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THE WALL STREET JOURNAL.

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Into the Fray

Threat From China Starts to Unravel Italy's Cloth Trade

Close-Knit Industry Became European Powerhouse; Now, Quality Gap Narrows

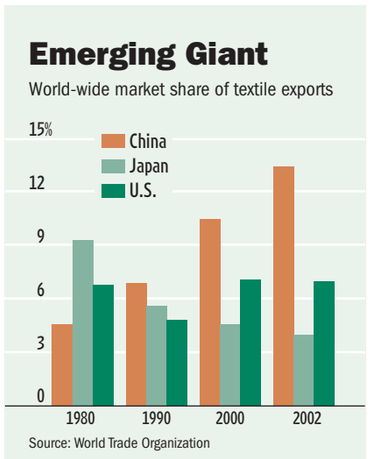
'The Effect Was, "Ouch!" '

By Christopher Rhoads

BIELLA, Italy—For more than 600 years, the icy rivers that roar through this Alpine town have made it a natural for weavers, who used the fast-flowing waters to power looms and clean wool. Over time, the region bred some of the most famous names in Italian clothing, including Zegna and Cerruti.

The manufacturing towns of northern Italy are built on clusters of small, often family-run firms that share information, know-how and business. Como has its silk industry, Lucca its leather goods, Montebelluna its shoes and Biella its wool, to name a few. In the past, the communal approach was admired for its flexibility and shared economies of scale.

Now a new factor is radically remaking this arrangement: China. The competitive threat of its factories is bearing down on Biella and other towns that for more than a century helped power the Italian economy. Trades built on craftsmanship and cachet, such as cashmere and leather, for years dismissed the threat from low-wage countries. But they are suffering today as China steadily narrows the quality gap.



In the past, the region's strength depended on unity. The impact of China is scattering Biella companies in different directions. Botto Poala SpA, part of a group of wool companies started in 1876, is moving more production in-house to ensure high quality and has laid off workers for the first time in its history. Ermenegildo Zegna SpA, the men's fashion designer, has moved much of its business away from Biella and is focusing on building its brand-name, rather than that of Biella. Fratelli Piacenza SpA, a 270-year-old firm that specializes in cashmere, is shifting new production to China. In the future, its executives predict, firms will replace "Made in Italy" with "Created in Italy" labels to signal that their designs—if not the production—remain home-grown.

The American economy's size, flexibility and embrace of technology have allowed it to absorb—and in many ways benefit from—the effects of China's emergence, through relocating production or selling more goods to China. For Italy, the world's sixth-largest economy, China's arrival is tougher. Inflexible labor laws constrain Italian companies from firing workers and moving jobs abroad. The majority of manufacturers remain family-run outfits with fewer than 100 workers. Uprooting to distant China remains out of the question for many. And many Italian firms believe that what sells their products—whether a Versace dress, a Gucci bag or marble sinks—is that they bear "Made in Italy" labels.

Home to more than half of Europe's textile companies along with other low-tech manufacturing industries, such as shoes, Italy lies squarely in the path of the charging Chinese economy. China last year exported $20 billion in textile products, a 53% increase from three

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What's News—

Business and Finance

PUTNAM SAID an additional nine employees engaged in short-term market-timing trades of its mutual funds were being fired. The Marsh & McLennan unit had previously disclosed that six of its fund managers had engaged in timing trades.

■ **Calpers filed** suit against the NYSE. The California public pension fund is alleging that the Big Board condoned improper trading by its specialist firms.

(Articles on Page C1)

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■ **A judge halted** proceedings in Kerkorian's lawsuit against DaimlerChrysler to give the court time to investigate notes discovered by the auto maker's lawyers.

(Article on Page A3)

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■ **Kraft removed** Betsy Holden as co-CEO and head of its North American region, promoting its other co-CEO, Roger Deromedi.

(Article on Page A3)

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■ **The U.S. farm economy** is booming amid a robust price rally in grain, livestock and other agricultural commodities.

■ **Core consumer prices fell** last month for the first time since 1982, bringing the underlying inflation rate to a 40-year low.

(Articles in Column 4 and on Page A2)

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■ **The Dow Jones industrials** jumped 106.74, or 1.1%, to a 19-month high of 10129.56, boosted by strong economic numbers.

