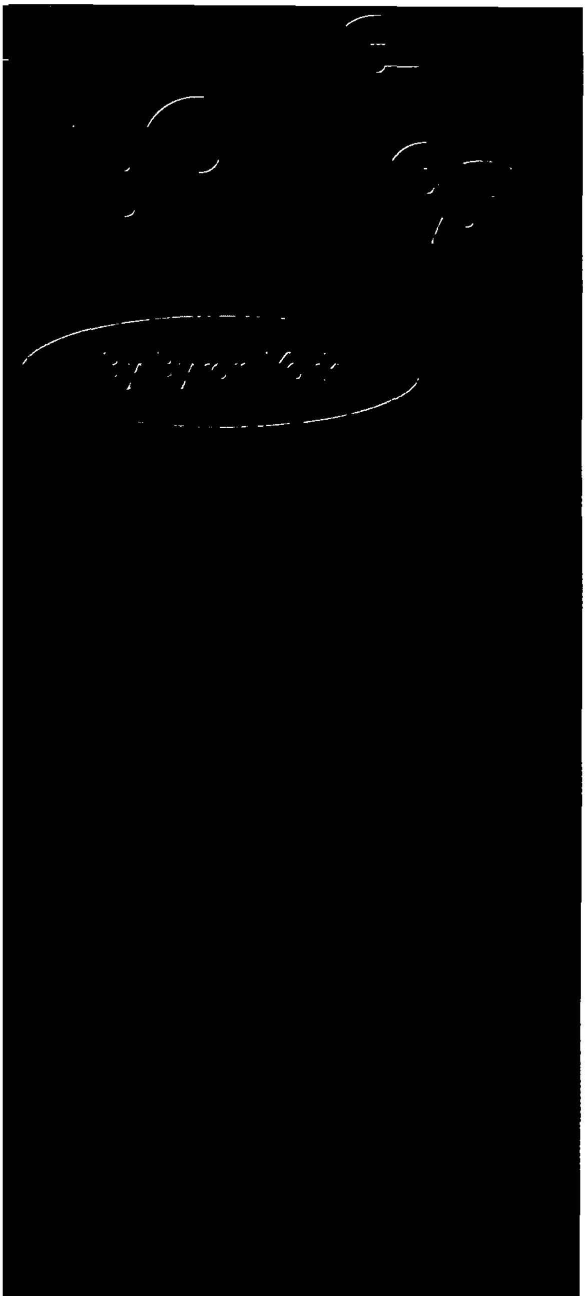

When Bill Clinton announced the resignation of Leon Panetta, he paid lavish tribute to his departing chief of staff. "He has become my great friend," the president said, "more than my countryman, more than my fellow Democrat, more even than my fellow worker." Clinton paused a moment before bestowing the ultimate compliment: "In the language of his people, he is my *paisan*." After the heartfelt hug that has become the administration's male-bonding trademark, the president turned to Panetta's successor, Erskine Bowles. The contrast was striking. A technocrat with none of Panetta's public warmth, Bowles stood stiffly at the microphone and pronounced himself a man of "organization, structure and focus" who would bring "clearly-defined goals, objectives, and timelines" to the White House.

In Panetta, the president was losing one of his best representatives: the outgoing chief of staff was a skilled speaker who could effectively plead the administration's case on the TV talk shows. He also had valuable connections on Capitol Hill, where he served as congressman from California for sixteen years. And he brought some measure of organization to the chaotic Clinton White House. But for all his importance, Panetta never played a major role in one critical White House function: controlling the damage from the array of scandals plaguing the administration.

It's a job that promises to be even more important in a second Clinton term than in the first. If that is the case, the president will need a chief of staff who has proven he can take ethical shortcuts, keep close tabs on investigations, and stonewall Congress. If his history in Washington is any indicator, Erskine Bowles is the man for the job. Bill Clinton may have lost a *paisan*, but he gained a co-conspirator.

Bill's Small Business Man

Erskine Bowles belongs to a well-known and politically active Southern family. His father, Hargrove "Skipper" Bowles, was a businessman and Democratic activist who ran unsuccessfully for governor of North Carolina in the 1970's. His wife, Crandall Close Bowles, is heir to a giant South Carolina textile fortune (she was also a classmate of Hillary Rodham Clinton's at Wellesley). Bowles's brother-in-law, Elliott Close, ran a losing race against 93-year-old South Carolina Senator Strom Thurmond last November. For his part, Erskine Bowles started an investment company that made him a millionaire at a fairly early age. He has also served on a variety of boards and civic projects in his home state and is—along with two brothers-in-law—among the owners of the Carolina Panthers NFL football team.

