

Weather
Today—Mostly cloudy, 40 percent chance of afternoon and evening rain, high in the lower to mid 70s, low 55-60. Winds light and variable. Monday—Partly cloudy, high 75-80. Yesterday—Temp. range: 82-65. Details, Page B2.

The Washington Post

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107th Year ... No. 160. ... © 1984, The Washington Post Company

SUNDAY, MAY 13, 1984

Higher in Areas Approximately 75 Miles From District of Columbia (See Box on A2)

K

\$1.00

U.S. Hispanics 'Melting' But Hardly Prospering

First of two parts

By Paul Taylor
Washington Post Staff Writer

In the middle of what has sometimes been called the Decade of the Hispanic, the assimilation of the nation's fastest-growing minority is taking a paradoxical course.

Hispanics are "melting" but not climbing. Slowly, sometimes painfully, but in the manner of immigrant groups before them, their language and customs are being Americanized, their educational deficits are diminishing, their political participation and power growing, their rates of intermarriage increasing and the prejudices they encounter softening.

At the same time, the nation's 17 million to 20 million Hispanics are moving down the economic ladder.

In 1972, Hispanic family income stood at 71 percent of Anglo family income; a decade later, the figure had fallen to 68 percent. Hispanic poverty increased by one-third during the decade so that, as of 1982, 30 percent of all Hispanics were officially below the poverty line.

While some of this backsliding resulted from the heavy influx of low-skilled, illegal Hispanic aliens during the decade, and some from the dis-

proportionate toll of the 1981-82 recession on all low-income groups, there is another, equally telling cause.

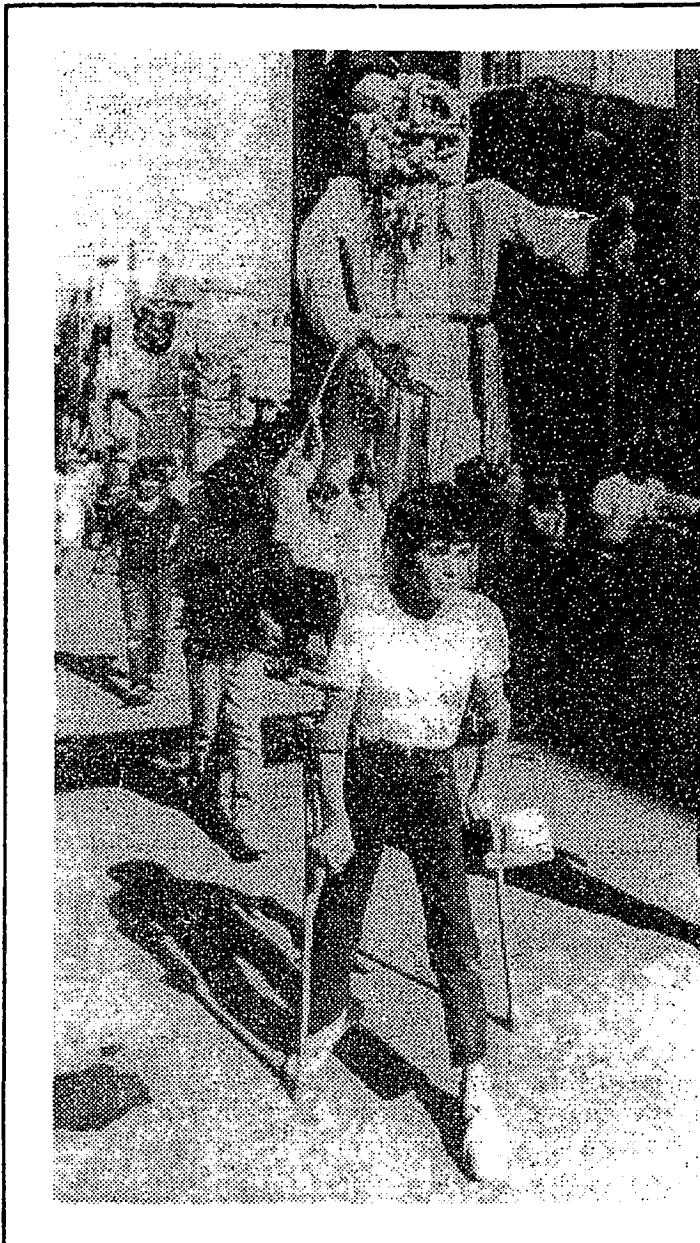
Second- and later-generation Hispanics, with the exception of Cuban-Americans, have simply not made their way into the economic mainstream with the surefootedness of children of European immigrants of the 19th and early 20th centuries.

