Chron

THE PRESIDENT HAS SEEN
5-30-97

Dear Mr. Clinton,

LAURA TYSON-D'ANDREA and ERIK TARLOFF are our best friends. We live in London.

Do come over to escape the crowds!

ALICE + ZACH LEADER
11 BROOKSVILLE AVE
LONDON NW6 6TH
0181-969-2763

Send this ~~[illegible]~~ to Laura Tyson

BC

copied
Tyson
COS

Sandra Thurman
Office of National AIDS Policy
808 17th Street, N.W.
Suite 820
Washington, D.C. 20006

THE WHITE HOUSE
WASHINGTON

DATE: 5-26-97

NOTE FOR: Sandy Thurman

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

Information ☒

Action ☐

Thank you.

Staff Secretary
(x6-2702)

cc:

THE PRESIDENT HAS SEEN
5-23-97

Do reply
cc:- Sandy Thurman

#3516952

DEPARTMENT OF HEALTH & HUMAN SERVICES

Public Health Service

Maureen ltr to parents?

National Cancer Institute
National Institutes of Health
Building 10, Room 13N240
Bethesda, Maryland 20892
Office: (301) 402-0199
FAX: (301) 402- 0575

Received 5/22/97

May 16, 1997

William Jefferson Clinton
President of The United States
The White House
1600 Pennsylvania Avenue
Washington, D.C.

THE PRESIDENT HAS SEEN
5/23/97

RE: Brandy Lee Horner
NIH # 27-15-89-2
DOB 02-05-81

Dear Mr. President,

On behalf of the professional staff of the Pediatric HIV Working Group, NCI and the Horner family, I want to convey our sincere thanks to you for taking the time to personally call Brandy Horner and follow-up your conversation with a handwritten note to her. We all got a tremendous laugh from her description of the third degree interrogation she put you through because she initially really couldn't believe that The President of The United States was actually calling *her*. Once she was convinced that indeed you were "legitimate", she relayed that she was "in such a state of shock I couldn't think of anything else to say". Nevertheless, both she and her family were thrilled that Brandy was the recipient of such a high honor. We are very cognizant of what an extraordinary gesture this was on your behalf, given your busy schedule and tremendous obligations and responsibilities as President.

Your call was part of several very important events that took place during the remaining weeks of Brandy's life, which profoundly affected her and the lives of those around her. Sadly, Brandy died this past week on May 13, 1997. Even those deaths which are anticipated are still never easy. However, Brandy left us with an incredible legacy of strength of spirit and courage of heart that will continue to inspire the efforts of all the scientists, physicians, care providers, families and ordinary citizens who are fighting to eliminate the scourge of this devastating disease.

Thank you for your leadership in the fight against HIV infection and AIDS on a national level and for your willingness to convey your concern on a most personal level to a young girl who fought this illness with everything she had. Through sustained laboratory and clinical research efforts, we will continue to develop and investigate new drugs and approaches to treatment that will benefit as many HIV-infected children and young adults as possible.

Thank you again for all your past and continued efforts on behalf of children and their families facing the challenge of cancer and HIV disease.

With Sincere Appreciation,

Lauren V. Wood

Lauren V. Wood, M.D
Senior Clinical Investigator
Head, Pediatric HIV Working Group
HIV and AIDS Malignancy Branch, National Cancer Institute

THE WHITE HOUSE

WASHINGTON

4/25/97

Dear Brandy

After we talked yesterday I got your letter and my answers and re-read them.

I promise you I'll do all I can to find a cure for AIDS and to keep developing medicines like protease inhibitors that are keeping so many live longer, better lives.

I'm glad we got to talk yesterday. I know it's hard for you now. My prayers are with you. Thank you again for writing. God bless you.

Sincerely,

Bill Clinton

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City BETHESDA State MD Zip 20892

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Recipient's Name THE HONORABLE MR. WILLIAM JEFFERSON CLINTON Phone (202) 456-1414
Dept./Floor/Suite/Room
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8 Release Signature Lauren V. Wood 05/19/97

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WCBL 1196
Rev. Date 6/96
PART #147956

5/30/97

Jim –

pls. have

something ~~prepared~~

prepared. Thanks.

Todd

'97 MAY 29 PM6:11

EXECUTIVE OFFICE OF THE PRESIDENT
OFFICE OF SCIENCE AND TECHNOLOGY POLICY
WASHINGTON, D.C. 20502

May 29, 1997

MEMORANDUM FOR TODD STERN, ASSISTANT TO THE PRESIDENT AND STAFF SECRETARY

FROM: HOLLY GWIN, CHIEF OF STAFF, OSTP

As you may know Dr. Mary Good is retiring from government service as Under Secretary for Technology, U. S. Department of Commerce. On behalf of Jack Gibbons, I am requesting a letter of "thank you your service" from the President (original signature) that Dr. Gibbons can read at DOC's farewell party for Mary on Monday, June 2 (4-6 p.m.).

Attached is a draft prepared for your consideration. Thank you very much.

Dr. Mary Lowe Good
Under Secretary for Technology
U.S. Department of Commerce
Washington, D.C. 20230

Dear Mary:

I am deeply grateful for your service in my Administration at the Department of Commerce and the National Science and Technology Council. I came to office with a vision for a strong American economy driven by advances in science and technology. Through your leadership and hard work, you have made a most valuable contribution toward achieving that goal. Your service as Under Secretary of Commerce for Technology, especially your leadership in the Partnership for a New Generation of Vehicles, caps four decades of distinguished work and passionate advocacy in the field of science and technology in academia, the private sector, and government. Recognizing your wisdom and experience, our national leaders, including four Presidents, have called upon you to serve your country through such roles as membership on the National Science Board and the President's Committee of Advisors on Science and Technology. On behalf of the Nation, thank you for your dedication and duty to country, and your long-standing commitment to the well-being of the American people.