In 1992, Bowles volunteered to raise money for Bill Clinton. Bowles was no long-time Friend of Bill; he had never met the Arkansas governor before the campaign. But Bowles raised a lot of money, and by all accounts the two men, Southerners who outwardly seemed to share little except a passion for golf, became fast friends. It certainly didn't hurt that Bowles made a $100,000 interest-free loan to Clinton's inaugural committee—to go along with a second $100,000 loan made by his wife's company. When Clinton moved to the White House, he

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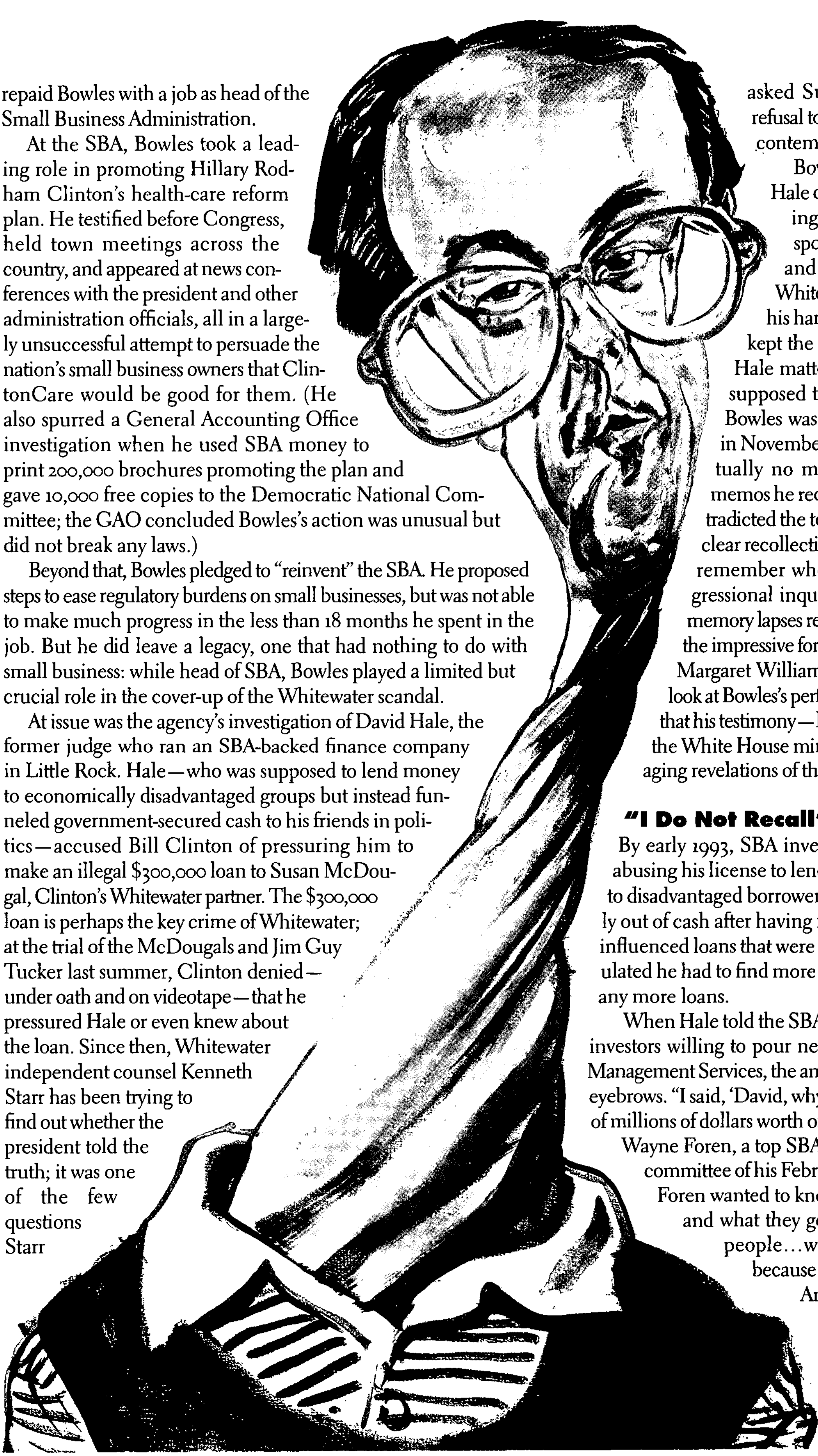
repaid Bowles with a job as head of the Small Business Administration.

