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DOCUMENT NO. AND TYPE	SUBJECT/TITLE	DATE	RESTRICTION
001. report	re: Stability and Security (4 pages)	01/00/1994	P1/b(1)

COLLECTION:
Clinton Presidential Records
Staff Secretary
John Podesta (Chron Files)
OA/Box Number: 2244

FOLDER TITLE:
January 16-22, 1994 [2]

2018-0662-S
rs3085

RESTRICTION CODES

Presidential Records Act - [44 U.S.C. 2204(a)]

P1 National Security Classified Information [(a)(1) of the PRA]
P2 Relating to the appointment to Federal office [(a)(2) of the PRA]
P3 Release would violate a Federal statute [(a)(3) of the PRA]
P4 Release would disclose trade secrets or confidential commercial or financial information [(a)(4) of the PRA]
P5 Release would disclose confidential advice between the President and his advisors, or between such advisors [a)(5) of the PRA]
P6 Release would constitute a clearly unwarranted invasion of personal privacy [(a)(6) of the PRA]

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PRM. Personal record misfile defined in accordance with 44 U.S.C. 2201(3).
RR. Document will be reviewed upon request.

Freedom of Information Act - [5 U.S.C. 552(b)]

b(1) National security classified information [(b)(1) of the FOIA]
b(2) Release would disclose internal personnel rules and practices of an agency [(b)(2) of the FOIA]
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b(9) Release would disclose geological or geophysical information concerning wells [(b)(9) of the FOIA]

THE WHITE HOUSE
WASHINGTON

DATE: 01/21/94

NOTE FOR: MARK GEARAN
RAHM EMANUEL

The President has reviewed the attached, and it is forwarded to you for your:

Information X☒

Action ☐

Thank you.

JOHN D. PODESTA
Assistant to the President
and Staff Secretary
(x2702)

cc:

THE PRESIDENT HAS SEEN
1 21 94

THE WHITE HOUSE

WASHINGTON

January 21, 1994

MR. PRESIDENT:

Attached is a memo from Mickey Kantor concerning the location of the new NAFTA commissions. The labor secretariat will be in the U.S., and we have privately agreed with Rep. Bryant to put it in Dallas.

Joe Velasquez notes that labor would like to be as involved as possible in the organization and staffing of the Dallas office.

The only question presented in the memo is whether there should be a White House announcement of the location of the three secretariats. George and Rahm are against it. No one favors it.

Concur [redacted]e House announcement) [✓] Disagree [ ] Discuss [ ]

Todd Stern

THE UNITED STATES TRADE REPRESENTATIVE
Executive Office of the President
Washington, D.C. 20506

THE PRESIDENT HAS SEEN
1-21-94

JAN 5 1994 94 JAN 6 P12:33

MEMORANDUM FOR THE PRESIDENT

FROM: Michael Kantor

SUBJECT: Location of NAFTA Commissions

The NAFTA agreements create three new Commissions, whose location has some political significance. Last summer, we agreed privately with Mexico and Canada that the secretariat of the trade commission would be located in Mexico, the environmental secretariat in Canada, and the labor secretariat in the United States. Prior to the NAFTA vote, we privately committed to Congressman John Bryant to make Dallas the site of the labor secretariat.

John Bryant came to see me just before the holidays, with a Dallas Chamber of Commerce representative. The Chamber had an impressive offer of space for all NAFTA institutions. I did not tell the Chamber people about our understandings on location, but Dallas should be pleased to be host of the secretariat of the labor commission. That secretariat will be small (probably about 15 people). I have talked with Governor Richards and she privately supports Dallas as the preferred site. (San Antonio also has submitted a proposal.)

I will work with Bob Reich, Governor Richards and John Bryant, as well as the Mexicans and Canadians, to coordinate the public announcement of the location of the three secretariats. Please let me know if you would prefer a White House announcement or if there are other U.S. political leaders who should be involved.

cc: Secretary Reich
Secretary Browner
Secretary Bentsen
Mr. Rubin
Mr. Griffin

[redacted]

THE PRESIDENT HAS SEEN
1·21·94

To HRC

[redacted]

[redacted]

16/01 '94 13:22 ☎4122 738 6432 HILTON GVA 001/008
JAN-16-'94 12:47 ID: LE KIOSQUE CH-1206 TEL NO: +41 22 789 13 15 #750 P01

THE PRESIDENT HAS SEEN
1-21-94

LE KIOSQUE
L'ancien kiosque des Tranchées, situé dans un espace vert entre le Muséum d'histoire naturelle et l'Eglise russe, a trouvé une nouvelle fonction. Offert par la Ville de Genève à "Terre des enfants-Terre des femmes-Stop à l'inceste", ce lieu est devenu LE KIOSQUE. Il sert de centre d'information et d'endroit où l'on peut dire ce qui est impossible ailleurs.

Protégeons l'enfant de l'abus sexuel

"LE KIOSQUE"
Terre des enfants RESPECTÉS
35, Tranchées - CH-1206 GENÈVE
Tél. (41-22) 789 13 13 - Fax 789 13 15

FAX ENVOYÉ PAR: Geneviève Piret, founder of Terre des femmes - Terre des enfants

DESTINE A: Hillary Clinton
Hôtel Hilton
Suite présidentielle
fax 738 64 32

16.1.94
11:50 a.m.

NOMBRE DE PAGES, (Y COMPRIS CELLE-CI):

Dear Hillary Clinton,

Today, you are in my town and I wish you a very good time here.
Yesterday evening, you might have seen our "Wellcome, Hillary, and long life to your work in favour of the right of the children to be respected." I wrote it and put it, with candels, at the botton of the young-girl-statue "Clémentine" at the place du Bourg-de-Four, in the old town (see following articles).
Since I went to Atlanta in 1981, when the black children were murdered one after the other, I have a project of
"Children's fountains"
to honour the dead children and to have a place where people fighting for children's rights could join and reinforce each other.

The first pair of children's fountain
could be
1) the fountain in the Woodruf Park, in Atlanta
and
2) the Geneva fountain

Please, consider your visit in Geneva as a very favourable time to laugh this idea.

You can fax me or call me at your best opportunity.

Sincerely yours,
Geneviève Piret

Addenda:

- My friend's letter to you on 1/27/93
- Article in "La Suisse" 1/11/94 p. 11 and its translation + letter from Ginny Klein 1/10/94
- Article in "femmes suisses" Nov. 1993, for the picture of "Clémentine.
- Article on another great Woman who has same ideas, Rita LeVi Montalcini

Femmes suisses Novembre 1993

18/01 '94 13:23 ☎4122 738 6432 HILTON GVA 003/008

RITA LEVI MONTALCINI CRÉE UN RÉSEAU DE SOLIDARITÉ FÉMININ

LES FEMMES DÉCIDENT AUTREMENT

Rita Levi Montalcini, Prix Nobel de médecine en 1986, est un volcan qui bouillonne d'idées. (H. Salgado)

«Si la possibilité leur en est donnée, les femmes décident de façon beaucoup plus pratique et efficace. Il faut donc créer un réseau de solidarité féminin, qui engagerait les scientifiques, et toutes celles qui ont un pouvoir de décision dans la prévention contre la criminalité, l'exploitation et la drogue.»

Rita Levi Montalcini, Prix Nobel de médecine en 1986 était récemment à Genève pour la présentation du rapport de l'UNICEF sur la situation des enfants dans le monde en 1994. Elle explique à «La Suisse» l'initiative qu'elle est venue lancer.

«Rita Levi Montalcini? C'est un volcan qui nous submerge d'idées», dit d'elle Guido Bertolaso, l'un des directeurs de l'UNICEF, qui a accepté de parrainer un projet dont le but est à la fois simple et ambitieux: «Celui de réunir toutes les femmes d'action vivant dans des pays qui peuvent exercer une influence, qu'elles soient issues du monde scientifique, politique, intellectuel ou venue de n'importe quel autre horizon. Le but est que toutes, nous nous engagions sans plus attendre pour porter secours à d'autres femmes et surtout pour barrer la route à la criminalité infantile, à l'exploitation et au fléau de la drogue. Car une fois que ces enfants et ces adolescents entrent dans la spirale de la violence, ils peuvent très difficilement en sortir», affirme cette petite grande dame de la science, qui ajoute avec un sourire: «Bien entendu, les messieurs de bonne volonté sont également les bienvenus.» La première réunion de ce réseau de solidarité au féminin devrait avoir lieu à Rome, en mai prochain.

Haines raciales

Et Rita Montalcini d'évoquer également le drame des femmes violées en ex-Yougoslavie et plus particulièrement en Bosnie-Herzégovine, «où se sont déchaînées des haines raciales absurdes. J'ai ramené la lettre d'une fillette, qui préface mon dernier livre et qui dit: «Pardonnez-moi, compatriotes, si je ne réussis pas à vous haïr!»

Etiquette des scientifiques

Lorsque nous lui demandons ce qu'elle pense de ces médecins, psychiatres et autres scientifiques qui ont trahi l'étiquette, elle répond avec la même sérénité: «Les scientifiques ne diffèrent pas des autres êtres humains. Il y a ceux qui ont une éthique et ceux qui n'en ont pas, par ambition ou parce qu'ils sont payés pour adhérer à certaines idées.» Rita Levi Montalcini a rédigé plusieurs ouvrages scientifiques. Elle a aussi écrit une autobiographie au titre évocateur: «Eloge de l'imperfection», et vient de terminer «Il tuo futuro» («Ton futur»).

Optimiste par principe

A 84 ans, elle reste une optimiste irréductible. «Parce que le pessimisme ne paie pas et que le catastrophisme rend vain tout effort. Il faut être optimiste par principe, se l'imposer, au besoin.»

Mme Levi Montalcini a connu la guerre, les lois raciales qui sévissaient également en Italie et qui l'ont obligée à se cacher pour pouvoir continuer ses recherches. Guerre qui ravage de nouveau une partie du continent européen. «Oui, mais si l'on compare la situation présente à celle d'il y a cent, mille, ou dix mille ans, elle est forcément meilleure, car alors les injustices étaient considérées sacro-saintes. Les holocaustes continuent, certes, aujourd'hui, atroces, mais au moins nous savons qu'ils vont contre toute éthique et loi. A l'époque, au contraire, ils étaient acceptés. Je dis qu'il vaut décidément mieux être né à la veille du troisième millénaire qu'il y a deux mille ans.»

Luisa BALLIN

16.1.94 Attention: Hillary Clinton
12h45

Femmes ACTUELLES

Geneviève Piret
(Photo Laurence Bonvin)

La croisade de Geneviève Piret

Elle a créé Terre de femmes puis Terre des enfants. Depuis bientôt vingt ans, Geneviève Piret livre bataille contre l'inceste.

Geneviève Piret est une femme dont on ne se débarrasse pas facilement: opiniâtre, tenace, têtue, elle bataille jusqu'à ce que quelque chose bouge. Et parfois, elle réussit. Ce fut le cas, par exemple, lors de l'arrestation, en septembre dernier, d'un pédophile qui avait abusé, en Argovie et à Manille, d'un jeune Philippin, Edwin, affaire qui défraya la chronique en son temps. Mais pour une arrestation, que de travail en coulisses, de démarches, de sollicitations, voire parfois de harcèlement des autorités. Et pour un pédophile en prison, combien sont-ils qui, en toute impunité, sabotent à vie l'existence de leurs jeunes victimes?

J'ai connu Geneviève Piret à Genève en 1976, peu avant qu'elle fonde le mouvement Terre des femmes. Elle avait lu dans le journal un fait divers relatant l'histoire d'une Française, femme de ménage, qui avait été mise en prison pour avoir attaqué une banque avec sa fille de 11 ans. Ne pouvant supporter cette injustice face à la détresse matérielle d'une femme sans ressources, Geneviève s'était mise en peine de la faire libérer et avait aussitôt pris le train pour Saint-Etienne. Ce fut le début de Terre des femmes. Et puis il y eut Terre des enfants, avec des actions en faveur des enfants de la guerre, notamment au Liban. Et depuis 1986, la priorité de Terre des femmes s'énonce sous le slogan: Stop à l'inceste. C'est que Geneviève est elle-même une victime de l'inceste paternel, et elle ne s'en cache pas. Au contraire, la volonté d'éviter aux autres, filles ou garçons, ce qu'elle a elle-même subi, lui fait déplacer des montagnes. Avec trois ou quatre bénévoles, elle organise des conférences internationales sur l'inceste, en trouve le financement, fait un travail d'accompagnement, d'écoute, d'information autour des problèmes de l'inceste et des autres abus d'enfants.

En janvier 1992, les autorités municipales genevoises ont mis à la disposition de Terre des femmes un petit local: Le Kiosque, situé dans un mouchoir de verdure au cœur d'un grand carrefour*. Le local est minuscule, et les froids impromptus de ce début octobre nous obligèrent à recourir au chauffage électrique.

Sur le Bourg-de-Four, Clémentine transmet les batailles perdues ou gagnées contre l'inceste.

Qu'importent des conditions matérielles pas vraiment luxueuses. Geneviève Piret est là tous les jours, pour informer, conseiller, écouter, sensibiliser. Autre véhicule d'information de la bouillante fondatrice de Terre des femmes: Clémentine. Clémentine est une statue, frêle jeune fille de bronze sur le Bourg-de-Four, au cœur de la vieille ville genevoise, due au sculpteur Heinz Schwarz. Les habitants du quartier s'y sont habitués et les touristes adorent photographier ce qui rappelle les dazibaos des années septante, brave Clémentine entourée de bougies, une branche de gui dans les bras, et à ses pieds toutes espèces de coupures de presse relatant les batailles gagnées et perdues de la lutte contre l'inceste. Il faut bien tout ça, et la volonté d'une femme comme Geneviève, pour avancer dans cette difficile croisade.

Martine Chaponnière

*Boulevard des Tranchées 35, 1206 Genève, tél. (022) 789 13 13, fax 789 13 15.

VIRGINIA KLEIN, Ph.D., ACSW BCD
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Blue Shield/Medicare Provider No. KL640884

Hillary Clinton, Esq.
The White House
Washington, D. C. 20500

1/27/93

Dear Hillary,

I am so very glad that you are in the White House. Your lifetime concerns, values and behaviors on behalf of children speak well for you and for the hope of this nation, and children around the world.

I've enclosed a paper I made up in response to a call I received from a concerned young lady in Paris, two weeks ago. She asked for help as she was planning a demonstration at the Bastille to bring attention to the deliberate and consistent rape and sexual abuse of women in the Ex-Yugoslavia. She had asked that I help spread the word. Through the network of pioneers I know in the incest field, the word was passed along to the press, and a special report did air the other day.

Of major help in this effort was Genevieve Piret of Geneva, with whom I founded and chaired The International Conference vs. Incest and Related Problems six years ago. She is constantly supporting kids, and speaking out for their protection and their rights. She also plans a demonstration 1/28 in Geneva at the Statue Clementine, not far from the Kiosk from which she runs a drop-in center for those concerned with child abuse and incest. She suggested I write to you, to see how you might be able to help. Could you -

1) Make a statement and/or appeal to leaders in Ex-Yugoslavia and/or to the UN to stop the rape and abuse. I have faxed the UN about it.

2) Make a general statement/note of encouragement to all supporters who fight for awareness and correction of these atrocities, and the abuse of children in the U. S. and in the world. A general letter to that effect could be passed along and shared.

Thank you for the wonderful heart and head you have, and for doing whatever you can.

Best wishes to you and your husband. I'm glad two kids from the 60's made it to lead this country to sanity and to decency.

Warmest wishes,

Ginny Klein

Ginny Klein

actions, overcharged with work, overflowed with ideas to realize, [illegible], she also help from volunteers: it is the plea to launch for that seventeenth anniversary.

HAPPY ANNIVERSARY TO TERRE DES FEMMES

AND CONGRATULATIONS, GRATITUDE AND LOVE

TO

ITS MOST WONDERFUL FOUNDER,

GENEVIEVE PIRET

AND THE WORK OF ALL THE SUPPORTERS AND VOLUNTEERS

THIS JANUARY 10TH IS THE ANNIVERSARY OF A COMMITMENT TO THE CHILDREN OF THE WORLD, A COMMITMENT TO SPEAK OUT AGAINST THEIR ABUSE, AND TO ACT IN THEIR BEHALF.

GENEVIEVE PIRET, FOUNDER AND LEADER OF TERRE DES FEMMES, ALONG WITH HER SUPPORTERS AND VOLUNTEERS HAVE DONE JUST THAT.

WITH PASSION FOR TRUTH AND JUSTICE AND COMPASSION FOR THE INJURED CHILDREN GENEVIEVE HAS BROUGHT FORTH TO THE WORLD, IN MANY WAYS, THE NEWS OF CHILD ABUSE IN ALL ITS TERRIBLE FORMS. WE THANK HER.

HER SUPPORTERS AND VOLUNTEERS HAVE CONTRIBUTED THEIR TIME AND RESOURCES TO PURPOSES OF TERRE DES FEMMES AND FOR THAT WE HONOR THEM ALL.

GENEVIEVE PIRET, FOUNDER AND LEADER OF TERRE DES FEMMES IS A NOBLE SPIRIT WHOSE INDIVIDUALITY AND GENUINE UNSELFISH CONCERN FOR CHILDREN, AND FOR TRUTH AND JUSTICE HAS INSPIRED US ALL. HER SUPPORTERS AND VOLUNTEERS HAVE CARRIED FORTH THESE IMPORTANT GOALS. AND FOR THAT WE THANK THEM VERY MUCH.

WITH ALL MY LOVE AND DEEP RESPECT, I WISH YOU HAPPY ANNIVERSARY AND MAY TERRE DES FEMMES CONTINUE FOR MANY, MANY YEARS TO BRING LIGHT WHERE THERE HAS BEEN DARKNESS IN THIS WORLD.

Ginny Klein

Ginny Klein, Ph.D., ACSW BCD
Co-Chairperson and Founder of:
The International Network vs. Incest and Child Sexual Abuse
The International Conference vs. Incest and Related Problems

January 10, 19 94

THE INDIGNATION OF GENEVIEVE PIRET

Founder, seventeen years ago, of Terre des femmes then of Terre des enfants, Geneviève Piret continues to be indignated and to fight against indifference.

page 11

SEVENTEEN YEARS OF TERRE DES FEMMES ET TERRE DES ENFANTS

The indignation of Geneviève Piret

(By Simone Guye)

"It is only our activ indignation which will make the sexual abuse of children, major indignity of our times, decrease!" Seventeen years after having created Terre des femmes, soon followed by Terre des enfants, Geneviève Piret fights, more then ever, against indifference.

Since seventeen years, Geneviève Piret tries to lift up mountains of indifference. And if she did not lose any bit of her courage, it is because often, when nobody believed it, she in fact succeeded to make barriers fall down, to save situations which appeared desperate, or to break walls of silence.

The Sexual Abuse must be denounced

Her actions can no more be counted: in favor of battered women or in distress, of children from the war (notably in Lebanon and now in Dubrownik); in favour of victims of incest and, more recently, of sexually abused children.

She has for example very actively contributed, this last year, to save the young Edwin from the hands of the pedophile who was abusing him. And, through the example of Edwin, she properly intends to make us remember that in Geneva too, the sexual abuse more common then we believe can and must be denounced and prevented.

We have to refuse the idea, very generalized, that we can do nothing. The good question is: "What can I do myself, and with whom can I do it?

The energy of revolt

Terre des femmes and Terre des enfants are movements of direct help, based on the solidarity between persons who know each other or not. They are informal movements, with sometimes local, sometimes internationalimpact and to which anyone can participate when one feels oneself motivated to act. No fee is requested, but of course, the gifts are always appreciated.

How do effective chains of solidarity start, from case to case?

Each of us, quotes Geneviève, **has a special sensibiliy in front of injustices we have we have felt ourselves. It is this personal implication which makes us say, with strength, with an indignation which comes out of the bottom of the heart, that we refuse that such injustices be reproduced. The old energies of revolt which sleep inside ourselves, we can discover that it is a joy to use them positively and to oberve that they are useful for others.**

The city of Geneva has granted a kiosk to Terre des femmes and Terre des enfants ("Le Kiosque", 35, boulevard des Tranchées, CH-1206 GENEVA, Switzerland, Phone +4122-789 13 13, Fax +4122-789 13 15): it is the place where anyone can come to ask questions, counsels or have simple informal conversations.

Plea for volunteers

Geneviève, often alone to organize numerous helping or preventive

16/01 '94 13:27 ☎4122 738 6432 HILTON GVA 008/008
JAN-16-'94 12:48 ID: LE KIOSQUE CH-1206 TEL NO: +41 22 789 13 15 #750 P02

16.1.94 Attention: Hillary Clinton

LES GENS D'ICI 11

MARDI 11 JANVIER 1994

GENÈVE

"La Suisse"
mardi 11 janvier 1994,
page 11,
Simone Guye (S.G.)

L'INDIGNATION DE GENEVIÈVE PIRET

Fondatrice, il y a dix-sept ans, de Terre des femmes, puis de Terre des enfants, [illegible] de se battre contre l'indifférence [illegible] 11

DIX-SEPT ANS DE TERRE DES FEMMES ET TERRE DES ENFANTS

L'indignation de Geneviève Piret

(S.G.) — « Ce n'est que notre indignation active qui fera décroître l'abus sexuel des enfants, indignité majeure de notre époque ! » Dix-sept ans après avoir créé Terre des femmes, bientôt suivie de Terre des enfants, Geneviève Piret se bat, plus que jamais, contre l'indifférence.

Il y a dix-sept ans que Geneviève Piret tente de soulever des montagnes d'indifférence. Et si elle n'a rien perdu de son courage, c'est que souvent, alors que personne n'y croyait, elle a bel et bien réussi à faire tomber des barrières, à sauver des situations qui paraissaient désespérées, ou à briser des murs de silence.

L'abus sexuel doit être dénoncé

Ses actions ne se comptent plus : en faveur des femmes battues ou en détresse, des enfants de la guerre (notamment au Liban et maintenant à Dubrovnik) ; en faveur des victimes d'inceste et, plus récemment, des enfants dont on abuse sexuellement.

Elle a par exemple très activement contribué, cette année, à sauver le jeune Edwin, adolescent philippin, des griffes du pédophile qui abusait de lui. Et à travers l'exemple d'Edwin, elle entend bien nous rappeler qu'à Genève aussi, l'abus sexuel, beaucoup plus répandu qu'on ne croit, peut et doit être dénoncé et prévenu.

« Il faut refuser l'idée, très généralisée, qu'on ne peut rien faire. La bonne question est : « Que puis-je faire, moi, et avec qui puis-je le faire ? »

L'énergie de révolte

Terre des femmes et Terre des en-[illegible] mouvements d'entraide directe, basés sur la solidarité entre des personnes qui se connaissent ou non. Ce sont des mouvements informels, de portée tantôt locale, tantôt internationale, et auxquels chacun peut participer lorsqu'il se sent motivé pour agir. Aucune cotisation n'est réclamée, mais il va de soi que les dons sont toujours bienvenus.

Geneviève Piret, ou « l'énergie de révolte ». (APPS)

Comment naissent, de cas en cas, des chaînes efficaces de solidarité ?

« Nous avons chacun, note Geneviève, une sensibilité spéciale face aux injustices que nous avons nous-mêmes ressenties. C'est cette implication personnelle qui nous permet de dire avec force, et avec une indignation qui [illegible] nous refusons que de telles injustices se reproduisent. Les vieilles énergies de révolte qui dorment en nous, on peut découvrir que c'est une joie de les utiliser positivement, et de constater qu'elles sont utiles à d'autres personnes. »

La ville de Genève a mis un kiosque à disposition de Terre des femmes et Terre des enfants (*« Le Kiosque », 35, boulevard des Tranchées, tél. 789 13 13*) : c'est le lieu où tout le monde peut s'adresser pour des questions, des conseils ou de simples conversations informelles.

Appel aux bénévoles

Geneviève, souvent seule à organiser [illegible] actions de secours ou de prévention, débordant de travail et débordant d'idées à réaliser, a elle aussi besoin de l'aide de bénévoles : c'est l'appel à lancer pour ce dix-septième anniversaire.

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Clinton Library

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Arbedo 051/044 16 1231

THE PRESIDENT HAS SEEN
1-2-94

Tony -
from trip -
B

JPX394
Bill Clinton
Hotel Intercontinental
Ch.PetitSaconnex 7/9
(1209)GENEVE

Dear President,
welcome in Switzerland.
The International Organization for Animal Protection (OIPA) with its
60 leagues in the 5 continents asks you to save the dog Taro.
Best wishes.
Dr. M. Schär-Manzoli President
Casa Orizzonti
CH-6517 Arbedo

GRAMM ✣ PTT TELEGRAMME ✣ PTT TEL

11/21/94

THE WHITE HOUSE

WASHINGTON

OFFICE OF THE STAFF SECRETARY

Fax Transmittal Sheet

TO: Lee Ann

Fax Number: 6221 **Phone Number:**

FROM: TODD Stern

SUBJECT:

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THE WHITE HOUSE

WASHINGTON

August 12, 1993

MEMORANDUM FOR THE DIRECTOR OF THE
OFFICE OF PERSONNEL MANAGEMENT

SUBJECT: Providing Employment Eligibility for Former Air Traffic Controllers

On December 9, 1981, President Ronald Reagan, by memorandum to the Director of the Office of Personnel Management, imposed an indefinite bar on employment by the Federal Aviation Administration (FAA) of striking members of the Professional Air Traffic Controllers Organization (PATCO), because the strike was not authorized by law. For nearly 12 years those PATCO members have been ineligible for employment with the FAA and certain other Federal positions.

I believe sanctions have been in effect long enough and that PATCO members should be eligible to apply, without preference, when there are openings with the FAA. It is time to put this chapter of labor-management relations behind us.

