locked closet, undisturbed for five days between the time when were delivered from Mr. Foster's office to the residence and the time they were sent to the lawyers at Williams & Connolly. Democratic aides who have seen Mr. Nussbaum's deposition as well as Mr. Nussbaum's lawyer, James Fitzpatrick, said that Senator Bennett's characterization of Mr. Nussbaum's testimony was inaccurate and that Mr. Nussbaum had never implied or meant to suggest that he believed the Clintons would be reviewing the papers from Mr. Foster's office.

The day's most striking moment came when a Republican Senator startled the otherwise staid proceeding by brandishing Mr. Foster's brown leather briefcase, in which 27 scraps of a torn note recording his disenchantment with Washington were found six days after he died. The scraps had originally been overlooked by Mr. Nussbaum, the White House counsel who had searched Mr. Foster's office two days after the suicide.

While news photographers scampered for an angle and Democrats sat in stunned silence, Senator Frank H. Murkowski, Republican of Alaska, raised the briefcase, put 27 torn pieces of yellow legal paper into it and opened its mouth wide toward the hearing room to show how easily the pieces of paper could be seen.

"It's very hard for this Senator to understand why it took four days -- four days -- to discover this note if it was in fact in Foster's briefcase all along," Mr. Murkowski said. "Now, maybe it was an oversight, but that's what happens when you allow the political people to take over an investigation that should be run by professional law-enforcement personnel."

Senator John Kerry of Massachusetts and other Democrats later criticized Mr. Murkowski's show-and-tell as grossly misleading. Mr. Kerry later staged a counter-demonstration meant to show how easily Mr. Nussbaum, pulling files from a briefcase sitting beside him, might have overlooked the scraps at the briefcase's bottom.

After the hearing, the White House tried to take the offensive, issuing a statement about the use of Mr. Foster's briefcase that attacked the committee's Republican chairman, Senator Alfonse M. D'Amato of New York, for receiving grand jury evidence from the Whitewater independent counsel and "for use as a prop" at the hearings.

Mr. D'Amato called the accusation "nonsense," and the independent counsel, Kenneth W. Starr, said that the committee's request for the brief case had been made jointly by the Republicans and the Democrats. Mr. Starr said the briefcase was not grand jury material, and was not part of the confidential material generated by the investigation.

GRAPHIC: Photos: Senators Frank H. Murkowski, top, and John Kerry with the briefcase of Vincent W. Foster Jr., the former deputy White House counsel, showing how easy, or hard, it was to overlook his torn-up suicide note. (Photographs by David Scull/The New York Times)

LANGUAGE: ENGLISH

LOAD-DATE: July 19, 1995
LEVEL 1 - 8 OF 9 STORIES

Copyright 1995 The New York Times Company
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July 18, 1995, Tuesday, Late Edition - Final

SECTION: Section A; Page 12; Column 1; Editorial Desk

LENGTH: 713 words

HEADLINE: Old Questions, New Hearings

BODY:

When the matter now known as Whitewater first arose during the 1992
Presidential campaign, candidate Bill Clinton called it no big deal. But he and
his staff, in the campaign and later at the White House, stonewalled on the
details that would have revealed whether he and Mrs. Clinton were telling the
truth about their finances.

Today's renewed Senate hearings on Whitewater are the bitter fruit of those
original evasions. For reasons known but to them, the Clintons have offered
tricky answers that brought confusion rather than clarity to their land deals
with a high-rolling Arkansas banker and campaign supporter named Jim McDougal.

So for the second summer in a row, Mr. Clinton must endure this irksome
probing of bygone years when he was Governor of Arkansas. But this time, hostile
Republicans are in charge of a special Whitewater committee. They seem eager to
see their work ripple into the re-election campaign.

The first stage of the hearings concerns the White House's clumsy handling of
the papers of Vincent Foster, the deputy counsel who committed suicide in 1993.
At the time of his death, he was trying to help his friend Bill Clinton clean up
old Arkansas business without running afoul of new investigations. The theories
that Mr. Foster died under suspicious circumstances seem cracked, but there is
plenty of room for embarrassing testimony.

The first scheduled witness is Webster Hubbell, former law partner of Mrs.
Clinton and close family friend, who has pleaded guilty to fraud and theft in
Little Rock. Mr. Hubbell and Bernard Nussbaum, the former White House counsel,
had a hand in preventing National Park Police from handling the Foster
investigation in a professional manner. It is clear that the committee chairman,
Senator Alfonse D'Amato, and other Republicans on the committee have reason to
grill all the witnesses about the paper trail running through Mr. Foster's
office.

But the Clintons are not alone under the hearing lights. Washington and the
nation will be watching Mr. D'Amato to see if this dogged partisan can maintain
the dignity of these proceedings. Mr. D'Amato -- not to mention his home state
of New York -- would be well served if he exhibits less than his usual
stridency. As an officeholder with a checkered ethical history of his own, he
needs to show that he can proceed with a gravity that matches the seriousness of
the financial questions to be addressed in the days ahead.

The public still has a right to know what the Clintons have never willingly
offered, an accurate accounting of how much they paid for their half share of
the Whitewater land investment. The committee also has an obligation to
explore whether the Clintons' tax returns correctly reflected any losses they incurred in the Whitewater Development Company and any financial benefits they received from the firm, Mr. McDougall or his bank.

One of the enduring mysteries of this Presidency is why Mr. Clinton has been willing to absorb such tremendous political damage rather than authorize a full accounting of the Whitewater deal. Now a report by the Resolution Trust Corporation gives the clearest picture yet available of the firm's finances. It shows that of Whitewater's losses of about $200,000, Mr. McDougall absorbed more than $158,000, while the Clintons paid only about $42,000, far less than their half share.

As for the tax consequences, documents gathered for Senate hearings show that before his suicide Mr. Foster worried considerably over whether the President's tax returns should show a loss from the Whitewater land dealings. That might trigger a tax audit, "a can of worms you shouldn't open," he wrote.

For three years now, the Clinton team has acted as if anything connected to Whitewater was a can of worms that no one had a right to open. It has denounced as political enemies anyone who expressed reasonable curiosity about who paid what monies and for what purpose. Some of those in charge of the inquiry are indeed their political enemies. Yet they are only seeking what should have been offered voluntarily. The R.T.C. figures show that the public has not yet had a full factual accounting and that those who have persisted in their questioning have had good reason to hunger for straight answers.

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July 16, 1995, Sunday, Late Edition - Final

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LENGTH: 1762 words

HEADLINE: Documents Show Clintons Got Vast Benefit From Their Partner in Whitewater Deal

BYLINE: By JEFF GERTH and STEPHEN ENGELBERG

DATELINE: WASHINGTON, July 15

BODY:

From the moment questions about the Whitewater real estate venture began arising nearly three years ago, the main defense by President Clinton and his wife, Hillary, has been that they lost money on the ill-fated deal and were personally liable for its extensive bank loans.

But newly available documents -- including the first completed independent review of Whitewater, prepared for a Federal agency by a law firm -- cast both positions in a new light.

The review shows that the Clintons' partner in the deal, the owner of an Arkansas savings and loan association whose failure cost the Federal Government $60 million, shielded them, to an extent far greater than previously reported, from paying their half of Whitewater's losses.

From 1980 to 1986, that partner, James B. McDougal, advanced the Whitewater venture the $100,000 it needed to avoid a messy default on its bank loans, while the Clintons, half-owners of the corporation, contributed nothing, the report says.

While what has become known as the Whitewater affair now embraces a number of matters under investigation by Congress and an independent counsel, two central questions concerning the land deal that gave the episode its name are these: Did the Clintons pay their share of the venture's losses? And did Mr. Clinton, as Governor of Arkansas, help his business partner, Mr. McDougal, get any favors from state officials?

The report, which puts Whitewater's total losses at about $200,000, addresses only the first question. According to the document, the Clintons contributed $42,192 to Whitewater, while Mr. McDougal, his wife and his companies paid the rest: $158,523.

Those figures are in contrast with a report done for Mr. Clinton's 1992 Presidential campaign, which found that the Clintons had contributed $68,000, and Mr. McDougal and his wife, Susan, $92,000. The White House later acknowledged that the report had overstated the Clintons' contribution by $22,000, but never gave a revised estimate for the McDougals' payments.
Other newly available documents, released by the White House, show that the Clintons' closest advisers were worried about the political implications of the Whitewater losses soon after he took office as President in 1993.

The Clintons had sold Mr. McDougal their Whitewater stock for $1,000 in 1992, and the issue was whether to report any of the Whitewater losses on the couple's 1992 income tax return.

Lawyers for the Clintons noted that the most conservative tax approach was not to report a loss. But an accountant working for the Clintons warned in a letter that the Whitewater issue was "very sensitive" and that reporting neither a loss nor a gain on the project "bolsters the opponents' position" that Mr. Clinton had been protected from its losses.

"The President said he incurred a significant loss -- the return shows no loss," the accountant said in the letter, forwarded on April 7, 1993, to Vincent W. Foster Jr., the deputy White House counsel.

But Mr. Foster, in a handwritten note found in his White House files soon after he committed suicide that summer, expressed no enthusiasm for reporting Whitewater's losses on the tax return. Being required to document them in audit, he said, would be a "can of worms you shouldn't open."

Ultimately, not only did the Clintons decline to report a loss, they actually reported a gain of $1,000, the entire price on their sale of stock to Mr. McDougal -- meaning they would never have to document a cost basis.

The independent study of Whitewater, based on the Clintons' private files and previously unavailable bank records, was prepared for the Resolution Trust Corporation in April by the San Francisco-based law firm of Pillsbury, Madison and Sutro. The 143-page report, labeled "preliminary," is part of an effort by the R.T.C. to see whether it can recover some of the losses created by the collapse of Mr. McDougal's savings and loan association, Madison Guaranty.

David E. Kendall, the Clintons' lawyer, has not seen the report. He declined to be interviewed but said in a statement, "It's simply not accurate that the McDougals somehow disproportionately relieved the Clintons of their share of Whitewater-related debts."

But the report details how Mr. McDougal steadily reduced the Clintons' personal liability for Whitewater's bank loans.

When the real estate venture began in 1978, the Clintons and the McDougals together obtained $202,000 in loans to buy the land, Arkansas vacation property. Both couples were personally liable for those debts, and could have been sued to cover any of the banks' losses.

By 1986, the report says, the Clintons' exposure had been reduced, even though Whitewater had fared quite poorly. According to the report, the Clintons then were obligated for only $77,000, a third of the Whitewater company's total debts of $225,000.

Mrs. Clinton has rejected the notion that she and her husband were protected from Whitewater's losses by Mr. McDougal and, in an April 1994 news conference, pointed to the shared bank loans as evidence.
"The ownership of the corporation was 50-50," she said. "The liability on the underlying debt was 100 percent for each one of us."

If at any time Mr. McDougal had been unable to pay his share of the bank debt, she said, "we would not only have been left with 50 percent of the obligation, we would have had 100 percent of the obligation."

She did not mention Mr. McDougal's role in substantially reducing the size of the bank debt, saying only, "We gave whatever money we were requested to give by Jim McDougal."

The report said investigators could not determine "how much, if anything, the Clintons knew about the McDougals' advances to Whitewater." It explicitly supports the Clinton's oft-repeated assertion that they were "passive investors" in Whitewater and had little role in its financial management until 1988.

But it includes some newly available documents showing that the chaotic finances of Whitewater did occasionally require the earlier attention of the Clintons. Taken together, those documents suggest that the couple could have had reason to suspect that the venture was failing to pay its bills.

In October 1984, for example, Mrs. Clinton wrote to Mr. McDougal that she had been forced to pay the company's local real estate taxes "because of my concern that any delinquency could become fodder for election year rhetoric."

And when an Arkansas bank from which Mr. Clinton had borrowed $20,800 on behalf of Whitewater sent a final payment notice to the couple, Mrs. Clinton wrote to Mr. McDougal, "Will you please take care of it or let me know what I need to do?"

Thus prodded, Mr. McDougal sent Mrs. Clinton $4,811 from Whitewater's checking account.

Whitewater's continuing failure to break even also meant troubles with a $182,000 loan from its main lender, the Citizens Bank of Flippin, and the Clintons were told of the loan's occasional delinquency in the early 1980's, according to present and former officials of the bank. The R.T.C. report said the Clintons did not provide a financial statement when that loan was obtained in 1978.

One director of the bank recalls speaking to Mr. Clinton about Whitewater's failure to keep up its payments on the loan, which was renewed nine times.

And a former bank official recalls that on another occasion a senior bank manager approached Mr. Clinton at a political event and raised questions about missing financial statements. Mr. Clinton, this former official said, "got red-faced and said something like, 'You can't dun the Governor.' "

In 1986, the report shows, the Clintons wanted to take their names off the mortgage entirely. "I can well understand your desire to keep your name off the note," Mr. McDougal wrote the Clintons on Nov. 14 that year.

In that letter, Mr. McDougal said he was hoping to extricate them from the money-losing investment "because of the high potential for embarrassment to you." He acknowledged that there had been a "large deficiency" in loan
repayment, attributing it to defaults by three purchasers of Whitewater property, and said the arrears would most likely continue to "mount at an unacceptable rate" in the following months.

Finally, Mr. McDougal pointed out that he and his wife had "in large measure contributed to the company the funds necessary" to cover Whitewater's losses, which he put then at $90,000.

Mr. Kendall, the Clintons' lawyer, said in his statement that the couple had wanted to be released from personal liability on Whitewater loans in exchange for giving Mr. McDougal their equity in the project. But that deal never took place.

The R.T.C. report draws no conclusions about several other Whitewater-related issues, among them whether Mr. McDougal diverted money from his savings and loan to help repay Mr. Clinton's 1984 re-election debts.

And, responding to another allegation raised by R.T.C. investigators, the report concludes that although $58,000 flowed from Madison Guaranty through intermediaries and then to Whitewater's accounts, "little is known about the purpose or reason for these transfers." This is one of the most significant issues in the Whitewater affair. It would be particularly embarrassing for Mr. Clinton if Mr. McDougal siphoned money out of his federally insured savings and loan to prop up Whitewater.

The report has other limitations, too. Some documents are missing, and many important witnesses were not interviewed, in part because of restrictions imposed by Kenneth W. Starr, the independent counsel now investigating the Whitewater affair.

The report also makes no recommendation on a central question posed by the R.T.C.: whether a suit should be filed to recover Madison's losses, if any, in the Whitewater venture.

The report offers no evidence that Mr. McDougal benefited from his relationship with Mr. Clinton. But it does disclose that in 1986, in a meeting with Mr. Clinton and Arkansas health department officials at the Governor's offices, Mr. McDougal vented his grievances concerning sewage inspections of another of his projects. State health officials said in interviews that it had been unusual to hold such a meeting in the Governor's presence, but they insisted that Mr. McDougal's projects had received no special treatment as a result.

While the documentary record sheds new light on the relationship between the Clintons and the McDougals, the investigators acknowledge that without interviews with the two couples, it was impossible to assess their motives and intentions.

GRAPHIC: Photo: James B. McDougal (Associated Press)

LANGUAGE: ENGLISH

LOAD-DATE: July 16, 1995
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July 10, 1995, Monday, Late Edition - Final
Correction appended

SECTION: Section B; Page 8; Column 3; National Desk

LENGTH: 653 words

HEADLINE: White House Offers Documents to New Whitewater Hearings

BYLINE: By TODD S. PURDUM

DATELINE: WASHINGTON, July 9

BODY:
On the eve of new Congressional hearings into the Whitewater affair, the White House today made available some documents from the office of Vincent W. Foster Jr., the former deputy White House counsel who committed suicide in 1993, in an effort to buttress its case that there was no link between his death and the controversy over the failed Arkansas land deal.

Breaking months of silence imposed by the special Whitewater prosecutor, Kenneth W. Starr, White House lawyers summoned reporters to review pager records, security logs and Secret Service reports on the handling of access to Mr. Foster's office and papers in the hours and days after his death on July 20, 1993.

They also allowed reporters to inspect the file of around 50 pages relating to Whitewater that was in Mr. Foster's office at the time of his death. The handling of that file later became a matter of controversy after it was removed several days later and stored with other Clinton files from Mr. Foster's office in a locked closet in the White House residence before being turned over to the Clintons' personal lawyer.

The White House lawyers acknowledged there were some inconsistencies in recollections among White House aides about the removal of the file. It contained mostly routine corporate records and was not the only Whitewater file the Clintons had at the time but have since turned over to investigators. But the lawyers said multiple witnesses could account for the file's whereabouts at all times, and the documents appeared to provide little new information.

In a report last year, Mr. Starr's predecessor, Robert B. Fiske Jr., concluded that there was no violation of law in the handling of Mr. Foster's papers after his death and that Whitewater was probably not a factor in his suicide. But some questions have lingered, kept alive by Congressional Republicans in particular.

The White House lawyers said that they were speaking out now because Mr. Starr had allowed Congressional Whitewater hearings to proceed and that they wanted to make their case in advance of the next round, which begins next week under the direction of Senator Alfonse M. D'Amato, Republican of New York.

"The subject matter of these hearings has been reviewed by two independent counsels that have had enormous resources at their disposal," said Mark Fabiani, an associate White House counsel who handles Whitewater matters. "The fact is, these hearings will duplicate everything the independent counsel's office has done."

People familiar with the investigation said there would undoubtedly be some contradictions highlighted in Mr. D'Amato's hearing, including the assertion of a Secret Service guard that he saw Maggie Williams, chief of staff to Hillary Rodham Clinton, carry a stack of documents from Mr. Foster's office on the night of his death. Ms. Williams and other witnesses deny this and she passed a lie detector test for Mr. Starr last fall.

The White House lawyers also allowed reporters to inspect Mr. Foster's file on the firing of the White House travel office staff in the spring of 1993 and on the subsequent controversy. His handwritten notes show some concern that the White House correctly explain the extent of Mrs. Clinton's knowledge and involvement in the matter. On June 30, 1993, Mr. Foster wrote that "H.R.C. is perceived as being involved in decisions and events in which she has no participation."

The lawyers also released a list summarizing the contents of 23 other files relating to the Clintons' personal affairs that were removed from Mr. Foster after his death.

David E. Kendall, the Clintons' personal lawyer, said in a telephone interview that those files "concern such matters as the Clintons' income taxes, their blind trust, the President's Federal financial disclosure form and proposals for 'Arkansas White House,' " a residence for the Clintons in Arkansas that was never set up.

CORRECTION-DATE: July 11, 1995, Tuesday

CORRECTION:
An article yesterday about documents removed from the office of the former White House counsel, Vincent W. Foster Jr., after he died, misstated the position taken by Robert B. Fiske Jr., the former Whitewater independent counsel, on the handling of the documents. Before leaving office, Mr. Fiske never reached any legal conclusions about the handling of the documents by other White House officials; he did not conclude that no law had been violated in the handling of the documents.


LANGUAGE: ENGLISH

LOAD-DATE: July 10, 1995
Both are baby-boomer Southerners with Ivy League educations and six-figure incomes. But Vice President Al Gore disclosed some big differences with President Clinton when they released their 1994 income tax returns today: Mr. Gore earned quite a bit more last year and was a lot less generous.

Mr. Clinton and his wife, Hillary, claimed $30,125 in charitable contributions, or 11 percent of their adjusted gross income of $263,900, with most of it, their aides said, given to churches they attend.

By contrast, Mr. Gore and his wife, Tipper, claimed no itemized deductions on their adjusted gross income of $411,713. The reason, an aide said, was that all the itemized deductions they might have taken, including charitable contributions, amounted to less than the $6,350 standard deduction available to married couples filing jointly (which equals just 1.5 percent of their income).

To be fair, $12,000 of the money the Clintons gave away was given to them as a gift anyway, proceeds from the private Henry G. Freeman Jr. Pin Money Fund, established in 1912 for the benefit of First Ladies. The fund made its first payout in 1993, after litigation over Mr. Freeman's estate was resolved following the death of his last known heir.

Counting only the $18,000 of their own earnings that they gave away, the Clintons still donated nearly 7 percent of their adjusted gross income to charity. They did not release the list of their charities, but the White House spokesman, Michael D. McCurry, said most of the money had gone to churches.

Over all, the Clintons paid $55,313 in Federal taxes, or 21 percent of their adjusted gross income. They overpaid by $14,418 and chose to apply about half of the overpayment to next year's bill. Their income was almost $30,000 less than in 1993, when they said their blind trust was the second most important source of their income.

The Gores paid $142,688 in Federal taxes, or 35 percent of their adjusted gross income, and chose to apply all of a $4,881 overpayment to their 1995 taxes. More than half their earnings -- $259,013 -- came from Mr. Gore's best-selling book on the environment, "Earth in the Balance." His Vice-Presidential salary is $171,500; Mr. Clinton receives $200,000 as President.
Mr. Gore's press secretary, Lorraine Voles, declined to comment on the contrast between the Clinton and Gore returns for 1994. She noted that Mr. Gore donated $50,000 to the University of Tennessee in 1992 to establish a chair in environmental studies in honor of his late sister, Nancy. His entire contribution to charity was $52,558 that year.

Despite their relatively high income, the Gores have few of the expenses that would make it worthwhile to itemize deductions, in part because Tennessee has no state income tax. They have a mortgage on their home in Virginia, but now rent the house out as income-producing property and so cannot claim the home mortgage interest, Ms. Voles said. They also have a small mortgage on property in Tennessee, which, even combined with whatever charitable contributions they made, would still not exceed the $6,350 standard deduction, she added. She said the same was true last year.

The gift from the Pin Money Fund lifted the Clintons' charitable contributions, the single largest deduction they claimed, from the $17,000 on their 1993 return. Their next biggest deduction for 1994 was $10,000 in legal and tax preparation expenses for their 1993 returns.

Mr. McCurry said none of that money had gone for lawyers' fees to defend the President against the sexual harassment lawsuit filed by Paula C. Jones or the Whitewater investigation.

The Clintons also filed a return paying taxes of $911 for their 15-year-old daughter, Chelsea, who received $6,678 in royalties from the autobiography of the President's mother, Virginia Kelley, who died last year.

LANGUAGE: ENGLISH

LOAD-DATE: April 15, 1995
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 partner 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.
Another Arkansan Quits White House Staff

By MICHAEL WINES, Special to The New York Times

DATELINE: WASHINGTON, Nov. 18

William Kennedy 3d, a onetime law partner of Hillary Rodham Clinton, has resigned as associate White House counsel and will return to private life in Little Rock, Ark., the White House said today.

Mr. Kennedy had an occasionally stormy tenure in an office that has itself been controversial during Mr. Clinton's time in office. A White House spokeswoman, Ginny Terzano, said Mr. Kennedy was completing his work today and would return to Arkansas on Sunday.

Mr. Kennedy did not return a reporter's telephone call, and Ms. Terzano said he had not disclosed his plans.

"His decision to leave the White House was a personal decision," she said. "His family was back in Arkansas, and he has small children there that he wants to spend time with."

Mr. Kennedy was one of four partners in the Rose law firm in Little Rock who came to Washington and high Government positions when President Clinton took office 22 months ago. His departure leaves only one of the four, Mrs. Clinton.

A third Rose partner, Webster L. Hubbell, resigned as Associate Attorney General early this year after questions were raised about his billing practices at the Rose firm. The charges are under investigation by Kenneth Starr, the independent counsel examining the Whitewater affair.

A fourth Rose firm member, Vincent W. Foster, who was deputy counsel to the President, committed suicide in July 1993.

Mr. Kennedy came to Washington with a reputation as a one of his firm's most hard-nosed litigators. He was placed in charge of ethical matters and quickly found himself enmeshed in a dispute.

When a distant cousin of President Clinton sought early in his term to dismantle the White House travel office, accusing some of its employees of impropriety, Mr. Kennedy independently called the Federal Bureau of Investigation into the inquiry rather than forwarding the request to the Justice Department.
A White House inquiry concluded that the efforts to overhaul the travel office created the impression of impropriety, in part because friends of the Clintons had stood to benefit by gaining air charter contracts. And the report on inquiry stated that Mr. Kennedy's decision to summon the F.B.I. created the perception that the bureau was being used for political purposes, for which he was reprimanded.

Later that spring, several Administration officials and nominees to high posts came under attack for failing to pay Federal taxes on wages to housekeepers and nannies. It was later disclosed that Mr. Kennedy, too, had failed to pay Social Security taxes on his family's nanny until shortly after the issue became a matter of dispute, and that he had then paid the back taxes using his wife's former name, Leslie Gail McRae. Mr. Kennedy said the use of that name was not an attempt to escape public scrutiny. The White House later removed ethical matters from his responsibilities.

Recently, it was reported that Mr. Kennedy was assigned in 1993 to handle questions about the background of President Clinton's nominee as Navy Secretary, John Dalton. The White House's public description of Mr. Dalton's career omitted the fact that he had headed a Texas savings and loan that had failed at a cost to taxpayers of $100 million, and that Federal regulators had secured a private settlement over what they called his "gross negligence" in managing the institution.
LEVEL 1 - 94 OF 204 STORIES

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SECTION: Section 6; Page 20; Column 1; Magazine Desk

LENGTH: 12609 words

HEADLINE: The President's Past

BYLINE: By Michael Kelly; Michael Kelly is the staff writer of The New York Times Magazine.

BODY:

A good place to begin thinking about how Bill Clinton became who he is today is the Arkansas town of Springdale, where a short, red-faced man known as Mr. Chicken sits in a room modeled after the Oval Office of the President of the United States (although not precisely; the White House's Oval Office does not have doorknobs shaped like hen's eggs) and tells a story about the political education of a bright young fellow.

It may seem an act of considerable vanity for a chicken farmer to build himself a copy of the President's office. But Don Tyson is a realist to his thick fingertips, as befits a man who presides over the largest abattoir the world has ever seen -- every week, Tyson Foods reduces 25 million chickens to plucked and gutted shadows of their former selves -- and he sees politics as a series of unsentimental transactions between those who need votes and those who have money. His office decor is an accurate, not immodest statement about where, in a world where every quid has its quo, power lives.

Money men like Tyson are strong in politics everywhere, but the realities of Arkansas favor them particularly. Power in Arkansas rests upon two enduring conditions complicated by an enduring contradiction. The first condition is that most people in Arkansas have very little money while a few people have a great deal. The second condition is that Arkansas is not really a democracy. It has been ruled for almost all of its existence, and is largely ruled still, by a thin upper crust of Democratic Party officials and Democratic legislative leaders and important landholders and businessmen. This elite, bound together not by party or even ideology but by mutually advantageous relationships, holds sway over a small and politically disorganized middle class and a large but well-beaten population of the poor. The contradiction is that Arkansas voters, in a class-based reaction against this condition, perpetually favor politicians who are "common" in touch, populist in theology and reformist in policies.

What results is a system in which voters consistently reward candidates who promise change, but in which men like Tyson consistently reward those who preserve the pro-business status quo. Because each candidate must, in the absence of real party politics, build his own organization, and because the money men are the only dependable sources of the heavy financing that this requires, Arkansas's wealthy corporatists possess far greater clout than they would in a state with a strong party system, large professional class or powerful unions. They are the equivalent of Broadway's "angels," determining who appears on the big stage and who does not. There are a few Republicans among the angels, and perhaps one or two mild ideologues, but most of the heavenly host
fit the description Don Tyson applies to himself: "businessman's Democrat," which means they support Democrats who support them.

"The Arkansas system had always been to find some good young people and encourage them to work on the local level," Tyson ruminates by speakerphone from his oval office. "The system kind of weeds them out, and out of that comes a United States Senator or a governor. . . . It's like a horse race. You back three or four, so you always got a winner."

The Tyson family has been backing winners in Arkansas politics since 1954, when John Tyson, Don's father and the founder of the family business, bet on a promising young man named Orval Faubus. "Orval was my dad's first political deal," Tyson recalls, speaking of the six-term Governor with the nostalgic affection of an old horseplayer remembering a 5-to-1 shot that paid off. "Orval was a little newspaper editor 25 miles east of here in Huntsville. He got over here one day and had a lunch with a bunch of Springdale people here in a restaurant. He said, 'I want to run for Governor and I need $1,500 and don't have it.' Dad was one of the three people who gave him $500 apiece so he could pay his filing fee."

The generation that entered Arkansas politics in the 1970's was exceptionally rich in talent, but even so, Bill Clinton caught Tyson's eye. "He was young and he was impressive," Tyson recalls. "I don't believe we ever talked about his politics; hell, he was a Democrat." Tyson put a modest sum of money on Clinton in his yearling race, a Congressional run in 1974. Although Clinton lost that election, he showed excellent form, and Tyson backed him again in his successful 1976 run for State Attorney General; and again in 1978, when the 32-year-old ran as the overwhelming favorite for Governor.

But before Tyson made his gubernatorial choice for 1978, he posed a question. In the relentless drive of expansion and acquisition that would make Tyson Foods the largest poultry processing company in the world, Tyson faced a serious obstacle. In recent years, most other states had raised their legal truck weight limits from about 73,000 to 80,000 pounds. Arkansas, though, still stuck to the old limit, which put the state's poultry and trucking companies at a disadvantage with their out-of-state competitors and cost them millions of dollars. Would a Governor Clinton take care of that problem? Candidate Clinton, recalls Tyson, said he would be happy to.

"Bill promised a bunch of us that he'd raise the weight limit on trucks," Tyson remembers. "Damn right he did. He promised me, personally, in my car driving to the airport three or four months before the election. He said that if he was elected, he'd do it. He said he'd take care of it. Now, there's a bunch of chicken folks in this state, and we all had a big interest in this weight thing, so we supported Clinton."

It was, by Tyson's account, several months after this private talk that a great windfall came into the lives of a young and relatively poor couple named Bill Clinton and Hillary Rodham. The windfall fell from the hand of the Clintons' close friend James Blair, an important Arkansas Democrat of the back-room genre and a Springdale lawyer whose most important client was Don Tyson and Tyson Foods.

Blair was a man who greatly desired to be rich. In 1977, he began plunging deep into a string of commodities speculations that he expected would make him
so. Trading in cattle futures through the Springdale branch of the Ray E. Friedman and Company (Refco) chain run by Robert (Red) Bone, a commodities broker (and former Tyson executive) of dubious reputation, Blair had already made several hundred thousand dollars by October 1978, and expected to make millions more. With Clinton up 30 points in the polls less than a month before Election Day, Blair approached Hillary Rodham to urge her to invest in his sure-thing scheme, telling her that "it was one of those rare chances to put aside some money," and that "she wouldn't have to be the expert. I'd give her advice."

Mrs. Clinton put up $1,000, and on her first day made a post-commission profit of $5,300, trading on 10 cattle futures contracts. She continued to invest with Blair and Bone for nine months, during which time her husband was elected and sworn in as Governor. Although Mrs. Clinton was a small, inexperienced and cash-poor customer, Bone's Refco office accorded her privileged treatment generally reserved only for investors with deep pockets or proven records. The Blair-Clinton investments ended in July 1979, having netted $99,537, a nearly 10,000 percent return.

On April 22, 1994, Hillary Rodham Clinton, soft-edged in a warm pink sweater and smiling sweetly at the badgering White House reporters, acknowledged that she had opened her account at Blair's "very strong recommendation," that Blair had always guided her about which trades to make and that "often" he had simply placed the trades for her. Her role, as she described it, was largely limited to approving Blair's suggestions. But, Mrs. Clinton insisted, Blair had done this large favor only because he and his wife were "among our very best friends."

Scorn crisping the edges of her voice, Mrs. Clinton dismissed the idea that Blair might have meant to guarantee good will towards Tyson Foods with his $100,000 boon to the Governor and his wife. "I found it a little bit surprising that anyone would suggest that," Mrs. Clinton said, "because, in 1980, right during the time that this was all going on, when my husband ran for re-election, Tyson supported his opponent."

Mrs. Clinton's artful explanation notwithstanding, the records show that she had concluded her commodities trading with Blair by July 1979 -- more than a year before the next gubernatorial campaign. For his part, Tyson says today that he never knew about the financial arrangements between his attorney and the Clintons until he read about them in The New York Times earlier this year. But Tyson also says the reason he didn't support Bill Clinton in 1980 is not because he couldn't buy Clinton's favors in 1978. It was because Tyson thought he had indeed obtained a favor -- the promised truck weight increase. But Clinton had failed to deliver his part of the bargain. "He didn't raise the limit," Tyson says.

The fact is, even if he had wanted to, Governor Clinton could probably not have pushed the higher truck weight through the Legislature. The opposition of the powerful Arkansas Highway Commission -- on the grounds that heavier trucks would damage the state's highways -- was just too strong. But Tyson blamed the young Governor for not even making the fight. "He never even tried to get it through," Tyson says.

And so, when Clinton ran again for Governor in 1980, against a little-known Republican businessman named Frank White, Tyson took revenge: "I said, 'Hell, I'll support Frank White.' "

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Clinton lost the 1980 election, a defeat that threatened to end his political career. But in 1982, after a brutal campaign against White, he won back the Governor's seat. Tyson, who had backed White a second time, watched with interest to see what the resurrected Governor would do about the truck weight limit, which remained unchanged despite White's support of an increase. Almost immediately after taking office again in 1983, Clinton maneuvered the 80,000-pound limit through the Legislature by linking it to a special tax on the heavier trucks, to pay for potential road damage. And when Clinton ran for re-election in 1984, Tyson supported him, as he has in every election since. He is refreshingly candid about why. "He started running the state better and learned a few lessons," Tyson says, "And, hell, my trucks were running full, 80,000 pounds."

HE 42D PRESIDENT IS AN IMPRESSIVE THINKER, a talented political performer and something of a visionary. Indeed, although Bill Clinton has been largely successful (for better and worse) in presenting himself as a moderate, he is, in a true and unpejorative sense of the word, a radical, committed to a level of change far more ambitious than that of most Presidents. Through his ability to speak with both uncommon intelligence and a common touch, he has advanced issues that had been frozen for years in a left-right stalemate, most notably health care, welfare and crime. The expanded earned-income tax credit program he won from Congress last year was a historic measure, the Government's first real attempt to guarantee that no one who works full time and has a family to support would fall below the poverty line. The health care reform he is trying to get through Congress this year would be the most significant expansion of entitlements since the creation of Social Security and among the most ambitious efforts at social engineering in the nation's history. The Clinton Administration is the first to openly (if at times gingerly) embrace the idea of according protected minority status to homosexuals. The Clinton welfare-reform bill may not entirely meet the grand campaign promise of "ending welfare as we know it," but it nevertheless represents a genuine attempt to impose the toughest work requirements ever attached to welfare, the first serious effort by any President, Democrat or Republican, to stop the disastrous generational cycle of America's dole society. Because Clinton is President, it has become harder now for criminals and lunatics to arm themselves, and easier for parents to take time off work without losing their jobs.

So why doesn't all of this seem to matter more? Why doesn't Bill Clinton get more credit for his successes, and less vilification for his failures, which seem to loom so large? Why does the President get so little respect? The problem is not just criticism from the right, where many passionately loathe Clinton. That is to be expected; conservatives understand, if liberals do not, how serious the President is about dramatic change. What threatens this President seems to be much larger than mere partisanship. There is a level of mistrust and even dislike of him that is almost visceral in its intensity. In Washington, where power is generally treated with genuflecting reverence, it is no longer surprising to hear the President spoken of with open and dismissive contempt. In mainstream journalism and even more so in popular entertainment, President Clinton is routinely depicted in the most unflattering terms: a liar, a fraud, a chronically indecisive man who cannot be trusted to stand for anything -- or with anyone.

Bob Woodward, in his book "The Agenda: Inside the Clinton White House," describes the President as a lost leader, berating himself and his aides for selling out the populist promise of his campaign to satisfy Wall Street, being
berated in turn by his own Vice President to "get with the goddamn program." At a television town-hall gathering in North Carolina, a woman confronted the President: "Many of us Americans are having a hard time with your credibility. How can you earn back our trust?" At another public event, a newspaper editor informed the President that his explanations on Whitewater reminded him of his daughter's excuses for undone homework. The political columnist Joe Klein, once one of Clinton's great fans, writes that the President's idea of character is "adolescent, unfomed, half-baked," and that "with the Clintons, the story is always subject to further revision," as "trust is squandered in dribs and drabs."

Much of this is unfair, some of it is irrational and some of it has more to do with the savagery of an angry and fearful time than it does with Clinton personally. It is true as well that Clinton suffers from a fundamental handicap; in the unusual three-way race of 1992, he was elected with only 43 percent of the vote, putting him in office with one of the weakest bases of support any President has ever had. But there is a fundamental reason for Clinton's plight. Bill Clinton is the first President since Richard Nixon to be threatened with the awful intimacy of rejection not simply as a leader or as a politician but as a person. As was also true with Nixon, this threat flows from a deep source, an abiding public doubt about the ethical content of the President's character. Such doubt is quite different from the criticisms of job performance that plague every President. It is an assessment of the man as a whole, of what is bred in the bone, one of those national gut decisions that happen in politics, something that solidifies after the accumulation of evidence passes some unseen tipping point: Lincoln is honest, Carter is weak, Reagan is decent but doddering, Bush is a wimp. Only Richard Nixon and now Bill Clinton have been tagged with nicknames that reflected a popular suspicion that the President of the United States could not be fully trusted: Tricky Dick and Slick Willie.

What plagued Nixon, and now Clinton, is that this sort of judgment is extremely difficult to overcome; it is almost entirely impervious to the machinations of speech writers and political consultants, and even to substantive achievements of office. Bill Clinton ran for President promising to revive the economy and bring about universal health care. Less than halfway through his term, the economy is in strong shape and health care reform in some form is almost assured. Most Americans acknowledge these achievements. According to a New York Times-CBS poll in mid-July, 53 percent of Americans view the economy as healthy, compared with only 23 percent when Clinton took office. Seventy-nine percent think universal health care is "very important." Yet the public is strongly disinclined to give Clinton credit. The Times-CBS poll found that 63 percent of Americans think Clinton has made no progress in improving the economy. Even more startling, 60 percent say Clinton has made no progress in advancing health care insurance. The President's overall approval, which has never risen more than about 10 points beyond the 43 percent mark, has dropped precipitously in the past six months; 47 percent of the public disapprove of the way Clinton is doing his job and only 42 percent approve.

Nixon's problems were rooted in the record of his life, and Clinton's are, too, in the things he has said and done to get where he is today. Clinton's life trails him like a peculiarly single-minded mugger, popping out from the shadows every time it seems the President is for a moment safe -- to whack the staggering victim anew. The past has slapped Clinton so often, so publicly and so brutally, that its attacks have become known, in the pop-culture shorthand that signifies universal acquaintanceship, by their tabloid handles: Gennifer,
the Draft, I Didn't Inhale, Whitewater, Troopergate, Hillary's Commodities, Paula Jones. Each episode has moved the national assessment closer to the tipping point.

