

Senator ?

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Soldiers Who Dined With Bush on Thanksgiving Welcome U.N.
Resolution<

With AM-Gulf Rdp, Bjt<

By EDITH M. LEDERER=

Associated Press Writer=

IN EASTERN SAUDI ARABIA (AP) The soldiers who shared Thanksgiving dinner with President Bush said Friday they welcomed the ultimatum set by the U.N. Security Council as the only way to get Saddam Hussein out of Kuwait.

"He better let the hostages go and he better leave, or we're coming to get him," said Sgt. William R. Blocker, 27, of Sylacauga, Ala., who chatted with Barbara Bush as he ate his turkey and trimmings.

A week after their commander-in-chief told them he would not let Saddam remain in Kuwait indefinitely, soldiers from the 197th Infantry Brigade gathered in their dusty desert camp to voice support for his latest success at the United Nations.

Several said the resolution authorizing the use of force if Iraq fails to leave conquered Kuwait by Jan. 15 should have been adopted months ago. It was passed Thursday.

"I think it's about 90 days too late, but I can live with Jan. 15," said Sgt. Mark Channer, 25, of New York City, who was Mrs. Bush's escort.

His advice to Saddam: "Pack up and move out quick."

Sgt. James Landreth, 29, of New Boston, Ohio, who ate turkey with Senate Minority Leader Bob Dole, echoed Channer saying, "it should have happened a while back. As we got here, they should already have figured that out."

For months, Blocker said, the troops have "been in limbo" not knowing if they were going to stay here or go home.

"Now we know we're going to be here 'til the end 'til he either leaves or we force him out. It's a good relief to hear something like that because basically they opened the door and let us out of the dark and they let us know what was going on," Blocker said.

Cpl. Thomas Cook, 32, of Granite City, Ill., like the rest of the brigade has spent three months in a desolate patch of desert, about an hour's ride from the nearest paved highway in a four-wheel drive vehicle down a bumpy sand trail.

Bush wants to put an end to the stalemate, he said.

"We can't just sit out here and just keep yelling at each other so somebody's got to do something," Cook said.

Sgt. 1st Class Steven Campbell, 37, of Ft. Benning, Ga., where the brigade is headquartered, said: "It's an indication again that we're not going to back down from Hussein. I think it needed to be done and we did it, and the U.N. is the forum to do it."

"I'd like to get home sooner to my wife and children, but I'm not packing my bags yet," said the 19-year Army veteran who introduced the president to the 1,250 soldiers and politicians at Thanksgiving dinner.

Spec. Robert Terry, 23, of Rehoboth Beach, Del., said Bush's visit helped morale and the U.N. resolution would also be a boost.

``I think the guys out here now that they have a positive date that something will happen, I think that'll help 'em out,' he said.

But truthfully, I think Hussein'll pull out before that. He's got more brains than that,' he said.

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Dole Supports Sending Secretary of State To Iraq<

By BARRY MASSEY=

Associated Press Writer=

WASHINGTON (AP) Senate Minority Leader Bob Dole, R-Kan., applauded the Bush administration on Friday for making a diplomatic overture to Iraq and renewed his call for Congress to hold a special session on the Persian Gulf crisis.

Dole said it was a "positive step" by President Bush to send Secretary of State James A. Baker III to Iraq.

"This will make it very clear to Saddam Hussein that the president is firm, he's not going to back off," Dole said in a telephone news conference with broadcasters in Kansas.

The president's announcement was similar to a diplomatic initiative suggested by Sen. Nancy Kassebaum, R-Kan., earlier this week. She had called for a high-level U.S. envoy and several international representatives to meet with Hussein in a last-ditch effort to avoid the use of military force in the Persian Gulf.

Dole said the president's action would help ensure Iraq understood U.S. intentions on using military force and that the nation was united in its demand for an unconditional Iraqi withdrawal from Kuwait.

Dole complained that "Saddam Hussein has probably been getting mixed messages" in part because of congressional divisions over U.S. policy in the Persian Gulf.

With the opening of a diplomatic channel to Iraq, Dole said, it is even more important for Congress to vote on a resolution to authorize the use of military force in the Persian Gulf.

"Congress can't go on strike and sit this one out," Dole said. "We've been on strike now ever since we've adjourned. We don't want to do anything except complain and second guess."

Bush says he has no plans for calling Congress back into session, but Dole reiterated his prediction that there was a "50-50" chance for one in December.

It would "complete the circle" if Congress would approve a resolution similar to one endorsed by the U.N. Security Council, which set a Jan. 15 deadline for the Iraqi withdrawal from Kuwait, he said.

A number of Democrats, notably House Majority Leader Richard Gephardt, D-Mo., have voiced opposition to such a measure. However, Dole predicted bipartisan support for a resolution if Congress takes up the issue.

"I think you would find a lot of these members in both parties, a big majority supporting the United States of America and our young men and women because they want a peaceful resolution of this crisis," Dole said.

On another issue, Dole said he expected the Bush administration to soon relax restrictions on trade with the Soviet Union. That could help clear the way for more U.S. grain sales to ease Soviet food shortages.

Bush announced Friday that the administration was reviewing its policy and would consider extending export credits to enable the Soviets to purchase U.S. farm products.

Dole said he hoped the administration would make a decision on the credit issue within the next week to 10 days.

The president, Dole said, is ``very sympathetic and I would expect that we would have some positive action soon.''

To offer export credits to the Soviets, the president must waive so-called ``Jackson-Vanik'' restrictions of a 1974 law. The law basically prohibits all export credits or credit guarantees to Soviet bloc countries that restrict emigration. It also imposes higher tariffs on Soviet bloc exports to the United States.

One option is for the administration to waive the restrictions governing export credits but stop short of granting ``most favored nation status'' to the Soviet Union, which would qualify it for lower tariffs, Dole said.

``My view is that this is another opportunity ... to help the Soviets in an emergency but also to help Midwest farmers and producers,''

 Dole said.

U.S. farmers are suffering from low grain prices in part because of worldwide crop surpluses. Offering credit to the Soviets would help farmers by boosting U.S. exports. Dole pointed out a number of U.S. competitors already have extended food aid to the Soviets.

The potential costs of the export credits should not be a problem, Dole said. He estimated spending on federal crop subsidies could increase as much as \$3 billion in 1990-91 if grain prices fail to rise.