Accordingly, by this memorandum and pursuant to my authority to regulate Federal employment, I am repealing the bar. Former air traffic controllers who have been ineligible solely because of the bar hereafter will be eligible to apply for employment with the FAA.

William J. Clinton

UNITED STATES
OFFICE OF PERSONNEL MANAGEMENT
WASHINGTON, D.C. 20415

OFFICE OF THE DIRECTOR

Contact: Janice R. Lachance
(202) 606-1800

Joint Statement by The Secretary of Transportation
The Secretary of Labor
Director, Office of Personnel Management

Today, the President ended the indefinite bar on Federal Aviation Administration employment of striking air traffic controllers. While this Administration does not condone illegal job actions in the Federal Government, reasonable people would agree that, after twelve years, former air traffic controllers should be able to reapply for employment with the FAA. The President believes that it is time to put this chapter of labor-management relations behind us. Although the FAA needs to fill only a very limited number of jobs, it is appropriate that former controllers be eligible to fill some of those vacancies. Of course, rehired controllers would have to meet the same stringent employment, training, and certification requirements as any current controller.

In the spirit of the President's decision, the U.S. Office of Personnel Management will waive the rules that have denied these air traffic controllers the same employment opportunities as other former federal workers. OPM Director Jim King noted, "It's a good feeling to help bring to an end this chapter in our history."

"We need strong, cooperative relationships between management and labor in this country. This decision demonstrates how important changing the tenor of that relationship is to this Administration," said Secretary of Labor Robert Reich.

Secretary of Transportation Federico Peña added, "America's air traffic control system is the safest in the world, and we are committed to maintaining its integrity. Consistent with those goals, we believe that after more than a decade, the time has come to allow former air traffic controllers to apply for new openings in their field. Let us leave behind the divisions of the past."

--END--

1121 sent only this note to Prince; not the incoming

S.

ABOARD AIR FORCE ONE

1-19-94

Jonathan

Thanks for your letter and the quote from the Rabbi —

It helps

Bill Clinton

MR. PRESIDENT —

MY GRANDMOTHER — MY FATHER'S MOTHER — DIED THE WEEK BEFORE YOUR MOTHER.

A YOUNG RABBI, MAYBE 32 OR 33, OFFICIATED AT THE MEMORIAL SERVICE.

HE DIDN'T KNOW MY GRANDMOTHER VERY WELL, BUT HE SPENT A GOOD DEAL OF TIME WITH MY FATHER, HIS BROTHER AND SISTER, AND SOME OF THE GRANDCHILDREN IN THE DAYS PRECEDING AND IMMEDIATELY FOLLOWING HER DEATH. SO WHEN HE SPOKE AT THE SERVICE, HE HAD A GOOD SENSE OF HER LIFE, AND OF OUR FAMILY.

HE WAS VERY KIND, SOFT-SPOKEN AND GENTLE — AND THE ESSENCE OF WHAT HE SAID WAS PHENOMENALLY APPROPRIATE.

I WANTED TO SHARE IT WITH YOU.

IT IS A PHRASE FROM THE TALMUD, A PHRASE THE RABBI SAID HE HAS OFTEN PONDERED, AND THAT, IN SOME RESPECTS, MY GRANDMOTHER'S LIFE EXPLAINED.

I DIDN'T KNOW YOUR MOTHER VERY WELL; A FEW BRIEF CHATS IN LITTLE ROCK DURING THE CAMPAIGN, ONE OR TWO HERE. BUT I KNEW HER WELL ENOUGH — AND I KNOW YOUR LIFE AND WORK WELL ENOUGH — THAT WHEN I LEARNED OF HER DEATH I THOUGHT IMMEDIATELY OF THE RABBI, AND THE TALMUDIC PHRASE.

I HOPE YOU FIND COMFORT IN IT TOO:

"THERE IS NO END TO A GOOD WOMAN."

THANK YOU FOR THE PRIVILEGE OF BEING PART OF THE WORK WE DO HERE,

JONATHAN PRINCE

THE WHITE HOUSE

WASHINGTON

OFFICE OF THE STAFF SECRETARY

Fax Transmittal Sheet

TO: Jerry Reich / Sondra

Fax Number: 219-7659 **Phone Number:**

FROM: T. Stern

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NUMBER OF PAGES (including cover sheet): 10

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THE WHITE HOUSE
WASHINGTON

MR. PRESIDENT:

NEC checked with the V.P. and he agrees so long as they brief the high tech and biotech industries, in advance, on the suggested stradegy.

Les Samuel has a team making calls to the affected industries.

JOHN

I agree - [illegible]
Stick CLOSE w/
Bio-tech

THE WHITE HOUSE

WASHINGTON

January 8, 1994

MEMORANDUM FOR THE PRESIDENT

FROM: ROBERT E. RUBIN SM for REK

SUBJECT: **Attached Memo on Tax Extenders**

The attached is self explanatory, and we are recommending that we defer the extension of these tax provisions until a later time for Congressional and political reasons. If you disagree with this decision, since there are also political considerations in favor of acting now, please contact Secretary Bentsen or myself as soon as possible because we would need to include any tax provisions in the upcoming budget.

I think I agree
w/ this, except to create ~~Attest~~
OPs Green —

DEPARTMENT OF THE TREASURY
WASHINGTON, D.C.

94 JAN 8 P3:22

SECRETARY OF THE TREASURY

January 8, 1994

MEMORANDUM FOR THE PRESIDENT

FROM: **LLOYD BENTSEN**

SUBJECT: **FY 1995 BUDGET PROPOSALS -- EXPIRING TAX PROVISIONS**

SUMMARY: The targeted jobs tax credit (TJTC), exclusion for employer-provided educational assistance, and orphan drug tax credit will expire on December 31, 1994. The R&E tax credit and R&E 50-percent allocation rule expire mid-year in 1995. If you wish to propose the extension of some or all of these provisions, such proposals should be included in the FY 1995 budget submission to the Congress. The NEC has considered whether these provisions should be extended in the budget, and if so, for how long.[1] Bob Rubin asked me to provide this memorandum to you setting forth the NEC's recommendation and the major reasons for and against this approach. Some background information is attached.

RECOMMENDATION: The NEC considered four options for the treatment of expiring provisions in the budget: (1) do nothing (i.e., do not extend any of the expiring provisions); (2) propose a one-year extension of the exclusion for employer-provided educational assistance and the orphan drug credit (at a revenue cost of **$491 million** over 5 years) and make a commitment to include an extension of the R&E credit, 50-percent R&E allocation, and TJTC in the FY 1996 budget; (3) extend all of the expiring provisions for one year (**$3.2 billion**); or (4) extend all of the provisions permanently (**$14.4 billion**).

The discussion at the NEC meeting focused on options 1, 2 and 3. The consensus of the group was to recommend option 1, (i.e., not extending any of the expiring provisions in the FY 1995 budget). However, we also recommend privately contacting both the Members of Congress and key persons within the groups who support the provisions to advise them that we would expect to extend the provisions no later than in the FY 1996 budget. Also, in some cases the credits might be modified (e.g., the TJTC might be replaced with a different training or work incentive).

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[1] The NEC meeting was attended by Bob Rubin and representatives from the Vice President's office, Legislative Affairs, Treasury, OMB, and Labor. This memo was circulated to George Stephanopoulos and David Gergen.

RATIONALE:

The NEC recommends option 1 for the following reasons:

- All of the expiring provisions are in effect for all of 1994, and the R&E provisions do not expire until mid-1995. Therefore, it is not necessary to extend them at this time.

- Extending the expiring provisions will require revenue offsets. We are going to have a very difficult time financing Administration initiatives, even without the expiring provisions. We will have to propose ways to finance the GATT (approximately $11 billion over 5 years), Generalized System of Preferences ($2.7 billion), unemployment insurance extended benefits program, the dislocated workers program, and possibly welfare reform. During an election year, both Democrats and Republicans would oppose another round of tax increases, particularly after the enactment of the 1993 Budget Act.

- Tax bills during the Bush Administration (the "no new taxes" era) and last year's budget bill have depleted the inventory of "less controversial" revenue raising proposals. Moreover, there is a kind of "Catch 22" about revenue raisers. To the extent that we can develop "relatively easy" revenue raisers, presenting them in the budget would make them available to Members of Congress to pay for their own initiatives, which could include deficit reduction or miscellaneous member items. Any controversial items, however, will be criticized and rejected.

- Proposing both extension of the expiring provisions and the offsets would tend to result in criticism (e.g., from Republicans) of the offsets. By contrast, if the budget does not propose extension of the expiring provisions, it will include no tax provisions (other than those in the health care reform proposal). This puts you in an attractive position politically and will give Republicans and others (e.g., business groups) who want to extend the R&E and other provisions an incentive to work with the Administration and Democrats in Congress to develop acceptable revenue offsets. In essence, this could encourage them to become constructively engaged in the budget process and perhaps even come forward with revenue of their own to pay for extension of the expiring provisions.

- If we include these provisions in the budget, we would in effect be asking Congress to initiate a tax bill. This could result in amendments to lower the capital gains tax rate and add numerous miscellaneous member-sponsored proposals.

- The TJTC has been heavily criticized as an inefficient incentive, and supporters of the R&E credit have suggested changes (which would make the R&E credit more generous). The budget document should include language indicating that we are studying whether changes to these incentives should be proposed.

You should be aware, however, that there are disadvantages with our recommended approach.

- The budget serves as a statement of the Administration's priorities. Thus, failure to extend the R&E provisions will result in questions about our commitment to research and development by Senators Feinstein, Baucus, Danforth, Rep. Pickle and other proponents of the credit. Senator Feinstein is up for re-election this year so we can anticipate a particularly negative reaction from her. Similarly, proponents of the other provisions will also complain (e.g., Congressman Rangel about the TJTC). To forestall this criticism, as noted above, we believe that Congressional proponents and interest groups that support these provisions should be contacted before the budget is announced and reassured that we support these provisions. We would also explain to business groups that the provisions were excluded because we do not want a tax bill this year and would point out (in appropriate cases) that GATT, which will cost ~~approximately $11 billion~~, will provide significant benefits to the business community.

- Similarly, education and training are key Administration priorities. The failure to extend the exclusion for educational assistance and the TJTC -- which are the only tax provisions directly encouraging investment in human capital -- could generate an impression that contradicts our commitment to spurring increased private sector investment in education and training.

- The TJTC, exclusion for educational assistance, and orphan drug credit expire at the end of this year, while the R&E provisions expire next year. As a result, if Congress agreed with our recommendation we would probably have to extend these provisions retroactively next year (i.e., in all likelihood a bill would not be enacted until after they expired, even if they were included in the FY 1996 budget). These provisions, however, have been extended retroactively on several occasions.[2] Also note that there are alternative vehicles for the three provisions that expire this year (i.e., the orphan drug credit could be included in the Health Security Act, while the TJTC and the exclusion for educational assistance could be included in the dislocated workers legislation).

As noted above, the NEC also gave serious consideration to the second and third options. The second option, which would extend only the exclusion for educational assistance and the orphan drug credit, was rejected because we would appear to be favoring some provisions over others. It would evoke criticism from interest groups and Congressional proponents because it excludes the R&E credit, 50-percent R&E allocation rule and TJTC.

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[2] The R&E credit, for example, was extended retroactively in the 1986 Tax Reform Act, the Budget Act of 1990, and last year's Budget Act.

The third option would extend all five of the expiring provisions for one year and would cost **$3.2 billion** over 5 years. This package would provide for the minimal possible extension of the expiring provisions in 1994 so as to ensure that the provisions would not have to be extended retroactively at some point in 1995. This option was rejected in favor of the "no revenues" option for the reasons discussed above.

I should note that I have discussed the issue of the expiring provisions with Chairmen Rostenkowski and Moynihan. Chairman Rostenkowski indicated that he would be willing to go along with whatever we proposed (including, I believe doing nothing, i.e., the recommended option). Chairman Moynihan would prefer that we extend the educational assistance program. However, he will recognize the benefits of not being forced to deal with a tax bill this year, and I do not believe that he will object strenuously to the recommended option.

Attachment

BACKGROUND INFORMATION

1. In General. The provisions expiring before the end of FY 1995 are as follows:

December 31, 1993	• Health insurance deduction for self-employed individuals
December 31, 1994	• Targeted jobs tax credit • Exclusion for employer-provided educational assistance • Orphan drug tax credit
June 30, 1995	• R&E tax credit
July 30, 1995	• R&E 50-percent allocation rule

The Administration's FY 1994 budget proposed permanent extensions of all of these provisions but the support from interest groups for permanent extension was tepid at best. The final 1993 Budget Act included permanent extension of the low-income housing credit, the mortgage revenue bond program, small-issue industrial development bonds, and alternative minimum tax (AMT) relief for charitable contributions of appreciated property. All of these provisions expired in July of 1992 and were extended retroactively in the 1993 Budget Act.

2. Specific Provisions

Health insurance deduction for self-employed individuals. The extension of this provision is included in the health care proposal. The proposal in the health care bill permanently extends and increases the deduction from 25 percent to 100 percent. This proposal loses **$9.8 billion** over 5 years.

Targeted jobs tax credit (TJTC). The TJTC provides a maximum credit of $2,400 per employee to employers that hire individuals who are recipients of payments under means-tested transfer programs, economically disadvantaged or disabled. The Labor Department is responsible for overseeing state programs to certify eligible recipients.

A recent study by Labor's Inspector General analyzed the effectiveness of the TJTC in Alabama. This study found that most of the workers hired by companies would have been hired without the credit. Many employers taking the credit do not know at the time a job offer is extended if the individual will qualify for the credit. In addition, some employers are reluctant to ask the questions necessary to determine eligibility because of privacy concerns and a fear of discrimination suits by applicants who do not receive job offers. Thus most of the work is delegated to TJTC consultants. The Inspector General is currently conducting a nationwide study, which is expected later this year.

Despite these problems the TJTC has strong support on Capitol Hill (i.e., from Senators Boren and Baucus and Rep. Rangel). Not including an extension of the credit in the FY 1995 budget would allow a study of the TJTC to be undertaken during 1994. In addition, Secretary Reich is interested in developing tax incentives to encourage worker training, youth apprenticeships, etc. There is insufficient time to develop (and estimate) such proposals for inclusion in the FY 1995 budget and to determine whether they should supplement or replace the TJTC.

A permanent extension of the TJTC loses **$1.3 billion** in revenues over 5 years and a one-year extension loses **$307 million** over 5 years.

Employer-provided educational assistance. An employee may exclude the first $5,250 of educational assistance paid for or provided by the employer during the taxable year pursuant to an educational assistance program. The exclusion is not limited to job-related educational assistance, but does not apply to any education involving sports, games, or hobbies. A permanent extension loses **$2.5 billion** over 5 years and a one year extension loses **$467 million** over 5 years. Senator Moynihan is a strong supporter of this provision.

Orphan drug credit. The orphan drug credit is a 50% nonrefundable tax credit for expenses incurred in the testing of drugs for certain rare diseases. A rare disease is a disease that (1) affects less than 200,000 persons in the U.S. or (2) affects more than 200,000 persons but for which there is no reasonable expectation that businesses could recoup the costs of developing a drug for it from U.S. sales of the drug (e.g., Lou Gehrig's disease, Tourette's syndrome, etc.). Last year's budget did not include a proposal to extend this credit because this was considered a health care issue. The credit, however, was included in the final 1993 budget bill. The Administration's health care proposal does not currently propose to extend the credit, but it could be added to the bill. A permanent extension loses **$124 million** over 5 years and a one year extension loses **$24 million** over 5 years.

R&E credit. The R&E credit expires on June 30, 1995 (i.e., several months after the presentation of the FY 1996 budget). Supporters of the credit have raised a number of issues regarding the structure and efficacy of the credit. For example, many argue that the current method of computing the credit denies the credit to deserving businesses. The credit is available only for incremental research expenses in excess of a base amount. The base amount is determined based on data from the 1983-1988 period, and thus may not reflect the current circumstances of many businesses. Other issues have been raised by recent proposals involving enhanced incentives for collaborative research, and use of the credit to ease defense conversion by making the credit available to companies converting from high technology defense businesses to civilian businesses that may be relatively less research-intensive. These and other proposals were included in a bill introduced last year by Senator Danforth. The budget could indicate that the Administration plans to study these issues in 1994.

Senators Feinstein, Baucus, Danforth, and Rep. Pickle are strong proponents of the credit, and would criticize a failure to extend the credit in this year's budget. However, this should not be a decisive consideration. Whatever the budget includes, R&E proponents in Congress will always want us do more. If we propose a 1 year extension they will want a permanent extension. If we propose a permanent extension they want an enhanced credit for small businesses. So completely satisfying the R&E proponents should not be our goal.

In contrast to those who would enhance the credit and improve its incentive effects, others question whether any research credit is justifiable. In particular, Chairman Rostenkowski has long been skeptical of the efficacy of the credit and supported the reduction in the credit from 25 to 20 percent of incremental research expenditures as part of the Tax Reform Act of 1986.

Permanent extension of the R&E credit would lose **$7.6 billion** over 5 years. Thus, a permanent extension would require us to propose a package of significant revenue raisers. A one year extension would lose **$1.8 billion** over 5 years.

R&E allocation. In 1977, Treasury regulations were issued that required U.S. multinationals to allocate between foreign and domestic source income the amount of their research and experimentation expenses (the apportionment in general was according to the proportion of foreign and domestic sales or gross income). The effect of requiring U.S. multinationals to allocate some of their R&E deductions to foreign income, even though the R&E may have been entirely performed in the U.S., was to cause some U.S. multinationals to lose foreign tax credits. Viewing this result as undercutting the tax incentive for R&E, the Congress imposed a moratorium on the 1977 regulations, and has extended this moratorium nine times since 1977, the last time in the 1993 Budget Act. The moratorium provision in the 1993 Budget Act provided that 50 percent of R&E expense could be allocated to U.S. income before apportionment. It expires July 31, 1995. A permanent extension of the OBRA '93 moratorium would lose **$2.8 billion** over 5 years and a one-year extension would lose **$568 million** over 5 years.

Despite urging from the Congress to provide a 50 percent or better R&E allocation rule **by regulations** (which would spare the Congress the necessity of paying for an extension), the Treasury's judgment (and that of the Treasury in the previous Administration) is that the Treasury lacks the statutory authority to provide a tax **incentive** for R&E by regulations. The Treasury's authority is limited to an allocation rule that matches R&E expenses with the income produced by those expenses. We therefore believe that a 50-percent (or higher percentage) rule must be accomplished by legislation. If the R&E credit is extended, we believe that the R&E allocation rule should also be extended. On the other hand, if the R&E credit extension is deferred to the FY 1996 budget we suggest that the R&E allocation rule also be deferred and studied during 1994.

Sent

THE WHITE HOUSE

WASHINGTON

OFFICE OF THE STAFF SECRETARY

Fax Transmittal Sheet

TO: BUD MCLARTY

Fax Number: 719-635-5376

Phone Number:

FROM: John Podesta

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DATE: 1/21/94

NUMBER OF PAGES (including cover sheet): 2

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Original letter will be mailed out today.

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THE WHITE HOUSE

WASHINGTON

January 19, 1994

Shelley McLarty
20 Leaming Road
Colorado Springs, Colorado 80906

Dear Shelley:

Happy Birthday! Hillary and I hope that this special day is filled with all the joy and happiness you so greatly deserve.

Have a wonderful day!

Sincerely,

Bill Clinton

THESE ARTICLES
WENT TO LAKE
& RUBIN — orig to RM
~~WHAT DO I~~
~~DO WITH THE~~
~~MAGAZINE~~?

"MONSTER": THE HYPING OF A GANG LIFE / BEHIND IRAN'S VEIL

The Atlantic Monthly

DECEMBER 1993

HOW THE WORLD WORKS

BY JAMES FALLOWS

$2.95
Can. $3.50

MOVE OVER, ADAM SMITH.
RLD'S STRONGEST ECONOMIES
DIFFERENT PHILOSOPHY, AND
TATES HAD BETTER TAKE HEED


LIST

THE PRESIDENT HAS SEEN

Americans persist in thinking that Adam Smith's rules for free trade are the only legitimate ones. But today's fastest-growing economies are using a very different set of rules. Once, we knew them—knew them so well that we played by them, and won. Now we seem to have forgotten

How the World Works

by JAMES FALLOWS

IN Japan in the springtime of 1992 a trip to Hitotsubashi University, famous for its economics and business faculties, brought me unexpected good luck. Like several other Japanese universities, Hitotsubashi is almost heartbreaking in its cuteness. The road from the station to the main campus is lined with cherry trees, and my feet stirred up little puffs of white petals. Students glided along on their bicycles, looking as if they were enjoying the one stress-free moment of their lives. They probably were. In surveys huge majorities of students say that they study "never" or "hardly at all" during their university careers. They had enough of that in high school.

I had gone to Hitotsubashi to interview a professor who was making waves. Since the end of the Second World War, Japanese diplomats and businessmen have acted as if the American economy should be the model for Japan's own industrial growth. Not only should Japanese industries try to catch up with America's lead in technology and production but also the nation should evolve toward a standard of economic maturity set by the United States. Where Japan's economy differed from the American model—for instance, in close alliances between corporations which U.S. antitrust laws would forbid—the difference should be considered temporary, until Japan caught up.

Through the 1980s a number of foreign observers challenged this assumption, saying that Japan's economy might not necessarily become more like America's with the passing years. Starting in 1990 a number of Japanese businessmen and scholars began publicly saying the same thing, suggesting that Japan's business system might be based on premises different from those that prevailed in the West. Professor Iwao Nakatani, the man I went to Hitotsubashi to meet, was one of the most respected members of this group, and I spent the afternoon listening to his argument while, through the window, I watched petals drifting down.

Illustrations by J.C. Suarès

On the way back to the station I saw a bookstore sign advertising Western-language books for sale. I walked to the back of the narrow store and for the thousandth time felt both intrigued and embarrassed by the consequences of the worldwide spread of the English language. In row upon row sat a jumble of books that had nothing in common except that they were published in English. Self-help manuals by Zig Ziglar. Bodice-rippers from the Harlequin series. A Betty Crocker cookbook. The complete works of Sigmund Freud. One book by, and another about, Friedrich List.

Friedrich List! For at least five years I'd been scanning used-book stores in Japan and America looking for just these books, having had no luck in English-language libraries. I'd scoured stores in Taiwan that specialized in pirated reprints of English-language books for about a tenth their original cost. I'd called the legendary Strand bookstore, in Manhattan, from my home in Kuala Lumpur, begging them to send me a note about the success of their search (it failed) rather than make me wait on hold. In all that time these were the first books by or about List I'd actually laid eyes on.

One was a biography, by a professor in the north of England. The other was a translation, by the same professor, of a short book List had written in German. Both were slim volumes, which, judging by the dust on their covers, had been on the shelf for years. I gasped when I opened the first book's cover and saw how high the price was—9,500 yen, about $75. For the set? I asked hopefully. No, apiece, the young woman running the store told me. Books are always expensive in Japan, but even so this seemed steep. No doubt the books had been priced in the era when one dollar was worth twice as many yen as it was by the time I walked into the store. I opened my wallet, pulled out a 10,000-yen note, took my change and the biography, and left the store. A few feet down the sidewalk I turned around, walked back to the store, and used the rest of my money to buy the other book. I would always have regretted passing it up.

WHY Friedrich List? The more I had heard about List in the preceding five years, from economists in Seoul and Osaka and Tokyo, the more I had wondered why I had virtually never heard of him while studying economics in England and the United States. By the time I saw his books in the shop beneath the cherry trees, I had come to think of him as the dog that didn't bark. He illustrated the strange self-selectivity of Anglo-American thinking about economics.

I emphasize "Anglo-American" because in this area the United Kingdom and the United States are like each other and different from most of the rest of the world. The two countries have dominated world politics for more than a century, and the dominance of the English language lets them ignore what is being said and thought overseas—and just how isolated they have become. The difference shows up this way: The Anglo-American system of politics and economics, like any system, rests on certain principles and beliefs. But rather than acting as if these are the best principles, or the ones their societies prefer, Britons and Americans often act as if these were the *only possible* principles and no one, except in error, could choose any others. Political economics becomes an essentially religious question, subject to the standard drawback of any religion—the failure to understand why people outside the faith might act as they do.

To make this more specific: Today's Anglo-American world view rests on the shoulders of three men. One is Isaac Newton, the father of modern science. One is Jean-Jacques Rousseau, the father of liberal political theory. (If we want to keep this purely Anglo-American, John Locke can serve in his place.) And one is Adam Smith, the father of laissez-faire economics. From these founding titans come the principles by which advanced society, in the Anglo-American view, is supposed to work. A society is supposed to understand the laws of nature as Newton outlined them. It is supposed to recognize the paramount dignity of the individual, thanks to Rousseau, Locke, and their followers. And it is supposed to recognize that the most prosperous future for the greatest number of people comes from the free workings of the market. So Adam Smith taught, with axioms that were enriched by David Ricardo, Alfred Marshall, and the other giants of neoclassical economics.

The most important thing about this summary is the moral equivalence of the various principles. Isaac Newton worked in the realm of fundamental science. Without saying so explicitly, today's British and American economists act as if the economic principles they follow had a similar hard, provable, undebatable basis. If you don't believe in the laws of physics—actions create reactions, the universe tends toward greater entropy—you are by definition irrational. And so with economics. If you don't accept the views derived from Adam Smith—that free competition is ultimately best for all participants, that protection and interference are inherently wrong—then you are a flat-earther.

Outside the United States and Britain the matter looks quite different. About science there is no dispute. "Western" physics is the physics of the world. About politics there is more debate: with the rise of Asian economies some Asian political leaders, notably Lee Kuan Yew, of Singapore, and several cautious figures in Japan, have in effect been saying that Rousseau's political philosophy is not necessarily the world's philosophy. Societies may work best, Lee and others have said, if they pay less attention to the individual and more to the welfare of the group.