(Article on Page C1)

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■ **The IASB will likely face** opposition from European officials when it publishes its final accounting rules for derivatives today.

(Article on Page A3)

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■ **China is preparing** three measures aimed at remedying its massive trade imbalance with the U.S.

(Article on Page A2)

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■ **Ford announced** the creation of a headquarters in Thailand to oversee Asian operations.

(Article on Page A20)

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■ **Halliburton's DII unit filed** for Chapter 11, a major step toward resolving the company's asbestos-litigation problem.

(Article on Page A6)

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■ **Boeing said** it will begin offering its proposed 7E7 plane for sale and that it will assemble the aircraft in the Seattle area.

(Article on Page B2)

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■ **UAL is set to file** a revised business plan in an effort to persuade the government to grant a federal loan guarantee.

(Article on Page A18)

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■ **German chemical firm Celanese** agreed to be acquired for nearly $2 billion by Blackstone Group.

(Article on Page A6)

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■ **New York magazine was sold** by Primedia to financier Bruce Wasserstein in a $55 million deal.

(Article on Page B4)

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■ **Yukos and Sibneft agreed** in principle to undo a $13 billion merger of the Russian oil firms.

(Article on Page A6)

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■ **Citigroup named** Robert Druskin to head the firm's global corporate and investment bank.

(Article on Page C4)

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■ **Chrysler is considering** dropping its sponsorship of the Super Bowl's halftime Lingerie Bowl.

(Article on Page B4)

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■ **America West Airlines reached** a new tentative labor agreement with its pilots union.

(Article on Page A18)

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—Markets—

Stocks: NYSE vol. 1,509,367,160 shares, Nasdaq vol. 1,770,885,079. DJ industrials 10129.56, ▲ +106.74; Nasdaq composite 1924.29, ▲ +6.03; S&P 500 index 1075.13, ▲ +7.09.

Bonds (4 p.m.): 10-yr Treasury ▲ +8/32, yld 4.232%; 30-yr Treasury ▲ +14/32, yld 5.073%.

Dollar: 107.52 yen, −0.05; euro $1.2323, +0.13 cent against the dollar.

Commodities: Oil futures $32.89 a barrel, ▼ −$0.29; Dow Jones-AIG futures 135.767, ▼ −0.561; DJ-AIG spot 172.922, ▼ −0.714.

World-Wide

■ **A U.S. TIMETABLE SHOWS signs of slipping on Iraq's reconstruction.** Prospective bidders say they have no clear idea why the Pentagon has postponed a conference to award contracts, but delay follows the uproar over excluding key allies and comes during Baker's trip seeking Iraq debt relief. That effort bore fruit as Germany joined France in saying it will back the initiative. Meanwhile, Bush said Hussein deserves execution, but Iraqis will decide. The CIA took over the captured tyrant's interrogation. U.S. troops killed 11 Iraqis in foiling an ambush near Baghdad. (Page A4)

Israel lifted secrecy on a 1991 plot to assassinate Saddam Hussein at a funeral after the Gulf War, a plan dropped after five Israeli commandos died in training for the mission.

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■ **Sharon hinted** Israel may quit settlements in Gaza, a major step in an emerging unilateral resolution of territorial disputes. A Palestinian poll showed support for suicide bombings at its lowest level since March 2000.

■ **Israel barred** Arafat for the third year from Bethlehem Christmas celebrations, once a ray of hope for ending Palestinian territories' isolation.

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■ **FDA advisers are recommending** the emergency contraceptive dubbed the "morning-after pill" be sold without a prescription across the U.S., a move with major cultural and, inevitably, political implications. (Page B1)

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■ **Bush endorsed** an amendment banning gay marriage in an ABC-TV interview, but stopped short of opposing arrangements short of wedlock.

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■ **Afghan officials took a break** from drafting a new constitution to open a rebuilt Kabul-Kandahar highway, the biggest post-Taliban project thus far.

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■ **A hearing was put off** for a Guantanamo Air Force interpreter accused of spying. It was disclosed military police searched his lawyers' offices.

■ **The Justice Department clarified** policy on those classified enemy combatants, saying they will get lawyers only after interrogations are finished.