GOOD, MARY LOWE (MRS. BILLY JEWEL GOOD), business executive, chemist; b. Grapevine, Tex., June 20, 1931; d. John W. and Winnie (Mercer) Lowe; m. Billy Jewel Good, May 17, 1952; children: Billy, James. BS, Ark. State Tchrs. Coll., 1950; MS, U. Ark., 1953, PhD, 1955, LLD (hon.), 1979; DSc (hon.), U. Ill., Chgo., 1983, Clarkson U., 1984, Ea. Mich. U., 1986, Duke U., 1987; hon. degree, St. Mary's Coll., 1987, Kenyon Coll., 1988, Stevens Inst. Tech., 1989, Lehigh U., 1989, Northeastern Ill. U., 1989, U. S.C., 1989, N.J. Inst. Tech., 1989; hon. law degree, Newcomb Coll. of Tulane U., 1991; DSc (hon.), Manhattan Coll., 1992. Instr. Ark. State Tchrs. Coll., Conway, summer 1949; instr. La. State U., Baton Rouge, 1954-56; asst. prof. La. State U., 1956-58; asso. prof. La. State U., New Orleans, 1958-63; prof. La. State U., 1963-80; Boyd prof. materials sci., div. engring. research La. State U., Baton Rouge, 1979-80; v.p., dir. research UOP, Inc., Des Plaines, Ill., 1980-84; pres. Signal Research Ctr. Inc., 1985-87; pres. engineered materials research div. Allied-Signal Inc., Des Plaines, Ill., 1986-88; sr. v.p.-tech., Allied-Signal Inc., Morristown, N.J., 1988—; chmn. Pres.'s Com. for Nat. Medal Sci., 1979-82; mem. Nat. Sci. Bd., 1980—, chmn., 1988-90; mem. adv. bd. NSF Chemistry Sect., 1972-76; mem. com. medicinal chemistry NIH, 1972-76, Office of USAF Rsch., 1974-78, chemist div. Brookhaven and Oak Ridge Nat. Labs., 1973-83, chem. tech. div. Oak Ridge Nat. Lab., catalysis program Lawrence-Berkeley Lab.; catalysis program coll. engring. La. State U.; vice chmn. Nat. Sci. Bd., 1984, chmn., 1988-90; bd. dirs. Cin. Milacron Inc. Contbr. articles to profl. jours. Mem. Nat. Sci. Bd., 1980-91; mem. Pres.' Coun. Advisors for Sci. and Tech., 1991—. Recipient Agnes Faye Morgan rsch. award, 1969, Disting. Alumni citation U. Ark, 1973, Scientist of Yr. award Indsl. R&D Mag., 1982, Delmer S. Fahrney medal Franklin Inst., 1988, N.J. Women of Achievement award Douglass Coll., Rutgers U., 1990, Medalist award Insl. Rsch. Inst., 1991; AEC tng. grantee, 1967, NSF Internat. travel grantee, 1968, NSF rsch. grantee, 1969-80. Fellow AAAS, Am. Inst. Chemistry (Gold medal 1983), Chem. Soc. London; mem. NAE, Am. Chem. Soc. (1st woman dir. 1971-74, regional dir. 1972-80, chmn. bd. 1978, 80, pres. 1987, Garvan medal 1973, Herty medal 1975, award Fla. sect. 1979, Charles Lathrop Parsons award 1991), Internat. Union Pure and Applied Chmistry (pres. inorganic div. 1980-85), Zonta (past pres. New Orleans club, chmn. dist. status of women com. and nominating com., chmn. internat. Amelia Earhart scholoarship com. 1978-88, pres. internat. Found. 1988-90, mem. internat. bd. 1988-90), Phi Beta Kappa, Sigma Xi, Iota Sigma Pi (regional dir. 1967—, hon. mem. 1983). Home: 21 Oak Park Dr Morristown NJ 07960-4615 Office: Allied-Signal Inc PO Box 1021R 101 Columbia Rd Morristown NJ 07962-1021

new **Labour**
new life for **Britain**

Policy Handbook

To Rahm

THE PRESIDENT HAS SEEN
5-30-97

original to Emanuel
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Labour

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B/045/96 Published by The Labour Party, John Smith House, 150 Walworth Road, London SE17 1JT and printed Callisto Press Ltd., 5 Dean Street, London W1V 5RN.

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Bruce - Fyi - BC → THE PRESIDENT HAS SEEN
5-30-97

rope used to be.

The temptation to whip remains. But some experienced Commons hands think it will not happen. The government has too little patronage to buy the silence of all its able supporters. Unless they are given real things to do, frustrated Labour backbenchers might run riot. With such a large majority, say some veterans, Labour could find it less troublesome to give MPs enough power to legislate effectively, and even to challenge the government's plans occasionally, than to let discontent grow, and breed even greater indiscipline.

Northern Ireland

Get moving

BELFAST

BRITAIN'S new government is determined to put Northern Ireland back on the road to a peaceful settlement. On May 16th Tony Blair visited the province and delivered a careful speech. In substance, his message was familiar. He repeated the line of John Major's government that Sinn Fein could not join multi-party talks until the IRA calls a permanent ceasefire, and that if it doesn't, talks will proceed without Sinn Fein. But Mr Blair also made unexpected gestures to both sides. He declared his belief in the union, which pleased unionists and unsettled nationalists. And he let government officials meet Sinn Fein for the first time since the IRA's ceasefire ended last year, which pleased nationalists and unsettled some unionists—though, surprisingly, not all.

Whether Mr Blair's efforts at balance will be any more successful than Mr Major's remains to be seen. But he does seem impatient to move things along. The language of his speech was refreshingly direct, and it was followed quickly by the promised meeting of officials with Sinn Fein, which took place on May 21st. Mo Mowlam, the Northern Ireland secretary, spent that day touring the province, visiting the sites of the most contentious Orange Order marches, meeting leaders of nationalist residents' groups. She had met Orange Order leaders the night before. On Belfast's Ormeau Road, in front of the television cameras, she flung a friendly arm around Gerard Rice, a Sinn Fein member, former IRA prisoner and local residents' leader. It is difficult to imagine her poli-
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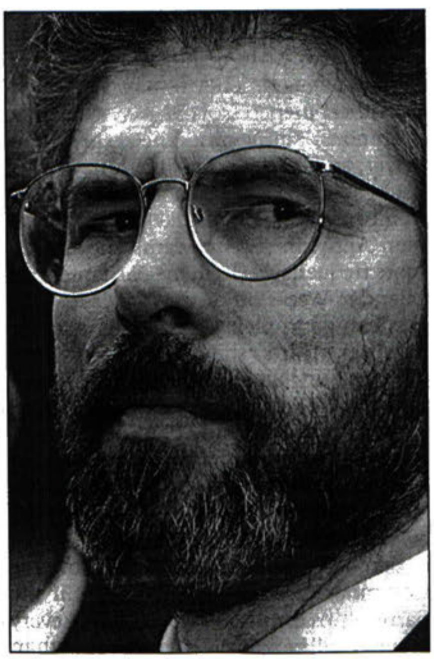
Mr Adams is unlikely to get such guarantees, as he must know. Moreover, Ms Mowlam has made it clear that she does not want the "clarificatory process" to drag on indefinitely. In this the British seem to have the backing of the United States. White House officials are said to have been increasing pressure in recent days on Mr Adams not to spin out "clarification", a tactic Sinn Fein tried to deploy in 1994 before the IRA ceasefire.