"The findings are very robust," said Barry R. Chiswick, a University of Illinois economist who specializes in tracking the economic progress of immigrant groups. Children of Mexican-American immigrants, the largest and, in economic terms, most typical of the Hispanic groups, he said, "have done very poorly."

"What is striking is that the whole earnings pattern is 15 to 20 percent lower than it is for the general population, over three generations, even when you correct for educational deficits. With other immigrant groups, the sons and daughters of immigrants typically earn 5 to 10 percent more than children of natives, once you correct for education."

Marcario Saldate, chairman of the

See HISPANICS, A8, Col. 1



Associated Press photos

PEACE MARCH

The lame, the angry, the frightened—the children of Lebanon—march in protest against war through the streets of Beirut. It was the first peace march there, and afterward heavy sectarian fighting broke out again. Story, A35.

Feldstein Disputes Reagan Plan

Aide Says Policy On Interest Rates Inflation-Causing

By Peter Behr
Washington Post Staff Writer

HOT SPRINGS, Va. May 12—Martin S. Feldstein, the president's chief economic adviser, today disputed Treasury Secretary Donald T. Regan's criticism of the Federal Reserve Board and warned that the policies Regan advocates would "lead to an increase in inflation next year."

Feldstein, chairman of the President's Council of Economic Advisers, said he is surprised and concerned by Regan's campaign to pressure the Federal Reserve to lower interest rates.

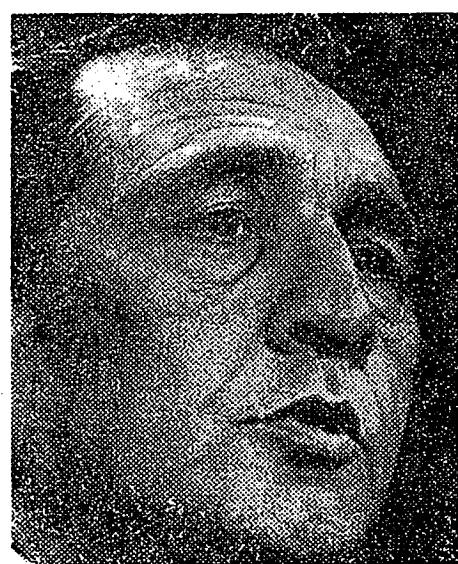
"I think it would be a terrible mistake to try to push interest rates down by expansionary monetary policy," Feldstein told reporters covering the spring meeting of the Business Council at The Homestead.

Federal Reserve Chairman Paul A. Volcker, also attending the meeting, defended the Fed's policies but would not comment on the administration criticism. Asked whether the Fed can control interest rates, Volcker replied, "Not the way people seem to think we can."

Feldstein, who has said he will leave the administration in July, suggested that Regan is out of step with the White House on the interest rate issue. "I think the treasury secretary is speaking for himself and doesn't reflect the basic philosophy the president has about monetary policy," he said.

Regan and White House spokesman Larry Speakes have criticized the Federal Reserve's policies, saying the Fed's recent decision to tighten credit conditions slightly was not

See FED, A11, Col. 1



JOSE NAPOLEON DUARTE
... some question political legitimacy

Reports of U.S. Covert Aid Seen Hurting Duarte

By Edward Cody
Washington Post Foreign Service

SAN SALVADOR, May 12—Reports of covert U.S. intervention in the Salvadoran presidential election have become effective tools for the defeated right and embattled left to question the political legitimacy of President-elect Jose Napoleon Duarte.

The controversy could hinder Duarte's efforts to affirm his constitutional authority before the Salvadoran armed forces, some of whose members already view him with suspicion, and the business-oriented right wing, which already regards his reformist reputation as a threat to landowners and entrepreneurs.

The reported CIA and other U.S. interference

on Duarte's behalf also reinforces rebel claims that the elections had no validity and represented a Reagan administration plan to make its military policy here more palatable in Washington.