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■ **Ashcroft was rapped** by a federal judge for ignoring a gag order with "potentially prejudicial" remarks on a Detroit terrorism case. (Page A16)

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■ **The U.S. and EU have struck** a tentative deal in a dispute over privacy rights in the sharing of air-passenger data to fight terrorism. (Page D3)

* * *

■ **A Palestinian pleaded guilty** to avoid execution in a 1986 Pan Am hijacking. The U.S. caught al Safarini after he had served time in Pakistan.

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■ **Iran's vice president told** students a plant to make heavy water is near completion. Plutonium can be mined from reactors that use heavy water.

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■ **The U.S. asked** a U.N. court not to meddle as it considers Mexico's request to order 52 citizens off death row for being denied consular rights.

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■ **Taiwan's presidential campaign is** casting the Kuomintang in the odd role of being the voice of moderation on reuniting with China. (Page A21)

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■ **The Turkish Cypriot premier quit** to make way for a new government. Election results mean tough coalition talks for longtime leader Denktash.

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■ **The second sniper case went** to a Virginia jury, which begins deliberating today. Lee Malvo may face execution for Washington-area killings.

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■ **Bush signed** legislation to curb unsolicited commercial e-mails. It also calls on the FTC to set up a do-not-spam list like that for telemarketers.

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■ **Federal drug law doesn't trump** California's in its allowing the use of marijuana under a doctor's care, the Ninth Circuit appellate court decided.

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■ **A federal judge rejected** Bush's plan to let snowmobiles in national parks. Separately, Bush is backing away from weakening wetland rules.

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■ **The Boston Archdiocese may** have to shut dozens of struggling churches to help pay the sex-abuse settlement, Archbishop O'Malley has told priests.

—Online Today—

WSJ.com **Take Credit**: We launch a two-day look at credit scoring and what it means. Estimate your score, see how it affects loan rates and discover ways to maintain it through the years.

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■ **Middle Seat**: Take a look at the patent fight that followed the Wright brothers' first flight and cost them their lead in aviation development.

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■ **Harris Poll**: Americans put Mel Gibson atop Hollywood's "A list."

The Spritz Mystique: Cool Old Bottles, Service With Attitude

* * *

Mr. Beberman Plies Brooklyn In Last Real Seltzer Truck; Poseurs Need Not Apply

By Barry Newman

BROOKLYN, N.Y.—Spritzed by Flatbush Avenue traffic on a wet morning, the last known seltzer truck in New York City was a double-parked apparition, its tiers of lopsided racks holding a cock-eyed pile of siphon bottles in cracked, wooden crates.

Arnold Brenner, a psychoanalyst walking to work, spotted the truck just as Ronny Beberman, the seltzerman, was wheeling a delivery toward an apartment-house door. Dr. Brenner yelled, "How much is a...." But Mr. Beberman was already inside.

Dr. Brenner stood unactualized on the sidewalk. "I was thinking I could get a case," he said. "It's the spritz that does it—that fizz—so soothing, so strong. Reminiscent of something, something romantic."

Barry Newman

Ronny Beberman's seltzer truck, *which he bought from another seltzerman four years ago and hasn't repainted.*

Ronny Beberman has his own analysis of the spritz mystique: Because nobody wants it anymore, seltzer has become desirable.

"People, they don't know what seltzer is," he says. "They moved from Iowa. They ask me, 'What's in those bottles?' I have people, they chase me in their cars. They're disenchanted. They're drinking out of plastic."

Mr. Beberman, 56 years old, has worked in the seltzer zone since 1971. The zone covers New York and parts of the Northeast. Beyond the zone, seltzer sells as sparkling water. Club soda is seltzer with salt (unless the salt is left out). Water that bubbles out of the ground isn't called seltzer—it has swanky names and high prices. It's all basically water with gas.

True seltzer—seltzer that assaults the sinuses—comes in rare old siphon bot-

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Medical Shift

Hospitals Will Give Price Breaks To Uninsured, if Medicare Agrees

They Concede Many Charges Aren't Fair to the Needy But Blame Federal Rules

Judith Geva's $21,508 Bill

By Lucette Lagnado

Under pressure from lawmakers and consumer advocates, the hospital industry said it would consider making broad price cuts for the uninsured—provided the federal government approves.