But what the government has already made clear to Sinn Fein is that it wants the party to join talks sooner rather than later, as long as it is satisfied that the IRA's ceasefire is genuine. This time, the invitation to abandon the gun for politics looks more credible than when Mr Major extended it, because Labour's huge Commons majority means the government can ignore the protests of unionist parties, should it choose to.

Despite this, the IRA is unlikely to call a new ceasefire soon. Aware that the IRA cannot make a habit of calling ceasefires and then breaking them, many republicans view the next ceasefire, when it comes (and everybody thinks it will come eventually) as their army's last throw of the dice. Before taking such a step, they want to see if Mr Blair's government can broker a compromise over this year's disputed Orange marches through Catholic areas, or stand up to the marchers if necessary. It could be another long, hot summer.



Adams seeks clarity

Tax and benefits

Working poor

GORDON BROWN has long argued that the tax and benefits systems discourage people on welfare from working. There is growing speculation that in the coming budget the new chancellor of the exchequer will announce the first steps towards a promised new 10% starting rate of income tax, "to improve work incentives for the poor." Mr Brown might do better to wait for next year's report by a taskforce he announced this week. To be chaired by Martin Taylor, chief executive of Barclays Bank, this group will examine ways to encourage work by improving the tax and benefits systems. This is difficult. Reforming the Bank of England looks simple in comparison.

The problem, at least, is clear. The Tories' sharp cuts in the top and basic rates of income tax, from 83% and 34% to 40% and 23% respectively, and the introduction of a new 20% lower rate, have improved work incentives for most of the population by ensuring they keep most of any extra money they may earn. But for people receiving benefits, the picture is more complex. As they start to earn, or their earnings increase, not only do they reach a point at which they start to pay income tax, they also start to lose their means-tested benefits. Combining income tax and the rate at which benefits are withdrawn gives a "marginal effective tax rate" which is often higher—and thus a bigger disincentive to working—than the top rate of income tax faced by people much better off.

As our table on the next page shows, in 1985 some 70,000 poorer people faced a marginal effective tax rate of over 100%: that is, if they had earned another pound, they would have lost more than a pound in extra tax and forgone benefit. The Tories changed things to ensure that only a handful of people—around 5,000—now face a rate of 100% or more. The number of people with a marginal effective tax rate of 50% or more is also (slightly) less than in 1985. But the number facing the severely discouraging rate of 70%-plus has actually risen from 290,000 to 645,000.

Mr Brown is rightly concerned. But his proposal for a new 10% rate of income tax would be unlikely to make much difference. That is because the main beneficiaries of lower income-tax rates are people who do not receive benefits. A better tax reform for the poor is to raise the threshold at which people start to pay tax, so more people pay none. But, for similar reasons, even that would have only a limited impact. The main reason why those 645,000 people face a 70%-plus effective tax rate lies with benefits: they claim family credit, which above a certain level of income is with-

Discouraging

Total number of people with marginal effective tax-rate* above:

%	1985	1996/96
100	70,000	5,000
90	130,000	105,000
80	290,000	360,000
70	290,000	645,000
60	450,000	655,000
50	680,000	660,000

Source: DSS *The amount that goes to the government in taxes plus withdrawn benefits from an extra £1 earned

drawn rapidly.

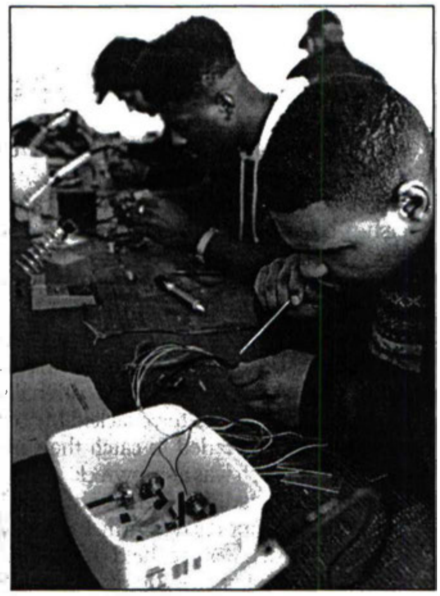
However, people receive family credit only if they are working. If the main cause of 70%-plus effective tax rates is family credit—that is, if most of the people caught in that range are working—the incentives problem may not be as bad as it seems, says Chris Giles of the Institute for Fiscal Studies. Evidence suggests that this in-work, means-tested benefit has been crucial in making work worthwhile to many of those receiving it. True, work incentives would be better if the rate of withdrawal were gentler. But this would mean spending more money—perhaps a lot more, as the number of people entitled to the benefit would soar at incomes only marginally above the current cut-off. Or Mr Brown could start withdrawing the benefit at a lower income, though this would hurt many poor people already in work.

A further option under consideration by the government is to combine the tax and benefit system into a single, seamless regime, and replace in-work benefits such as family credit with an American-style earned-income tax credit. This allows people in work on low incomes to claim a cheque worth up to a third of their income. Last year, almost 19m American families benefited from credits costing the American taxpayer $26 billion (£16 billion). In Britain, family credit is received by 813,000 households and cost £2.4 billion.

Lisa Lynch, an economist who worked in America's Department of Labour and is now at the London School of Economics, believes that the earned-income tax credit has drawn many people into work. Although there is a disincentive when entitlement to the credit is withdrawn, this occurs at levels of income high enough for its impact to be muted. American welfare experts also emphasise the moral superiority of a credit paid for income earned over a welfare handout.

In fact, Britain's family credit and America's tax credit are in practice quite similar. The main difference is in their generosity and the range of incomes they cover, not in the way they seek to encourage work. This makes the cost of switching systems hard to justify.

Combining the tax and benefits systems would pose tricky practical challenges, not least that of joining vast and incompatible computer networks. Merging taxes, which are levied on individual incomes, with benefits, entitlement to which is assessed on household incomes, would be complicated. Awarding benefits according to individual incomes would cost a fortune, as many more people would become entitled to them; changing the tax system to allow benefits to be targeted on households would be hugely complex and would require every adult to file a tax return, as in America. Currently, most British workers rely on their employer to pay tax on their behalf.