``It could cost us almost as much to extend credits, but the point is it's going to be a cost whichever way we go,''

 Dole said.

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Congressional Vote Supporting Bush in Gulf Unlikely for Now<

With AM-US-Gulf, Bjt<

By JIM DRINKARD=

Associated Press Writer=

WASHINGTON (AP) President Bush says he'd ``love to see'' Congress formally back the U.N. resolution authorizing force against Iraq, but some on Capitol Hill say the lawmakers are much less receptive than the diplomats.

In any case, Bush said Friday he has no plans to call Congress into special session to address the issue. And his announcement that he'll send Secretary of State James A. Baker III on a diplomatic mission to Baghdad seemed to make congressional action in the meantime all the less likely.

If Congress were to take on the issue soon, said House Speaker Thomas Foley, ``obviously, it's very difficult to tell what the response would be.''

Congress could amend it, put conditions on it, pass it by a narrow margin, or defeat it by a narrow margin. That's a matter the president will have to consider, said Foley, D-Wash.

Still, Senate Republican Leader Bob Dole, renewing his call for a special session, said there would be bipartisan backing for a resolution of support if it could be brought to a vote.

Bush went on television declaring a willingness to ``go the extra mile'' in the quest for peace. He offered to swap high-level visits with Iraq, and was meeting later with senior members of Congress to consult on his gulf policy.

One senior Democratic aide said it would be ``pointless'' to hold a formal debate until after Baker and Iraqi Foreign Minister Tariq Aziz hold talks in each others capitals between now and Jan. 15.

Some leading Republicans on Capitol Hill have suggested that Bush quickly seek ratification by Congress of the resolution approved by the United Nations Security Council on Thursday, authorizing military action to liberate Kuwait if Iraq does not withdraw by Jan. 15.

Such a move, they say, would demonstrate to Iraqi President Saddam Hussein that the United States was united and determined that his aggression against Kuwait would not be rewarded. They want Bush to act while his international momentum is high.

``I'd love to see Congress pass a resolution enthusiastically endorsing what the United Nations has done,''' Bush said at a White House news conference.

``What I don't want to do is have it come back and end up where you have 435 voices in one house and 100 in the other, saying what NOT to do,''' he said, adding that he hopes to avoid a ``hand-wringing operation that would send bad signals.''

``I know my strengths, and I know the limitations on the presidency,''' Bush said.

Democrats in Congress, and some Republicans, are saying the president should not take support for granted. All week, Sen. Sam Nunn, D-Ga., has paraded former military officials before his Armed Services Committee criticizing Bush's gulf policy.

Congressional critics say Bush still has not provided a coherent rationale for the latest escalation in U.S. troop deployment and for the apparent shift to an offensive stance that it signals.

"At this point I would not support it," Rep. Dan Glickman, D-Kan., said of a possible resolution, speaking in advance of the president's speech.

"We could see an extraordinarily messy situation created by a congressional vote," one which portrays not the unity that Bush seeks, but division, he said. "He must go and sell the American public as to why it's necessary."

And Rep. William Broomfield of Michigan, the senior Republican on the Foreign Affairs Committee, cautioned Bush to wait to develop a better consensus before asking Congress to rule on his policy.

At its core, the problem is relatively simple: How does Congress help Bush amplify his threats to use force against Iraq in the hope of forcing Saddam to back down, without at the same time giving up its right to decide whether ultimately to go to war?

Many lawmakers fear that they would, in voting for a resolution approving military action, be giving Bush a blank check for whatever moves he may choose.

An endorsement by Congress would not be simply a vote of confidence in the same manner as the U.N. resolution, said House Majority Leader Richard Gephardt, D-Mo. "It ups the ante," he said. "Then you have changed the policy and force can happen."

Gephardt welcomed Bush's moves Friday as a use of the U.N. vote to give new life to diplomacy. "There is broad support in this country for moving in this direction, and Saddam Hussein should know that America is united in our determination to see him end his brutal occupation," Gephardt said.

Sen. Edward M. Kennedy, D-Mass., suggested that Congress could pass a resolution that puts on the record what many Democrats have been saying all week at Senate hearings on the gulf crisis: that economic sanctions should be allowed time to work, even if it takes a year or more.

"Going to war now or in the next few months would be a mistake that could cost the lives of thousands of Americans for no justifiable reason," Kennedy said.

But if there are risks for Bush, there are risks for Congress as well in seeking to fence the president's actions.

"How can you vote against a resolution if you've got your boys on the front line shooting or being shot at?" said Rep. Joseph Moakley, D-Mass. "We should be brought into the situation" before that, he said.

The Heritage Foundation Backgrounder

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The Center for International Economic Growth

November 13, 1990

→ SENATOR:
Worth perusing

YELLOW LIGHT FOR EASTERN EUROPE: BEWARE FOUR ECONOMIC DEVELOPMENT MYTHS

DSE

INTRODUCTION

Socialism has left Eastern Europe in economic and environmental ruins. Dilapidated 40-year-old factories grind out goods whose quality is vastly inferior to Western and even many Third World products, all the while polluting the air and soil. A traveler in Poland is unlikely to see any tractors in the course of a four-hour drive through the countryside, even though agriculture is the strongest sector of the economy. In the Soviet Union there are only 50 cars for every 1,000 citizens. By comparison, eight decades ago in 1909, one out of every 34 farmers in Iowa owned an automobile, and by 1930 for all America that number had risen to one out of every 1.3 households.

The breadth of poverty and underdevelopment in Eastern Europe is greater than most in the West imagine. These countries now face the daunting and unprecedented task of transforming centrally planned economies into free-market systems. How this can be done, in what sequence, and at what pace is not easily prescribed. Such a radical transformation never before has occurred. Nations have been transformed from capitalist to socialist, but not the reverse.

Decades of Evidence. Yet some things are known about what works and what does not work in promoting economic growth. Decades of experimentation with statist development programs by governments in Africa, Eastern Europe, and Latin America amply demonstrate that extensive state controls of the economy, state planning, and massive subsidies and credit for preferred industries do not work. These policies perpetuate poverty, not eliminate it. Variations of statist intervention and central planning produce equally poor results.