The announcement by the American Hospital Association included a stark admission that some hospital billing and collections practices are unfair to needy patients. But even as some big hospitals scramble to curtail their most aggressive tactics, such as putting liens on debtors' homes, the trade group is also blaming much of the problem on Medicare. In a letter delivered yesterday to the Department of Health and Human Services, the hospital group said Medicare regulations "make it far too difficult and frustrating" for hospitals to reduce prices for people who can't afford health care.

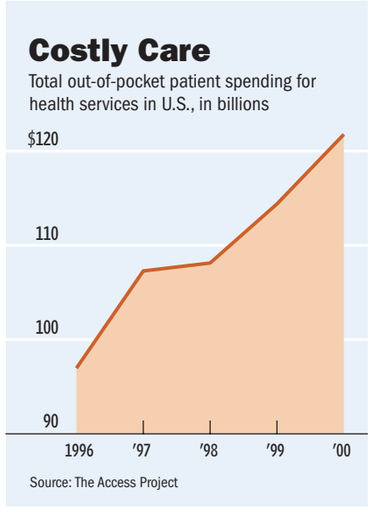
The letter asks the agency, which oversees Medicare, the federal health-care program for the elderly, to change or clarify its rules so that hospitals "have the ability to do what they can to respond to the needs of these patients." In a document filed in support of its letter, the trade group also said it would urge its 4,800 member hospitals to adopt a set of voluntary guidelines on billing and collections.

At the heart of the issue is the hospitals' common practice of charging full listed prices to the nation's 43.6 million uninsured patients. Meanwhile, other patients enjoy steep discounts negotiated on their behalf—either by private insurers and HMOs or by government programs such as Medicare and Medicaid, the federal-state program for the poor. In some areas, the hospitals' official charges amount to several times the discounted rates.

Adding to the problem for the uninsured, many hospitals have become more aggressive in seeking payment of these bills. Hospitals have placed liens on debtors' homes, garnisheed wages, seized bank accounts and, in some cases, sought the arrest of debtors who miss court dates, a practice known in some states as "body attachment."

The letter, addressed to Secretary of Health and Human Services Tommy Thompson, marks a turning point for an industry that has been reluctant to acknowledge that its financial practices contribute to the plight of the uninsured.

In a series of articles this year, The Wall Street Journal has examined hospitals' aggressive billing and collections methods, including charging uninsured patients full listed prices while other patients get discounts.



The hospitals contend the pricing disparity is the result of Medicare regulations requiring hospitals to maintain a uniform list of charges for every treatment and service they administer—even for patients who aren't covered by the program. The hospitals claim they can't offer unilateral reductions in these charges to categories of people, such as uninsured patients, without fearing they may be violating Medicare rules.

In a longer document accompanying its letter, the hospital group also blamed Medicare for some of their collections practices, claiming the program's rules "create a very strong presumption that hospitals must use aggressive efforts to collect from all patients," including sending collection letters, making telephone and personal contacts, and initiating court action.

It isn't clear whether Medicare's complex rules are as inflexible as the hospitals claim. Tom Gustafson, deputy director of the Center for Medicare Management, a Medicare division, said the rules allow hospitals to offer poor people discounts from listed charges "on a patient-by-patient basis, and it has to require verification of the financial need of each patient." Mr. Gustafson said Medicare officials need to study the hospital group's concerns and added: "We are prepared to think about, to consider and to learn about this situation in greater detail." A spokesman for HHS Secretary Thompson said the secretary would consider the issues the industry was bringing to his attention.