But the difference is largest when it comes to economics. In the non-Anglophone world Adam Smith is merely one of several theorists who had important ideas about organizing economies. In most of East Asia and continental Europe the study of economics is less theoretical than in England and America (which is why English-speakers monopolize Nobel Prizes) and more geared toward solving business problems.

In Japan economics has in effect been considered a branch of geopolitics—that is, as the key to the nation's strength or vulnerability in dealing with other powers. From this practical-minded perspective English-language theorists seem less useful than their challengers, such as Friedrich List.

Two Clashing World Views

BRITONS and Americans tend to see the past two centuries of economics as one long progression toward rationality and good sense. In 1776 Adam Smith's *The Wealth of Nations* made the case against old-style mercantilism, just as the Declaration of Independence made the case against old-style feudal and royal domination. Since then more and more of the world has come to the correct view—or so it seems in the Anglo-American countries. Along the way the world has met such impediments as neo-mercantilism, radical unionism, sweeping protectionism, socialism, and, of course, communism. One by one the worst threats have given way. Except for a few lamentable areas of backsliding, the world has seen the wisdom of Adam Smith's ways.

Yet during this whole time there has been an alternative school of thought. The Enlightenment philosophers were not the only ones to think about how the world should be organized. During the eighteenth and nineteenth centuries the Germans were also active—to say nothing of the theorists at work in Tokugawa Japan, late imperial China, czarist Russia, and elsewhere.

The Germans deserve emphasis—more than the Japanese, the Chinese, the Russians, and so on—because many of their philosophies endure. These did not take root in England or America, but they were carefully studied, adapted, and applied in parts of Europe and Asia, notably Japan. In place of Rousseau and Locke the Germans offered Hegel. In place of Adam Smith they had Friedrich List.

The German economic vision differs from the Anglo-American in many ways, but the crucial differences are these:

■ *"Automatic" growth versus deliberate development.* The Anglo-American approach emphasizes the unpredictability and unplannability of economics. Technologies change. Tastes change. Political and human circumstances change. And because life is so fluid, attempts at central planning are virtually doomed to fail. The best way to "plan," therefore, is to leave the adaptation to the people who have their own money at stake. These are the millions of entrepreneurs who make up any country's economy. No planning agency could have better information than they about the direction things are moving, and no one could have a stronger incentive than those who hope to make a profit and avoid a loss. By the logic of the Anglo-American system, if each individual does what is best for him or her, the result will be what is best for the nation as a whole.

Although List and others did not use exactly this term, the German school was more concerned with "market failures." In the language of modern economics these are the cases in which normal market forces produce a clearly undesirable result. The standard illustration involves pollution. If the law allows factories to dump pollutants into the air or water, then every factory will do so. Otherwise, their competitors will have lower costs and will squeeze them out. This "rational" behavior will leave everyone worse off. The answer to such a market failure is for the society—that is, the government—to set standards that all factories must obey.

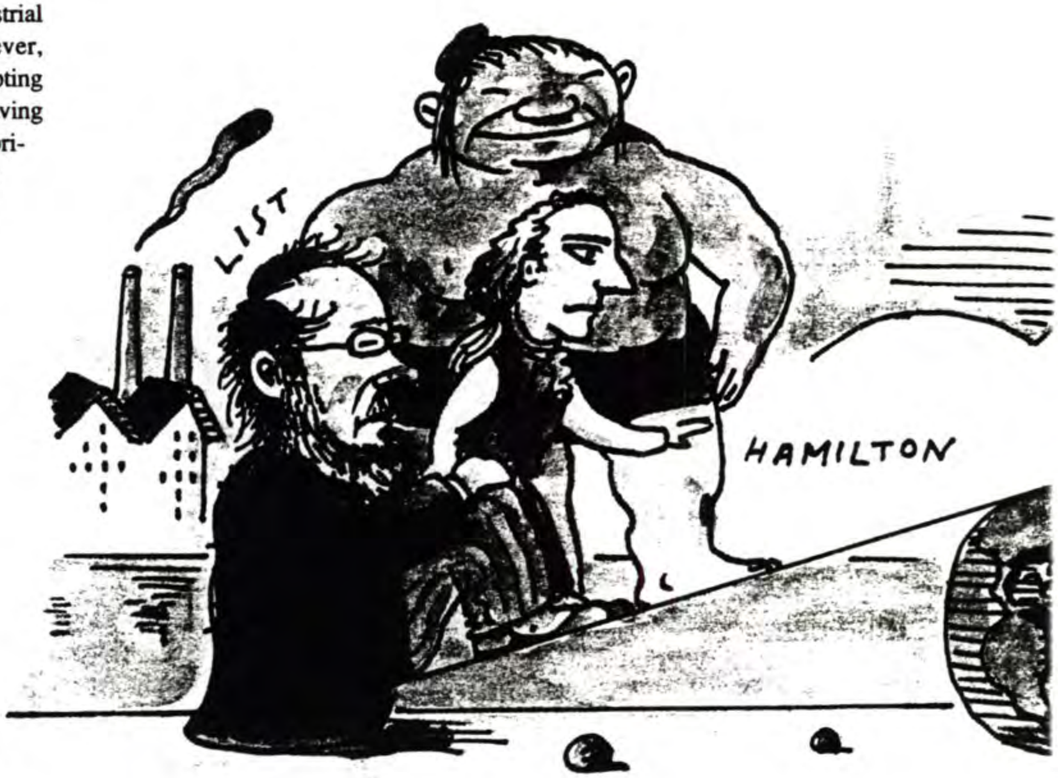
Friedrich List and his best-known American counterpart,

IN MOST OF EAST ASIA AND CONTINENTAL EUROPE THE STUDY OF ECONOMICS IS LESS THEORETICAL THAN IN ENGLAND AND AMERICA, MORE GEARED TO SOLVING BUSINESS PROBLEMS.

Alexander Hamilton, argued that industrial development entailed a more sweeping sort of market failure. Societies did not automatically move from farming to small crafts to major industries just because millions of small merchants were making decisions for themselves. If every person put his money where the return was greatest, the money might not automatically go where it would do the nation the most good. For it to do so required a plan, a push, an exercise of central power. List drew heavily on the history of his times—in which the British government deliberately encouraged British manufacturing and the fledgling American government deliberately discouraged foreign competitors.

This is the gist of List's argument, from *The Natural System of Political Economy*, which he wrote in five weeks in 1837:

> The cosmopolitan theorists [List's term for Smith and his ilk] do not question the importance of industrial expansion. They assume, however, that this can be achieved by adopting the policy of free trade and by leaving individuals to pursue their own private interests. They believe that in such circumstances a country will automatically secure the development of those branches of manufacture which are best suited to its own particular situation. They consider that government action to stimulate the establishment of industries does more harm than good. . . .
>
> The lessons of history justify our opposition to the assertion that states reach economic maturity most rapidly if left to their own devices. A study of the origin of various branches of manufacture reveals that industrial growth may often have been due to chance. It may be chance that leads certain individuals to a particular place to foster the expansion of an industry that was once small and insignificant—just as seeds blown by chance by the wind may sometimes grow into big trees. But the growth of industries is a process that may take hundreds of years to complete and one should not ascribe to sheer chance what a nation has achieved through its laws and institutions. In England Edward III created the manufacture of woolen cloth and Elizabeth founded the mercantile marine and foreign trade. In France Colbert was responsible for all that a great power needs to develop its economy. Following these examples every responsible government should strive to remove those obstacles that hinder the progress of civilisation and should stimulate the growth of those economic forces that a nation carries in its bosom.



■ *Consumers versus producers.* The Anglo-American approach assumes that the ultimate measure of a society is its level of consumption. Competition is good, because it kills off producers whose prices are too high. Killing them off is good, because more-efficient suppliers will give the consumer a better deal. Foreign trade is very good, because it means that the most efficient suppliers in the whole world will be able to compete. It doesn't even matter why competitors are willing to sell for less. They may really be more efficient; they may be determined to dump their goods for reasons of their own. In either case the consumer is better off. He has the ton of steel, the cask of wine, or—in today's terms—the car or computer that he might have bought from a domestic manufacturer, plus the money he saved by buying foreign goods.

In the Friedrich List view, this logic leads to false conclusions. In the long run, List argued, a society's well-being and its overall wealth are determined not by what the society can *buy* but by what it can *make*. This is the corollary of the familiar argument about foreign aid: Give a man a fish and you feed him for a day. Teach him how to fish and you feed him for his life.

List was not concerned here with the morality of consumption. Instead he was interested in both strategic and material well-being. In strategic terms nations ended up being dependent or independent according to their ability to make things for themselves. Why were Latin Americans, Africans, and Asians subservient to England and France in the nineteenth century? Because they could not make the machines and weapons Europeans could.

In material terms a society's wealth over the long run is greater if that society also controls advanced activities. That is, if you buy the ton of steel or cask of wine at bargain rates this year, you are better off, as a consumer, right away. But over ten years, or fifty, you and your children may be stronger as both consumers and producers if you learn how to make the steel and wine yourself. If you can make steel rather than just being able to buy it, you'll be better able to make machine tools. If you're able to make machine tools, you'll be better able to make engines, robots, airplanes. If you're able to make engines and robots and airplanes, your children and grandchildren will be more likely to make advanced products and earn high incomes in the decades ahead.

The German school argued that emphasizing consumption would eventually be self-defeating. It would bias the system away from wealth creation—and ultimately make it impossible to consume as much. To use a homely analogy: One effect of getting regular exercise is being able to eat more food, just as an effect of steadily rising production is being able to consume more. But if people believe that the reason to get exercise is to permit themselves to eat more, rather than for longer-term benefits, they will behave in a different way. List's argument was that developing productive power was in itself a reward. "The forces of production are the tree on which wealth grows," List wrote in another book, called *The National System of Political Economy.*

> The tree which bears the fruit is of greater value than the fruit itself. . . . The prosperity of a nation is not . . . greater in the proportion in which it has amassed more wealth (ie, values of exchange), but in the proportion in which it has more *developed its powers of production.*

■ *Process versus result.* In economics and politics alike the Anglo-American theory emphasizes how the game is played, not who wins or loses. If the rules are fair, then the best candidate will win. If you want better politics or a stronger economy, you should concentrate on reforming the rules by which political and economic struggles are waged. Make sure everyone can vote; make sure everyone can bring new products to market. Whatever people choose under those fair rules will by definition be the best result. Abraham Lincoln or Warren Harding, Shakespeare or *Penthouse*—in a fair system whatever people choose will be right.

The government's role, according to this outlook, is not to tell people how they should pursue happiness or grow rich. Rather, its role is that of referee—making sure no one cheats or bends the rules of "fair play," whether by voter fraud in the political realm or monopoly in the economic.

In the late twentieth century the clearest practical illustration of this policy has been the U.S. financial market. The government is actively involved—but only to guard the process, not to steer the results. It runs elaborate sting operations to try to prevent corporate officials from trading on inside information. It requires corporations to publish detailed financial reports every quarter, so that all investors will have the same information to work from. It takes companies to court—IBM, AT&T—whenever they seem to be growing too strong and stunting future competitors. It exposes pension-fund managers to punishment if they do not invest their assets where the dividends are greatest.

These are all ways of ensuring that the market will "get prices right," as economists say, so that investments will flow to the best possible uses. Beyond that it is up to the market to decide where the money goes. Short-term loans to cover the budget deficits in Mexico or the United States? Fine. Long-term investments in cold-fusion experimentation? Fine. The market will automatically assign each prospect the right price. If fusion engines really would revolutionize the world, then investors will voluntarily risk their money there.

The German view is more paternalistic. People might not automatically choose the best society or the best use of their money. The state, therefore, must be concerned with both the process and the result. Expressing an Asian variant of the German view, the sociologist Ronald Dore has written that the Japanese—"like all good Confucianists"—believe that "you cannot get a decent, moral society, not even an efficient society, simply out of the mechanisms of the market powered by the motivational fuel of self-interest." So, in different words, said Friedrich List.

■ *Individuals versus the nation.* The Anglo-American view focuses on how individuals fare as consumers and on how the whole world fares as a trading system. But it does not really care about the intermediate levels between one specific human being and all five billion—that is, about communities and nations.

This criticism may seem strange, considering that Adam Smith called his mighty work *The Wealth of Nations.* It is true that Smith was more of a national-defense enthusiast than most people who now invoke his name. For example, he said that the art of war was the "noblest" of the arts, and he approved various tariffs that would keep defense-related industries strong—which in those days meant sailcloth making. He also said that since defense "is of much more importance than opulence, the act of navigation is, perhaps, the wisest of all the commercial regulations of England." This "act of navigation" was, of course, the blatantly protectionist legislation designed to restrict the shipment of goods going to and from England mostly to English ships.

Still, the assumption behind the Anglo-American model is that if you take care of the individuals, the communities and nations will take care of themselves. Some communities will suffer, as dying industries and inefficient producers go down, but other communities will rise. And as for nations as a whole, outside the narrow field of national defense they are not presumed to have economic interests. There is no general "American" or "British" economic interest beyond the welfare of the individual consumers who happen to live in America or Britain.

The German view is more concerned with the welfare, indeed sovereignty, of people in groups—in communities, in nations. This is its most obvious link with the Asian economic strategies of today. Friedrich List fulminated against the "cosmopolitan theorists," like Adam Smith, who ignored the fact that people lived in nations and that their welfare depended to some degree on how their neighbors fared. In the real world happiness depends on more than how much money you take home. If the people around you are also comfortable (though, ideally, not as comfortable as you), you are happier and safer than if they are desperate. This, in brief, is the case that today's Japanese make against the American economy: American managers and professionals live more opulently than their counterparts in Japan, but they have to guard themselves, physically and morally, against the down-and-out people with whom they share the country.

In the German view, the answer to this predicament is to pay explicit attention to the welfare of the nation. If a consumer has to pay 10 percent more for a product made by his neighbors than for one from overseas, it will be worse for him in the short run. But in the long run, and in the broadest definitions of well-being, he might be better off. As List wrote in *The National System of Political Economy,*

> Between each individual and entire humanity, however, stands the NATION, with its special language and literature, with its peculiar origin and history, with its special manners and customs, laws and institutions, with the claims of all these for existence, independence, perfection, and continuance for the future, and with its separate territory; a society which, united by a thousand ties of mind and of interests, combines itself into one independent whole.

Economic policies, in the German view, will be good or bad depending on whether they take into account this national economic interest. Which leads to

■ *Business as peace versus business as war.* By far the most uplifting part of the Anglo-American view is the idea that everyone can prosper at once. Before Adam Smith, the Spanish and Portuguese mercantilists viewed world trade as a kind of battle. What I won, you lost. Adam Smith and David Ricardo demonstrated that you and I could win at the same time. If I bought your wine and you bought my wool, we would both have more of what we wanted, for the same amount of work. The result would be the economist's classic "positive sum" interaction. Your well-being and my well-being added together would be greater than they were before our trade.

The Germans had a more tragic, or "zero sum"–like, conception of how nations dealt with each other. Some won; others lost. Economic power often led to political power, which in turn let one nation tell others what to do. Since the Second World War, American politicians have often said that their trading goal is a "level playing field" for competition around the world. This very image implies a horizontal relationship among nations, in which they all good-naturedly joust as more or less equal rivals. "These horizontal metaphors are fundamentally misleading," the American writer John Judis has written in the magazine *In These Times*.

> Instead of being grouped horizontally on a flat field, nations have always been organized vertically in a hierarchical division of labor. The structure of the world economy more accurately resembles a pyramid or a cone rather than a plane. In the 17th century, the Dutch briefly stood atop the pyramid. Then, after a hundred year transition during which the British and French vied for supremacy, the British emerged in 1815 as the world's leading industrial and financial power, maintaining their place through the end of the century. Then, after about a forty-year transition, the U.S. came out of World War II on top of the pyramid. Now we are in a similar period of transition from which it is likely, after another two decades, that Japan will emerge as the leading industrial power.

The same spirit and logic run through List's arguments. Trade is not just a game. Over the long sweep of history some nations lose independence and control of their destiny if they fall behind in trade. Therefore nations must think about it strategically, not just as a matter of where they can buy the cheapest shirt this week.

In *The Natural System of Political Economy,* List included a chapter on this theme, "The Dominant Nation." Like many other things written about Britain in the nineteenth century, it makes bittersweet reading for twentieth-century Americans. "England's manufactures are based upon highly efficient political and social institutions, upon powerful machines, upon great capital resources, upon an output larger than that of all other countries, and upon a complete network of internal transport facilities," List said of the England of the 1830s, as many have said of the United States of the 1950s and 1960s.

> A nation which makes goods more cheaply than anyone else and possesses immeasurably more capital than anyone else is able to grant its customers more substantial and longer credits than anyone else. . . . By accepting or by excluding the import of their raw materials and other products, England—all powerful as a manufacturing and commercial country—can confer great benefits or inflict great injuries upon nations with relatively backward economies.

This is what England lost when it lost "dominance," and what Japan is gaining now.

■ *Morality versus power.* By now the Anglo-American view has taken on a moral tone that was embryonic when Adam Smith wrote his book. If a country disagrees with the Anglo-American axioms, it doesn't just disagree: it is a "cheater." Japan "cheats" the world trading system by protecting its rice farmers. America "cheats" with its price supports for

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HEART

Her sick heart is snap frozen
and sent across the city.
Soon researchers will wash
themselves in their sterile rooms,
ready to step into immaculate
gowns. Her buried body

has no use for it and those
who dissect it will never find
what interrupted its perfect beat.
That part is caught elsewhere
in the unknown, like the mystery
of why she bound herself

to the phone, dialed his number
over and over. How flushed
she was against the flat rings,
and when he finally answered—
out of breath from the rush
of someone else's touch—

there was nothing left
for him to give into
the receiver, and her heart
lost the rhythm it possessed
before she ever knew his voice.
Now it thaws

in the laboratory
as if it will share
its secret, and a pathologist
cuts into it—eager,
like a lover whose dream has died
and who keeps looking
for what killed it.

—SUSAN HAHN

IN ECONOMICS AND POLITICS ALIKE ANGLO-AMERICAN THEORY EMPHASIZES HOW THE GAME IS PLAYED, NOT WHO WINS OR LOSES. IF THE RULES ARE FAIR, THE BEST CANDIDATE WILL WIN.

sugar-beet growers and its various other restrictions on trade. Malaysia "cheated" by requiring foreign investors to take on local partners. And on and on. If the rules of the trading system aren't protected from such cheating, the whole system might collapse and bring back the Great Depression.

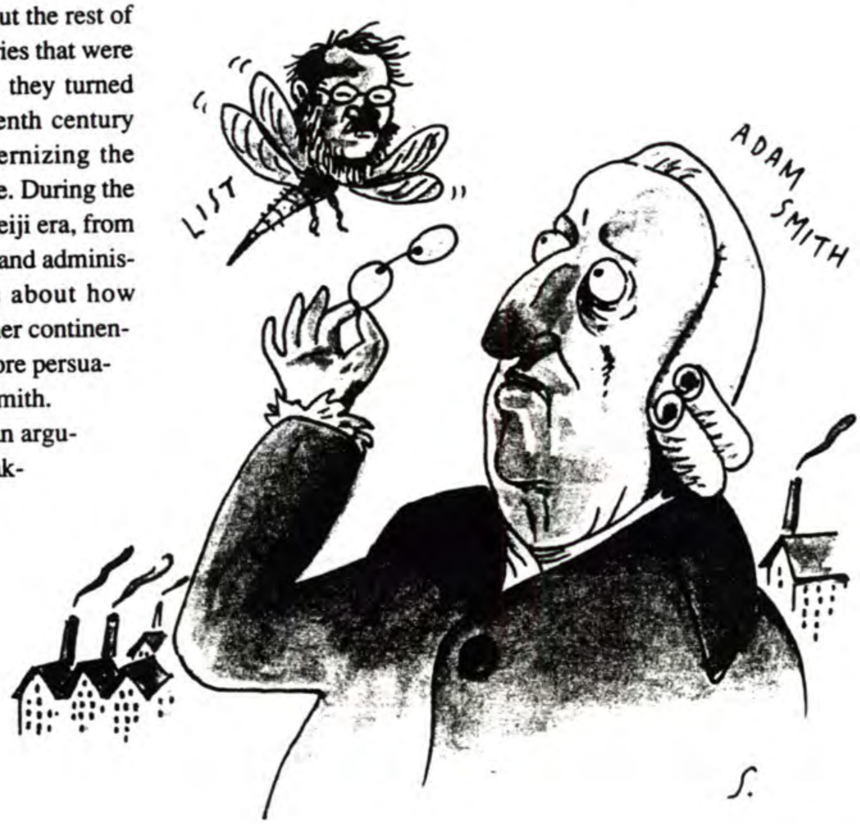
In the German view, economics is not a matter of right or wrong, or cheating or playing fair. It is merely a matter of strong or weak. The gods of trade will help those who help themselves. No code of honor will defend the weak, as today's Latin Americans and Africans can attest. If a nation decides to help itself—by protecting its own industries, by discriminating against foreign products—then that is a decision, not a sin.

Wishing Away Reality

WHY bring the Germans into it? Because they had a lasting effect—outside the Anglo-American bloc. With the arrival of Commodore Matthew Perry and his American warships in 1853, the Japanese realized that the Western world had far outstripped them in both commercial and military technology. Throughout the rest of Asia were examples of what happened to countries that were weaker than the Europeans or the Americans: they turned into colonies. Through the rest of the nineteenth century Japan's leaders devoted themselves to modernizing the country, so that it would no longer be vulnerable. During the decades of sustained creativity known as the Meiji era, from 1868 to 1912, Japanese scholars, industrialists, and administrators carefully studied Western theories about how economies grew. In the writings of List and other continental theorists they found a set of prescriptions more persuasive than the laissez-faire teachings of Adam Smith.

The most important part of the German-Asian argument is its near invisibility in the English-speaking world, especially the United States. The problem is not that Americans don't accept the German analysis: in many ways it is flawed. The problem is that they don't know that it exists. For instance, a popular dictionary of economics, edited by American and British economists and published in 1991, has a long explanation of the Laffer curve but no mention of List.

Some "real" economists are not quite so closed-minded. Since at least the early 1980s economists at several American universities have, in essence, rediscovered Friedrich List. (But not at all universities. In 1992 Robert Wade, the author of the influential book *Governing the Market*, went looking in the MIT library for List's work. Wade previously had been teaching in Korea, and there he had found plenty of copies of List's works in every campus bookstore. But in the catalogue of MIT's vast library system Wade found an entry for just a single volume by List, *The National System of Political Economy*, in an edition published in 1885. When Wade finally obtained the book, he found that it had last been checked out in 1966.) They have examined more and more failures in the Anglo-American model. They have found more and more evidence that "cheating," in the form of protectionism, can increase a nation's wealth. But very little of this news has trickled down to the realms where economics is usually discussed—newspaper editorials, TV talk shows, and the other forms of punditry that define reasonable and unreasonable ideas. When Americans talk about wealth, poverty, and their



nation's place in the world, they often act as if Adam Smith's theories were the only theories still in play.

After the World Bank's meeting in Bangkok in 1991 an editorial writer for *The Wall Street Journal* proclaimed that "with a few sickly exceptions, such as the decaying Communist holdouts of China and Vietnam, it seems that the ideas of Adam Smith, of Alfred Marshall, of Milton Friedman, have triumphed. We are all capitalists now."

This is true only if we accept the most vulgar and imprecise statement of what being a capitalist means. The economies that have grown most impressively over the past generation—from Germany to Thailand to Korea to Japan—all certainly believe in competition. Toyota and Nissan grow strong fighting each other. Daewoo and Hyundai compete on products from cars to computers to washing machines. But it would be very hard to find a businessman or an official in these countries who would say, with a straight face, that these industries grew "automatically" or in a "natural" way.

Two years ago another *Wall Street Journal* item, this one a review of a book on trade, said,

> [The author] puts it well: "The benefits of unilaterally adopting free trade now are greater than the benefits of multilateral adoption of free trade ten or fifteen years from now." Ask Hong Kong, which has totally shunned retaliation and not coincidentally has had the highest growth rate in the world over the past three decades.

Yes, indeed—ask Hong Kong. Since the end of the Second World War its policy has generally been laissez-faire. Compared with the rest of Asia, Hong Kong interferes less, plans less, and leaves market forces more on their own. What has been the result? During the 1980s the real earnings of Hong Kong's people rose more slowly than those of the people of Korea, Singapore, Thailand, and Taiwan. It is a busy, bustling entrepôt of merchants, especially those handling commerce in and out of China. But as an industrial center it is falling behind its neighbors.

In the mid-1980s David Aikman, a journalist for *Time*, wrote a book about the "miracle" economies of Asia. The successes of Taiwan and Hong Kong, he wrote, "demonstrate just how faithful, consciously or not, the rulers of these two countries have been to American conceptions of free enterprise."

Despite Hong Kong's lack of regulations, though, and despite the small businesses that abound in Taiwan, to say that either of these places behaves in an "American" way is to drain the term of all meaning. For example, as late as 1987 most imports of steel into Taiwan had to be approved by the nation's big steel maker, China Steel. The United States, too, protects its steel industry, but this is presumably not what the author meant in saying that Taiwan had been "faithful" to American concepts of free enterprise.

"There is a great deal of misinformation abroad about the trade regimes of [Taiwan and Korea], misinformation which is cultivated by the governments to conceal how much real protection there has been," the economist Robert Wade wrote in an exhaustive study that concentrated on Taiwan and rebutted virtually everything in Aikman's book.

> East Asian trade regimes are inconsistent in important ways with even a modified version of the standard economist's account of what a good trade regime looks like. . . . It is amazing and even scandalous that the distinguished academic theorists of trade policy . . . . *have not tried* to reconcile these facts about East Asian trade regimes with their core prescriptions [emphasis added]. . . .