What makes this sad, even tragic, rather than merely sordid, is that Bill Clinton's predicament owes itself directly to Bill Clinton's promise. The President's problems did not come about because he was a cheap political hack. They came about because he was not. For what has happened to Clinton has happened because he wanted, more than anything in life, to get to where he is today, and because he wanted this, at least in part, in order to do good -- and because the great goal of doing good gave him license to indulge in the everyday acts of minor corruption and compromise and falsity that the business of politics demands. Bill Clinton was perceptive enough to master politics -- but not perceptive enough to see what politics was doing to him.

CIRCUMSTANCES OF BOTH NATURE and nurture set Bill Clinton up for a life in politics. The Hollywood version of Clinton's life, produced for his 1992 Presidential campaign, centered on his early childhood "in a place called Hope," a parable of small-town innocence and working-class roots. But Clinton really grew up in the old gangster city of Hot Springs, where his mother, Virginia, had moved when he was 6. As she describes it in her recent, posthumously published memoirs, "Leading With My Heart," Hot Springs was "a town in which the con job was considered an art form," and the home of the some of the most thoroughly crooked politics in America. The city of Clinton's youth was a place where whorehouses and illegal gambling halls thrived under police protection, where the retired New York mobster Owney Madden was a celebrated citizen and the town's leading madam was another, where illegal gambling and liquor sales were routine -- a place, Virginia writes, "where gangsters were cool, and rules were made to be bent, and money and power -- however you got them -- were the total measure of a man."

Virginia and her second husband, Roger (Dude) Clinton, were not peripheral citizens but successful members of the Hot Springs business and political establishment. Virginia built what was for three decades a successful practice as a nurse-anesthetist, and Roger was employed at his brother Raymond's thriving Buick dealership. In her memoirs, Virginia Kelley (as she was known at the time of her death in January) describes a family that always had a big, comfortable home, at least one late-model Buick convertible in the garage and enough spending money to indulge in frequent night-clubbing and gambling with a group of "running buddies" that included many of the men who ran Hot Springs. Indeed, the Clintons themselves were important political players: Roger's brother Roy was a member of the State Legislature from 1951 to 1954, and his brother Raymond, the family leader whom Clinton has described as a father figure, was a behind-the-scenes power in town. He made his Buick dealership "a gathering place for powerful, politically savvy men in Hot Springs," Kelley writes. "The big wheels."

One critical point that the young Clinton could not have failed to notice was that people who had power and connections could do things that other people could not. Kelley's unblushing account makes it clear that Roger Clinton and his friends had a long history of getting away with crimes and acts of drunken violence. She writes, offhandedly, that before she met Roger, Raymond had used his influence to get Roger out of trouble with the Hot Springs police after he had "bashed a Puerto Rican boy in the head with a cue stick." In later years, Kelley recounts, there was a litany of violent occasions: "the night I danced
with a man at the Tower Club and Roger Clinton beat him to a pulp"; Roger punching and kicking her at a public dance; Roger and his drinking buddies driving roaring drunk down the highways; nights the cops were called to the Clinton home to protect her and her sons.

And the lesson was not merely that the right people could get away with doing wrong. As Kelley describes her philosophy, the right people -- herself, her family and friends -- couldn't really do wrong.

In the two years and eight months of her marriage to her first husband, Bill Blythe, Kelley writes, he never told her of his previous three marriages or that he had fathered at least one child besides Bill. Of her third husband, Jeff Dwire, Kelley writes that her friends suspected him of being "a con man," and of running a house of prostitution out of his beauty salon. Kelley says she "never believed" those "awful rumors." In 1961 Dwire was indicted on 25 counts of stock fraud (for which he was ultimately convicted and sentenced to nine months in prison) for his part in a scheme in which he and a partner bilked small-time investors of more than $32,000 by pretending they were producing a movie on the life of the gangster Pretty Boy Floyd. As far as Kelley was concerned, "that one mistake wasn't a reflection of the inner man."

Kelley calls her approach to life "brainwashing," and describes it in clear terms: "Inside my head, I construct an airtight box. I keep inside what I want to think about, and everything else stays beyond the walls. Inside is white, outside is black . . . Inside is love and friends and optimism. Outside is negativity, can't-doism and any criticism of me and mine."

Also outside the parameters of Kelley's construct were the past and the future; she insisted on living in the present. "I've always felt the past is irrelevant," she writes. "I've always maintained that whatever's in someone's past is past, and I don't need to know about it." As for the future: "I've trained myself not to worry about what-ifs, either . . . And when bad things do happen, I brainwash myself to put them out of my mind." Kelley's relentless accentuation of the positive must have been a great help in dealing with years of adversity, and Bill Clinton clearly owes much of his own optimism, tenacity and resilience to his mother's inspiration. Clinton also may owe to Kelley the character trait that was perhaps the essential determinant of his political success -- an unusually large need for adulation, a hunger for affirmation from others so intense that approval is seen almost as an entitlement. "I think Bill and Roger and I are all alike in that way," Kelley writes. "When we walk into a room, we want to win that room over. Some would even say we need to win that room over, and maybe that's true. Roger says the three of us, if there are 100 in a room and 99 of them love us and one doesn't, we'll spend all night trying to figure out why that one hasn't been enlightened."

This powerful need doubtless had a great deal to do with turning Clinton into the remarkable political performer he is, a campaigner driven to treat each encounter with a prospective voter as an occasion for seduction, an opportunity to win another's love. But this need also made him peculiarly vulnerable to the universal temptation of political life -- to tell people what they want to hear. Kelley's philosophy could only have encouraged this behavior. Her world view taught, ultimately, that people are not to be judged by their actions, but are endlessly free to reinvent themselves, to be whatever the moment demands. Since "what ifs" do not exist, one needn't worry that the promise of the moment cannot be met in the future, or that the action of the moment might have a harmful
consequence. Since the "irrelevant" past does not really exist either, the actions of the moment cease to exist once the moment becomes the past, and cannot be held against one later.

Kelley describes herself as a natural performer who craved to be the center of admiring attention, and it is noteworthy that the early ambition of both of her sons was to be a popular music star like Kelley's idol, Elvis Presley. Roger Clinton never advanced beyond that adolescent dream; Bill Clinton, recognizing his true talents, put aside his saxophone and turned to politics.

Clinton's career began while he still a student at Hot Springs High School, where he was president of his junior class, the Beta Club (for academic achievers) and the Kiwanis Key Club. By his late teens, Clinton was already a semi-professional politician, so greatly in demand as a civics club speaker and leader of charitable fund drives that his high-school principal had to limit his engagements in order to protect his schooling.

It was clear early on that Clinton possessed great political gifts. He was intelligent, charming and driven, and he had an extraordinary gift for intimacy, a chameleon-like quality of immense value in politics. All sorts of people, meeting Clinton, saw someone much like themselves. Like his hero, John F. Kennedy, he was at home on stage or in front of a camera.

Moreover, Clinton was precisely the kind of budding politician to appeal to the Arkansas powers. In an age of radicalism, he was an instinctive establishmentarian. He was a joiner: the calculus club, the advanced math club Mu Alpha Theta, DeMolay (an organization of "future leaders"), the Junior Classical League, the Bio-Chem-Phy Club, the marching band, concert band, stage band and pep band. He was the right kind of achiever: a National Merit Scholarship semifinalist, winner of the Hot Springs High School Civitan Junior Businessman Award and the Elks Youth Leadership Award for Arkansas, accepted at Georgetown, Oxford and Yale. He was not a bomb-thrower or even a boat-rocker. He ran for his first college office, the 1964 freshman class presidency of Georgetown University, on a platform of solid, modest reform. After his victory, he informed the college newspaper that "the freshman year is not the time for crusading, but for building a strong unit for the future. You must know the rules before you can change them."

A young man of such obvious promise would have been encouraged in any state, but in a poor, chronically put-upon state like Arkansas, he was particularly prized. As A. J. Liebling once noted, the states of the old Confederacy are always searching for those exceptional "national" political talents, the bright young men who will go to Washington and make those damn Yankees stop their endless sneering. But neither Clinton's inarguable appeal nor his inarguable talent for wooing support explain why so many people were willing, and would always be willing, to do so much to further his ambitions. The real explanation lies in the conviction, held by Clinton's elders and friends, as well as by Clinton himself, that he was ambitious for the right reasons -- because he wanted power in order to do good.

"We all believed, at that time, that the most noble direction we could take was to serve in elective or appointive office," recalled David Mixner, a longtime Clinton friend and liberal political activist, in an interview with the Clinton biographer Robert E. Levin. "He really deeply believed that Government could feed people, that we could end war, that poverty did not have to be a
permanent condition, that we could make our country great and prosperous and that our generation would be the one to do it."

The danger in this admirable thought was that it led, almost inevitably, to a logical successor: that the advance of a generational idealist like Bill Clinton was a moral imperative -- one that justified any means necessary. The acceptance of this rationalization was the signal event in the development of Clinton's character -- the ur-compromise from which all later compromises would flow. It occurred when Clinton was only 23, in response to the first great crisis in his life, the Vietnam War.

For Clinton, as for so many men of his generation, Vietnam would be the crucible, the testing ground that would shape their characters forever. Clinton's successful multiyear effort to avoid the Vietnam draft reached its apex in April 1969, when he was a Rhodes scholar at Oxford and received an induction notice from the Hot Springs draft board. At his request, the induction was postponed for two months so that he could finish his term. That summer, he returned to Arkansas and won a deferment on the strength of his pledge to enroll in the Reserved Officers Training Corps program at the University of Arkansas, whose law school he said he planned to attend once he'd finished at Oxford. It was a move of desperation. The R.O.T.C. deferment could protect him for four more years, but would at the same time commit him to two undesirable courses of action: attending the University of Arkansas Law School instead of the far more prestigious one at Yale and serving a lengthy stint in the Army reserves after graduation. The deferment was granted on Aug. 7, 1969, and was put into effect immediately, protecting Clinton from the draft for two crucial months in which the Hot Springs draft board inducted two younger men.

On Oct. 30, Clinton was reclassified 1-A. He has said that this was his idea, and that he took this step because he had come to feel, after several years of maneuvering to avoid the draft, a moral obligation to take his chances along with the other young men of his community. But Clinton's timing suggests otherwise; he changed his draft status only after President Nixon had announced that inductions would be sharply decreased and that graduate students, like Clinton, would be allowed to finish the school year even if drafted, thus guaranteeing protection through the late spring of 1970. Moreover, Nixon had begun wounding the war down; 25,000 troops had already been withdrawn, and the Administration was reportedly considering withdrawing all troops by the end of 1970. On Nov. 26, Congress enacted the new draft lottery system, and on Dec. 1, Clinton's birth date was assigned the number 311, high enough that he knew he would never be called. On Dec. 2, in violation of his promise to enroll in the R.O.T.C. program at the University of Arkansas, Clinton applied to Yale Law School. On Dec. 3, he sent a letter explaining his actions (and seeking the approval he craved even from someone he had deceived) to Col. Eugene Holmes, the Army R.O.T.C. commander at the University of Arkansas.

The now-famous Holmes letter, made public during the 1992 campaign, captures the young Clinton at a crossroads. On one hand, the writer of this letter is obviously and passionately concerned with doing, and being, good. But the letter also captures, with shattering clarity, a young man learning to rationalize acts of deception and compromise as necessary in the pursuit of that good -- which Clinton now regarded as inseparable from his own political advancement.

In his carefully crafted explanation of his thinking, Clinton made clear that he regarded the draft as 'illegitimate,' and the Vietnam War as immoral. He
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described two close friends who had openly resisted the draft as heroes, and portrayed the path of the conscientious objector as the honorable one for anyone opposed to the war. But in the end, Clinton wrote, he decided to put the moral imperative of his political success above his principles:

"I decided to accept the draft in spite of my beliefs for one reason: to maintain my political viability within the system. For years, I have worked to prepare myself for a political life characterized by both practical political ability and concern for rapid social progress. It is a life I still feel compelled to try to lead."

Here, astonishing in its hubris, is the idea at last expressed in its all-excusing force. Other young men of Clinton's generation might justify their actions regarding Vietnam on the grounds of simple self-interest: they did not want to lose their lives to a stupid war. Clinton decided that his self-interest was the same as his country's. He was acting for the sake of the nation's future.

The Arkansas that Bill Clinton came home to in the summer of 1973 after getting his law degree at Yale was in middle of the most significant generational reform movements since the late 1940's. Clinton plunged immediately into it, with a 1974 challenge to the popular Republican Representative John Paul Hammerschmidt of the Third Congressional District, which covered most of northwestern Arkansas. That included Fayetteville, where Clinton had accepted a teaching position at the University of Arkansas Law School. Although Clinton was unlikely to win against Hammerschmidt, he nevertheless attracted strong backing, beginning with his family connections and expanding quickly throughout the Democratic establishment.

In the Democratic primary and in the general election, both the A.F.L.-C.I.O. and the Arkansas Education Association supported Clinton, as did consumer groups, the United Mine Workers and some of the angels of Arkansas politics, most notably Don Tyson. According to Meredith Oakley, the author of "On the Make: The Rise of Bill Clinton," Clinton was able to outspend Hammerschmidt by $20,000. In his campaign, Clinton was much aided by his de facto campaign manager and wife-to-be, a young woman whose reformist zeal surpassed even his. By running hard on an anti-big-business platform and by unfairly tarring Hammerschmidt with Watergate, the young candidate nearly pulled off what would have been a tremendous upset, winning nearly 49 percent of the vote.

Falling back on his teaching job, Clinton immediately began planning his next race, a run for Attorney General that he won as expected in 1976. The new Attorney General was a populist reformer in the classic Arkansas style: anti-utilities, anti-big-business, pro-environment, pro-working class. Every week, he and his young staff attacked the utility companies over rate hikes and other issues, pushed environmental issues and energy conservation and sued local dairy farms and General Motors. He worked all the time, and kept his name before increasingly impressed voters through frequent photo ops and media shows that demonstrated his deepening understanding of the new performance art of television politics. After only one two-year term as Attorney General, Clinton won the Governor's seat, becoming, at 32, the youngest chief executive in the nation.

Much of what the new Governor did in his first term, in 1979 and 1980, was relatively uncontroversial. For instance, he increased spending on public
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education by 40 percent and expanded legal, health and social services for the elderly. But a good deal of it directly challenged the moneyed interests. Clinton did not merely alienate Don Tyson and his fellow poultry barons; he took on the entire host of Arkansas angels: the utilities, the timber interests and the trucking companies.

The Administration's most famous and popular battles were fought against the Arkansas Power and Light Company, a perennial target of reform governors. The "whiz kids" who ran Clinton's new Energy Department -- Scott Trotter, Walter Nixon 3d, Basil Copeland and Jerry Lawson -- made headlines with a suit that forced the utility to refund to its customers $8.5 million in overcharges, and challenged the company over its secret plans to pass on to Arkansans up to one-third of the cost for Grand Gulf nuclear plant, which was being built near Port Gibson, Miss., by A.P.&L. and two other Southern utilities.

Thus, in 1980, when the first-term Governor ran for what was expected to be an easy re-election, it wasn't just Don Tyson who was looking for revenge. Much of the entire corporate establishment of Arkansas lined up behind Frank White, a Little Rock investment banker and political neophyte. The timber companies and the Stephens family, financiers who wielded immense political power, either supported White or sat on their wallets. Both A.P.&L. and Southwestern Bell openly endorsed White, contributing heavily. When financial disclosure reports were filed a few weeks before Election Day, Clinton, who had expected to far outraise his relatively unknown opponent, was shocked to learn that White had collected an impressive $400,000.

The fat cats' backing allowed White to run an aggressive, late-campaign series of television commercials attacking the arrogance and incompetence of the Clinton Administration. White won the election, and Clinton became the youngest ex-governor in the nation. White's first official act as Governor was a gift to A.P.&L.: he abolished the Energy Department and fired the whiz kids.

Clinton brooded about his first real political setback, potentially fatal to his long-term ambitions. Publicly, he blamed himself for losing touch with the people. In private conversations with friends, he attributed his failure at least equally to losing touch with the moneyed interests.

"During his lame-duck period, I went to his office to visit him," recalls Trotter. "He was in this real funk, and he told me that after the news got out about Grand Gulf, A.P.&L. went out and raised a lot of money for Frank White, and that this money had enabled White to run the negative TV ads late in the campaign that Clinton figured cost him the race. The message was: If we hadn't done this thing, he'd still be Governor."

Clinton's traumatic defeat took its place alongside the Vietnam draft as a watershed in his development. His first term as Governor had been a grand experiment in reform, motivated both by ideals and by political instincts that told him change was what the voters wanted. Where had all this got him? The voters had paid little attention to his successes, and had held his failures greatly against him. The angels, on the other hand, had paid close attention to what Clinton had done, and had punished him for it.

The lesson was clear: to be successful, a politician had to appear hugely concerned with bettering the lives of ordinary citizens but had to be careful to avoid acting on those concerns so aggressively that they threatened the
interests of the business elite. Exiled to an office in the Little Rock law firm of Wright, Lindsey & Jennings, Clinton pondered how he could win votes as a populist reformer and still raise money as a businessman's Democrat. Arkansas political observers credit two people, Jim Blair and a tough political operative from Texas named Betsey Wright, with teaching the defeated Governor how to walk the line between the two competing demands. "It was Betsey who taught him -- hammered it into his head, really -- the idea that perception was reality," recalls Brownie Ledbetter, president of the reformist Arkansas Fairness Council. "That became the battle cry of the new Clinton approach."

Bill Clinton had never been much good at the old style of populism, the bellowing, wisecracking, denunciatory style practiced by Arkansas candidates since the days of Jeff Davis. But his own natural style -- his intuitive desire to please, his chameleonsque habit of becoming whoever he was with, his talent for losing himself in the moment -- was ideally suited to the new style of perception-based populism, primarily defined by television. The small screen did something perverse. It diminished and distorted the traditional thunderers of politics, translating their grand oratorical sweeps and outsize physical gestures into cartoons. Clinton realized that the new medium permitted a much more sophisticated level of communication with voters, by playing intimate scenes before the camera as if the camera weren't there. He understood that the camera rewarded the evocation of a different kind of sincerity in politics. It transmitted more than words; it transmitted performances, and the performances it transmitted most effectively were all about seduction.

The right words and the right nonverbal signals -- the way in which a politician stood, sat, listened, laughed, smiled, frowned -- combined to create a message that overrode the content of the words alone. If a politician was good at this, he could create not only a political reality out of perception, but also several conflicting realities at the same time, subtly manipulating the nuances of language, voice, expression and body posture so that each member of his audience saw and heard what he wanted to see and hear. It was possible to speak even on a subject that aroused sharp division -- abortion or affirmative action or welfare -- and have people on opposing sides perceive the speaker to be one of them.

Bill Clinton was beyond good at this new political performance art. When he spoke, perception was not only reality. It was a reality that changed, quicksilver-quick, from eye to eye and ear to ear. "You and Clinton might disagree totally on a subject and you'll never know it unless you listen closely to every word," marveled Robert S. McCord, executive editor of The Arkansas Democrat, in 1978. "Most people don't. They rely on tone of voice and facial expressions, which from Clinton, will never be harsh or unpleasant . . . Liberals and conservatives alike go away from him thinking he's one bright fellow."

In the 1982 campaign to regain the Statehouse, Clinton appeared to run hard as a populist. He accused White of being the tool of the moneyed interests, telling a Democratic Women's Club audience: "He's got half a million dollars because the people who wanted decisions from the Governor's office paid for them." Diane Blair, an Arkansas political scientist (and the wife of Jim Blair) later wrote that Clinton's ads "portrayed White as an untrustworthy, interest-dominated plutocrat who might run with the good-old-boy hounds by day but slept with the utility foxes at night, while Clinton was just a caring and concerned, down-home Baptist family man who wanted nothing more than another
She chance to fight the fat cats on behalf of the little guys."

Publicly and frequently, Clinton embraced his former energy whiz kids Trotter and Nixon, who were themselves campaigning for a 1982 ballot referendum to reform the state's regulation of the utilities. "Clinton made a big media deal out of signing our petition to put the reform on the ballot, and during the primary season, he exploited the hell out of the issue," Trotter says now. "We had a flat commitment from him that he would enact our reforms if he got back in."

But offstage, Clinton took pains to establish a cordial and lucrative relationship with the big-money interests against whom he was railing. To that end, he appointed as his finance chairman a small-town banker named W. Maurice Smith, a second-generation political heavyweight and formidable fund raiser. "Smith's wealthy friends were numerous," the Arkansas columnist Oakley has written. "His selection as finance chair in the 1982 campaign -- and all subsequent Clinton re-election campaigns -- was one of the smartest decisions Clinton made." With Smith's help, Clinton raised more than $1 million, then a record. When Clinton regained office, Smith came along as the resurrected Governor's executive assistant.

From 1983 until he resigned halfway through his fifth term to seek the Presidency, Governor Clinton achieved a number of moderate reforms. He opened up high-level government jobs to blacks and women. He helped win passage of the first ethics law for elected officials in Arkansas's history. He greatly increased spending on social services. He developed tax-credit and bond-issuing programs to create thousands of new jobs, although most of them were low-paying. He and his wife, who had established herself as a powerful figure in Arkansas political and legal circles, worked to fashion a settlement that ended a long-running lawsuit over Little Rock schools, which had resegregated along residential lines. He established some regulatory controls on Arkansas's largest pollution problem, animal wastes. His showpiece act, the 1983 education reform, primarily designed and sold by Mrs. Clinton, won large increases in tax-generated financing for state schools and established a mandatory competency test for public-school teachers and standardized testing of students. He sponsored improvements in the prison system, the child-welfare system and the administration of juvenile justice.

But he would never again take on the angels with anything like the vigor of his first term. "A big intersection of interests -- timber, farms, A.P.&L., the Stephenses -- was aligned against Clinton when he took office again in the early 80's, and I think there was basically a conscious decision not to antagonize any of these guys anymore," says Ernest Dumas, a veteran Little Rock political writer and editor. "Clinton, in essence, said, 'Fellas, I'm going to concentrate all my energies on education reform.' Well, that was fine with the interests. They were for education reform. It would be nice to be able to hire people who could read and write, and it didn't hurt them any."

And Clinton's other reforms -- many of which came about as a result of Federal court decisions forced by class-action and interest-group litigation -- often turned out to be much grander in the selling than in their real effects. Clinton's 1983 education reform was a classic case in point. With the promise that teacher testing would rid the schools of incompetent educators, Governor Clinton had won broad public support for a tax increase to finance his education program. What was actually delivered struck many in Arkansas as a cynical
exercise: a test that could be passed by teachers possessing only eighth-grade-level skills in language and math. Teachers were coached in special workshops, and those who failed were allowed to retake the test.

Perhaps the most striking example of the discrepancy between what Clinton the populist Governor promised and what Clinton the businessman's Democrat Governor delivered came in his handling of issues involving Arkansas Power and Light.

Two of the original energy whiz kids, Scott Trotter and Walter Nixon, maintain that Clinton won re-election in 1982, at least partly, on the strength of his opposition to the utilities. "But when he was re-elected, we did not go back to work," Nixon recalls. "He did not recreate the Energy Department, did not re-engage on the energy issues which he believed had helped get him defeated in 1980, never followed through again with any fervor on energy reform."

Publicly, Clinton remained committed to the fight. In his first month back in office, the Governor introduced eight utility reform bills that encompassed many of his campaign promises. But only three of the weakest bills passed, and the four that were the centerpieces of his reforms were killed. Trotter charges that Clinton, while officially urging passage of the bills, never really fought for them. "We pushed and pulled and poked, but he was completely dilatory," Trotter said. "He and I argued about it in his office before I quit, and he just said that he didn't need the utility issue anymore. He was going into education."

Clinton's handling of Don Tyson evolved similarly. During the 1980's, Tyson Foods grew at an explosive rate, climbing to $4.2 billion in sales in 1993. It became the largest chicken processor in the world, controlling more than 20 percent of the American market and churning out more than 80 million pounds of chicken products every week. Critics among Arkansas's environmental and labor groups found much to object to in the way Tyson did business. One growing complaint was that the huge volume of animal waste -- especially the euphemistically named "litter" from chicken houses, much of it generated by Tyson's ever-expanding empire -- was seriously polluting Arkansas's crystalline rivers and streams. In one famous incident that took place shortly after Clinton was restored to office in 1983, the sewage system in the town of Green Forest, which had been for years overloaded by Tyson-produced animal waste, dumped so much raw sewage into Dry Creek that a giant sinkhole formed, sending largely untreated sewage into the aquifer that supplied much of the local drinking water at a rate of one million gallons a day.

Clinton's response to the pollution issue was typical of his new style. Seventeen months after the Green Forest crisis, he declared a state of "disaster emergency." That same year, the state environmental agency, which had been given enforcement powers for the first time by Clinton, began enforcing long-ignored directives to Tyson to pretreat waste from its Green Forest processing plant. But the state failed to levy any fines against the company or to sue it for damages. That was left to a group of outraged citizens, who eventually prevailed in a 1989 judgment that found Tyson Foods guilty of 43 violations of the Clean Water Act.

On the question of how poultry wastes should be handled in general, Clinton waited until 1990. He appointed a commission, the Animal Waste Task Force, which deliberated until November 1992 and then issued guidelines that called for state-enforced regulation of the liquid animal wastes produced by cattle and hog farmers, while allowing the poultry industry to comply with the guidelines
The New York Times, July 31, 1994

voluntarily. "Thousands of Arkansas poultry producers should be pleased," declared Poultry Times, the industry newspaper.

Certainly, the people at Tyson Foods noticed a difference in the Governor. "I think the defeat of 1980 was a watershed in his political career," says Archie Schaffer, a Tyson public relations official. "He came back in '82 with a different attitude, much less confrontational with the business community and others in the so-called establishment, much more conciliatory. . . . After he was reelected, he pushed some mildly controversial, progressive things, but I don't remember him ever again pushing any big controversial thing that he was willing to die for."

Clinton and his supporters have long argued that these sorts of compromises were necessary in a chronically poor state like Arkansas, where the urgencies of economic growth necessitate concessions to business. The point is, to a degree, valid. But it is also true that early in his career Clinton began to garner a reputation in Arkansas that now besets him nationally, a reputation for slipperiness and waffling in excess of even the norm of politics. The nickname Slick Willie, originally made popular by the Arkansas columnist Paul Greenberg in 1982, passed into common usage among the Governor's critics on the right and the left and soon stuck with the public. Jokes about Clinton's honesty, about his predilection for saying whatever his listener of the moment wanted to hear, about his willingness to reverse himself, were common midway through his second term and grew steadily through his five terms as Governor.

One Clinton characteristic that attracted increasing critical attention was his readiness to do favors for current or potential financial supporters. There were two paradigmatic cases, both involving revenue bonds issued by the Arkansas Housing Development Agency and its 1985 successor, the Arkansas Development Finance Authority.

In 1989, the nation's largest nursing home company, Beverly Enterprises, was in deep financial trouble. The company, with more than 1,000 nursing homes in 40 states, had suffered crippling losses in 1988 and 1989, and had agreed to a restructuring requiring it to sell off some facilities to pay off its debt by 1991. The fate of Beverly was of intense interest to the Stephens family, whose brokerage house, Stephens Inc., held all of the company's preferred stock, worth approximately $100 million. Three Stephens appointees sat on Beverly's eight-member board, and the Stephenses also served as Beverly's well-paid financial advisers.

Beverly, guided by the Stephenses and the Rose Law Firm in Little Rock, where Hillary Rodham Clinton had become a partner, put together a $149 million plan to sell off all of Beverly's nursing homes in four states. A Rose lawyer, William H. Kennedy 3d, served as counsel to Beverly in the matter. (Kennedy, who had joined Mrs. Clinton, Vincent Foster and Webster Hubbell to form a powerful clique at the firm, is currently serving as an associate White House counsel.)

The deal worked out by Beverly, with advice from Stephens and the Rose firm, was precisely the sort of arrangement the future First Lady would have called a health care rip-off. It was designed to take advantage of a loophole in the 1986 Tax Reform Act by using government-issued bonds to finance the sale of Beverly's nursing homes to nonprofit "shell" companies that were, in fact, fronting for for-profit companies.
The New York Times, July 31, 1994

The first sale was completed in August 1989, when Beverly sold 45 nursing homes to a Texas investor named Bruce Whitehead. The deal, essentially a tax-exempt, leveraged buyout, was structured around a series of transactions that ended with Whitehead holding most of the homes in a nonprofit shell company called Care Initiatives. Whitehead put up no money in the deal; the creation of Care Initiatives (then Mercy Health Initiatives) was capitalized almost entirely through the issuance and sale of $86 million in tax-exempt bonds from the Iowa Finance Authority. Iowa courts later ruled that the entire transaction had been designed to generate "millions of dollars of excessive profits" for the principals in the transaction -- at the expense of Iowa taxpayers. All told, the courts found, the businessmen, lawyers and underwriters involved made in excess of $20 million, a profit that District Court Judge Gene L. Needles called "unconscionable."

The second deal put together by Beverly, the Stephenses and the Rose firm was a replication of the first, involving the same parties and structure. The only difference was that it was set up in Arkansas. Pride House Care Corporation of Dallas, another Whitehead concoction, would buy Beverly's 32 nursing homes or leases. The sale was to be financed by $81 million in revenue bonds issued by the Arkansas Development Finance Authority.

The Finance Authority's preliminary limited-offering memorandum describing the proposed bond issue made it embarrassingly clear that the state agency knew Whitehead's companies were nothing but shells. As the offering put it, Whitehead's Pride House Care "has no assets and has not acquired any facilities, nor does it operate any" and has "no current operations and therefore has no employees." The state justified the sale on the grounds that Arkansas could not afford to see Beverly collapse and that the large institutional investors who would finance the deal through their bond purchases would, in any case, bear all the risks. As was the case in Iowa, the proposed deal would greatly enrich those who fashioned it. Whitehead was to make an immediate $1.9 million profit, and lawyers and underwriters would make off with $6.4 million. The Finance Authority, presided over by its Clinton-appointed president, Robert Nash, had already tentatively approved the transaction when news reports began to raise serious questions.

Clinton, who, as Governor, had the power to stop the Finance Authority bond issue, remained silent through weeks of mounting public outrage. It was not until the Arkansas Attorney General, Steve Clark, announced that "a Beverly-Stephens Inc. representative" had offered him $100,000 in campaign contributions if he would end his opposition to the deal that Clinton urged the agency under his control to kill the bond issue. (The lobbyist maintained that his offer did not constitute a bribe, and Stephens denied any connection with the incident.)

Afterward, Clinton claimed he had opposed the deal from the beginning. Writing in his Arkansas Gazette column, John Brummett declared: "The Governor's assertion that he was against this proposal all along is false. The fact is that Clinton sat by as Nash and the board approved this deal Sept. 21 -- back when it contained those personal profits for Bruce Whitehead that the Governor now says are so obscene."

The second controversial Finance Authority-related affair centered on a well-known Little Rock figure named Dan Lasater. A flashy young millionaire -- at the age of 22, he had founded the Ponderosa Steakhouse chain -- Lasater, in
1980, opened a bond house that, within a year, was selling $1 billion worth of bonds a month. In the tradition of Witt Stephens, Lasater quickly made himself a prominent figure in local politics and society, contributing heavily to the campaigns of Governor Clinton and other politicians. In three consecutive Clinton gubernatorial campaigns, Lasater contributed thousands of dollars personally, and hosted fund-raising events that netted many thousands more. But the services did not stop there. Lasater provided Clinton use of his private jet and hired the Governor's famously unemployable brother, Roger, as his driver and stable hand. Once he even lent the Governor's brother $8,000 to pay off Roger's debt to his cocaine wholesalers.

In 1982, after strongly supporting the campaign that reelected Clinton in the Governor's office, Lasater and his partners asked to be included in Arkansas state bond issues. Clinton agreed. "They wanted to do some business, and I said I thought they ought to be able to compete for it," Clinton told U.S. News & World Report in 1982. The name of Lasater and Company first appeared as an underwriter of an Arkansas Housing Development Agency bond issue in 1983, after Clinton was sworn in for his second term.

Over the next three years, until Lasater was convicted of distributing cocaine in the fall of 1986 and served six months in prison, the company won assignments to co-manage 13 bond issues from the Arkansas Development Finance Authority, handling a total of $664 million worth of bonds, and received brokerage fees of $1.6 million.

As in the case of Beverly nursing homes, what is telling about the Lasater affair is Clinton's evident willingness to risk the reputation of his state and his Administration in order to benefit a powerful financial supporter. Dan Lasater was, to put it mildly, a known quantity in Little Rock. In the 80's, he was the king of the city's "bond daddies," hustlers who used high-pressure, dishonest sales tactics to peddle wildly overpriced and risky bond deals on the telephone, and who became so famous that they gave Little Rock a new nickname in financial circles: "Slam City," a term derived from the daddies' word for a successful hustle -- "slamming."

Lasater and Company was one of the most prominent of the bond daddy firms, with a downtown office where 72 salesmen worked the telephones from desks arranged in tiers around a central pit. There, Lasater hosted after-hours, high-rolling parties where cocaine was passed around on silver trays. "They were crooks pure and simple," said Vernon Giss, a longtime adviser to Witt Stephens at Stephens Inc. "They would sell bonds that had been defaulted, absolutely crooked stuff."

Warren Stephens, the president of Stephens Inc., is among the many in Little Rock who say Bill Clinton had full knowledge of Lasater's character but allowed him to win state business anyway. "You didn't even open the door to these places, 'cause of all the snakes down there," Stephens says. "These guys, these firms, smelled to high heaven."

Asked if he believes Lasater's campaign support and his helping Roger Clinton had anything to do with the Governor's failure to oppose Lasater, Stephens says dryly, "I would think they played a role in it, I would."

The criticism Governor Clinton faced over the Beverly and Lasater affairs were part of a larger pattern. One of the great paradoxes of Clinton's career
is that during the years he was winning a national reputation as a courageous truth-teller -- particularly about the problems of Democratic politics and policies -- he was winning a reputation at home as someone who, as John Brummett writes in his forthcoming biography of Clinton, "Highwire," "seems to have an almost pathological inability to tell the whole truth."

Politics, in its own strange fashion, is an honest business. The rules of the game allow small lies of omission, waffling, fudging and any amount of hedging. But flat-out lying and acts of direct betrayal are much rarer than cynics believe, and greatly frowned upon. The survival of the system demands this. Every relationship in politics -- whether between voter and candidate or between lobbyist and elected official -- is based on the assumption that a bold statement of fact or an unhedged promise can be taken as true. And almost every statement or promise, from the back-room deal to the campaign pledge, is unwritten and therefore vulnerable. A politician who blatantly goes back on his word threatens the entire fragile structure, and is likely to be punished harshly. Consider the example of George Bush and his "read my lips" promise. Long-term successful politicians typically measure the consequences of their words, carefully couching the language of every pledge they make and deal they cut in the knowledge that no one ever forgets, and almost no one forgives, anything.

What became increasingly clear in Arkansas was that Clinton was different, blithely and flatly promising what he couldn't deliver, reversing himself on a position to which he had been, only moments before, firmly committed. It sometimes seemed he would say anything to win support, or even to get through a conversation without conflict, ignoring the consequences.

One famous evening in 1985, for example, the Governor vetoed a bill providing a tax credit for private contributions to Arkansas colleges and universities. After the bill, stamped "Disapproved," had been slipped under the door of the legislative clerk's office, Clinton called the state's university presidents to explain his decision. When they protested vehemently, the Governor sent a state trooper to retrieve the bill. With a coat hanger, the trooper fished the bill out from under the door and returned it to Clinton, who crossed out the prefix "Dis" and had the trooper return the bill to the clerk's office, now "approved." Later, after the bill caused the state unacceptable financial losses, as the Governor's advisers had warned, Clinton was forced to call a special session of the Legislature to amend it.

Of all the bonds of politics, the handshake deal made to insure the passage of legislation matters the most. As Governor, Bill Clinton quickly earned a reputation as someone who didn't understand that these agreements between professionals were inviolate. During the legislative battles to pass the 1983 education reform, J. Bill Becker, president of the Arkansas A.F.L.-C.I.O., and Brownie Ledbetter of the Arkansas Fairness Council, led a successful effort in the Arkansas House to block the 1-cent sales tax increase Clinton needed to finance his program, complaining it would hurt the poor and working class. The Governor then proposed a deal in which he asked that Becker and Ledbetter agree to drop their opposition in exchange for his support of an amendment offering a rebate to poor people for the sales tax they paid on groceries. "Bill called Becker and me in," recalls Ledbetter. "And he said, 'If you let me get this through the House with the low-income rebate on it, I'll help you in the Senate so the tax bill will come out in the end with the rebate attached.' So we did, and he shafted us. When it came to the Senate, the Governor's man on the bill
made no effort at all." Clinton, speaking to reporters, explained that his promise to Becker and Ledbetter had been nothing more than "a 24-hour commitment." (In retrospect, Ledbetter says, it is clear that Clinton never had the power to effect Senate passage of the amendment but should not have made a commitment he couldn't meet.)

In 1983, Clinton said that the tax increase he was seeking for education reform would be earmarked entirely for primary and secondary schools. But after personal lobbying by Jim Blair, then chairman of the University of Arkansas board of trustees, Clinton peeled off a third of the allocation for higher education.

In 1987, Clinton promised several journalistic organizations that he would kill a bill that had been proposed to deny public access to previously available tax records, including those of the state's corporations. He then turned around and supported passage of the measure. Carol Griffie, an Arkansas reporter who was then regional director of the Society of Professional Journalists' Freedom of Information Committee, spoke openly of the "betrayal by the Governor."

By 1990, when Clinton ran for his fifth and final term as governor, his honesty had become an open issue. It was in this race that the A.F.L.-C.I.O. president Becker memorably described Bill Clinton as a man "who will pat you on the back" and micturate down your leg.

The candidate found himself dogged by a well-founded suspicion that he would not serve out his four-year term if re-elected Governor, but would instead use the job as a platform from which to run for President in 1992 -- a move he had publicly considered in 1988 and for which he had been busy positioning himself with his work on the Democratic Leadership Council. In a televised debate, Craig Cannon, a reporter, asked Clinton a simple but encompassing question: "Will you guarantee to us that, if re-elected, there is absolutely, positively no way that you'll run for any other political office and that you'll serve out your term in full?"

This was exactly the sort of question that most politicians would have answered with an un-Shermanesque hedge: "I have no intentions of running for President. . . . I certainly am not planning to run for President."

But Clinton responded with a stunning lack of equivocation. "You bet," he said. "I told you when I announced for Governor I intended to run, and that's what I'm gonna do. I'm gonna serve four years. I made that decision when I decided to run. I'm being considered as a candidate for Governor. That's the job I want. That's the job I'll do for the next four years."

When a year later Bill Clinton announced his candidacy for President, not many in his home state were surprised. "He has always wanted to be President -- that was his whole idea in life, and Hillary's whole idea was to be Mrs. First Lady," says the veteran Little Rock liberal activist Edwin Dunaway. "He talked a good game and he had big ideas, but he never followed through. I fell out with Bill because he never followed through on anything. His word is no good."