Over the past year, lawmakers, labor unions and patient advocates have increasingly urged hospitals to make changes in the way they bill and collect from patients. The House Subcommittee

Please Turn to Page A16, Column 4

Farm Belt Is Becoming a Driver for Overall Economy

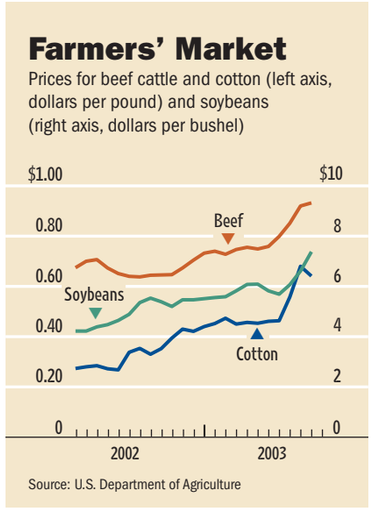
As Prices Rise, Spending Spreads to Tractors, Trucks; Mr. Septon's Dream House

By Scott Kilman

BOWMAN, N.D.—This year's price rally in agricultural commodities is so robust that farmers and ranchers are emerging as a growth engine for middle America, helping to lift the region out of recession and increasing the chances for a period of sustained national growth.

Christmas has come early to much of the Great Plains, a region racked by five years of agricultural recession. Net farm income—a rough measure of profitability—is jumping 58% over the past 12 months to $55.8 billion, says the Agriculture Department. And a big chunk of that money is reaching farmers right now because this is the season that a lot of them sell their recently harvested crops and newly weaned calves.

Like a drought-breaking rain, that money is causing a flood of pent-up activity. Agriculturally dependent businesses of all sorts—from farm-town merchants to commodity processors—are receiving a boost, as farmers and ranchers splurge on clothes, tractors, pickup trucks, even houses.



For the first time in a century, a house is being built on the banks of Deep Creek here in North Dakota. The record price that 32-year-old rancher David Septon reaped for the 90 calves he sold in October means he can afford to move his wife and three young daughters from the cramped and drafty home in which his grandfather once lived to a new place that will cost $100,000. "When we got a $1 a pound for our cattle, we decided we could do it," says his wife, Monica.

True to the nature of the boom-and-bust agricultural cycle, prices are climbing because supplies have shrunk to unusually low levels. World grain supplies are the tightest since the 1970s. A count of the U.S. cattle population on July 1, meanwhile, found the fewest animals since the survey began in 1982.

In a rare alignment of market forces, demand for farm commodities is strengthening at a time of tight supplies. The lower exchange rate of the dollar and a buying spree by China for soybeans and cotton helped to lift U.S. agricultural exports in October to $6 billion, a record for any month (see related article on page A20). American consumers are willing to pay more for beef and eggs, thanks in part to the high-protein diet craze. And the ethanol-fuel industry is rapidly increasing its use of corn.

The present boom is proving that agriculture still matters in the U.S. Rising farm incomes are helping to ease the blow of the loss of manufacturing jobs in Midwest states. Ohio grain farmers, for instance, are reaping $1 billion more in revenue from this year's crops than

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INSIDE TODAY'S JOURNAL

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Some of Scrushy's Lawyers Ask Others on Team for Money Back

By Carrick Mollenkamp

Former **HealthSouth** Corp. chairman Richard M. Scrushy is fighting not just the Justice Department, but some of his own lawyers as well.

In a rare sign of turmoil within Mr. Scrushy's sprawling legal defense team, one set of his lawyers has drafted a professional complaint demanding the return from other attorneys of a portion of $21 million Mr. Scrushy has already spent in his defense, according to people familiar with the situation.

Mr. Scrushy was indicted in October on 85 criminal counts charging that he directed a fraud at HealthSouth that artificially inflated the company's earnings by $2.7 billion over six years. Fifteen of Mr. Scrushy's subordinates, including all five chief financial officers during his tenure at the company, have pleaded guilty. Mr. Scrushy's trial is expected next year.

During a one-week period in May 2003, shortly after Mr. Scrushy's attorneys convinced a federal judge to lift a Securities and Exchange Commission freeze on his assets, the ousted executive paid more than $21 million in fees to four separate law firms or lawyers, according to an Internal Revenue Service affidavit filed in federal court in Birmingham, Ala., earlier this month.

According to the affidavit, Mr. Scrushy paid $5.5 million to Donald V. Watkins, a local lawyer who has been his most constant spokesman and legal adviser; $5.7 million to **Thomas, Means, Gillis & Seay** P.C., a Birmingham law firm whose office has become the headquarters of the defense team; $5 million to **Jones Day** and $4.85 million to **Chadbourne & Parke** LLP, two national law firms.