As American government officials and American businessmen and economists head off to give East Europeans advice on how to restructure their collapsed economies, they must keep in mind what has worked and has not worked in the past. The lessons of history should be like a flashing yellow traffic light warning of four myths of economic development that, if translated into policies, will keep Eastern Europe impoverished. The myths are:

- Myth #1:** Significant government spending on roads, tunnels, airports, wastewater treatment, and communications is necessary for economic growth in Eastern Europe.
- Myth #2:** Privatization will not succeed in Eastern Europe because of a lack of capital and stock markets.
- Myth #3:** Massive Western financial assistance is needed for Eastern Europe to develop.
- Myth #4:** Rigid austerity measures and prolonged economic pain are necessary to set East European countries on the road to the free market.

As with all myths, these simply are wrong. Unless they are exposed as such, Western governments and development banks will dole out flawed economic advice along with their economic aid, prompting East Europeans to perpetuate the mistakes of others. Unless the myths are exposed, the International Monetary Fund (IMF) likely will urge East European governments to raise taxes to balance state budgets. This will constrain economic growth. So will the World Bank if it pursues government-to-government lending policies in Eastern Europe as it has done in the Third World. These loans will politicize East European economies further and increase their bloated government bureaucracies.

East Europeans have suffered enough. Their suffering should not be prolonged by economic policies that have been discredited by decades of experience. They should heed the warning of the blinking yellow light.

FOUR ECONOMIC DEVELOPMENT MYTHS

As teams of economists formulate economic reform plans for Eastern Europe, and as the United States Congress debates foreign aid to the region, policy decisions must be based on empirical evidence, not on myths. Otherwise economic growth in Eastern Europe could be retarded and American taxpayers' money could be squandered.

The four prominent myths that could impair economic development in Eastern Europe are:

- Myth #1:** Significant government spending on infrastructure like roads, tunnels, airports, communications systems, water systems, and wastewater treatment plants is necessary for East European economic growth.

Too often politicians, academics, journalists, and other observers argue that East European governments need to invest massive sums of money to build an infrastructure of airports, bridges, communications systems, energy plants, ports, roads, and water systems. They argue that with the help of Western aid, East European governments must play the leading role in Eastern Europe's economic development by spending heavily on this basic infrastructure.

This ignores historical facts. Nobel Laureate economist Peter Bauer has written:

The suggestion that a ready-made infrastructure is necessary for development ignores the fact that infrastructure develops in the course of economic progress, not ahead of it....Much of the literature suggests that the world was somehow created in two parts; one part with a ready-made infrastructure of railways, roads, ports, pipe lines and public utilities, which has therefore been able to develop, and the other which the creator unfortunately forgot to endow with social overhead capital. This is not the way things have happened.¹

Western nations were not blessed with benefactors who laid down roads, bridges, canals, and tunnels prior to economic development. Rather, infrastructure was developed in Europe, North America, the South Pacific, and Southeast Asia, often by the private sector, as the economic need for it arose.²

Turning to the Private Sector. To be sure, Eastern Europe needs water systems, wastewater treatment plants, airports, roads, telecommunications, and high-speed rail lines before the region will enjoy the economic prosperity common in the West. But to make the financing of these projects the responsibility of Eastern Europe's governments is to ensure that these projects will be inefficient, and thus a drag on development. Rather than rely on the state, reformers in Eastern Europe should engage the private sector to modernize the infrastructure of their economies.

There are a variety of methods by which this can be done. One is to sell a state-owned entity, such as an airport or a wastewater treatment plant, to the private sector. Last year, for example, the British government sold its ten water utilities for \$8.34 billion and the Dutch government sold the Ijmuiden Fishing Port Authority in the Netherlands. Another method is for the government to offer a long-term franchise to a private consortium to design, finance, build, own, and operate a project for the life of the franchise. These are called Build-Operate-Transfer (BOT) projects. The franchise generally runs for the

1 Peter Bauer, *Dissent on Development* (Cambridge: Harvard University Press, 1976) p. 111.

2 Economic development should not be measured by the number of power plants or bridges a country has. Forced Stalinist industrialization of primarily agricultural countries has impoverished Eastern Europe and blackened their environments. Economic development means simply economic growth, not industrialization.

number of years it takes for the private operator to realize a return on his investment. A third method is for governments to contract with private firms to operate public infrastructure, such as a management contract to run an airport or a wastewater treatment plant.

Improved Services. There are many reasons why East Europeans should rely on the private sector, rather than the state, for developing a modern infrastructure. Private provision of infrastructure can improve service, induce competition to keep costs low and quality high, improve efficiency, make infrastructure suppliers more sensitive and answerable to consumers, and decrease the costs of government.

Providing electricity, water, and even telecommunications to the public historically, of course, typically has been the province of huge, public monopolies. With these public monopolies, as with any government bureaucracies, service is often poor, new technology is slowly introduced, and business decisions tend to be based on political rather than economic considerations. This need not be the case. Privatizing electricity monopolies and dividing them into numerous generating companies can bring competition into the industry. The same can be done for telecommunications and water systems.

Useful for East European water service may be the example of the oil industry because oil, like groundwater, is a resource that, without the assignment of property rights, is subject to depletion and quality deterioration. In the oil industry, typically private suppliers extract oil through unitization agreements, which are contractual arrangements and rules that allow many different operators to pump oil from a vast underground oil pool. Each operator has an indivisible stake in the pool. Similar arrangements can be used for groundwater extraction in Eastern Europe. East European countries thus should avoid, whenever possible, replacing a public monopoly with a private monopoly. The introduction of competition decreases the need for extensive government regulation because competition checks monopolistic pricing.

Little Incentive for Quality. Governments in Eastern Europe and in the Third World have little credibility in developing infrastructure. This is obvious from the dismal quality of basic services in Eastern Europe like clean running water, telephones, and heating and electricity. Not subject to market competition, those providing these services have little incentive to deliver quality to customers.

It is for good reason then that, throughout the world, the private sector increasingly is being asked to build infrastructure. Privately financed high-speed railroads are on the drawing boards in Bangkok, Southampton, Barcelona, Houston, and Miami. Private systems supply water in Britain, Chile, Guatemala, France, Kuwait, Italy, Spain, and the U.S.³ Three bridges in Britain — the Dartford Bridge, the Second Severn Bridge, and a bridge link-

3 Fixler, Poole, Scarlett, and Eggers, *Privatization 1990* (Santa Monica: Reason Foundation, 1990), p. 28.

ing Scotland to the Isle of Skye — are being built, financed, and operated privately.