The Newsweek writer Joe Klein recently quoted the President on the subject of character: "Character is a journey, not a destination." No, Klein responded, life is a journey; character is a destination reached by the actions of a life. What you are, by the time you are the President's age, is the cumulative
result of all that you have done, all the thousands of decisions that build an adult. Bill Clinton's problem isn't merely that his past haunts him. It is that his past has made him what he is today.

But Clinton's definition of character reveals an essential truth about him. The President does still seem to be on a journey to maturity; he is a brilliant young man who has not quite arrived at a clear understanding of himself. It is as if, in the hard, ambivalent business of getting to where he is, he has somehow put off the business of who he is, of what he stands for and of what he will not stand for.

A line of consequence runs from The Draft to 'I Didn't Inhale' to Whitewater to Hillary's Commodities to Dan Lasater to Lani Guinier to Somalia to Bosnia to Haiti: the episodes of rationalization and compromise from Clinton's Arkansas past are the progenitors of the indecision and betrayal that have done so much damage to the White House present. Bill Clinton is today, as he was 20 years ago, clearly concerned with doing the right thing, and his Presidency still holds some of the promise that stirred so many Americans to such hope in 1992. But there is a hollowness to the Clinton Presidency, a sense that it lacks a center because the man at its center lacks one of his own.

No one is surprised any more when the President reverses himself on a matter of policy, or breaks a promise, or axes an old friend. In both houses of Congress, controlled by Clinton's own party, there is a nearly collective assumption that the President's stated intention on a policy or a piece of legislation is not to be taken as his final word; the legislators all remember how the White House whipped Democratic House members into line to vote for the unpopular B.T.U. energy tax in 1993, and then dropped it when it encountered strong resistance in the Senate Finance Committee. After the Administration's flip-flops on Haiti, Bosnia, Somalia and China, the conventional diplomatic wisdom is that the pledges of the President of the United States are to be regarded more as well-meaning sentiments than actual commitments.

The President is a ubiquitous electronic presence, always on the go and on the tube, in some vivid new tableau that is a masterwork of the campaigner's art. But the scenes that Clinton so brilliantly conjures seem more and more disconnected from the realities of his actions. The President evokes the memories of World War II to warn against the dangers of appeasement, isolationism and cowardice while his Administration declines to call the slaughter in Rwanda "genocide," for fear such honesty would force America to do something to stop it. The President denounces the influence of big-money special interests in politics while the Democratic National Committee, under his de facto control, raises $40 million in "soft money" contributions from the rich, corporations and unions.

Two contrasting events from the Clinton Presidency perfectly capture the disunity of the man's character:

On Nov. 13, the President delivered a passionate and, in part, extemporaneous address to a group of black ministers in Memphis. He asked them to imagine Martin Luther King Jr. suddenly appearing by his side on stage, to issue a report card on the progress of black America over the last 25 years.

King would tell the ministers, Clinton said, that they had done a good job in creating a large black middle class: "But he would say: 'I did not live and
die to see the American family destroyed. I did not live and die to see
13-year-old boys get automatic weapons and gun down 9-year-olds just for the
kick of it. I did not live and die to see young people destroy their own lives
with drugs and then build fortunes destroying the lives of others. That is not
what I came here to do. . . . I fought for people to have the right to work, but
not to have whole communities and people abandoned. This is not what I lived and
died for.'

Seven months later, Bill Clinton walked on Omaha Beach, in Normandy, with
three veterans of the bloody D-Day battle that had been fought there. The walk
had been planned by the President's media advisers as part of an overall attempt
to reshape the President's image as Commander in Chief, a mantle that had never
rested comfortably on his shoulders. The event, staged as carefully as a small
movie, was duly noted in the White House press schedule of the day: "6:15 C.E.T.
President Clinton visits Omaha Beach with the American veterans of that beach.
Note: no remarks are planned during this walk."

The President and the three men who had fought on the beach walked slowly
along, talking in hushed tones among themselves, as a dozen or so photographers
and television cameramen walked backward in front of them, recording the scene.
After a few minutes, White House aides pulled the veterans off to one side, so
that the President could continue his beach walk in Kennedy-esque solitude. At a
certain point, where some beach stones had been gathered into a small pile to
form a marker, the President stopped, and the photographers took up their
positions so that he was nicely framed by the hulks of the old warships in the
sea behind him.

The President stood for a moment, staring silently out to sea. Then he knelt
down, his knees not quite touching the ground, in a pose that suggested worship.
He reached for the pile of stones in front of him and slowly began rearranging
them into the shape of a cross. A journalist who was there watching the scene
recalls "getting that sick feeling you get sometimes with him, thinking 'Oh God,
please don't do this.'"

As the cameras clicked and rolled, the President bowed his head as if to
pray. Later, White House aides said the moment of silence had been planned, but
that the cross of stones had been entirely the President's own idea.

The problem with Bill Clinton is that the same man is capable of playing both
of these scenes. He is capable of delivering, as he did to the ministers, a
message of breathtaking clarity, candor and courage. And when he does, it is
impossible to doubt that he believes utterly in what he is doing. He is equally
capable of kneeling on a beach where 2,000 American men were slaughtered and
acting out an intimate communion with God in front of a platoon of cameras. And
when he does this, it is also impossible to doubt that he believes utterly in
what he is doing.

A former friend says, bitterly, that Clinton has become "a performer of
empathy." The President's face is a screen upon which plays a loop of
expressions that have become insistently familiar: the open-mouthed grin of
joyous wonder; the scowl of righteous but controlled anger; the lip-biting,
eyes-lowered glance of pondering humility, the near-tears of a man who is not
afraid to show that he feels. In an important sense, these expressions are
entirely honest; Clinton's empathy is wholly real. But it exists only in the
moment. The President's essential character flaw isn't dishonesty so much as
a-honesty. It isn't that Clinton means to say things that are not true, or that he cannot make true, but that everything is true for him when he says it, because he says it. Clinton means what he says when he says it, but tomorrow he will mean what he says when he says the opposite. He is the existential President, living with absolute sincerity in the passing moment.

GRAPHIC: Photos: In the late 1950's, Bill Clinton wanted to be like his (and his mother's) idol, Elvis Presley. Even then, he was always at home in front of a camera. (PHOTOGRAPH FROM THE CLINTON FAMILY COLLECTION/SIPA PRESS) (pg. 21); Arkansas's favorite son, with his mother, at home after his first semester at Georgetown. (CLINTON FAMILY COLLECTION/SIPA PRESS); The band major at Hot Springs High. (GAMMA LIAISON) (pg. 22); Clinton was anti-big-business in this unsuccessful 1974 campaign. That stance would change after another loss in 1980. (THE NEW YORK TIMES) (pg. 23); The first-term Governor and Mrs. Clinton in 1979, around the time of her commodities windfall. (THE ARKANSAS DEMOCRAT-GAZETTE); The high-school yearbook photo, 1963. (SIPA PRESS) (pg. 24); The Governor and the Chicken Man in 1988. From Don Tyson, Clinton learned the cost of alienating Arkansas's moguls. (THE ARKANSAS DEMOCRAT-GAZETTE) (pg. 25); The Clintons looked like winners on Election Day 1984, when he was re-elected for a third term. Top: Clinton, still only 38, in 1985. (DAVE FORNELL/THE NEW YORK TIMES) (pg. 26); Witt and Jack Stephens, millionaire financiers, established the fundamental symbiosis between business and politics in modern Arkansas. (THE ARKANSAS DEMOCRAT-GAZETTE) (pg. 27); Virginia Kelley and her sons in 1990. Both inherited their need for adulation from their mother, a natural performer. (MIKE STEWART/SYGMA); Top: Clinton in 1992. (TOMAS MUSCIONICO/CONTACT) (pg. 28); Clinton declared his candidacy in 1991, a year after promising Arkansas voters that he was interested only in being Governor. (THE ARKANSAS DEMOCRAT-GAZETTE/SIPA PRESS) (pg. 29)

LANGUAGE: ENGLISH

LOAD-DATE: July 31, 1994
In March 1992, a few days after the first news account appeared on Bill and Hillary Clinton's Ozark real estate investment, James B. Blair set out to bury Whitewater as a campaign issue.

When he was done, James B. McDougal, Mr. Clinton's voluble partner in the venture, had dropped from sight and stopped giving interviews or documents to reporters. The Clintons' remaining debt in Whitewater was paid off, and the affair was relegated to obscurity for the balance of the 1992 campaign.

After Mr. Clinton was elected President, Mr. Blair helped the Clintons sell their share in the Whitewater Development Company. And when Vincent W. Foster Jr., the deputy White House counsel who committed suicide in July 1993, had trouble filing the company's delinquent tax returns, Mr. Blair took over the task of prodding a Little Rock accounting firm to complete the work.

Mr. Blair, the general counsel for Tyson Foods, the nation's largest poultry company, was a natural choice for such delicate missions. Over Mr. Clinton's political career, he had already played an influential, if largely unseen, role as sounding board, confidant, fund-raiser and personal emissary. He anchored the Clintons' finances in 1978 and 1979, guiding Mrs. Clinton to nearly $100,000 in profits from trading in commodity futures.

"What's Wrong With That?"

Mr. Blair modestly describes his Whitewater work as "janitorial services."

"If you're in the middle of a campaign and a story is hurting the campaign and you can stop the story, particularly if you don't think it has any relevance to the political issues of the day, why not?" Mr. Blair asked recently in a wide-ranging three-hour interview on the back porch of a restaurant in Fayetteville, Ark. "What's wrong with that?"

The relationship between Jim Blair and Bill Clinton stretches across two decades, beginning in the early 1970's when Mr. Clinton was a young law professor at the University of Arkansas and Mr. Blair was teaching a course in contract law.

Mr. Blair, close associates of Mr. Clinton say, has had a hand in every important decision of Mr. Clinton's political career. An informal liaison to
the state's powerful business community, he helped Mr. Clinton cope with a host of local issues, from education to a long-running dispute over a nuclear power plant.

Bill Bowen, Mr. Clinton's last chief of staff while Governor of Arkansas, said that Mr. Blair and his wife, Diane, a professor of political science at the University of Arkansas, would have been consulted "on every major confrontation" since Mr. Clinton became a public figure. "It is clear both from the record and their friendship," he said.

Appearance of Conflict?

Nearly every nationally successful politician has such a person in his life, valued for his discretion, friendship and canny advice. In this instance, as in many others, the personal ties between the chief lawyer for a Fortune 500 company and an Arkansas Governor raised questions about the appearance, if not the reality, of various conflicts of interests.

Even before the disclosure this spring that Mr. Blair had guided Mrs. Clinton's commodity trading, Arkansas environmentalists, had complained for years that Tyson Foods, Arkansas's largest company, received favorable treatment from Governor Clinton.

The Blairs bridle at suggestions that the investment, or the longstanding friendship, had benefits for Tyson Foods. The Clintons, Mrs. Blair said, were like family. "We didn't talk about business," she said; "we didn't talk about chickens. That wasn't what it was all about."

Nonetheless, at times Mr. Blair's personal views and professional interests have merged. A devout free trader, Mr. Blair was among the business leaders pressing Mr. Clinton last year to embrace the North American Free Trade Agreement, which was strongly supported by the poultry industry. Tyson Foods had holdings in Mexico even before the treaty was passed.

Asked in the interview how often he spoke with the President, Mr. Blair would say only, "Not as often as a good friend should."

The Closest of Friends
Late-Night Talks And Deep Trust

When Governor Clinton visited northwest Arkansas on official business, he would often sleep on the pullout sofa in the Blairs' den. Mrs. Blair said the two couples would talk late into the night, four opinionated people segueing from books to movies to public policy.

In 1980, Bill Clinton suffered his most stinging political defeat as Arkansas voters rejected him after one term as Governor. The Clintons commiserated over lunch with the Blairs the next day. As Mrs. Blair later wrote in a book of reminiscences titled "The Clintons of Arkansas" (University of Arkansas Press, 1993), Mr. Clinton was "half-laughing, half-crying over the country song on the cafe jukebox, "I Feel So Bad I Don't Know Whether to Kill Myself or Go Bowling."

Eleven years later, Mr. Blair was in the kitchen of the Governor's Mansion, encouraging Mr. Clinton to run for President and suggesting how he might
defuse allegations about his personal life.

A broad-shouldered man with a shock of gray hair, Mr. Blair has a self-assurance that even friends say can edge toward arrogance.

Humble Origins, Troubled Families

His friendship with Mr. Clinton, who is 11 years younger, arose naturally, associates say. Both are native Arkansans from humble origins and troubled families who married independent, professional women from outside the South.

Mr. Blair said he was abandoned by his parents and reared in Fayetteville by his grandparents in a small brick house that doubled as a grocery.

He was marked early as a leader. At 13, Jim Blair dressed down his church congregation for what he recalled as "their non-religious focus." Ordained as a Baptist minister at 18, he raced through the University of Arkansas, completing law school before he was 22.

After practicing law by himself, Mr. Blair joined a Springdale law firm that represented Tyson Foods, quickly earning a reputation as a gifted trial lawyer.

A friendship blossomed in the early 1970's when Bill and Hillary Clinton joined the faculty of the University of Arkansas law school. Mr. Blair and Mrs. Clinton won a mixed doubles tennis tournament at a local country club. Diane Blair, who married Mr. Blair in 1979, forged close ties to Mrs. Clinton, sharing frustrations about the male-dominated hierarchy at the university.

Mr. Blair raised money when Mr. Clinton ran for attorney general in 1976. Jim Brooks, his business partner, remembered Mr. Blair asking him for a $300 contribution with the pitch that Mr. Clinton was "a very brilliant man who could be President some day."

Mr. Clinton won that election, and in 1978 he took Mr. Blair's advice, passing up a crowded United States Senate race to run for governor.

The Profit Margin
Gaining Influence Or Friendly Help?

Headed toward an easy victory in the 1978 campaign, Mr. Clinton and his wife made the two riskiest investments of their lives. In August, they joined Mr. McDougal and his wife, Susan, to borrow $200,000 for a land purchase in the Ozarks.

A few weeks later, Mrs. Clinton got a hot tip from Mr. Blair about trading cattle futures. Whitewater Development Company, the real estate venture, wound up a loser, but Mr. Blair's advice reaped big profits.

Mr. Blair said he had already earned several hundred thousand dollars in profits through a company that seemed to have the inside track on the cattle market when he invited Mrs. Clinton to join him. His broker was Robert L. Bone, a friend and former Tyson Foods employee.

Mr. Blair shared the wealth with more than a dozen friends, family members, and partners and associates at his law firm.
Mrs. Clinton has said she made her own decisions in the commodities market, sometimes after consulting Mr. Blair. She acknowledges that Mr. Blair placed many of the orders.

Several others who benefited from Mr. Blair's expertise said they left the trades entirely to him.

H. Franklin Waters, a law partner, who is now a Federal judge, said he had known little about the commodities market, and had been only dimly aware of its risks. "We left it all up to Blair," he said. "I think that was true for everyone Blair was trading for." Mr. Waters walked away with $60,000 in profits.

Mr. Brooks was another beneficiary. From July 1979 to July 1981 he was also chairman of the Arkansas Pollution Control and Ecology Commission.

Both Mr. Blair, who said he was trying to earn enough money to give up his legal practice, and the Clintons have denied that the investment was intended to gain influence for Tyson Foods, sentiments echoed by others.

"Blair knew he couldn't try to improperly influence me, and he didn't," said Mr. Brooks, the chairman of the pollution panel. "I have no qualms about our relationship being very proper. I guess it looks kind of bad. But I don't think it's as bad as it looks, if you really know the ins and outs of it."

Mr. Waters argued that Mr. Blair's motives were personal, not professional.

"I don't see the conflict," he said. "I believe Blair, like most of us, likes to be appreciated. That was obviously one of his motives. Jim likes to be associated with, and near power."

The cattle market collapsed in October 1979, and Mr. Blair never earned enough money to leave his legal practice and pursue his dream of being a writer.

Arkansas Politics
Crucial Issue, Friend's Opinion

Early in his first term as Governor, Mr. Clinton donned white tie and tails to officiate at the wedding of Diane and Jim Blair. Hillary Clinton served as "best person."

Over the next 12 years, Mr. Clinton consulted Mr. Blair on a wide variety of issues, and in 1985 named him to the board of the University of Arkansas.

A former state official recounted how Mr. Clinton once interrupted a meeting with several advisers, saying he wanted to telephone "a smart friend in Fayetteville."

"He came back and told us, 'Blair says this is not such a good deal,' " the official recalled.

Mr. Blair lobbied for passage of Mr. Clinton's most significant legislative initiative, a sales tax increase for education. A newspaper photo shows the two men embracing on the steps of the State Capitol after the victory.

Their relationship deepened in September 1985 when Mr. Blair helped persuade Mr. Clinton to drop one of his longstanding populist positions: implacable opposition to Arkansans paying for a Mississippi nuclear power plant called Grand Gulf.

Mr. Clinton's decision to make a deal on Grand Gulf was later seen by some Arkansas opponents of the project as a big step toward the state's business establishment. Mr. Blair acknowledged playing a behind-the-scenes role as both adviser and emissary.

Grand Gulf was the hottest dispute of the early 1980's in Arkansas, and business leaders were pressuring Mr. Clinton to pay for some of the plant. Some state officials believed that Arkansas should continue its court fight. Mr. Blair said he had urged Mr. Clinton to settle the case and, according to a participant, informally met with utility officials to prepare the ground before talks began.

As Mr. Blair helped Mr. Clinton, the state government helped Tyson Foods, the state's largest employer. Under Mr. Clinton, the company received nearly $9 million in tax credits and refunds through a program designed to spur industrial development.

Mr. Clinton's defenders say the tax breaks and the state's less-than-aggressive environmental regulation, stem from Tyson Foods' pre-eminent position in the Arkansas economy, not preferential treatment.

The White House
Taking Advice On Delicate Issues

As Mr. Clinton weighed a run for the Presidency in 1991, Mr. Blair said he and the Governor spoke frequently about how to deflect what became known as the "character issue."

"One of the things that obviously was discussed was, I mean, wouldn't it be better to get it out early, and wouldn't it be better if something came out that you could deal with, and let's see how the American people would react," Mr. Blair said. "When I was trying lawsuits and I knew that my side had a big weak spot in it, I'd rather be the one to bring it out to the jury than let my opponent pull it out his way."

The campaign set up a special unit to parry questions about women, Mr. Clinton's draft history and his record as Governor. It was run by Betsy Wright, Mr. Clinton's longtime aide, from a Little Rock office dubbed "The Bunker." One full-time staff member was Diane Blair, who took a leave from the University of Arkansas to deal with questions about Mr. Clinton's years as Governor.

On March 8, 1992, the first national news article appeared on Whitewater, the troubled business partnership between Mr. Clinton and Mr. McDougal, the owner of a failed Arkansas savings and loan.

The Clintons promised full disclosure and hired a Denver accounting firm to produce a report. Behind the scenes, Mr. Blair went to work.

A Talk With a Fraternity Brother

He met with Mr. McDougal, a University of Arkansas fraternity brother, whose comments and documents were a basis for the original article. Mr. Blair said he urged Mr. McDougal and his lawyer to consider a libel suit, and to refrain from further interviews.

"The purpose of the conversation was to try to explain to him and his lawyer that it wasn't in his interest to keep talking to the press," Mr. Blair said. "Did I have another motive? Yes. It wasn't in the campaign's interest to keep giving documents to the press that we didn't have copies of and we didn't know anything about."

On March 16, he wrote to Sam Heurer, Mr. McDougal's lawyer. Mr. McDougal said the letter stated that while the Clintons had no intention of pursuing legal action, the time limit for prosecuting crimes at the savings and loan had not yet expired.

Mr. McDougal said in 1992 that he took this as a cleverly phrased threat. Mr. Blair replied, "If McDougal thinks I intimidated him, he's wrong."

At about the same time, Mr. Blair dispatched R. D. Randolph, a state employee with longstanding ties to Mr. Clinton, to discourage Mr. McDougal from giving further interviews. Mr. Randolph has told friends that Mr. Blair and Mr. Clinton separately asked him to visit Mr. McDougal.

After hearing Mr. Randolph out, Mr. McDougal told him, "I think I'm going to go hide," said an associate of Mr. Clinton.

A Matter of Authorization

A little later, Mr. Blair chartered a plane and flew to Flippin, Ark., and prodded a real estate agent to pay money he owed on the original Whitewater loan. The agent, Chris Wade, had bought most of the remaining Whitewater land, but the loan was still personally guaranteed by the Clintons. Although Mr. Wade was entangled in bankruptcy, he borrowed money and paid the balance, said Rosalee Wade, his wife and partner.

Mr. Blair is vague on the question of what sort of direct instructions, if any, he had from the Clintons in visiting Mr. Wade. "Maybe I went up there without any authority, without any purpose except my own curiosity," he said, adding:

"Have I acted as his counsel on occasion, as his lawyer? Yes I have. Have I acted on occasion as counsel to the campaign? I guess you could say that. Do I sometimes act without verifying my status? You could probably say that, too."

Mr. Blair said he had no regrets about blunting what he saw as an unfair news story. Next time, he said, "maybe we'll have a different strategy."

"Maybe we'll say we're going to hold a seven-day press conference on Whitewater," he said, "and we're not going to let anyone leave the room until they're thoroughly bored."

GRAPHIC: Photo: James B. Blair, the general counsel for Tyson Foods, advised Hillary Rodham Clinton on the commodities market and Bill Clinton on political moves. (Michael Wyke for The New York Times)
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May 29, 1994, Sunday, Late Edition - Final
Correction Appended

SECTION: Section 1; Page 18; Column 1; National Desk

LENGTH: 1261 words

HEADLINE: Arkansas Governor's Business and Political Life

BYLINE: By ANNE FARRIS, Special to The New York Times

DATELINE: LITTLE ROCK, Ark.

BODY:

For most of his political career in Arkansas, Jim Guy Tucker toiled in the shadow of Bill Clinton. Now that Mr. Tucker has finally inherited the governorship he long coveted, a shadow remains: the same special prosecutor who is investigating the finances of Bill and Hillary Rodham Clinton is also examining Mr. Tucker's business dealings.

If anything, the investigation of Mr. Tucker has already reached a more advanced stage. In March, David Hale, a former Little Rock municipal judge, admitted in a plea agreement with the Whitewater special prosecutor, Robert B. Fiske Jr., that he had committed fraud in connection with loans he had made to Mr. Tucker.

Mr. Hale, who worked in Mr. Tucker's campaigns, told Federal officials that he had made three loans to Mr. Tucker's cable companies with money fraudulently obtained from the Small Business Administration. Mr. Tucker's lawyer, John Haley, said that Mr. Tucker had not known the source of Mr. Hale's capital and that the loans had been repaid.

Federal investigators are also examining Mr. Tucker's loans from Madison Guaranty Savings and Loan, the Arkansas lending institution owned by James B. McDougall, the Clintons' partner in the Whitewater Development Company. Madison was shut down in 1989 and it is expected to cost taxpayers $60 million or more to pay off depositors.

In contrast to the close attention paid to the Clintons and Whitewater, few here have seemed to care that Mr. Tucker, a former Congressman and state attorney general, is under scrutiny.

Uncontested Primary

Mr. Tucker, who has raised $1 million for the campaign, was the Democratic Party's first gubernatorial candidate in 80 years without opposition for the nomination. Sheffield Nelson, the Republican nominee, said when he entered the race that Whitewater would not become a campaign issue. But last week, Mr. Nelson, at the request of reporters, provided copies of his own Federal subpoena for records related to a land deal in which he had invested with Mr. McDougall.
Mr. Nelson, a former Democrat who ran for Governor unsuccessfully against Mr. Clinton after switching parties, has also been suspected of being a primary source of Whitewater and Madison leaks -- involving Mr. Clinton and Mr. Tucker -- since 1992.

Mr. Nelson said the Lieutenant Governor "simply scared off the competition" with the money he raised. The Republican candidate, a millionaire himself, said he, too, could raise a large amount of money and give Mr. Tucker a tough race in the general election.

"I think Tucker's got problems," he said. "He has the same tax-and-spend propensity as his predecessor."

The story of Mr. Tucker's metamorphosis from struggling lawyer to successful businessman in five years provides an even more detailed picture of the interplay between business and politics in Arkansas than have the scores of articles about the President's finances.

Like Mr. Clinton, Mr. Tucker returned to Arkansas with an Ivy League degree and entered politics young, winning his first election as district prosecutor when he was 27. Mr. Tucker had met Mr. McDougal while working with Mr. Clinton and Mr. McDougal for Senator J. William Fulbright. Mr. McDougal and Mr. Tucker were also bachelor roommates in 1969.

**Madison Connection**

Mr. Tucker began borrowing from Madison in the early 1980's, when he had $250,000 in debts from failed campaigns.

From 1983 to 1986, entities controlled by Mr. Tucker and his wife, Betty, received 13 loans totaling $853,000 from Madison and from Mr. Hale's investment company, Capital Management Services, to finance their cable business, to buy an airplane and to invest in real estate, according to the Tuckers' financial statements. The Tuckers made at least $5 million when they sold their cable interests in 1988, said Mr. Haley, their lawyer, but they also had loans from other institutions to start the cable business.

"Mr. Tucker has made some money, and he's lost some money in other endeavors," Mr. Haley said. "For the most part, he made money. I'm familiar with Tucker's finances. There's nothing to be critical of."

Federal investigators are also looking at four other loans totaling $1.56 million that Mr. Tucker's companies received from Madison Guarantee and Capital Management to finance developments with Mr. McDougal. Those developments failed and subsequently resulted in some of Madison's largest losses. The loans, most of them never repaid, were made when Federal regulators were expressing concern over Madison's solvency and Mr. McDougal's lending practices.

Mr. Haley said that Federal regulators had reduced one loan by half and that Mr. Tucker was not personally liable for the defaulted loans because they had been made to corporations from which Mr. Tucker withdrew years ago.

**Links Are Numerous**
While Mr. Clinton had a relatively limited financial association with Mr. McDougal, Mr. Tucker held stock in Madison Guarantee and his law firm represented both Madison Guarantee and Capital Management.

In 1980, Mr. McDougal and Mr. Tucker owned stock in a small Arkansas bank and established corporations to buy and develop land. Mr. Tucker and Mr. McDougal's former wife, Susan, were partners in a Little Rock condominium development.

Mr. Tucker, when asked in a television interview about his involvement with Madison Guarantee, lashed out at Republicans, saying the investigation stemmed from "the Tonya Harding school of politics."

Mr. Tucker refused to be interviewed but his office released a statement playing down the investigations, asserting that Mr. Tucker's transactions with Madison Guarantee and Capital Management had been a small portion of his business in the last 14 years. It also said he had repaid all the loans in question for which he was responsible.

'No Clone of Clinton'

In the political arena, people say his style is much different from his predecessor's.

"He's certainly no clone of Clinton," said State Senator Wayne Dowd of Texarkana. "Their political philosophies are not vastly different, but Jim Guy is a much more traditional wielder of power. He believes if you're not going to follow, get the hell out of the way."

"The relationship between them was good," said Gerald Austin, Mr. Tucker's political consultant. Mr. Tucker dropped out of the Democratic primary race in 1990 when Mr. Clinton ran for re-election.

While in the traditionally figurehead role of Lieutenant Governor, Mr. Tucker assumed a visible and aggressive stance, but he was sometimes forced to accede to Mr. Clinton's agenda. When Mr. Tucker proposed rewriting the state Constitution with himself as the convention president, Mr. Clinton quietly quashed the plan.

And some say that while Mr. Clinton campaigned for the Presidency, Mr. Tucker loyally stayed off controversial issues, delaying things like like seeking new taxes to pay for Medicaid.

Mr. Clinton and Mr. Tucker last met at the White House on Oct. 6, two days before Federal regulators formally asked the Justice Department to begin an investigation of Madison and a week after Mr. Hale's indictment. The two men discussed health care and highways in Arkansas, a spokesman for Mr. Tucker said.

"They have a relationship of mutual respect," Mr. Haley said.

Because of an editing error, the article referred incorrectly to some of Mr. Tucker's holdings in Arkansas. He owned stock in Madison Bank & Trust, not Madison Guaranty. The two institutions were not related, though James B. McDougal, an Arkansas businessman, owned interests in both.
CORRECTION-DATE: June 4, 1994, Saturday

CORRECTION:
An article on Sunday about the business dealings of Gov. Jim Guy Tucker of Arkansas referred incorrectly to a plea agreement made by a Little Rock businessman in a loan-fraud case. The businessman, David Hale, admitted having committed loan fraud, but his plea agreement did not cite loans that he made to Mr. Tucker.

GRAPHIC: Photo: Jim Guy Tucker, who became Governor of Arkansas when President Clinton took office and is now seeking a full term, at a recent luncheon. (Rollin Riggs for The New York Times)

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SECTION: Section 4; Page 16; Column 1; Editorial Desk

LENGTH: 562 words

HEADLINE: Mrs. Clinton Steps Forward

BODY:

As political theater, Hillary Rodham Clinton's news conference Friday afternoon was undeniably a smash hit. She serenely answered an hour's worth of aggressive questions on her complex adventures in the commodities and Arkansas real estate markets. She was also forthrightly remorseful about her earlier resistance to the press and to the appointment of a special counsel.

The First Lady, declaring she had decided to emerge from her "zone of privacy," seemed finally to grasp a central truth that has eluded the White House staff and her husband for months: In Presidential behavior, unanswered questions create a vacuum that sucks everything into it -- including the energies of the press, the legislative vitality of Congress and the attention of the chief executive.

It is of course up to Robert Fiske, the special counsel, to determine whether the Clintons' financial dealings broke the law or whether they merely reflected the fluid ethical mores of Arkansas. But from the beginning, the White House's inability to provide a consistent factual narrative of the Clintons' financial history has made the entire business seem suspicious. Mrs. Clinton's appearance, even this late in the game, was a welcome if belated antidote to months of stonewalling.

Mrs. Clinton did not, however, adequately dispense with one central issue: whether wealthy benefactors who did business with the state government were padding the Clinton family income while Mr. Clinton was Attorney General and Governor. She conceded that most of her highly profitable commodities trades were executed on the advice of James Blair, a lawyer for Tyson Foods, a large company that was heavily regulated by and received substantial tax credits from the Arkansas government. That might have raised an ethical red flag with some people, but Mrs. Clinton said she saw no problem because Mr. Blair "and his wife are among our very best friends."

Mrs. Clinton likewise insisted that James McDougal, the Clintons' partner in the Whitewater land deal and the owner of a savings and loan regulated by the state, had provided no special favors. But she could not explain why Mr. McDougal wound up losing a lot more money than the Clintons did in what was supposedly a 50-50 deal. Her only real answer was that for 10 years she had no idea of what was going on and that she did not receive "any documents until late in the 1980's." That was a strange confession of ignorance from a woman who had spent the previous hour insisting that she maintained hawklike vigilance over her commodities trades and was deeply concerned with building a family nest egg.

Nor was it comforting to find the First Lady slipping into answers that seemed guarded or legalistic. When asked if her commodities broker might have
given her a favorable advantage because of her position, she replied with a lawyerly "There's really no evidence of that. I didn't believe it at the time." Often she denied awareness of events without quite denying the events themselves, as when she said she knew "nothing to support" allegations that money was diverted from the troubled Madison S.& L. into Whitewater to benefit the Clintons.

The First Lady's willingness to open herself to questions is welcome but her performance, however deft, leaves plenty of troubling issues for the special prosecutor and Congress to explore.

LANGUAGE: ENGLISH

LOAD-DATE: April 25, 1994
FOIA RD 56806 (URTS 16302) Docld: 70104960 Page 65
think he may have even called a few more times, saying: "You know, it's really still doing well. Trade again." And I didn't, and I'm glad I didn't because he and other friends of mine who were trading ended up losing money.

So it was a good investment offered by somebody who knew a lot who could provide a lot of good advice, and I was lucky and made the decision to stop when I did.

Q. Do you understand this -- if maybe your broker might have, because of your position or your husband's, might have given you some kind of unfavorable or, you know, favored advantage?

A. There's really no evidence of that. I didn't believe it at the time. As I said, you know, I made and lost money in that commodities account. It was my money. It was at risk. The account was in my name. I got the reports. We've released all of the documents we could find from that period from that account. So, no, I had no reason to believe that. And as Mr. Leo Melamed, the former head of the Chicago Mercantile Exchange, said when he looked at all of my trading records, there isn't any evidence that anybody gave me any favorable treatment. And even Mr. Blair, who ended up losing money, I think would find it very hard to argue that he got any favorable treatment. I just don't think there's any evidence there.

Q. Mrs. Clinton, you said you stopped trading in July of 1979. Could you talk about the second account that was opened?

A. Sure.

Q. There was a second account, with the Stephens Company, in which I think you invested $5,000. And at first the White House claimed you lost money on it, but later you put out documents showing you actually made $6,000 on it and didn't close it until a few months after Chelsea was born.

A. That's right. And I'm glad you asked that, because I really want to clarify it. I think there's been a lot of confusion. There were two accounts. The first account -- the one that I was just talking about -- was the Refco account. I traded in that from October '78 to July of '79, when I found out I was pregnant and I stopped trading. Now, I closed that account for good in October of '79, and I took some of the money that I had made and put it into an account at Stephens. And at that point, I made that a discretionary account. My Refco account was a nondiscretionary account, which meant that I had to approve and give the go-ahead for every trade. In the discretionary account at Stephens, my broker made most of the decisions. And I think he did a good job for me. He diversified the money that I gave him and put it into money markets and stocks and bonds, and $5,000 into some commodities.

Now, what happened then is -- in retrospect, as I've been able to reconstruct it now -- is that my broker made these decisions. He checked with me maybe a couple of times a month, but because it was discretionary he did not have to get my approval. And so money would be moved from one investment to another investment. And during the course of the time between October of '79 and probably May of 1980, he had me in and out of three different commodity accounts in much smaller numbers than what I had been in charge of doing in my Refco account.
In February of 1980, my daughter was born, at the very end of the month. And I remember talking to my broker sometime after that and said, "You know, I just want to get out of commodities altogether. I don't ever want to have to worry about it." So he got me out of the positions that I had been in, so that by May I was no longer doing any kind of commodity trading in the Stephens account. Now, what happened, though, is that he took the money that I now know I made -- I really didn't think I'd made any money in commodities -- and he bought some stock, and he did some other things for me.

Now, in the fall of 1980, my husband lost his election. We moved. So by 1981, when I gathered all my documents together to give to my accountant, I had a year-end statement from Stephens which did not report anything about commodities. I had a year-end statement from the Peavey Brokerage Company which reported a loss, and I had no year-end statement from either Clayton or the company called ACLI. So I think what happened is we bundled all of the documents we had, because I took all of the reports that I had, gave them to the accountant, and I believe that in the absence of a year-end statement the accountant and my husband and I missed the fact that we had actually made some money in the ACLI account.

Q. Do you remember that profit?

A. No. I did not remember that profit. I did not. And in fact, as you said, when some people looking at the records for me began looking at it originally, they looked at the records and they thought I'd had a $5,000 loss. And they came to me and said, "We think you had a loss which you didn't report." And I said, you know, I just don't remember. I thought I basically got out with what I put in. And then they went back and relooked at it again with, you know, more accountants, and they came up with the gain. So it was hard to find, apparently.

Q. With regard to the Refco account, just how did the procedure go? Did Mr. Blair basically recommend to you the transactions which you either said yes or no to? Or was it based more on knowledge that you had gained -- as some of your staff have suggested -- from reading the papers, or whatever? What happened?

A. Well, Brit, it was primarily Jim's suggestion. But I also did try to educate myself. You know, I did try to read some things. He actually gave me a few documents to read. Because he had this theory that because of the economy in the early part of the 1970's, a lot of cattle herds had been liquidated, so that there was going to be a big opportunity to make money in the late 70's. And he gave me things to read about that. And I did occasionally read, you know, publications like The Journal and others and, you know, I tried to educate myself because I took the responsibility seriously. But I relied primarily on his advice, because he really spent an enormous amount of time studying the market and talking to many more people than I ever could have -- people who, you know, ran feedlots or bought beef for large supermarket chains. So he would talk to me, and he'd say: "Here's what I think is going on. What do you think?" Now, I did not make every trade he recommended. And certainly, by July -- when I began to, you know, get nervous about it -- I stopped taking his recommendations, because I just couldn't bear the risk anymore.

Q. Did it concern you at the time that because of his position with the company that he represented, that there was an ethical question raised by your accepting this level of assistance in a financial matter from him?
The New York Times, April 23, 1994

A. No, it did not. And the reason it didn't is that he and his wife are among our very best friends. My husband performed their marriage ceremony. I was the best person at the wedding. We are very close friends. And I found it a little bit surprising that anyone would suggest that, because in 1980, right during the time that this was all going on, when my husband ran for re-election, Tyson supported his opponent. So there's really no basis for suggesting it was anything other than what it was, which was a friend who made a suggestion -- and not just to me, but to a number of people -- which I think was, you know, very fortunate for me.

Q. You said that there was no preferential treatment in all of this. The records indicated that your account was short of money at various points. Were there margin calls? And did you meet any of those calls? And were you aware at any time that Refco was coordinating trades to drive prices up or down?

A. No, I was not aware of that, Andrea. I was told that after I stopped trading some months later. And I know there were lawsuits filed alleging that. I don't think any of that was ever proved, at least that I'm aware of. And when my position was under margin, I would either close out my position or use the equity that I had -- and I think Mr. Melamed said, based on his review of the records, there were a couple of occasions when I was under margin. Nobody ever called and asked me for anything. They just, I guess, took the money that I had in the account and closed out the position. But that was the responsibility of the broker. And from what I know, they were doing so many trades and there was so much volume going through that I was a relatively small customer. I mean, it was very big money for me and my family, but it was a very small account, and I don't think they paid any attention to my particular situation.

Q. Why do you think that they gave you this treatment with you being such a small customer? Don't you think that was preferential treatment --

A. No.

Q. -- based upon who you were and who your husband was?

A. No. I really don't believe that. I don't think there's any evidence of that. You know, from what I know about commodity trading and what I know about the cattle market during that period of time, they were just buying and selling on a huge basis, day in and day out. And I think that they may have not gotten around to the paperwork. They may have not thought it was worth it. They may have seen that I was a regular customer and that I covered my losses, that there was never an occasion when they really had to be concerned about it. I can't read their minds or speculate, but I had absolutely no reason to believe that I got any favorable treatment. And the fact that I closed the account out and took my money, whereas the people whom I knew were much bigger traders like Jim Blair and others -- they lost money -- and why would Jim Blair try to help me get favorable treatment that he couldn't get for himself? I mean, it doesn't make any sense to me at all.