At the SBA, Bowles took a leading role in promoting Hillary Rodham Clinton's health-care reform plan. He testified before Congress, held town meetings across the country, and appeared at news conferences with the president and other administration officials, all in a largely unsuccessful attempt to persuade the nation's small business owners that ClintonCare would be good for them. (He also spurred a General Accounting Office investigation when he used SBA money to print 200,000 brochures promoting the plan and gave 10,000 free copies to the Democratic National Committee; the GAO concluded Bowles's action was unusual but did not break any laws.)

Beyond that, Bowles pledged to "reinvent" the SBA. He proposed steps to ease regulatory burdens on small businesses, but was not able to make much progress in the less than 18 months he spent in the job. But he did leave a legacy, one that had nothing to do with small business: while head of SBA, Bowles played a limited but crucial role in the cover-up of the Whitewater scandal.

At issue was the agency's investigation of David Hale, the former judge who ran an SBA-backed finance company in Little Rock. Hale—who was supposed to lend money to economically disadvantaged groups but instead funneled government-secured cash to his friends in politics—accused Bill Clinton of pressuring him to make an illegal $300,000 loan to Susan McDougal, Clinton's Whitewater partner. The $300,000 loan is perhaps the key crime of Whitewater; at the trial of the McDougals and Jim Guy Tucker last summer, Clinton denied—under oath and on videotape—that he pressured Hale or even knew about the loan. Since then, Whitewater independent counsel Kenneth Starr has been trying to find out whether the president told the truth; it was one of the few questions Starr asked Susan McDougal before her refusal to answer led her to be jailed for contempt of court.



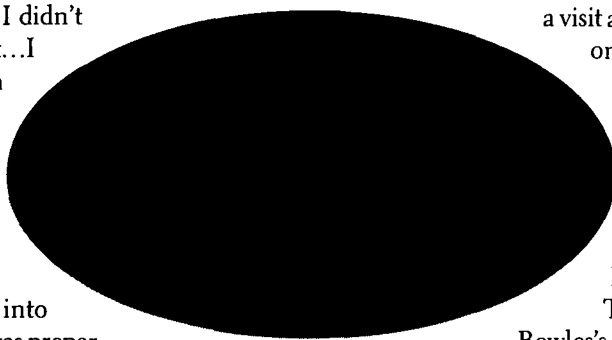
Bowles moved to the SBA as the Hale case began to develop. According to career SBA officials who spoke to *The American Spectator* and testified before the Senate Whitewater Committee, Bowles and his hand-picked political appointees kept the White House apprised of the Hale matter, even though the case was supposed to be confidential. But when Bowles was called before the committee in November 1995, he claimed to have virtually no memory of the briefings and memos he received about the case. He contradicted the testimony of top aides who had clear recollections of events. And he couldn't remember whether he had answered congressional inquiries truthfully. Although his memory lapses received less press attention than the impressive forgetfulness of Susan Thomases, Margaret Williams, and Bernard Nussbaum, a look at Bowles's performance at the hearings shows that his testimony—like theirs before him—helped the White House minimize some of the most damaging revelations of the Whitewater scandal.

"I Do Not Recall"

By early 1993, SBA investigators suspected Hale was abusing his license to lend government-backed money to disadvantaged borrowers. For one thing, he was nearly out of cash after having made a number of politically influenced loans that were not paid back. SBA rules stipulated he had to find more capital before he could make any more loans.

When Hale told the SBA that he had found a group of investors willing to pour nearly $14 million into Capital Management Services, the announcement raised regulators' eyebrows. "I said, 'David, why would anybody give you tens of millions of dollars worth of assets? Doesn't make sense,'" Wayne Foren, a top SBA official, told the Whitewater committee of his February 1993 interview with Hale. Foren wanted to know who gave Hale the money and what they got in return. "His answer was people...would give him the money because he could do things for them in Arkansas," Foren testified.

How? "He bragged that he had access to Bill Clinton and Jim Guy Tucker," Foren said in an interview with *TAS*. "I knew he had access to Tucker; if you make a loan to a guy, you have access to him. I didn't know if he had access to the president...I treated it as a sensitive situation because it certainly was not beyond the realm of possibility." Foren decided that the case warranted a full-scale investigation, to be carried out by the SBA's Office of Inspector General.