Privatizing public works is being perceived increasingly by government officials, at a time of tight budgets, as the way to modernize decaying infrastructures. Robert Poole, Jr., president of the Reason Foundation, a free-market research institute based in Santa Monica, California, writes that: "the 1990s may well go down as the decade of privatized infrastructure. Around the globe, governments have begun a major shift of the responsibility for financing, building, operating, and, in many cases, owning major capital-intensive infrastructure projects."⁴

Tunnels and Roads. Build-Operate-Transfer projects have financed tunnels and bridges in Europe since the 1950s. The majority of roads built in America during colonial times were private toll roads and most bridges were in private hands until shortly after the 1930s Depression. The \$11.9 billion Channel Tunnel project, which will connect Britain and France, is the largest private infrastructure project to date. The only government participation is granting franchises to private firms for rail operations and an auto tunnel. Private tollway projects will be built in Asia, Britain, France, Mexico, and the U.S.

Airports. Privatizing airports also is underway. From Denmark to New Zealand, governments are planning to sell their airports to the private sector. There is already interest in this in Eastern Europe. Poland is looking into the possibilities of privatizing airports. There are many advantages in this. Sales of airports generate revenues for the government, lead to a more efficient distribution of resources by introducing rational "peak-hour" pricing of runway use, increase investment in airport facilities because the private sector owner has an incentive to acquire new business, and reduce by half the time needed to build an airport.

Most important for the East European governments, no public funds are needed to create new airport capacity. The reason: new capacity is funded by private sector investors who earn a return on their investment by developing land adjacent to the airport. The most striking example of this has been the British Airports Authority (BAA) sale in July 1987 of 500 million shares worth \$2 billion to private companies and individual investors. Since privatization, income per employee is up 10 percent, profits have risen 19 percent, capital spending has more than doubled, and income from commercial enterprises such as parking and food service has grown faster than aviation charges to airport users. Also notable is that BAA is developing a \$400 million rail link between London and Heathrow airport. Though need for the rail link has been apparent for the past decade, the government did nothing to address this.

4 *Ibid.*, p. 27.

New airport terminals and even entire airports can be created through Build-Operate-Transfer arrangements. An investment team is developing a \$200 million, 18-gate terminal at Ataturk International Airport in Istanbul. Once completed, the terminal will be operated for at least 15 years by Lockheed Air Terminal of Burbank, California. Lockheed also is involved in developing a \$300 million, 24-gate terminal at Toronto International Airport. New airports in Hong Kong and Macao will be built and operated by public-private consortiums with majority private ownership.

Water Systems. Water used for drinking, bathing, irrigation, and other purposes is supplied by the private sector in much of the world. Private companies in France provide 72 percent of the water used by the French, while 13 percent of Americans receive water service from almost 16,000 private water systems.⁵ A privately financed water supply project in Lubuan, Malaysia, is now in operation. Britain sold its ten water utilities for \$8.34 billion in 1989. An improvement in Britain's water quality, which has been among Western Europe's worst, is expected from the increased competition among private water companies.

Telecommunications. There is a widespread movement toward private sector development of communications services and privatizing large state-owned telecommunications monopolies. Argentina, Britain, Canada, Chile, Jamaica, and Japan have privatized their telecommunications sectors. Israel and Korea plan to do so. These serve as examples for Eastern Europe. One thing, however, that East Europeans need not do is replace government telecommunications monopolies with private monopolies as was done in Britain and Hong Kong. While the private British Telecom is better than when it was government-owned, it is not nearly as good as a fully, competitive industry would be.

At one time, because of the so-called natural monopoly characteristics of telecommunications service, an argument could be made for a huge, regulated private monopoly. This no longer is the case. Technical innovations, like fiber-optic cable, multilateral connectivity, and electronic intelligence, give East Europeans a luxury that the West did not have in setting up modern telecommunications systems. With these revolutionary advances, competition is appropriate and valuable in most telecommunications services in Eastern Europe. There are over 200 separate suppliers of long-distance telephone service in the United States.⁶ Competition between these firms has brought down long-distance telephone prices, improved customer service, and increased the clarity of telephone transmissions. Competition will do likewise for Eastern Europe.

5 *Ibid.*

6 Gabriel Roth, "The Private Provision of Public Services," paper prepared for the 1990 International Privatization Congress, Saskatoon, Saskatchewan, Canada, May 13-16, 1990, p.7.

Waste-Energy. Most privatization of "waste-energy" projects, which convert refuse into energy, has occurred in the U.S. Most American waste-energy plants are privately operated and many are privately owned. Wheelabrator Technologies Incorporated, for example, owns and operates 19 waste-energy plants in the U.S. The major clean-up effort required in Eastern Europe should provide a major market for private waste-to-energy providers if they are not hampered by government involvement.

Private Investment Underway. The private sector is already beginning to invest in Eastern Europe infrastructure development. A group of American investors, led by Richard Rahn and Lawrence Hunter from the U.S. Chamber of Commerce, and Scott Rasmussen, the founder of Entertainment Sports Programming Network (ESPN), have contacted the Hungarian government about constructing and operating a cellular telephone network in Hungary. The Swedish telecommunications firm Ericsson already has contracted to build a mobile telephone system in Budapest. Another Swedish firm, the Kemira Group, is building a water purification plant on Poland's Vistula River. Trans World Airlines Incorporated (TWA) is considering converting a military base in East Germany into a private, international airport. This already substantial private sector interest in developing Eastern Europe's infrastructure demonstrates that where market opportunities exist, if allowed, the private sector will fill the need for new roads, airports, railroads, ports, water systems, telecommunications, and other basic building blocks of a modern economy.

Myth #2: Privatization will not be successful in Eastern Europe because of the lack of capital or stock markets.

East European countries obviously lack developed capital markets, stock exchanges, and similar institutions. This constrains privatization because capital markets allow savings to be transferred efficiently into investment. Yet privatization can be successful without developed capital markets. In fact, privatization in Eastern Europe can prompt development of a capital market infrastructure. So long as the state owns nearly all factors of production, there is very little in which to invest and thus no reason for a capital market to develop. This is why Hungary's stock market has been so sluggish since its establishment in 1987. With 85 percent of Hungarian industry still state-owned, stock investors have little opportunities for investment.