Q. Mrs. Clinton, one of the things that has made all of this so controversial is the shifting accounts of what happened. Because initially the White House explained that you were consulting Blair and many others and reading The Wall Street Journal, and then later had to correct that. And we found out that Mr. Blair was in fact most often placing your trades for you, phoning the trades in. Why was the account -- why did the account have to be corrected?
Why was it not explained accurately the first time?

A. Well, Linda, I think it's because, you know, we're trying to reconstruct events of, you know, 15, 16, 17 years ago. There are a lot of people who are trying to help. But until relatively recently there wasn't any one person in charge of trying to get everything together and get the, you know, information as accurate as possible. I think the people in the White House did the best job they could. I think that we did the best job we could trying to remember things and oftentimes having to search to see whether we had any records. I mean, I don't know how many of you keep, you know, records from 1978 or '79, but, I mean, we went through a lot of effort to try to see whether we had anything so that we could answer questions and then make things available. Sometimes we'd find part of something. Sometimes we'd then find the rest of it. So I appreciate and understand the concern about, you know, why we would have to add information or go back and say, "Well, this needs to be corrected."

But the fundamental facts have not changed. I mean, the fundamental facts are, as I have said: I opened an account with my money. I made the trades. It was nondiscretionary. I took the risk. I was the one who made the decision to stop trading. And that I did rely on Jim Blair. I used some other advice as well, but he was my principal adviser in this.

Q. But that wasn't a question of documents, that particular fact, the fact that he was really driving the trading for you. I guess I wanted to re-ask that question again. Why -- that would be something you would remember or not remember without documentary support -- so, why was that fact not made clear? And were you essentially riding on his coattails when you traded?

A. No, I wasn't. I was riding on the money I invested. You know, I don't know how any of you make investment decisions, but I like to listen to people I know and trust who I think know what they're doing. And he was somebody who I very much thought knew what he was doing and was more than willing to share his information, not only with me but with many people: members of his family and other of his friends. And it was for all of us a decision to put ourselves basically at the mercy of the market. And as Jim Blair found out, he wasn't always right. He lost a lot of money. And I was lucky -- I didn't. But that was my decision.

Q. Mrs. Clinton, a number of your old friends in Little Rock -- Warren Stephens, who I guess is an old friend; Curt Bradbury, Bill Bowen, people like that -- had a meeting on March 31. And they decided that really Arkansas has taken a beating -- portrayed, in the words of one of them, as a moral and ethical backwater -- basically because people hear us saying, "It was done that way in Arkansas." How do you feel about what's happening down there and what's happening to those people who feel they're being hurt by events out of their control? And they feel that they're not really being -- the state is not really being -- defended by you and your husband. I wonder if you'd address that.

A. Well, I feel very bad about it, because I think Arkansas is a wonderful place and filled with some of the best people I've ever been privileged to know or work with. And I do think that many of the charges have been very unfair and have really lacked any historic or realistic context. I don't think it's necessary to point fingers at any other state in the Union to say that, you know, every place there are people who have problems and there are people who cause problems. And I think that, you know, the state of Arkansas is a place
that has, you know, just so much to be proud of. So I hope that we can get back
to a more realistic assessment of what goes on there.

Q. May I follow?

A. Sure.

Q. They've said -- and specifically Bradbury and Mr. Stephens have said --
that to a certain extent they feel you've brought this on yourself, the two of
you, because of campaign statements about a decade of greed and just things that
they feel, in their words, make it look like hypocrisy: that you were into go-go
trading. You were trying, as you said, an opportunity to make money, just as
they were. And they felt like they had been condemned by you -- that people like
that had been condemned by you during the campaign and that now you were being
shown to be doing the things you spoke against.

A. Well, Curt and Warren have never said that to me, so I'll have to take
your word for it. But I do think you raised an important question that I would
like to talk about a little bit. You know, I was raised to believe that every
person had an obligation to take care of themselves and their family. And that
meant, you know, earning an income and saving and investing. I was raised by a
father who had me reading the stock tables when I was a little girl, and I
started doing that with my daughter when she was a little girl. I don't think
you'll ever find anything that my husband or I said that in any way condemns the
importance of making good investments and saving or that in any way undermines
what is the heart and soul of the American economy, which is risk-taking and
investing in the future.

What I think we were saying is that like anything else, that can be taken to
excess. When companies are leveraged into debt, when loans are not repaid, when
pension funds are raided -- you know, all of the things that marked the excess
of the 1980's are things which we spoke out against.

I think it's a pretty long stretch to say that the decisions that we made to
try to create some financial security for our family and make some investments
come anywhere near there. I also think that, you know, my husband and I made
different choices than to concentrate on making money during the 1980's. We
obviously wanted enough financial security to send our daughter to college and
put money away for our old age and help our parents when we could. But we were
primarily interested in -- in his case -- in trying to provide opportunities for
people in Arkansas and make a difference in their lives. And what I tried to do
both to help him and to work on behalf of children or education reform was what
was really important to us. So I think that is, you know, something that needs
to be put again in a proper perspective.

Q. In the same vein, somewhat in the same vein, you were reported to have
opposed a special prosecutor, at least in the beginning -- and some of the
release of tax documents -- on the basis of privacy, that you felt you had a
right to privacy. Do you think that that helped to create any impression that
you were trying to hide something?

A. Yes, I do. And I think that is probably one of the things that I regret
most and one of the reasons why I wanted to do this, because I've had to really
do a lot of thinking the last couple of months. You know, again, I was raised to
really believe that what was important was what you thought about yourself and
how you measured up to the standards you set for yourself. And I think if my father or mother said anything to me more than a million times, it was don't listen to what other people say, don't be guided by other people's opinions, you know, you have to live with yourself. And I think that's good advice. I mean, I'm glad I got it as a girl growing up, and I've passed it on to my daughter. But I do think that that advice and my belief in it, combined with my sense of privacy -- because I do feel like I've always been a fairly private person leading a public life -- led me to perhaps be less understanding than I needed to of both the press and the public's interest as well as a right to know things about my husband and me.

So you're right. I've always believed in a zone of privacy. And I told a friend the other day that I feel after resisting for a long time, I've been re-zoned. You know, and I now have a much better appreciation of what's expected, and not only what I have done -- because I am extremely comfortable and confident about everything that I have done -- but about my ability to communicate that clearly and to give the information that you all need.

Now, to your other question, about the special counsel. I was not the only one of my husband's advisers who questioned the idea of a special counsel. I think that those of us who did were concerned about the precedent that would be set by having such an appointment made when none of the existing standards that had always been in place had been met. There was no credible allegation -- you know all of the things that usually are required. So I was questioning of that. But the President made the decision that we needed to get on with the business he came to Washington to do and that this was an important step to take, and I respected that decision.

Q. Mrs. Clinton, do you know anything about Mr. Foster's death? Do you know what he wanted to tell the President that he didn't get to tell him?

A. You know, I don't know that he wanted to tell the President anything. That's the first I've heard of that. My memory is that the President actually talked to Vince Monday night, before he died, and when I talked with the President afterward he was stunned because the conversation was a very normal kind of a conversation. So I don't know.

Q. Well, I understood they made an appointment to talk not the next day but Wednesday, and that would have been the day after he died.

A. I don't know. I don't know.

Q. Mrs. Clinton, my question -- I'd like a follow-up too. The first one has to do with Susan MacDougal. She said that she brought the document of Whitewater over to you at the governor's mansion. Did you receive all the documents? And if so, what became of them?

A. I don't believe that we received all the documents in that way. Over the past several years, we have made a very deliberate effort to try to obtain documents. And every document that we have obtained has been turned over to special counsel, no matter where it came from.
The New York Times, April 23, 1994

Q. My follow-up has to do with the death of Mr. Foster, the way his office was sealed or the people who were in it. There's been a lot of criticism of the papers in Mr. Foster's office -- that some may have been removed.

A. Well, you know, I know there's been a lot of concern and criticism about that. I cannot speak to that in any detail. But I know that the special counsel is looking into the circumstances surrounding Mr. Foster's death, and I assume he will issue a report about that which I hope will put all these matters to rest once and for all.

Q. You said that -- just now -- that you'd decided that $1,000 was as much as you could risk. Can you tell us what your understanding was of how much you could be at risk with the little amount of money that you and your family had then? We were told earlier that $1,000 was what you were asked to put in. And second of all, can you give us some explanation -- given that a cattle contract at the time, just one contract, was $1,200 -- for the mystery of the $5,300 that was made really in the course of one day, or at least a few days, in the first trade?

A. No, I can't. I do not remember any of those details. I've given you every record that I have about that. The $1,000 was what I wanted to start with. And it was what I thought was a good beginning, a good investment for me. And once I had made the initial return that I did, I reinvested that. This was a roller coaster, and what I believed was that I was getting very good information and that I would end up making money. But there were a couple of days when I lost money. And I knew that I would be responsible for any losses that I suffered. But I did reinvest, and I covered the losses by closing positions. And then I eventually stopped trading.

Q. But when you first started with $1,000, did you believe you were putting at risk more than $1,000?

A. I believed that was certainly possible, yes.

Q. Then why did you take such a risky investment?

A. Because I didn't think it was that big a risk, because I thought that Jim and the people he was talking with knew what they were doing. And, you know, I've read a letter to the editor that somebody sent me from one of your newspapers, I think, which talked about a woman who invested $1,000 during the same time and made $750,000. Well, she had a stronger stomach than I did. I couldn't do that.

Q. The Whitewater development was set up, as you say, as a 50-50 partnership between the Clintons and the MacDougals, meaning that you were liable for 50 percent of the losses or 50 percent of the gains. And yet, by your own accounting, you lost half or even maybe a third of what the MacDougals lost. This is according to the Lyons report. Doesn't that discrepancy represent some sort of a gift or gratuity?
A. No. And let me say that, yes, the ownership of the corporation was 50-50. The liability on the underlying debt was 100 percent for each one of us. I mean, there was no gift in that. When my husband and I signed that mortgage, and when we re-signed guarantees, we assumed the whole responsibility. I mean, if Jim had gone into bankruptcy early on, if Susan had left, we would not have only 50 percent of the obligation; we would have 100 percent of the obligation.

Q. But why was it that the MacDougals lost so much more money than you did? I don't understand it.

A. I can't answer that. I mean, we gave whatever money we were requested to give by Jim MacDougal. I mean, he was the one who would say: "Here's what you owe on interest. Here's what your contribution should be." We did whatever he asked us. We saw no records. We saw no documents. He was someone that my husband had known a very long time. He was someone who had been in the real estate business with many people we knew, including Senator Fulbright, and we just assumed that whatever he needed he would ask for. And we didn't have any information to the contrary.

Q. It's just that given that you were jointly and separately liable for all the debt and that you and your husband are both lawyers, that you would be so passive about a fairly substantial investment.

A. Well, we were not real estate developers, and Jim had a track record. And I wasn't a cattle expert; I trusted Jim Blair, and it worked out for me. And I wasn't a real estate expert, and we lost money. Those things happen.

Q. Mrs. Clinton, just to get back to Linda's earlier question. One of the things that has been driving this is either the lack of explanations or the shifting explanations. And in terms of the way that your commodities trading was first described: that you did the trades, you relied on some advice from Mr. Blair. Later it was revealed that Mr. Blair placed most of the trades, if not all of them. Can you explain what happened? Did you have a new recollection? Why the shift?

A. Well, if you just listen to what you said: I did the trades. They were my trades. I was responsible for them.

But I did them on the advice of Jim Blair. And very often he placed them for me. I'm not in any way excusing any confusion that we have created. I think we have created it because I don't think that we gave enough time or focused enough. I have been traveling, and I'm more committed to health care than anything else I do. I probably did not spend enough time, get as precise. Different people heard different things that I said, or by the time it got passed to the third or fourth person, or one member of the press would call somebody in the White House but somebody else would call another person. So I think that the confusion was our responsibility. We did not give you a focused place to come, and we did not spend the time necessary. There's not really a contradiction in what you said and what I said. But I can understand how somebody might assume that.

Q. Now that we're clearing up a lot of confusion, I'll ask you about one other thing that I've had problems with. During the campaign -- I think it was right after the primary debate between Jerry Brown and your husband -- you made a statement in, I think, a Chicago restaurant that you never did any
regulatory work for Madison Guaranty. When the letter went to Beverly Bassett Schaffer about perhaps the legality of offering preferred stock, your name was at the bottom of that letter.

A. Right.

Q. Could you explain that?

A. Yes. I'm glad you asked that, because that's another thing that I feel has gotten confused in the telling. Let me just try to describe what happened there. When in 1985, I believe, -- maybe '86 -- there was an effort made on the part of various financial institutions around the country to increase their capital net worth, they began looking for ways to do that. There was a very bright young associate in our law firm who had a relationship with one of the officers at Madison, a young man whom he had known. They began talking.

And if you'll remember what happened when the S. & L.'s were deregulated, many states were left wholly unprepared: they did not have a regulatory system in place, they didn't even really have good laws. All of a sudden there was no Federal regulation to speak of, and so people were asking state governments whether things could be done.

Those two young men thought that it would be legal under Arkansas law for a savings and loan to issue preferred stock. But there was absolutely no law on that, and so they couldn't be sure. But they decided that what they wanted to do was to ask the person who regulated savings and loans whether it was legal -- not if Madison could do it; that was the second step. The first step was could you even do it in Arkansas, whether you were A, B or C, not just Madison.

When they talked about doing that, the young attorney in question needed a partner to serve as his backstop, and that was one of the rules we had in our firm. He knew that I knew Jim MacDougal. He also knew that Jim had been a client of our firm in the past. This was not a new representation.

So he came to me and asked me if I would talk with Jim to see whether or not Jim would let the lawyer and the officer go forward on this project. I did that, and I arranged that the firm would be paid a $2,000-a-month retainer. And that was ordinary and customary. That would be billed against, unlike retainers of some really big law firms that if you pay the retainer they keep it, no matter whether they do any work for you. This was really an advance against billing. That was arranged.

The young attorney, the young bank officer did all the work, and the letter was sent. But because I was what we called the billing attorney -- in other words, I had to send the bill to get the payment made -- my name was put on the bottom of the letter. It was not an area that I practiced in, it was not an area that I really know anything, to speak of, about.

At that point, the regulatory authorities -- namely, Beverly Bassett Schaffer -- answered the legal question. And the legal question was: Yes, it is permissible under Arkansas law to issue this preferred stock. Then the question moved on to the second phase, in which I had no involvement that I have any memory of, or anyone that I've talked with. That was trying to determine whether Madison could go forward.
And I think that the Securities Commissioner acted absolutely appropriately. She answered the legal question: Yes, it is legal to do this. But as to Madison, she laid out conditions that had to be met for Madison to do it. And Madison could never meet those conditions, and so they never issued preferred stock. So the legal question was answered, but Madison got no benefit at all from the answer of that legal question.

Q. Can you clarify for us what documents were removed from Vince Foster's office after he died, and why they were there in the first place?

A. I can tell you what I know, which is I did not know Vince had any of the documents related to our personal business in his office until after his death. What I believe he was doing with them was serving as a coordinator among our private lawyers and accountants and certain government officials, like the Office of Government Ethics, with respect primarily to our blind trust. Because there were all these questions that had to be answered and he was kind of the, you know, the coordinator. The private lawyers would talk to him; the Office of Government Ethics people would talk to him. I think that's why he had any documents of a personal nature in his office at the time of his death.

Q. Why did your chief of staff, Maggie Williams -- why was she involved at all to remove these documents from his office within a day of his death?

A. I don't think that she did remove any documents. I think that what happened is that after Mr. Nussbaum reviewed the documents, and after he did so -- as I recall; I was not here, I was in Arkansas -- but I believe that was done in the presence of officials from the park police and maybe some other agencies. Then Mr. Nussbaum distributed the files according to whom he thought should have them. There were files related to ongoing work in the counsel's office that needed to be passed on to other lawyers, there were personal files of Vincent's that needed to go to his family, and there were these personal files of ours that went to our lawyers.

Q. Another question about this re-zoning of private and public lives: I'm wondering what kind of a toll, if any, this has taken on you, on your and the President's personal and political lives. And do you ever look in the mirror and wish that you'd just never got into this?

A. No, never. Never. I mean, some days are better than other days, but, you know, I think what has helped me in the last couple of weeks -- aside from some good friends who have talked with me and helped me get re-zoned, if you will -- is my belief that this is really a result of our inexperience in Washington, if you will; that I really did not fully understand everything that I wish now I had known. You know, it's a learning experience, sometimes a difficult one but I think one that both the President and I are anxious to do because we think that the reason he was elected was to deal with the big issues that we want the country to deal with. And so it is a little disappointing if we in any way contribute to a diversion from that. That's something I don't want to have happen in the future, and I'm certainly going to try to be more sensitive to what you all need, and what we need to give you, and do it in a more efficient and effective way the first time.

Because, as I said earlier, I feel very confident about how this will all turn out. This is not a long-term problem or issue in any way. But I don't want anybody to have the wrong impressions of either of us, and I don't want
anything to interfere with doing what the people of this country need done.

Q. Mr. Clinton has spoken of the politics of personal destruction. Who do you believe are main perpetrators of that?

A. I don't want to get into that. I don't think that that bears any real useful discussion. I think that what's important is for us -- not just the President and me but the entire Administration -- to keep focused on what really will stand the test of history and what we really are trying to do for the country. And I can't really help it if some people get up every day wanting to destroy instead of build, or wanting to undermine. That's something that I try not to think about or dwell on, and try to do what I'm expected to do, which for me is working on health care.

Q. When was your last conversation with Vince Foster, and what was your understanding of the state of his mind?

A. You know, I've thought about that so many times. I don't think I had any conversation with him for at least three weeks before he died because, you know, we left for Tokyo somewhere around the Fourth of July is my best memory. And for about a week before that, I was very preoccupied with getting ready for the trip and doing the things you have to do. So I don't have any memory of having talked to Vince, and I never talked to him during the time that I was gone. And like every one of our friends, you know, we relived everything that happened or didn't happen. The people who talked to him, the people who spent time with him, they question whether they said the right thing, whether they could have done something else. The fact that I didn't talk to him makes me wonder whether if I had called him I could have picked up a clue. I just don't have any way of knowing.

Q. It supposedly had been depression, or so we were told, for a considerable period of time. Were you ever aware of that?

A. No.

Q. Did you have any clue what was going on?

A. No. Neither did people who, you know, spent the weekend with him or saw him in the office that day. You know, one of the things that I've spent a lot of time doing in the last months is trying to educate myself about depression. And my good friend Tipper Gore has been a great help on that, as have the people she's worked with on mental health issues. And I just hope that we get over the stigma that is still often attached to people admitting they need help or that they can't understand what's happening to them. I have no doubt now, in retrospect -- and many of my friends now can reconstruct conversations or things they saw in Vince in those last weeks, but they didn't know, they didn't understand. And he didn't either feel comfortable or know himself. So maybe out of all of this tragedy and the aftermath, all of the speculation, maybe once we put to rest once and for all the fact that he committed suicide and that it was a tragic loss of one of the best people we've ever known, maybe it can do something to help other people understand what depression can do to you.

Q. Mrs. Clinton, what was your personal reaction when you learned that Jay Stephens would be representing the R.T.C. in a case against Madison?
A. My personal reaction?

Q. About the fairness of that decision by the R.T.C. to hire him.

A. Well, I didn't understand it, you know. But I don't know Mr. Stephens, and I assume he will be a very fair and judicious lawyer. I guess that's what I would expect.

Q. You're not concerned about his being a Republican appointee and a U.S. Attorney appointed by President Bush?

A. Not if he abides by the code of professional ethics and does his job professionally, I'm not, and you all keep an eye on him.

Q. Mrs. Clinton, do you think, with the benefit of hindsight, that it was improper for you and your law firm to represent the Federal Government against a family friend, Dan Lassiter, and against accountants for Madison S.& L. without fully disclosing that you had been business partners with Mr. MacDougal?

A. Well, Ann, I don't know what was disclosed and what wasn't. Those were not my cases. Those were cases that came to the firm to other lawyers. I've been told that things were disclosed quite extensively. And certainly in Arkansas, most things are known. And the relationship with Mr. MacDougal, the fact that Mr. Lassiter made campaign contributions to my husband, was certainly well-known. In both of those instances, I don't think I had anything to do at all with the representation against Madison on behalf of the Federal Government. At least I have absolutely no memory of having done anything on that case.

With respect to the Lassiter case: I think out of that entire case I worked two hours, as a favor to one of the lawyers who was out of town who asked me to review a pleading. And I have specifically inquired whether there was any ethical conflict with respect to that and have been assured there was not. He was not a client that we had any obligation to. Thousands and thousands of people contributed to my husband. That is not considered disqualification. We were not personal friends or social friends. So I don't see any basis for saying that my work for him, as limited -- or against him -- as limited as it was, amounted to any kind of conflict.

Q. It's not just the press that has questions -- sometimes the American citizens who talk to your husband at town meetings and all. And one young woman in Charlotte asked him a question I'd like to pose to you. She said that in the recent news reports about the First Lady's cattle futures earnings, and with all these Whitewater allegations, many of us Americans are having a hard time with your credibility. How can you earn our trust back? Is there a fundamental distrust of the Clintons in America?

A. Well I hope not. I mean, that would be something that I would regret very much. I do think that we are transition figures, if you will. We don't fit easily into a lot of our pre-existing categories. And let me speak just about myself. You know, I came to this role having worked my entire life. I mean, I started working in the summers when I was 13. I always worked. I worked through college. I worked through law school. That's what I did. And after I married, I continued to work. And after my daughter was born, with the exception of the four months I took off for maternity leave, I worked. Now, I took time off from work to do volunteer work, like I took long time off from my law firm work to
work on education reform, or I would take time off to work on my husband's campaigns, or I would be in Washington on the Children's Defense Fund. I would certainly take a lot of time, but I was fundamentally working.

And I think that having been independent, having made decisions, it's a little difficult for us as a country maybe to make the transition of having a woman like many of the women in this room, sitting in this house. So I think that the standards -- and to some extent, the expectations and the demands -- have changed. And I'm trying to find my way through it and trying to figure out how best to be true to myself and how to fulfill my responsibilities to my husband and my daughter and the country. So I do think that there is some of that.

And then additionally, as I have said earlier, I think that my fundamental belief in privacy and my feeling that we were being asked things and demands were being placed on us that had never been demanded of prior inhabitants of this house -- unprecedented, in Arthur Schlesinger's words -- didn't make sense to me. I couldn't quite figure it out, and I resisted that. And I think I resisted it in ways that may have raised more questions than they answered. And I just don't think that was a very useful road for me to go down, and I'm trying now to better understand how to fit my personal needs and my own personal beliefs and what I want to do with this role for the country and the contribution I want to make into a broader context so that I can be as forthcoming and accessible as you need me to be.

GRAPHIC: Photos: Hillary Rodham Clinton gave the White House counsel Lloyd N. Cutler a kiss yesterday after her White House news conference. With her was her press secretary, Lisa Caputo. John D. Podesta, the White House staff secretary, left, also greeted the First Lady. (Paul Hosefros/The New York Times)(pg. 12); Hillary Rodham Clinton taking questions from reporters yesterday at a White House news conference at which she sought to offer an explanation of her financial dealings. (Reuters)(pg. 11)

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HEADLINE: Clintons Used Trade Profits To Cut Taxes

BYLINE: By STEPHEN LABATON, Special to The New York Times

DATELINE: WASHINGTON, April 12

BODY:

The White House said today that the Clintons used some of the profits from Hillary Rodham Clinton's lucrative commodity trades to make large interest payments on a real estate venture in the late 1970's as a way to reduce their income taxes.

Confirming parts of an account provided earlier in the day by James B. McDougal, the Clintons' business partner in the real estate venture, the Whitewater Development Company, the White House said the Clintons had pre-paid interest on the venture to lower their tax bill.

Using the money from trading profits to make interest payments is not illegal, and in fact, interest deductions are a common way for investors to reduce their tax liabilities.

"If you look at their tax returns, they offset interest in one investment with profits on another investment, the way the tax code is set up," said Dee Dee Myers, the White House press secretary.

Earlier in the day, Mr. McDougal said he had suggested the strategy to Mrs. Clinton when she sought advice on how to lower her tax bill from the commodity trades, which earned her nearly $100,000 in 1978-79.

Mr. McDougal said Mrs. Clinton accelerated interest payments on loans of more than $200,000 taken out by the Clintons and Mr. McDougal and his wife to buy 230 acres in the Ozarks. By making the payment in 1979, Mrs. Clinton was able to claim a deduction that helped offset her profitable commodities trades that year, he said.

Impact on Investigation

This latest account of the Clintons' finances virtually insures that Robert B. Fiske Jr., the special prosecutor looking into Whitewater, will have to review the commodity transactions.

Mr. Fiske has been examining the circumstances surrounding Whitewater and whether the development company or Mr. Clinton's 1984 campaign for governor of Arkansas received improper payments from Madison Guaranty Savings and Loan. The Arkansas savings association, owned and operated by Mr. McDougal, was seized
The New York Times, April 13, 1994

by Federal regulators in 1989.

Three weeks ago the White House said that the Clintons made more than $35,000 in interest payments to the land venture from 1978 to 1980, representing about 75 percent of their total payments for Whitewater. That was about the same time Mrs. Clinton was profiting from commodity trades, which significantly increased the couple's otherwise modest income.

Mr. McDougal's account was provided to reporters at a news conference this morning in Little Rock, Ark., at which he offered for sale copies of 2,000 pages of Whitewater documents sent to him last week by the White House.

Mr. McDougal said the records showed the Clintons had done nothing illegal in Whitewater.

"These documents, taken together," he said, "totally exonerate them from all charges that this is some sort of cash cow or some sort of Mafia front or whatever fantasy the Republicans have been able to create about it."

Mr. McDougal's comments and the White House response provided the first link between Whitewater and Mrs. Clinton's commodity trades. The trades became public on March 18 after The New York Times learned of them during a two-month review of the Clintons' finances.

During the 1992 Presidential campaign, the Clintons sought to prevent the disclosure of the trades, and since acknowledging their existence, the White House has revised its account several times of the circumstances under which Mrs. Clinton, a novice investor, parlayed a $1,000 investment into a nearly $100,000 profit over 10 months of trading in the highly risky commodities market.

A chronology about the Clintons' financial dealings that accompanied the article misstated the date on which the White House released the Clintons' tax returns for 1977, 1978 and 1979. It was March 25, not March 24.

CORRECTION-DATE: April 14, 1994, Thursday

CORRECTION:
An article yesterday about the Clintons' finances misattributed a statement that they had used profits from Hillary Rodham Clinton's commodities trades to make interest payments on the Whitewater real estate venture. That information was provided by Clinton aides who spoke on condition of anonymity, not by the White House on an official basis.

GRAPHIC: Chart: "CHRONOLOGY: The Clintons' Financial Dealings"

When the White House announced on Monday that the Bill and Hillary Rodham Clinton owed back taxes on earnings from commodity trades in 1980, it was the latest of several revisions in their explanations of crucial aspects of their personal finances.

In recent weeks, the White House lowered the estimate of how much money was lost in the Whitewater real estate venture and gave varying accounts of the circumstances and terms of Mrs. Clinton's commodity trades. The White House has cited the difficulty of reconstructing events from years ago.
Following is a chronology, by subject, of the various accounts:

Whitewater Development Company:

March 9, 1992:

After the first news reports about the Clintons' investment in the Whitewater Development Company, Mr. Clinton insists he lost "more than $25,000" on the venture.

March 23, 1992:

A report by a Denver accounting company made public by the Clinton Presidential campaign says the couple lost $68,900 on Whitewater, contradicting an earlier estimate from the Clintons' personal accountant that put the losses at around $43,000.

Fall 1993:

James B. McDougal, the Clintons' partner in the real estate venture, contests the campaign report, asserting that the White House mistakenly counted Mr. Clinton's repayment of a $20,000 loan as a Whitewater contribution. White House aides insist Mr. McDougal is wrong.

March 24, 1994:

The White House acknowledges that the 1992 report commissioned by a Denver lawyer, James Lyons, overstated the Clintons' losses by $22,244. Mr. Clinton says at a news conference that the mistake arose when the $20,000 loan, which he had taken out to buy his mother a house, was included as a Whitewater expense. Mr. Clinton said he recognized the error recently, when he was reviewing the galley proofs of his late mother's autobiography, and recalled taking out the loan.

Mrs. Clinton's Commodity Trades:

February-March 1992:

Aides in the Clinton Presidential campaign assert that the couple's $60,000 down payment for their 1980 purchase of a house came from an unspecified investment by Mrs. Clinton. Later, the campaign issued a statement in Mrs. Clinton's name that said the money came from "our savings and a gift from our parents."

March 17, 1994:

Responding to reporters' questions about Mrs. Clinton's commodity investments through Refco Inc., a brokerage with offices in Springdale, Ark., White House officials say she traded on her own and paid all appropriate taxes on profits of nearly $100,000. They now acknowledge that this money contributed to the down payment on the house.

Aides say Mrs. Clinton made her own trades, and that her decision were based on an astute reading of The Wall Street Journal and advice from associates. James B. Blair, the chief counsel for Arkansas-based Tyson Foods Inc., was
only one of several people who helped her shape a market strategy, White House officials say.

They say Mrs. Clinton got out of the commodities market in late 1979 because she was pregnant and found the investments nerve-wracking. The White House says the Clintons invested their own money, but decline to specify how much or make public her trading records or the couple's 1978-79 tax returns.

March 24, 1994:

The White House releases the Clintons' tax returns for the years 1977 through 1979. They give no indication of how much money was initially invested, or which commodities were traded.

March 29, 1994:

After a news report claims that Mrs. Clinton had invested no money, the White House releases partial trading records indicating that her account began with a deposit of $1,000. Officials also say that Mrs. Clinton traded commodities through a second account managed at Stephens Inc. in Little Rock, with small losses in 1979 and 1980. Mrs. Clinton "ceased trading in this account soon after her daughter Chelsea was born. The account was closed in March, 1980," the statement says. White House officials, speaking on the condition that they not be identified, insisted that Mrs. Clinton had made her own trades and had left the market because she could not stand the tension.

April 5:

At a town meeting in Charlotte, N.C., Mr. Clinton says that the trading records were made available "as soon as they asked about them." Defending his wife against accusations that she received special treatment -- in particular that she was allowed to trade with an unusually small amount of money in her account -- Mr. Clinton recalls his wife receiving a "margin call," a request from her brokerage to deposit cash against possible losses. The records released by the White House do not show any sign of such a demand.

April 9:

White House officials acknowledge that Mr. Blair placed orders for some of Mrs. Clinton's trades. They say the First Lady still made the final decisions.

April 11:

The White House says the Clintons did not lose money in their second account, with Stephens Inc., but made $6,498 in commodities profits, which they failed to report on their 1980 tax return, resulting in tax underpayment of $3,315. Although they are not required to, Clintons repay the IRS with interest a total of $10,134. The commodities trading, through Stephens Inc. lasted until May 14, 1980, several months after Chelsea was born. One of Mrs. Clinton's most active trading months was March 1980, days after Chelsea's birth.

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LOAD-DATE: April 13, 1994
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March 31, 1994, Thursday, Late Edition - Final

SECTION: Section A; Page 20; Column 1; Editorial Desk

LENGTH: 766 words

HEADLINE: Arkansas Secrets

BODY:

There will be plenty of time to explore whether laws were violated when the Clintons went into the land development business with James and Susan McDougal or when George Stephanopoulos and other White House aides meddled with Treasury Department investigations. For the moment, it is enough to ponder the fluid morality implicit in the Clintons' tax returns and the records of Mrs. Clinton's short but profitable career as a commodities trader.

The inescapable conclusion is that this couple, early and late, suffered from a thematic insensitivity to the normal rules of conflict of interest. At every turn of their financial life, the then-Governor and First Lady of Arkansas were receiving financial favors from individuals who had something to gain from having friends in high places.

Consider the Whitewater case. The 230-acre development was supposed to be a 50-50 partnership between the two couples. To be clean politically, the deal had to be one of equal investment and equal risk. But from the moment that Jeff Gerth of The New York Times wrote the first Whitewater story in 1992, the Clinton campaign and later the White House press office dodged questions and withheld documents.

The reason is clear. The Clintons put up $500 initially and claimed losses of $43,635, most of it in payments on loans, by the time of the 1992 campaign. In contrast, the McDougals paid out $268,000 and withdrew $175,800 for a loss of $92,200. Although the records are muddled, the McDougals apparently paid dramatically larger amounts to support Whitewater than did their supposedly equal partners, the Clintons.

Moreover, Mr. McDougal's heaviest contributions to the partnership came after he acquired Madison Guaranty, a savings and loan that was part of Mr. Clinton's regulatory responsibility as Governor. The disorder of Whitewater and Madison records is such that it is unknown whether the Clintons benefited from any fund transfers between Madison Guaranty and Whitewater Development, or whether Madison benefited from favorable treatment by Mr. Clinton's regulators. That is a legal determination, but the political conclusion is clear. From the start of his governorship, Mr. Clinton was involved in potentially compromising financial entanglements.

The same goes for Mrs. Clinton. On an initial investment of $1,000 she made $98,000 by trading in agricultural commodities while her husband was running for governor. Her principal adviser was James Blair, the lawyer for Tyson Foods Inc.; the broker he chose for her, Robert (Red) Bone, had once worked for Tyson and had been disciplined by regulators for not keeping good records on which accounts made money and which lost. Once Mr. Clinton was in office, Tyson

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received $9 million in state loans and very gentle treatment when it came to the extensive water pollution associated with raising and cleaning chickens.

The investigators are nowhere near the bottom of Whitewater. But we now have a fairly clear idea of how it got started and what it is about. It started with a well-meaning young couple who seemed to have an extraordinary indifference to, or difficulty in understanding, the normal divisions between government and personal interests. Their conduct may not have been illegal, but it was reckless and politically unattractive.

To deal with these seedy appearances, Clinton supporters are now engaged in what we have come to recognize as The Arkansas Defense. A central argument is that while the Clintons' dealings were not pretty, you cannot apply the standards of the outside world to Arkansas, where a thousand or so insiders run things in a looney-goosey way that may look unethical or even illegal to outsiders. This logic holds that whatever the Clintons did was penny-ante stuff that the Republicans and the press ought to be willing to overlook in service to the higher national interests.

Certainly, there is a national interest in a viable Presidency and in swift progress on health care reform and other pressing issues. But the genius of the Federal system does not reside in importing to Washington the faults and idiosyncrasies of the state capitals.

The effort to keep a lid on the Clintons' personal and financial histories has led to the development of a distinctive Clinton style -- to withhold critical information and to respond furiously with attacks on the motives of critics. It is a viable campaign practice. But the clumsy efforts to silence Congressional critics and the possible White House interference with Federal agencies demonstrate that it is a dangerous way to govern.
A year ago, just after President Clinton announced her nomination as Commissioner of Internal Revenue, Margaret Milner Richardson was toasted at lunch by friends, all female tax lawyers. Someone mentioned her legendary success as a fund-raiser for political causes and charities.

"Well, I think I'm now going into the biggest fund-raising job there is," responded the Vassar graduate, originally from Waco, Tex., who took a leave of absence from her Washington law firm to work in Mr. Clinton's campaign. "And this time," she added, thinking of the agency's 115,000 employees and vast legal powers, "I won't even have to use my Rolodex."

In the throes of her first filing season, which officials say has produced few problems besides a slower-than-usual flow of returns because of the winter's snow and ice, Mrs. Richardson is charged with one of the Government's formidable challenges.

Her mission is to oversee the continuing transformation of an agency whose structure evolved in the early 50's, and whose computers date from the 1960's, into a center efficient enough to collect $1 trillion a year in taxes as well as to try to get some of the estimated $150 billion that slips through the Treasury's hands.

"We realize that for our voluntary income tax system to survive, and for us to accomplish our mission, we need to change the way we do business," Mrs. Richardson said recently, adding she was shocked to learn that 10 million individuals and businesses file no returns.

She promised to "listen to our customers" who have become accustomed to instant account service by credit-card companies and others in private business, a service the I.R.S. will not provide for a few years.

The agency has made some efforts at user-friendliness recently. Tax forms are available in Spanish in an experimental program in Los Angeles and South Florida. Toll-free I.R.S. lines for taxpayers with questions on filling out their returns are available evenings and weekends.

Filing by telephone has been expanded beyond Ohio to Florida, Indiana, Kentucky, Michigan, South Carolina and West Virginia, and the agency has asked
Congress to permit payment by credit card.

In addition, returns can be prepared by personal computer, following agency software specifications. Authorized tax transmitters -- whether franchise preparers or a local C.P.A. office -- can file to the I.R.S. electronically.

At the same time, the I.R.S. is raising fees for taxpayers to retrieve copies of previously filed returns, to pay by installment and for informing banks that refunds from electronically filed returns need not be applied to unpaid Government loans.

Credentials and Friends

The wry but businesslike Commissioner pressing this agenda -- multibillion-dollar modernization and reinvigorated compliance -- has not openly discussed her ambitions, people who have known her for a decade or more say. But given her credentials, they are not surprised by her ascendency to the top I.R.S. job.

A longtime Washington tax lawyer, first in the I.R.S. trenches and since 1980 as partner in a leading private firm, Sutherland, Asbill & Brennan, Mrs. Richardson has another important credential: she is a politically active friend of another prominent former tax lawyer, Hillary Rodham Clinton, whom she advised on women's health issues during the campaign. She also worked on the Administration's transition team for the Justice Department.

And she possesses a vividly demonstrated ability to make people part with their money, as demonstrated in the campaign lunch she organized for Mrs. Clinton and Tipper Gore.

At $100 each, all 2,500 tickets for the lunch at the Washington Hilton sold so quickly that the tables had to be removed and the menu changed to what could be put in a brown paper bag and eaten by standees. There were about 4,000 people in all.

"We were going to have chicken breasts," Mrs. Richardson recalled. "We turned them into chicken salad. The chef couldn't quite believe it."

When friends and former colleagues began encouraging her to seek the top I.R.S. job, which pays $123,100 a year, she could not resist the idea of trying to fix the creaking giant. A self-described "yellow-dog Democrat," an admiring Southern term for a party loyalist, she was intrigued by the challenge because it reflected her belief in the essential worthiness of Government.

"The Internal Revenue Service really does touch the lives of almost every American," she said in an interview in her commodious third-floor office overlooking the Mall. "If you can make a difference in the way people perceive the I.R.S., you go a long way toward making a difference for the Government at large."

Her specific goal is to raise collections to at least 90 percent of taxes due from 83 percent now, with each percentage point worth about $10 billion a year. This includes money lost from taxpayers who under-report income, overstate deductions, fail to pay what they owe, or do not file.

Some have suggested that, given the present deficiencies, it might be better to stop taxing incomes and switch to some other levy.

But Mrs. Richardson, who has discussed this abroad, was doubtful. "I will tell you that my personal belief is that a consumption tax, a value-added tax, a national sales tax, has many problems," she said, adding that the subject "needs to be looked at periodically, but I wouldn't want anybody to think that's the simple way to solve all of these problems."