Paperwork stretched the case into May—the same time that Bowles was preparing to take over. Foren decided that Bowles—then facing Senate confirmation hearings—needed an early warning about the case. On May 5, 1993, the night before the hearings, Foren phoned Bowles to discuss Hale. "I knew this was a visible case," Foren says. "Hale had claimed he had access to the president and the governor, so I didn't want Erskine to be blindsided." Foren says Bowles agreed with the decision to turn the Hale case over to the Inspector General—and he also asked for a memo on the subject. "He wanted a background briefing," Foren says, "a one- or two-pager" which Foren wrote and gave to him.

The next day, Bowles was unanimously approved by the Senate Small Business Committee. (Members fawned over Bowles so much that Arkansas Senator Dale Bumpers reportedly told him, "You may feel you've been nominated for sainthood.") Not long after, he brought the Hale matter up again in a conversation with Foren. "We were standing around waiting for a meeting to begin," Foren testified at the Whitewater hearings. "Erskine advised me...that he had briefed the then-chief of staff Mack McLarty on Capital Management, and that his guidance was to proceed with this case as you do any other case." This was not a casual matter to Foren. He told his deputy, Charles Shepperson, about it shortly afterward. At the hearings Shepperson supported Foren's version of events. Foren, according to Shepperson, "said that Erskine had taken him aside and indicated that he had spoken to Mr. McLarty."

But when Whitewater committee counsel Michael Chertoff questioned Bowles about the issue, the SBA administrator seemed to draw a blank:

> CHERTOFF: Mr. Bowles, do you recall Mr. Foren briefing you the first week of May concerning his intention to refer the Hale matter over to the Office of the Inspector General?
> BOWLES: No, sir. You asked me in my deposition. I do not recall that.
> CHERTOFF: Now, just to be clear in saying you don't recall it, you're not going so far as to deny that it happened, I take it?
> BOWLES: No, sir, I'm not.
> CHERTOFF: Now let me ask you whether you recall having a conversation with Mr. Foren about mentioning the referral to Mr. McLarty.
> BOWLES: I certainly do not.
> CHERTOFF: Did you mention it to Mr. McLarty?
> BOWLES: I did not.

McLarty's appointment logs show that he met with Bowles twice during his first week in office. The first was an apparently social visit on May 6, in which Bowles brought his family for a visit and tour of the West Wing. The second was the next day, when Bowles went to the White House to, in his words, "get my marching orders." Bowles did not elaborate on what those "marching orders" were, but he said he did not discuss Capital Management with McLarty, then or at any other time.

Today, Foren says he is baffled at Bowles's inability to remember the briefing and memo on the Hale case. "I was surprised," Foren says. "If something comes up that could have that kind of an impact, I would remember. It certainly stood out in my mind." And Foren says he is absolutely sure Bowles told him about mentioning the Hale matter to McLarty. "There's no question in my mind concerning that," Foren says. "I think Erskine was the new man on the job," Foren continues, "and McLarty was the one to whom he reported. He was talking to his boss and doing to McLarty what I did to him, which was to give him a heads up."

The Hale case came up again before the month was out. Just a few weeks after Bowles took office, Capital Management Services defaulted on its debts, and the SBA prepared to shut the company down. Foren says he updated his memo—the one Bowles didn't remember reading—sent it back to Bowles, and briefed him again. Bowles told the committee he remembered that briefing, although not in much detail, and recalls "believing, based on what I was told, that the matter was being handled properly."

During the summer Hale tried to make a deal with prosecutors, telling them his story of Clinton pressuring him to make the $300,000 loan. But plea negotiations fell through, and in August prosecutors in the Eastern District of Arkansas prepared to charge Hale with defrauding the SBA. At that time, an assistant U.S. Attorney in Arkansas sent Foren a draft copy of the indictment. Foren decided Bowles needed to see it, so he wrote another briefing memo, which was dated August 9 and marked "PRIVILEGED AND CONFIDENTIAL." Foren attached the indictment papers and sent the package to Bowles. But when he was asked about the documents, Bowles's memory failed him again. "I don't recall receiving this memorandum," he told the Senate committee. Bowles said he was on vacation the first week of August and might have just missed it. "Wayne very well could have sent it to me," he said. "I just don't remember receiving it."

In late September Foren gave Bowles another briefing and handed him yet another memo on the Hale case (like Foren's other memos, the document was given to the Whitewater committee). This one told Bowles that the indictment was imminent. Foren included an SBA memo saying that the agency had shut down Capital Management and seized its assets. Again, Bowles drew a blank when asked if he saw Foren's memo. "I simply just did not remember reviewing those memorandums or getting them," he testified.