A capital market cannot be created if there is no demand for it. This demand explodes when the huge amount of securities and stock shares are issued when state industries are sold to the public.

Chilean Example. A striking example of how privatization prompts the rapid development of capital markets is what occurred in Chile in the 1980s. Chilean capital and financial markets were in ruins after the inflation of up to 500 percent annually in the 1970s and the debt crisis of 1982-1983. In fact, the Chilean situation was similar in a number of respects to that of Eastern Europe today. Nearly all the Chilean financial institutions were owned by the

state and operated on fixed credit from the state. The country also had severe foreign debt problems reaching a peak of \$19.6 billion in 1986. As in Eastern Europe now, essentially the entire financial system was state-controlled.

Two-Round Privatization. Despite this, Chile has pursued one of the world's largest-scale privatizations. This came in two separate rounds. The first round of privatization consisted primarily of returning the enterprises free of charge to the previous private sector owners.⁷ The second round began in 1984 and sought to spread share ownership, mainly in giant public service and infrastructure companies. A number of the state-owned enterprises (SOEs) were sold to joint foreign and private investors such as I.M. Trust and Austin Powder. Pension funds, such as the Provida and Santa Maria Corporations, were privatized via "public capitalism," by which Chilean citizens who purchased shares in the privatized companies received long-term loans from the government at zero interest. They also received very favorable investment tax credits.

Privatization and the Development of the Chilean Stock Exchange

Year	Total Transactions (1988 US\$ million)	Privatized State-Owned Enterprise Transactions as % of total
1984	41.9	na
1985	59.7	20.6
1986	337.1	43.8
1987	542.8	61.0
1989	654.4	61.5

Source: Santiago Stock Exchange.

Other state enterprises were privatized by selling the shares directly to the workers, a process sometimes called "labor capitalism." Key to the success of the Chilean program was that the government varied the privatization method depending on the size, economic attractiveness, and potential market interest in the sale of each enterprise.

Spreading share ownership among workers, taxpayers, private pension funds, and small and medium-sized investors sped development of the Chilean capital market. The new investors, after all, created a flurry of stock transactions activity.⁸ The Chilean stock exchange is now one of Latin America's most active. Volume increased from \$41.9 million in total transactions in 1984 to \$654 million in 1989.⁹ At the same time, transactions of

7 During the 1970-1973 period, the Socialist government of President Salvador Allende took control of all banks, large public utilities, and numerous large and medium-sized corporations.

8 Rolf Luders, "Chile's Massive Divestiture Program: 1975-1990, Failures and Successes," unpublished paper presented to the Conference on Privatization and Ownership Changes in Eastern Europe, The World Bank, Washington, D.C., June 13 and 14.

9 Santiago Stock Exchange

stocks of privatized state-owned enterprises increased from under 21 percent to over 61 percent of the total. The sale of the state enterprises meanwhile created over 114,000 new shareholders in Chile.

Chile is not the only example of how a country with dormant capital markets can privatize state-owned enterprises. Privatization of the Kenya Commercial Bank is another example. It demonstrates, moreover, the ability to privatize even if there appears to be almost no pool of private savings.

This is the situation in much of Eastern Europe. Savings in Poland is estimated at no more than 2 percent of the book value of all property. Yet the experience of a number of developing nations, where few savings were presumed to exist, suggests that as long as the privatization stock offering is well-publicized and attractive, domestic savings will appear from outside the formal banking sector.

Savings from Nowhere. This happened in Kenya, the 26th poorest country in the world. When 7.5 million shares of Kenya Commercial Bank stock were offered to the public in 1988, there were four times as many bids to purchase shares of the stock as there were shares available. This was wholly unanticipated by economists and Kenyan government officials. The savings needed to purchase the stocks seemed to appear from nowhere. In fact, they came from the underground sector of the economy.

Savings in East European countries likely will appear from similar sources. There are more domestic savings in Poland and other East European Countries than is commonly presumed. Such savings may be in the form of stockpiles of lumber or bricks in people's backyards or as merchandise smuggled from the West. East Europeans have put their capital in art, precious stones, coins, VCRs, personal computers, appliances, and other so-called physical resources because these goods retain their value during high inflation.

These physical resources could become a source of capital when a country makes its currency convertible, as Poland has done and when there is low inflation. Poles could be tempted to transform their physical resources into capital for investment in privatized industries if they conclude that such investments will give them a greater return.

"Popular Capitalism." Another possibility for privatization in the absence of developed stock markets is known as "popular capitalism." By this, bonds or coupons are sold to citizens at very low prices or given to them free. With the coupons, shares can be bought in the privatized state-owned enterprises. Markets soon develop, of course, as people buy, sell, and trade coupons and stock shares. This approach is what the Czechs and Poles plan.

As a first step toward popular capitalism, holding companies are created. These are shells that own state enterprises. The second step is to give holding company shares to each adult citizen. This encourages saving because many people purchase more shares in the companies or, as people sell their

coupons, encourages the development of a stock market. Most significant, this speeds privatization of the economy.

Management Contracts. Another option for privatizing without capital markets is contracting with a private firm to manage the state enterprise prior to full privatization. The majority of privatizations in Africa have been in the form of management contracts and leasing. Putting the enterprise under private management can improve the efficiency of the enterprise significantly, which, in turn, decreases the cost of the enterprise to taxpayers.