"There's a significant issue about paperwork burden," she added. The 1996 election results permitting, the Commissioner said she planned to stay in her post for eight years, a tenure rarely achieved among her 43 predecessors since the I.R.S. was established during the Civil War. She is the second woman to hold the job, succeeding Shirley D. Peterson, who served during the Bush Administration.

Although it is too early to assess Mrs. Richardson's performance, tax specialists are impressed with the Administration's support for her $7.6 billion budget request for next year, up 3.5 percent, and for an additional $400 million to pay for 2,000 more people in enforcement work, jobs like auditors or collectors.

Asked if she was reviewing the tax returns of anyone associated with Whitewater, the failed Clinton real-estate venture, she smiled slightly while an aide quickly invoked Section 6103 of the tax code, which bars discussion of any specific taxpayer.

Abridgement of Privacy

Indeed, Mrs. Richardson, exhibiting a streak of independence, recently told Congress that she feared a loss of privacy in the Administration's idea of enlisting outside contractors to help the I.R.S. collect back taxes.

She expressed no particular concern about duties the agency might be assigned in overhauling the nation's health care system, like verifying income for determining eligibility for subsidies. "I think there probably will be a role," she said. "What it will be, I don't know."

Unlike many well-to-do people, including predecessors in the job, Mrs. Richardson fills out her own tax return, subject to review by an accountant. She has not filed this season because she is waiting for information from her husband, a transportation lawyer, who is said to joke that it is a conflict of interest for his wife to pay income tax.

She also drives herself to and from work each day in a Volvo station wagon -- a more sedate one, friends say, than the bright orange one she used years ago when she was less prominent in Washington.

Evidence of her Texas roots -- she discovered Vassar as a child while living at West Point, where her father was stationed -- seems to be fading, but Mrs. Richardson said the family still ate chili. And she has found her origins helpful in avoiding inopportune chitchat.

"I always say I have two conversation stoppers," she told an audience early this year when the Government's siege of the Branch Davidian compound near

Waco was still fresh in people's minds: "When I am sitting on an airplane and the person next to me says, 'What do you do?' and I say 'I.R.S. Commissioner.' "

"If that doesn't stop them," she added, "when they ask where I am from, that usually does."

GRAPHIC: Photo: Margaret Milner Richardson, Washington tax lawyer and Southern Democratic loyalist, sees her place as President Clinton's Internal Revenue Commissioner as "the biggest fund-raising job there is." (Paul Hosefros/The New York Times)

Chart: "Margaret Milner Richardson"

Born: May 14, 1943

Hometown: Waco, Tex.

Education: Weatherford High School, Texas; Vassar College, 1965, political science; George Washington University, 1968, J. D. with honors


Family: Married to John L. Richardson, transportation lawyer. One daughter, Margaret, high school senior

Hobbies: Gardening, cooking, reading

LANGUAGE: ENGLISH

LOAD-DATE: March 30, 1994
LEVEL 1 - 143 OF 204 STORIES

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March 26, 1994, Saturday, Late Edition - Final

SECTION: Section 1; Page 1; Column 1; National Desk

LENGTH: 2035 words

HEADLINE: Clintons Release Tax Data Showing Land Deal Losses

BYLINE: By JEFF GERTH, Special to The New York Times

DATELINE: WASHINGTON, March 25

BODY:

Bowing to political pressure, Bill and Hillary Rodham Clinton today released tax returns and other financial data that give the clearest picture to date of how the couple made and lost money early in Mr. Clinton's political career.

The documents, which include tax returns from 1977 to 1979, show that the couple nearly quadrupled their annual income in those years, from $41,731 to $158,495.

That increase was largely attributable to commodity trades by Mrs. Clinton, which were arranged with the help of a lawyer for Tyson Foods, the nation's largest poultry company.

Amount at Risk Unknown

The speculative trading, which netted about $100,000 from October 1978 to October 1979, is described incompletely in the forms. The returns do not show how much money, if any, was initially invested, and a person familiar with the returns who briefed reporters today at the White House was unable to provide a figure. Mrs. Clinton's commodity trading was first reported by The New York Times on March 18.

In another aspect of the inquiries involving the White House and the Clintons' financial activities, a senior Administration official said tonight that he had raised questions about the Resolution Trust Corporation's investigation into the failed Arkansas savings and loan at the center of the inquiries after a well-known Republican prosecutor was hired to handle a portion of the civil case.

The official, George Stephanopoulos, a senior aide to President Clinton, said that he spoke on Feb. 25 with Joshua Steiner, the chief of staff to Treasury Secretary Lloyd Bentsen, about the decision to hire the Republican, Jay B. Stephens, a former United States Attorney for the District of Columbia.

Mr. Stephanopoulos's statement confirmed that he had discussed Mr. Stephens with Mr. Steiner, as reported in Saturday's issue of The Washington Post. It was the first acknowledgement by White House officials that they had expressed any concern about the Resolution Trust Corporation investigation into the Madison Guaranty Savings and Loan Association, which financed part of the Whitewater real estate deal in which the Clintons had invested.
Political Pressures

The disclosure of Mr. Stephanopoulos's talk with Mr. Steiner came as a number of other conversations between the Treasury Department and the White House were being challenged as a possible effort to interfere with the investigation into Madison.

The President and his wife are under mounting political pressure to put questions about Whitewater, an Arkansas land development in the Ozark Mountains, behind them. The documents that they released today, however, may have weakened one of the Clintons' central defenses to questions about the deal.

For two years, the Clintons have asserted that they lost $68,800 on the investment, using the figure to rebut accusations that their partner, James B. McDougal, had covered a disproportionate share of the losses. Mr. McDougal and his wife at the time, Susan, were equal partners in the venture, and the Clinton campaign said the McDougals had lost $92,000.

Mr. McDougal was the owner of Madison Guaranty, which permitted sizable overdrafts in Whitewater's checking account in the 1980's.

A lawyer who oversaw a report on the Clintons' finances that was released by the campaign in 1992 said in a letter made public today that his report had overstated the Clintons' losses by $22,244, making the Clintons' total loss $46,635. The lawyer, James M. Lyons, said the error was caused, in part, by "interviews and statements by the Clintons."

The documents released today also showed that the Clintons gave Mr. Lyons inaccurate information about a $20,000 loan from a small bank also owned by Mr. McDougal and that the information in part led the Clinton Presidential campaign to overstate significantly the couple's losses in the Whitewater real estate venture.

President Clinton said on Thursday that he had forgotten until this week that he had taken out the loan in 1981 to help his mother buy a house. He said it had nothing to do with Whitewater. Mr. Clinton repaid the loan with a check for $20,700 in 1982 after his mother remarried and paid him back.

Mr. Lyons's letter raised new questions about how Mr. and Mrs. Clinton responded in 1992 to potentially damaging news accounts suggesting that Whitewater might have been a sweetheart deal in which the Clintons put up far less than the couple who were their equal partners.

Closing the gap between the Clintons' losses and those of the McDougals lessened the impact of Whitewater and any appearance that Mr. McDougal was seeking to influence the Governor, whose appointees regulated state-chartered institutions like Madison.

Campaign aides said at the time that a report by the Clintons' personal accountant put the couple's Whitewater loss at about $43,000, the figure that the White House now confirms.

In his news conference on Thursday, Mr. Clinton acknowledged that Mr. Lyons's report was in error, but he did not say how the campaign's accountants had
come to overstate his Whitewater losses by roughly 50 percent.

Mr. Clinton said recent news reports about the Whitewater affair had prompted him to "start racking my brain" about a 1982 check for $20,700 that his top aides said was repayment of a Whitewater-related loan. By Mr. Clinton's account, the process of "fact-checking" galleys of his late mother's autobiography led him to remember "something that I had genuinely forgotten," namely taking out a $20,000 loan in his name from Madison Bank and Trust, the other small institution that Mr. McDougall owned, to help his mother buy a home.

Mr. McDougall, in interviews this year, insisted that the $20,700 check was unrelated to Whitewater. Bruce Lindsey, a senior adviser to the President, replied that Mr. McDougall was mistaken and that the White House stood by the Lyons report. Mr. Lyons said the same earlier this month.

The tax returns and other information were made public today at the White House.

At a subsequent briefing, the person familiar with the tax returns said there was incomplete information and documentation to back up tax deductions taken by the Clintons for Whitewater interest payments. But the person did not indicate whether the Clintons intended to pay any more taxes in connection with those deductions.

The business ventures whose details were amplified in the disclosures today were two of the largest investments of the Clintons' lives. Both Whitewater and the commodity trading arose in 1978 after Mr. Clinton won the Democratic nomination for Governor, which in Arkansas made him the favorite in the general election.

Although Mr. Clinton was a rising star in Arkansas politics, he and his wife had few assets. For the previous year, 1977, their earnings had totaled only $41,731, their tax return showed.

Borrowing by Partners

In August 1978, the McDougals and the Clintons took out $203,000 in loans to purchase land in the Ozarks. All four signed the biggest mortgage, for $183,000.

Three months earlier, Mr. McDougall had helped Mr. Clinton earn $2,100 on another Arkansas land deal -- a return of more than 70 percent, said the person who briefed reporters today.

The couple was hoping for similar results with Whitewater, a venture in which their cash investment was only $500, according to a Whitewater financial summary that was among the documents made public today.

Two months after Mrs. Clinton signed the loans for Whitewater, she began trading in commodities, a risky investment that in her case proved enormously profitable. In the 1978 return, the couple showed net gains of $26,541. Although taxpayers are required to specify when the assets were bought and sold, and for how much, the Clintons' return does not do so.

The following year, the couple reported $72,436 in gains. The trades were listed as occurring in 1979. No other information was included.
The New York Times, March 26, 1994

It appears that the Clintons' success in the commodities market was significantly offset by their troubles in the real estate venture. After its first few years, Whitewater did not sell land quickly enough to make the interest payments on the mortgage.

Between 1978 and 1980, the Clintons appear to have borne their half of the interest costs, paying more than $42,000, which was deducted on their tax returns.

But from 1981 to 1984, years in which Whitewater sold little land, the venture's income was far less than the costs of the interest payments, a difference that was made up largely by Mr. McDougal, records show. According to the accounting made public today by the Clintons, the couple paid only $243 in Whitewater-related interest from 1981 to 1986.

The person familiar with the Clinton's tax returns said the couple had never received any disbursements from Whitewater. That means their $46,000 in payments were a loss.

Mr. McDougal, who was briefly an aide to Governor Clinton in 1979, bought a state-regulated bank in 1980 and state-chartered savings and loan in 1982. His savings and loan, Madison Guaranty, allowed Whitewater frequent, sizable overdrafts, causing what Federal investigators later estimated was a loss to Madison of at least $70,000.

L. Jean Lewis, an investigator for the Resolution Trust Corporation who reviewed Whitewater's records in 1992 and 1993, argued earlier this year that the Clintons must have known that Mr. McDougal was carrying their share of the venture.

The conversation described by Mr. Stephanopoulos occurred on the same day that Roger C. Altman, the Deputy Treasury Secretary and acting head of the Resolution Trust Corporation, recused himself from any matters involving Madison Guaranty.

Mr. Stephanopoulos said tonight that he had not tried to persuade Mr. Steiner to halt the appointment of Mr. Stephens, who is one of the more than 100 United States Attorneys who were not retained when Mr. Clinton took office last year. The Post's account, however, said that Mr. Stephanopoulos and another high White House aide, Harold M. Ickes, were outraged when they learned of Mr. Stephens's appointment and that they had inquired about removing him.

Mr. Stephanopoulos said he could not recall if the subject arose once more later that day when he and Mr. Ickes, the White House deputy chief of staff, spoke by telephone with Mr. Altman.

The Treasury Department oversees the Resolution Trust Corporation, and Mr. Altman has been acting head of the agency. He has recused himself from involvement on matters involving Madison and acknowledged holding several discussions with White House officials to alert them of that intention.

Mr. Stephanopoulos said he spoke to Mr. Steiner on Feb. 25 to discuss Mr. Altman's decision to recuse himself and mentioned Mr. Stephens during that discussion.
The New York Times, March 26, 1994

"I was puzzled and blew off steam over the unfairness of that decision," Mr. Stephanopoulos said. "Because Jay Stephens had accused the President of improper interference in an investigation."

Thomas F. McLarty 3d, the White House chief of staff, said in a statement to The Post that neither Mr. Ickes nor Mr. Stephanopoulos recalled having asked anyone to rescind the Stephens hiring. "There was no suggestion that any action was taken," he said.

Mr. Stephens, who was heading the prosecution of Representative Dan Rostenkowski, Democrat of Illinois, complained that after he had been replaced as United States Attorney Mr. Clinton was interfering in the investigation. Administration officials have viewed him with suspicion ever since.

A senior Administration official said that White House officials had asked whether the hiring of the former prosecutor could be reversed and backed down only after Mr. Steiner insisted that such action would not be possible.

Mr. Stephanopoulos denied that he had suggested terminating Mr. Stephens. "I got the facts from Josh," he said. "That was the end of the matter as far as I was concerned. I have no memory of discussing this with Altman."

Meanwhile, the grand jury investigating the Whitewater affair has subpoenaed another Administration official, John Podesta, the White House staff secretary. He is the 11th Administration official to be called to testify.

GRAPHIC: Photo: Trying to put Whitewater questions behind them, the Clintons released tax returns for the late 1970's. Reporters and photographers gathered at the White House yesterday for the documents. (Associated Press) (pg. 6)

Chart: "Investing in Whitewater" shows a summary of payments Bill and Hillary Clinton reported for the Whitewater Development Company. (pg. 6)

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HEADLINE: THE WHITESTONE INQUIRY;
Transcript of President's News Conference on the Whitewater Affair

BODY:
Following is a transcript of President Clinton's news conference at the White House last night, as recorded by The New York Times:

PRESIDENT CLINTON Good evening, ladies and gentlemen. Yesterday we were reminded that protecting our democracy and expanding its promise around the world can be costly and dangerous. Here at home, we mourn the loss of the servicemen in the tragic aircraft accident at Pope Air Force Base, and we pray for a speedy recovery for those who were injured. This tragedy reminds us that the men and women who serve in the military put their lives at risk in the service of our nation.

In Mexico, an assassin killed Luis Donaldo Colosio, the Presidential candidate of the Institutional Revolutionary Party. We send our condolences and our prayers to his family, and I urge the Mexican people at this difficult time to continue their strides toward economic and political reform and progress.

With the Congress beginning its Easter recess tomorrow, this is a good time to assess the real work we are getting done on behalf of the American people. We're moving forward on our economic plan. The budget now moving through Congress, when passed, will give us three consecutive years of deficit reduction for the first time since Harry Truman was President. In 1995, we'll have the lowest budget deficit as a percentage of our annual income of any of the major industrialized countries. Our recovering economy produced two million jobs last year, and we're on track to create two million more in '94.

Around the world America's efforts have helped to bring much needed calm to Sarajevo and led to an important political accord between the Bosnian Muslims and Croats.

Our call for restraint has helped to start talks again in the Middle East.

We'll continue our efforts to stop North Korea's nuclear program and to seek progress on human rights in China, working to build a more positive relationship with that very important nation.

This Friday, a week ahead of schedule, our troops will return home from Somalia. Because of their courageous efforts, Somalia can now build its own future, a step it made in the right direction today with the accord between the leaders of the largest factions in that country.

Since we came here, our country has been moving in the right direction. Just today, the House of Representatives passed our legislation to limit the
influence of lobbyists. Our Administration is completing work on a comprehensive welfare reform proposal. We have presented to the Congress our very important re-employment proposal to change the unemployment system to provide immediate retraining to those who lose their jobs.

In a few days, with bipartisan support, the country will have an education reform law that sets national standards for our public schools. In a few weeks, Congress will pass a crime bill and put more police on the street, tougher gun laws on the books and make three-strikes-and-you're-out the law of the land.

Speaker Foley assured me last night that the crime bill will be Item No. 1 on the agenda of the House when it returns to work. And in a few months we will succeed in passing health care reform. Just yesterday the House subcommittee on health passed legislation to provide health security for every American, and while there will be lots of twists and turns in the legislative process, this year Congress will pass, and I will sign, a health reform law which guarantees health care security to every American that can never be taken away.

With the right to choose a doctor, with the plan that outlaws insurance abuses, no more dropping coverage or cutting benefits, no more lifetime limits, no more raising rates just because someone in your family has been sick, or some are older than others. We want to preserve and strengthen Medicare, and we believe in this Administration that those health benefits should be guaranteed to the work place -- building on what works today.

I know that many people around America must believe that Washington is overwhelmingly preoccupied with the Whitewater matter, but our Administration is preoccupied with the business we were sent here to do for the American people.

The investigation of Whitewater is being handled by an independent special counsel whose appointment I supported. Our cooperation with that counsel has been total. We have supplied over 14,000 documents, my tax returns dating back to 1978, and made available every Administration witness he has sought.

I support the actions of the House and the Senate clearing the way for hearings at an appropriate time that does not interfere with Mr. Fiske's responsibilities, and I will fully cooperate with their work as well. Tomorrow I will make available my tax returns dating back to 1977, when I first held public office. Cooperation, disclosure and doing the people's business are the order of the day. This is the best moment we have had in decades to do the hard work on so many issues that affect not only our own progress and prosperity, but the very way we think about ourselves as a nation. The American people should know that I and my Administration will not be distracted. We are committed to taking advantage of this rare moment in achieving these important goals. Terry?

QUESTIONS AND ANSWERS

Q. Mr. President, you just said that you would release your tax returns back to 1977. Questions have also been raised about whether you made money or lost money in your Whitewater investment. Do you still believe that you lost about $70,000, and do you have any reason to believe that you owe any back taxes?

A. I am certain that we lost money. I do not believe we owe any back taxes. If it is determined that we do, of course, we will pay. I am now sure

that we lost something less than $70,000. Based on an interview I heard on television, or I heard about on television, with Jim McDougal on one of the networks, where he said that he felt that one of the loans I had taken from a bank where we've also borrowed money for the land development corporation -- he said he thought one of those was a personal loan.

So I started wracking my brain to try to remember what that might have been, and by coincidence I was also re-reading the galleys of my mother's autobiography, just fact-checking it, and I noticed that she mentioned there something that I had genuinely forgotten, which is that I helped her to purchase the property and what was then a cabin on the place that she and her husband, Dick Kelley, lived back in 1981, and that I was a co-owner of that property with her for just a few months. After they married, he bought my interest out. So that's where that -- I borrowed the money to go in on that investment, and I paid the money back with interest. That was unrelated to Whitewater.

All the other losses that we have documented to date we believe clearly are tied to the investment Hillary and I made in Whitewater. So we, in fact, lost some $20,700 less than the Lyons report indicated because that loan came from a different place, or came for different purposes. And there was another $1,500 payment I made on it. So whatever the total in the Lyons report was, should -- you should subtract from that $20,700 and another $1,500. And we believe we can document that clearly.

Tomorrow, my counsel, David Kendall, will brief the press on the evidence that we have, what's in the tax returns. You will see when you see the tax returns that those losses were clearly there, and he will be glad to support it with other information as well. Helen?

On Financing for Campaigns

Q. Do you know of any funds, any money -- Whitewater seems to be about money -- having gone into any of your gubernatorial campaigns or into Whitewater, particularly federally insured money. Do you know of any money that could have gone in?

A. No. I have no knowledge of that. I have absolutely no knowledge of that. Rita?

Q. President Clinton, you just mentioned James McDougal, your former business partner. A lot of questions have been raised about his business practices. Can you tell us what drew you to him to begin with, and whether or not you still have faith now that he was -- that he is an honest businessman?

A. Well, I can tell you that when I entered my relationship with him -- let's go back to then and not now -- I knew Mr. McDougal and had known him for many years. I met him in the late 60's, when he was running Senator Fulbright's office in Arkansas. I knew that sometime around that time, perhaps later, he got into the real estate business. When I entered into this investment, it was with a person I had known many years who was in the real estate business, who'd never been in the S.& L. business or the banking business. That all happened at a later time.

Now he had done quite well. The reason we lost money on Whitewater is not surprising; a lot of people did at that time. Interest rates, as you'll
remember, went through the roof in the early 80's. People stopped immigrating to my state to retire, at least in the numbers they had all during the 70's. And the market simply changed. So we didn't sell as many lots, and the venture was not successful, so we lost the money. Principally, the money I lost was on the interest payments I had to make on the loans, which were never reimbursed because the venture never turned a profit.

Q. Do you still believe in his honesty now and do you think that ----

A. All I can tell you, to the best of my knowledge, he was honest in his dealings with me. And that's all I can comment on, you know. In my experience, and as I said when I heard about his comments on television since he had -- he's always told you that I had nothing to do with the management of Whitewater, that Hillary had nothing to do with it.

We didn't keep the books or the records, that this investment was made, as you know, back in 1978 and that we were essentially passive investors, that none of our money was borrowed from savings and loans and we had nothing to do with the savings and loan. So that's what he has always said, so when he said he didn't think this note that I, where I borrowed money from a bank, not an S.& L., in 1981 had anything to do with Whitewater, I started thinking about it. We talked about it; we couldn't remember what else it could have been until I literally just happened across that in reading my mother's autobiography.

Andrea?

On Accusations by Leach

Q. Mr. President, Congressman Leach made some very dramatic charges today. He said that Whitewater is really about the arrogance of power. And he didn't just mean back in Arkansas. He said that Federal regulators tried to stop investigators for the Resolution Trust Corporation in Kansas City from putting Whitewater into their criminal referrals. That would amount to a cover-up and possibly obstruction of justice. Do you have any knowledge of that?

A. Absolutely not. And it's my understanding -- let me just say this -- it's my understanding that Mr. Leach was rather careful in the words that he used, and apparently he didn't even charge that any political appointee of our Administration had any knowledge of this.

So he may be talking about an internal dispute within the R.T.C. from career Republican appointees for all I know. Keep in mind, until I came here, all the appointees of the R.T.C. were hired under previous Republican Administrations. There has never been a Democratic President since there's been an R.T.C., and I can tell you categorically I had no knowledge of this and was not involved in it in any way, shape or form.

Q. In light of all that's happened so far, Mr. President, do you think you made any mistakes in the initial investment and in the way the White House has handled it?

A. I certainly don't think I made a mistake in the initial investment. It was a perfectly honorable thing to do, and it was a perfectly legal thing to do. I didn't make any money; I lost money. I paid my debts and then later on, as you know, Hillary and I tried to make sure that the corporation was closed down in
an appropriate way and paid any obligations that it owed, after we were asked to
get involved at a very late stage, and after Mr. McDougal had left the S.& L. So
I don't think that we did anything wrong in that at all. And I think we handled
it in an appropriate way. We were like a lot of people. We invested money and we
lost.

I'd be the last person in the world to be able to defend everything we've
done here in the sense that whatever we did or didn't do has sparked an
inordinate amount of interest in a 16-year-old business venture that lost money.
But to suggest, let me just say again, I have had absolutely nothing to do, and
would have nothing to do, with any attempt to influence an R.T.C. regulatory
matter, and I think if you look at the actions of the R.T.C. just since I've
been President, and you examine the facts, everybody that works there was
appointed by a previous Republican Administration. The evidence is clear that I
have not done that.

Q. You've been kind of tough at times on people you felt made out during the
80's, who didn't pay their fair share. Can you tell us, sir, tonight that you
have abided by the very high ethical standards ----

A. Absolutely.

Q. ---- to which you've sought to hold others? And also, sir, if it turns
out that you do owe something in back taxes, will you be prepared perhaps to
revise some of those judgments you've made about others?

A. No, not at all. I ask you to tell the American people what percentage of
my income I paid in taxes in every year where I reported my tax returns.

And let me tell you what my wife and I spent the 80's doing. I was the
lowest-paid governor of any state in the country. I don't complain about it. I
was proud of that. I didn't do it for the money. I worked on creating jobs and
improving education for the children of my state. Every year I was Governor my
wife worked in a law firm that had always done business with the state. She
never took any money for any work she did for the state. And, indeed, she gave
up her portion of partnership income that otherwise came to the firm and instead
every year gave an enormous percentage of her time to public service work,
helping children and helping education and doing a lot of other things, giving
up a lot of income.

Now, we did that because we wanted to. The fact that we made investments,
some of which we lost money on, some of which we made money on, has nothing to
do whatever with the indictment that I made about the excesses of the 80's. And
we always made every effort to pay our taxes. I would remind you that we, like
most middle-class folk, we turned our records over to an accountant. We did -- I
always told the accountant to resolve all doubts in favor of the Government. I
never wanted any question raised about our taxes.

When it turned out, in our own investigation of this Whitewater business that
one year we had inadvertently taken a tax deduction for interest payments when
in fact it was a principal payment, even though the statute of limitations has
run, we went back and voluntarily paid what we owed to the Federal Government.
And if it turns out we've made some mistake inadvertently, we will do that
again. But I have always tried to pay my taxes, and you'll see when you look at
all the returns that we've always paid quite a considerable percentage of our

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income in taxes.

Yes.

Q. Mr. President, one thing that's puzzled a lot of people is why, if you did nothing wrong, did you act for so long as if you had something to hide. And now that you're about to release these documents to the public, your tax records and other things, do you think it would have helped if you had released these documents to the public earlier? Would it have stopped this issue from reaching the proportions that it has?

A. I don't have any idea. But I don't think I acted as if I had anything to hide. After all, I did volunteer, I had already given out my tax returns going back to 1980. And then when -- keep in mind, when the furor arose at the request for the special counsel, even though everybody at the time said, well, we don't think that he's done anything wrong, there's no evidence that he or the First Lady have done anything wrong, we still think there ought to be a special counsel. I said we would give all this over to the special counsel.

It was only after the special counsel had all the information that the people who first wanted the special counsel decided they wanted the documents as well. So we're making them available. Perhaps I should have done it earlier, but you will see essentially what I've told you, and things that you basically already know.

On Use of Influence

Q. Mr. President, you said a few minutes ago that the people in the R.T.C. who are involved in Mr., in Congressman Leach's allegations, are all career Republican officials. But aren't they members of your Administration? And do you plan to take any action in speaking to either Mr. Bentsen or Mr. Altman about taking action and investigating Mr. Leach's charges?

A. I think the last thing in the world I should do is talk to the Treasury Department about the R.T.C. You all have told me that that creates the appearance of impropriety. I don't think we can have a -- it's not just a one-way street, it's a two-way street. I -- you know, Mr. Leach will see that whatever should be done is done. But I can tell you I have had no contact with the R.T.C. I have made no attempt to influence them. And you can see by some of the decisions that they have made that that is the furthest thing, it seems to me, that ought to be on your mind.

Q. You abandon all responsibility for a department, a Cabinet department in your Government?

A. No. I haven't abandoned all responsibility. You can't have it both ways. Either we can talk to them or we can't. And, you know, I just think this is a matter of public record now, and Mr. Leach will certainly see to it that it is looked into. He's already said that that's his job, and I'm sure he will see that it is.

Yes.

On Hillary Clinton's Role
Q. With so many questions swirling around Whitewater and the Rose Law Firm, there's some concern that the moral authority of the First Lady is eroding as well. Are you reconsidering her role as the point person for health care reform?

A. Absolutely not. Absolutely not. People should not be able to raise questions and erode people's moral authority in this country. There ought to, have to be, evidence and proof. We live in a time when there is a great deal of question-raising. It seems to be the order of the day. But I know what the facts are and I'm giving you the facts on this. Here we just had -- all these questions were raised about whether she was properly or improperly representing a client before a state agency -- to do something, I might add, that the Federal Government had asked savings and loans to do -- that is, go out and raise more capital to become more solvent -- so that's what she was doing, in the full light of day, in full disclosure.

Now we have, even in retrospect, an eminent national expert saying that she is getting a bum rap. When people ask questions that don't have any basis -- no, I think you should ask whatever questions you want to ask, and I think that we should do our best to answer them -- but I think that the 20-year record she made as a lawyer, never before having her ethics questioned, never before having her ability questioned, when everybody who knew her knew that every year she was giving up a whole lot of income to do public business, to advance the cause of children and to advance the cause of our state. No, I don't think so. I think in the end, when all these questions get asked and answered, her moral authority will be stronger than it has ever been because we will have gone through this process and been very forthcoming, as we are, to the special counsel.

And then in the end, people will compare how we did this with how previous Administrations under fire handled their business, and I think it'll come out quite well.

Q. Mr. President, the assassination of Mr. Colosia today has shaken the financial markets in this country, created doubt about the stability of Mexico. Mexico opens its stock market and banks tomorrow. You said you would help Mexico. What can the United States do to help Mexico in these trying times?

A. Well, first of all, let me say Mexico is a very great country that has made enormous progress, economically and politically. There is a lot of ferment and change going on there that is inevitable and that can be very positive. What I think the United States can do first of all is to tell the rest of the world that we know this about Mexico, they're our neighbors and we think they have a great future. And we don't expect any long-term damage to come from this terrible personal tragedy and political setback.

Second, the only business I did last night on this -- I called President Salinas as a friend as well as as the President of the United States to express my sorrow -- the only business I did was to talk to the Secretary of the Treasury about what we might be able to do in the event there was some sort of unusual trading against the Mexican currency. And there may be something we can do to step in and stabilize that. As you know, there've been times in the past when our friends have had to come to our aid; the Germans, the Japanese and others have come to our aid when there was unusual trading against the dollar. And we are prepared to try to help the Mexicans if that is necessary, but we hope it won't be.
Today we did just a little bit on Mexican securities when we suspended trading here in the United States for a very short time so that the American people who would be interested in this would at least be able to verify what the facts were, and what they were not, about the terrible incident last night. And I think that helped a bit; I certainly hope that it did.

On Public's Perception

Q. Increasingly, polls are showing that more and more Americans are unsure whether you acted properly in Whitewater -- that maybe you did something wrong. Does that concern you? And when do you think it would be proper for the first lady to answer questions about Whitewater?

A. Well, first of all -- does it concern me? Only a little bit. The truth is I'm amazed when I read in The New York Times or some place today that there'd been three times as much coverage of Whitewater as there had been of health care. I'm amazed that there hadn't been more change in the polls.

I think what the American people are really upset about is the thought that this investment that we made 16 years ago that lost money, that did not involve savings and loans, might somehow divert any of us from doing the work of the country and getting the economy going and dealing with health care and the other issues.

So in that sense, I think people are right to be concerned.

And they want to know that I'm going to answer the questions. A lot of people don't even know, I don't think, that there is a special counsel, that we have fully cooperated, that he has said we have, that the Watergate prosecutor, Sam Dash, contrasted our conduct with previous Presidents and said we'd been highly ethical. And we're moving forward.

Now, the First Lady has done several interviews. She was out in three different places last week answering questions exhaustively from the press. I think she will continue to do that. And if you have questions you want to ask her about this, I think you ought to ask the questions.

<HBOn Living Up to Standards

Q. Mr. President, during the campaign you said your Administration would set a higher standard, yet in the travel office case last year, your own chief of staff found that some of your aides used their official position to advance their personal interests. More recently we've seen a senior White House official delinquent in Social Security taxes that disqualified others from serving in your Administration and others in the White House neglecting until recently to undergo security clearance required of other Government officials handling classified information.

Why, sir, do you think it's so difficult for members of your staff to live up to your campaign promise?

A. First of all, let's deal with those things each in turn. Now, the finding was not that anybody who worked for me sought to advance themselves personally, financially in the travel office issue. That was not defined. We found that the issue had not been well handled, and I might say, unlike other White Houses
that stonewalled, denied or delayed, we did our own internal investigation, admitted what mistakes we made, and made some changes there. I'm proud of that.

Secondly, no one was barred from serving in our Administration because they hadn't paid Social Security taxes. The people were barred from serving in Presidential appointed positions that required Senate confirmation unless they complied with Administration policy. Mr. Kennedy did not do that entirely, and he has been reassigned. He has been under -- he's had a difficult time -- and I am convinced that he has done a lot of work that's been very valuable for us. But I think that he should not have done what he did; I think he should fully pay. He has done that. I think that's what he should have done.

Now when the White House passes -- let me just talk about what the facts are. About 90 percent of the people who work here have been through all the clearances. The others are going through the clearances. I learned, when I read about this, that apparently previous Administrations have had some of the same problems. That is, they'd been lax, because of the cumbersome nature of the process. We now basically put in rules that say that anybody comes to work here now has to get all this done in 30 days or is immediately on leave without pay. They can't get paid unless they do it. I asked Mr. McLarty and Mr. Cutler to fix this and make sure it never happens again, so I feel confident that we have. But since you raise the issue, let me also ask you to report to the American people that we have, and we have enforced higher standards against the ethical conflicts than any previous Administration.

People leave the White House; they can't lobby the White House. If they're in certain positions, they can't lobby the White House for a long time. If they're in certain positions now, they can never lobby on behalf of a foreign government. I have supported a campaign finance reform bill that I am hoping the Congress will pass, and I believe they will, which will change the nature of financing political campaigns. I've supported a very tough lobby reform bill, which will require more disclosure and more restraint on the part of lobbyists and public officials than ever before, and we will comply with those laws. So I think our record on balance is quite good, and when we make mistakes we try to admit them, something that has not been the order of the day in the past.

On Assessing the Blame

Q. Thank you Mr. President. So many things have happened since this Whitewater story broke or resurfaced depending on your point of view. Your counsel has resigned. A number of your top aides have been subpoenaed because of their contacts with Treasury officials in on the investigation. I'm curious: Who do you blame more than anything else for the Whitewater mess that the Administration is in now?

A. Well, I don't think it's useful to get into blame. I think what's important is that I answer the questions that you have that are legitimate questions, that I fully cooperate with the special counsel, which was requested widely by the press and by the members of the Republican Party and who is himself a Republican, that we fully cooperate. And we've done that. Senator Inouye from Hawaii pointed out today, he said I've been experienced in these investigations, he said, you folks have claimed no executive privilege, you've fully cooperated. No one can quarrel with that.
And then I get back to the work of getting unemployment down, jobs up, passing a health care bill, passing the crime bill, moving this country forward. I think the worst thing that can happen is for me to sort of labor over who should blame -- who should be blamed by this. There'll probably be enough blame to go around. I'm just not concerned about it.

Q. A follow up sir. Do you feel ill served in any way by your staff?

A. Well, I think on the -- I've told you what I think about these meetings. Now let's go back to the facts of the meetings. We now know that Mr. Altman's counsel checked with the ethics officer in Treasury before he came over and gave the briefing to the White House. But I have said, so it appears at least that the counsel thought that Mr. Altman had an ethical clearance to come and do this briefing. We certainly know that no one in the White House, at least to the best of my knowledge, has tried to use any information to in any way improperly influence the R.T.C. or any Federal agency.

Would it have been better if those meetings had not occurred? Yes, I think it would have been. Do we have people here who wouldn't do anything wrong but may -- but perhaps weren't sensitive enough to how something could look in retrospect by people who are used to having problems in a Presidency or used to having people not tell them the truth? I think that we weren't as sensitive as we should have been and I said before, it would have been better if that hadn't occurred.

But I think, you know, the one thing you have to say is you learn things as you go along in this business. None of this in the light of history will be remotely as important as the fact that by common consensus we had the most productive first year of a Presidency last year of anyone in a generation. That's what matters -- that we're changing people's lives. That's what counts, and I'm just going to keep working on it.

Yes.

On a Conflict of Interest

Q. Mr. President, you and your wife have both used the phrase "bewildered, confused" about why all the interest in Whitewater. Yet in the Arkansas savings and loan business, your wife represented Madison Savings and Loan before the Arkansas Savings and Loan Board whose head was a former lawyer who had done work for Madison Savings and Loan. Do you not see any conflicts of interest in your actions or your wife's actions which would appear to contradict what you just said about her not doing any work before the state, that would cause people to question -- --

A. I did not say that. I said that when my wife did business, when her law firm represented some state agency itself -- state agencies all over America use private lawyers -- if she did any work for the state she never took any pay for it. And when the firm got income from state work, she didn't take her partnership share of that income; she gave that up, because she wanted to bend over backwards to avoid the appearance of conflict.

Was there anything wrong with her representing a client before a state agency? And if you go back and look at the facts, that basically the firm wrote the securities commissioner a letter saying, Is it permissible under Arkansas

law to raise money for this S. & L. in this way? And it showed that she was one
of the contacts on it. And the securities commissioner wrote her back and said
it's not against the law. That was basically the extent of her representation.

Now all I can do is tell you that she believed there was nothing unethical
about it. And today, in an interview Prof. Steven Gillers of New York
University, who is a widely respected national expert on legal ethics, once
again said there was nothing at all unethical in doing this. These kinds of
things happen when you have married couples who have professions. And the most
important thing there is disclosure. There was no sneaking around about this;
this was full disclosure. Professor Gillers -- I brought the quote here -- said,"I think this is a bum rap on Mrs. Clinton, and I'm amazed that it keeps getting
recirculated."

Now there's a person who doesn't work for us, whose job it is to know what
the code of professional responsibility requires.

Yes?

Q. Mr. President, you and the First Lady have several times said that you've
been amazed and dismayed by the intensity of both the opposition and the
scrutiny surrounding Whitewater in particular. Has any of this been instructive
for you? Have you taken any lessons from this ordeal whether it's about the
Presidency, about the process, about the city, or anything?

A. Oh, I think I've learned a lot about it. I think one of the things that
I've learned about it is that it's very important to try to decide what the
legitimate responsibility of the President is to be as forthcoming as possible
and to do it. It's important for me to understand that there is a level here,
and this is not a blame, this is just an observation, because of the experiences
of the last several decades, of which I was not a part in this city, I think
there is a level of suspicion here that is greater than that which I have been
used to in the past, and I don't complain about it, but I've learned a lot about
it, and that my job is to try to answer whatever questions are out there so I
can get on with the business of the country. And I think I've learned a lot
about how to handle that.

I also learned here that there may or not be a different standard than I had
seen in the past -- not of right and wrong, that doesn't change -- but what may
appear to be right or wrong. And I think that you will see that like everything
else, this Administration learns and goes on. We always learn from our mistakes,
and we've proven that.

Yes sir, in the back.

From Korea to Russia

Q. Muchas gracias, Senor Presidente. I wonder if you realize the situation
that is developing in Korea, what is the perspective? What will be the situation
in South Africa next month? And do you believe that the former Soviet Union,
Russia, has a stabilization and that will contribute peace to the world? How do
you respond?

A. That's the quickest anybody ever asked me three questions at once.
Let me see, first of all, the situation in Korea is serious. And we have responded in a serious way. The North Koreans themselves have said they are committed to a non-nuclear Korean peninsula. We want that. We want a good normal relationship with them. They have terminated the I.A.E.A. inspections. We are examining what we can do. We're talking to our South Korean partners as well as to the Chinese, the Japanese, the Russians and others. We still hope that this can be resolved and we believe it can be. But the choice is really up to North Korea.