As a result, one major U.S. policy goal—promoting democratic institutions and political stability as an antidote to leftist rebellion—seems to

NEWS ANALYSIS

have suffered from the U.S. intervention, whatever its motives, because it has become a subject of public discussion and bitter resentment.

In briefings of Congress, CIA officials have declared that \$2 million in covert U.S. funds were used in a neutral fashion during the period between two major elections here, according to

sources close to the House and Senate intelligence committees. Specifically, they said the money was used to streamline election logistics and to aid peasant and trade-union groups. Money from the Agency for International Development was also used openly for similar purposes. Most of the groups that received direct or indirect U.S. funding backed Duarte's party or two smaller parties thought to have taken votes that might have gone to Roberto D'Aubuisson, according to U.S. sources.

In the eyes of the Republican Nationalist Alliance, the defeated right-wing party of former major D'Aubuisson, and the Farabundo Marti National Liberation Front, the guerrilla coalition, the

See EL SALVADOR, A33, Col. 1

ON THE BRINK

Likely Bankruptcy in New Hampshire Dims Prospects for Nuclear Industry

By Dale Russakoff
and Michael Isikoff
Washington Post Staff Writers

Government and business leaders are bracing this week for the first bankruptcy of a public utility since the Great Depression, an event that could have far-reaching repercussions for commercial nuclear power.

The scene of the financial collapse is likely to be the nuclear power plant project in Seabrook, N.H., which survived massive protest demonstrations in the 1970s only to fall victim to the grim economics of the nuclear industry in the 1980s.

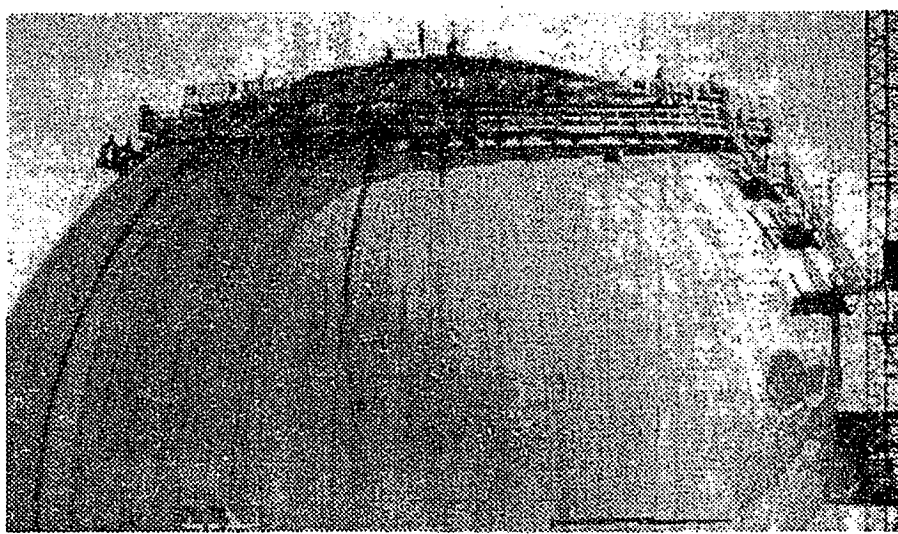
"We're working on an hour-to-hour basis," said Doris Burke, spokesman for Public Service Co. of New Hampshire, owner of 35 percent of Seabrook. "Invoices are coming due . . . and we're in a very, very severe cash-flow prob-

lem. If any creditor demands a substantial payment, we would have no choice but to seek protection under the bankruptcy laws."

The crisis reaches far beyond Seabrook. Executives of three other utilities—in Indiana, Michigan, and New York—have warned stockholders that they soon could be forced into bankruptcy because of skyrocketing costs for nuclear projects. Experts say this could drive up the cost of borrowing for all utilities with nuclear plants, increasing electric rates for millions of consumers.

Officials emphasize that all of the threatened companies could avert or delay bankruptcy through a series of financial and regulatory maneuvers.