How could Bowles's memory have been so bad? It's a particularly vexing question given Bowles's reputation as a careful and meticulous administrator. "He had an excellent memory," Foren says. "Erskine has a tremendous capacity for detail."

During SBA budget hearings before Congress, Foren recalled, Bowles "was able to go to the witness table and recount the budget without notes." But Foren—who left the government last year—is not ready to say Bowles was lying at the Whitewater hearings. "I'm trying to give him the benefit of the doubt," Foren continues. "Erskine was put in a hard position."

Heads Up

One of the few things Bowles *did* remember during his Whitewater testimony was an incident in which he claims to have resisted a suggestion to tip off the White House about the Hale investigation. According to Bowles, Martin Teckler, the deputy general counsel (and ethics officer) at the SBA, walked into Bowles's office during the week of September 20. "He told me that we were getting ready to indict Judge Hale down in Arkansas for defrauding the SBA and said that I might want to call the White House and give them a heads-up." Bowles testified he had never heard that phrase before. "I asked him what in the world was a heads-up?" Bowles said. Teckler told Bowles that it was just a "notification in case they got some inquiries." Bowles said he asked Teckler if the "heads-up" was proper, and Teckler answered that it was. Bowles testified that he told Teckler, "Fine, I'll take care of it." But he said he never gave the "heads-up" to the White House. "I just made a judgment" not to give the warning, he told the Senate committee. In an interview, Teckler repeated his contention that there would have been nothing wrong about the "heads-up," had Bowles chosen to deliver it. "The 'heads up' was not improper," Teckler said. "He was the head of the agency." Teckler added that the Office of Government Ethics had examined the issue and found no wrongdoing.

It is clear from the recollections of Teckler and Foren that the top officials at SBA knew Hale was a hot case. In his interview, Foren recalled clearly that he told Bowles about the connection between Hale and Clinton; that was, after all, the reason the case was getting so much attention. Yet Bowles, despite all the briefings and memos and "heads ups" he had received, maintains that from the time he took office all the way through October he did not know that Hale had accused the president of any wrongdoing—or even that there was a link between Hale and Clinton. It's a contention that members of the Whitewater committee found hard to believe:

> SEN. BOND: When did you first learn that there might be some connection between Capital Management Services, David Hale and the president and the first lady?
> BOWLES: The first I remember of it is when these allegations were in the newspaper. I don't remember before that.
> BOND: When—about what time was that?
> BOWLES: I believe that was in November of 1993....
> BOND: You did not know at the time that there was potentially some connection between the Clintons and CMS in the spring of '93?
> BOWLES: I don't remember any kind of—I don't remember anything that I would have considered—I don't remember anything, to begin with. And I guess if I heard something, I didn't think it was credible.

The newspaper accounts to which Bowles referred came on the second day of November, when the *New York Times* and *Washington Post* published stories outlining the $300,000 loan and David Hale's allegation. The appearance of the stories spurred a period of intensive activity in the Whitewater/SBA cover-up. On November 5, seven of the president's lawyers held a now-famous meeting in attorney David Kendall's office. Associate White House Counsel William Kennedy took notes which became a matter of contention when the administration initially claimed they were covered by attorney-client privilege. The notes indicate an anxious interest in David Hale; according to Kennedy's notes, the lawyers devoted a substantial amount of time to a discussion of Hale's allegation and the president's denial.

At the end of the meeting, the lawyers resolved to "try to find out what's going on in the investigation." And in the case of the SBA, they took action the very next day. On November 6, the *Post* ran a story reporting that the House Small Business Committee had asked the SBA to provide a report on its investigation of Capital Management Services. The story caught the eye of White House counsel Bernard Nussbaum and presidential adviser Bruce Lindsey, who was in charge of Whitewater damage control. They asked associate counsel Neil Eggleston to find out what materials had been given to the committee. Eggleston called the SBA and got a return call from a man named John Spotila, who was the agency's general counsel. Spotila—whom Bowles had hired on the specific recommendation of First Lady Hillary Rodham Clinton—told Eggleston the White House could have the papers.

On the 16th, Lindsey's secretary took the following message:

> Neil Eggleston said the additional information is at SBA and is approximately a foot high. He has a call in to SBA to find out if it contains reference to either the president or Hillary. He can obtain a copy of the documents if it appears necessary...