Low paid, but motivated

Nevertheless, there is one aspect of the tax credit that may prove irresistible to Labour. Replacing family credit with a tax credit would have a welcome effect on the public accounts, substituting lower tax revenues for higher spending. It would be something to brag about, even if the effect on the poor were minimal.

Cooking the books

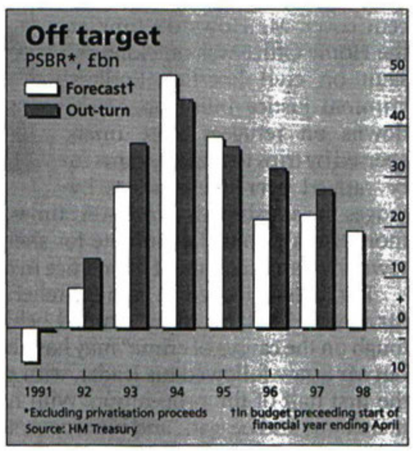
BAROMETER

CHANCELLORS are usually cock-a-hoop when the public-sector borrowing requirement (PSBR) comes in well below expectations. But the current occupier of 11 Downing Street, Gordon Brown, was as gloomy as ever on May 19th when April's borrowing figure of "close to zero" was announced. Economists in the City of London had expected a PSBR of £1.4 billion. In April 1996 the figure was £3 billion.

Rather than welcome an improvement in the public finances, Mr Brown talked of the need for "further significant progress" before he could be confident that things were getting better. He then asked the National Audit Office (NAO), the government's accounts watchdog, to review the basis on which his predecessor, Kenneth Clarke, prepared his forecasts. He will publish a "more accurate"—ie, gloomier—picture of the public finances before the forthcoming budget.

As our chart shows, the government's borrowing forecasts have rarely been accurate. In five years out of the past seven, the PSBR was bigger than expected. But unless the NAO uncovers some spectacularly creative accounting, and assuming spending remains on target, the out-turn for 1997-98 is likely to be as much as £5 billion less than the forecast of £19 billion. Admittedly, special one-off factors such as revenues from the sale of the Housing Corporation loan book and the Ministry of Defence married quarters helped trim April's borrowing. But tax revenues were buoyant, suggesting that the unexpected improvement in recent months reflected a genuine recovery, not the short-term fluctuations in the timing of payments that was initially feared.

One reason why Mr Brown may dismiss talk that public finances are improving is that he would like to raise the tax burden in the forthcoming budget. Gloomy PSBR figures would make that easier to justify. Possibly Tony Blair, fearing the political consequences of a tax rise so soon after an election in which he stressed his commitment to low taxation, is the one who needs the most convincing.



THE PRESIDENT HAS SEEN
5-30-97

VP

Mercky waters

WHITEHOUSE STATION, NEW JERSEY

Merck has been probably the world's most inventive drug firm. Now it is taking a different tack from the rest of its industry. Is it right to do so?

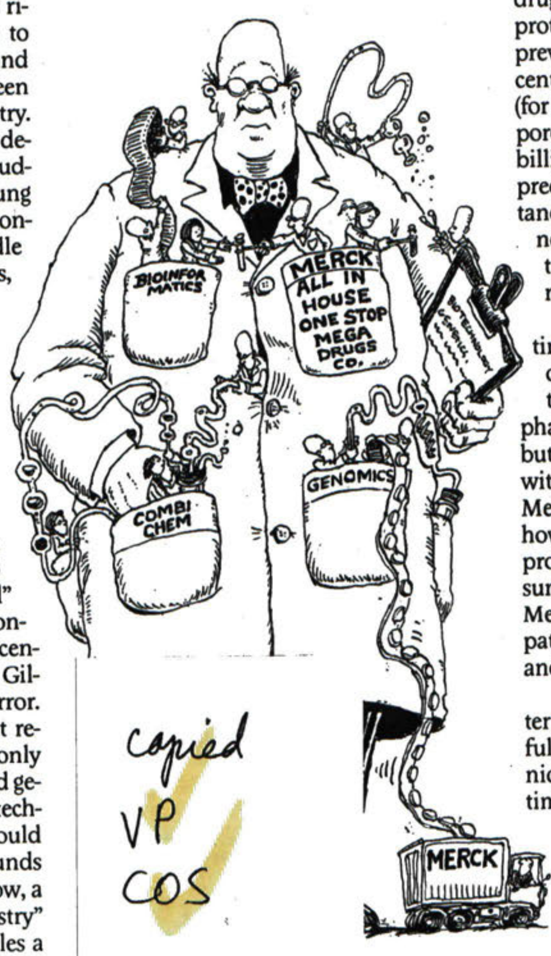
CONSISTENTLY voted one of the two or three most admired companies in America, Merck is the benchmark against which other drug-makers measure themselves. This is especially true in the field of research. From its early days purifying cocaine for anaesthesia, the firm's scientists have churned out billion-dollar treatments for everything from high cholesterol to hypertension. Last year it produced net profits of $3.9 billion on sales of $19.8 billion—or $79,000 for each of its 49,000 staff, compared with $64,500 at Switzerland's Roche and $57,500 at Britain's Glaxo Wellcome.

So reliably has this New Jersey firm spat out medicines and money that even its rivals seem to assume it will continue to prosper indefinitely. But now a clear—and significant—gap has opened up between Merck and the rest of the drug industry. While other pharmaceutical giants are devoting ever larger chunks of their R&D budgets to buying up ideas from bright young biotech firms and hiring specialist "contract research organisations" to handle drug development and clinical trials, Merck continues stolidly to insist that all this clever stuff is best done in-house.

Only 5% or so of Merck's research spending ends up outside the firm's own laboratories; at other top firms the figure is often twice or four times that amount—and rising. Some of its rivals predict that the proportion of research done out of house could reach 80%. Sir Richard Sykes, head of Glaxo Wellcome, forecasts the rise of "virtual" pharmaceutical firms, which would contract out most scientific tasks and concentrate on marketing. Merck's CEO, Ray Gilmartin, regards such a strategy with horror.