Anyone who reads American or British newspapers or listens to political speeches in English could provide other examples. But they're not necessary. The Anglo-American theories have obviously won the battle of ideas—when that battle is carried out in English. The concepts of consumer welfare, comparative advantage, and freest possible trade now seem not like concepts but like natural laws. But these concepts are detached from historical experience.

When We Acted the Way They Do

IN 1991 the economic historian William Lazonick published an intriguing book, *Business Organization and the Myth of the Market Economy*. It examined the way industrial economies had behaved during the years when they became strongest—England in the eighteenth and nineteenth centuries, the United States in the nineteenth and twentieth centuries, and Japan from the late nineteenth century on.

These countries varied in countless ways, of course. The United Kingdom had a huge empire; the United States had a huge frontier; Japan had the advantage of applying technology the others had invented. Yet these success stories had one common theme, Lazonick showed. None of the countries conformed to today's model of "getting prices right" and putting the consumer's welfare first. All had to "cheat" somehow to succeed.

Friedrich List had railed on about exactly this point in the 1840s, when England was the only industrial success story to observe. The British were just beginning to preach free-trade theory in earnest. They abolished the famous Corn Laws in 1846, exposing their inefficient domestic farmers to competition from overseas. Yet over the previous 150 years England had strong-armed its way to prosperity by violating every rule of free trade. It would be as if Japan, in the 1990s, finally opened its rice market to competition, in the name of free trade—and then persuaded itself that it had been taking a hands-off approach to industry for the previous 150 years. When England was building its technological lead over the rest of the world, Lazonick said, its leaders did not care just about the process of competition. They were determined to control the result, so that they would have the strongest manufacturers on earth.

British economists began talking about getting prices right only after they succeeded in promoting their own industries by getting prices wrong. Prices were wrong in that cheap competition from the colonies was forbidden. They were wrong in that the Crown subsidized and encouraged investment in factories and a fleet. They were right in that they made British industry strong.

By the time Adam Smith came on the scene, Lazonick said, the British could start lecturing other countries about the folly of tariffs and protection. Why should France (America, Prussia, China . . .) punish its consumers by denying them access to cheap, well-made English cloth? Yet the British theorists did not ask themselves why their products were so advanced, why "the world market . . . in the late eighteenth century was *so uniquely under British control*." The answer would involve nothing like laissez-faire.

The full answer would instead include the might of the British navy, which by driving out the French and Spanish had made it easier for British ships to dominate trade routes. It would involve political measures that prevented the Portuguese and Irish from developing textile industries that could compete with England's. It would include the Navigation Acts, which ensured a British monopoly in a number of the industries the country wanted most to develop. The answer involved land enclosure and a host of other measures that allowed British manufacturers to concentrate more capital than they could otherwise have obtained.

Lazonick summed up this process in a passage that exactly describes the predicament of the United States at the end of the twentieth century:

> The nineteenth-century British advocated laissez-faire because, given the advanced economic development that their industries had already achieved, they thought that their firms could withstand open competition from foreigners. [They wanted] to convince other nations that they would be better off if they opened up their markets to British goods. . . . [They] accepted as *a natural fact of life* Britain's dominant position as the "workshop of the world" [emphasis added]. They did not bother to ask how Britain had attained that position. . . .
>
> But the ultimate critique of nineteenth-century laissez-faire ideology is *not* that it ignored the role of national power in Britain's past and present. Rather, the ultimate critique is that laissez-faire failed to comprehend Britain's economic future—a future in which, confronted by far more powerful systems of national capitalism, the British economy would enter into a long-run relative decline from which it has yet to recover.

America's economic history follows the same pattern. While American industry was developing, the country had no time for laissez-faire. After it had grown strong, the United States began preaching laissez-faire to the rest of the world—and began to kid itself about its own history, believing its slogans about laissez-faire as the secret of its success.

The "traditional" American support for worldwide free trade is quite a recent phenomenon. It started only at the end of the Second World War. This period dominates the memory of most Americans now alive but does not cover the years of America's most rapid industrial expansion. As the business historian Thomas McCraw, of the Harvard Business School, has pointed out, the United States, which was born in the same year as *The Wealth of Nations*, never practiced an out-and-out mercantilist policy, as did Spain in the colonial days. But "it did exhibit for 150 years after the Revolution a pronounced tendency toward protectionism, mostly through the device of the tariff."

ECONOMISTS AT SEVERAL AMERICAN UNIVERSITIES HAVE FOUND MORE AND MORE EVIDENCE THAT "CHEATING," IN THE FORM OF PROTECTIONISM, CAN INCREASE A NATION'S WEALTH.

American schoolchildren now learn that their country had its own version of the Smith-List debate, when Thomas Jefferson and Alexander Hamilton squared off on what kind of economy the new nation should have. During George Washington's first term Hamilton produced his famous "Report on Manufactures," arguing that the country should deliberately encourage industries with tariffs and subsidies in order to compete with the mighty British. Jefferson and others set out a more pastoral, individualistic, yeoman-farmer vision of the country's future. As everyone learns in class, Hamilton lost. He was killed in a duel with Aaron Burr; he is not honored on Mount Rushmore or in the capital, as Jefferson is; he survives mainly through his portrait on the $10 bill. Yet it was a strange sort of defeat, in that for more than a century after Hamilton submitted his report, the United States essentially followed his advice.

In 1810 Albert Gallatin, a successor of Hamilton's as Secretary of the Treasury, said that British manufacturers enjoyed advantages that could keep Americans from ever catching up. A "powerful obstacle" to American industry, he said, was "the vastly superior capital of Great Britain which enables her merchants to give very long term credits, to sell on small profits, and to make occasional sacrifices."

This, of course, is exactly what American manufacturers now say about Japan. Very little has changed in debates about free trade and protectionism in the past 200 years. If the antique language and references to out-of-date industries were removed from Hamilton's report of 1791, it could have been republished in 1991 and would have fit right into the industrial-policy debate. "There is no purpose to which public money can be more beneficially applied, than to the acquisition of a new and useful branch of industry" was the heart of Hamilton's argument—and, similarly, of many modern-day Democratic Party economic plans.

In the years before the American Revolution most leaders in the Colonies supported the concept of British protectionist measures. They were irritated by new taxes and levies in the 1760s and 1770s—but they had seen how effective Britain's approach was in developing industries. Through the nineteenth century the proper level of a national tariff was on a par with slavery as a chronically divisive issue. Northerners generally wanted a higher tariff, to protect their industries; farmers and southerners wanted a lower tariff, so that they could buy cheaper imported supplies. Many politicians were unashamed protectionists. "I don't know much about the tariff," Abraham Lincoln said, in what must have been an aw-shucks way. "But I know this much. When we buy manufactured goods abroad we get the goods and the foreigner gets the money. When we buy the manufactured goods at home, we get both the goods and the money." The United States had, just before Lincoln's term, forced the Japanese to accept treaties to "open" the Japanese market. These provided that Japan could impose a tariff of no more than five percent on most imported goods. America's average tariff on all imports was almost 30 percent at the time.

In the 1880s the University of Pennsylvania required that economics lecturers not subscribe to the theory of free trade. A decade later William McKinley was saying that the tariff had been the crux of the nation's wealth: "We lead all nations in agriculture; we lead all nations in mining; we lead all nations in manufacturing. These are the trophies which we bring after twenty-nine years of a protective tariff." The national tariff level on dutiable goods had varied, but it stayed above 30 percent through most of the nineteenth century. When the United States began to preach or practice free trade, after the Second World War, the average duty paid on imports fell from about nine percent in 1945 to about four percent in the late 1970s.

In addition to the tariff, nineteenth-century America went in heavily for industrial planning—occasionally under that name but more often in the name of national defense. The military was the excuse for what we would now call rebuilding infrastructure, picking winners, promoting research, and coordinating industrial growth. As Geoffrey Perret has pointed out in *A Country Made by War*, many evolutions about which people now say "That was good for the country" occurred only because someone could say at the time "This will be good for the military"—giving the government an excuse to step in.

In the mid-nineteenth century settlers moving west followed maps drawn by Army cartographers, along roads built by Army engineers and guarded by Army forts. At the end of the century the U.S. Navy searched for ways to build bigger, stronger warships and along the way helped foster the world's most advanced steel industry.

Just before Thomas Jefferson took office as President, the U.S. government began an ambitious project to pick winners. England surpassed America in virtually every category of manufacturing, and so, to a lesser degree, did France. Wheels turned and gears spun throughout Europe, but they barely did so in the new United States. In 1798 Congress authorized an extraordinary purchase of muskets from the inventor Eli Whitney, who was at the time struggling and in debt. Congress offered him an unprecedented contract to provide 10,000 muskets within twenty-eight months. This was at a time when the average production rate was one musket per worker per week. Getting the muskets was only part of what Congress accomplished: this was a way to induce, and to finance, a mass-production industry for the United States. Whitney worked round the clock, developed America's first mass-production equipment, and put on a show for the congressmen. He brought a set of disassembled musket locks to Washington and invited congressmen to fit the pieces together themselves—showing that the age of standardized parts had arrived.

"The nascent American arms industry led where the rest of manufacturing followed," Perret concluded. "Far from being left behind by the Industrial Revolution the United States, in a single decade and thanks largely to one man, had suddenly burst into the front rank." America took this step not by waiting for it to occur but by deliberately promoting the desired result.

For most of the next century and a half the U.S. government was less interested in improving the process of competition than in achieving a specific result. It cared less about getting prices right and more about getting ahead. This theme runs through the Agriculture Extension Service, which got information to farmers more rapidly than free-market forces might have; the shipbuilding programs of the late nineteenth century, which stimulated the machine-tool and metal-working industries; aircraft-building contracts; and medical research.

What America actually did while industrializing is not what we tell ourselves about industrialization today. Consumer welfare took second place; promoting production came first. A preference for domestic industries did cost consumers money. A heavy tariff on imported British rails made the expansion of the American railroads in the 1880s costlier than it would otherwise have been. But this protec-

tionist policy coincided with, and arguably contributed to, the emergence of a productive, efficient American steel industry. The United States trying to catch up with Britain behaved more or less like the leaders of Meiji (and postwar) Japan trying to catch up with the United States. Alexander Hamilton, dead and unmourned, won.

Thomas McCraw says that the American pattern was not some strange exception but in fact the norm. The great industrial successes of the past two centuries—America after its Revolution, Germany under Bismarck, Japan after the Second World War—all violated the rules of laissez-faire. Despite the obvious differences among these countries, he says, the underlying economic strategy was very much the same.

Neat Theory, Messy Reality

NEAR the end of his long career the great economist Joseph Schumpeter speculated on what he would do if he were young again. Suppose he woke up as a bright-eyed graduate student in economics rather than a wizened professor. What would he choose to do with his new allotment of years?

Modern economics research followed three main branches: economic theory, statistics, and economic history. By the time Schumpeter wrote, economic theory was clearly the most glamorous of the callings, and statistics seemed the most practical. But, Schumpeter said, he would surely devote his life to studying economic history.

This may seem a boring choice, and if it does, it goes to the heart of how we think about economic life. Since the end of the Second World War, and perhaps since the time of Adam Smith, the glamorous work in economics has been deeply unhistorical. In part this is just a matter of cosmetics. With each passing year since 1945 American economics textbooks have been jammed fuller and fuller of formulas, graphs, mathematical variables, and regression analyses. At the same time, they have lightened the dosage of real examples from the real world. In the mid-1980s researchers surveyed 212 students at the most prestigious American graduate schools of economics, asking them what factors were more or less essential for success as a professional economist. Sixty-five percent of the graduate students said it was very important to be "smart in the sense of being good at problem-solving" in order to succeed as an economist. Only three percent said it was very important to have "a thorough knowledge of the economy."

THE GREAT INDUSTRIAL SUCCESSES—AMERICA AFTER ITS REVOLUTION, GERMANY UNDER BISMARCK, JAPAN AFTER THE SECOND WORLD WAR—ALL VIOLATED THE RULES OF LAISSEZ-FAIRE.

Modern economics has become exceedingly precise about one kind of problem but less and less interested in another. Anglo-American economists devote much of their effort to "equilibrium studies" and "constrained optimization"—in essence, laboratory experiments involving economics. In a laboratory you can control many variables—the temperature, the amount of lighting or contamination—so as to focus on the single factor you want to understand. In mathematical economics you can "control" many variables by taking them for granted, and then focus on what you want to understand. You assume, as a given, that some people are owners and others are laborers, that Korea has a semiconductor industry and Mali does not, that women earn less than men. Then you calculate, within these constraints, the best possible outcome—what trade policy Mali should pursue, what rate of inheritance tax will make an economy grow fastest.

Within this set of laboratory conditions the tools of economic analysis are very powerful. By getting prices right Mali will make the best use of the resources it has at hand. But the most interesting and important economic questions concern the assumptions and constraints themselves. Why are some countries chronically so poor? Why have others done so much to pull ahead?

Economic analysis can tell you where you can get the best return on an investment this week. It can tell you how a change in tax rates might affect the unemployment rate this year. It can even tell you how a new tariff level is likely to affect the volume of world trade over the course of this decade. But it has a very hard time accounting for the larger rises and falls in world affairs: why it was England and not France that dominated the nineteenth-century world economy; why it was Germany and not Poland that industrialized so rapidly at the end of that century; why Japan caught up in the early twentieth century and again now. Economics is a wonderful tool for analyzing trends and changes *once nations have assumed their ranks*. But getting prices right is not so good for understanding how they got to those ranks, and why the ranks change.

This would not be a serious failing except that most people believe that getting prices right tells us about the long run as well as the short. Indeed, the long-run evidence suggests that getting prices wrong—that is, violating the rules of Anglo-American economics—may be indispensable for nations that are trying to get ahead.

In the late 1980s the economist Alice Amsden wrote a book about the Korean economy called *Asia's Next Giant*. In that book and subsequent writings she said that Korea's post–Second World War rise had much in common with Japan's industrial miracles and with Germany's industrialization in the nineteenth century. In none of these cases, she said, did the country get prices right, letting investors and consumers freely decide where they would put their money. The real secret, she said, was that unless a country deliberately rigged the markets so as to get prices wrong, it had no hope of catching up in the industrial race.

THE key to capitalistic development, in this view, is finally capital. If you want to build factories, leapfrog your competitors in efficiency, train your people so that they can outproduce others, you need money. If you are a poor nation, you don't have enough money sitting around to begin with; and if you are a rich nation, you are likely to have committed your extra money to pension and benefit programs, as the United States has now. Still, you need the money—for new factories, for research, for distribution networks. How do you get it?

Historically, Amsden concluded, successful nations have gotten extra money by rigging their markets. The goal is to get people to save more of their paychecks, and banks to lend more money for long-term industrial expansion, than normal market forces would allow. To make its people save, a country needs to jack up interest rates; to allow businesses to invest, it needs to keep the rates low. Under Anglo-American theory the country would just let these two forces fight it out until they reached the natural equilibrium. But that is not how successful development has actually occurred, Amsden said.

> Industrial expansion depends on savings and investment, but in "backward" countries especially, savings and investment are in conflict over the ideal interest rate, high in one case, low in the other. In Korea and other late-industrializing countries, this conflict has been mediated by the subsidy. . . . Thus, the government established multiple prices for loans, only one of which could possibly have been "right" according to the law of supply and demand. Moreover, the most critical price—that for long-term credit—was wildly "wrong" in a capital-scarce country, its real price, due to inflation, being negative.

That is, in order for Korea to get enough money into the hands of its industries, it needed to bend the rules. The crucial thing about this undertaking, Amsden emphasized, is that it was not some Korean quirk. Every country that has caught up with others has had to do so by rigging its rules: extracting extra money from its people and steering the money into industrialists' hands.

Today's Americans and Britons may not like this new system, which makes their economic life more challenging and confusing than it would otherwise be. They are not obliged to try to imitate its structure, which in many ways fits the social circumstances of East Asia better than those of the modern United States or Britain. But the English-speaking world should stop ignoring the existence of this system—and stop pretending that it doesn't work.

This is the second of three articles. Next month: "What Is an Economy For?"

THE PRESIDENT HAS SEEN

Not Fanatics, and Not Friends

by EDWARD G. SHIRLEY

The leaders of post-revolutionary Iran may claim to be keeping the faith—but they know how badly they need the West. What should we do when they say it's time to let bygones be bygones?

THE United States, mostly to its credit, has a tremendous capacity to forgive and forget. We forgave Britain for being a domineering mother and burning down the White House; we forgave Germany for its recurring bouts of megalomania and debasement of Western culture; we forgave Japan for bombing us on a Sunday morning and bringing us into the wickedness of the Second World War; and we have already forgiven Russia for twentieth-century totalitarianism and the very costly seventy-year war against communism.

One nation, however, has managed to engender an abiding distaste in the United States, even though the injury it has done us is comparatively minor. The antagonism derives in part from the especially durable and provocative images of the American-Iranian confrontation: the hostages, the aborted rescue mission Desert One, and yellow ribbons everywhere; Iranian women defeminized by black chadors and repressive Islamic laws; TV pictures of a sea of fervent believers, men, women, and children, shouting in frightening monotony "*Marg bar Amrika*" ("Death to America"); leaders referring repeatedly to the United States as the "Great Satan"; unforgettable photographs of the Ayatollah Ruhollah Khomeini, alive and dead. Iran's continuing system of government by the clergy is perhaps more disturbing and confusing to laical America than revolutionary socialism was.

For American politicians, Iran has been a booby trap ensnaring anyone foolish enough to touch it. When American politicians and their advisers attempt to deal with revolutionary Iran, they get caught in an unfair competition that pits the rational and straightforward American bureaucrat against the merchant Persian, a character defined in the Western imagination by his centuries-old genius for deception.

Nearly fifteen years have passed since the U.S. embassy in Tehran was closed and American official personnel were more or less denied access to Iran

Illustrations by Christopher Kuhl

(the few days with Oliver North and company in Tehran do not really count). The U.S. foreign-affairs agencies, primarily the Department of State and the Central Intelligence Agency, grow noticeably, and naturally, more ignorant about Iran as fewer and fewer officers remain who have had meaningful contact with Iran, let alone sustained contact with Iranians of the Islamic Republic. Many American officials and journalists who must deal regularly with Iranian matters have probably never had an Iranian friend, and cannot read a Persian newspaper or talk to an Iranian in his native tongue.

This general ignorance fortifies the well-founded political fear of coping with Iran. With a few exceptions involving direct contact—the Iran-contra affair and the latter stages of the Iran-Iraq War, in which the U.S. Navy struck Iranian Revolutionary Guard units and (accidentally) Iran Air Flight 655—the American response to the Islamic Republic has been to embargo it, wound it through support of Iraq during the Iran-Iraq War, and hope that the Republic dies of exhaustion before the revolution can spread.

This response has not been without effect. Though Iranian revolutionaries can still draw worldwide attention through assassinations and support for other terrorist activities, which perpetuate the illusion of a continuing national revolutionary commitment, many of the Iranian people have grown nostalgic for the pre-revolutionary past. Inside Iran the revolution is moribund among its former standard-bearers: the young urban male poor, lower- and middle-class bureaucrats, lay Islamic intellectuals (many of whom are bitterly in exile), and even a significant portion of the younger clergy.

But should the U.S. government seriously alter its approach to Iran? Iran has intermittently been a strategic focal point of Western foreign policy since the early seventeenth century. Does it remain too important to ignore even now, after the collapse of the Soviet Union and the denouement of the "Great Game"? Could the U.S. government treat with Iran and avoid making unseemly moral compromises with a regime that has unquestionably had a hand in the killing and kidnapping of American and European citizens? The death edict against the novelist Salman Rushdie is a successful attack on and intimidation of Western civilization.

Should the United States choose a policy of forbearance toward Iran, given that America's past actions in Persia have been of disputable benefit to either country?

It is hard to imagine the rise of Khomeini without Shah Mohammad Reza Pahlavi's decisions to make legal reforms that gave a limited franchise to women and Bahais in 1962, to redistribute agricultural land in 1963, and to grant extraterritorial status to U.S. military advisers in Iran (thus freeing them from complying with Iranian law) in 1964. The Shah's decisions were of American inspiration; Khomeini's reaction to them signaled the beginning of the Islamic Revolution, one of the great revolutionary movements of the twentieth century and one that, like the Russian, brought unimaginable suffering to millions who had expected a better world with the fall of the old regime.

Let us look at these questions from the Iranian side. Does the government of Iranian President Ali Akbar Hashemi Rafsanjani and Khomeini's clerical successor Ali Khameneh'i stand to gain or lose by pursuing more-normal relations with the United States, including the restoration of diplomatic relations? Is "*Marg bar Amrika*," however rhetorical the incantation, indispensable to the legitimacy of clerical rule?

The Centrality of America

THOUGH American policymakers are often accused of wanting to remake the world in their own image, the accusation miscasts America's relations with the Third World, especially with the Islamic Middle East. Even under President George Bush, who was zealous in foreign affairs, the United States remained focused primarily on the sources of its culture, Europe, and of its economic anxieties, Japan. The rapid development and even more rapid conclusion of the Gulf War against Saddam Hussein demonstrates again the fickleness of U.S. foreign policy in the Islamic world. America has stood by Israel alone—the permanent exception in the Middle East, because Israel is a Western country inextricably bound to our history both modern and ancient.

It is impossible to frame the questions of American-Iranian relations properly until we appreciate the centrality of the United States in Iranian minds. Many Iranian clerics, Khomeini in particular, well understood the battle that was taking place in the hearts and minds of Iranians. Under the Shah, Americanized culture irrevocably alienated hundreds of thousands, perhaps millions, of Iranians from their roots. The old Westernized elites, who were educated in France or England in the latter part of the past century and the first half of this one, and who often took their Persian poetry tutors with them to Europe, were replaced by Americanized Iranians, overwhelmingly from the emerging middle class, whose understanding and appreciation of traditional Persian society was considerably less.

Though fueled by the dissatisfaction of Western-educated Iranians with the Shah's corrupt regime, Khomeini's revolution was also an attempt by traditional Iranian society to halt the destructive, vulgarizing process of Westernization. The war that Khomeini declared in 1964 when he announced that the Shah's regime was illegitimate and captive to American dictates, and which he perhaps thought had been won on his return to Iran in 1979, has continued unabated.

It is a war America will win. If word went out in the streets of southern Tehran—the populous city quarter most closely associated with revolutionary fervor and the oppressed poor—that everyone could choose either a prayer at Khomeini's tomb and imminent paradise or a U.S. immigrant visa and Los Angeles, we would once again see the U.S. embassy besieged, assuming it reopened (it is now a training center for the Revolutionary Guard Corps). Many might go to Khomeini's tomb, but few would do so without first ensuring that a close family member had made his or her way to the embassy. Contrary to Khomeini's most cherished intentions, the revolution connected the United States to a pre-revolutionary golden age.

Rafsanjani may know how popular a restoration of relations with the United States would be; he might even attempt a rapprochement with the United States as a means of shoring up his support. Today the militant Iranian expatriate and internal opposition—constitutionalists, monarchists, and the Mojahedin-e Khalq (the strongest and at least formerly one of the most anti-American of the opposition groups) alike—greatly fears that the U.S. government will restore diplomatic relations with clerical Tehran.

There are many reasons why Rafsanjani might not seek a restoration of diplomatic relations: what many observers believe is a personal dislike of the United States; fear of assassination attempts by hard-core xenophobes; concern that such a dramatic move would place him in bitter opposition to Khameneh'i, who appears to be much more deeply anti-American than Rafsanjani; and a real fear for the future of the revolutionary regime, which might be philosophically and, more important, physically threatened by the reopening of the U.S. embassy. (The embassy, after all, in 1953 participated with important members of the Iranian clergy in the successful coup d'etat against Prime Minister Mohammad Mosaddeq.) The Iranians ascribe tremendous power to covert enterprises. It is one thing for the clerical regime to deal with the U.S. government from a distance; it is an entirely different matter to allow it into downtown Tehran.

But a fascinating and confusing facet of Iranians is their ability to entertain and cajole the enemy if he appears implacable and insurmountable. The United States has, in Iranian eyes, shown itself to be both. Before almighty America the Soviet Union vanished and Iraq's army was crushed in hours. This latter point made an immense impression on the Iranian clergy and military, who for years had watched Iran's soldiers in the Iran-Iraq War gain and lose ground with Somme-like slaughter and significance.

America's military performance reminded the Iranians of the incomparable differences in execution between First World (non-Muslim) and Third World (Muslim) wars. Saddam Hussein's survival, though troubling to a growing body of Western opinion which continues to worry about U.S. staying power and strategic insight, may well reinforce Iran's fear of America. As many Iranians see it, the decision to halt the Gulf War revealed not America's ignorance and weakness but its cunning and power: America chose only to chasten its errant proxy, leaving Saddam Hussein in place so that he could once again threaten the Islamic Republic.

Rafsanjani may know how popular among Iranians a restoration of relations with the United States would be; he might even attempt a rapprochement.

The efforts of those in Tehran who seek to replace the American presence and money in Iran with less-intimidating assistance have not been very successful. Though Japanese investment may total many millions of dollars, it has fallen far short of the much greater amounts that the Iranians had hoped for. The Europeans are back (the Germans never left), but the levels of their investment and assistance, relative to the immense task of reconstruction in Iran, are low. A primary reason for insufficient foreign non-American investment in Iran has been reluctance on the part of investors, particularly the Japanese, to put their resources into an unstable country with a government that has been in an undeclared state of war with the world's premier power. Iran's rulers know this very well.

But Iranian officials and many Western commentators now no longer regard the Iranian economy as hostage to a rapprochement with the United States. According to them, an American green light on reinvestment in the Islamic Republic has been rendered superfluous by the changed nature of the Middle East. Iran is no longer at the gates of Baghdad, Saddam Hussein's villainy and the Gulf War have made Iranian Shi'ism seem less menacing, and Khomeini is dead. The Islamic Republic is not so disturbing as it once was to foreign investors.