Nonetheless, the prospect of a collapse has mobilized governors, small-town mayors, business leaders, bankers, state regulators and



Part of containment facility at the financially burdened Seabrook nuclear plant.

the Reagan White House to prepare for an occurrence that hasn't been dealt with for more than 40 years. President Reagan has assigned the Cabinet Council on Economic Affairs to monitor the possible impact of a bankruptcy, and Energy Secretary Donald P. Hodel has named a special assistant to study troubled nuclear plants.

Despite the concern, Hodel an-

nounced last week that the administration firmly oppose financial bailouts for faltering utilities. The administration will work to ease regulatory requirements to help out some troubled plants, Hodel said.

"We are not in the business of assuring that utilities don't go bankrupt," Deputy Energy Secretary Danny J. Boggs said in an

See NUCLEAR, A6, Col. 1

Labor Protests Brown Lung Study Va. Backs Firm's Research, Lets It Exceed Dust Standard

By Sandra Sugawara
Washington Post Staff Writer

Virginia officials have approved a proposal by Dan River Inc., the state's largest textile firm, that would allow the company to exceed federal and state cotton dust standards as part of an experiment to find the exact cause of brown lung disease.

The project has provoked strong protests from the United Textile Workers of America and other labor groups, who call it "human experimentation," although officials of the UTWA local in Danville, where the plants involved in the experiment are located, have not objected.

"We don't think Virginia workers should be used as guinea pigs," said Virginia R. Diamond, research director for the Virginia AFL-CIO.

"This is just a convenient excuse to delay investment in ventilation equipment" that will cost Dan River millions of dollars if it is forced to meet current cotton dust standards,

said Eric Frumin, safety director of the Amalgamated Clothing and Textile Workers Union.

The experiment has been endorsed by the federal Occupational Safety and Health Administration, and will be paid for by federal funds. Both federal and state safety officials have been assured by Dan River that it will move swiftly to install the ventilation equipment should there be any indication that the experiment is not obtaining the results researchers are seeking. In the meantime, Dan River workers will continue to wear safety equipment that OSHA has said provides adequate protection from cotton dust.

Cotton dust consists of particles that get into the air during the processing and handling of raw cotton in textile manufacturing. Some particles in airborne cotton dust are small enough to enter the lung and they appear to cause brown lung disease or byssinosis, which causes breathing

See BROWN LUNG, A18, Col. 1

Accused Spy Tells of Links With CIA, Contacts in Tokyo

By Lena H. Sun
Washington Post Staff Writer

Accused spy Richard Craig Smith says he passed on military secrets to a Soviet KGB officer in Japan as part of a clandestine operation directed by the Central Intelligence Agency and designed to infiltrate Soviet intelligence.

Smith, a former Army counterintelligence specialist who is accused of disclosing the identities of six U.S. double agents to a Soviet KGB officer for \$11,000, says he was instructed by the CIA to pose as an American businessman with terminal cancer. He says he was told to pretend that he would be willing to "sell anything," including military secrets, to help put aside a financial nest egg for his family.

"That gave me a motivation for being willing to say something I probably shouldn't say and it also allowed the CIA to put me in and establish the contact and then take me out very quickly—I'd just get sick," he said last week.

Smith says he was also told by the

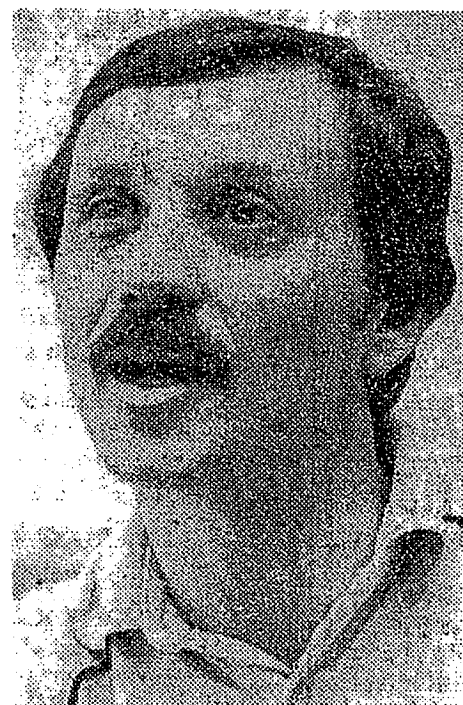
CIA that they would disavow any of his activities if he was discovered in Japan.