Who is right? Both sides agree that research is changing rapidly, thanks not only to the blossoming of biotechnology and genetics but also to new laboratory techniques. In the old days, a lab worker could produce perhaps 50 chemical compounds a year at a cost of over $5,000 each. Now, a worker using "combinatorial chemistry" techniques can synthesize 1m molecules a year at a thousandth of the price. Using another new technique, high-throughput screening, these compounds can be tested for their ability to zap diseases much faster than was possible in the days when pills were checked for curative powers by feeding them to sick animals.

These techniques—which also include things like "bio-informatics" and "rational drug design"—are likely to have a huge effect on the drug industry. Lehman Brothers, a securities firm, estimates that one to four years can be knocked off the time it takes to develop a drug, and that the success rate for compounds in final-phase clinical trials can be doubled to 50%. Merck has preferred to pursue these goals in-house, its rivals through a maze of alliances with young specialist firms.



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Thus, Glaxo, Eli Lilly and Hoechst have all snapped up small combinatorial chemistry companies. But Merck has tended to nurture its own combi-chemists. Using in-house "rational drug-design" skills, Merck produced Crixivan, the most popular of the latest generation of AIDS drugs. Glaxo's soon-to-be launched rival treatment is thought to have cost it far less, because most of the basic science was licensed in. (Irritatingly for Merck the licenser was Vertex, a biotech firm set up by Joshua Boger, a former senior director of basic chemistry at Merck and the firm's most sorely missed defector.) While SmithKline Beecham has splashed out $125m for access to the databases at Human Genome Sciences, a genomics firm in Maryland, Merck collects its own genetic information. And so on.

Thus far, Merck's approach has yielded results at least as impressive as anyone else's. As its blockbusting anti-cholesterol drug Mevacor reaches the end of its patent-protected life, an even better heart-attack preventer, Zocor, is taking its place. Recently-launched medicines such as Cozaar (for heart failure), Fosamax (against osteoporosis) and Crixivan will all breach the billion-dollar annual-sales mark by 2000, predicts Cowen & Co, a New York consultancy. Merck is branching out into a big new market, asthma drugs, for which its treatment will probably go on sale in the next year or two.

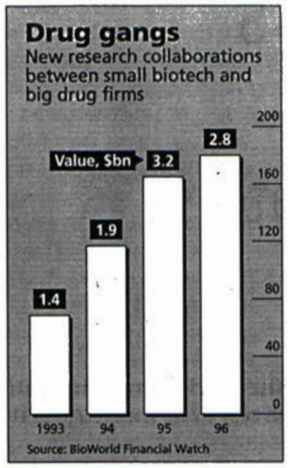
Meanwhile Merck, which has sometimes been accused of being too focused on what goes on in its laboratories rather than what happens in hospitals and pharmacies, has also tightened up its distribution system—and improved its contacts with customers. The 1993 acquisition of Medco, a firm with a large database about how drugs are used, is helping Merck improve its information about drug-consumption patterns. Most analysts believe Merck will be able to weather a storm of patent expirations at the turn of the century and continue to grow at 10% or more.

However, the drug business is a long-term one; and many people argue that the full effect of the new technologies and techniques will be felt only in five to ten years' time. From this perspective, there are at least three reasons for questioning Merck's do-it-yourself philosophy. The first is simply that the chances of one firm being able to dominate even a relatively small area of the drug business look slim. There are now so many little biotech firms (1,200 in the United States alone), and they are all so specialised, that it is always likely that at least one of them will be ahead of any given big firm in any given technology.

The second is to do with cost. The ideas such small firms dream up can often be harvested at bargain prices. Because it takes so long to shepherd a compound through trials and on to pharmacy shelves, all but a half-dozen biotech firms lose vatsful of cash. When a start-up is shedding $5m a year and has only $2m in the bank, as is typically the case, its managers find their negotiating power somewhat weakened. Most drug giants have taken advantage of this fact to buy up lucrative technology for considerably less than it is worth.

A sample of 70 biotech firms, assembled by Lehman Brothers in August last year, had 284 drugs in development and a market capitalisation of $50 billion. Merck, with only 26 drugs in development, was then valued at $80 billion. In a crude way, this suggests that the biotech industry's pipeline is undervalued, and that Merck could add fat sums to its revenues by buying up bits of it cheaply.

The final benefit of outsourcing is that costs become transparent. It is never obvious how much money was spent developing an idea in-house, because the expenses are buried in various departments' R&D budgets. If you bought the idea from someone else, however, you know exactly how much it bit into your savings. And if you hire someone else to do your clinical trials, rather than maintain your own trial centres, you can easily bring more boffins on to the payroll during busy months and let them go in times of slack.



Merck will have none of this. Ed Scolnick, the firm's combative head of research, argues that there is a good reason why his medicine chest carries a higher price than the biotech industry's. Although the little guys may be good at discovering drugs, Merck is much better at turning promising molecules into something curative you can swallow.

As Merck's top scientists see it, their rivals go shopping for ideas because they are not clever enough to come up with their own. To aim at being a virtual company, they argue, is suicidal: without first-class in-house scientific talent, a drug firm cannot tell the biotech ideas worth buying from the duds. Mr Scolnick is sometimes scathing about the standards of research at other big firms. Roche's protease inhibitor for AIDS, which does not seem to work as well as other pills in the same family, he calls "a disservice to the world".

It will take time to see whether Merck has once again outsmarted its rivals. In such a fragmented industry—no drug firm has more than 5% of the world market—there is room for more than one way of doing business. But two things might worry Mr Gilmartin. The first is Wall Street. Merck's market value tends to soar and dive—from $65 billion in January 1992 to

The secret of eternal life

BESIDES huge profits, gleaming laboratories and secretiveness, all the top drug firms have old age in common. In other high-technology industries, such as software and computers, a new giant seems to be born every year. But the big names in drug-selling are uniformly ancient. Merck dates back to a 17th-century apothecary's shop in Darmstadt (members of the Merck family later emigrated to America); Hoechst to 19th-century Frankfurt. When a fresh name appears, as Novartis did last year, it is only because two elderly pill-pushers—in its case Sandoz and Ciba-Geigy—have merged.

Many expected biotechnology to produce new giants. The closest it has come is Amgen, a Californian firm founded in 1980. Despite making both the world's two best-selling biotech drugs, Neupogen (for cancer patients) and Epogen (anaemia), Amgen's market capitalisation of $18 billion is only a sixth of Merck's. By contrast, Microsoft (born 1975) is about the same size as IBM. And whereas Microsoft is only one of a battalion of large young firms in the computer industry, Amgen is the only drug firm of even middling size to have emerged since the modern drug-testing regime began.