Indeed, foreign investment, including American investment, is returning to Iran. But Iranians, like Arabs, love to reify fiction into fact through language. The consummated deals are probably far fewer and smaller in scale than Iranian officials and the press claim. Foreign businessmen do feel more comfortable in Iran since the death of Khomeini, but they also remain acutely conscious of the tension, disorder, moroseness, and continuing violence of post-Khomeini Iranian life. Elemental doubts remain among even the most optimistic foreign entrepreneurs and business executives about the reliability, creditworthiness, and true intentions of their Iranian counterparts—doubts that can recur sharply when a translator of *The Satanic Verses* and a former Prime Minister are stabbed to death, or when an Iranian city erupts in a huge riot after a canceled soccer game or a change in urban housing policy.

More than four years after the end of the Iran-Iraq War the Iranian economy remains in horrible shape, and the clerical government must deal with expectations, largely formed during the last years of the Shah's rule, that the revolution would bring a better existence, especially to the *mostazafin*, the oppressed poor. Though some Iranians would probably like Iran to become an autarkic state or to trade only with those countries that pose little cultural threat (the former Soviet Union, Japan, the Koreas), the majority in Iran—including the clergy—know that to improve the economy Iran must reach out to the West, the civilization with which Iranian businessmen and functionaries are most comfortable and best connected. And Iran must become more prosperous if the mullahs are to retain any loyalty among the poor, who died by the thousands for an undelivered victory in Iran's justified war against Iraq. After last summer's presidential elections—in which he was re-elected with the lowest percentage of the vote ever for an Iranian President—the pressure on Rafsanjani has been mounting to do something about the economy, which despite certain signs of growth and excitement remains drastically underdeveloped.

Anti-clericalism, the reverse side of Persia's historical devotion to its Shi'ite divines, is rampant in post-Khomeini Iran. This hostility toward politicized clerics remains the single greatest threat to clerical rule, and its intensity is tied directly to the health of the economy. Even among the traditional merchant allies of the clergy, who were a key element of the revolutionary success in 1978, the perception grows that the political clergy have changed state corruption, which under the Shah was notorious but historically comprehensible, into a Persian nightmare in which even the best connected cannot reliably obtain safe passage through government bureaucracies.

Strengthened by the political preeminence and economic ineptitude of the mullahs, anti-clericalism intertwines ever more tightly with the defining event of the Islamic Revolution: Iran's surrender in the Iran-Iraq War. For an Iranian who suffered and survived the eight-year war, the memory of that immense struggle is divided into two chapters. The first runs from September of 1980, when Iraq invaded Iran, to May of 1982, when the Iranian army recaptured the port of Khorramshahr. With the ejection of the Iraqis from Khorramshahr in a superbly fought battle, the Iranians regained their pride and almost all their territory. Popular memory in Tehran now views those first twenty-one months as an entirely different war, one that ended in a resounding victory for the Iranian nation and the regular, formerly imperial, Iranian army. The common man credits the regular Iranian army, not the Revolutionary Guard Corps, the clergy's shock troops, with the victorious role in the Khorramshahr fighting.

The second chapter, which followed Khomeini's decision on June 21, 1982, to take the war into Iraqi territory, is now seen as the "Clerics' War," six years of useless slaughter that left the nation impoverished. The more difficult daily economic life becomes in the Islamic Republic, the more the memories of war will work against the clerics and their praetorians, the Revolutionary Guard, who enthusiastically backed Khomeini's war *à outrance*. Few Iranians will care to remember that Rafsanjani counseled against taking the war into Iraq in the summer of 1982.

Clerical Politics

IN 1985 Khomeini authorized Rafsanjani to negotiate with his two most detested "Satans," the United States and Israel. The Iranians, desperate to find an effective means of combating the Iraqis' advantages in tanks and planes, compromised principle for the possibility of obtaining American TOW and HAWK missiles. Today Rafsanjani is once again nearly desperate, while the revolutionary passion inside the country, particularly among the clerics, has faded. Is it so unlikely that Rafsanjani will one day hear Khameneh'i declare that the Great Satan has been thoroughly humbled for fourteen years by the Islamic Republic, thus vouchsafing the return of the American embassy?

Khomeini's death has compelled the Iranian clerics to devise a system of government to replace the state and constitution that were essentially created by him, and it has thrown Iranian society into a search for another *rahbar*, or supreme leader. Though Rafsanjani has attempted to assume Khomeini's political mantle, he cannot possibly hope to achieve the unassailable political stature of the man who felled the Shah. As talented as Rafsanjani is (and he is *very* talented), he has been hard pressed to coerce or oblige others to go along with his decisions. So far he has gathered sufficient power to ensure that he will be held responsible for the fate of the country, but perhaps not sufficient power to ensure that he has the authority necessary to command reliably the fractious mullahs and their crisscrossing support networks.

Rafsanjani and Khamaneh'i sit atop a clerical political system that is perhaps terminally headless. We should not forget that the Ayatollah Khomeini waged two simultaneous and to date successful revolutions in Iran. One was against the Shah and the West; the other was against traditional Twelver Shi'ism (the dominant form of Shi'ism in Iran and Lebanon), which had been more or less regnant in Iran since the middle of the sixteenth century and which had discouraged the superintending participation of Iranian clerics in affairs of state.

Iran's Islamic Revolution was made by the clerical second tier—the hojjat ol-Eslams, who rank below the ayatollahs. The senior ayatollahs, other than Ali Montazeri (whom Khomeini had at one point designated as his successor), were enthusiastic fans neither of Khomeini nor of his politico-theological construct, the *velayat-e faqih* (the "guardianship of the jurist"), which was both the idea and the office that ultimately provided Khomeini with unquestioned political and religious authority. Under Khomeini young clerics like Rafsanjani, Khameneh'i, Kho'einiha, Mahdavi-Kani, and Karrubi flourished and collected power, state offices, and titles. "Ayatollah" Khameneh'i has moved very far very fast—from being a juridically unimpressive hojjat ol-Eslam in 1978 to the presidency in 1981 and thence to his current position as the nation's revolutionary guardian upon Khomeini's death, in 1989.

This domination has been gained probably at considerable cost to the traditional clerical order, with its centuries-old system of education, its pedagogic standards for promotion, exclusion, loyalty, and leadership, and, perhaps most important, its financial independence from state coffers. The state-sponsored demolition of the old order was practicable because Khomeini, a grand ayatollah with immense prestige even among his clerical enemies, was at the helm. And when it came to dealing with refractory clergy Khomeini could be tougher than any Pahlavi Shah.

Iran is currently experiencing a resurgence of traditionalism in the clergy, which calls for the clerical political role to be more advisory than participatory, and a corresponding rejection of the activist mullahs who helped to lead the revolution and much of the war effort against Iraq. Rafsanjani and Khameneh'i have forcibly brought about a compromise whereby junior mullahs, juridically mediocre and of fading revolutionary glory, give orders to their more knowledgeable elders. The compromise has been tense. The reigning clerical power, be it Rafsanjani or Khameneh'i or both, cannot help feeling that as Khomeini's shadow recedes, so does the legitimacy of his *velayat* system of clerical rule. And any system of clerical rule, if it is to pretend to legitimacy, must reflect with some plausibility Twelver Shi'ism's system of juridical seniority.

The Iranian government is now headed in the opposite direction, as Rafsanjani, a hojjat ol-Eslam, tries to eliminate or reduce centers of power other than his own. Khameneh'i continues in theory to hold considerable power (according to the constitution, immensely more than Rafsanjani), but caliphs in Islamic history have done far less well than sultans in the never-ending battle for power.

Anti-clericalism, which is the reverse side of Persia's historical devotion to its Shi'ite divines, has become rampant in post-Khomeini Iran.

Rafsanjani will have to contend with Iran's peculiar form of democracy. Unlike the Arab Muslim countries of the Middle East, Iran has a pronounced democratic current running through its nineteenth- and twentieth-century history. But this current has repeatedly been diverted and drained by Persian shahs and clerics both, and there is little evidence to suggest that Rafsanjani will reject the Pahlavi tradition of arranging and rearranging Iran's parliament according to the ruler's needs.

However Rafsanjani tries to rearrange the Iranian political landscape, he is unlikely to abandon, in rhetoric or practice, certain elements and methods of the revolution. His use of terrorism and especially assassination abroad will probably continue, for such violent diplomacy enhances the fearful stature of the clerical government both abroad and internally. It has served as an effective means—indeed, the sole means—for revolutionary Iran to take revenge against those who have insulted or harmed the Islamic Revolution. Such violent diplomacy has been indispensable to maintaining a clerical pride severely wounded from without by Iran's near-total isolation, and from within by the post-revolutionary erosion of the nation's self-esteem.

Iranian Duality

THE Islamic Republic's simultaneous pride in and embarrassment about the revolution shape Iran's foreign policy. Most of Iran's clerics, whether traditional or radical, grew up on Pahlavi dreams of Iranian glory. They desperately want Iran to be a power to be reckoned with in the Gulf, in the Middle East, and now in Central Asia. Their pride and pragmatism have persuaded them of the need to reach out, at least for Western and expatriate Iranian capital and expertise.

At the same time, the clerics' pride and fear can send Iran's assassins to the very countries where its diplomats are working strenuously to encourage foreign and expatriate access to its markets. In all probability it is not one group of moderates in the Iranian government which designs diplomatic initiatives and a separate group of radicals which is responsible for terrorism. The same men conduct both policies. Rafsanjani may or may not have initiated the assassination of Salman Rushdie's Japanese translator and the killing of former Prime Minister Shahpur Bakhtiar in Paris, but he almost certainly approved or at least acquiesced in their executions. This pattern is a quite normal one in history. The Islamic Republic's Shi'ite antecedents—the medieval Fatimid dynasty of Egypt and its scions farther east, the Assassin city-states—all continued to send out lethal revolutionary missionaries long after the revolution had weakened, if not died, at home.

At home the Iranian government is likely to scale back its reliance on anti-American sloganeering; free up travel and currency exchange for the average Iranian; loosen restrictions on the press, which by Middle Eastern standards is already vibrant; allow women more choice in their dress; alter the arbitrary and decentralized nature of state-sanctioned violence, harassment, and prosecution (the clerical regime will nevertheless continue to brutalize those who seriously threaten clerical rule); encourage Iranians once again to show hospitality to Westerners; and send its representatives overseas with beards clipped.

The situation abroad, however, will be persistently contradictory, as Khomeini's successors struggle to define within an Islamic framework Iran's mission in a changed world. The collapse of the revolution at home could encourage even moderate Islamic revolutionaries—who still, after all, define themselves and hold power by virtue of their Islamic identities—to vaunt an "Islamic" foreign policy.

The Israeli-PLO accord could well force Tehran to rethink its policy toward the West and the Arab world. It will place further stress on the clerical regime's contradictory aspirations. Tehran will relish its position as the primary remaining hard-line opponent of Israel, and will dread the fact that it has also become the center of world attention—an easily spotted target for American, Israeli, Western European, and Russian displeasure if the accord is frayed by fundamentalist agitation or terror.

If the clerics can enact the "Islamic" policy cheaply and furtively, Iran will continue to strike at the West and, perhaps more important, at Saudi Arabia, which the Iranians despise for its rival religious (Arab Sunni-Wahhabi) hubris, missionary zeal, deep pockets, and hypocritical dependence on Western powers. But the threat that Iran will continue to export revolution—as opposed to simply striking at its own expatriates—should not be exaggerated. After an initial emotional rush Iran's Shi'ite revolution has won little admiration in the surrounding Sunni Muslim world. Though Sunni radicals were profoundly inspired by Khomeini's conquest, they have been far less sympathetic to the Shi'ite state since constructed. The Islamic world has for the most part been unresponsive to Iran's yearning to play a millenarian role. Iran still sits among Saddam Hussein to the west, a permanently decomposing Afghanistan to the east, a richer and ever-proselytizing Saudi Arabia to the south, and an array of Muslim republics to the north which show little more enthusiasm than Iran's other neighbors for easing its general isolation in the Sunni Muslim world.

A Flexibly Hard Approach

HOW should the United States deal with Iran? The short answer is: Be tough but be fair. In the Islamic Middle East, where political life is usually unforgiving, hard-line foreign policies are most likely to gain respect. The more the United States can consistently pressure Iran, the more Iran's rulers will take heed and avoid provocation. However, the U.S. government should choose its conflicts with the Islamic Republic carefully. As much as the United States may want to deny Iran access to certain markets, its ability to do so, particularly since the collapse of the Soviet threat, is limited. Fear of America is a very important psychological element in American-Iranian relations. That fear, or, as it is understood in Persian, *haybat*—awe of insuperable authority—should not be squandered on public trade disputes with the Europeans or the Japanese unless the United States has the means and the will to win the argument.

America has reason to be indignant with the Islamic Republic. The U.S. government should state loudly and often that it will not tolerate Iranian support of terrorism and that if it discovers any evidence that Iran has engaged in terrorist activity, it will punish Iran financially and continue to impede in various ways Iran's commercial dealings with America's allies. It should resolutely stand behind Salman Rushdie, promoting his case at the United Nations and attacking the Islamic basis of Khomeini's death warrant. In defense of free speech and to remind Iran's mullahs of America's undiminished psychological reach into their country, the U.S. government should provide sufficient funding to Voice of America for round-the-clock shortwave radio broadcasts in Persian and should announce its willingness to support expatriate Iranian television programming accessible in Iran by satellite dish. The U.S. Navy should frequently park its Indian Ocean fleet uncomfortably close to the Persian Gulf and send its submarines and fly its aircraft even closer.

Rafsanjani and the clerics in general are not wild-eyed zealots. More often than not, the zealots eventually found martyrdom in the eight-year war with Iraq; their deaths are a significant reason for the present radical eclipse in Iran. Rafsanjani knows that the Iranian government can no longer call half a million young men onto the streets of Tehran to attack America. It could probably call barely 10,000. Rafsanjani has innumerable economic problems, and perhaps not much time to handle them; he knows that "*Marg bar Amrika*" will do him little good with his own citizens or with the foreign community he hopes to draw in for investment.

America should be firm with any ally that allows the Iranians to sidestep choices that they fear could cause them to make compromises in their revolutionary doctrine. America should also realize that Iran's contact with other Western countries, like its eventual contact with the United States, can have a corrosive effect on the revolutionary ethos and a moderating effect on the Iranians.

America should treat harshly those countries that sell weaponry to Iran's clerics. But it should perhaps do no more than grimace if a Western ally expands Iran's power grid, builds a dam, or supplies computer equipment to Iran's universities or telephone equipment to its cities. The U.S. government should be wary of depicting Iran as it once depicted the Soviet Union. Communist Russia was a threat to the entire free world; clerical Iran is not.

Despite the rhetoric of the Islamic Republic, Iran is a poor country with little continuing revolutionary appeal outside the Shi'ite world. Not Iran but Saudi Arabia, an American ally, has been the most troublesome missionary of Islamic fundamentalism throughout the subcontinent, the Middle East, and Central Asia. Clerical Iran has never been a totalitarian country, even in its darkest period in the early eighties. The contacts that have existed between its people and the West go far beyond what once existed between the West and the Soviet Union. Though Rafsanjani has decided that Western assistance is required to rebuild Iran, he probably made that decision with trepidation. He is well aware of the extensive contact that has persisted between Iran's citizens and their more prosperous relatives in the West. In addition, thousands of young Iranians are studying again in the West, primarily in the United States; a study of recent Iranian history shows the possible repercussions of a foreign education.

America should be careful not to obstruct through sanctions the flow of Western information and culture that continues to seduce Iran's youth away from the revolution. Lord Curzon believed that Iran's character has always oscillated between "the bigot's rage . . . and the agnostic's indifference." The revolutionary rage in Iran is well over. What has followed is probably not indifference.

The Iranian government has made its peace, at blinding speed, with France and Russia, the two primary suppliers of weapons to Saddam Hussein. Iran has legitimate reasons to want to re-arm, heavily. The United States has no reason to support Iran's plans to re-arm or to supply itself with nuclear or biological and chemical weapons, and is fully justified in preventing—or, more accurately, delaying—Iran's acquisition of weapons of mass destruction. But the U.S. government should admit, at least to itself, that such armament is understandable given the hell Iran endured in its war with Iraq. Theories of deterrence work just as well between Muslim states as they do between liberal democracies and communist dictatorships.

The Inevitable Contact

THE United States should probably not seek direct contact with Rafsanjani's government. There is little reason for it. Iran has several ways to reach the United States if it chooses to, and the United States has the same options. Any U.S. attempts to seek such contact explicitly, with the intention of holding further dialogue or resuming diplomatic relations, would probably seem to be either weakness (the Iranians would assume they had something the Americans wanted) or part of a larger effort to entrap or diminish Iran's clerical government.

Iran has always been at the forefront of the Islamic mind. The Islamic Republic's evolution has had and will have significant influence on Muslims throughout the world. In addition, Iran's ecumenical competition with Saudi Arabia may affect the price of oil.

Rafsanjani may be aware that the United States might quickly make amends to Iran and restore, at a minimum, diplomatic relations if he were to initiate the process. Rafsanjani *will* begin the process one of these days, but not obviously. He will certainly explore the possibility through private emissaries, foreshadowing an inevitably more complicated and diffident public overture.

Though the U.S. government would do well to approach any such contact with considerable caution, the United States should not automatically assume that it will be hoodwinked by the crafty Persians. Iranians are an exceptionally clever, complicated people, but they do not view themselves as being particularly clever with Westerners. An Iranian will assume that the Westerner, certainly if he is English and probably if he is American, will get the better of any deal—just as Americans assume that Iranians will be dangerously wily. Iranians are not born crafty. They get there through the school of hard knocks, and most of them, clerics included, view their dealings with foreigners as an unending school of hard knocks.

The hard question for the United States will be what to say and do on the day when Rafsanjani declares America to be sufficiently chastened for a direct, unconditional American-Iranian dialogue. It would be ironic if the renewal of the United States' relationship with Iran signaled not the end of the Islamic Revolution but Iran's most astute compromise.

Khomeini and his successors have done a poor job of banishing America from the minds of the Iranian people. One of these days they will try to co-opt it by renewing contact. When the Revolutionary Guards move out of the former American embassy in Tehran and American diplomats move back in, American-Iranian diplomacy will once again become the pre-eminent topic of conversation in the Islamic Middle East. If the current Iranian government survives the encounter, Washington may bestow a new legitimacy, which the ruling clerics desperately need—an irony that neither Washington nor Tehran is likely to relish.

THE WHITE HOUSE
WASHINGTON

DATE: 1/20/94

NOTE FOR: Tony Lake

The President has reviewed the attached, and it is forwarded to you for your:

Information ☐

Action ☒

Thank you.

JOHN D. PODESTA
Assistant to the President
and Staff Secretary
(x2702)

cc:

THE PRESIDENT HAS SEEN

Bruce
Pls look into
I'd like to do
a positive response

E. R. ZUMWALT, JR.
ADMIRAL, U. S. NAVY (RET.)

January 5, 1994

President William J. Clinton
The White House
1600 Pennsylvania Avenue, NW
Washington, DC 20500

Dear Mr. President:

As requested by you during our dinner together at Renaissance, I submit herewith the one-page summary of Agent Orange related diseases recommended to be added to those designated for compensation by the Secretary of Veterans Affairs.

I believe that these diseases are clearly justified under the criterion of law which requires that it be "as likely as not" that they are related to exposure to Agent Orange. Recent studies have pushed us over the top with regard to this determination. In addition, when one lowers the weight given to the negative results of government studies manipulated by the Reagan Administration and to those that have been manipulated by chemical corporations, there should no longer be any doubt about the "as like as not" criterion.

The following diseases have already been approved for compensation: non-Hodgkin's lymphoma, soft tissue sarcoma, chloracne, lung cancer, larynx cancer, trachea cancer, multiple myeloma, porphyria cutanea tarda.

The diseases which should be added are attached.

I am grateful for your consideration of this matter.

Sincerely,

Bud Zumwalt

E. R. Zumwalt, Jr.

1500 Wilson Boulevard, Suite 641
Arlington, Virginia 22209

(703) 527-5380

Enclosure

E. R. ZUMWALT, JR.
ADMIRAL, U. S. NAVY (RET.)

SUBJECT: Agent Orange Related diseases recommended for compensation in the light of recent studies and in recognition of the lowered significance of negative studies which have been manipulated

1. Since other Agent Orange related hormonal effects, including immune suppression, may result in multi-organ sensitivity and may contribute to the overall increased mortality from all malignancies combined, add all cancers to the list of those cancers currently authorized for compensation.

2. Since recent studies demonstrate that it is "as like as not" that diabetes can result from exposure to the dioxin, which is an ingredient of Agent Orange, add diabetes to the list.

3. Since numerous animal and human studies indicate that birth defects and reproductive problems can result from exposure to the dioxin, which is an ingredient of Agent Orange, and since it is now reasonable for the Secretary of Veterans Affairs to discount previous manipulated government studies concerning birth defects and reproductive problems, add birth defects in the children of Vietnam veterans and reproductive effects on Vietnam veterans to the list of diseases to be compensated.

In summary, add the following diseases for compensation:

1. All Cancers
2. Diabetes
3. Birth Defects in the Children of Vietnam Veterans
4. Reproductive Deficiencies in Vietnam Veterans

JAN -7 1994

E. R. ZUMWALT, JR.
ADMIRAL, U. S. NAVY (RET.)

January 5, 1994

Mr. Philip Lader
Deputy Chief of Staff
The White House
1600 Pennsylvania Avenue, NW
Washington, DC 20500

Dear Phil:

At dinner with the President, he asked me for the attached and suggested that I bring it to your attention so that it gets to him personally.

As you know, I have a deep interest in this, but I also sincerely believe that a press release from the White House reporting a decision by the President resolving the remaining Agent Orange issues would make a tremendous demonstration by the Commander-in-Chief of his personal interest in the military, active and retired.

Sincerely,

Bud Zumwalt

E. R. Zumwalt, Jr.

1500 Wilson Boulevard, Suite 641
Arlington, Virginia 22209

(703) 527-5380

Enclosure

Nancy -
Perhaps you should pass along to
POTUS the attached -
Phil

THE WHITE HOUSE
WASHINGTON

DATE: 1/20/94

NOTE FOR:
Mack McLarty
Mickey Kantor
Lloyd Bentsen
Robert Altman
Tony Lake
Bob Rubin
Bo Cutter
George Stephanopoulos
David Gergen
Mark Gearan

The President has reviewed the attached, and it is forwarded to you for your:

Information XX

Action ☐

Thank you.

JOHN D. PODESTA
Assistant to the President
and Staff Secretary
(x2702)

cc:

Mack

CC: Mickey Kantor
L Bentsen
R Altman
T Lake Stan
B Rubin | Bw
GS | Gergen | Ga

worth reading and often perceptive
should discuss
B.

THE PRESIDENT HAS SEEN

REPAIRING THE U.S.-JAPAN RELATIONSHIP

Glen S. Fukushima

As President Bill Clinton and Prime Minister Morihiro Hosokawa prepare for their summit meeting in Washington, D.C. on February 11, the relationship between the United States and Japan is in serious disrepair. Japan's huge current account surplus, low level of manufactured imports, minuscule inward foreign direct investment, and barriers to foreign products and services persist unabated. Why has there been so little progress on these issues despite the inauguration last year in both countries of governments espousing "change"? The answer is inattention and complacency in both the United States and Japan.

I. INATTENTION

Since its inauguration a year ago, the Clinton Administration has understandably given primary attention to issues of domestic policy: federal budget deficit reduction, health care reform, gun control, reinventing government, and others. To the extent time has been devoted to non-domestic issues, they have been foreign policy crises such as Bosnia, Somalia, Haiti, Russia, the Middle East, and North Korea. The only major issues relating to the international economy have been initiatives begun by two previous administrations--the GATT Uruguay Round and the North American Free Trade Agreement. Little focused attention has been devoted to Japan except during the few days of the G-7 Summit in Tokyo last July.

In Japan, the June 18, 1993 no-confidence vote against then-Prime Minister Miyazawa resulted in an end to the 38-year rule of the Liberal Democratic Party (LDP) and the establishment on July 20 of a coalition government led by the current prime minister, Morihiro Hosokawa. The ensuing fluidity of the political landscape has led to an almost complete preoccupation in Japan on domestic issues, couched in the language of political, administrative, and economic "reform."

The nature of these "reforms" has been grossly exaggerated in the United States. For instance, the widely touted Hiraiwa Commission, tasked by Prime Minister Hosokawa to recommend bold economic reforms, issued on December 16 a weak report focused on deregulation that disappointed everyone, including Japanese observers. Since seven of the 15 members of the commission were former government bureaucrats, they were hardly likely to urge changes that would seriously curtail the power and jurisdiction of the government agencies from whence they came.

II. COMPLACENCY

Inattention to the relationship has been abetted by a sense of complacency in both countries. In the United States, this complacency has three sources.

First, exaggerated media accounts have misled Americans into believing that "the Japanese sun has set." Typical is the December 13 cover story of the international edition of *Newsweek* that read: "Japan: The System Has Crashed; Its Economy Tumbles, Its High-Tech Edge Fades." Although the current recession has lasted longer than expected, the fundamental strengths of the Japanese economy remain intact. Within 12 to 18 months, the cost-cutting, rationalization, and restructuring to squeeze out the excesses of the "bubble economy" of the late 1980s and early 1990s will have had their effect, and Japan will once again emerge as a formidable competitor in world markets. Americans should substitute wishful thinking with objective and realistic analyses of long-term Japanese global economic strategy.