In a 3½-hour interview conducted with his two lawyers present, Smith publicly outlined for the first time since his April 4 arrest his version of why he gave information to the Soviets.

There is no way to verify Smith's story independently. The CIA, as it has in the past, refused yesterday to discuss allegations by Smith.

Smith, 40, of Bellevue, Wash., was released on \$500,000 bond early last week. He has been accused of disclosing the identities of the double agents to Victor I. Okunev during two meetings at the Soviet commercial compound in Tokyo in November 1982 and one in February 1983. If convicted of transmitting national defense information to a Soviet intelligence agent, Smith could be sentenced to life in prison. A federal judge in Alexandria has set his trial for July 9.

Smith, who handled double agent operations for the Army Intelligence



RICHARD CRAIG SMITH
... outlines his defense

and Security Command (INSCOM) during the last seven of his 13 years in the Army, does not dispute passing on the information to Okunev or receiving the \$11,000 in cash. He contends, however, that the meetings were part of an operation, initiated in 1981, and directed by CIA oper-

See SMITH, A14, Col. 3

Soviet Boycott Seen as Start Of Key Drive Against Reagan

By Dusko Doder
Washington Post Foreign Service

MOSCOW, May 12—In the aftermath of Moscow's announced boycott of the Los Angeles Summer Olympics, indications here suggest the Soviet leadership is preparing for a major propaganda showdown with President Reagan and his administration.

This is the view of foreign diplomats and observers, who see the boycott and other recent events as a

NEWS ANALYSIS

prelude to an even deeper freeze in Soviet-American relations.

It is clear that the decision to boycott—as is any decision of this magnitude here—was made on political grounds:

• To humiliate Reagan in an election year.

• To deprive him of the possibility of telling the voters that he has informal contacts with Moscow and that the chance for progress on arms control still exists or that the Soviets

will accept Reagan's ideas on the issue.

Observers here believe that the Russians also want to depict the president as a leader unable to manage East-West arms competition. They apparently hope to turn into an election issue Reagan's record of heavy military spending with no agreements on arms limitations and none in sight.

This is a high-risk operation mounted by the new leadership of President Konstantin Chernenko. It has been accompanied by anti-American rhetoric that exceeds by far the vituperative level reached during the last months of Chernenko's predecessor, the late Yuri Andropov. In particular, the Soviet media has been brutally harsh in its personal attacks on Reagan.

All this suggests an ugly mood in the Kremlin and a tendency toward isolationism.

When he assumed power three

See SOVIET, A24, Col. 1

■ Olympic officials planning emergency meeting on Soviets. Page A24

Leonard: Decision To Retire Final

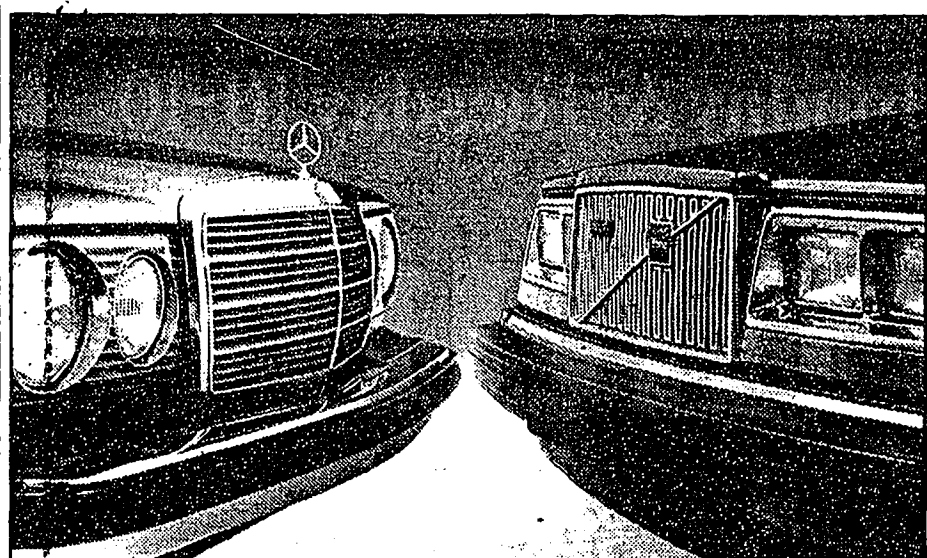
Former welterweight boxing champion Sugar Ray Leonard said yesterday his decision to retire after struggling to beat virtual unknown Kevin Howard in his comeback Friday night is final. Leonard said he was afraid of getting hit during the fight.