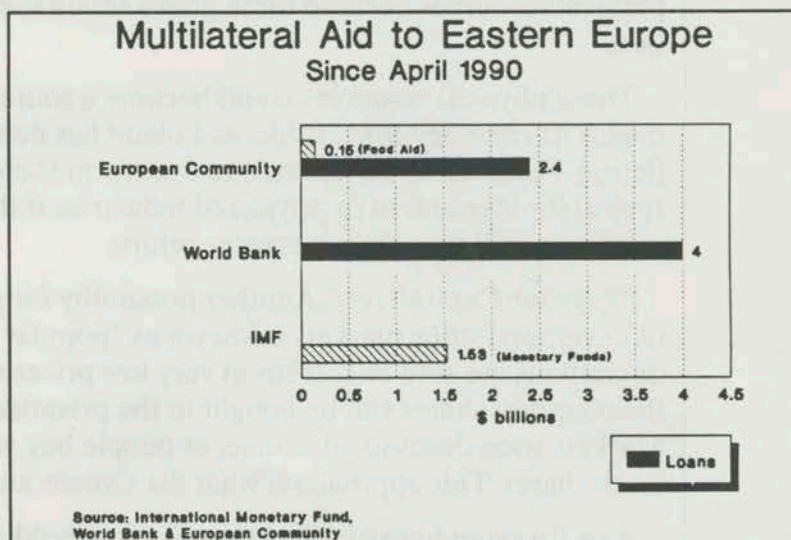
A state-owned bicycle factory in Zambia, for example, in 1983 was operating below capacity and in the red, and its equity for investment was depleted. As a last-gasp effort to save the enterprise, the Zambian government privatized the management of the factory. The deal negotiated with the private company made the private manager financially liable for 100 percent of the enterprises's losses under private management. However, if the factory became profitable, the management firm received 20 percent of all profits. Within a few years the bicycle factory began making a profit. The reason: The change in incentive structure gave the private company a financial stake in quickly turning the factory around. East European countries can try similar arrangements as interim measures on the way to full privatization.

Myth #3: Massive Western financial assistance is needed for Eastern Europe to develop.

Many economists and Members of Congress believe that the reconstruction of Eastern Europe requires great sums of cash from the West. Harvard economist and advisor to the Polish government Jeffrey Sachs, for instance, calls for a \$30 billion Western aid package to the Soviet Union during the "transition" to a market economy.¹⁰

House Majority Leader Richard Gephardt, the Missouri Democrat, also calls for a large-scale aid program to the Soviet Union.

Yet, experience in



¹⁰Jeffrey Sachs, "The U.S. and the Economic Future of the Soviet Union and Eastern Europe," lecture at Progressive Policy Institute forum, September 24, 1990.

dozens of developing countries demonstrates that generous foreign aid is not the answer to Eastern Europe's economic problems. In fact, in most cases, foreign aid has done more harm than good. Over 50 percent of Yugoslavia's \$20 billion debt was squandered on uneconomic projects or used to subsidize consumer consumption in the 1970s and 1980s. For instance, over \$300 million in loans and grants from Western governments and loans from Western financial institutions were poured into a nickel smelting factory in Feni, Yugoslavia, from 1982-1985. While the factory was a technical wonder, it proved a commercial failure and closed.

**International Bank for Reconstruction and Development (IBRD) Loans to
Polish Government
February 1990 - July 1990**

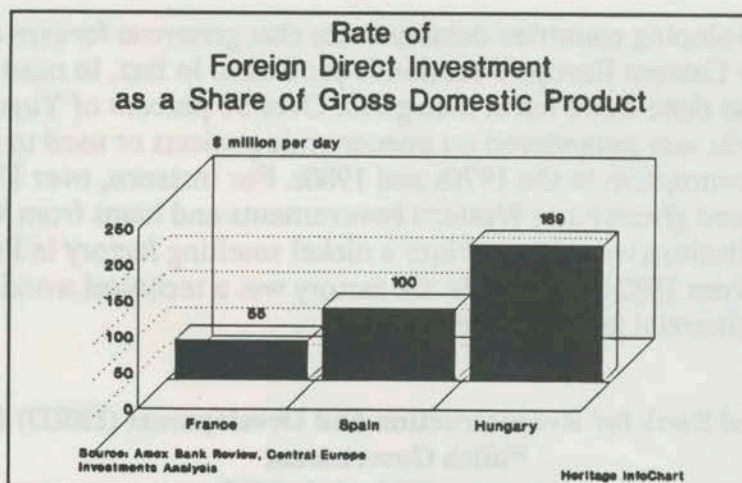
	\$ millions
National Bank of Poland	260.00
National Bank of Poland	100.00
Environment Management	18.00
Republic of Poland, Transport — General	8.00
Polish State Railways	145.00
The Polish Oil and Gas Company	250.00
Republic of Poland	300.00
Totals	1,081.00

Source: IBRD

Foreign aid, moreover, allows recipient countries to delay needed economic reforms, prop up state-owned enterprises, and sustain economic policies that stunt development. The International Bank for Reconstruction and Development (IBRD) already has allocated over \$1 billion in loans to Poland. The overwhelming bulk of this money is going to such state-owned enterprises as Polish State Railways and the Polish Oil and Gas Company. These government loans to government entities will add to Poland's huge debt burden and allow government bureaucrats to delay privatization.

Without foreign aid, Sub-Saharan Africa years ago would have had to abandon socialist economic policies.

Harmful Relief. Even food relief, though frequently prompted by admirable humanitarian impulses, often harms the recipient country by underpricing locally-grown foodstuffs and ultimately bankrupting local farmers. The U.S. General Accounting Office finds that food aid to India, Indonesia, and Pakistan in the 1960s "restricted agricultural growth...by allowing the governments to (1) postpone essential agricultural reforms, (2) fail to give



agricultural investment sufficient priority, and (3) maintain a pricing system which gave farmers an inadequate incentive to increase production."¹¹

Emergency food aid given to Poland in 1989 and 1990 by the

U.S. and other Western countries has distorted badly Poland's agricultural market. Polish farmers, unable to compete against the free food dumped from the West, have gone out of business.

Foreign aid, meanwhile, further politicizes economies because government-to-government transfer of resources allows government bureaucrats to determine who gets the aid. These are almost always political decisions. Writes James Bovard, associate policy analyst at the Cato Institute, a Washington, D.C.-based free market research organization:

Even when it is ultimately ladled out to private businesses, foreign aid weakens the comparative position of the private sector by increasing the government's revenue and power.¹²

Foreign aid creates incentives for long-term dependence on the benefactor. Haiti, Israel, Sudan, Tanzania, and Zaire, among many others, have become almost completely economically dependent on foreign aid for survival.

Saturating the Economy. Undermining the case for foreign aid to Eastern Europe is the fact that the region already is attracting substantial private investment from the West. Over 1,400 joint ventures have registered in Poland within the past year and the number is increasing daily. Hungary is attracting more private investment per day as a proportion of its gross domestic product than France or Spain. In Hungary, such investment funds as the Austro-Hungary Fund, First Hungary Fund, and the Hungarian Investment Company, and others have more than \$600 million worth of private funds to invest in private ventures. The trouble is that most of the money is not being spent. The reason: the economy cannot absorb all the available capital because the snail-like pace of privatization has not created enough private ventures. An economy that cannot use available private capital does not need foreign aid.