Eggleston told Spotila he would come over to SBA in person to pick up the papers. When asked about the apparent rush, Spotila said he thought Eggleston "was interested in having the background materials available in the event of press coverage, that it was important that he receive them promptly." The documents were marked "CONFIDENTIAL" and contained a warning that "utmost discretion should be exercised" with their handling, but Spotila said he thought he was allowed to release them to other government agencies, including the White House.

Eggleston took the documents back to his office. "The first thing I did when I looked at it was to look through it to see whether there was a reference to the president or the first lady," he told the Senate. He apparently found at least one page to be very interesting, as he told Senate investigators:

> CHERTOFF: Now, Mr. Eggleston, did you make a copy of one of the documents in the file?
> EGGLESTON: I have some recollection of that.
> CHERTOFF: Did you shred that document?
> EGGLESTON: Well, I put it in my burn bag.
> CHERTOFF: What was the [content] of the document you copied?
> EGGLESTON: I don't recall.

Eggleston told the committee he did not show the documents to anybody. Lindsey denied seeing them, despite the phone messages indicating his interest.

Meanwhile, in an apparent effort to cover himself, Spotila went to Bowles and told him that he had given the Capital Management material to the White House. Bowles—his memory now clear—says he told Spotila to check with the Justice Department. "I said, 'Look, John, I don't know if this is good or bad, right or wrong, up or down, but you'd better check this out with somebody at the Justice Department to see if it's okay,'" Bowles told the Senate committee.

It wasn't okay. The Justice Department immediately said the White House should return the documents. "When we heard what SBA did, we tried to undo the damage," a Justice Department official said in a deposition. "I've got to believe the White House counsel have [sic] done an incredibly stupid thing." The SBA then called and asked the White House to give the materials back, and Eggleston drove them back himself on a Sunday morning. Of course by that time it didn't matter. Bowles's SBA had given the Whitewater team what it wanted.

Bowles says it was during this period in November that he decided to recuse himself from the case. His friendship with Clinton, Bowles thought, might make it appear that he wasn't handling the Hale case objectively. "I felt close to the president, even though I had not spent a lot of time with him," Bowles told the Senate committee. "I was aware of no actual conflict of interests that required recusal, but I did not want there to be even a perception of impropriety."

But there is some question whether Bowles really withdrew from the Hale affair. He didn't put his recusal in writing, although he says he told the SBA general counsel "and others" of his decision to distance himself from the case (Teckler says that Bowles did indeed tell him about the recusal). But Bowles didn't stop receiving information about Hale. "There is some mystery about whether Bowles did in fact recuse himself from the oversight of the investigation," says one Capitol Hill investigator. "There are some pieces of this puzzle that are still missing."

Indeed, it wasn't until March 3, 1994 that Bowles put his recusal in writing, and that was only after a member of Congress asked whether he had formally recused himself. In a letter to Rep. Jan Meyers, then the ranking Republican on the House Small Business Committee, Bowles wrote, "Capital Management has been treated in the same manner as all such other cases. I have never reviewed the Capital Management file." When questioned about that statement, Bowles told the Whitewater committee that while he had been briefed on the case, "I hadn't studied the file, I hadn't spent a long time going over it." Then he delivered what was perhaps an unwitting summation of all his testimony. "I may have spent some time reviewing it," Bowles said, "or I may not have."

He's Back

Bowles's short term at the SBA ended in 1994 when Clinton asked him to come to the White House as deputy chief of staff. He quickly became a near-legend with his minute-by-minute study of Clinton's work habits; Bowles determined that Clinton wasted hours each day in useless meetings. He got the president to cut back on his schmoozing and later bragged that the reforms he instituted resulted in Clinton devoting 62.5 percent more time to thinking about policy.

Bowles left the White House in 1995 to start a new business in North Carolina, but even then he continued to play an insider role in the administration. At last summer's Democratic convention, for example, it was Bowles who drew the job of easing consultant Dick Morris out of his job after the tabloid *Star* broke the story of Morris's dalliances with a prostitute. He also headed the team that prepared Clinton for the debates with Bob Dole.

Now he has moved back to the White House, a move that was greeted with overwhelming praise, even from Republicans. That might seem surprising, given the public record of Bowles's role in Whitewater. But it is quite understandable in light of the fact that the press barely noticed the issue. A *Washington Post* profile glossed over the Hale matter, while a *Time* magazine piece—like many others in the mainstream media—didn't mention it at all.