Details on Page F1

Textiles Tackle The Competition

A complex computerized sewing machine may revolutionize the manufacture of clothing and give a crucial competitive boost to the U.S. apparel industry. It is a unique example of joint-venture research that illustrates how America is facing up to the foreign trade challenge.

Details on Page G1



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Accused Spy Tells of CIA And Tokyo Connection

SMITH, From A1
atives who knew he had to provide some intelligence information to establish his credibility with Okunev. "Some of those operations never existed," he said. "Some of them did work, but they had been terminated. They were finished. They were not active operations. There was no damage."

By spring of 1983, however, Smith says he had lost contact with his CIA operatives. He says he has tried repeatedly to get in touch with them since then, but never succeeded.

Asked to comment yesterday on Smith's contention that he worked for the CIA, Assistant U.S. Attorney Joseph Aronica, who is prosecuting the case, said: "The Justice Department doesn't move forward on a case of this nature unless there is full consultation."

Smith says his connection with the CIA began in Tokyo in June 1981 when he was contacted by two men who said they worked for the agency. At that time, Smith, who had resigned from Army intelligence in January 1980 because of family considerations, was in Japan on a business trip. He was representing several U.S. companies, including some high technology firms that were seeking Japanese investors.

The two men contacted Smith at his hotel in Tokyo. They initially said they were with the U.S. Embassy in Tokyo, and told him their names were Ken White and Danny Ishida.

Attempts to reach a spokesman at the embassy yesterday were unsuccessful.

Smith says the two men later said they were with the CIA, and to prove their credibility, told him of double agent operations he had run when he was in charge of INSCOM's San Francisco field office.

Smith agreed to become involved, he said, "because I loved that work. I left [the Army] with a great deal of

regret, for the benefit of my family. And all of a sudden, I found myself in a position where I could continue to do it but I could still maintain my family status."

"The scenario was that I was going to go in there [the Soviet commercial compound] and convince him [Okunev] that I was a businessman who was trying to do some deals under the table," both in high technology and in military intelligence, he said. His job, he said, "was to set the hook, and that's what I did."

He says he met several times in Tokyo with White and Ishida to discuss the operation, and finally after several attempts, made contact with the Soviet commercial office on Nov. 5, 1982.

The meetings with Okunev, he said, were exhilarating and frightening at the same time.

"The experience was an incredible rush. Everyone always dreams of being able to go toe-to-toe with the adversary and win," he said. "On the other hand, it was a terrifying experience because the guy was so damned good... he was able to force me into situations to set me up and make me either blow my cover or substantiate myself further."

To appear ill, Smith said he would not go to sleep the night before the meetings, not wash his hair, and would wear blue jeans and T-shirts.

Smith, who was taught to speak Japanese by the Army and had been stationed at Camp Zama outside of Tokyo several times during his Army career, was instructed not to initiate conversation about his intelligence background but to talk instead about some of the high technology and robotics companies he was legitimately representing at the time.

His fluency in Japanese, Smith said, was the ploy to make Okunev ask him about his military background.

See SMITH, A15, Col. 1

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Meetings With Soviet Spy, Payments Described

SMITH, From A14

At their first meeting, Okunev asked Smith whether he still knew people in the CIA, the Army and the U.S. Embassy and whether Smith would be willing to contact them to obtain information.

"I said I have no [security] clearance anymore, but I implied that I would be willing to do it," Smith said. "That was part of the plan. I wanted to convince him that I was making a gesture of good faith to work with him and to make some money."

After his second meeting with Okunev, Smith was paid \$5,000 in \$100 bills. He returned to the United States, reported the success of his meetings to White and Ishida and told them Okunev wanted to see him again, Smith says. White told Smith to proceed with the third meeting and to keep track of the serial numbers on the currency, and arranged for Smith to meet with him after Smith returned from Tokyo, according to Smith.