Second is the mistaken notion that the "reforms" advocated by Mr. Hosokawa will benefit not only Japan but also its trading partners, in particular the United States. This fallacy is premised on the assumption that the realignment of political parties in Japan will automatically lead to a more open, transparent, consumer-oriented society as we know it in the West. This is belied by the following comment, made recently by a prominent Japanese political leader: "The impending political reforms will force us politicians to spend all our time campaigning back in our local districts, leaving policymaking in the hands of the central government bureaucracy." A sobering thought, given the Japanese bureaucracy's well-known penchant for zealously preserving the status quo.

Third, the Clinton Administration appears to believe that asymmetries in the U.S.-Japan economic relationship can be remedied simply by asking Japan to commit to "results"--whether in Japan's current account surplus, aggregate level of manufactured imports, or sector-specific imports. There is an evident lack of appreciation of the profound complexities and difficulties facing foreign firms attempting to export to or invest in Japan and the attention, expertise, and resources necessary on the part of the U.S. government and corporations to penetrate the multi-layered and deeply-rooted barriers posed by the Japanese market. The Administration also lacks an understanding of where, when, and how much pressure should be applied to achieve the maximum result while minimizing Japanese resentment.

agree w/ Rec

On the Japanese side, complacency stems from the perception that the United States is too preoccupied with its own domestic problems and with foreign policy crises to worry much about Japan. There is also a sense in Japan that the United States is increasingly dependent on Japan's good will and support--whether for "strategic alliances" between corporations, security cooperation as on the Korean Peninsula, personnel for peacekeeping operations as in Cambodia, or for financial assistance as in Russia and the Middle East. Viewed from Tokyo, therefore, the United States can ill afford to press too hard in trade negotiations for fear of alienating Japan and losing its support on issues that require bilateral or global cooperation.

III. MISSED OPPORTUNITY

Indeed, the Clinton Administration missed a golden opportunity in early 1993 to set a fundamentally new course for the U.S.-Japan relationship. During the 1992 U.S. presidential campaign and for much of the first half of 1993, the Japanese leadership feared that a Democratic Administration would mean a radical departure from the benign policies toward Japan of the Reagan and Bush administrations. Japanese government officials and business leaders alike fully expected the new Administration to institute policies that would force Japan to accept more U.S. products, services, and investment in return for continued access to the U.S. market.

Rhetoric coming from the Clinton team in 1992 and early 1993 certainly gave that impression. By calling for "results," "targets," and "objective indicators," the Administration put Japan on notice that, unlike previous Republican administrations, it would not settle for mere changes in Japanese procurement rules or procedures.

What counted were *results*, as expressed in actual sales. The flaw, however, was threefold.

First, the rhetoric was not supported by a clear, coherent, consistent policy toward Japan. This lack of a policy quickly became evident, as the Japanese press reported that Washington didn't know what it wanted of Japan; depending on the day and the official being quoted, the request or "demand" was variously described as targets, goals, results, objective criteria, quantitative indicators, qualitative indicators, benchmarks, yardsticks, reciprocity, transparency, or none of the above. The clear impression left in Japan was that the Administration was wavering in its stated quest to achieve "results" and that, if Japanese negotiators resisted long enough, the Administration would yield.

Second, the Administration's inattention early on allowed Japan to undertake a remarkably successful public relations campaign that depicted the United States as a "protectionist" nation advocating "managed trade." Although few countries went along with Japan's self-depiction as "the premier defender of the world free trade system," Southeast Asian countries as well as many members of the OECD were persuaded by Japan that if the United States were successful in pursuing a results-oriented trade policy toward Japan, they too would face similar pressures from the United States.

Third, the rhetoric was not backed up by action. The Administration failed to understand the cardinal principle in negotiating with Japan: speak softly and carry a big stick. Instead, the Administration did exactly the opposite, i.e., it cried wolf repeatedly but took no action. From Tokyo's perspective, the construction issue was a test of whether the Clinton team would act differently from the Reagan and Bush teams. When the Administration allowed the two deadlines of June 1 and November 1 to pass without taking action, the Japanese were perplexed. With over 30 senior Japanese government officials and executives arrested in 1993 for bid-rigging, price-fixing, and collusion in the construction industry, many Japanese knew that if there was ever a clear case of illegal activity that excluded competitive foreign companies from the Japanese market, this was it. Inaction by the Clinton Administration was seen in Japan not as a gesture of generosity but as a sign of weakness.

IV. PROSPECTS

If developments last year are a harbinger of things to come, what can we expect in 1994? When the President and the Prime Minister meet in Washington, D.C. on February 11, they will announce that agreements have been reached between U.S. and Japanese negotiators on several elements of the Framework Talks. These will include agreements on "global cooperation," insurance, government procurement (medical and telecommunications equipment), automobiles, and automobile parts. That agreements have been reached will not be noteworthy; there are *always* agreements reached in U.S.-Japan economic negotiations. The crucial question is what happens *after* the agreements are signed.

A pertinent example is the Framework Agreement signed by President Clinton and then-Prime Minister Miyazawa in Tokyo on July 10, 1993. The Agreement was widely touted as a "breakthrough," with the United States and Japan each declaring victory. But the two sides left the negotiating table with entirely different understandings of what it is they had agreed to. For example, the English-language text states that Japan will undertake efforts to bring about a "highly significant decrease" in its current account surplus. A few days later, the U.S. Treasury Department explained that this means Japan's surplus will decline over the next three to four years from the four percent of gross domestic product, where it now stands, to under two percent.

Japanese officials, on the other hand, trumpeted their success in keeping out of the Agreement any mention of specific goals, target, or results. Indeed, the Japanese-language text of the Framework Agreement reads that Japan will undertake efforts to bring about a "*jubun imi aru kuroji sakugen*"--an "adequately meaningful reduction of the surplus"--a highly subjective standard that could imply a five or ten percent reduction, depending on who judges what level of reduction is "adequately meaningful." Another point stressed by Japanese officials is that the Framework covers only those issues under the direct jurisdiction of the Japanese government; i.e., by implication, *not* issues involving private sector conduct--e.g., purchases of automobiles, automobile parts, semiconductors, glass, paper, etc.

Meetings between the U.S. President and the Japanese Prime Minister are always double-edged. On the one hand, they are "action-forcing events" that put pressure on government officials on both sides to resolve outstanding issues so that the heads of state meeting can go smoothly. On the other hand, there is always an incentive on both sides to paper over differences and to reach agreements that may not truly resolve the problems at hand. For both sides would prefer to reach agreement than not to reach agreement, since failure to reach agreement could reflect badly on the negotiators or even on their heads of state.

So there will almost certainly be agreements reached by February 11. The problem will come several months later, when the U.S. government assesses the agreements and finds they did not yield the expected results. To quote Senator John D. (Jay) Rockefeller IV, Democrat of West Virginia and the senator most knowledgeable about Japan, in a speech to the American Assembly on November 12, "The issue is what we will do when the Japanese disappoint us, as they most certainly will, either by failing to reach an agreement or by not adhering to one they reach."

In late 1994 or early 1995, a crisis will develop in U.S.-Japan relations. The United States will accuse Japan of violating the agreements reached in February 1994. Japan will counter that it had promised only "best efforts," not results. The Administration will be in a quandary as to what to do. The question will be posed as follows: How important is it for Japan to live up to agreements as understood by the United States? And what are the trade-offs--i.e., what is the United States willing to risk in order to ensure Japanese compliance?

Those in the Administration who emphasize the cooperative aspects of the relationship and wish to gain Japanese assistance in joint endeavors around the world will argue that taking unilateral action against Japan is too harsh, especially if the wording of the agreements is ambiguous. Those who emphasize the competitive aspects of the relationship will argue that taking unilateral action is the only way to show Japan that the Administration is serious about compliance with trade agreements. Indeed, in the view of this group, it was the unwillingness of previous administrations to take such action (except in the Semiconductor Agreement) that led to the lack of credibility of the United States in the eyes of Japan and the consequent Japanese flaunting of trade agreements.

V. AVERTING A CRISIS

How can a crisis of the kind described above be averted? For one, by ensuring that the agreements reached in February are tight enough and unambiguous enough to prevent each side from attaching its own, different, interpretation. This requires several things: (1) enough time and serious attention devoted to the negotiations by cabinet or subcabinet officials to ensure that the agreements are not the result of last-minute, all-night sessions where each side is only too happy to settle, regardless of the content of the agreements; (2) a detailed point-by-point confirmation by both sides of what is agreed to so that a meeting of minds is assured; (3) a thorough review of the Japanese texts of the agreements to ensure that they are identical in meaning to the English text; (4) a full explanation of the agreements by both sets of negotiators, together, in front of the U.S. and Japanese mass media to ensure that, unlike the July 10 Framework Agreement, each side does not tell its public only its own interpretation; (5) the establishment of a formal monitoring mechanism to track progress based on mutually agreed indicators; and (6) a clear understanding by both sides of what constitutes compliance with the agreements and the consequences of noncompliance.

The past few summit meetings between the United States and Japan have been especially problematic, owing in part to the domestic political situation in Japan.

Until June of last year, Japanese officials warned the U.S. government that it should not press then-Prime Minister Miyazawa too hard, because to do so could result in the downfall of the LDP and the installation of a coalition government that might include such opposition parties as the Socialists. Now that such a coalition is in power, the same Japanese officials are urging the U.S. government not to press Prime Minister Hosokawa too hard, since to do so could lead to the downfall of his so-called reform-minded coalition government and the re-installation of the LDP!

Given the fluidity of Japanese politics for the foreseeable future--and this is dictated almost entirely by domestic factors, not by what the United States says or does--and the power wielded by the central government bureaucracy, the Administration would be sadly misled if it were to heed the advice of Japanese bureaucrats whose very existence depends on preserving the status quo.

VI. RECOMMENDATIONS

In the longer term, the only way to deal adequately with the "Japan Problem" is for the Administration to formulate a clear, coherent, and consistent Japan policy. This policy should (1) recognize that the Japanese economy is fundamentally different from that of our other trading partners; (2) integrate the economic and political/security dimensions of the U.S.-Japan relationship; (3) consider Japan in its regional and global context; and (4) plan and shape the future to maximize areas of cooperation, ensure benefits from cooperation, and minimize areas of conflict.

Institutionally, a centralization of U.S. policymaking toward Japan is needed. The current decentralized structure makes it easy for Japanese negotiators to divide and conquer and for the Japanese mass media to highlight even slight differences in nuance regarding what the Administration expects of Japan. An Office of Japan Policy in the White House staffed by Americans with extensive knowledge and experience in Japanese affairs is needed, much like the Administration created a special office in the State Department to coordinate policy towards Russia.

Japan requires focused U.S. attention that integrates the economic and political/security dimensions in a new configuration for the post-Cold War era. The heavy economic component, plus the extremely rapid response time and constant high-level attention necessary to deal adequately with Japan issues, makes the White House a better site for the Office of Japan Policy than the State Department. Additionally, the increasingly complex and multifaceted nature of the U.S.-Japan relationship means that only an office situated in the White House can play the role of an honest broker to balance competing interests among U.S. government agencies dealing with Japan.

VII. A DOUBLE IRONY

It would be doubly ironic if the Clinton Administration in the Framework Talks is unable to persuade Japan to commit to concrete goals and results. This is because gaining Japanese commitment to a specific goal was achieved in the U.S.-Japan Semiconductor Agreement of 1986, under President Reagan, and again in the 1991 renewal of that Agreement under President Bush--both laissez-faire Republican administrations that emphasized process and procedural changes rather than results as the aim of trade negotiations with Japan.

Second, whereas the Semiconductor Agreement was aimed at private sector conduct--i.e., having the Japanese government encourage Japanese companies to buy more foreign semiconductors--the Framework Talks (with the exception of automobiles and automobile parts) focus primarily on government conduct. Thus, the Japanese argument that the U.S. insistence on results "violates free market principles" ignores the fact that the Japanese government has certainly the authority and arguably the obligation to buy more foreign products.

If the Japanese government truly wishes to promote manufactured imports--as it is fond of saying--what better way to demonstrate this than by matching its rhetoric with action? Put another way, given that the Japanese government was successful in exhorting its companies to achieve the 20 percent goal of foreign semiconductor purchases by the end of 1992, the government itself should not find it difficult to achieve specified levels of foreign procurement if it wishes to do so.

VIII. CONCLUSION

The Clinton Administration faces a clear choice. If it continues its present path of crying wolf but having no Japan policy, it will almost certainly precipitate a crisis in the bilateral relationship by late 1994 or early 1995. By then, if it becomes clear that Japan is not adhering to agreements as understood by the United States, pressure will build to take unilateral action against Japan, not only from within the Administration but also from Congress, the business community, and the American public.

The Japanese reaction to such unilateral U.S. action is certain to be resentful and emotional. Having been fed daily doses in the mass media of U.S. decay--as evidenced by crime, violence, racism, illiteracy, illegitimate births, AIDS, and a host of other social problems--Japanese will become even more convinced than ever that the United States is scapegoating Japan for its own domestic problems. The sense of being victimized and bullied will doubtless foster widespread anti-American sentiment in Japan despite the reservoir of good will toward the United States that, although on the decline, still remains especially among the older generation of Japanese.

With NAFTA and the Uruguay Round negotiations completed, the Administration now has the opportunity to devote its attention to the single greatest challenge it faces in international trade: Japan. One can only hope that the weeks remaining until the February 11 summit meeting are used wisely to ensure that agreements reached with Japan will produce the tangible and significant results needed to redress the outmoded, asymmetric, and eroding bilateral relationship. In the longer term, the Administration needs to devote the attention, expertise, and resources to deal coherently and comprehensively with what is an increasingly complex, difficult, and profoundly important relationship with the world's second largest economic power.

[3336 words]

Glen S. Fukushima, an American business executive based in Tokyo, is Vice President of the American Chamber of Commerce in Japan. From 1985 to 1990, he directed Japanese affairs at the Office of the United States Trade Representative.

THE WHITE HOUSE
WASHINGTON

DATE: 1/20/94

NOTE FOR: Mack McLarty
Bruce Lindsey

The President has reviewed the attached, and it is forwarded to you for your:

Information ☐

Action ☒

Thank you.

JOHN D. PODESTA
Assistant to the President
and Staff Secretary
(x2702)

cc:

THE PRESIDENT HAS SEEN

THE WHITE HOUSE

WASHINGTON

January 14, 1994 94 JAN 14 P7:51

MEMORANDUM FOR THE PRESIDENT

FROM: **KATIE MCGINTY** Terry Lindseth for

CC: **THOMAS MCLARTY**

SUBJECT: **OEP WEEKLY REPORT**

EVERGLADES

The Department of the Interior reached an agreement with one of the major sugar companies -- Flo Sun (approximately 30% of the market) -- on restoration of the Florida everglades. This agreement to contribute to a restoration fund was reached after the sugar industry had walked away from negotiations in December (that had been underway since last summer). DOI is still hopeful that the other major sugar company -- U.S. Sugar (also approximately 30% of the market) -- will join in this historic partnership with the federal government, as U.S. Sugar may face increased litigation and regulatory damages if they don't.

PACIFIC SALMON

OEP has been working daily with the agencies involved with the Columbia and Snake Rivers hydrosystem (Bonneville Power, the Corps of Engineers, the Bureau of Reclamation, the National Marine Fisheries Service, and the Fish and Wildlife Service) to encourage them to reach an agreement on how to operate the flow of the river through the hydropower system without causing jeopardy to the salmon listed as endangered under the ESA. We are nearing completion of the negotiations with the relevant agencies that we hope will minimize the controversy.

CALIFORNIA SMOG CHECK

As you know, EPA has been actively negotiating with California legislative leaders for several months to reach agreement on an acceptable smog check program. Substantial progress has been made, but backsliding in other states necessitated the announcement of discretionary sanctions this week. Despite the fact that the sanctions take four months to be implemented, allowing time for a negotiated compromise, state legislators reacted negatively to the announcement and immediately moved forward on a bill that fails to meet EPA standards. I will meet with Assemblyman Richard Katz in Los Angeles on Monday and EPA Assistant Administrator Mary Nichols will meet with other legislative leaders in Sacramento on Tuesday in an attempt to get discussions back on track. It is possible the full Senate will pass the unacceptable bill on Thursday and send it to the governor.

CLEAN WATER REAUTHORIZATION

OEP commenced an intensive effort to bring to closure an interagency effort to develop a set of recommendations for you on the reauthorization of the Clean Water Act. With the Senate scheduled to mark up a clean water bill in early February and with frustration at the lack of an Administration position growing, we are working to complete a package for your review by the end of the month, asking for full cooperation among the agencies to do so.

CLIMATE CHANGE

The Climate Change Management Committee met recently to review management structure and to get updates on agency programs, budgets, and legislative initiatives. The final topic was the issue of "adequacy of commitments" (meaning: is reaching 1990 levels of CO2 by the year 2000 ENOUGH?). The international negotiators will likely address this big issue during 1994. The Committee also discussed the stakeholders conference outlined in the Action Plan. Tentatively scheduled for April, the Conference will be a prominent Earth Day event.

SUPERFUND

Senator Baucus and Senator Lautenberg indicated last week that they are willing to introduce an Administration bill on Superfund reauthorization, provided that the bill generally is consistent with the recommendations of the National Commission on Superfund, a broad-based group of stakeholders that recently issued recommendations on Superfund reform. We are continuing discussions with the House in an effort to determine whether Representative Swift will also introduce the Administration's bill as the sole vehicle for Superfund reauthorization. A draft of the Administration's bill will be completed early this week and will undergo expedited interagency review, in an effort to meet Congress' goal of introducing the bill on January 26, 1994.

INTERNATIONAL ENVIRONMENTAL BUDGET

In coordination with OVP, OEP worked closely with OMB to ensure that adequate resources would be included in the FY95 budget for international environment and population programs. Successfully funded priorities include: the Global Environment Facility (the key to both the climate change at biodiversity conventions) at $100 million; the Montreal Protocol Fund (targeting stratospheric ozone depletion) at $48 million; and USAID Population (impacting many resource and sustainable development issues) at $585 million. Non-government organizations, which have made funding of international environment programs a high priority, should be pleased with this level of effort, particularly given overall shrinking budgets.

DIRECTOR'S MEETINGS

PAST WEEK

1/10 Forest Management Executive Committee; outstanding Pacific Northwest forest issues

1/11 Kazakhstan environmental minister; general environmental issues

1/13 President's Council on Sustainable Development meeting, Seattle, Washington

1/14 Environmental tour of California; site visits, San Francisco and Los Angeles journalists roundtable, and meetings with local political, NGO, and business leaders

THIS WEEK

1/18 EPA, DOJ, and OEP; meeting on the WTI incinerator

THE WHITE HOUSE
WASHINGTON

DATE: 1/20/94

NOTE FOR: Bob Rubin

The President has reviewed the attached, and it is forwarded to you for your:

Information ☒

Action ☐

Thank you.

JOHN D. PODESTA
Assistant to the President
and Staff Secretary
(x2702)

cc:

THE PRESIDENT HAS SEEN To Rubin Fyi —

1/20/94

A Slump Predictor Clinton Should Love

President Clinton has been worrying a lot lately about what the Federal Reserve System will or will not do to interest rates. Well, maybe he can relax, at least for a while. If a new method for forecasting slumps continues to perform the way it has in the past, the next recession isn't likely to be apparent until Mr. Clinton is safely re-elected in 1996.

The Fed has had a hand in this development, too—a fact that Fed Chairman Alan Greenspan might choose to point out

Speaking of Business

By Lindley H. Clark Jr.

to the president. By keeping money plentiful in recent years, the central bank has ensured that interest rates would decline and stay low. Low interest rates tend to stimulate business—which, of course, is exactly the result that Mr. Clinton desires.

Geoffrey Moore, director of Columbia University's Center for International Business Cycle Research, believes that the key rate is the prime rate, which this newspaper defines as the base rate that banks charge on loans to corporations. Research has convinced him that a business expansion will last about 15 months plus 1.57 times the lag in the prime rate. The lag in the prime rate is the length of time that elapses between the start of a recovery and the time when the prime rate begins to move up.

The current business cycle expansion has been a very slow one, but it has been meandering upward since March 1991. So, as of December 1993, it has been under way for 33 months. Using Mr. Moore's formula, the expansion will last at least into October 1996.

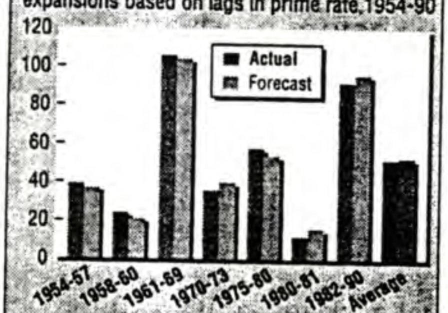
That forecast, you must remember, depends on the prime rate beginning to move up next month. So far there has been no sign of a prime rate upturn. In fact, a few isolated banks have reduced their prime rates from the current 6% level in an effort to attract more business borrowers. By this newspaper's rules, changes in the prime don't count until they're adopted by at least 75% of the nation's 30 largest banks. Every month that the prime stays at 6%—or falls—adds to the length of the predicted expansion.

If the expansion does indeed last until October 1996, Mr. Clinton will be able to go to the polls claiming credit for a very long expansion. As the accompanying chart indicates, it will be the third longest in the past four decades. The chart also shows, quite graphically, that Mr. Moore's formula has come quite close to predicting all those expansions, be they long or short.

If the current expansion does end in October 1996, it won't become official until it is deemed over by the National Bureau of Economic Research, and the decision may not come until after the presidential election. If the economy continues to move at

Accurate Forecast

Forecast and actual length of business cycle expansions based on lags in prime rate, 1954-90



Source: Center for Int'l Business Cycle Research, Columbia University, Oct. 1993.

its current leisurely pace, the nation may be well into 1997 before many people realize that a fresh downturn is under way. Some quite sensible folks, in fact, are convinced the economy still is in a recession.

Few people are as aware of the vagaries of government statistics as Mr. Moore, who served as commissioner of labor statistics in the Bureau of Labor Statistics from 1969 to 1973. So he was impressed by the fact that his relationship existed at least as far back as 1919.

The relationship isn't exactly the same, but it's close. Applying the 1919-53 relationship to the numbers for the current upturn would forecast an expansion lasting a couple of months longer.

The fact that the relationship has persisted for at least three-quarters of a century is especially remarkable when you consider that the prime rate isn't what it used to be.

The prime rate used to change with considerable frequency. Movements in the rate, either up or down, or even speculation about possible changes, were front-page news in this newspaper and others. Small banks, highly unlikely to influence the national economy, grabbed national publicity in some cases by being the first to move the rate either up or down. In some cases such banks, which really had no "prime" customers, would back down when no one followed them.

Prime borrowers were the largest customers with the best credit ratings, a class of borrowers that primarily patronized only the nation's largest banks. Competition among the banks for such business was stiff, leading to the frequent changes in rates. Late in the 1982-90 expansion, in February 1989, the prime hit 11.5%. Then it began a steady decline, falling 10 times until it reached its current 6% level in July 1992. The officially reported number hasn't changed since then.

That doesn't mean that all the best and biggest borrowers are paying a flat 6%. Some are paying less, many are paying more. Much depends on the banks' need for business and the borrowers' need for funds. As this newspaper's money rate table says, the prime is a base rate against which other rates are judged. Any movements in the rate, as well as the rate's current stability, carry a message, which seems to be quite as significant as the messages transmitted in previous years by the rate's frequent wild swings.

So, as we say, Mr. Clinton may be able to relax through the 1996 election if he puts any credence in economic formulas. Perhaps he can think of it as a belated Christmas gift from those friendly fellows at the Federal Reserve.

THE WHITE HOUSE
WASHINGTON

DATE: 1/20/94

NOTE FOR: Tony Lake

The President has reviewed the attached, and it is forwarded to you for your:

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Thank you.

JOHN D. PODESTA
Assistant to the President
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cc:

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THE PRESIDENT HAS SEEN

Tony - Fyi

^bc-yoder-column adv12<

^EDWIN YODER COLUMN<

^(Advance for Wednesday, January 12, 1994, and thereafter)<

^(For Yoder Clients Only)<

^By EDWIN M. YODER, JR.=

WASHINGTON--Listening to the argument over the future of the North Atlantic Treaty Organization, I get the feeling that only the foreign-policy wonks are paying attention. And that may be a good thing.

If the great American public understood that many critics of the Clinton administration's NATO policy want to rush the lately democratized central and eastern European states like Poland, Hungary and the Czech Republic into full NATO membership there would be rumbling in the heartland.

As usual, history is being forgotten--including the history of NATO itself. In 1949, when the alliance was created, the Republican Party was still essentially isolationist, opposed to mutual security alliances. NATO was seen by many eminent Republicans as a departure from Jefferson's warning against ''entangling alliances,'' even though there were alarming signs that Stalin's aggressive intentions might not stop in Prague, Warsaw and Budapest.

Sen. Robert Taft of Ohio, most esteemed of Republican Senate leaders, actually voted against NATO, although later, as presidential ambitions eroded his sterner principles, he voted to authorize a token deployment of American troops on the continent.

The creation of NATO did represent a drastic departure from traditional American foreign policy doctrine. The Republicans were right about that. That the alliance succeeded brilliantly and is now well established cannot hide the fact that old isolationist instincts are dozing just beneath the surface. The rash expansion of NATO could arouse them, at the risk of a dangerous impulse to bolt from Europe altogether.

Much of the criticism of the Clinton administration's go-slow approach--which envisions a gradual path to ''associate'' NATO membership

(more)

for the newly emancipated nations--is captious and some of it partisan. Henry Kissinger, the strategist of Nixon/Ford ''detente,'' is now calling for the quick inclusion of new members in NATO. But this is a very different Kissinger from the one who counseled President Ford in 1975 not to give a White House audience to the exiled Russian writer Alexander Solzhenitsyn, lest it be provocative to the Kremlin.