Will they be isolated form the world community or will they be a full partner? They could have a very bright future indeed. They have many contributions to make indeed to a united Korea and we hope that it will work out. But we did -- I did decide to deploy the Patriots on the recommendation of General Luck as a purely defensive measure in the wake of the difficulties we've had and we'll make further decisions as we go along.

With regard to South Africa, I am immensely hopeful. I have tried once to encourage Chief Buthelezi to join in the political process. And I still have some hope that he will. It is not too late, and they have made real efforts to try to accommodate the conflicts between national and local interests. But I think we will be celebrating in late April a great triumph of democracy of the first nonracial or multiracial democratic process in South Africa.

With regard to Russia, I think that on balance our relationship is still sound. It is based on our perception and their perception of our shared interests. And when we disagree we will say so. And we will act accordingly. But I do think that the Russians have made a constructive contribution to our efforts in Bosnia which are -- have had a lot of success. We've got a long way to go but we've had some real success and I'm hopeful that they will elsewhere. I know they made a suggestion on Korea today and we'll see what happens there.

On Alternative Health Plan

Q. Congressman Stark's health care bill doesn't do everything that you have proposed. Would you veto it if it reaches your desk?

A. No, because it does what I ask. It doesn't solve all the problems but it does provide universal coverage. It emphasizes the workplace -- that is, there is no tax on people unless they elect not to take out insurance. And it provides comprehensive benefits, which I think are very important, and it leaves Medicare alone with the integrity of Medicare. There's things that it doesn't do that I wish it did. I don't think it's as successful, or would be as successful in holding down costs and extending opportunities as our plan, but certainly if it were to be enacted by the United States Congress I would sign it because it meets the fundamental criteria I set up of covering all Americans with health care.

I guess we've got to go. Everybody wants to be watching these ball games, I think. You know, we're going to -- I'm going to make -- nobody's asked me if we're going to tax gambling or anything. Go ahead.

Q. Mr. President ----

A. This is a setup. It's my joke. Only people who bet against my team in the N.C.A.A. Go ahead.
On Past Tax Returns

Q. Mr. President, I take it that the tax returns you're putting out tomorrow are the ones that have already gone to the special counsel. If the special counsel wanted to question you about that, would you answer a subpoena? Would Mrs. Clinton? And what about Congressional hearings? What would be the protocol on going before Congress to explain it to them?

A. Well, let me answer the first question first. We decided, in addition to putting out the '78 and '79 returns, we should go ahead and put out the '77 returns -- that that would be an appropriate starting point because that's the year I first entered public life. And you know, I mean, there's, I know there's kind of a moving bar here. None of us are quite sure how far back anybody should go anymore about anything. But we thought that we would do that and at least you would then have a complete record of the money we earned and the taxes we paid -- Hillary and I together did -- as long as I've been in public life.

In terms of the information, I expect that the special counsel will want to question me and will want to question the First Lady.

It's my understanding that, typically, in the past it's been done in a different way. I mean, I will cooperate with him in whatever way he decides is appropriate. Similarly, if Congress wants any information direct from us, we'll of course provide it to them in whatever way seems most appropriate. Again, I understand there are certain protocols which have been followed in the past which I would expect would be followed here but I intend to be fully cooperative so that I can go back to work doing what I was hired to do.

Thank you very much.

Q. [Several reporters shouting] ----

A. No. I -- what I said, I made a joke about that. I said I was going to try to tax anybody who bet against my team in the basketball finals.

But I have made no decision on the financing of welfare reform. I can tell you this: It's a tough issue because we have to pay for anything we do. And we'll -- and there are all kinds of proposals out there. I know that the Republican welfare reform proposal has a lot of things in it that I like. But I think it's way too hard on financing things through savings from immigrants. I think it goes too far there. So there are no real easy answers. But I can say categorically that I have been briefed on a very wide range of options and that nobody in this Administration has made any decision -- and no one will make a decision except me -- about how to fund it. That decision has not been made.

We will come forward with that plan. We do think it offers the real promise of ending welfare as we know it, of moving people from welfare to work, if we can also guarantee these welfare parents that when they go to work their children will not lose the health care that they have on welfare, so they won't be punished for going to work. That's the key issue.

Thank you very much.
GRAPHIC: Photos: President Clinton defended himself against new Whitewater allegations at a White House news conference last night. (Stephen Crowley/The New York Times) (pg. A18); David R. Gergen, second from left, a senior Presidential adviser; Thomas F. McLarty 3d, the White House chief of staff, and Lloyd N. Cutler, the White House special counsel, listening to President Clinton at the White House during his news conference. (Michael Geissinger/The New York Times) (pg. A19)
A senior White House lawyer, William H. Kennedy 3d, was stripped tonight of his job overseeing background checks of Administration appointees after lapses that suggested that he himself had sought to conceal embarrassing information.

The announcement, in a terse White House statement, followed an intensive review by top Clinton aides of Mr. Kennedy's conduct, including his failure until three weeks ago to pay 1991 Social Security taxes for a nanny employed by him and his wife.

Mr. Kennedy has also acknowledged taking the unusual step early last year -- about the time he was undergoing his own background review -- of using a check imprinted with his wife's old name to pay 1992 Social Security taxes for the nanny.

Mr. Kennedy, an associate White House counsel and a former law partner of Hillary Rodham Clinton, will be reassigned to less important duties within the counsel's office. In deciding not to dismiss him, Thomas F. McLarty 3d, the White House chief of staff, took into consideration that Mr. Kennedy is in the middle of a contentious divorce and has recently weathered other personal setbacks, a senior Administration official said.

Mr. Kennedy's failure to pay his 1991 taxes until recently was reported today in The Washington Post.

As the official responsible for reviewing the backgrounds of virtually every senior Administration appointee, any appearance that Mr. Kennedy concealed damaging information about himself is highly embarrassing. White House officials insisted that Mr. Kennedy had made an "honest mistake" in failing to pay his taxes, but they said the impression he had created had given Mr. McLarty and Lloyd N. Cutler, the White House's new special counsel, no option but to discipline him.

But the officials said that Mr. Kennedy had not informed the former White House counsel, Bernard W. Nussbaum, or Mr. McLarty about his original tax problem, and told White House officials only last month that he had owed taxes dating from 1991.

In a White House atmosphere supercharged by various accusations of misconduct, including those related to the Whitewater affair, officials said...
today that Mr. Kennedy's troubles had been compounded by his responsibility for delays in forwarding to the Secret Service files with information about scores of White House officials.

Those delays were among the factors that kept the Secret Service from completing, until recently, reviews necessary for nearly 300 officials to receive permanent White House passes. White House officials offered no explanation tonight for Mr. Kennedy's withholding of those files, in some cases for many months, but they said mishandling of the process was as much a factor in his being disciplined as was his failure to pay the taxes.

First Test for Cutler

For Mr. Cutler, installed earlier this month as the White House's ethical guardian, Mr. Kennedy's case was the first test of a White House pledge that the conduct of the staff would be held to standards that could not be questioned.

Mr. Cutler, who met with Mr. Kennedy at length today, is continuing to review his handling of the Social Security tax matter, a senior White House official said tonight. In addition to being stripped of his role in overseeing the investigation of appointees and the issuing of passes, the senior official said, it was also possible that Mr. Kennedy could be demoted to assistant White House counsel.

In its statement, the White House said his place would be taken by another associate White House counsel, Beth Nolan.

Mr. Kennedy, 42, a former managing partner of the Rose firm, was reprimanded last summer after an internal White House review concluded he had improperly pressured the Federal Bureau of Investigation to assist the White House in its inquiry into wrongdoing in the travel office.

Except for Mrs. Clinton, he is the last member of the Little Rock firm still in the Administration, which also plucked from it Vincent W. Foster Jr., the deputy White House counsel who committed suicide last summer, and Webster L. Hubbell, who resigned as Associate Attorney General last week amid accusations from his former law partners that he overbilled his law firm and clients.

In an interview published this morning in USA Today, Mr. Clinton complained that news organizations had adopted a "presumption against the White House" in their coverage of the Whitewater case. But even before Mr. Kennedy's reassignment was announced, Mr. Clinton scheduled a prime-time news conference Thursday night in a step intended in part to confront new questions about the Whitewater matter.

At the White House, a spokeswoman, Dee Dee Myers, insisted today that Mr. Kennedy had not intended to conceal either his failure to pay the 1991 taxes until recently or the 1992 payment he made earlier under his wife's name.

The White House was forced last year to withdraw several nominations for Administration posts after the nominees were similarly found to have failed to pay taxes for household help, most notably the President's first choice for Attorney General, Zoe Baird. A memorandum issued to the White House staff last March ordered that all such taxes be brought up to date.
Mr. Kennedy did not return telephone calls to his office today. He told The Washington Post that he had told Mr. Nussbaum and Bruce Lindsey, a senior adviser to Mr. Clinton, only in mid-February that he had a problem with his taxes.

Today, White House officials said that Mr. Kennedy explained to them in recent days that his nanny had asked to be paid in cash, and that he had agreed to do so through 1991 and 1992 but had left the details up to his wife. He said he had neglected to pay his 1991 taxes until recently because he was unable to determine how much the nanny had been paid.

The officials said he directed his accountants to estimate the 1991 taxes, and paid about $700 within the last three weeks, leaving it to the Government to determine interest and penalties.

The unusual circumstances in which Mr. Kennedy earlier paid the 1992 taxes for the same nanny were reported on Tuesday by The Wall Street Journal. The Journal said that Mr. Kennedy informed Mr. Foster, who had been his partner at the Rose firm, in January 1993 of his failure to pay the 1992 taxes, and arranged to pay about $3,000 in back taxes, interest and penalties. But Mr. Kennedy made the payment by check in his wife's former name, Leslie Gail McRae, who took his name when they married.

Mr. Kennedy's troubles have added to a deep sense of uneasiness at the White House, already feeling uncomfortable about Deputy Treasury Secretary Roger C. Altman's changing accounts of his discussions with Mr. Clinton's top aides about whether to recuse himself from a Resolution Trust Corporation inquiry into Madison Guaranty Savings and Loan, which was owned by the Clintons' partner in the Whitewater real estate venture, James B. McDougall.

Mr. Altman's changing accounts of those discussions, in four letters to Congress, have put the White House officials he has cited in an awkward position, and Lloyd Bentsen, the Treasury Secretary, has made what associates describe as an unmistakable effort to distance himself from his deputy by ordering Internal Revenue Service agents to search the offices of Mr. Altman and others for evidence of communications between them and the White House about the inquiry.

Clinton on TV

The following television networks have scheduled broadcasts of the President's news conference tonight at 7:30: CBS (channel 2), NBC (channel 4), ABC (channel 7), FOX 5 (channel 5), PBS, CNN and C-SPAN.

LANGUAGE: ENGLISH

LOAD-DATE: March 24, 1994
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March 20, 1994, Sunday, Late Edition - Final

SECTION: Section 1; Page 27; Column 5; National Desk

LENGTH: 202 words

HEADLINE: Clinton Taxes Properly Done, Official Says

BYLINE: AP

DATELINE: WASHINGTON, March 19

BODY:

One day after President Clinton said he was unsure if he owed back taxes, the White House said Saturday it was confident his tax returns had been "correctly done." But it added that if more money is owed, "any amounts underpaid will be paid."

Mr. Clinton told reporters on Friday that any mistakes on his and his wife's tax returns "certainly were not intentional."

His comments came amid increasing indications that the Clintons may have underpaid their income taxes over the past 15 years. The records are being scrutinized as part of the special counsel's investigation into the Clintons' investments in the 1980's in the Whitewater Development Corporation in Arkansas.

Asked how she was holding up under the Whitewater allegations, Hillary Rodham Clinton told NBC today after a speech on health care, "It breaks my heart for people to think that my husband and I would do anything wrong." She added: "You do what you have to do. Come visit us in the bunker some time."

John D. Podesta, the White House staff secretary, issued a statement today that said the Clintons' tax returns "have been professionally prepared by qualified C.P.A.'s, and we have confidence that they were correctly done."

LANGUAGE: ENGLISH

LOAD-DATE: March 20, 1994
A review being conducted by President Clinton's personal lawyer is likely to conclude that the Clintons lost less money from their Whitewater investment than they have claimed and may therefore have underpaid their income taxes, associates of Mr. Clinton said today.

The review, by accountants working for the lawyer, David E. Kendall, may be concluded as early as next week, the associates said. They said the Clintons were considering whether to make the findings public after sharing them with Robert W. Fiske Jr., the special prosecutor who is looking into the Whitewater matter.

The associates of Mr. Clinton said they did not know by how much the Clintons might have overestimated their investment loss, which they claimed as a tax deduction, or underestimated their tax liability. But they said it appeared that the review would reach both conclusions.

Mr. Clinton moved today to pre-empt any criticism by telling news agency reporters that any mistakes made on his family's tax returns "certainly were not intentional." He said he was ready to pay back taxes if necessary.

"I don't think we owe any extra taxes, but I'm not sure yet," Mr. Clinton said in the interview. "If we do owe, we'll make it good."

Until now, the Clintons have cited a review prepared by a Denver accounting firm in 1992 in maintaining that they had lost $68,000 from their investment in an Arkansas land venture known as the Whitewater Development Company. But Mr. Clinton and his wife, Hillary, have chosen not to repeat that assertion in recent days, and Mrs. Clinton said in interviews last weekend that the couple might have underestimated their tax liability.

A tax return prepared for Whitewater last year at the direction of Vincent W. Foster Jr., the deputy White House counsel and former law partner of Mrs. Clinton who killed himself in July, also suggests that the enterprise had been closer to breaking even than the 1992 report. That review was commissioned by James Lyons, a Denver lawyer who was a campaign adviser to Mr. Clinton.

A study of Clinton tax returns in the April issue of Money magazine, which will be published soon, suggests that the couple may have underpaid their taxes by a total of about $16,000 from 1980 to 1992. The magazine estimates
that more than $8,000 of that comes from what the audit found to be questionable deductions related to the Whitewater investment. The article said the total amount the Clintons might owe to the Internal Revenue Service, including interest, could amount to $45,411.

Mr. Fiske, who is looking into a broad range of issues connected to the Clintons' investment in the Whitewater venture, is similarly expected to review the tax records. In weighing whether to make their own findings public, the Clintons may be interested in pre-empting any embarrassing findings by the special prosecutor while also providing answers to questions about the investment that have remained unresolved.

A senior White House official who discussed the status of Mr. Kendall's review said it was too soon to say for sure whether the Clintons overestimated their loss or underestimated their tax liability. But two associates of Mr. Clinton, who said both findings were expected, also said that it was unclear whether Mr. Kendall would provide specific estimates of the sums involved.

Mr. Clinton acknowledged today that he and his wife were trying to "go back over this" and said any revised findings would be shared with Mr. Fiske. The records from the Arkansas land deal have never been complete, and the Clintons have previously acknowledged taking $2,156 in unjustified tax deductions from Whitewater-related interest payments in 1984 and 1985. To make amends, they voluntarily repaid the Government $4,000 in back taxes and interest during the 1992 campaign.

In a magazine interview last weekend, Mrs. Clinton said that as new information about the real estate project was uncovered, it might reveal further tax liabilities. The First Lady said the couple would "act appropriately" if their lawyers determined that some taxes remained unpaid.

A senior White House official said today that it was uncertain when the couple would decide whether to make public Mr. Kendall's findings. Because Mr. Clinton has urged that Mr. Fiske, the special prosecutor, be left to reach his own conclusions about the Whitewater case, the official said the Clintons would want to seek his approval before releasing any revised judgments of their own.

But one Clinton associate said he believed that the Clintons would prefer to make available new findings about their Whitewater losses and tax liability -- even if they proved somewhat embarrassing -- rather than wait to see their earlier statements contradicted by Mr. Fiske.

Details on Contacts

In the meantime, a new detail in the tangled Whitewater case emerged today as Roger C. Altman, the Deputy Treasury Secretary, identified Harold M. Ickes, the deputy White House chief of staff, as the official he talked to about whether to recuse himself from any role in a Federal investigation of the Arkansas bank at the center of the affair.

The conversation is one of several contacts between Treasury and White House officials being reviewed by Mr. Fiske to determine whether they were proper. Last week, senior Administration officials said that Mr. Altman had told at least one senior White House official that he was trying to determine whether to recuse himself from the sensitive case, but today marked the first time that
Mr. Ickes was named as the person with whom he talked.

White House officials sought to minimize the disclosure that Mr. Ickes had been the official in whom Mr. Altman confided before recusing himself from the Resolution Trust Corporation inquiry into Madison Guaranty Savings and Loan Association, an Arkansas institution with ties to the Clintons. The owner of Madison Guaranty and his wife were partners with the Clintons in the Whitewater investment. Mr. Altman identified Mr. Ickes in a March 11 letter to Senator Donald W. Riegle Jr., Democrat of Michigan, but the document was not made public until today, when it was obtained and released by Senator Alfonse M. D'Amato, Republican of New York.

The White House moved to resolve another potentially embarrassing matter today by ordering a tightening of rules that had allowed nearly 300 staff members in the executive office to work for months at the White House without full security clearances, officials said. The office has a work force of about 1,000.

White House Passes

Thomas F. McLarty 3d, the White House chief of staff, ordered all employees to fill out background questionnaires by 6 P.M. These are needed to obtain permanent passes. Other White House officials said tonight that everyone except those hired since March 1 had now met that deadline. Mr. McLarty also imposed strict limits on how long the temporary passes could be used.

The questionnaires, which must be filled out by those seeking a permanent White House pass, ask applicants to detail their use of illegal drugs for the past five years and to describe any alcohol or financial problems. White House officials have said that delays in filling out the forms, rather than any effort to hide personal problems, have been the main reason that so many employees have obtained only temporary passes.

Even Mr. McLarty has obtained his permanent pass only in the last several weeks, White House officials said tonight. But the officials said he had received a full security clearance more than a year ago and indicated that a failure by others to complete the necessary paperwork had been responsible for the delay.

Law enforcement officials said today that some applicants who had completed the forms had admitted to illegal drug use, but said that most of these appeared to have taken drugs, like marijuana, only on a casual basis that does not usually disqualify applicants from Government jobs.

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LAW FIRM'S COMPLAINT

LITTLE ROCK, Ark., March 18 (AP) -- The Rose Law Firm decided today to file a formal ethics complaint against a former partner, Webster L. Hubbell, who had been Associate Attorney General until this week, said someone familiar with the proceedings.
Mr. Hubbell could not be reached for comment.

A lawyer familiar with the matter said the complaint will be filed with the Arkansas Supreme Court's committee on professional conduct. The move comes after news reports that Mr. Hubbell may have overbilled clients and used the firm's money to pay personal expenses.

GRAPHIC: Photo: Five-year-old Sean Sausman of Burlington County, N.J., who wrote to President Clinton several times about his ambition to be President, was given a tour of the White House yesterday by the President. (White House Photo via Reuters) (pg. 11)

LANGUAGE: ENGLISH

LOAD-DATE: March 19, 1994
LEVEL 1 - 160 OF 204 STORIES

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March 16, 1994, Wednesday, Late Edition - Final

SECTION: Section B; Page 6; Column 3; National Desk

LENGTH: 1111 words

HEAULINE: Clintons' Investment Loss Is Disputed

BYLINE: By STEPHEN ENGLEBERG, Special to The New York Times

DATELINE: WASHINGTON, March 12

BODY:

When questions first arose in early 1992 about Bill and Hillary Clinton's Ozark real estate venture, the Clinton Presidential campaign hired a Denver accounting firm that concluded that the couple had lost $68,000 on their investment.

The firm's report put questions about the Whitewater Development Company to rest during the campaign. And it has been the cornerstone of the Clintons' defense against allegations stemming from the investment. How could they be criticized, they argue, for a deal in which they had heavy losses?

But a tax return prepared for Whitewater last year at the direction of Vincent W. Foster Jr., the deputy White House counsel who committed suicide last July, suggests that the enterprise was closer to breaking even than the 1992 report asserted.

The discrepancy is not evidence of wrongdoing or that the Clintons are mistaken in calling the venture a losing proposition. But just how much money the venture lost -- and how much of that loss was borne by the Clintons -- are central questions in evaluating Republican charges that Whitewater was a sweetheart deal.

Back Income Tax Returns

The 1990 tax return was prepared last June. Mr. Foster, a longtime friend of the Clintons, was overseeing the preparation of back income tax returns that the company had failed to file and which the Clintons agreed to clear up when they sold their share in Whitewater shortly after Mr. Clinton was elected President.

Douglas R. Carmichael, a professor of accounting at Baruch College in Manhattan who is a former vice president of the American Institute of Certified Public Accountants, said the disparity between the report released by the Clintons and the Whitewater tax filing could not be attributed to differences in accounting methods.

"They just don't seem to be looking at the same project, the same entity," Mr. Carmichael said. "It's difficult to understand how they could possibly have been based on the same facts."
The Clintons regularly allude to the 1992 report, which was put together in three weeks by a Denver firm then known as Patten, McCarthy & Associates Inc.

[On Monday, Hillary Rodham Clinton told reporters, "When this is all over, it's going to be the same story we've been telling for two years: we made a bad investment, we lost money and there's really not much more to add to it."

[But while Mrs. Clinton referred in December to the $68,000 loss as "provable by the accountants," on Monday she said the White House "was trying to get an exact figure" for the venture, indicating that the Clintons may be moving away from their steadfast adherence to the report.]

Still, the White House has declined to answer questions about it, referring questions to James M. Lyons, a Denver lawyer and a friend of the Clintons who commissioned the report. In interviews over the last month Mr. Lyons generally defended the report's accuracy, but declined to make public its underlying documents.

Incomplete Records Mentioned

In the report, the firm said incomplete records had hampered its work and, where necessary, it filled gaps with judgments based on "experience" in similar projects.

Billed as a reconstruction of Whitewater's finances, the report is centered on a two-page balance sheet and income statement that says the Whitewater partners lost a total of $157,000 -- $68,300 by the Clintons and the rest by the their partners, James B. McDougal and his wife, Susan.

The special prosecutor in the Whitewater matter, Robert B. Fiske Jr., is examining charges that Mr. McDougal bore a disproportionate share of its risk at a time when his savings institution, the Madison Guaranty Savings and Loan Association, sought favorable rulings from state regulators appointed by Mr. Clinton, who was then Governor of Arkansas, or whether Mr. McDougal improperly used Madison to prop up the venture.

Mr. McDougal has said that he paid for most of the losses, and that the Clintons lost no more than $13,500. Before his campaign issued the report, Mr. Clinton contended that he had lost $25,000.

Whitewater had its roots in a 1978 investment by the two couples. They purchased land along the White River in the Ozarks of northern Arkansas, hoping to ride a boom in vacation and retirement homes. But while other investors who bought similar land at the same time made quick profits or broke even, Whitewater was left with most of its lots unsold when the real estate market soured in the early 1980's.

The Clintons finally ended their involvement in Whitewater in December 1992, selling their stake to Mr. McDougal for $1,000.

As part of the sale, the Clintons agreed to file tax returns that the company had neglected in previous years. Mr. Foster, who had been a partner of Mrs. Clinton's at the Rose Law Firm in Little Rock, Ark., took on the work and brought it with him when he moved to Washington.
Accountants generally give great weight to tax documents because the filing of a knowingly false return is a crime under Federal law.

The Patten report paints Whitewater as an indisputably failed investment. It puts the company's cumulative losses as of May 31, 1991, at $118,000. On the tax return, cumulative losses -- listed as an entry for retained profits or losses -- as of the same date are reported at $58,000.

At Odds Over Land Holdings

Laurence Goldfein, head of litigation services at Richard A. Eisner & Company, a forensic accounting firm based in New York City, said that judging by the tax return, it appears that if the company was able to collect the money it was owed -- its receivables -- and sell its remaining land, the cumulative loss on the Whitewater deal falls to only $15,000.

The two documents are even at odds over the company's land holdings. On the tax return, the company owns $27,000 worth of land as of May 31, 1991. On the 1992 Patten report, it had none as of the same date. It is not clear what land could be referred to in the tax filing but, while Whitewater purchased no new lots, it had in previous years repossessed land whose buyers had defaulted.

Whitewater did not file tax returns for several years. Returns for 1990-1992 were drawn up last June by a Little Rock accounting firm hired by Mr. Foster; the 1991 return is dated June 21, 1993.

Mr. Goldfein said a complete set of Whitewater records might yet explain the disparities between the return and the Patten report. Financial statements and tax returns can differ, he said, but should agree on basic data, such as how much land is owned.

"They don't reconcile in any fashion whatsoever," said Daniel Beneish, professor of accounting at Duke University. "I don't see the link."

LANGUAGE: ENGLISH
LOAD-DATE: March 16, 1994
As Democrats and Republicans continued bickering on television this morning over whether Congressional hearings should be held on the Whitewater case, Bill and Hillary Clinton's business partner in the Arkansas land venture that gave the case its name said that one main instance of supposed wrongdoing never occurred.

The former partner, James B. McDougal said on the ABC News program "This Week" that "in no way, shape, form or fashion" did any money from a savings and loan he headed go "into a Clinton campaign."

Mr. McDougal held a fund-raising event in 1985 to help Mr. Clinton pay off a $50,000 loan that had helped finance his 1984 campaign for re-election as Governor of Arkansas. One matter under investigation by the independent counsel, Robert B. Fiske Jr., is whether any money raised by Mr. McDougal came from the savings and loan, Madison Guaranty. The savings association ultimately collapsed at a cost to the Federal Government of more than $60 million.

Mistake by Aides

Mr. McDougal, his head shaven, sat stiffly before the camera in a high-backed leather chair in his office in Arkansas and complained that the Clintons were refusing to give him corporate records of the Whitewater Development Company that he needed to complete his income taxes.

A White House spokeswoman responded this afternoon that all the records had been turned over to the independent counsel. She said she did not know if the Clintons had kept copies.

Mr. McDougal said he did not believe that the Clintons had committed any crime, but he suggested that material in the records might somehow embarrass them.

The new White House counsel, Lloyd N. Cutler, appeared on all three network interview programs this morning and said that White House aides had made a mistake by discussing the Madison investigation in meetings with officials from the Treasury Department and the Resolution Trust Corporation, the agency managing the savings and loan bailout.

But on the NBC News program "Meet the Press," Mr. Cutler said the mistake was "more the appearance of those meetings than anything else."

Between the lines of Mr. Cutler's remarks, one aspect of the White House strategy began to take shape. The White House seems to hope that Mr. Fiske will deal first with the meetings between Treasury Department and White House staff members on Madison Guaranty, as he has said he might, and publish an interim report exonerating Administration officials of wrongdoing on that angle of the case.

Then, they may hope to argue that since nothing wrong has been done since Mr. Clinton became President, Congressional hearings are unnecessary.

Having been named to his position only on Monday, Mr. Cutler said he had not had time to review many relevant documents.

But, he declared: "From everything I have heard, it seems to be clear that no effort was made by any White House people to indicate to the Treasury people what they ought to do, and, indeed, the Treasury and the R.T.C. did not change their position."

Mr. Cutler and the Speaker of the House, Thomas S. Foley of Washington, argued that Congressional hearings should not take place until Mr. Fiske had completed his inquiry.

But Senators Bob Dole of Kansas, Alfonse M. D'Amato of New York and William S. Cohen of Maine and Representative Jim Leach of Iowa, all Republicans, maintained that public hearings were necessary to clear the air.

Mr. Cutler insisted that his job was to advise the President in his public duties and that Whitewater matters would be handled by the Clintons' personal lawyer, David Kendall.

Possibility of Back Taxes

Mr. Kendall said in an interview published this week in U.S. News & World Report that the Whitewater investigation might end up showing that the Clintons would have to pay some back taxes.

Mrs. Clinton, in interviews with Time and Newsweek to be published on Monday, said she and the President would pay whatever additional taxes they owed.

In the interviews Mrs. Clinton took an approach often favored by politicians, admitting that mistakes had been made but rarely saying precisely what they were. For example, in the Newsweek interview, she said: "Clearly there were lots of missteps along the way. I'd be the first to say that, and obviously I wish there weren't because this thing has gotten blown so out of proportion.

CORRECTION-DATE: March 15, 1994, Tuesday

CORRECTION:

An article yesterday about the Whitewater case misstated the source of a report that David Kendall, Bill and Hillary Clinton's lawyer, believed the Clintons might owe some back taxes on their real estate investment in the Ozarks of Arkansas. The report, published this week in U.S. News & World Report, was
attributed by the magazine to unidentified "insiders," not to Mr. Kendall.

GRAPHIC: Photos: Lloyd N. Cutler, the White House counsel, receiving makeup before a network interview program yesterday. (Associated Press); As aides sought to still the call for Congressional hearings on Whitewater, President Clinton strolled down the colonnade at the White House yesterday before going to Detroit for an international conference on chronic unemployment and stagnant wages in the industrialized nations. (Reuters)

LANGUAGE: ENGLISH

LOAD-DATE: March 14, 1994
President Clinton and his helpers keep saying they have nothing to hide on Whitewater. So some evil genie must be making them act as if they do. The latest affront is the boneheaded conclave convened by Deputy Treasury Secretary Roger Altman to give a "heads up" to three White House officials about the Resolution Trust Corporation inquiry into a savings and loan association connected to Mr. and Mrs. Clinton.

Mr. Altman said he wanted to brief Bernard Nussbaum, the White House counsel, Harold Ickes, the deputy chief of staff, and Margaret Williams, the First Lady's chief of staff, on when the statute of limitations would run out on the R.T.C. investigation of Madison Guaranty Savings and Loan.

That is an interesting question and not unrelated to other questions that Republicans on the Senate Banking Committee and other reasonably curious Americans would like to have answered. Here are four:

1. Was Madison used to convert Clinton campaign funds to personal funds for the then Governor?

2. Did a regulator appointed by Governor Clinton go easy on Madison because it was owned by the Clintons' political ally, James McDougal, who was also the Clintons' business partner in the Whitewater Development Company?

3. Did the Clintons pay the same amount of money for their half share of Whitewater that Mr. McDougal paid for his? This question is important because it bears on whether Mr. Clinton, while Governor, received gifts or claimed undeserved tax deductions in connection with Whitewater.

4. Did Mrs. Clinton's law firm behave properly in its dealings with Madison and bank regulators?

Given that such questions are now before a special counsel and the R.T.C., a meeting between Mr. Altman and top White House aides was improper on its face. It could never have taken place in a White House that had even a rudimentary respect for the common-sense rules on conflict of interest. The Clinton team has taken the nation back to the sham ethics of the early Reagan Administration. That crowd believed conflicts of interest could not exist since they could not conceive of letting any law or rule of propriety interfere with the political and financial interests of the President or his buddies.

The stated reason for this meeting will not wash. Information on the statute of limitations could be had from the newspapers or a brief memo from the R.T.C. legal staff. Senator Alfonse D'Amato and Representative Jim Leach therefore...
have reason to suspect that the goal of the meeting was to control political
damage or compromise the R.T.C.'s investigation. Who knows what the White House
has learned about the R.T.C. findings? After all, it was only through Mr.
D'Amato's efforts that the Government released an R.T.C. document suggesting
that Mrs. Clinton's law firm had failed at proper disclosure of its dealings
with Madison.

In response to bad publicity, Mr. Altman has recused himself from the R.T.C.
inquiry on Whitewater. His R.T.C. deputy should now take over all his duties at
the agency until a permanent director is appointed. Senator Donald Riegle, the
chairman of the Senate Banking Committee, needs to step up his committee's
oversight activities. Other Democrats like Senator John Kerry need to cease
their myopic defense of Mr. Clinton on a matter about which neither the Senator
nor the public has been fully informed.

Opposition leaders are right when they say that a Republican White House that
so recklessly meddled in the Justice Department, the R.T.C. and other agencies
would be shelled with endless Congressional investigations. It is time for the
Democratic Congressional leaders, Thomas Foley and George Mitchell, to try to
educate this White House about the normal protocols of governance. Explaining
what Representative Leach meant when he said "arm's length" would be a start.

Clinton aides behave as if their President had deep deposits of public trust.
In fact, that account was pretty slim when Mr. Clinton got to Washington, and it
is just about tapped out now.

LANGUAGE: ENGLISH
LOAD-DATE: February 27, 1994
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February 7, 1994, Monday, Late Edition - Final

SECTION: Section A; Page 14; Column 1; National Desk

LENGTH: 2175 words

HEADLINE: Clintons' Whitewater Investment: Details of a Land Deal That Soured

BYLINE: By STEPHEN ENGELBERG with JASON DePARLE, Special to The New York Times

DATELINE: FLIPPIN, Ark.

BODY:

The Ozark air smelled of easy profits on Aug. 2, 1978, when Arkansas's hottest young politician walked into a tiny bank here and set in motion what has become one of the most closely examined sets of financial transactions in the state's history.

At age 32, Bill Clinton was in the midst of the campaign that a few months later would make him the nation's youngest governor. With a meager salary, few assets and no business experience, he was scarcely in a position to ride a land boom, even one that seemed to promise lucrative returns at low risk.

But Mr. Clinton arrived with a financially impressive partner, James B. McDougal, a former Congressional aide turned land developer. It was Mr. McDougal's personal wealth, bank officials said, that allowed them to approve the $183,000 loan taken out by Mr. Clinton and his wife, Hillary, and Mr. McDougal and his wife, Susan, to buy the land.

Frank Burge, a bank officer who was present for the closing, recalls Mr. Clinton and his wife being surprisingly "uninquisitive" as they took on what, to that point, was their largest financial liability. After a cursory look, the four partners signed the papers that brought them 230 acres of Ozark property that day, and a Federal investigation 15 years later.

"The crux of the whole deal was McDougal was trying to do something to help Bill," said Mr. Burge, who was then senior vice president at Citizen's Bank and Trust of Flippin. "They all thought they were going to be rich."

That did not happen. Today only a handful of small homes dot the hilly land that the couples bought at the juncture of Crooked Creek and the White River.

Last month, a special prosecutor began setting up shop in Little Rock to look into a host of questions. Many arise directly from the venture's tangled finances, in particular whether Mr. McDougal improperly diverted money from his savings and loan, Madison Guaranty, to shore up or benefit the Clintons. The prosecutor, Robert B. Fiske Jr., will also examine whether Mr. Clinton showed favoritism to Mr. McDougal in later years as Madison moved toward collapse.

Among the topics that Mr. Fiske will confront is the Clintons' contention that they and their partners lost $160,000 on a $203,000 land purchase. The prosecutor has also said he will range far beyond Arkansas to events since Mr.
Clinton became President, including the suicide of a longtime friend and top White House aide, Vincent W. Foster Jr.

Interviews with several dozen people and a review of land documents, mortgages, and other records provide only partial answers to the questions about the venture's finances.

But what does emerge clearly is a portrait of a deal born in a boom that quickly fizzled, and that had its origins in the kind of interplay of personal, political and governmental interests that has become synonymous with the words Whitewater Development Company.

Seeing Opportunity On Banks of River

In the summer of 1978, the small business circles of Marion County were abuzz with word of the largest land deal in the county's history. A 3,200-acre parcel of riverfront property was about to become available after years of being tied up in an Oklahoma bankruptcy court.

It was viewed as a particularly ripe opportunity, since the picturesque Ozark county, about a three-hour drive north of Little Rock, had recently begun to attract prosperous retirees fleeing Illinois and other wintery states.

Land that had recently sold for $75 an acre was suddenly fetching $500, and some people thought that development might even surpass ranching and dairy as the county's economic lifeblood. "A lot of people who were shrewd investors found out it was easier to graze Yankees than to graze cattle," Mr. Burge said. "Everyone was doing it."

Six Marion County businessmen joined to capitalize on the bankruptcy sale, forming a corporation called 101 River Development. The partners included a real estate agent, Terry Wood; the president of Citizen's Bank, James N. Patterson, and the man who was running Mr. Clinton's campaign for governor in Marion County, Kearnie Carleton.

Before going through with the $1.4 million purchase, the group lined up 15 sets of buyers for parcels of the 3,200 acres. One was the Clintons and the McDougals. The inclusion of the Democratic nominee for governor seemed to bode well for Marion County, and its hopes of spurring development.

"You do things for a guy, you get him indebted to a degree," said Steven Sanders, who was then a director of Citizens Bank and Trust. "At least you get access."

Mr. Sanders said the addition of Mr. Clinton, who was Arkansas Attorney General at the time and considered a shoo-in for governor, also lent the deal a form of subtle elan.

"You bring in one of these politicians just to use their name," Mr. Sanders said. "You say, 'Oh, the Governor's involved in this deal.' "

One Small Hurdle: Raising the Money

There remained an important question: How would the Clintons and the McDougals raise the $203,000 they needed to buy their piece of the land?
As a public official, Mr. Clinton had a big name but a small purse. His job as Attorney General paid only $26,500 a year; his elevation to governor would raise that only to $35,000. His wife, who had kept her maiden name of Hillary Rodham, had only recently begun working at Little Rock's prestigious Rose law firm. Officials of Citizens Bank and Trust said the couple had few financial assets.

"Clinton himself couldn't have gotten the loan," Mr. Sanders said. "McDougal was the guarantee of the resource here," Mr. Sanders recalled, and Mr. Burge agreed.

Even so, the bank's board insisted that both couples personally guarantee the note, rather than letting them take out a loan under some corporate entity. "There was even some discussion: isn't it rather impudent of you to require the future governor to sign such a thing?" Mr. Sanders said. "Some of the directors felt it was a little insulting."

That loan covered all but a down payment of $20,000. Mr. Burge said he then believed that the couples were putting up their own money, as is customary. But the Clinton campaign acknowledged in 1992 that the couples had taken out a $20,000 loan from another Arkansas bank, meaning that the entire land purchase was financed with borrowed money. Mr. Burge said he was surprised to learn of this from recent newspaper articles on Whitewater.

Some local real estate agents contend that the couples paid an unusually high price for the land. Just 19 days before the Clinton purchase, the entire 3,200-acre tract had been bought by 101 River Development for $1.4 million, an average of $440 an acre. The land was then resold by the company to the 15 purchasers or partnerships.

The Clintons and the McDougals paid $880 an acre for their land, making it the most expensive single parcel of the 15. Several 101 River partners said the high price was justified by the Clinton tract's view of the White River and Crooked Creek. And Mr. McDougal, they say, should have been savvy about land values in Marion County from his previous deals.

Other land agents wondered, insisting that at these prices, access to the river was more important than the view. "I know what land values are," said Bobby Joe Baker, a local real estate agent who had helped begin the land boom with some well-placed advertisements in Chicago newspapers. "They paid three times what that land was worth."

Land Is Here. Where Are Buyers?

Mr. Clinton won the November election easily, took office as Governor in January 1979, and soon brought Mr. McDougal into the state government as an economic development aide.