Now, Jones Day is being asked to return a portion of its fee, according to people familiar with the situation. It wasn't clear whether the document has been formally submitted to the District of Columbia Bar, the professional association that hears client complaints against Washington lawyers and provides an arbitration service for disputed fees. Complaints typically remain confidential.

Jones Day represented Mr. Scrushy in efforts earlier this year to convince federal prosecutors not to seek an indictment of the ousted executive. Mr. Scrushy contends he paid in advance for legal work but then changed law firms before some of that work was completed. The people familiar with the dispute wouldn't say the specific amount Mr. Scrushy is seeking to recover.

Mr. Scrushy has been under heightened financial pressure since his indictment, because his assets were frozen by a federal judge when the charges against him were unsealed last month. Justice Department lawyers say they want Mr. Scrushy's wealth preserved to help pay restitution and fines after any conviction. Mr. Scrushy, who denies wrongdoing, has asked a federal judge to lift the freeze. In the meantime, Mr. Scrushy's ability to continue funding his large defense team has been constrained.

Mr. Watkins wouldn't confirm or deny the demand for money from Jones Day, but said all the firms working for Mr. Scrushy's are expected to contribute resources to his ongoing defense. "Scrushy's assets are frozen," said Mr. Watkins. "There are some resources among the law firms, and we will allocate and reallocate as necessary, and we expect everybody to participate and cooperate."

Mr. Watkins added that he still considers Jones Day to be a member of Mr. Scrushy's legal team.

Jonathan Rose, a Jones Day lawyer who worked on Mr. Scrushy's case, said in an interview that he also wouldn't comment on whether a complaint has been filed with the bar association, but said his firm intends to "enforce the fee agreement under which we were retained."

The dispute between Mr. Scrushy and Jones Day is an unusual window into the behind-the-scenes rivalries that have percolated among defense attorneys for the lucrative task of representing the former HealthSouth chief. The maneuvering began shortly after the SEC alleged in March that Mr. Scrushy orchestrated a massive accounting fraud at HealthSouth, a provider of rehabilitative and surgery services.

The SEC moved to freeze Mr. Scrushy's assets, even though he hadn't yet been criminally charged. During a court hearing on the asset freeze in the spring, Thomas Sjoblom of Chadbourne & Parke handled courtroom duties while Jones Day attorneys worked on the filing of court briefs to counter the SEC. Jones Day also counseled Mr. Scrushy on his appearance before a congressional panel investigating fraud at HealthSouth.

After the judge in that hearing lifted the freeze, Chadbourne & Parke took a back seat to focus on civil lawsuits against Mr. Scrushy, while Jones Day lawyers, including Mr. Rose and Richard H. Deane Jr., a former U.S. Attorney from Atlanta, focused on trying to fend off the indictment. It was then, from May 13 to May 20, that Mr. Scrushy disbursed the $21 million, according to the IRS affidavit.

After an indictment was handed up against Mr. Scrushy in late October, he changed legal quarterbacks. Jones Day was placed on the sidelines while Mr. Sjoblom and his Chadbourne & Parke partner Abbe Lowell retook the lead role. On Nov. 9, Chadbourne & Parke issued a news release naming Messrs. Sjoblom and Lowell as co-trial counsel. Mr. Sjoblom referred questions about the legal fees to Mr. Watkins.

Ashcroft Rebuked Over Terror Case; Campaign Is Fined

By Gary Fields

WASHINGTON—Attorney General John Ashcroft was admonished by a federal judge for comments regarding a terrorism case, and his 2000 Senate campaign was fined for violating campaign fund-raising law.

The Federal Election Commission ordered Mr. Ashcroft's 2000 Senate campaign committee, Ashcroft 2000, and his Spirit of America political-action committee to pay a $37,000 civil fine for exceeding contribution limits, as well as for unreported contributions.

The investigation revolved around the PAC renting out its mailing lists and receiving revenue from the rentals, legal under campaign law. The issue, the commissioners concluded, became problematic because a portion of that revenue was redirected to the campaign committee. While PACs can contribute to campaigns, election law limits that to $5,000 per election. According to the conciliation agreement released by the FEC yesterday, the PAC redirected more than $110,000 to Ashcroft 2000.