The temptation to expand NATO may be traced to the splash Vladimir Zhirinovsky's party made in last month's Russian parliamentary elections. Zhirinovsky has made crude threats against everyone. He is a blowhard, a dangerous one, and nothing would be likelier to lend respectability to his rant than the spectacle of the United States and a reunited Germany herding former Soviet ''satellite'' nations, hastily democratized, into an armed alliance system.

The Clinton administration's alternative is a ''process'' in which Europe's strays, including Russia itself, would be invited to move toward mutual security guarantees which would call for no stark demarcation of geographic battle lines.

The administration's critics call it ''appeasement,'' but they miss the point. Russia is an economic and political shipwreck, and in its present shape a military threat to no one. The administration's proposal for ''associate membership'' represents an effort to avoid the errors committed after both world wars. After 1919, the United States assumed no responsibility for policing the peace in Europe. In 1949, the performance was far better. We didn't abandon Europe to its internal quarrels, but we tended at times to treat Western Europe as an American protectorate. Something between those extremes is called for now.

And besides, there are vital questions the critics haven't answered. Eastern Europe is full of old boundary and ethnic disputes. What geographic arrangements, for instance, would we guarantee if Poland became a full member of NATO? Poland has always been a historically unstable entity. Post-World War II Poland's boundaries were shifted well to the west, at the risk, said Sir Winston Churchill, in a vivid metaphor, of ''stuffing the Polish goose too full of German sausage.''

(more)

We presume that Poland has no designs to reclaim old lands now part of Lithuania; and that reunited Germany no designs on the parts of Poland that used to be known as East Prussia. But who knows? The debacle in Yugoslavia suggests the danger of underestimating the allure of old nationalist quarrels and passions, and of linking supreme American security interests to them.

The role of the post-Cold War NATO should not be to harden the dissolving lines of nationalist enmity but to offer everyone--including Russia itself--a stake in ties of mutual respect and civility.

THE WHITE HOUSE
WASHINGTON

DATE: 1/20/94

NOTE FOR: The Vice President

The President has reviewed the attached, and it is forwarded to you for your:

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Thank you.

JOHN D. PODESTA
Assistant to the President
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(x2702)

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THE PRESIDENT HAS SEEN

To VP

You probably
seen this but
thought it was
interesting

THE

"USA TODAY hopes to serve as a forum for better understanding and unity to help make the USA truly one nation."
—Allen H. Neuharth
Founder, Sept. 15, 1982

THE NATION'S NEWSPAPER
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Today's debate: PROTECTING THREATENED SPECIES

Endangered species law is a real success story

OUR VIEW Saving animals and plants from being wiped out protects the planet for people, too.

Tougher and wiser, the Endangered Species Act turns 20 today.

Life hasn't been easy for the young law up for renewal next year. A lot of mud has been tossed its way in skirmishes over Tennessee's little snail darter fish and the western forests' spotted owl. Critics mock its protections for such odd-named species as the Arkansas fatmucket and lyrate bladderpod and contend that it's destroyed jobs.

While some developers have had to modify plans to accommodate threatened species, only 33 of more than 118,000 plans and projects reviewed under ESA between 1979 and 1991 were canceled or halted. And the act is doing exactly what the American people want it to do — protect this nation's wondrous diversity of plant and animal life.

Under ESA's protective wing, the bald eagle, peregrine falcon, Aleutian Canada goose and greenback cutthroat trout made comebacks from extinction. Dozens more soon should join them from the 594 endangered and 181 threatened species on ESA's lists today.

That fine record doesn't mean, though, that the act or its implementation has been perfect.

Right now, application of the act follows the emergency room model for care, delivering intensive doses for species that are in dire straits rather than practicing some preventive medicine to keep them from getting there.

Furthermore, the process designating endangered or threatened species remains hit or miss, creating uncertainty for workers and landowners, not to mention for the nation's biodiversity.

What would help is more information about the nation's plant, animal and insect life and how they interact.

A planned National Biological Survey by the Interior Department now awaiting action in Congress could provide that data. That, with a re-enacted ESA, could make enforcement less iffy and confusing. More important, it would allow preventive measures so species never approach extinction.

For in nature's complex architecture, even the tiniest bacteria have a role to play in preserving the health of the planet. And that makes the Endangered Species Act as vital today as at its birth.

This law is a disaster

OPPOSING VIEW **Grabbing private property rights on such dubious grounds is wrong; it could happen to you.**

In 1973, Congress wrote the Endangered Species Act to protect golden eagles and grizzly bears.

By William Perry Pendley, president and chief legal officer of Mountain States Legal Foundation, Denver.

In 1993, with 700 species designated "threatened" or "endangered," and as many as 8,300 to be listed, the act is the pit bull of environmental laws, capable of stopping any use of any land, anywhere in the country.

It is not just eagles and bears which carry such job-sapping clout, but flies, snails and garter snakes.

The act is a disaster:

▶ Alone among federal laws, it mandates its goals "regardless of the cost." No other law so completely ignores any comparison of costs with benefits.

▶ Many of the species are not in danger of extinction but simply are not as abundant as before or no longer dwell in their original habitat.

▶ Science is almost non-existent. The distinction between species and subspecies, for example, has nothing to do with biological science but with political science.

▶ The government's implementation of the act is little more than a land grab, as federal officials demand that private lands be handed over to the U.S. government as the price for economic activity.

For years, Westerners and rural Americans complained about the act's impact on local and regional economies and on property owners. For that, they were abused by the media. That changed with the southern California fires, after which Barbara Walters and Hugh Downs of ABC's *20/20* opined that that this "well-intentioned" but "unnatural" law may "go too far" since it "might eventually threaten your home and property, too."

THE WHITE HOUSE
WASHINGTON

DATE: 1/20/94

NOTE FOR: George Stephanopoulos

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Thank you.

JOHN D. PODESTA
Assistant to the President
and Staff Secretary
(x2702)

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THE PRESIDENT HAS SEEN

INTERNATIONAL AND
PUBLIC AFFAIRS CENTER
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(213)259-2539
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GS - FYI
Send Jap. article to USC

DATE: December 7, 1993

TO: President Clinton

FROM: Derek Shearer

Dear Bill,

Thanks again for the call on my birthday. I greatly enjoyed hanging up on Stanley to take your call.

I've enclosed various items:

(1) Some mysteries for downtime enjoyment.

(2) Some of Glen Fukushima's recent columns on US-Japan economic relations. Your letter to Glen in August did not reach him until a few days ago due to a staff failure to put on a street address. He did appreciate the letter once it finally arrived.

(3) A recent piece that I did for the L.A. Times.

(4) A policy memo that my colleague here Peter Dreier has written for Henry Cisneros at HUD's request. Peter was Ray Flynn's chief policy advisor for many years before I got him to come to Oxy.

I hope that you and Hillary get some rest and have some fun over Christmas. You both deserve it, after the battles of this year.

Have a good Christmas,

Derek

by Glen S. Fukushima

Former Director for Japanese Affairs, Office of the United States Trade Representative

Gaiatsu Revisited

"With the weak political leadership we have now, you bureaucrats may end up controlling Japan the way the militarists took over the country in the late 1930s and early 1940s. That would be a tragedy."

This statement—uttered recently over drinks late one evening by a Liberal Democratic Party Diet member—is evidence that a structural realignment of Japan's political parties may not bring about the kind of reforms in the Japanese economy so eagerly awaited by the United States. In fact, in the short run the recent political changes in Japan could strengthen the bureaucracy, thereby making market-opening even more difficult—if that is imaginable— than during the 38-year rule of the LDP.

How can this be when, according to Western press accounts, the new coalition government is reversing Japan's traditional policies favoring rural constituents over urban dwellers and producers over consumers? When Prime Minister's Hosokawa's slogan is to promote "political reform, administrative reform, and economic reform"? When pundits in both the United States and Japan insist that now, finally, at long last, "Japan is *truly* changing"?

The answer is obvious to anyone who understands the powerful role the bureaucracy plays in the Japanese political economy. Although the bureaucracy's role today may not be as overt, direct, or heavy-handed as it was in the 1950s, 1960s, and 1970s, it is nonetheless extraordinary given Japan's self-proclaimed status as a "capitalist free market economy." From the minutiae of setting technical standards aimed at impeding the importation of foreign products to the formulation of grand strategies and "visions" for Japan in the year 2020, the power of Japan's "best and brightest" is awesome. Their collective intelligence, energy, control of information, policy expertise, human networks, and knowledge of "how the world works" is superior to that of virtually any other institution in Japan.

The extent of bureaucratic influence in all walks of Japanese life comes naturally to most Japanese but is incomprehensible to many Americans (in this regard, the Europeans are much more realistic about Japan). One small but striking example. Earlier this year, I was invited as the only non-Japanese to attend a major conference on "The Role of Corporations in Society." In examining the backgrounds of the conference participants, I realized that fully 40% were current or former government officials (60% if one includes those participants who were national university professors and NHK representatives). In other words, only 40% of the participants at this business conference were from the private sector. I suggested that a similar conference if convened in the United States would probably include business people, consumers, lawyers, professors, and perhaps journalists, but certainly few if any government bureaucrats. Somewhat defensively, the sponsors replied, "Japanese business leaders, with few exceptions, are too busy making money. The only people in Japan who have given serious thought to such big picture issues as 'the role of corporations in society' and who can articulate them cogently are current or former government bureaucrats."

What are the implications of this bureaucratic power for U.S. expectations regarding "real changes" in Japan that will remedy the asymmetries in trade, investment, technology flows, etc. between the two countries? To promote the kinds of changes in Japan that can tangibly benefit the United States, the Clinton Administration should pursue a three-track approach:

(1) Actively support those Japanese political leaders who advocate changes that will remedy the numerous U.S.-Japan asymmetries that exist today.

(2) Single out, criticize and, if necessary, take action against those government agencies (or Japanese companies under their jurisdiction) that are acting to block or slow down these changes.

(3) Devote special attention to the Japanese private sector, both corporations and the general public, to ensure that the U.S. message is being delivered accurately to Japan and not distorted by the Japanese bureaucracy and mass media. The goal is to build as solid a coalition of domestic allies in Japan as possible to apply *naiatsu* [pressure from within] on the bureaucracy to undertake changes consistent with U.S. interests.

What this calls for is a "divide and conquer" approach—something the Japanese bureaucracy has perfected to an art form in dealing with the United States. It is premised on the notion that the erstwhile U.S. approach of applying *gaiatsu* [pressure from abroad] in an uninformed, indiscriminate, across-the-board fashion has reached a point of diminishing returns and that a much more surgical, targeted, and sophisticated use of *gaiatsu*, coupled with *naiatsu*, is necessary. This requires, of course, that the Administration develop a sufficient understanding of the political dynamics in Japan so that *gaiatsu* can be applied intelligently— at the right time, at the right place, on the right parties, and with sufficient calibration to maximize the desired results while minimizing Japanese resentment.

The Japanese bureaucracy—despite propaganda to the contrary—is more often a part of the problem than part of the solution: as intensely loyal mandarins, their mission is to preserve their ministry's interests, which usually means unyielding adherence to the status quo—*unless* there are strong incentives to do otherwise.

Achieving substantive economic results with Japan is contingent on the Administration's ability first, to encourage and cooperate with potential allies in Japan (i.e., promote *naiatsu*) and second, to press for specific changes aimed at benefiting the United States through the use of pinpointed, laser-beam, surgical *gaiatsu*.

by Glen S. Fukushima

Former Director for Japanese Affairs, Office of the United States Trade Representative

Deregulation Is Not Enough

"Deregulation" [*kisei kanwa*] has—at least in concept—become a fad in Japan. Given impetus by the new Hosokawa Administration, Japanese are focusing on the benefits of deregulation—among them, reduced government intervention in the economy, a more efficient allocation of resources, and increased consumer welfare. The concept has become so popular that many Japanese—with the significant exception of government bureaucrats—seem to endorse it. Deregulation has become a centerpiece of both administrative reform and economic reform, and plays a prominent role in the recently announced recommendations of the Hiraiwa Commission (Economic Reform Research Council).

Many observers assume that deregulation will benefit consumers in Japan as well as Japanese and foreign producers. In this way, the argument goes, deregulation should ease trade frictions by helping to: (1) reduce Japan's large and persistent current account surplus and (2) open Japan's market, which is extremely difficult for newcomers, especially foreign newcomers, to penetrate.

But are these assumptions valid? Will deregulation truly bring about benefits to foreign producers as well as to Japanese producers and consumers? The benefits to Japanese producers and consumers are easy to predict. But with regard to foreign producers, the answer is by no means clear. The reason is that deregulation addresses only one level of a multi-level market access problem. As discussed in detail in my *TBT* column of May 1992 ("Is the Japanese Market 'Open'?") foreign firms doing business in Japan face three levels of barriers: (1) governmental; (2) structural, organizational, and institutional; and (3) psychological and attitudinal. In addition, Japan's definition of "competitiveness" differs greatly from that of most other countries (see my *TBT* column of May 1993, "'X-Factors' and Market Access").

This means that deregulation alone is unlikely to resolve either the "surplus" problem or the "penetration" problem. The most likely effect of deregulation is to make it possible for Japanese companies that are not now in certain domestic markets to enter those markets. Since foreign firms are more constrained by level two and level three barriers than are Japanese firms, they are likely to benefit the least from deregulation. In fact, deregulation can even be detrimental to the interests of foreign firms. In one segment of the Japanese insurance market, for example, foreign firms have established a significant presence. In most other segments, however, foreign insurance firms have been excluded by the three levels of barriers discussed above. If, as some have proposed, the Japanese Government were to deregulate only that market segment where foreign firms have already established themselves, this would result in their losing business to Japanese companies newly entering that market segment without the foreign firms having a chance to enter other segments (dominated by Japanese firms) from which they have been excluded.

Thus, it is dangerous to applaud deregulation in Japan without examining closely its practical consequences on a case-by-case basis. Otherwise, we will be following the familiar pattern of the United States hoping that "change" will open up Japan but being ultimately disappointed as Japanese consumers and producers, but not foreign interests, benefit. The relevant question for the U.S. Government and industry is not whether deregulation in Japan is good or bad, but in what way it will be implemented and how this affects American interests.

In a book published last year entitled *Nichi-Bei Keizai Masatsu No Seijigaku [The Politics of U.S.-Japan Economic Friction]* (Tokyo: Asahi Shimbunsha), I examined eleven problem areas in the U.S.-Japan relationship. Among them, the most urgent economic problems confronting the two countries are (1) the size and persistence of Japan's current account surplus; (2) the difficulty of penetrating Japan's market, especially in high value added manufactured products; and (3) the difficulty of expanding foreign direct investment in Japan.

If Japan seriously wishes to address these problems, the best solution is for the Japanese Government and industry to formulate a results-oriented affirmative action program with the specific goal of significantly reducing the current account surplus, increasing manufactured imports, and expanding foreign direct investment. Such a program requires at least three elements.

First, it should be self-initiated by Japan, not a grudging response to *gaiatsu* [pressure from abroad]. The program should be formulated and implemented by Japan because it is in the best long-term interest of Japan, as well as the world economic community, to do so. Second, it should be results-oriented because only by focusing on clear goals and objectives will it be possible to achieve the necessary outcomes. Endless discussions about principles, procedures, or processes will only slow down progress and arouse suspicion abroad that, once again, Japan is dragging its feet. Third, affirmative action should not be seen as "reverse discrimination" favoring uncompetitive foreign companies or "punishment" against Japan. Rather, it should be a recognition that, for whatever reason, Japan's market differs significantly from that of other advanced industrialized countries and that without a mechanism to cope with these differences, profound asymmetries will persist between Japan and the rest of the world and threaten the international trading system.

This is not a matter of "good" or "bad," "fair" or "unfair." It is simply a matter of recognizing differences between Japan and its trading partners; coming to terms with them in a realistic way; and devising mechanisms to maximize cooperation, ensure mutual benefits from competition, and minimize conflict.

by Glen S. Fukushima
Former Director for Japanese Affairs, Office of the United States Trade Representative

Affirmative Action Japanese Style

As I argued in my previous column ("Deregulation Is Not Enough," *TBT*, Jan. 1994), if Japan seriously wishes to remedy asymmetries with its trading partners, the Japanese government and industry should initiate a results-oriented affirmative action program with the goal of significantly reducing the current account surplus, increasing manufactured imports, and expanding inward foreign direct investment.

The single greatest obstacle to realizing this is mental. That is, the mind-set of most Japanese at present is as follows: the current account surplus is good because it demonstrates the strength of Japan's economy; the low level of manufactured imports should be maintained because it keeps Japanese manufacturers in business and provides employment to Japanese workers; and the level of inward foreign direct investment should be minimized to repel "foreign invaders" who might threaten Japanese companies, flout Japanese government attempts at administrative guidance, and upset the "social order" of Japan.

With these as received wisdom, it is no wonder that an endless series of academic symposia, government reports, blue-ribbon commissions, and international trade agreements over the past decade have yielded so few concrete results. Despite the hand-wringing that Japanese leaders display to foreigners about the need for Japan to reform its system to be "in better harmony with the rest of the world"—words reminiscent of the Maekawa Commission Report of April 7, 1986—the fact is that most Japanese believe they have created a supremely effective economic system, thank you, and that the only problem is that foreigners—because of their uncompetitiveness, envy, or racism—choose to criticize Japan rather than giving it the praise and recognition it deserves.

In the words of many Japanese industrialists, "Why should Japan be denounced for providing to the world's consumers high-quality products at low prices?" This is echoed by Japanese government officials. Witness Eisuke Sakakibara, Deputy Director-General in the Ministry of Finance, who contends in his book *Beyond Capitalism: The Japanese Model of Market Economics* that Japan represents "one legitimate model of capitalism that is different from the American or neo-classical economic model [and] has proved to be highly efficient and competitive." Indeed, the Ministry of Finance is only one of many Japanese institutions insisting that Japan's "superior" form of state-guided capitalism offers greater developmental lessons for the economies of East Asia, Africa, and Eastern Europe than does the laissez-faire Anglo- American form of capitalism. Given this self-image of success, it is unlikely that Japan will change except to benefit itself— unless, of course, there are clearly negative consequences of not changing.

The U.S. government must ultimately decide what leverage, inducements, incentives, or sanctions to use. What is clear is that the United States must insist on Japanese changes in *results* rather than mere changes in *procedures*. Only by Japan adopting an affirmative action program can this be realized. Mere adherence to a "national treatment" or "most favored nation" standard will not solve the problem, since the Japanese economy gives inordinate advantages to entrenched incumbents, to the detriment of newcomers (see my "'X-Factors' and Market Access," *TBT*, May 1993).

The problem is that American-style affirmative action is alien to Japan. A national consciousness that Japan is a homogeneous population not confronted with the need to redress past (and present) discrimination toward women, Koreans, and others, coupled with a tendency to "blame the victim," means that most Japanese find affirmative action incomprehensible. It is commonly translated as "*gyaku sabetsu*" [reverse discrimination]—a term often used in the mass media to describe U.S. "demands" for market access. This conceptualization only compounds the problem by implying that the United States, from a position of weakness and uncompetitiveness, is begging Japan for a special favor, a handout, something undeserved but perhaps necessary to appease a once-respected elder brother who has gone terribly astray.

A better—though not perfect—formulation of affirmative action for the Japanese context might be to use the term "*shinki sannyusha yugu saku*"— policies, measures, plans, or steps to promote, favor, prefer, welcome, or warmly receive newcomers. Although a bit clumsy, this expression has the virtue of using words with positive, inclusive connotations rather than the harsh, negative, and exclusionary ring of a "*gyaku sabetsu*" forcibly imposed from the outside upon a poor, innocent, and blameless Japan.

Conceptually, one method of explaining the logic might be to analogize the position of foreign newcomers to that of Japan's new common carriers in telecommunications, which as of April 1, 1985 were permitted to enter the market for the first time pursuant to the new Telecommunications Business Laws. These Laws provided for the "privatization" of Japan's state-owned telecommunications monopoly, Nippon Telegraph and Telephone Public Corporation (NTT). Although the heavy hand of the Ministry of Posts and Telecommunications as regulators is no model to emulate, the important principle to analogize to foreign newcomers is that Japanese policymakers, with clear results in mind, made a conscious effort to ensure that the newcomers—i.e., the new common carriers—would be given certain advantages over NTT so they could compete effectively with the erstwhile monopoly.

The U.S. government and industry need to find words, expressions, and concepts—whether relating to "openness," "fairness," "results," or "affirmative action"—that are understandable to Japanese sensibilities. Otherwise, as in so many U.S.-Japan negotiations, the two sides will continue to talk past each other.

Studying for the Presidency

By DEREK SHEARER

During the 1992 Presidential campaign, candidate Bill Clinton's battered leather briefcase always bulged with books. As a policy advisor and friend, I frequently added to the briefcase's weight by giving Clinton books on economics and public policy. I also brought on the campaign plane mysteries to read for relaxation, and Clinton would always grab them. Eventually, my sharing of books with Clinton was noticed by the press—and I was dubbed, "the bookmobile."

I have only given President Clinton two nonfiction books since he's moved into the White House: Paul Kennedy's "Preparing for the Twenty-First Century"—an impressive survey of trends in world economics and politics and Richard Reeves' profile of JFK in power, "President Kennedy." This is the best study that I've read of what it's like to be President.

My role as a giver of books to the current President clearly has a limited tenure, but as a service to other future political leaders I have put together a holiday gift basket of books for all those men and women who might aspire to be President. It is comprised of books that I have shared with Bill Clinton over the years, as well as books that I require of my Public Policy students at Occidental. It's a weighty basket—but ideas do count as the recent election demonstrated, and being President is serious business.

PARTING THE WATERS: America and the King Years 1954-63 by Taylor Branch. This is the most brilliant history written to date of a grassroots political movement—in this case, the civil rights movement. The book has the sweep and narrative power of a great novel. Branch's attention to detail allows the reader to understand the subtle interplay in American politics between outsiders and insiders, and the role that individual acts of courage and vision can sometimes play in movements for societal reform. The President had Branch help him with his inaugural address, and would like him to write the history of the Clinton administration. This is the one book that I have advised the President to give as a gift to all visitors to the White House, whatever the season. **LEADERSHIP** by James MacGregor Burns. Winner of the Pulitzer Prize and the National Book Award in 1979, this is the best book written on political leadership. Burns, a historian at Williams College, utilizes his knowledge of political history to illustrate and analyze different types of leadership and how power is exercised. **THE DISUNITING OF AMERICA: Reflections on a Multicultural Society** by Arthur M. Schlesinger, Jr. This brief essay by the noted historian and former Kennedy speechwriter helps to put in historical perspective the current debate about ethnicity and the American identity. Schlesinger argues that it is the job of the President to try to unite Americans across class, race, and ethnic lines—no easy task in an immigrant-based society. **THE PERMANENT CAMPAIGN** by Sidney Blumenthal. This work by the "New Yorker" Washington correspondent Sidney Blumenthal, one of the country's most intelligent and insightful political journalists, is an essential primer in the modern political process. **CHAIN REACTION: The Impact of Race, Rights and Taxes on American Politics** by Thomas and Mary Edsall. This is the best book on how race colors national politics in the U.S. Written by one of the Washington Post's top political reporters and his wife, it is an analytical study of domestic American politics over the past three decades. **RETHINKING SOCIAL POLICY: Race, Poverty and the Underclass** by Christopher Jencks. Northwestern University professor Jencks clean-headedly dissects both traditional liberal and conservative approaches to crime, welfare, affirmative action, and poverty and finds them wanting. **THE DEBT AND THE DEFICIT** by Robert Heilbroner and Peter Bernstein. A succinct primer on the difference between the Federal debt and the fiscal deficit. An admirable companion book is his wonderful history of economic ideas, **THE WORLDLY PHILOSOPHERS**. **SECRETS OF THE TEMPLE: How The Federal Reserve Runs The Country** by William Greider. Every President must deal with the unelected head of the Federal Reserve and his relatively unaccountable power. This 1987 book by a former Washington Post reporter was the first to report on and analyze the inner workings of America's national banking system. **RIGHTEOUS PILGRIM: The Life And Times of Harold L. Ickes 1874-1952** by T. H. Watkins. Historical perspective on the interplay of environmental ideas and power politics can be gained by reading this biography of FDR's most controversial and effective Cabinet member, Secretary of the Interior Harold Ickes, the preeminent Progressive of this century. **COSTING THE EARTH: The Challenge For Governments, The Opportunities For Business** by Frances Cairncross. Written by the Environmental Editor of "The Economist" magazine, this is a sensible discussion of the economic challenge of environmentalism. **WALTER LIPPMAN AND THE AMERICAN CENTURY** by Ronald Steel. The best book that I've read on American foreign policy. The most influential political columnist of the American Century, Lippman's central role in debates about America's world leadership spanned Woodrow Wilson's administration to that of Lyndon Johnson.

To prepare a future President for international leadership, I would start with these essential books: **LENIN'S TOMB: The Last Days of the Soviet Empire** by David Remnick. First hand reporting by the Washington Post's Moscow correspondent on the decay and fall of the Communist system in Russia. This is the best "you-are-there" book on Russia since John Reed's classic **TEN DAYS THAT SHOOK THE WORLD**. It will help you understand the magnitude of the task that Yeltsin and other Russian reformers face in building a new civil society and a market economy. **THE SEARCH FOR MODERN CHINA** by Jonathan Spence. Yale history professor Spence has penned a lucid history of modern China—a country that will be a major economic and political force in the 21st Century—an epoch that might well be the Asian Century. **THE ENIGMA OF JAPANESE POWER: People and Politics in a Stateless Nation** by Karel van Wolferen. An instant classic on the inner workings of Japan's political/industrial system, this book by a noted Dutch journalist should be required reading for American trade negotiators—and it should also be the President's Christmas gift to the new American ambassador to Japan, Walter Mondale. **UTOPIA UNARMED: The Latin American Left After the Cold War** by Jorge G. Castaneda. A professor of economics and international affairs at the National Autonomous University of Mexico, analyzes the left's failures south of the border. **TROPICAL GANGSTERS** by Robert Klitgaard. A firsthand account by a young economist of foreign aid operations in equatorial Africa.