In 1979, in Mr. Clinton's first term as Governor, the Clintons and the McDougals formed the Whitewater Development Company and transferred the land to it. The company officers were James and Susan McDougal; the Clintons were shareholders, entitled to half the company's profits and obligated for half its debt.
Land records valued the property at $250,000. In a 1992 interview, Sam Heuer, Mr. McDougal's lawyer, said the increase reflected his client's additional investment of $46,000 for roads, surveying and subdividing the land.

Whitewater was ready to sell, but the local land market was already souring. The size of the original 3,200-acre deal meant that many lots were coming up for sale simultaneously, while rocketing interest rates discouraged buyers.

Carol Wood, a Marion County real estate agent, remembers it as a frightening time. Her husband, Terry, was president of the 101 River Development Company. She and another Marion County land agent, Nancy Watts, had bought a 378-acre tract from the company for $486 an acre. But Mrs. Wood now had to scramble to make a modest profit before recession arrived in the early 1980's.

In fact, almost everyone involved in buying the 101 River land, except the Clintons and the McDougals, either broke even or made money, Mr. Wood id.

He said Whitewater, too, could have made money if it had sold its lots quickly. "Maybe they spent money on things they didn't need to," he said. "They should have gotten their investment back in 18 months."

The Clintons say Whitewater lost $160,000 of its original $203,000 investment. But since the Clintons have refused to make public the underlying documentation, that contention cannot be verified.

As of May 1980, according to an incomplete account of Whitewater's finances released in 1992 by the Clinton campaign, only a handful of lots had been sold. And of the $60,500 in sales, only $10,000 had been collected, with the rest tied up in installment contracts.

Whitewater was in a squeeze. But the partners disagree about who kept the company afloat.

In a 1992 interview, Mr. McDougal said: "I put money into it. Money was owed me. I don't remember them putting anything in."

Bruce Lindsey, a senior White House official, said the Clintons made $22,000 in interest payments on the bank loan in 1978 and 1979. The Clintons have declined to release copies of the checks or their tax returns for those years.

Trying to increase sales in 1981, Whitewater built a modest house on one of the lots, to help buyers envision what their own might look like. Mrs. Clinton borrowed $30,000 for the house, in her name, not Whitewater's, from the Kingston Bank and Trust, a bank owned by Mr. McDougal, who had by then left government work. Regulators frown upon bank executives making loans to their own corporations.

Whitewater made payments on the $30,000 loan, but the Clintons improperly deducted the interest on it from their personal taxes, the campaign acknowledged in 1992.

In 1983 and 1984, the company sold no property. Interest charges mounted, and Mr. McDougal shuffled tens of thousands of dollars from his other ventures to pay the bills. In at least one instance, more than $5,000 came from Madison Marketing, an advertising company owned by Mrs. McDougal, whose sole client
was her husband's savings and loan.

Similar Inquiry, Different Approach

By mid-1985, Whitewater still had 24 lots on its hands. At the end of May that year, the company transferred all of its remaining property to Chris Wade, the Flippin real estate agent who was Madison's chief sales agent. Mr. Wade said that in return he gave Whitewater an airplane worth $35,000 that was used by Madison and eventually sold to Mr. McDougal, and agreed to repay $35,000 of the $100,000 the company still owed on the original loan from Citizen's Bank and Trust.

The grand dream of a developed community along the banks of the White River never materialized. Mr. McDougal lost control of his savings and loan in 1986 and later was tried and acquitted on Federal bank fraud charges. The collapse of his savings and loan cost taxpayers $60 million and left him bankrupt; he lives today on a pension.

Federal investigators are now poring over bank records and other documents to determine whether Mr. McDougal improperly diverted money from his savings and loan to Mr. Clinton's campaign for governor or to Whitewater, or in any other way that might have benefited the Clintons.

There are questions about how Arkansas regulators responded to the early signs of collapse at Madison, at a time when Mr. Clinton and Mr. McDougal were still united in a costly business failure. The collapse of Madison cost taxpayers $60 million.

Since the case arose as a national political issue, the Clintons have been reluctant to make public the underlying documents and records that would dispel questions about Whitewater's finances.

They handled a similar inquiry very differently in 1979, when a reporter for The Arkansas Democrat found out about the land deal and began pressing for details.

Mr. Burge, the banker, said he told the reporter that such information was private. A few days later, he said, Mr. Clinton telephoned him to waive his privacy rights.

"He said, 'Tell them the truth; I've got nothing to hide,' " Mr. Burge said. "So I just told them what they wanted, and right after that the story died."

GRAPHIC: Photos: Trying to increase sales in 1981, the Clintons built a modest house to help buyers envision what their own might look like. The current owner has posted a message to the press, saying, "Go Home Idiots." In the summer of 1978, the small business circles of Marion County were abuzz with word of the largest land deal in the county's history. A 3,200-acre parcel of property fronting the White River was about to become available after years of being tied up in an Oklahoma bankruptcy court. (Photographs by Alan S. Weiner for The New York Times)

Map of Arkansas showing location of the site of Ozark property.
LEVEL 2 - 2 OF 3 STORIES

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SECTION: A; Pg. 17
LENGTH: 486 words

HEADLINE: Clintons paid $ 70,000 in '92 federal taxes, 24% of their income; They made $ 290,000, return indicates

BYLINE: CHARLES R. BABCOCK; Washington Post

DATELINE: WASHINGTON

BODY:
WASHINGTON -- Like lots of other taxpayers on Thursday, Bill and Hillary Clinton wrote a check to the Internal Revenue Service.

Their federal income taxes totaled $ 70,228 -- about 24 percent -- of an adjusted gross income of $ 290,697, according to copies of the return released by the White House. The Clintons made a $ 4,085 payment.

Vice President Al Gore and his wife, Tipper, reported $ 622,838 in income for 1992, including $ 461,529 from royalties on hardcover sales of his best-selling book, "Earth in the Balance: Ecology and the Human Spirit," according to their tax return. They paid $ 166,979 in federal taxes.

The Gores donated $ 50,000 of the royalties to the University of Tennessee to establish a chair focusing on global environmental issues in honor of the vice president's late sister.

The Gores listed $ 61,876 in itemized deductions, including $ 1,928 in other charitable donations, most in the form of equipment donated by Mrs. Gore's family plumbing business for victims of Hurricane Andrew.

They paid no state taxes, a spokeswoman said, because Tennessee does not have an income tax. Gore was exempt as a member of the Senate from Virginia taxes, and Mrs. Gore did not owe any.

As has been the case for many years, Hillary Rodham Clinton provided the bulk of the Clintons' income. She reported wages of $ 203,172 from the Rose law firm in Little Rock, Ark. She reported nearly $ 110,000 in income from the firm the previous year. A spokeswoman noted that her salary from the firm was based on a five-year average, not her work last year when she spent most of her time campaigning for her husband. In addition, she received 15 months' worth of her pay during calendar 1992.

Mrs. Clinton also reported receiving $ 32,400 in directors' and speaking fees and a $ 13,199 capital gain on the sale of her
interest in a partnership that owns the firm's office building.

The president was paid $34,527 as governor of Arkansas.

The Clintons took $39,190 in itemized deductions, including $18,576 in state and local taxes and $19,452 in charitable donations.

They also reported a $1,000 gain from the sale of their interest in Whitewater Development Corp., a land deal that became an issue last spring after disclosure that a partner, James McDougal, had been the head of a troubled state-chartered savings and loan. Spokeswoman Ricki Seidman said the Clintons sold their half-interest in the unsuccessful 230-acre Ozark Mountain resort development back to McDougal and his wife.

Though the Clintons said they lost thousands of dollars on the investment, they listed its initial value for tax purposes as zero.

"They decided to take the most conservative position," Seidman said. "The IRS needs extensive documentation to establish basis and not all the documentation was available, so they declined to show the loss."

LANGUAGE: ENGLISH

LOAD-DATE: April 17, 1993
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LANGUAGE: ENGLISH
LOAD-DATE: October 14, 1993
MEMORANDUM

TO: OIC Task Force
FROM: Brett Kavanaugh
RE: Madison/CMS in Jan.-July 1993
DATE: July 18, 1997

Attached are portions of the Senate Whitewater Committee's final report regarding Madison/CMS issues of which White House officials, including Vincent Foster, might have been aware during the first six months of the Administration.
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FROM: Brett Kavanaugh
RE: Vincent Foster and Madison in 1993
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INVESTIGATION OF WHITewater DEVELOPMENT CORPORATION AND RELATED MATTERS

JUNE 17, 1996.—Ordered to be printed

Filed under authority of the order of the Senate of June 13, 1996

Mr. D’AMATO, from the Special Committee to Investigate Whitewater Development Corporation and Related Matters, submitted the following

FINAL REPORT

together with

ADDITIONAL AND MINORITY VIEWS

PREFACE

On May 17, 1995, the United States Senate, by a vote of 96–3, adopted Senate Resolution 120, which established the Special Committee to Investigate Whitewater Development Corporation and Related Matters (hereinafter the “Special Committee”), to be administered by the Committee on Banking, Housing, and Urban Affairs (the “Banking Committee”). Resolution 120 charged the Special Committee with the responsibility to conduct an extensive investigation into and to hold public hearings on specified matters relating to the President’s and Mrs. Clinton’s investment in Whitewater Development Corporation (“Whitewater”) along with James and Susan McDougal, Madison Guaranty Savings and Loan Association (“Madison Guaranty”), and related matters.

In discharging its responsibilities under Resolution 120, the Special Committee deposed 274 witnesses and held 60 days of public hearings, during which 136 witnesses testified. The Committee also reviewed approximately 1 million pages of documents produced by the President and Mrs. Clinton, the White House, various federal agencies, and a number of individual witnesses.

Resolution 120 authorized the Committee to investigate and to hold public hearings into three general subject areas: Section 1(b)(1) authorized investigation into whether White House officials
S&L and the Whitewater real estate investment. Parts of this larger pattern include (i) Mrs. Clinton's decision in 1988—when federal investigators were examining possible misconduct leading to Madison Guaranty's failure just two years before—to order the destruction of records relating to her representation of this S&L; (ii) Mr. Foster's and Mr. Hubbell's improper and unauthorized 1992 removal of Rose Law Firm records and files relating to Mrs. Clinton's representation of this corrupt S&L; and (iii) and the improper communication to White House officials during the fall of 1993 of confidential information relating to ongoing criminal investigations of Madison Guaranty and of Capital Management Services, Inc., a small business investment company also central to the Whitewater affair.

By the time of Vincent Foster's death in July 1993, the Clintons had established a pattern of concealing their involvement with Whitewater and the McDougals' Madison Guaranty S&L.

The actions of senior White House officials and other close Clinton associates in the days and weeks following Mr. Foster's death cannot be viewed in a vacuum. Their actions were but part of a pattern that began in 1988 of concealing, controlling and even destroying damaging information concerning the Whitewater real estate investment and the Clintons' ties to James and Susan McDougal and the Madison S&L. Indeed, at the time of Mr. Foster's death, the Clintons and their associates were aware that the Clintons' involvement with Whitewater land deal, the McDougals, and the Madison S&L might subject them to civil liability and even criminal investigation.

In 1988, Mrs. Clinton ordered the destruction of records relating to her representation of Mr. McDougal's Madison S&L. This was not a routine destruction of records. At the time, federal regulators were investigating the operation and solvency of Madison in anticipation of taking it over. These Rose Law Firm records, which after Madison's failure would have belonged to the Resolution Trust Corporation ("RTC"), were directly relevant to that investigation.

By ordering their destruction, Mrs. Clinton eliminated pertinent records and also exposed her firm to potential liability with respect to her representation. Indeed, if such representation was proper, as Mrs. Clinton has claimed, her document destruction deprived the law firm of the records necessary to defend itself in a suit by federal investigators. Moreover, in 1988, Seth Ward, a former associate of Mr. McDougal and Webster Hubbell's father-in-law, was actually suing Madison Guaranty over a land deal that federal regulators have described as a fraud. Mrs. Clinton had performed work on the project, including having numerous telephones calls and meetings with Mr. Ward, and the law firm record of her work and the transactions surrounding this land deal certainly would have been highly relevant to the conduct of that suit.

Accordingly, Mrs. Clinton's destruction of documents could constitute a breach of legal ethics and, possibly, a violation of law if done with the knowledge that the documents are material to investigations or ongoing litigation. Professor Stephen Gillers of New York University, a noted ethics expert, has recently stated: "I don't know how it could be that these files were destroyed.... It makes
it stranger that they were destroyed, not only so soon after they were created but also at a time when this lawsuit was about to go to trial. . . . It certainly could lead to suspicion that she has something to hide because one possible inference from the destruction is that there was something in those files that she did not want to have made public."15

The pattern further continued during the 1992 presidential campaign, after questions arose about the Clintons' investment with the McDougals in Whitewater and Mrs. Clinton's representation of Madison Guaranty before a state agency. In an effort to respond to inquiries from the press and charges from other candidates, Mrs. Clinton's then-law partner, Vincent Foster, collected all the information he could on the Madison representation. At the conclusion of the campaign, the Madison files, which were by now the property of the RTC as conservator of Madison, as well as the files of other Rose clients for whom Mrs. Clinton had performed legal services, were secretly removed from the firm by another then-Rose Law Firm partner, Webster Hubbell. Mr. Hubbell removed these files, at times taking the firm's only copies,16 without obtaining the consent of the firm or client.17 Given that Mr. Hubbell was about to assume a position of great public trust as Associate Attorney General, his unauthorized decision to remove these files is especially troubling.

Also during the 1992 presidential campaign, Mr. Foster or Mr. Hubbell ordered the printing of billing records relating to the Rose Law Firm's representation of Madison Guaranty. These important records revealed the extent of Mrs. Clinton's legal work for McDougals's S&L, including her telephone call to Beverly Bassett Schaffer, the Arkansas Securities Commissioner appointed by Governor Clinton, about the troubled thrift's controversial proposal to raise capital by issuing preferred stock. The records also reflected Mrs. Clinton's work on the IDC or Castle Grande transaction, which federal regulators described as a series of fraudulent land flips.18 The records contain the handwritten questions of Mr. Foster to Mrs. Clinton and notations by Mr. Hubbell.19 Mrs. Clinton has recently stated through her lawyer that she may have reviewed them during the 1992 presidential campaign.

After federal investigators began to look into matters relating to Madison Guaranty and Whitewater, a number of subpoenas were issued for these Rose Law Firm billing records. By then, however, the records were nowhere to be found. Despite extensive searches conducted by the law firm, neither the originals nor copies were discovered.20 They were not in the firm computers, its client files, or the firm's storage facility.21 Apparently, at some point, someone removed these billing records from the Rose Law Firm. In August 1995, Carolyn Huber, an assistant to Mrs. Clinton, discovered them in the book room of the White House Residence, next to Mrs. Clinton's office.22 At the time, Mrs. Huber did not realize the records were under subpoena, and she placed them in a box in her office. In January 1996,23 Mrs. Huber identified these records, and personal counsel for the President and Mrs. Clinton turned them over investigators. Mr. Hubbell testified that he last saw the records during the 1992 presidential campaign in the possession of Mr. Foster.24
By July 1993, the Clintons and their associates had established a pattern of concealment with respect to the Clintons' involvement with Whitewater and the Madison S&L. Because of the complexity of the allegations of misdeeds involving these institutions, documents and files are critical to any inquiries into the matter. Yet, at every important turn, crucial files and documents "disappeared" or were withheld from scrutiny whenever questions were raised.

The Clintons and their associates were aware, at the time of Mr. Foster's death, that the Clintons' involvement with Whitewater and the Madison Guaranty S&L might subject them to liability.

In late fall 1992, Betsey Wright, the coordinator of "damage control" efforts during the presidential campaign and a former chief of staff to Governor Clinton, learned of a "criminal referral regarding a savings and loan official in Arkansas and . . . involving the Clintons." 25 Ms. Wright testified that she learned this information from a Clinton supporter from California who had a friend who heard it at a cocktail party in Kansas City. 26 At the cocktail party, an RTC official informed someone, whose friend reported it to Ms. Wright, that the RTC had just sent a "criminal referral up to the prosecutor in Little Rock." 27 Upon hearing the news, Ms. Wright tried to gather more information about the referral. 28 She then told Mrs. Clinton about the referral directly. Ms. Wright testified: "I remember I asked Hillary if she was aware of any friend of theirs who was in a savings and loan business who might be under criminal investigation, and we couldn't think of anybody." 29

It is with this knowledge that the Clintons and their advisers came to Washington, taking with them the important documents relating to Whitewater and Madison. The documents (including documents improperly taken from the law firm) were entrusted only to close associates of the Clintons, chiefly Messrs. Foster and Hubbell.

By March 1993, senior Clinton Administration officials confirmed that the RTC had sent a criminal referral mentioning the Clintons to the Justice Department. 30 Specifically, RTC Senior Vice President William H. Roelle testified that, after taking office, Roger Altman, then Deputy Treasury Secretary, directed the staff to inform him of all important or potentially high-visibility issues. 31 According to Mr. Roelle, on or about March 23, 1993, he told Mr. Altman of an RTC referral involving the Clintons. 32

Powerful documentary evidence strongly indicates that Mr. Altman immediately passed this important information on to White House Counsel Bernard Nussbaum. On March 23, Mr. Altman sent Mr. Nussbaum a facsimile with a handwritten cover sheet, forwarding an "RTC Clip Sheet" of a March 9, 1992 New York Times article with the headline, "Clinton Defends Real-Estate Deal." 33 This article reported the responses of presidential candidate, Bill Clinton, to an earlier Times report on the Clintons' Whitewater investment. The next day, Mr. Altman faxed to Mr. Nussbaum the same article that he sent the day before and portions of the earlier Times report on Whitewater, dated March 8, 1992, entitled "Clinton Joined S&L Operator in an Ozark Real-Estate Venture." 34

In addition, SBA Associate Administrator Wayne Foren testified that, in early May 1993, he briefed Erskine Bowles, the new SBA
Administrator about the agency's ongoing investigation of David Hale's Capital Management Services because the case involved President Clinton. Shortly thereafter, Mr. Bowles told Mr. Foren that he had briefed White House Chief of Staff Mack McLarty about the case. Although Mr. Bowles did not recall being briefed by Mr. Foren about Capital Management or talking to Mr. McLarty about the case, Mr. Foren's account was corroborated by his deputy, Charles Shepperson. Mr. McLarty's calendar indicated that Mr. Bowles had two meetings with Mr. McLarty at the White House in early May 1993.

As of July 1993, therefore, Mrs. Clinton and others in the Administration were on notice that there was an ongoing federal investigation to which Madison-related documents could be relevant.

At the time of his death, Mr. Foster's office contained damaging evidence about the Whitewater and Travelgate affairs

After he became Deputy White House Counsel, Mr. Foster continued to play a key role in controlling potential damage to the Clintons from Whitewater. He was given the responsibility for overseeing the preparation of Clintons' tax returns for 1992 to reflect properly the sale of their shares in Whitewater. Mr. Foster worked with other White House officials in the Spring of 1993 in preparing a response to expected Whitewater questions. And, most interestingly, Mr. McDougal had left a message for Mr. Foster on June 16, 1993, "re tax returns of HRC, VVF and McDougal."
The documents in Mr. Foster's office at the time of death included a file on Whitewater and his notes of conversations with the Clintons' accountant, Yoly Redden, concerning the tax treatment of the sale of Whitewater. The notes identified the tax problem as a "can of worms you shouldn't open" and further warned: "Don't want to go back into that box Was McD trying to circumvent bank loss—why HRC getting loan from other."

Mr. Foster also played a central role in both the firing of seven career employees of the Travel Office on May 19, 1993 and subsequent attempts to conceal Mrs. Clinton's true role in the controversial firings. Harry Thomason, a close Clinton confidant, reportedly instigated the firings after the career employees rejected his plan to obtain the White House's charter business for a company he partly owned. With public criticism growing, the White House circumvented normal procedures and directly asked the FBI (not the Department of Justice) to investigate allegations of possible criminal misconduct by the career employees of the Travel Office. Although Mr. Foster was not formally reprimanded for his role in the firings, he felt personally responsible.

Other senior White House officials implicated in Travelgate include David Watkins and Patay Thomasson. The Special Committee belatedly obtained a memorandum of Mr. Watkins outlining Mr. Foster's extensive involvement as Mrs. Clinton's conduit to the firings. Indeed, Mr. Watkins fingered Mr. Foster as the person who directly communicated to him Mrs. Clinton's order that the Travel Office staff be fired: "Foster regularly informed me that the First Lady was concerned and desired action—the action desired was the firing of the Travel Office staff." Notwithstanding Mrs. Clinton's clear involvement in the firing of the staff, Mr. Foster and
other White House officials did not disclose her true role to investigators probing the affair.

Significantly, at the time of his death, Mr. Foster's briefcase contained files, a personal notebook and a torn-up note, all concerning the controversial Travel Office matter.

Thus, when Mr. Foster committed suicide in July 1993, White House officials were aware that a danger existed that the law enforcement officials might discover documents concerning Whitewater or Travelgate in his office. In fact, David Margolis, one of the Justice Department officials who attended the search of Mr. Foster's office two days after his death, was aware of an RTC criminal referral concerning Madison that mentioned the Clintons. This risk of discovery provides the backdrop against which the story of Mr. Foster's death and the White House's subsequent scramble must be viewed.

White House officials engaged in highly improper conduct in handling documents in Vincent Foster's office following his death.

The evidence before the Special Committee established that White House officials engaged in a pattern of deliberate obstruction, and interference with, efforts by law enforcement authorities to conduct their several investigations into Mr. Foster's death.

This White House interference began immediately following Mr. Foster's death on the night of July 20. Senior White House officials ignored specific requests by the Park Police to seal Mr. Foster's office on the night of his death. Instead, White House Counsel Bernard Nussbaum, Chief of Staff to the First Lady Margaret Williams and Deputy Assistant to the President Patay Thomasson entered Mr. Foster's office purportedly to search for a suicide note.

According to career Secret Service Office Henry O'Neill, and corroborated by Secret Service records, Ms. Williams removed file folders from Mr. Foster's office that night. Even assuming, contrary to the testimony of Officer O'Neill, that no files were removed from the office that night, the multiple entries into Mr. Foster's office plainly compromised the integrity of evidence the Park Police considered to be valuable. Beyond this, Mr. Nussbaum not only ignored instructions to seal Mr. Foster's office, but also allowed Ms. Thomasson, a staffer without a security clearance who was involved in the Travel Office matter, to conduct an improper search of Mr. Foster's office. For reasons unknown—but to a large extent illuminated by Officer O'Neill's testimony—Margaret Williams also participated in the late night foray through Mr. Foster's office.

The next morning, on July 21, Mr. Nussbaum's personal secretary, Betsy Bond, also ransacked through Mr. Foster's office—ostensibly to straighten it up—thereby disturbing important evidence. Stephen Neuwirth, Mr. Nussbaum's associate, immediately recognized the impropriety: "I didn't think it was appropriate for an assistant to Mr. Nussbaum to be in the office at that time." Thomas Castleton, a staff assistant, also entered Mr. Foster's office in the morning of July 21. Only the Park Police investigators were impeded in their attempt to enter Mr. Foster's office to search for evidence. They waited in vain all day "for approval from Mr. Nussbaum" to conduct their investigation.
the Clintons and James and Susan McDougal jointly purchased 233 acres in the Arkansas Ozarks. Neither the Clintons nor the McDougals contributed any equity into the purchase. Instead, Jim McDougal and Bill Clinton, then Attorney General and the Governor-elect of Arkansas, borrowed $20,000 from Union National Bank. Mr. McDougal’s loan officer at Union National Bank, Harry Denton, would later become the chief lending officer at Mr. McDougal’s Madison Guaranty S&L. The rest of the purchase money was financed by a mortgage of $182,611.20 from Citizens Bank of Flippin, a loan in which Union National Bank took a 50 percent participation.

In June 1979, the Clintons and McDougals formed Whitewater Development Company, Inc. (“Whitewater”) and eventually transferred ownership of the land to the new corporation. The Clintons and McDougals intended to subdivide the property into lots for sale as vacation property. Slow sales at lower than anticipated prices, however, resulted in a cumulative loss of $183,189 for Whitewater by the end of 1986. Although the McDougals and the Clintons purportedly were equal partners in the project, their contributions to the company to cover its losses were greatly disproportionate. Of the $194,493 that the shareholders contributed to Whitewater, the McDougals and their companies contributed $158,523, while the Clintons advanced only $35,970.

When Bill Clinton ran for President in 1992, the Whitewater investment and his relationship with James McDougal became a source of political embarrassment. Over the years, the Clintons took a series of questionable deductions on their federal income tax returns related to their investment in Whitewater. And, in March 1989, federal regulators closed Madison Guaranty S&L. Madison’s insolvency ultimately cost federal taxpayers over $60 million.

On March 8, 1992, the front page of the New York Times carried this headline: “Clintons Joined S&L Operator In An Ozark Real Estate Venture.” The article, written by Jeff Gerth, reported the ties between the Clintons and the McDougals, focusing attention on their investment in Whitewater and the questionable tax deductions taken by the Clintons in 1984 and 1985. The Times report suggested that Whitewater may have been used as a conduit to funnel money to the Clintons or to Bill Clinton’s political campaigns.

Ms. Thomases played a key role in responding to the Times inquiries about Whitewater. She and Loretta Lynch, another attorney working for the Clinton campaign, gathered information relating to Whitewater and, specifically, to Mrs. Clinton’s representation of McDougal’s Madison Guaranty before state regulators.

Mr. Hubbell and Mr. Foster compiled information from the Rose Law Firm to help the response effort. According to Mr. Hubbell, “the issue then, way back when, was did Mrs. Clinton ever have any contact with the Arkansas Securities Department. When we went back to the bills, that was the only, I believe, indication on the bills of a direct contact with the Arkansas Securities Department, so I underlined that—probably gave that to Vince.”

Indeed, in notes taken during the 1992 campaign, Susan Thomases recorded a February 24, 1993 conversation with Webster
Hubbell about the Rose Law Firm's representation of Madison. According to the notes, Mr. Hubbell told Ms. Thomases that Mrs. Clinton did all the billing for the Rose Law Firm to Madison, and that she had numerous conferences with Jim McDougal, Madison President John Latham, and Rick Massey, then a junior associate at the firm. The notes also indicated that Mrs. Clinton had reviewed some documents and that she had one telephone conversation with Beverly Bassett Schaffer in April 1985. Ms. Thomases recorded in the margin of her notes at this point: "Acc. to time Rec." She testified that "This is my notation for according to time records." which is what Mr. Hubbell had indicated to her. Ms. Lynch confirmed that Mr. Hubbell reviewed timesheets and billing records relating to the Rose Law Firm's representation of Madison.

The billing records mysteriously disappeared after the 1992 campaign. Despite four subpoenas from separate federal investigations for over two years, the billing records were not disclosed until they were "discovered" in the third floor of the White House Residence, next to Mrs. Clinton's office in the private quarters.

Eventually, the Clinton campaign released a report on the Whitewater investment authored by James Lyons, a Colorado attorney retained by the campaign. The Lyon's report stated that, rather than gaining an illicit profit from their association with Mr. McDougal, the Clintons actually lost $68,900 on their investment in Whitewater. Mr. Lyons apparently prepared two versions of his report. In a confidential letter to the Clintons on April 10, 1992, he enclosed a "complete report" on Whitewater by Patten, McCarthy & Associates, an accounting firm he had retained to study Whitewater. Mr. Lyons wrote:

Please note the enclosed complete report discusses such things as the $9,000 interest deduction taken by you in 1980 (paragraph 4, page 5), lot 13 and borrowings associated with it (paragraph 5, page 5), and the sale of 24 lots in 1985 to Ozark Air for assumption of the mortgage and an airplane (paragraph 6, page 6). None of these items is set out in the summary report which was released to the press.

Mr. Lyons advised the Clintons that there are only three copies of the complete report, and wrote that "it is my recommendation to you that you maintain the complete report in strictest confidence and do not waive either the attorney/client or accountant/client privilege which attaches to the enclosed report." Mr. Lyons assisted Mr. Lyons in preparing the report.

The Lyons report temporarily quelled the media interest in the Whitewater story, but Clinton advisors remained worried over legal and political implications of this investment. Among the documents in Mr. Foster's office at the time of his death was his handwritten note: "Get out of White Water." To that end, Mr. Foster, Mr. Hubbell and others in the Clinton organization met with Mr. Lyons on November 24, 1992, two weeks after Mr. Clinton was elected President.

The point man for the Clinton team in this effort was James Blair, General Counsel of Tyson Foods and a longtime friend and
advisor to the Clintons. Mr. Blair had also known Mr. McDougal for over 30 years and had contacted Mr. McDougal in early 1992 when questions arose about Whitewater. Mr. Blair called Mr. McDougal's attorney, Sam Heuer, and told him that "the Clintons and the McDougals needed to be totally separated over the Whitewater thing." According to Mr. Blair, he suggested that Mr. McDougal pay a nominal amount to buy the Clintons' interest in Whitewater. "I think we settled on a thousand dollars as an appropriate nominal amount." There was one problem: "McDougal doesn't have a thousand dollars." Mr. Blair then told Mr. Heuer, "[W]ell, what the heck, I will loan him the thousand dollars. I'll just Fed Ex you a check to your trust account. And I believe that's what I did." Mr. McDougal has never repaid Mr. Blair.

On December 22, 1993, Mr. McDougal and the Clintons executed the transaction to get the Clintons out of Whitewater. Mr. Blair then assigned Mr. Foster the task of contacting the accountants and preparing the Clintons' tax returns. The issue facing Mr. Foster in the months preceding his death was how to treat the $1000 sale on the Clintons' 1992 tax returns. The basic dilemma stemmed from the Clintons' claim, bolstered by the publicly released Lyons report, that they had incurred significant losses on their investment in Whitewater. The problem with declaring the loss on the Clintons' tax return was the lack of a proper basis with which to calculate the cost of the venture to the Clintons. Despite their claim that they were 50% partners in the venture, the Clintons had contributed less than 25% of the funds used to cover Whitewater's losses.

Among the documents in Mr. Foster's office at the time of death were his notes of conversations with the Clintons' accountant, Yoly Redden. The notes, in Mr. Foster's hand, identified the tax problem as a "can of worms you shouldn't open." His notes in the file outlined the basic tax issues the Clintons faced in connection with Whitewater:

1. What was nature of deductions: A. How deduct interest/ principal payments for corp?
2. Can you use contribution which predates incorporation?
3. Contribution/advancements of $68,900 to the McD
4. Inability to utilize $5000 capital loss

Mr. Foster's objective was to avoid calling attention to Whitewater during the annual audit of the President and Mrs. Clinton's tax returns by the Internal Revenue Service audit. One approach was simply to report a wash, that is, to show no loss and no gain from the venture, thereby obviating the need for any tax treatment. The problem with such treatment, however, was that it would have bolstered the allegation that the Clintons were insulated from Whitewater losses and thus the company was a vehicle for Mr. McDougal to channel funds to the Clintons. In notes titled "Discussion Points," Mr. Foster wrote:

1. An argument that they were protected against loss:
A) wash is consistent with this theory
But Mr. Foster did not have a proper cost basis with which to calculate the Clintons' true losses or gains. His discussion points continued:

(2) Improper to reduce basis by improper tax benefit.
(3) Computation of economic loss was based, in part, on assumptions Whereas computation of tax gain or loss must be defensible in audit. 183

Therein lay the problem. To claim a loss based on economic assumptions, as the Lyons' report did, was one thing. 1 But to claim a loss on the Clintons' 1992 tax returns without proper support and documentation increased the likelihood of calling attention to Whitewater during the IRS audit—of opening the can of worms that Mr. Foster and the Clintons' accountant wished to keep sealed. 184 Mr. Foster's notes summarized the options as follows: "10 Options $1000 basis so no tax effect but is arbitrary & still risks audit vs. 0. basis w/$1000 gain avoids any audit of issue." 185

In a letter to Mr. Foster days before the tax returns were due, Ms. Redden, the accountant the Clintons hired to handle Whitewater tax issues, wrote: "Because of the numerous problems with Whitewater records and the commingling of funds with other companies and individuals, I believe many explanations may have to be made if we claim a loss." 186 This letter, addressed to Mr. Foster, was not among the documents in Mr. Foster's office that the White House produced to the Special Committee. It was obtained by the Special Committee through another source. 187 Ms. Redden testified that after the Clintons were in the White House she had a number of discussions with Mr. Foster concerning tax issues related to Whitewater. 188 The main focus of these numerous communications was the tax basis for the Clintons' contributions to Whitewater and how to treat the $1000 payment. 189

The Clintons' final tax returns for 1992 reported a capital gain of $1000 from the sale of stock to Mr. McDougal. 190 According to Ms. Redden, "I think we need to claim no gain or a loss." 191 Mr. Foster did not follow her advice, however, because he was also consulting with another accountant, and "at the end we compromised what we were going to put in the return in connection with Whitewater." 192

For reasons unknown, on June 16, 1993, Mr. McDougal called Mr. Foster at the White House. Unable to reach Mr. Foster, he left a message with his secretary: "re tax returns of HRC, VWF and McDougal." 193 It is unclear whether Mr. Foster returned Mr. McDougal's telephone call, and it is unclear why Mr. McDougal contacted Mr. Foster about Mr. Foster's tax returns.

Mr. Foster also worked with Ricki Seidman, then Deputy Assistant to the President and Deputy Director of Communications, on the Whitewater matter in the first half of 1993. In June 1994, Ms. Seidman told the FBI the following about her relationship with Mr. Foster and her involvement in Whitewater:

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1 Elsewhere in his notes, Mr. Foster wrote:
A. Colo analysis was of economic loss
(1) did not take into account interest deductions
(2) calculation included some items for which there were no canceled clks.
Williams & Connolly Document DKS000517. "Colo analysis" was an apparent reference to the Lyons report.
Seidman was asked about FOSTER's involvement with Whitewater. She said the only Whitewater issue she could recall was in April, 1993 in connection with the CLINTONs tax returns. The tax returns show that the CLINTONs had divested themselves of their interest in Whitewater. SEIDMAN's involvement was from a "communications perspective". The Whitewater issue had surfaced during the campaign, interest had then ended, and it was believed the tax returns would bring the Whitewater issue into the "public domain again". SEIDMAN said there was discussion regarding the "soundest way" to seek closure to the issue. The options considered were (1) declare a loss; (2) declare an even split; and (3) declare the Clintons received a $1000 gain. SEIDMAN said she and FOSTER were discussing these options. She remembered attending meetings at WILLIAMS and CONNOLY [sic] on the issue.194

The Clintons' Whitewater investment created other problems that occupied Mr. Foster's time as Deputy White House Counsel. Among the documents found in Mr. Foster's office following his death were campaign disclosure forms, required by law, accounting the personal finances of the Clintons and of their campaign organization.195 On January 10, 1992, the Clinton for President campaign filed a disclosure form that failed to disclose that the Clintons had personally guaranteed a loan to the Whitewater Development Corporation.196 Yoly Redden, the Clintons' accountant, testified that she assisted the campaign in preparing the disclosure statements.197 According to Ms. Redden, there were discussions about the Clintons' Whitewater investment, and a decision was made to omit it from the statements. "We were told, it was our understanding that the Whitewater investment was worthless, they were not going to get anything out of it at that point in time."198

On April 6, 1992, after the New York Times article detailing the Clintons' Whitewater investment, the campaign revised the statement to disclose the Clintons' personal liability for the Whitewater loan.199 The revision, however, did not deal with the more troublesome issue concerning disclosure: how to treat the McDougals' disproportionate share of Whitewater losses? By assuming more than 50 percent of Whitewater losses, the McDougals had in effect given money to the Clintons, their supposed equal partners in Whitewater. This transfer could be treated as a gift, a loan, or income. Although the Clintons would incur a tax liability only if the transfer was considered income, campaign laws required disclosure of all three categories, a requirement that had not been met with respect to the McDougals' contributions to Whitewater. At one point, Mr. Foster complained to his friend and the Clintons' confidant, Susan Thomases, about the poor condition of the Clintons' Whitewater records.200

Mr. Foster was working on another matter involving the Clintons' financial investments in the months and days preceding his death. On June 18, 1993, USA Today published an article on Hillary Clinton's investment in a limited partnership named Value Partners, managed by Smith Capital Management of Little Rock, Arkansas.201 The article noted the success of the investment for
Mrs. Clinton, but erroneously reported that Mrs. Clinton’s “investments are now held in a blind trust.” A copy of the article was found in Mr. Foster's office following his death. Mr. Foster personally circled two places where the article asserted that Mrs. Clinton's assets had been placed in a blind trust. He sent copies of the article to Lisa Caputo, Mrs. Clinton's press secretary, Ricki Seidman, White House Deputy Communications Director, and Margaret Williams, Mrs. Clinton's Chief of Staff. His handwritten comments identified a problem: “The assets are not yet in a blind trust. The document has been approved but is not signed yet, pending working out some details.” The article apparently bothered Mr. Foster enough to prompt him to complain immediately to Bill Smith, the head of Smith Capital Management. Smith replied apologetically that his company does not talk to the press about the First Lady's investment, particularly during the recent flurry of articles and interviews regarding the holdings of health care stocks in Value Partners.

The “flurry of articles” concerned the strategy of Value Partners to profit by selling stocks “short.” A short-seller borrows stocks from his broker to sell at current market price, anticipating that the value of the stock will fall. When the price does fall, the short-seller buys the lower-priced stock to return to his broker, profiting from the difference in price. On May 31, 1993, the Wall Street Journal disclosed that Value Partners actively sold short several health care stocks. At this time, Mrs. Clinton was directing the administration’s efforts to reform the nation's health care system. The Administration's proposal depressed the value of health care stocks. Value Partners was structured as a limited partnership, and no evidence exists that Mrs. Clinton directed or reviewed the fund’s investment decisions. However, Mrs. Clinton’s investment amounted to nearly $100,000 in a fund that dedicated 13% of its $1.3 million portfolio to short positions in health care stocks. Mrs. Clinton thus came under media criticism for personally benefiting from her high-profile public campaign.

In addition to an appearance of impropriety, the investment in Value Partner posed a potential legal problem. Title 18, Section 208 of the United States Code exposes an executive officer or employee to felony liability for participating “personally and substantially” in a “particular matter” in which he is aware of a financial interest. Mr. Foster apparently had advised Mrs. Clinton that she need not be concerned by this criminal statute because she was not an officer or employee of the executive branch. In reaching this conclusion, Mr. Foster apparently did not consult with the Office of Legal Counsel of the Department of Justice, and ignored a contrary opinion issued by that office 17 years earlier.