One reason for the apparent amnesia is that those in a position to speak out have chosen not to. Sen. Lauch Faircloth, for example, one of the president's most vocal opponents on the Senate Whitewater committee, has gone out of his way to praise his fellow North Carolinian. Bowles, Faircloth said, is a "fine man" who will "bring a well-needed dose of business sense, honor, and personal integrity to the Clinton White House." Why the praise from a man who had damned so many other Clinton officials? "They ran in the same social and business circles," says a Faircloth spokesman of the senator and Bowles. "The fact is the two of them are friends." Perhaps that accounts for the fact that during the hearings, Faircloth—who had sharply criticized Margaret Williams and Susan Thomases for their memory lapses—did not ask Bowles a single question.

The other senator from North Carolina apparently feels the same way; columnist Robert Novak reported recently that "North Carolina corporate executives close to Sen. Jesse Helms express full confidence in Bowles as the one Clintonite they can trust." For his part, Senate Whitewater committee chairman Alfonse D'Amato made no public statement on Bowles. And committee counsel Michael Chertoff—criticized for openly supporting Bob Dole during the campaign—declined to comment, saying only that the committee's report "speaks for itself" on Bowles. (The report outlines Bowles's bad memory and the contradictions between his testimony and that of other SBA officials, but it does not specifically criticize Bowles.)

It is tempting to say that at this point, none of this really matters. The job of chief of staff does not require Senate confirmation, so the president can appoint anyone he wants. But it will likely matter again, and soon. With scandals old and new facing the Clinton administration, there will inevitably be many questions about how the White House conducts itself in the face of investigations. And that means Erskine Bowles might soon be his old forgetful self.

What difference will we make?

AN OPEN LETTER TO CONSERVATIVES FROM GARY BAUER.

Dear Fellow Conservative:

Any loss is hard to take. But it's even harder to take a loss against an opponent you consider unworthy.

However, conservatives can take some solace in the fact that this election had many bright spots. Bill Clinton may have enjoyed a triumph, but *Liberalism* did not. The incumbent won because he swung his party to the right and ran a campaign not from his heart, but with a sleight of hand. Bill Clinton won because he spoke relentlessly about "values" despite the dissociation with his policies. In his second term, Bill Clinton may feel no sense of responsibility to match his deeds to his tactical rhetoric for the past two years. But the Congress *can*...and conservatives *must* help them impose that responsibility on an adminstration that has proved its words and deeds are often mutually exclusive.

Yet the solace of hearing our ideas mouthed by a smooth-talking politician is thin soup when we weigh the lost opportunity 1996 represents. While the temptation to point fingers is strong, let's be clear: Conservatives did not lose at the ballot box because the American people have a sudden affection for ethical squalor...the GOP would not have soared on Election Day if hands other than Haley Barbour's were at the RNC's wheel... Dole-Kemp did not lose because they didn't perform 96-hour marathons in September and October as well...and Clinton's second thrashing of our hand-picked establishment nominee was not the result of the wrong mix of consultants and tactics. *No, they lost because something is wrong in the very heart of the GOP.* If conservatives do not unite and get it right by the year 2000, then they'll awaken to a similar heartache four years from now - with headlines that read: "Gore Campaign in Landslide Over ________." You fill in the blank.

The GOP of the next four years cannot thrive and will not win if it does not fully and equitably represent its core, which is both pro-family and pro-life. The GOP does not *deserve* to win if it cannot articulate to the American people, who *are* deeply worried about this nation's future, answers to questions like these:

➻*What difference will we make in reversing the trend that in 10 years will have one half of American births occurring outside of wedlock - this on top of a million-and-a-half abortions each year?*

➻*What difference will we make for the struggling families who have been told, again and again, that time with their children and tax relief are luxuries our nation can no longer afford?*

➻*What difference will we make in a culture that is ailing so profoundly that assisted suicide may be enshrined in our constitution, or that one man-one woman marriage is in the gunsights of our courts and the Hollywood elite?*

➻*What difference will we make in keeping open the borders of this nation to the families and enterprising souls who enrich it, while closing them down to those who show their contempt for our laws from their very first day on American soil?*

➻*What difference will we make in building a vibrant, growing American economy? Sure, we want lower taxes, we need less regulation. But don't Americans have a right to expect that their business leaders will be loyal to them? Will our global economic partnerships mean anything if America's working families cannot rely on their partnerships with those same companies?*

Answers to these questions will not come easy, or by accident. They will not be the residue of some "last straw" scandal that brings our political opposition into disrepute. They will not magically appear by rubbing Abe Lincoln's nose. They will arrive on the shoulders of ideas, both eternal and practical. Sixteen years ago an historic conservative victory was forged on the pillars of "*work, family, neighborhood, peace and freedom.*" Those ideas have lost none of their power. But they long for a champion who will defend them passionately in the public square.