The only work of fiction that I'm including is **LINCOLN** by Gore Vidal. This historical novel depicts Lincoln's ability to combine courage and statesmanship with a willingness to use power and to engage in pragmatic politics—all in an effort to preserve the Union.

Reading books, of course, is the easy part; running for and winning the job takes great stamina, commitment and ambition. Good luck and holiday greetings. ■

Shearer is Director of the International & Public Affairs Center at Occidental College, and a professor of Public Policy. He was an economics advisor to Bill Clinton in the 1992 Presidential campaign, and served briefly as Deputy Under Secretary of Commerce.

THE WHITE HOUSE
WASHINGTON

DATE: 1/20/94

NOTE FOR: George Stephanopoulos

The President has reviewed the attached, and it is forwarded to you for your:

Information ☒

Action ☐

Thank you.

JOHN D. PODESTA
Assistant to the President
and Staff Secretary
(x2702)

cc:

GS

THE PRESIDENT HAS SEEN

[illegible]

At Empower America, Refuge for Conservatives, First Year Has Been a Tale of Money and Ego

By David Rogers
Staff Reporter of The Wall Street Journal

WASHINGTON — George Bush hadn't yet left town last winter when a new advocacy group called Empower America set up shop to house the best and brightest of the conservative cause. One year and millions of dollars later, the question is: Just who is empowering whom?

With two likely Republican presidential contenders, Jack Kemp and William Bennett, on its board, Empower America's $4 million-plus budget and its supply-side, free-trade, school-choice ideology make it a political force to be reckoned with in 1996. But its first 12 months are already a cautionary tale of money and ego on the right.

Bankrolled by leveraged-buyout artist Theodore Forstmann, the fledgling organization blends Wall Street money and the grass-roots marketing techniques of Perot-era politics. From high-rent offices just blocks from the White House, Empower America's fax machines spin out weekly reports for a network of 500 radio talk-show hosts across the country. Meanwhile, an aggressive mail campaign has yielded a list of more than 100,000 donors, worth millions in future contributions and able to sustain staff and big salaries for the organization's founders.


Vin Weber

At center stage is Vin Weber, Empower America's vice chairman and one of three politically minded brothers who have had at least passing association with the advocacy group. Elected to the House from Minnesota in the Reagan landslide of 1980, the personable Mr. Weber helped engineer the rise of Newt Gingrich, now the House Republican whip, who joined the Empower America board in a shakeup last month. Mr. Weber ran aground in the House Bank scandal of 1992, and chose not to run for re-election; in private life, he has set out to make money while keeping open the option of a comeback campaign for the Senate in 1996.

Mr. Weber's new Washington consulting firm and his role as a National Public Radio commentator complement his part-time duties at Empower America, where he earns $150,000 a year and stands to reap a small fortune from stock options steered his way by Mr. Forstmann.

Just weeks after the advocacy group was announced last January, the Wall Street financier added Mr. Weber to the board of a Forstmann-controlled company slated to go public months later. Shares in the company, Department 56 Inc., a maker of collectible porcelain figures, closed yesterday at $27.75 on the Big Board, but according to Securities and Exchange Commission filings, Mr. Weber has the option to buy as many as 30,000 shares at $3.30 apiece — a difference of nearly $750,000. "It was very generous," Mr. Weber says.

Safe Harbors for the Elite

For their part, Mr. Bennett, the former education secretary, and Orson Swindle, a former Vietnam POW lured from Ross Perot's political camp, are both paid in the same range as Mr. Weber's salary. And together with the older Heritage Foundation, where former Attorney General Edwin Meese was paid more than $211,000 in 1992, Empower America illustrates how such tax-exempt nonprofits have become safe harbors for elite figures in the conservative movement.

For example, Mr. Bennett's $150,000 salary from Empower America is supplemented by Heritage, which paid him $89,800 in 1992 as a distinguished scholar. Neither he nor Mr. Kemp will disclose their current salaries from Heritage, but both are paid handsomely while keeping staff at Empower America. (Heritage's own filings with the Internal Revenue Service show that its president, Edwin Feulner, received pay and bonuses valued at more than $360,000 in 1992 — significantly more than his counterparts at other Washington nonprofits such as the American Enterprise Institute and Brookings Institution.)

In Empower America's case, it helps to pay for those generous salaries through direct-mail appeals run by a Virginia company called Response Dynamics Inc., or RDI. The company has a broad corporate clientele but is best-known in the GOP for its involvement in several efforts that have been criticized as antithetical to the very party-building-type ideas Empower America is said to advocate.

In 1988, RDI mailed for the National Security Political Action Committee, whose independent-expenditure "Americans for Bush" organization financed the famous Willie Horton television ads. In 1992, the company worked for a second independent committee that traded on the Bush name in its fund-raising and was criticized by the official Bush campaign as siphoning off funds and being counterproductive.

In addition, the company until last summer was part of a bizarre challenge to Massachusetts Sen. Edward Kennedy by a native Georgian and obscure Reagan-era Agriculture Department official who raised more than $1.1 million over the 18 months ending last June — most of which only paid postal costs and fees charged by RDI and its subsidiaries.

David Kunko, one of RDI's founders, casts himself only as a businessman and says that "we put out direct mail for anyone who will pay." In the case of Empower America's contract, Mr. Weber's brother, James, a Washington consultant who has long had dealings with RDI for business and political clients, was instrumental in seeing that the Virginia company won the work. But all sides deny that the younger brother benefited financially from his advisory role.

RDI estimates that Empower America could net at least $3 million a year from the donor list already compiled. This money will be needed, since Mr. Forstmann, who put up $1 million of his own money and helped raise several million more for Empower America last year, has distanced himself a bit from the enterprise and its chief political beneficiary, Mr. Kemp.

Shifting Alliances

Mr. Forstmann, who declined to be interviewed for this article, last month gave up the chairmanship of Empower America. And he has shown signs of developing more of a relationship with that old supply-side nemesis—and potential Kemp rival—Senate Minority Leader Robert Dole. With the encouragement of Texas deal maker and former Democratic National Chairman Robert Strauss, the two men dined together at Mr. Forstmann's New York residence in July, and the financier separately contributed an estimated $50,000 to Mr. Dole's own fledgling nonprofit organization, the Better America Foundation, in late September.

Meanwhile, Jude Wanniski, the supply-side advocate and former Wall Street Journal editorial writer who is a longtime Forstmann associate, has begun to play an advisory role to Sen. Dole. A recent memo from Mr. Wanniski to Sen. Dole gushes with a second-hand account that Margaret Thatcher thinks the Kansan "has it all." And after years of loyalty to Mr. Kemp, Mr. Wanniski speaks like a proud tutor of Mr. Dole's "late conversion" and openness to the idea of eliminating the capital-gains tax. (A Dole presidency would "cut the capital gains tax . . . or the index at least, or maybe eliminate them altogether," the senator said on NBC's "Meet the Press" last week.)

Mr. Wanniski says that Empower America is "spinning its wheels." But the shifting alliances are colored by a feud between him and another old Reaganite, former Office of Management and Budget economist Lawrence Kudlow, who has become a major player in the Kemp-Bennett-Weber advocacy group. Mr. Wanniski denies there is any connection between his feelings about Empower America and his feelings about Mr. Kudlow, but he accuses Mr. Kudlow, now chief economist at Bear Stearns & Co., of going behind his back in 1992 when both were advising the Russians on financial matters. Mr. Kudlow says it was the Russians who were unhappy with Mr. Wanniski.


Theodore Forstmann

Meanwhile, Mr. Forstmann's departure doesn't mean he has severed all ties; he is now "founding chairman," and the group is mailing copies of a recent speech by him to 25,000 select "opinion-maker" members. But his move has triggered a reshuffle at the top of the organization, with Malcolm S. Forbes Jr., of the magazine family, becoming chairman, Mr. Weber moving from president to vice chairman and Bill Dal Col, a former Kemp aide, becoming president.

Sitting in the group's headquarters, Mr. Dal Col can only laugh about the turmoil around him and try to look ahead. Sounding more like a marketing manager than a crusading political activist, he happily describes how next week's first of seven "issues" schools planned for candidates this year is sold out. A microchip-based high-tech "actuality service" is already feeding taped quotes to radio stations, he adds, and there will even be an "800" number where candidates can call in after Labor Day to get advice on Empower America's issues, such as school choice or taxes. "Six p.m. to midnight, Eastern Standard Time," he says, smiling.

THE WALL STREET JOURNAL THURSDAY, JANUARY 6, 1994

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THE WHITE HOUSE
WASHINGTON

DATE: 1/20/94

NOTE FOR: Bruce Lindsey

The President has reviewed the attached, and it is forwarded to you for your:

Information ☒

Action ☐

Thank you.

JOHN D. PODESTA
Assistant to the President
and Staff Secretary
(x2702)

cc:

THE PRESIDENT HAS SEEN

[illegible]

Political Research Finds Religion a Key Indicator of Party Loyalty

By Thomas B. Edsall
Washington Post Staff Writer

Religion has become a powerful predictor of both political partisanship and ideology, playing a role similar to that of race or income, according to a number of studies.

Among white voters who are members of Christian denominations, the Republican Party is increasingly becoming the home of regular churchgoers who hold strong religious beliefs, David C. Leege, professor of government and international studies at the University of Notre Dame, found in an extensive analysis of polling data. White voters who attend church irregularly or identify themselves as non-religious are more likely to be Democrats, Leege found.

Blacks, Jews and Hispanics, including those who attend religious services and those who do not, cast Democratic majorities.

The driving force in the growing religious polarization of the white electorate is the Republican realignment of evangelical voters. Their support for President George Bush in 1992 was far higher than that from any other major religious category, and they are substantially more conservative and traditionally moralistic than any other religious group.

A more subtle process working in favor of Democrats, however, involves the growing numbers of men and women who identify themselves with a religious denomination but are not regular churchgoers. These voters are substantially more inclined to vote Democratic and hold more liberal positions on such issues as abortion, school prayer and gays in the military.

One of the most striking trends in Leege's examination of National Election Studies data from 1960 to 1992 is the steady decline of white voters who say they are members of "mainstream" Protestant churches, including Episcopalians, Presbyterians and Methodists.

In 1960, these men and women made up a decisive plurality of white adults, 41 percent, twice as many as either white evangelicals or Catholics. By 1992, however, the share of whites identifying themselves as members of these and other mainline denominations had fallen to 22 percent, roughly equal to the percentage of evangelicals and Catholics.

In addition, by 1992 the percentage of mainstream Protestants who regularly went to church fell to substantially less than that for white evangelicals or for white Catholics.

"The [Protestant] mainline, around which so much of the civic agenda revolved throughout American history, is indeed the sideline," Leege said. Instead, "The Christian Coalition is the part of the Republican coalition that is growing, and the old mainstream Republicans are shrinking."

"What it really shows is that the energetic core of any winning Republican majority begins, though it does not end, with evangelical activists and their allies," said Ralph Reed, executive director of the Christian Coalition, a group started by television evangelist Pat Robertson.

Leege defined as evangelical members of such churches and denominations as the Southern Baptist Convention, the Church of the Nazarene, the Assemblies of God, and the Missouri and Wisconsin Synods of the Lutheran Church. Mainline Protestants included members of the Episcopal Church, the United Church of Christ, the Presbyterian Church (U.S.A.), the Reformed Church in America and the Christian Church (Disciples of Christ).

In a separate study of the 1992 election presented at a recent conference sponsored by the Ethics and Public Policy Center, John C. Green, of the University of Akron, found that white "evangelicals were Bush's largest single constituency in 1992, making up nearly two-fifths of his total," followed by white mainline Protestants, Catholics and "seculars and other traditions."

President Clinton's support, Green found, "was far more diverse": 18 percent white evangelical, 17 percent white mainline Protestant, 26 percent white Catholic, 18 percent white secular voters, and 21 percent blacks and Jews.

Leege's study takes the analysis of religiousness a step further by comparing the voting patterns of whites who are regular churchgoers and those of the same denomination who do not go to church.

Among church-attending white mainline Protestants who went to the polls, Leege found, Republican Bush beat Democrat Clinton 44 percent to 32 percent, with 24 percent for independent candidate Ross Perot. White mainline Protestants who did not go to church backed Clinton over Bush 43 percent to 28 percent, with 28 percent for Perot. Regular churchgoers among white evangelicals backed Bush over Clinton 69 percent to 21 percent, with Perot getting just 9 percent; non-attending white evangelicals backed Clinton over Bush 51 percent to 30 percent, with 19 percent for Perot. White churchgoing Catholics backed Clinton by a 43-to-38 ratio over Bush; Clinton got support from 61 percent of the white Catholic voters who do not go to church.

Among secular, non-religious adults, Clinton won a strong majority of 57 percent. Jews, blacks and Hispanics all cast majorities for Clinton.

Geoff Garin, a Democratic pollster who worked for the campaign of Virginia Lt. Gov. Donald S. Beyer Jr., found during the last election survey data in Virginia strongly supportive of Leege.

In a poll conducted in July, when Democrat Mary Sue Terry and Republican George F. Allen were running neck and neck in the governor's race, Garin asked voters whether "the most serious problem in our society" stems from a decline in moral standards or from economic and financial pressures on the family.

Those who said moral decline was the most serious problem backed Gov.-elect Allen 57 percent to 27 percent, while those who said financial and economic pressures on the family were more important backed Terry 61 percent to 29 percent.

Asked if they held favorable or unfavorable views of the GOP and Democratic Party, the Virginia voters most concerned with moral decline viewed the Republican Party favorably by a 63-to-12 ratio and the Democrats unfavorably by a 49-to-25 ratio. In contrast, those who said financial and economic pressures on the family were more important than moral decline held positive views of the Democratic Party by a 62-to-24 ratio, and viewed the GOP in slighly more negative than positive terms, 40 to 36.

While the GOP has faced criticism for becoming too heavily influenced by evangelical Christians, Thomas Mann, a political scientist at the Brookings Institution, noted that the secular shift in the Democratic Party has the liability of encouraging "the perception that they are inhospitable to people with strong religious beliefs and participation."

The Washington Post Thursday, January 6, 1994

THE WHITE HOUSE
WASHINGTON

DATE: 1/20/94

NOTE FOR: Tony Lake

The President has reviewed the attached, and it is forwarded to you for your:

Information ☐

Action XX

Thank you.

JOHN D. PODESTA
Assistant to the President
and Staff Secretary
(x2702)

cc:

THE PRESIDENT HAS SEEN

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Tony

What's the

deal on NEI?

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Senate Subcommittee Leaders Criticize Administration Handling of Russia Aid

By CARLA ANNE ROBBINS
Staff Reporter of THE WALL STREET JOURNAL

WASHINGTON – In an early sign of congressional discontent with President Clinton's Russia policy, two key senators are criticizing the administration's management of the multibillion-dollar Russian aid program.

In a late-December letter to Secretary of State Warren Christopher, Sen. Patrick Leahy (D., Vt.), chairman of the Senate Foreign Operations Subcommittee, and the panel's ranking Republican, Kentucky Sen. Mitch McConnell, charged that the aid program lacks "a coherent strategy or conceptual framework." And they called on the administration to make no new commitments of funds until it defends the program in hearings scheduled for early next week.

The hearings are also expected to raise questions about the workings of specific aid projects. Sen. McConnell has privately charged that one, a $190 million housing-resettlement program for Russian military officers, "reflected potentially illegal actions."

Favoritism Alleged

In an earlier letter to Sen. Leahy, Mr. McConnell charged that administration aides told the subcommittee that they planned to go along with the demands of Russian municipal officials in eight cities that a percentage of all houses built for officers returning from the Baltic Republics be given to their own political cronies or constituents. "Some might argue [this] amounts to extortion," Mr. McConnell wrote in the letter. President Clinton, according to aides, raised the issue in his recent summit meeting with Russian President Boris Yeltsin.

The senators are also expected to question why a half-dozen high-powered U.S. consulting firms are getting the lion's share of technical-assistance contracts valued at millions of dollars.

Until now, the administration's requests for Russian aid have breezed through Congress. These questions come at a particularly tough time for the administration and Strobe Talbott, who is Mr. Clinton's top adviser on Russian affairs and was recently nominated to the No. 2 job at the State Department. Mr. Talbott has been criticized for failing to predict the strong showing of Russian fascists and communists in last month's parliamentary elections, and any perceived problems with the Russian aid program could cloud his confirmation hearings.

The foreign operations subcommittee is one of four congressional committees that must sign off on specific aid projects before any money is committed. The four committees have already cleared about $1 billion in new bilateral aid projects of a total $2.5 billion previously appropriated for Russia and the former Soviet Union in fiscal 1994. The subcommittee's objections aren't expected to slow down any disbursements. In their letter, however, Sens. Leahy and McConnell suggested that their recent approval of the first set of projects was given in recognition of "the urgency of some of the programs" as well as "our desire not to cause difficulties" during Mr. Clinton's summit meeting, rather than any satisfaction with the design or management of the project.

Talbott Is Reassuring

Mr. Talbott said he will try to convince the senators that "the policy is pointed in the right direction." Mr. Talbott and Mr. Christopher have spent several hours this week in meetings with Sen. Leahy trying to head off any confrontation at the hearing. Mr. Leahy said, "We haven't raised these issues to beat up on anybody. . . . I just want to make sure that somebody's got the long-term goals in view."

President Clinton's strong, personal commitment to President Yeltsin may also be criticized at the hearings. Mr. Leahy is also expected to urge administration officials to refocus aid programs to take into account the "rising human cost" to ordinary Russians squeezed by economic reforms.

Administration officials agree that more emphasis should be put into crafting a social safety net in Russia, but they insist that U.S. bilateral aid cannot pay for such a program. Instead, the administration is lobbying still-skeptical international lending agencies to come up with more social spending for Russia.

White House Approaches Rudman on Pentagon Post

By a WALL STREET JOURNAL *Staff Reporter*

WASHINGTON – The White House contacted former New Hampshire Sen. Warren Rudman yesterday to gauge his interest in becoming defense secretary, an administration official said.

It isn't clear whether Mr. Rudman, a Republican, is interested in the job. He couldn't be reached for a comment last night.

Separately, other administration aides said the White House "sounded out" Sen. Sam Nunn recently about whether he was interested in taking the Pentagon post.

After Bobby Inman told the White House on Jan. 6 that he wanted to withdraw his name from consideration for the defense post, one aide said, Vice President Al Gore began the process of looking for a new nominee. As part of that process, Mr. Gore talked to Sen. Nunn, the chairman of the Armed Services Committee. But the Georgia Democrat expressed no interest in the job, the aide said. Aides to Sen. Nunn declined to comment.

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THE AMERICAN INSTITUTE OF ARCHITECTS

94 JAN 10 P5:06

Ricki 1-19-94

original given to Ricki.

5 January 1994

Mr. John Podesta
The White House
Washington, DC 20500

Dear John:

Can I ask your help on a presidential presentation? Last year, the President was kind enough his first week in office to present the annual Gold Medal of The American Institute of Architects and we have asked him to present it again this year. Enclosed is a copy of our letter, which went to the attention of Nancy Hernreich.

Of course, we would love to have the President and Hillary at the public awards gala (hosted by Charlie Rose and possibly keynoted by Secretary Cisneros) at the National Building Museum on 1 February. But I know that an Oval Office event is more doable. Monday, 31 January, or the following day, would be ideal: the Gold Medalist is from Great Britain and probably won't be here until that preceding weekend. We are told that the British Ambassador is interested in being on hand whenever and wherever the medal is presented.

Please call me if you can get a reading (phone: 202.626.7374; fax: 202.626.7365). Best New Year's wishes. Say hey to Pat Griffin.

Sincerely,

Bob

Robert A. Peck
Group Vice President, External Affairs

enclosure

1735 New York Avenue, NW
Washington, DC 20006-5292
Telephone 202 626 7300

THE AMERICAN INSTITUTE OF ARCHITECTS

22 December 1993

James P. Cramer, Hon. AIA
Executive Vice President/CEO

The Honorable William J. Clinton
The White House
Washington, DC 20500

Dear Mr. President:

In January, just a week after the Inauguration, you were kind enough to present the 1993 Gold Medal of the American Institute of Architects in the Oval Office. I am writing to ask if you would once again honor the architectural profession by presenting the 1994 Gold Medal, either at the AIA's annual Accent on Architecture awards gala at the National Building Museum the evening of February 1, or at the White House on January 31.

The AIA Gold Medal is the highest honor in American architecture. It was created in 1906 with the support of President Theodore Roosevelt and has been presented by many presidents since.

The 1994 Gold Medal is being bestowed on Sir Norman Foster of Great Britain who is known for the elegance of his "high-tech" designs; he is the 13th foreign winner of the award. The selection of Sir Norman points up the fact that architecture is a profession in which there is an active free trade; I am happy to report that it is a trade in which Americans are doing extremely well.

We hope that you will be able to present the Gold Medal and join us at Accent on Architecture. Our staff contact for information and arrangements is Robert A. Peck, our Group Vice President for External Affairs (phone: 202.626.7374; fax: 202.626.7365).

Sincerely,

James P. Cramer, Hon. AIA
Executive Vice President/CEO

1735 New York Avenue, NW
Washington, DC 20006-5292
Telephone 202.626.7310
Facsimile 202.626.7426

THE WHITE HOUSE

WASHINGTON

January 17, 1994

forward to Mark 1-19-94

TO: Harold Ickes
Christine Varney
John Podesta

FROM: Bill Galston WAG

SUBJ: Elders on drug legalization--again

Am I alone in thinking that something is amiss here? In the wake of last month's Elders statement, I thought that the President had made his administration's position unambiguously clear. It's one thing to blunder into a public flap; it's a very different (and more serious) matter deliberately to repeat the mistake.

The question now is not the merits of drug legalization, but rather the conduct appropriate for a senior administration official once the President has made an authoritative policy determination.

What standards of collective discipline are we prepared to uphold?

THE WASHINGTON POST SATURDAY, JANUARY 15, 1994

Elders Reiterates Her Support For Study of Drug Legalization

JOYCELYN ELDERS
. . . has researched topic since last month

Reuter

NEW YORK, Jan. 14—Surgeon General Joycelyn Elders said today that after reviewing many studies she remains convinced that the legalization of illicit drugs should be actively examined.

Elders raised a storm of controversy last month by saying, in response to a question, that drug legalization should be studied as a means of reducing violence in society.

Speaking today at a lunch organized by Redbook magazine, she said that at the time of her original statement "the person asking the question obviously knew more about the question than I did."

But she said that after reading numerous studies, she stood by her views. "After reading most of that . . . I realized I probably made a more honest, aboveboard statement than I knew I had made," she told the group.

The administration has disavowed Elders's statements on drug legalization, saying President Clinton is opposed to the concept.

Elders said she did not know how drug legalization could be carried out. But she said she did not see how it could be condemned "until you do the study."

She said that if the government refuses to do the research, "I suspect I'll be going around to talk to major foundations, major universities, to really get them to do a solid, basic study to really look at that kind of issue."

She said the criminalization of drugs also has a racial aspect, with blacks 14 times more likely to be jailed for a drug offense than whites.

Her son was arrested on a drug possession charge in Arkansas soon after her original remarks.

Despite the press attention the legalization remarks and her son's arrest received, she said she feels the news media "has been very kind to me."

But she added that she now knew which parts of the press "usually get things wrong." She did not elaborate.

After her talk, Elders said that she has been surprised at the nature of some of the attacks against her in Washington. "I thought the level of personal attack was a shock," she said.

UNITED STATES SENATE

U.S. SENATOR HARRIS WOFFORD

PENNSYLVANIA

TO PODESTA

Telecopier Cover Sheets

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TO: President Clinton c/o Mr. McLarty 456-1121

FROM: Sen. Harris Wofford

DATE: 1·18·94 TIME: 1·18·94

NUMBER OF PAGES: 3
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ENVIRONMENT AND PUBLIC WORKS
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United States Senate

WASHINGTON, DC 20510-3803

January 14, 1994

The President of the United States
The White House
Washington, DC 20500

Dear President Clinton,

I write concerning the continued delays for the Export Enhancement Program (EEP) for eggs in 1994. I urge you to support the poultry industry by renewing the EEP contract for this year.

In light of your announcement that you intend to sign the General Agreement on Tariffs and Trade (GATT), I believe that the United States will work towards finding its way into new countries' markets. However, I am worried that we could be losing a golden opportunity to maintain at the very least our current market position and possibly even forgoing future considerations after GATT by holding up the egg part of the EEP.

I agree that all programs should be examined closely, especially during times of fiscal restraint. And, I agree that it is important that we work towards the GATT structure as the backdrop for potential trade policies. However, to hold up this program indefinitely while overall trade policy is discussed would only undermine the purpose of the EEP -- to promote U.S. sales in foreign countries.

For this reason, I believe the United States needs to continue its current policies as it reexamines the constantly developing business markets. Last year, the U.S. exported 60 million eggs. The fact that these eggs are in demand overseas provides American poultry farmers with an additional market in which to sell their goods. If the egg portion of the EEP program is not renewed, not only would the U.S. stand the chance that it might lose future contracts in these markets, but economic consequences for farmers would be felt at home as well. Already production for 1994 has commenced. With no place to sell their product abroad, farmers would end up flooding the U.S. market with eggs and the industry as a whole would suffer.

As the United States prepares to debate the GATT, I believe it is important that we do not turn our backs on our current trade policies. The earliest the GATT agreement would go into effect would be mid-1995. Until then it is important that we continue to stand our ground, and I would appreciate your assistance in helping to move forward the continuation of the EEP for eggs through 1994.

Sincerely,

Harris Wofford