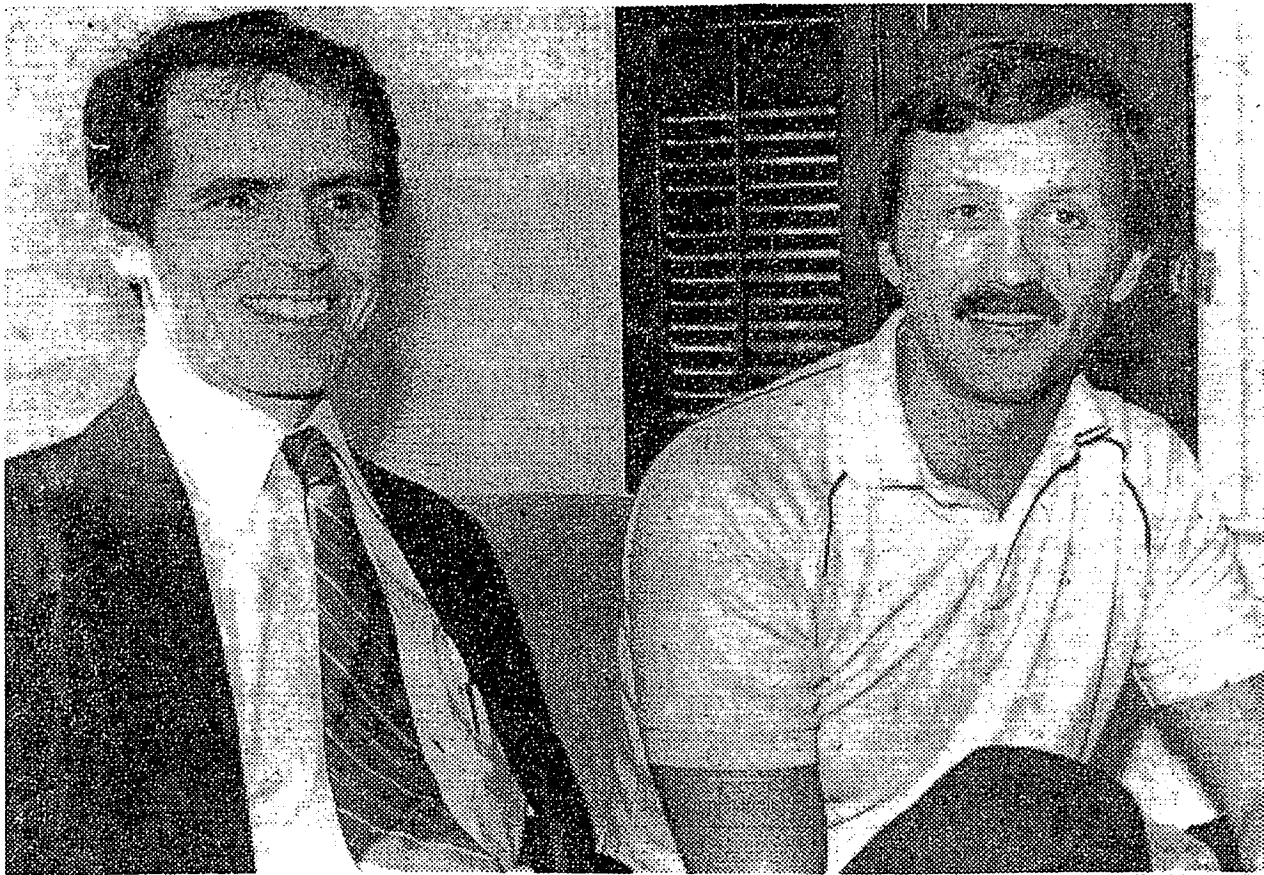
The third meeting with Okunev took place on Feb. 13, 1983, and Smith was paid another \$6,000 in \$100 bills. He returned to the United States, called the telephone number he had been given for reaching White and Ishida, and arranged for a meeting in Honolulu.

That third meeting was important, Smith says, because Okunev wanted to meet again on April 1 and Smith needed further instructions from White and Ishida.

On the day of the prearranged contact, which Smith says took place either March 9 or 10 by a small footbridge in the main park by the Honolulu airport, he was greeted by someone who said his name was Danny, but who was not the Danny Ishida whom Smith had met in Tokyo. That man told Smith that Ken White was in Hong Kong and was unable to come to the meeting, Smith says.