It's time to realize who abandoned whom. Bill Clinton did not create the political void into which he stepped. He merely occupied the field his adversaries deserted. Which is why this election loss is particularly hard to take. For the only thing worse than being beaten by an unworthy opponent is being beaten on your own home field.

FAMILY RESEARCH COUNCIL

Gary Bauer is President of the Family Research Council.
For a copy of FRC's Election '96 analysis call 800-225-4008 or write to Family Research Council, 801 G Street NW, Washington, DC 20001

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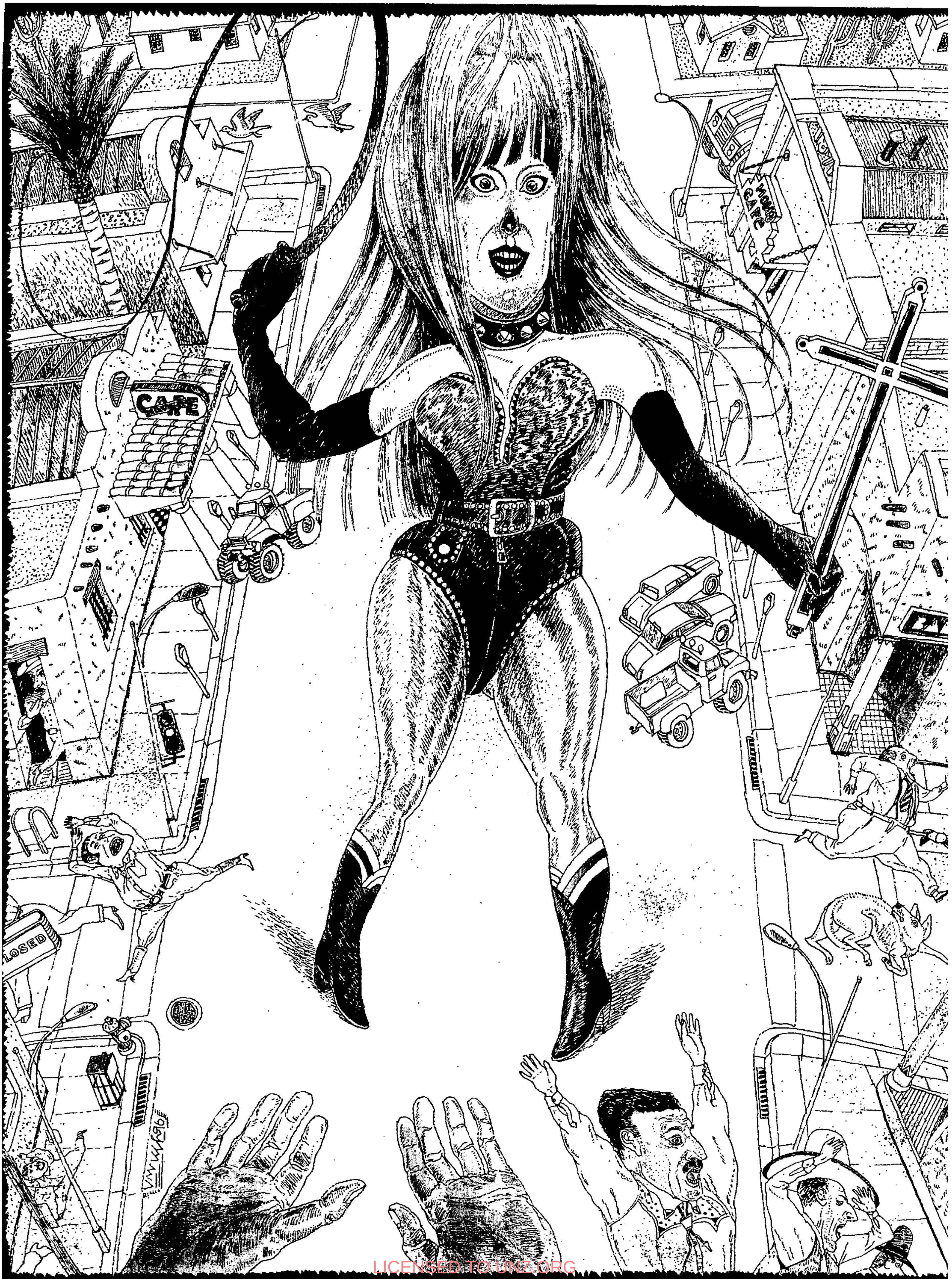
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