The agreement said "neither the PAC nor Ashcroft 2000 disclosed the making or receipt of this excessive contribution," which could be a violation of federal law. The PAC and campaign didn't admit any wrongdoing in the settlement. Attempts to reach Mr. Ashcroft's former campaign treasurer by telephone were unsuccessful.

Mr. Ashcroft lost his 2000 re-election bid against former Democratic Gov. Mel Carnahan, who died in a plane crash during the campaign but was kept on the ballot and elected by voters; Mr. Carnahan's wife was later appointed to serve out his term. President Bush named Mr. Ashcroft attorney general after his Senate loss.

Separately, in a court opinion released yesterday, U.S. District Judge Gerald Rosen chastised Mr. Ashcroft for speaking about the terror case, after the judge placed a gag order on a terror trial in Detroit in October 2001. Mr. Ashcroft made public statements about the case twice after the judge's order, once claiming that the men, charged with giving material aid to terrorists and other charges, had knowledge of the Sept. 11, 2001, attacks on the Pentagon and World Trade Center.

Judge Rosen said that while Mr. Ashcroft could have compromised the defendants' right to a fair trial, the violations didn't warrant contempt charges. Three of the four defendants were convicted.

Mr. Ashcroft said he regretted making the remarks. "While the two statements in question were inadvertent and in no way intended to either disregard the court's order, or disrupt the ongoing trial, I can see how these two statements, however brief and passing, could be considered by the court to be a breach of the court's order."

Hospitals Seek to Cut Billing for Poor

Continued From First Page

on Oversight and Investigations this summer launched a probe into hospital billing and collections, and plans to hold hearings early next year. "In the worst instance, hospitals simply apply outrageously high charges—higher than what Medicare pays, higher than private payers—and then will relentlessly and sometimes mercilessly pursue poor people for their money, even to the point of having them arrested," said Rep. James Greenwood, a Pennsylvania Republican and chairman of the subcommittee.

A new Connecticut law, which went into effect in October, makes it harder for hospitals to sue patients and to seize their bank accounts or place liens on their homes. That law also slashes interest rates charged on patient bills to 5% from 10%. In Illinois, state legislators are weighing laws that would end what they call "discriminatory pricing," the practice of billing uninsured patients more than insured patients—on the theory that uninsured people tend to be minorities against whom it is illegal to discriminate. In New York, a pending bill in the state legislature would limit the amount hospitals could bill poor uninsured patients to no more than the sum Medicare or private insurers would pay, whichever is larger.

Now the hospital industry is pushing for big changes in Medicare. Its letter requested that Medicare issue a "safe harbor" rule enabling hospitals to discount or waive charges for the uninsured without risking trouble with the program. The association is also asking Medicare for a new advisory process under which hospitals could quickly get rulings on when and how they could discount rates to the uninsured.

If Medicare makes these changes, "hospitals will gladly and willingly deconstruct the terribly frustrating system that ties their hands and is ruining their reputations," said Richard Wade, a spokesman for the American Hospital Association.

The Medicare rules requiring hospitals to maintain lists of their charges date to the establishment of the program in the 1960s. The original purpose of the uniform charges was to prevent hospitals from charging some classes of patients more than others, or overcharging the Medicare program. That made sense in the early years of Medicare, when hospital charges generally reflected the cost of providing care plus a modest profit.

In the 1980s, as powerful HMOs emerged, they began demanding their own discounts from the hospitals' listed charges. Hospitals in turn began boosting their charges, in part as an effort to set a higher starting point for negotiations. Lost in the mix were uninsured patients, who continued to be billed as they always were, unaware of the discounted rates and with no one to negotiate on their behalf.

Mr. Gustafson, the Medicare official, conceded that the listed charges "had a lot more meaning 20 or 30 years ago, before managed care."

For uninsured patients, the impact of being billed at full hospital charges can be harsh. Last year, Judith Geva, an uninsured 51-year-old small-business owner, had an emergency hysterectomy at North Shore University Hospital in Manhasset, N.Y., part of the North Shore-Long Island Jewish Health System. She received a hospital bill for full charges of $21,508.

For the same procedure, which requires a three-day stay, Medicaid pays the hospital $8,456, and Medicare pays $7,600, according to the hospital and the government programs. The hospital said private insurers and HMOs in the area would reimburse it at roughly the same rate as Medicare.