¹¹General Accounting Office, *Disincentives to Agricultural Production in Developing Countries*, November 26, 1975.

¹²James Bovard, "The Continuing Failure of Foreign Aid," *Cato Policy Analysis* No. 65, January 31, 1986, p.5.

Private investment spurs economic growth much more than foreign aid because it is attracted to market opportunities, rather than to a government bureaucrat's pet projects. If East European reforms — such as a convertible currency, low taxes, secure private property rights, and little or no inflation — create an economic climate favorable to private enterprise then private foreign investment will come and foreign aid will not be needed. If the climate is inhospitable to private enterprise, then foreign aid will not help.

It is even possible, moreover, for Eastern Europe to develop economically without Western private investment. Even if capital, land, minerals, and infrastructure are in short supply, development can be driven by human capital. This, after all, is the lesson of the dramatic development of rural China in the decade following 1978.

Writes Kidder, Peabody & Co.

analyst Scott Powell: "economic

growth is largely a function of human creation, drive, and willingness to sacrifice...."¹³ An economic environment of low taxes, noninflationary fiscal and monetary policies, and few regulations becomes a hot house in which entrepreneurs will begin generating capital internally. This is what happened in Hong Kong, an island and some nearby territories barren of all resources but human capital.

Myth #4: Rigid austerity measures such as tax increases to balance state budgets, currency devaluation, trade surpluses, wage controls, and high interest rates are needed in Eastern Europe.

Most discussions about the transition from socialism to the free market invariably include a sermon that the medicine needed for the transition is bitter and that the citizens will suffer severe economic pain for a prolonged period of time. Many East Europeans today cannot be blamed if they look at the hardships brought about by the Polish economic reform program and then

Large Corporations Investing in Hungary

- General Electric Company
- Schlumberger Limited
- British Petroleum Company
- Black & Decker Corporation
- Young & Rubicam Incorporated
- Levi Strauss Associates Incorporated
- Siemens Corporation
- McDonald's Corporation
- Estee Lauder Incorporated
- General Motors Corporation
- Suzuki Motor Company Limited
- Samsung Electronics Company Limited
- Philips Industries, N.V.
- Société Générale Group
- Digital Equipment Corporation
- Shell Petroleum Incorporated
- International Business Machines Corporation

¹³Scott Powell, "The Entrepreneur as the Mainspring of Economic Growth," Hoover Institution, Stanford University, 1990, p. 4.

resist the movement to capitalism. They associate capitalism with plummeting living standards, massive unemployment, and harsh austerity.

The mistake is to assume that the Polish program is the only way to move swiftly to a market economy. It is not.

The Polish "shock therapy" program primarily has emphasized controlling consumer demand to halt runaway inflation. In some ways this shock therapy or "big-bang" approach has succeeded. The currency is now convertible. Inflation has been cut sharply from 79 percent monthly this January 1990 to 3 percent this September. The state budget has been trimmed and state industries can no longer obtain easy credit. Interest rates were raised to 40 percent in January by the government to discourage heavy borrowing by inefficient state industries.

Unnecessary Pain. These reforms were all necessary. What is not necessary is the tremendous accompanying pain. Poland has been in a severe recession since the beginning of this year, and thousands of small businesses closed within the first months of the program.

Much of the reason for this painful economic contraction is that, though prices have been deregulated, communist bureaucrats and state-owned industries have remained firmly in place. Thus, large government monopolies have simply made fewer goods, charged higher prices for them, and bypassed the market by trading among themselves for supplies. This squeezes the private sector, which still must rely on state-owned industries for materials.

Without extensive privatization and deregulation there can be little competition. Without competition, price deregulation will not work. To make matters worse, prices were freed in Poland ahead of such essential structural changes as laws ensuring unambiguous property rights, enforcing contracts, and cutting taxes to encourage the growth of private business.

There are other problems with the Polish program. For one thing, inflation was halted not by increased productivity and economic output but by a deep recession and a drop in real earnings. For another, taxes, which were increased to balance the state budget, are too high. Private firms must pay a 20 percent tax on all business (up from 8 percent under the communist government), a 40 percent tax on profits, and a social security tax of 40 percent of wages. These prohibitively high taxes on business raise employer costs, causing decreased employment, investment, and output. It is no wonder then that there was only a small net increase in the number of private businesses registered from this January to July, according to Polish government reports.¹⁴ Businesses remain unregistered because entrepreneurs wish to evade these prohibitively high taxes, and business licenses are still difficult to obtain.

¹⁴Krzysztof Ostaszewski, "The Boldest Social Experiment of the Twentieth Century," unpublished paper, p.16

Two Programs for Economic Development

	Polish Economic Reform Plan	Supply-Side Development
Currency	Currency made convertible by devaluation	Eliminating restrictions on free exchange of currencies and currency convertibility by letting currency float to market rate
Prices	Free prices	Free prices
Taxes	Tax increases	Tax cuts
Wages	Wage controls on public and private sector	No wage controls on the private sector
Privatization	Little progress	Rapid massive privatization through "popular capitalism"
Tariffs	High customs duties on consumer goods	Tariffs cut radically
Business Licenses	Still difficult to obtain — process is lengthy and cumbersome	Near automatic license approval
Money Supply	Tight credit to public and private enterprises	Tight credit to state enterprises
Main Emphasis	Macro-economic measures	Structural reforms, tax cuts, and de-regulation

Supply-Side Development. There is a free-market alternative to the Polish shock therapy program. This could be called "supply-side development." It has many of the same goals as shock therapy, like low inflation, tight monetary policy, and currency convertibility, but it emphasizes first creating the foundations of a market economy and balancing supply and demand through economic growth, rather than cutting consumer demand.

The basic tenet of the supply-side approach is removing the government from the marketplace and creating incentives for individuals to engage in economic activity by cutting government taxes, regulation, and spending. Poland, for example, would be developing faster and with less hardship if cutting taxes and eliminating controls on foreign trade were recognized as being more important than trade and budget surpluses. Entrepreneurs should be freed from excessive government regulation and taxation so they can begin generating wealth. Rather than controlling demand, economic reforms should be structured mainly to unleash the supply mechanism by cutting government intrusion — in the form of controls, high spending, regulations, restrictions, and taxes — into the economy.