In the early 1960s, in the aftermath of the thalidomide tragedy, in which a morning-sickness pill caused thousands of children to be born with malformed limbs, the drug-approvals process in the rich world became much more stringent. Instead of cursory safety tests and no efficacy trials, pill-makers faced stiffer tests for toxicity and had to prove that their potions had healing powers.

This process has grown ever more costly. In the late 1960s, it took about two and a half years, on average, to move from an application to begin trials to a drug's approval. Now it takes over seven years—and costs have risen accordingly.

As a result, the industry has become a bit like Hollywood. As with big film studios, the drug giants cover their bets by backing many expensive projects—and hoping a few blockbusters will pay for all the stinkers. Their position is protected because they alone have the medicine chests (the pharmaceutical equivalent of film libraries) and distribution systems. Small firms with good ideas generally have neither the money to develop them nor the muscle to market them, so they look to the big boys for both—and often end up selling out to them. Genentech, the firm that first cloned human insulin and human growth hormone, is now 60% owned by Roche.

Will this change? William Haseltine, the founder of Human Genome Sciences, one of the few sprats to covet whale status, describes that metamorphosis as "unbelievably hard." On the other hand, new cheaper ways to make drugs certainly give smaller firms a better chance than before; as do attempts to coordinate international drug regulation. Already biotechnology is beginning to develop its own star system, with investors closely following the fortunes of particular scientists and entrepreneurs. As in Hollywood, the drug "studios" will still monopolise the distribution end of the business; but they may become ever hollower structures—with the most valuable parts of their business sucked out by smaller firms.

that was going to operate it—Eurotunnel—was even in place. The tunnel was designed by a consortium of construction firms that wanted to make money building it and a consortium of banks that wanted to make money financing it, with little consideration for the viability or management structure of Eurotunnel. Many of the subsequent delays—for instance over supplying suitable rolling stock—arose because such things were neglected at the start. By the time the tunnel opened, two years late, the cost, originally estimated at £4.3 billion, had reached £10 billion.

For the first two years after it opened, Eurotunnel continued to limp along with a management structure that was more appropriate for an international election-monitoring team than a big private-sector transport company. Apart from a pair of co-chairmen (hardly a recipe for decisiveness), there were just two other officials with any power, a commercial officer and an operations officer. This was far too few to run a big company. With no time to come up with a solid strategy, the tiny team has
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...ted many of the deficiencies in the fire brigade's response. (Amazingly, the Eurotunnel official who was responsible for co-ordinating safety preparations with the fire-fighters was promoted after the incident.)

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Only in the past six months has the firm acquired a proper management structure—and the chance of running itself like a normal company rather than an ad-hoc project. Underneath the French executive chairman, Patrick Ponsolle, and his part-time British co-chairman Robert Malpas, there is now a managing director, Georges Chazot. Below them are five divisional managers, each responsible for specific parts of the business, such as the shuttles and railway services.

Mr Chazot's main responsibility is to hack around £75m out of Eurotunnel's £349m in annual operating costs. About a fifth of the 3,500 workforce will have to go. Cutting operating costs, however, will not be enough. After deducting its interest payments (which have been suspended for the past 18 months) the firm would have run a loss last year of £685m, on a turnover of just £483m. Since the restructuring would reduce its interest costs by only around £200m a year, Eurotunnel plainly needs more revenues.

Even if fares rise by a third over the next three years, and even if traffic triples over the next ten, Eurotunnel will still have to win around two-thirds of the cross-channel market—it now has 40% after a big drop following the fire—in order to have any hope of meeting its financial targets (see chart on previous page). This is not inconceivable. Whereas last year Eurotunnel took on the ferries in a price war that cut fares in half, its two floating competitors—Stena and P&O—will probably get their wish of being allowed to merge, bringing a sharp rise in fares. But few would bet against there being one more "final" restructuring after this summer's drama.

In the ten years since the Eurotunnel project began, it has had five co-chairmen and has practically been managed on rolling stock, shuttling its employees between no fewer than eight head offices—from Hammersmith in west London to Canary Wharf in the east. Now most of its people are in humble quarters atop Eurotunnel's terminal at Folkestone. Its investors can only hope that the firm will become as profitable in the future as it has been peripatetic in the past.

Business-book awards
At the *Financial Times*/Booz-Allen & Hamilton Global Business Book Awards in New York the prize for the best book about strategy was awarded to two *Economist* journalists, John Micklethwait and Adrian Wooldridge, for "The Witch Doctors" (William Heinemann/Times Business). The overall winner was "Dossier: The Secret Life of Armand Hammer" by Edward Epstein (Random House).

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THE PRESIDENT HAS SEEN
5-30-97

The network computer

How Bill became Larry

As CORPORATE battle-cries go, Microsoft's "embrace and extend" sounds a little too cuddly. But the companies that declared war on the software giant by introducing the notion of network computers (NCs) are learning that a bear hug from Bill Gates is hardly a warm and fuzzy experience. A year and a half after Larry Ellison, Oracle's Microsoft-bashing boss, proposed a new kind of Internet-based computer to challenge Mr Gates's dominance, there is now broad agreement that NCs are indeed the future. But the firm now making this case the loudest is Microsoft itself.

When Mr Ellison first laid down his challenge, he based it on two arguments. The first was a technical one: that after 15 years, the PC had become too complicated and expensive to reach new markets. The second was a more whimsical observation about computing history: that every 15 years or so, a new technology comes along that is much cheaper and simpler than the one before. In Mr Ellison's view, the Internet, which would provide most of the NC's power and brain, was that technology.

Microsoft started by arguing that the PC would remain a standard for the same reason that it became one in the first place: because it harnessed the combined innovation of an entire industry, not simply that of a single company. The Internet was interesting, the firm said, but normal PCs, with their unbeatable economies of scale, would remain the best way to use it.

In the past 18 months, Microsoft has quietly conceded most of Mr Ellison's points, with one glaring exception. Network computers may indeed someday be a bigger market than PCs, the firm now implicitly acknowledges (although it thinks that most of today's PC users will never be happy with anything else). But Microsoft believes its own software will lie at the heart of the best NCs—whether they be TV set-top boxes, hand-held computers, or stripped-down office machines.