Ms. Geva says her home software business had suffered a downturn and she couldn't afford to buy insurance or pay her hospital bill. She says she had applied for Medicaid but was turned down, in part because she owns a house. In February, North Shore turned her bill over to collections, and the hospital sued her three months later.

Ms. Geva says she e-mailed legislators and searched the Internet in vain seeking assistance, until she found the Long Island Health Access Monitoring Project, a group that helps the uninsured. A retired physician in the group called a hospital executive, and Ms. Geva's bill was cut by more than half, to $10,000—an amount still higher than what any government program or private insurer would have paid. Ms. Geva says she charged most of the bill on her Discover card, and is trying to pay it back, with interest. She adds that she now has health insurance.

Terry Lynam, a spokesman for North Shore-LIJ, said Ms. Geva had been billed full charges in keeping with Medicare regulations, and that the hospital refers bills to collection agencies after 60 days. "The collection efforts weren't heavy-handed," he said.

Mr. Lynam added that North Shore-LIJ "recognizes the flaws in the billing process" and is planning to implement a far-ranging new financial-aid plan. Starting in February, the hospital said, uninsured patients and those in families below a certain income ceiling would qualify for sliding-scale reductions from Medicaid rates, which are already much lower than the hospitals' listed charges. Mr. Lynam said the hospital believes this plan will pass muster with Medicare.

Other hospitals are planning sweeping changes to their billing practices. Ascension Health, the nation's largest Catholic hospital chain, said it will offer free care to every uninsured patient whose income falls below the federal poverty level, provided they don't qualify for government aid. (The poverty level is $8,980 for an individual, and $18,400 for a family of four.) Poor patients with an income up to twice the poverty level also would be eligible for discounts. The amount of the discounts would be left to the discretion of individual hospitals in the 67-hospital Ascension system, which is based in St. Louis, Mo.

Douglas French, chief executive of Ascension, said the chain also plans to seek Medicare approval for even more dramatic price cuts. Ascension wants to bill all uninsured patients—rich and poor—at the same discounted rates its hospitals get from HMOs and insurers. Under that plan, "basically, nobody gets [full] charges," said Bruce Vladeck, a member of Ascension's board of directors. However, Mr. Vladeck, a former head of Medicare, said he isn't sure the unilateral discount for uninsured patients would pass muster with his old agency.

A major for-profit hospital chain, HCA Inc. of Nashville, Tenn., said it struggled for months to craft a program of price breaks for uninsured patients that would satisfy Medicare rules. HCA's plan, launched this fall, offers free care to uninsured patients who earn up to twice the federal poverty level. HCA also offers a sliding scale of discounted fees to patients who earn as much as four times the poverty level. "It wasn't casually, 'Oh, we will do this,' " said Jeff Prescott, an HCA spokesman. "We sat internally for more than a year trying to craft what could be done within the existing environment." A Medicare spokesman declined to comment on the HCA plan.

Meanwhile, another large, for-profit chain, Tenet Healthcare Corp. of Santa Barbara, Calif., said it hasn't been able to move forward on its own discounting plan, which involved billing low-income, uninsured patients at the same discounted prices it gets from HMOs. Medicare raised questions on the plan, and the company said it is awaiting a legal opinion from the Inspector General of the Department of Health and Human Services. In the meantime, Tenet says, it has drastically curtailed lawsuits against uninsured debtors and restricted the use of liens, eliminating them entirely for patients whose home is their only asset.

In its appeal to regulators, the American Hospital Association said it was urging its members to adopt "fair billing and collection practices," such as requiring hospitals to better monitor their collection agencies. However, the guidelines stopped short of barring hospitals from using specific collections tactics such as putting liens on houses or seeking the arrest of debtors.

Responding to criticism that hospitals frequently don't tell patients that charity care or financial aid is available, the guidelines urge institutions to offer financial counseling and to make that counseling "widely known."

The hospital group also urged its members to lift the veil of secrecy that has surrounded their lists of charges, stating that hospitals should make available for public review "specific information in a meaningful format about what they charge for services" to help patients understand their bills. Mr. Wade, the group's spokesman, added: "We have to be much more transparent about our charges."