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1 In a later interview with the FBI, Ms. Seidman acknowledged that she worked with Foster on increasing the fund's shorted health positions taken by HILLARY CLINTON in connection with Value Partners. II Hearings, p. 1794.
Mr. Foster's conclusion that the First Lady was not covered by government ethics laws also conflicted with the position of the White House in Association of American Physicians and Surgeons v. Clinton. That litigation sought to compel the White House to release the documents and deliberations of Mrs. Clinton's health care task force. The Federal Advisory Committee Act ("FACA") compels such public disclosure if a government agency, like the health care task force, consults advisers who are not government employees. The plaintiffs alleged that Mrs. Clinton is such a nongovernmental adviser and thus the records of the task force were covered by FACA. In order to avoid disclosure, the White House argued that Mrs. Clinton was indeed a federal official and therefore FACA did not apply to the task force. The United States Court of Appeals for the D.C. Circuit agreed with the White House. Recognizing the potential spillover effect of the holding, however, the court cautioned in a footnote: "We do not need to consider whether Mrs. Clinton's presence on the Task Force violates . . . any conflict of interest statutes."  

The matter apparently weighed heavily in Mr. Foster's mind. The Wall Street Journal, in a series of editorials, criticized Mr. Foster for his role with respect to the Health Care Task Force. Mr. Foster complained to James Lyons, a Foster friend and former legal adviser to the Clinton campaign, that "the press had been particularly vicious in their attacks on members of the Rose Law Firm." In particular, Mr. Foster complained about criticisms for his handling of the Association of American Physicians and Surgeons v. Clinton litigation. Mr. Lyons told the FBI in an interview:

FOSTER won a victory for the Task Force (and by association, for HILLARY RODHAM CLINTON) on that matter and the Wall Street Journal accused him of "sharp tactics". LYONS advised that the allegation really bothered Foster.  

In the note apparently discovered in Mr. Foster's briefcase six days after his death, Mr. Foster wrote, "The Wall Street Journal editors lie without consequence."  

Just before his suicide, Mr. Foster concentrated on finalizing plans to place the First Family's investments in a blind trust, which would have remedied the ethical and legal problems posed by the Value Partners investment. In Mr. Foster's papers was a facsimile from Brantly Buck, a partner of the Rose Law Firm, who had been retained to assist in the creation of the blind trust. The facsimile, dated July 19, 1993, the day before Mr. Foster's suicide, forwarded draft statements of financial objectives for the blind trust. White House phone records indicated that Mr. Buck called Mr. Foster twice on the morning of his suicide.  

Mr. Foster's phone log also showed that he received a call from James Lyons, the author of the Whitewater report for the Clinton campaign, at 11:11 a.m. on July 20, 1993, the morning of Mr. Foster's death. When contacted by the Park Police, Mr. Lyons said that he had spoken with Mr. Foster on July 18, and they had agreed to meet for dinner on July 21. According to a Park Police report, "Lyons had told Foster he would call him and let him know
when he would leave Denver and arrive in Washington. This is the reason for the phone message on the morning of July 20, 1993.”

In a later interview with the FBI, Mr. Lyons provided more detail into his scheduled dinner with Mr. Foster. Mr. Foster was very concerned about the Travelgate affair and regarded himself and Bill Kennedy as potential witnesses in the matter. According to the FBI report, Mr. Foster “felt strongly that White House should hire outside counsel to be handling the Travelgate matter for this reason. He also believed that he would need a personal attorney to represent him in the matter.”

It was to seek personal representation that Mr. Foster purportedly scheduled dinner with Mr. Lyons. Mr. Foster, however, also complained to Mr. Lyons about the extent to which he and other members of the Counsel’s office were handling personal matters for the Clintons:

FOSTER believed that private sector attorneys should be handling many of the matters they [White House Counsel’s office] were handling, both for ethical and workload reasons. The CLINTON administration had called for a 25 percent cut. Under the BUSH administration the Counsel’s office had 18 to 20 lawyers at its peak and when CLINTON took office there were only 6 or 7. There were many discussions about the composition and character of the associates in the Counsel’s office and everybody was spread incredibly thin.

Linda Tripp, Mr. Nussbaum’s executive assistant, testified that she approached Mr. Nussbaum and questioned him, based on her experience in the previous administration, about the inordinate amount of time that Mr. Foster seemed to spend on the Clintons’ personal matters. Ms. Tripp believed that Mr. Foster worked mostly on personal matters for the Clintons. According to Ms. Tripp, “I questioned the role of the deputy counsel in the Clinton Administration as opposed to what I had perceived it to be in the Bush Administration.”

Indeed, C. Boyden Gray, President Bush’s White House Counsel testified that, under President Bush, “[personal, what I would call personal work, taxes, blind trusts, problems involving his residence, his house in Maine, for example, those matters would be handled by his private counsel. How to deal with the book royalties from Mrs. Bush’s book, for example; they would be handled by his personal lawyer.”

When asked why, Gray explained that “I don’t think the taxpayers should pay for personal matters, I suppose, is the short way to answer it.”

II. THE TRADITIONAL INDEPENDENCE OF THE WHITE HOUSE COUNSEL’S OFFICE

The Office of the White House Counsel originated from presidential custom. The Reorganization Act of 1939, which author-

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*In reality, the number of lawyers in the Bush administration was about 14, the same as under President Reagan. Jeremy Rabkin, "At the President’s Side: The Role of the White House Counsel in Constitutional Policy," Law and Contemporary Problems, Volume 66, Autumn 1993, at 63, 71 n. 39. Although the official directory of the Clinton White House lists, in addition to the Counsel and his deputy, only several Associate Counsels, the staff actually includes about 13 lawyers. Id. at 71, n. 39. According to one commentator, "Official listings of the White House staff never give the full number of lawyers because extra lawyers are usually detailed from departments to circumvent congressional restrictions or concerns about excessive size of the full time staff." Ibid.*
Mr. Nussbaum claimed that he had no knowledge that Mr. Foster was working on any matter involving Whitewater. Mr. Nussbaum emphasized that "the Whitewater matter, which subsequently became the focus of so much attention, was not on our minds or even in our consciousness in July 1993." He repeated that although Whitewater had surfaced briefly during the 1992 campaign, "in 1993, Whitewater was not on my screen, nor, as far as I know, was it the subject of discussion in the White House. And if it was, it was something I would have known." Evidence obtained by the Banking Committee during the summer of 1994 flatly contradicts Mr. Nussbaum's testimony. Resolution Trust Corporation ("RTC"), Senior Vice President William H. Roelle testified that, upon taking office, former Deputy Secretary of the Treasury Roger Altman directed the staff to inform him of all important or potentially high-visibility issues. According to Mr. Roelle, on or about March 23, 1993, he told Mr. Altman that the RTC had sent a criminal referral mentioning the Clintons to the Justice Department.

The White House produced files to the Banking Committee showing that Mr. Altman immediately sent Mr. Nussbaum two facsimiles about Whitewater. The first facsimile, sent on March 23, 1993 with a handwritten cover sheet, forwarded an "RTC Clip Sheet" of a March 9, 1992 New York Times article with the headline, "Clinton Defends Real-Estate Deal." The article reported the responses that Bill Clinton, then a presidential candidate, offered to an earlier Times report detailing the Clintons' investment in Whitewater and their ties to Jim and Susan McDougal.

The second facsimile from Mr. Altman to Mr. Nussbaum, sent the next day, March 24, 1993, forwarded the same article that was sent the day before and portions of the earlier Times report—an article dated March 6, 1992, by Jeff Gerth entitled "Clinton S&L Operator in an Ozark Real-Estate Venture," which originally broke the story in the news media.

According to the report of the Banking Committee on the communications between officials of the White House and the Treasury Department:

Mr. Altman testified that he did not recall having sent either facsimile to Mr. Nussbaum. Mr. Nussbaum testified that he did not recall having received either facsimile from Mr. Altman. Mr. Altman and Mr. Nussbaum both testified that they had no recollection of having spoken to one another during March 1993 about the articles contained in the facsimiles or the subject of those articles. Nevertheless, Mr. Altman and Mr. Nussbaum both testified that the facsimiles were apparently sent and received by their respective offices.

Before the Special Committee, Senator Bond asked Mr. Nussbaum specifically about the apparent contradiction between his assertion that he had no knowledge of Whitewater at the time of Mr. Foster's death and the existence of Mr. Altman's facsimiles.

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Nussbaum maintained that he did not know of the facsimiles. He testified that he first heard of Whitewater in late September 1993. "So, in July of 1993, I had no knowledge and no memory of receiving a fax from Roger Altman, and Whitewater, as I said in my statement, was not on my mind nor, do I believe, on anyone else's mind in the White House in July of 1993."  

There is further evidence, however, that Mr. Foster was not the only White House official working on personal matters for the Clintons involving Whitewater. Until July of 1993, Ricki Seidman was Deputy Assistant to the President and Deputy Director of Communications. She reported to the FBI in 1994 that she and Mr. Foster had worked together on Whitewater issues before his death:

Seidman was asked about FOSTER's involvement with Whitewater. She said the only Whitewater issue she could recall was in April, 1993 in connection with the CLINTONs tax returns. The tax returns show that the CLINTONs had divested themselves of their interest in Whitewater. SEIDMAN's involvement was from a "communications perspective."

Ms. Seidman explained that she discussed various options with Mr. Foster for treating the transaction on the Clintons' 1992 tax returns. Ms. Seidman confirmed notes found in Mr. Foster's office at the time of his death summarizing the three options under consideration: (1) report a loss on the Whitewater investment; (2) not report any gains or losses; or (3) declare a $1000 gain to the Clintons from their transfer of all Whitewater stock to Jim McDougal in December, 1992.

In addition, SBA Associate Administrator Wayne Foren testified that, in early May 1993, he briefed Erskine Bowles, the new SBA Administrator about the agency's ongoing investigation of David Hale's Capital Management Services because the case involved President Clinton. Shortly thereafter, Mr. Bowles told Mr. Foren that he had briefed White House Chief of Staff Mack McLarty about the case. Although Mr. Bowles did not recall being briefed by Mr. Foren about Capital Management or talking to Mr. McLarty about the case, Mr. Foren's account was corroborated by his deputy, Charles Shepperson. Mr. McLarty's calendar indicated that Mr. Bowles had two meetings with Mr. McLarty at the White House in early May 1993.

When asked why Mr. Nussbaum prevented law enforcement officials from looking at documents in Mr. Foster's office on July 22, Detective Markland replied: "In my mind, at this time, I believe he was afraid we would have uncovered some indication of the Whitewater situation and other things that Mr. Foster was involved with that are just now coming to light."

Mr. Nussbaum claimed that he did not seek to conceal damaging information about the Whitewater matter. In his view, the groundswell of interest in the handling of documents after Mr. Foster's death resulted from "the unfair linkage of two separate, disparate events." The way he reviewed and handled documents in Mr. Foster's office and the emergence of the Whitewater investigation in late 1993.
Yet, as early as the spring 1993, White House officials expected the then-dormant Whitewater issue to reemerge in the media. According to the FBI report of Ms. Seidman's interview, in April 1993, "it was believed the tax returns would bring the Whitewater issue into the 'public domain again'. SEIDMAN said there was discussion regarding the 'soundest way' to seek closure to the issue." In addition to Ms. Seidman's sworn statement, common sense casts doubt on Mr. Nussbaum's testimony that Whitewater was not on the White House's radar screen in 1993. Whitewater was a major issue in the 1992 campaign, and the Clintons went to the extraordinary step of retaining an outside attorney to issue a report on the matter. The "unfair linkage," in Mr. Nussbaum's words, so obvious when investigations relating to Whitewater were reported later in 1993, was never made in the weeks following Mr. Foster's death precisely because Mr. Nussbaum concealed any mention of Whitewater from law enforcement officials. There is little doubt that Mr. Nussbaum foresaw the embarrassment and political liability of such a linkage between Mr. Foster's death and Whitewater when he examined the documents in Mr. Foster's office. It is against this backdrop of motive that the events and actions following Mr. Foster's death must be examined.

II. JULY 20, 1993

A. The discovery of Mr. Foster's body

At about 5:30 p.m. on July 20, 1993, the driver of a white utility van stopped at Fort Marcy Park off the George Washington Parkway in Virginia to relieve himself. The man parked his car next to a white two-door Honda with a blue interior and Arkansas plates. He walked about 200 yards away from the parking lot. As he was urinating, the man noticed the body of a white male wearing a white dress shirt and grey pants. Traces of blood were visible on the man's face, and the right shoulder was stained light purple.

The man then returned to his van to find a telephone. He drove to nearby Turkey Run Park, where he found two uniformed

\[\text{Like Mr. Nussbaum, the President and Mrs. Clinton have denied knowledge of Foster's work involving Whitewater. Following are excerpts from a deposition of President Clinton by former Special Counsel Robert Flack:}

\[\text{Q: Were you aware that he was also doing some work in connection with the preparation and filing of the tax returns for Whitewater for '90, '91, and '92?}
\]

\[\text{A: I don't recall that I was aware of that, no.}
\]

\[\text{Q: Was he (Foster) doing any personal work for you or the President other than the blind trust?}
\]

\[\text{A: Not that I'm aware of, no. Oh, wait. The only thing I would add to that is I think he also did some personal advising, or at least was in some way involved in the tax return, when they were being finalized for '92, but that was part of the blind trust work, as I recall.}
\]

\[\text{Q: Your own tax returns?}
\]

\[\text{A: Yes.}
\]

\[\text{Q: Was he doing work, to your knowledge, with respect to the filing of the Whitewater tax returns?}
\]

\[\text{A: Not that I know of, no.}
\]

\[\text{It is unclear whether Mrs. Clinton's answer to Mr. Flack's question encompassed Mr. Foster's work on the Clintons' personal returns relating to their tax liability for Whitewater. In her interview with the FBI, Ms. Seidman reported that she attended meetings with the Clintons' personal lawyers at Williams & Connolly on the treatment of the 1992 sale of Whitewater on the Clintons' 1993 tax returns.} \]
Mr. Heymann then called David Gergen at the White House and explained the problems that the Park Police investigators were encountering. Mr. Gergen told Mr. Heymann that he would call back in a few minutes so that Mr. Gergen could assemble a number of White House personnel in his office. When Mr. Gergen called back, he was on a speakerphone with a number of White House officials, "eight or nine or ten people." Mr. Gergen does not have a clear memory of the conversation, but he testified that Mr. Heymann "may have conveyed to me a sense of, not a precise x, y, z, here's what you guys are doing, but a sense of what I know, an alert. Make sure the White House was doing this, to remind me in effect, these are very highly charged kinds of investigations and they can be misunderstood very easily." Mr. Heymann's recollection is clearer:

I read them the riot act in unmistakable terms, telling them that this was a disaster very near to occur, that I was sending, I had sent the FBI in to interview on the note. That I wanted all interviews to take place without White House counsel there. That I wanted full cooperation. That there was a very good chance that nothing could avoid sort of a major failure of credibility and sense of biased investigation, but that only the most vigorous of steps, at this point, could do that, and I wanted a complete turnaround.

According to Mr. Heymann, he deliberately delivered a "very strong message" seeking to change the White House attitude toward the investigation. He received some, but not much, argument from the White House officials involved in the conference call. After the conversation, according to Mr. Heymann, "the cooperation with the Park Police and with the FBI turned around immediately and completely."

**FINDINGS OF THE SPECIAL COMMITTEE**

In the course of its investigation, the Special Committee was confronted with witnesses who provided conflicting testimony about events highly relevant to the Special Committee's inquiry. To resolve these conflicts in testimony, Senate Resolution 120 authorized the Special Committee to make factual findings based on the available evidence. In doing so, the Special Committee placed primary emphasis on documentary or other physical evidence whenever such evidence was available and when there was no indication that such evidence had been altered or otherwise compromised. When judgments of credibility had to be made, the Special Committee focused on the factors that, from common sense and logic, contribute to the reliability of a person's testimony—factors such as a motive to lie or embellish, the detail and vividness of memory, and the internal and external consistency of a person's overall testimony. The Special Committee summarizes its factual findings below.
Finding 1. At the time of his death, Vincent Foster was intimately involved in two brewing scandals—Travelgate and Whitewater—touching on President and Mrs. Clinton.

Mr. Foster played a central role in both the firing of the Travel Office staff and subsequent attempts to conceal Mrs. Clinton's true role in the firings. Mr. Foster participated in the May 12, 1993 meeting with Harry Thomasson, Catherine Cornelius, and David Watkins where the replacement of the Travel Office staff was first discussed. Mr. Foster then assigned his former law partner, William Kennedy, to investigate alleged financial mismanagement in the Travel Office. When the July 2, 1993 report of an internal White House review into the matter sharply reprimanded Mr. Kennedy, Mr. Foster felt personally responsible and insisted that Mr. Nussbaum allow him to shoulder the blame.

Mr. Watkins' belatedly disclosed memorandum concerning the Travel Office affair clearly outlined Mr. Foster's extensive involvement as Mrs. Clinton's conduit to the firings. Mr. Kennedy wrote, for example, "Once this made it on the First Lady's agenda, Vince Foster became involved, and he and Harry Thomasson regularly informed me of her attention to the Travel Office situation—as well as her insistence that the situation be resolved immediately by replacing the Travel Office staff." Indeed, Mr. Watkins fingered Mr. Foster as the person who directly communicated to him Mrs. Clinton's order that the Travel Office staff be fired. "Foster regularly informed me that the First Lady was concerned and desired action—the action desired was the firing of the Travel Office staff." Despite Mrs. Clinton's obvious and extensive involvement in the firing of the staff, Mr. Foster and other White House officials did not disclose to investigators probing the affair about her true role.

It is also undisputed that Mr. Foster played a central role in the effort to respond to and manage the brewing Whitewater scandal. When questions first arose in the 1992 campaign about Whitewater and Mrs. Clinton's representation of Mr. McDougal's Madison Guaranty, Mr. Foster compiled the files and billing records of the Rose Law Firm relating to that representation. He and Mr. Hubbell improperly removed the files from the Rose Law Firm without authorization and transported them to Washington after the campaign. In order to "get out of White Water," Mr. Foster also perfected the sale of the Clintons' interest in Whitewater to Mr. McDougal.

After becoming Deputy White House Counsel, Mr. Foster continued his role as the Clintons' personal counsel on Whitewater. He was assigned the task of preparing the Clintons' tax returns for 1992 in order to reflect properly the sale of their shares in Whitewater, a problem that his notes described as a "can of worms you shouldn't open." Mr. Foster worked with other White House officials in the Spring of 1993 in coordinating a response to questions about Whitewater. And Mr. Foster's telephone log indicated an inexplicable message from Mr. McDougal on June 16, 1993, "re tax returns of HRC, VWF and McDougal."
Finding 2. Senior White House officials were aware that the President and Mrs. Clinton faced potential liability over Whitewater and their relationship with the McDougals.

Before the Special Committee, Mr. Nussbaum boldly announced: "The Whitewater matter, which subsequently became the focus of so much attention, was not on our minds or even in our consciousness in July 1993." The testimonial and evidentiary record belies Mr. Nussbaum's exculpatory declaration.

Questions about Whitewater and Mrs. Clinton's representation of Madison were a major campaign issue in 1992, so much so that the Clintons took the extraordinary step of retaining Jamie Lyons, an "outside attorney," to issue a report on the matter. Mr. Foster and Mr. Hubbell at that time compiled the files and billing records of the Rose Law Firm relating to Mrs. Clinton's representation of Madison, and transported the files to Washington after the campaign. And Mr. Foster was specifically asked to prepare the Clintons' personal tax returns as they relate to Whitewater, a project which consumed his time in the White House.

More important, as early as 1992, the Clintons and their advisors were aware that questions about Whitewater would again resurface, this time in a criminal investigation. In the fall of 1992, Betsey Wright heard of a "criminal referral regarding a savings and loan official in Arkansas and ... involving the Clintons." Ms. Wright learned specifically that the RTC had just sent a "criminal referral up to the prosecutor in Little Rock." She passed this news onto Mrs. Clinton.

According to RTC Senior Vice President William H. Roelle, former Deputy Secretary of the Treasury Roger Altman, upon taking office, directed the staff to inform him of all important or potentially high-visibility issues. Mr. Roelle testified that, on or about March 23, 1993, he told Mr. Altman that the RTC had sent a criminal referral mentioning the Clintons to the Justice Department. Mr. Altman immediately sent Mr. Nussbaum two facsimiles about Whitewater. The first facsimile, sent on March 23, 1993 with a handwritten cover sheet, forwarded an "RTC Clip Sheet" of a March 9, 1992 New York Times article with the headline, "Clinton Defends Real-Estate Deal." The article reported the responses that Bill Clinton, then a presidential candidate, offered to an earlier Times report detailing the Clintons' investment in Whitewater and their ties to Jim and Susan McDougal. The second facsimile from Mr. Altman to Mr. Nussbaum, sent the next day, March 24, 1993, forwarded the same article that was sent the day before and portions of the earlier Times report—an article dated March 8, 1992, by Jeff Gerth entitled "Clinton's Fledgling Savings and Loan Operator in an Ozark Real-Estate Venture," which originally broke the story in the news media.

In addition, SBA Associate Administrator Wayne Foren testified that, in early May 1993, he briefed Erskine Bowles, the new SBA Administrator about the agency's ongoing investigation of David Hale's Capital Management Services because the case involved President Clinton. Shortly thereafter, Mr. Bowles told Mr. Foren that he had briefed White House Chief of Staff Mack McLarty about the case. Although Mr. Bowles did not recall being briefed by Mr. Foren about Capital Management or talking to Mr.
McLarty about the case. Mr. Foreman's account was corroborated by his deputy, Charles Shepperson. Mr. McLarty's calendar indicated that Mr. Bowles had two meetings with Mr. McLarty at the White House in early May 1993.

Mr. Foster's role in response to Whitewater was known in the White House. Ricki Seidman, former Deputy Director of Communications in the White House, reported to the FBI that she and Mr. Foster had worked together on Whitewater issues before his death. Specifically, she recalled that she worked with Mr. Foster in April 1993 in connection with the Clintons' tax returns. Seidman participated in the discussions from a "communications perspective," thus indicating the White House's identification of Whitewater as a potential issue in the spring of 1993. Indeed, according to the FBI report of Ms. Seidman's interview, "it was believed the tax returns would bring the Whitewater issue into the "public domain again."" And Ms. Seidman stated that there was discussion in the White House regarding "the 'soundest way' to seek closure to the issue."

Given this overwhelming evidence, the Special Committee finds that White House officials knew about Mr. Foster's work for the Clintons on Whitewater, and that, at the time of his death, the Clinton White House was acutely aware that Whitewater was a potential political and criminal matter.

Finding 3. Senior White House officials ignored repeated requests by law enforcement officials to seal Mr. Foster's office on the night of his death.

Nine different persons recalled four separate requests to White House officials to seal Vincent Foster's office on the evening of July 20. Park Police investigator Sergeant Cheryl Braus testified that, as she left the Foster residence, she asked Assistant to the President David Watkins to seal Mr. Foster's office. Detective John Rolla expressly corroborated her testimony. Park Police Major Robert Hines testified that he called and asked another senior White House official, Bill Burton, to seal Mr. Foster's office. Another White House official, Sylvia Matthews, testified that she overheard Mr. Burton's conversation with the Park Police and that right after the telephone call, Mr. Burton asked Counsel to the President Bernard Nussbaum to seal the office.

Counselor to the President David Gergen testified that he asked Director of Communications Mark Gearan whether Mr. Foster's office was sealed. Mr. Gearan then asked Mr. Burton, who assured Mr. Gearan that the office had been sealed. Associate Attorney General Webster Hubbell testified that both his wife and Marsha Scott remembered him calling Chief of Staff Mack McLarty on the night of Mr. Foster's death to ask that Mr. Foster's office be sealed. All the persons who received these requests to seal Mr. Foster's office denied having been asked to do so.

Mr. Watkins was the critical person in the failure to seal Mr. Foster's office on the night of his death. He received a specific request from the Park Police to seal Mr. Foster's office. Instead of doing so, he directed his assistant, Patsy Thomasson, to search the office. Mr. Watkins was intimately involved, along with Mr. Foster, in firing the career Travel Office staff and in the apparent subse-
UPDAtED MEMORANDUM

TO: OIC Task Force
FROM: Brett Kavanaugh
RE: Vincent Foster and the Whitewater Development Corporation
DATE: July 18, 1997

This memorandum is an update of a memorandum I circulated on August 17, 1995. It briefly summarizes evidence regarding Vincent Foster’s involvement in Whitewater matters, including his involvement in the tax treatment of Whitewater on personal Clinton returns and corporate Whitewater returns. (Whitewater is defined for purposes of this memo by its plain terms and does not include Rose-Madison issues.) The summary is based primarily on the documents from Foster’s office that deal with Whitewater, supplemented by some testimonial evidence.

Background

The Whitewater issue arose in March 1992 as the result of a news article by Jeff Gerth in the New York Times. (This article was in Foster’s files at the time of his death.) The article was based in part on an interview with Jim McDougal and suggested, among other things, that the Clintons had improperly deducted at least $5,000 on their personal tax returns in 1984 and 1985 for interest paid on a portion of at least $30,000 in bank loan payments that Whitewater made for them. In addition, the article suggested that McDougal heavily subsidized the Whitewater investment, insuring that the Clintons were under little financial risk.

When the story broke in 1992, Governor Clinton stated at a press conference that he believed he had lost about $25,000 in the Whitewater investment. The campaign then commissioned Jim Lyons to do a report on the investment. He did so, and concluded that the Clintons had lost nearly $59,000 on the investment, but also noted that the Clintons had taken certain improper deductions totalling $5,133 in 1984 and 1985 on their personal tax returns. (Because of their age, those improper deductions did not need to be repaid, but the Clintons did repay them in late 1993.) The story lay dormant for the remainder of the campaign and until late 1993 when it became known that the documents from Foster’s office included Whitewater documents.

The basic issues remain to this day, however. Indeed, the New York Times editorial of Sunday, August 13, 1995, is not much different from earlier stories written about the Clintons’ Whitewater investment and tax treatment of it. The Clintons have admitted they took improper deductions in the 1980’s; the question remains whether they knowingly did so.
And questions remain about the extent of the Clintons' risk in the Whitewater investment and about the extent of their contributions to the investment.

**Foster’s Involvement**

The documents in Foster’s office reveal that Foster’s involvement in Whitewater breaks down into three distinct categories:

1. (1) sale of the Clintons’ interest in Whitewater to Jim McDougal in December 1992;
2. (2) treatment of Whitewater on the Clintons’ personal tax returns in April 1993; and
3. (3) filing of delinquent Whitewater corporate tax returns in June 1993.

The news stories in recent weeks (e.g., "can of worms") have focused on the second of these issues.

1. **Sale of Interest in Whitewater to Jim McDougal**

After the election in 1992, the Clintons decided to sell their interest in Whitewater to Jim McDougal. Foster’s notes of a November 24, 1992, meeting with Foster, Lyons, Lindsey, Tisdale, and Hubbell show that a number of issues were discussed at that time, including:

   (a) executive orders on the gag rule, gays in the military, and the reduction of White House staff;

   (b) a Presidential retreat; and

   (c) personal finances, including Whitewater and blind trust versus diversified trust.

It appears that Jim Blair was to take the lead for the Clintons in transferring their interest to McDougal. According to a Foster memo to file written on December 30, 1992, Blair intended to meet with McDougal and McDougal’s attorney on December 22, 1992, to close the sale. Little Rock was fogged in, however, so Foster took the transfer agreement to Sam Heuer’s office at Blair’s request. The agreement stated that the Clintons would transfer their interest in Whitewater to McDougal for $1000. There was some discussion at the meeting about preparation of the delinquent corporate tax returns, but ultimately Heuer and McDougal signed the transfer agreement. The agreement stated that "Grantee [McDougal] warrants that all tax returns due for the period of Grantors’ ownership of the stock being transferred shall be filed forthwith, and Grantee warrants that he shall cause said returns to be filed forthwith."

On December 23, 1992, Foster wrote a letter to accountant Yoly Redden enclosing the signed agreement and asking her to prepare the delinquent corporate tax returns for WWDC.
The letter stated that "the Corporation will determine independently whether the returns are accurate and take the responsibility for filing them." Mrs. Clinton and Jim Blair were blind-copied on this letter. Also on December 23, 1992, Foster sent Jim Blair a copy of the transfer agreement.  

On December 24, 1992, a $1000 check payable to the Clintons was mailed to Foster by Sam Heuer.


Having sold their interest in Whitewater for $1000, the Clintons had to decide how to treat the $1000 on their 1992 taxes. Did they have a gain or loss to report? There is little doubt that Foster and others such as Yoly Redden were concerned prior to April 15, 1993, that the Clintons could be audited and required to pay more taxes if they claimed a loss with respect to the Whitewater investment on their 1992 personal tax returns.

Foster received a letter on April 2, 1993, from Yoly Redden enclosing a draft of the Clintons’ federal and state returns. It stated: "If I receive additional documentation from Mr. Patten of Patten, McCarthy & Associates in Denver, we may be able to claim a $10,000 to $15,000 loss in the disposal of Whitewater stock. The present return reflects no gain or loss on the disposal. I will let you know if a loss can be claimed. I realize that we need to take the most conservative approach possible and that was the position taken in the return."

On April 5, 1993, Foster sent a letter to Bob Barnett of Williams & Connolly enclosing the draft returns. The letter discusses several issues, but says the following about Whitewater: "At this point, there is no gain or loss reflected from the sale of the interest in Whitewater Development Corporation. The local accountant thus far has been unable to obtain documentation of payments to or for the benefit of the Corporation in excess of the stock sales price. This could change, however, in the next few days. Enclosed is a copy of the analysis by Jim Lyons and his forensic accountants on the Whitewater financial issues. There was an erroneous tax deduction taken in a prior year which was intended to be accounted for in this return."

On April 6, 1993, Foster sent a letter to Barnett with various supporting documents, including various federal and state returns and financial disclosure statements. Included is "a memorandum from the Media Research Office concerning news articles about financial and tax issues which were published during the campaign, including specifically articles about Whitewater Development Company. The memorandum also includes articles concerning the tax returns filed by the Bushes and the Quayles in 1989. I have confirmed that the Whitewater Development Company has not filed tax returns in recent years." It appears that this letter and the enclosures were likely sent in response to a phone call from Barnett.

On April 6, 1993, Yoly Redden sent a letter to Foster covering a few issues and
concluding, "I should be calling you tomorrow afternoon concerning Whitewater."

Barnett apparently had another accountant review the returns in his office on April 6, 1993. That accountant prepared a letter dated April 7, 1993. (Note that Blood Sport mistakenly says that Foster wrote the following letter. That is incorrect; the accountant did.) The letter discusses a number of issues and says the following about Whitewater:

I guess the treatment of the Whitewater investment will be a very sensitive item. I read the press reports you made available to me and it seems that the opposition was contending that the Clintons' investment in Whitewater was such that they had an opportunity to realize half of the profits if the project was successful but were protected against losses if the project was unsuccessful. The President responded that they had lost at least $25,000.

The return currently shows that disposition of the investment on Schedule D at a cost of $1,000 and a sales price of $1,000 and no gain or loss. It seems to me that this treatment bolsters the opponents' position. That is, they claim he was protected against loss -- the President said he incurred a significant loss -- the return shows no loss.

Judging from the return I assume that the Clintons are not expecting to get tax benefit from the loss. I further assume, based on the President's response as reported in the press, that they did not receive any proceeds upon disposition of the investment. [This was not true; thus, the remainder of this paragraph does not follow. BK] Thus, it appears that the $1,000 of proceeds on Schedule D is for cosmetic purposes. If that is the case, wouldn't the best course of action be to simply not report anything on the return. I am not aware of any provision in the tax law that requires one to claim all losses that have been incurred. And even if there were such a provision, the present method of reporting does not report the loss that the President says was incurred.

Barnett faxed a copy of this letter to Foster on April 7, 1993.

On Foster's handwritten notes that are undated (but likely are some time from April 7 to April 12) and list a number of different issues with respect to the draft returns, such as "pay Keough" and "use of name Rodham," Foster notes the following: "Options: FN -- cost in excess but not documented yet $1000 gain." He also wrote notes to "call Sam Heuer, Jim Lyons."

On April 12, Foster sent a one-page FAX to Yoly Redden stating: "Insert re: WWDC: The estimated basis substantially exceeds the sales price; however, because of the unavailability of complete documentation, no basis is claimed."

On April 12, Redden wrote a letter to Foster. It is unclear whether this letter is before
or after the above FAX. It states as follows:

I am enclosing summary workpapers on Whitewater to document the assumed loss of $5,878.35. These include the report from Patten, McCarthy detailing their findings of an estimated investment of $68,880.07, workpapers that we had in our Whitewater file of payments made on behalf of Whitewater, deductions taken on tax returns, and lists prepared possibly by Carolyn Huber concerning the same items.

I still recommend that we do not attach any statement to the tax return concerning Whitewater other than the listing of the sale of stock. We have a minimum basis of $500, which was the amount allocated on the corporate books as 50 percent of the capital stock. Because of the numerous problems with Whitewater records and the commingling of funds with other companies and individuals, I believe many explanations may have to be made if we claim a loss. I do not believe we should claim a gain, because the Clintons did suffer a loss, and that should be the implication in closing the transaction. . . .

Handwritten notes that are undated say the following: "Worst case -- IRS audits return, disallows $1000 loss -- press says 'you said you invested $25,000 and couldn't even prove 1000.'" (I am not sure these notes are in Foster's handwriting, but I might have an analysis done. All other notes referenced in this memo appear clearly to be Foster's handwriting.)

On Foster's handwritten notes that are undated but were probably taken at some time from April 7 through 13 and that appear to reflect one or more conversations with at least Yoly Redden, Norris Weese, and Jim Lyons, Foster wrote the following:

Q's

1. What was nature of deductions
   A. How deduct interest/principal payments for corp.?

2. Can you use contributions which predated incorporation?

3. Contribution/advancements of $68,900 to the McD

4. Inability to use $8000 capital loss.

   500 eliminate precision
   1000 arbitrary
   0 would be presumed
JR [Yoly Redden] resists any gain since inconsistent with saying we had a loss -- zero is arbitrary

(were making payments because McD was missing)

opposes FN

reason is 0 is what IRS uses if you don’t prove basis

JR -- we did not know WWDC existed in earlier years

Discussion Points

1. An argument that they were protected against loss:
   A) wash is consistent with this theory

2. Improper to reduce basis by improper tax benefit

3. Computation of economic loss was based, in part, on assumptions whereas computation of tax gain or loss must be defensible in audit

Weese [he was one of the Denver accountants]

sometimes relied on Clinton’s returns as evidence
don’t want to go back into that box
Was McD trying to circumvent bank loss
why HRC getting loans from other

Lyons

HCR transaction re: lot
   A) long-term capital loss limitation

raises Q’s re

reasonable for forensic purposes vs IRS audit

On Foster’s handwritten notes that are undated but were probably written at some time from April 7 through April 13, Foster made a list of various issues related to the returns, including "pay Keough," "Chelsea’s return," and "California return." There also are notes
about Whitewater. It is unclear, but these notes appear to reflect conversations with Yoly Redden and Ricki Seidman.

9. Whitewater

Discuss w/ Yoly [query whether what follows reflects Foster’s views or Redden’s views. Redden says it reflects her views as communicated to Foster. BK]

A. Colo. analyses of economic loss

1. did not take into account interest deductions

2. calculation included some items for which there were no cancelled checks

3. when back out [? BK] unsupported and deductions $5800 -- rec’d $1000 for tk

4. Yoly recommends vs taking a loss of $4800

A) other interest deduction of $4300 which cannot be sure were not WW

B) more importantly would result in an audit of proof of basis can of worms you shouldn’t open

[Note: I believe the "worms" are the next three listed items. BK]

1) propriety of characterizing pre-incorp payments on affiliated corporations ($10M to Great Southern Land)

2) propriety of taking int deductions for debt which should be corp
3) prior deduction of
$8000 prior [?]
payment in 1980

Colo came up with theory to justify but it is shaky

10. Options

$1000 basis so no tax effect but is arbitrary and still risks audit
versus 0 basis w/ $1000 gain avoids any audit of issue

political

in Ricki's view no significant difference in
answering Q's for $4000 loss, no loss, $1000 gain

On April 15, 1993, Redden wrote a letter to Foster enclosing an original and a copy of
the 1992 Arkansas return "which [she] revised to allocate to the President $500 of the gains
from the sale of the Whitewater stock. I am sorry for the inconvenience of so many
revisions."

The returns treated Whitewater as a $1000 gain with a 0 basis, so the only real
concern over the returns' treatment of Whitewater was whether the press would seize upon
those returns as an indication that the Clintons' statements during the campaign about the
extent of their investment in Whitewater were incorrect. There was, however, no risk of an
IRS audit on these returns, at least on the basis of their treatment of Whitewater.

As it turned out, the press had very little to say about these returns. I found only two
articles mentioning the returns, both on Monday, April 19. The Washington Post reported as
follows:

They also reported a $1000 gain from the sale of their interest in Whitewater
Development Corp., a land deal that became an issue last spring after disclosure
that a partner, James McDougal, had been the head of a troubled state-chartered
savings and loan. Spokeswoman Ricki Seidman said the Clintons sold their
half-interest in the unsuccessful 230-acre Ozark Mountain resort development
back to McDougal and his wife. Though the Clintons said they lost thousands
of dollars on the investment, they listed its initial value for tax purposes as
zero. "They decided to take the most conservative position," Seidman said.
"The IRS needs extensive documentation to establish basis and not all the
documentation was available, so they declined to show the loss."

USA Today reported as follows: "The Clintons sold their interest in Whitewater
Development, a company they and another couple created in 1978 to develop land in Arkansas' Ozark Mountains. The Clintons reportedly sank $69,000 into the project. They sold their interest in December for $1000, leaving a loss of $68,000, which they apparently claimed in previous years." The USA Today story was obviously somewhat inaccurate.

3. Whitewater Corporate Tax Returns

I have found very little documentation in Foster’s files relating to the preparation of the Whitewater corporate tax returns. It appears that, consistent with the December 1992 sale, Jim Blair took the lead on this issue. Foster did receive a letter on June 23, 1993, from Yoly Redden stating "I am enclosing copies of the letters that were sent to Mr. Blair today, together with the income tax returns of Whitewater Development Company. Please let me know if you need copies of these returns for your files."

This letter suggests that Foster did not even see the returns before they were filed and that Foster was not involved in the filing of the Whitewater corporate tax returns. That is appropriate because it is difficult to see how he ethically could have been substantially involved in such matters for a corporation while a government attorney.

Conclusions

That summarizes the evidence we possess from Foster’s office related to Whitewater. It seems likely that Foster, as well as Seidman, Barnett, Redden, and Lyons, were aware by April 15, 1993, if not earlier: (1) that it would be difficult for the Clintons to prove with documentation that the Clintons had contributed to, and therefore lost as much money on, Whitewater as the Lyons report had claimed (but note that this was stated publicly at the time of the 1993 tax returns); (2) that it might even be difficult for the Clintons to prove (although it did not appear that they would ever have to) that they were at risk of loss in the Whitewater investment; and (3) that the Clintons claimed improper deductions on their personal tax returns in the 1980’s (which they conceded, at least in part, during the campaign).