On May 20th, Gateway 2000 became the

first big PC maker to start selling NetPCs. These are cheap PCs designed to combat the NC's chief advantage for corporate users—low maintenance costs. Microsoft will soon bring out "zero-administration" software for these machines (zero, it sheepishly acknowledges, is the eventual goal, not the current promise).

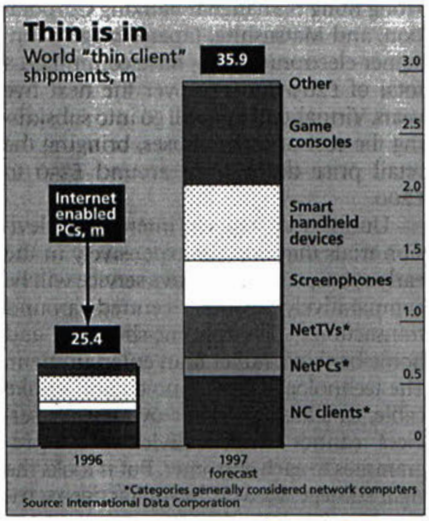
Earlier this month, Microsoft threw another arm around the concept of NCs when it announced the Windows Terminal standard: this makes it easier to make cheap (and easy-to-maintain) desktop machines that simply display Windows software which is actually running on a central computer (much as mainframe terminals do). Meanwhile, Microsoft has moved into the home-NC industry, announcing its acquisition of WebTV, the market leader. It has also been promoting its trim WindowsCE operating system for cheap hand-held computers and personal organisers.

Microsoft has used the same strategy—denigrate-incorporate-dominate—to hijack other threatening technologies. In this case, the firm concedes that the enthusiastic response to Mr Ellison's call to arms came as a surprise. Jonathan Roberts, a program manager at Microsoft, says that Microsoft had already been working on software for simpler machines, but "all the NC discussion has certainly accelerated what we were doing."

Although Mr Ellison had indicated that NCs made by consumer-electronic firms and using Oracle's software would be widely available last year, most will not hit the market until later this summer. This week Oracle expanded its effort by buying Navio, a spin-off from Netscape Communications. Navio has been working on bringing Netscape's Web-browser technology to consumer-electronics devices, from TV set-top boxes to games machines.

Sun Microsystems, the other ringleader of the anti-Microsoft circus, is also lagging in its efforts. It announced its NC, called the JavaStation, last year, but says it has only shipped a few thousand so far, and those are mostly prototypes in pilot projects. Only IBM, which claims to have shipped 10,000 of its Network Station NCs, is making much of a dent in the market, and most of these machines are replacing IBM's own mainframe terminals, not PCs.

As the NC pioneers have delayed, the idea of what an NC is has become increasingly blurred. When Mr Ellison first conceived the idea, he imagined a small device selling for less than $500, with a cheap processor, made by a firm such as Britain's Advanced RISC Machines, and no software save a browser, an e-mail program, and a "virtual machine" to run programs written in Java (a computer language designed for the Internet). Conspicuously absent was an Intel chip or Microsoft software—the two elements most responsible for the PC's middle-aged spread (as Mr Ellison saw it).



But since then, practically every networked computer slimmer than a standard PC has claimed the NC title. To avoid getting caught in the crossfire between Oracle and Microsoft, many computer firms now prefer to use the generic term "thin client". Clients are computers that are connected to a network; the simpler their hardware and software, the "thinner" they are. According to International Data, a consultancy, some 670,000 thin clients were sold last year; only about 200,000 could be considered NCs by any reasonable definition (see chart). Even those, rather than being the pure Java-using machines that Mr Ellison envisaged, are not much more than passive terminals with a few extra bells and whistles.

Microsoft, East of Java

One might conclude that the NC has simply got off to a slow start. But there is worse news for Mr Ellison's grand vision: NCs are selling, but the vast majority of them work with Microsoft's Windows. The machines include software, from firms such as Citrix and Insignia Solutions, that allows users to display standard Windows software running on a central server. There has been little demand for them to run Java (which is not a bad thing, considering that few of them do it well yet). Meanwhile, Oracle has even designed its NC software to run on Intel chips.

Corporate buyers want it that way. Systems managers may be intrigued by a machine that promises to resist tampering by users and practically maintains itself, but few are willing to give up all their Windows software just to get it. Indeed, the best market for pure Windowless NCs seems to lie in replacing mainframe terminals, or in those few sectors where good commercial Java software exists. A recent survey by Computer Intelligence, a market research firm, found just 7% of the 400 American firms it sampled had projects underway using Java.

This explains Microsoft's success in stealing the NC's thunder. There is not enough useful Java software around for firms to enter Mr Ellison's Microsoft-free zone; meanwhile, Mr Gates's catch-up efforts seem to offer all the benefits without the pain of conversion. But this will not last forever. In a few years, there will probably be enough good Java software around to make it a fairer match. Then the market will decide if Microsoft really can defy history.

Digital television

Aerial combat

FORGET Cannes, Silicon Valley and Hollywood. Britain is currently the fulcrum of the world's multimedia industry. In June, Britain's Independent Television Commission will announce who will run what will probably be the world's first commercial digital over-the-air television. This comes hard on the heels of BSkyB, a satellite broadcaster controlled by Rupert Murdoch, teaming up with BT, Britain's biggest telephone company, to announce another novelty: an interactive television service which may actually be a success. Inevitably, given Mr Murdoch's presence, the two things are linked.

The key to success in digital terrestrial broadcasting is persuading viewers to buy set-top boxes to receive the digital signals. Britain is handing out six multiplexes—chunks of spectrum that can be used in various permutations to provide between five and eight channels of television each. Three of these will go to existing analogue broadcasters such as the BBC and Channel 4, whose channels will mainly be free for viewers. The idea is that the price of the set-top boxes will be subsidised by the companies that will run the other three multiplexes. So the two bidders are offering not cash payments but promised subsidies.

The stronger candidate, British Digital Broadcasting (BDB), was initially led by Carlton, one of Britain's three main "free" commercial broadcasters. It was joined at the last minute by BSkyB and by Granada, a second commercial broadcaster with close links to BSkyB. BSkyB is now in effect in charge. It will provide the premium channels which are the main programming, the subscription-management service, the electronic programme guide which will help goggle-eyed viewers find their way around the plethora of channels, and the software that controls access to the channels.