The man told Smith he had no authority to give Smith any more instructions about Okunev, but assured Smith that Ken White would contact him before the scheduled April meeting, Smith says. Smith turned over the list of serial numbers of the money to the man and returned to his home in North Salt Lake, Utah.

Smith never went to the April meeting, he says, because he never heard from White or Ishida again, despite repeated attempts to contact them. A month later, in May, in an attempt to find out what was happening with the operation, he con-



Smith, right, with attorney William Cummings: "There was no damage" from disclosure of double agent information.

tacted his former bishop in the Mormon Church, who was also an FBI agent. That man, FBI agent Paul Shields, Smith says, put him in touch with a CIA official whom he will not identify.

At the same time, Shields made an FBI report that eventually led to Smith's arrest.

At no time, Smith said, did he tell the FBI or the CIA the whole story.

"I wasn't going to go out and play all my cards," Smith said. "... This was an extremely sensitive operation and to start talking about it with every Tom, Dick and Harry was a security violation in itself. All I wanted to do was to... have my name put in the same report as contacts with the guy in the Soviet commercial compound in Tokyo on those dates and send it back to headquarters to whoever is pulling the strings up there."

Smith, who encountered severe financial difficulties after he left the Army and declared corporate bankruptcy for a video company he owned four months before his first meeting with Okunev, says financial gain had nothing to do with his involvement.

"I had good [double agent] operations that I could have exposed and the Soviets had offered me as much as \$150,000," he says, adding that case officers often handled as many as six to eight operations at the same time. "If I wanted to save my company, the opportunity was right there."

The meetings with Okunev, he says, were more successful than any operation he had ever run in his seven years as a case officer.

"We had been successful in enticing the Soviets to make a commitment to pay money, provide further [recontact] instructions and demonstrate an interest in what I had to sell," he says. Last year, using the recontact instructions given to Smith, the FBI was able to make contact with the KGB on two occasions in San Francisco, prosecutors have said.

When he realized the operation was apparently over, Smith says, "I was just heartbroken. They were throwing away an opportunity, and not only were they throwing it in the trash can, they were picking it up and hitting me with the trash can."

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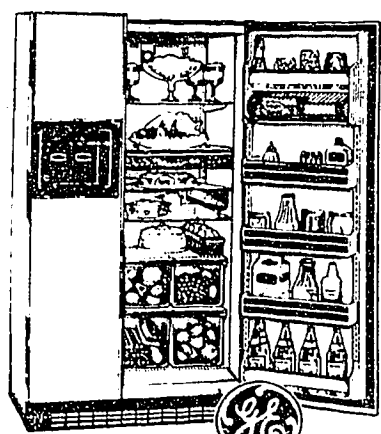
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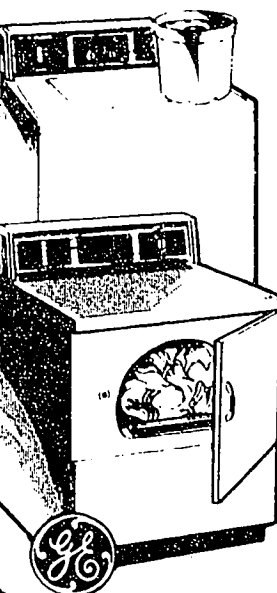
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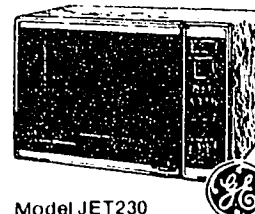


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Christopher Nolan tells the story in his own words.

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4. Took mortgage commitment to my bank and received \$92,000 business loan for 180 days.
5. Bought property with 'all cash.'
6. Excess cash of \$22,000 covers all repairs, interest expenses, points, appraisals, etc.
7. Two days after purchase, I had sold this property for \$135,000.
8. MADE A NET PROFIT OF \$45,000—Total time: 9 weeks.

NOTE: "I made no down payment using my cash. Interest rate, 12%, for eight weeks while remodeling. I took excess cash and bought three more homes: one 11-unit flat and one 3-unit flat."—C. Nolan



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