If the Independent Television Commission gives BDB all three multiplexes, BSkyB, which is also due to launch digital satellite broadcasting in spring next year, will control two of the three ways digital television will be delivered to Britain's homes. It al-

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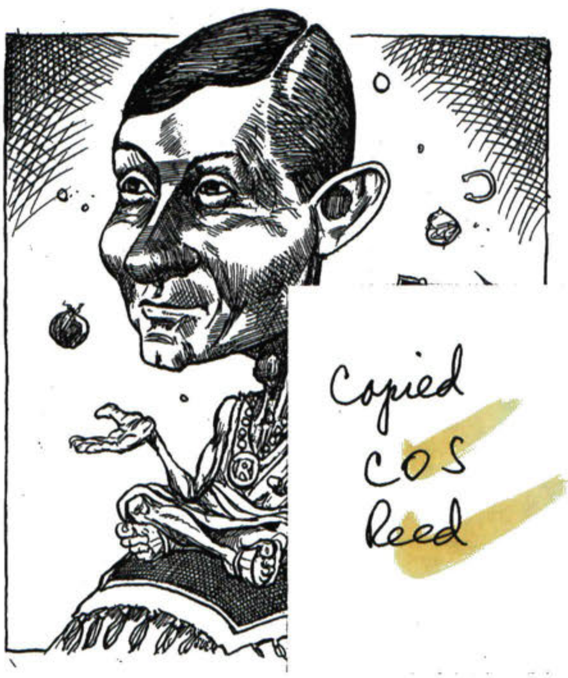
THE PRESIDENT HAS SEEN
5-30-97

Bruce Reed's welfare high

BILL CLINTON is often painted as a glib kind of guy who surrounds himself with similarly smooth talkers. Actually, this is nonsense. His closest advisers, with the notable exception of his wife, are not smooth-tongued in the least. Al Gore, the vice-president, is stiff; Bob Rubin, the treasury secretary, is sweet and diffident; Erskine Bowles, the chief of staff, seems terrified of cameras. Then there is Bruce Reed, head of domestic policy at the White House. His favourite syllable is "um"; even simple sentences can be a long time coming. But, like the rest of Mr Clinton's inner circle, Mr Reed is clever, decisive and—most important—on his party's right. Leftish Democrats are consumed with hatred for this mild man with frayed cuffs: "He has done more damage to the welfare state than anybody I could think of," says one of them. But not even Mr Reed's worst enemies have doubts about his shrewdness.

This mix of venom and awe may be about to undergo a shift—and the nature of this shift may determine a big part of Mr Clinton's legacy. Mr Reed's chief offence, in the eyes of his party's left, was to lead his boss to sign away the federal guarantee of help to poor unmarried mothers. Six years ago, at the tender age of 31, Mr Reed wrote a pledge to "end welfare as we know it" into Candidate Clinton's speech; to make good on this promise, President Clinton drew up a radical welfare bill (that never passed), and later signed an even more Draconian one designed by the Republicans. Virtually all the experts in the administration's Department of Health and Human Services, older and more experienced in welfare policy than Mr Reed, thought the president should veto the Republican bill. But Mr Reed prevailed, proving that young White House aides matter more than cabinet ministers.



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In the ensuing months, two senior welfare experts resigned from Human Services; the top three left-wingers in the White House left as well; Mr Reed was promoted. And yet, in his moment of triumph, Mr Reed's enemies smell weakness. Even though the left has been purged from the administration's ranks, Mr Reed and his friends are newly sensitive to its ideas because they face an electoral worry. Last year no Democrat challenged centrist Clinton to be the party's presidential nominee. Next time, however, centrist Gore will face Dick Gephardt, the Democrats' leader in the House and the party's top left-winger. On May 20th Mr Gephardt made his presidential ambitions plainer even than before, by declaring war on the administration's plan to balance the budget.

In some ways, the Gephardt challenge is affecting welfare policy. This month the administration forbade Texas to privatise the administration of welfare; this decision was made in deference to the trade unions, a constituency Mr Gore must woo if he is to win the nomination. Next, the administration announced that welfare mothers who get public-sector jobs should be paid the minimum wage. This was a union victory too: even though the decision was technically made on legal grounds, Mr Reed conspicuously declines to promise new legislation that would reverse it.

The upholding of the minimum wage was particularly sweet for Mr Reed's critics, for some think it may undermine the whole welfare-reform project. The reform's chief aim is to force welfare recipients into jobs: it lays down that 40% of welfare recipients must be in work by 2000, and that the proportion must rise thereafter. Ideally, the new jobs will come from private firms: on May 20th Messrs Clinton and Reed played host to executives representing about 100 companies that have promised to hire people off welfare. But, if private-sector jobs are not plentiful enough, state governments will be expected to take up the slack. If they are required to pay the minimum wage, some states (notably poor ones in the South) may find this prohibitively expensive.

So there is talk, inside the administration and out, that Mr Reed's grand pledge to reform welfare will come to nothing. The effort to get welfare recipients into jobs was always going to cost a lot: poor mothers need training, transport to work, and day care for their children. Last year the Congressional Budget Office estimated that the welfare law's ambition to move people into work would cost $2 billion a year more in federal cash than its authors had provided. Now the minimum wage rule appears to increase this deficit.

And yet the truth is that, by a mixture of design and luck, Mr Reed's reforms are actually getting sturdier. The budget deal, which is likely to hold despite Mr Gephardt's yelps, is one reason for this. It provides an extra $3 billion over five years to get people to work; it offers $600m in tax credits for employers who hire welfare mothers; it creates $600m in transport subsidies. It also goes some way to blunt the welfare law's gratuitous cuts in food stamps and benefits to legal immigrants. Last year, Mr Reed argued that it was better to sign an imperfect bill than to lose an opportunity for reform, and that the bill's shortcomings could be remedied. Now, to his detractors' surprise, he is proving that his remedy talk was serious.

This seriousness is dwarfed by a huge boost from the economy. Under the new welfare law, states get a fixed grant from Washington, rather than payments that fluctuate with the number of welfare recipients. The value of this grant is based on the welfare caseload of 1994. Thanks to economic luck, this caseload has since tumbled 18%: so states are getting a fifth more in federal loot than they would have done under the old system. This makes attacks on cheapskate reform look suddenly misplaced; it means that state governments have the cash to help dependent paupers acquire the skills and appetite for work. Whether state governments use their resources well is another question, to be sure; Mr Reed's bold pledge to end welfare has not yet been vindicated. But, thanks mainly to awesome luck, the awe that he commands is coming to seem more justified than ever.