Structural Reforms. It should be recognized, moreover, that immediate structural reforms are as important as macroeconomic reforms. Legislation on securing property rights, contractual rights, privatization, taxes, investment, and business licenses should be the first priority of economic reforms. Once these are in place, a private economy parallel to the state-dominated economy rapidly develops. This, in turn, introduces competition to the state enterprises. With the supply-side approach, entrepreneurial Poles could see swift improvements in their living standards because the deregulated, low-tax

environment would provide opportunities and rewards for risk-taking, wealth-generating behavior.

In the supply-side plan, economic reforms should favor private entrepreneurs rather than the state-run sector of the economy. This can be done by freeing wages and prices on private enterprises and offering favorable credit terms for private firms while maintaining tight credit for state industries. Taxes on private business during the transition period to a market economy should be eliminated and business licenses should be approved within days of an application.

Supply-side economic reform plans should emphasize economic empowerment and new opportunities, not controlling consumer demand. Eastern Europeans, like people worldwide, will work hard if they are rewarded for their work by increased and improved consumer items such as automobiles, televisions, appliances, telephones, and radios, or in the form of a thriving business.

CONCLUSION

East European economic reformers can avoid the mistakes made in Africa and Latin America if the reformers reject the development myths that have kept much of the Third World impoverished. Myths that economic growth requires substantial government spending on basic infrastructure and massive foreign aid are a prescription too for a continued impoverishment of Eastern Europe. These myths and others are mobilized by liberal Congressmen who argue for vast Western aid to Eastern Europe and by old guard communists in Eastern Europe who want to scare their fellow citizens away from the free market by arguing that the transition to a free market economy must be painful.

Experience from developed and developing nations around the world teaches realities very different from these myths. These realities are:

1) An economy can grow without substantial government spending on airports, bridges, electricity, ports, roads, telecommunications, water systems, and other infrastructures.

2) Privatization of state industries is possible without developed capital markets.

3) Western investment capital will flow to countries that protect private property, establish the rule of law, have attractive joint venture laws, low taxes, and a stable political climate. For those countries to which private investment is not attracted, foreign aid can not help them.

4) Economic hardship and rigid austerity measures, like high taxes, high interest rates, and wage controls on private business **are not needed** to make a transition to a market economy.

Advice about economic development provided by many Western economists, politicians, and even businessmen could derail Eastern Europe's

economic liberalization. Multilateral institutions such as the International Monetary Fund and the World Bank unintentionally have contributed to Third World poverty and underdevelopment. They do this by propping up state-owned industries and advocating state economic planning, currency devaluation, and increasing taxes to balance budgets. These same institutions and a new development bank, the European Bank for Reconstruction and Development (ERBD), now seem determined to force these failed policies on the East Europeans.

Setting the Record Straight. Before Eastern Europe suffers the fate of Africa and Latin America, the record should be set straight. Westerners should stop giving East Europeans bad advice about economic development. If the proper advice is given and heeded, East Europeans can speed their economic development, while American policy makers can avoid throwing away taxpayer dollars on misguided foreign aid programs.

William D. Eggers
Policy Analyst

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THE WALL STREET JOURNAL

President—Oops, Sen.—Nunn Sides With Gulf Doves

President Bush has persuaded Mikhail Gorbachev, won over Deng Xiaoping, cajoled the Europeans and coopted Syria's brutal Assad. So what's wrong with Sen. Sam Nunn?

Something like that is the question being asked privately at the White House this week. At the usually treacherous United Nations, the world is telling the U.S. it can use force against Iraq. But back on this side of the water's edge, the Georgia Democrat is holding hearings in Congress that are building a case for war not with Saddam Hussein, but with George Bush. Mr. Nunn may be making that domestic war—with Mr. Bush—all but inevitable.

Other Democrats plan to hold hearings too, but the ones that matter are Mr. Nunn's. He's the most prominent Defense Democrat, the Bigfoot of any bipartisan ship. If he's on board with the president, such lesser critics as Rep. Dick Gephardt don't count for much. If he's not, the senator's political credibility gives cover to everyone in the Democratic Party's Pat Buchanan-Ramsey Clark wing. Right now he's casting the shadow of a condor.

Republicans, naturally, suspect politics. Sen. Malcolm Wallop, the forthright Wyoman, says the hearings and criticism are designed to advance Mr. Nunn's 1992 presidential ambition. And Virginia Sen. John Warner, Mr. Nunn's usually reliable GOP alter ego, began his hearing remarks with the Freudian slip, "Mr. President—excuse me—Mr. Chairman . . ."

It's also true that the White House hasn't handled him well. Mr. Nunn likes to

Mr. Kissinger told them that economic sanctions won't do the job they expect. "I would like to believe what so many here believe, that the sanctions will work," he said politely, much to the consternation of Democrats. But what did they mean exactly by sanctions "working?" He said he doubts sanctions will force Saddam from Kuwait, and they certainly won't disarm his missiles or nuclear weapons.

It's true, he said, that sanctions might get Saddam to talk. But Mr. Kissinger, who remembers Vietnam, added that "if one studies almost every conflict in which the U.S. was involved, there is a period in which the impression is created that talk is its own objective." In other words, Saddam and some U.S. "special envoy" will repair to Geneva, and proceed to fight over the shape of the table.

Meanwhile, said Mr. Kissinger, support will erode for Mr. Bush's delicate anti-Saddam coalitions, domestic and international. The Mideast isn't Europe; its culture and politics won't sustain a long-term U.S. ground force deployment. As for fading domestic support, Mr. Kissinger said, wryly, that "you gentlemen" are in a better position to judge that—though the senators' own questions proved his point.

Mr. Nunn and his allies didn't seem convinced, but at least Mr. Kissinger forced them to face the risks of U.S. failure in the Gulf. So far the public debate has focused largely on the risks of war. If Saddam can claim to have stood down the world, said Mr. Kissinger, the result would undermine moderate Arabs, damage U.S. influence and lead to another Arab-Israeli war, perhaps in two or three years.

President Bush is debating whether to call Congress into session to declare support for the use of force, and the risk is great. If Congress rejected a declaration, the U.S. would face a "debacle" in the Gulf (Mr. Kissinger's word), and Mr. Bush's leadership would be crippled.

But by now the question is whether the White House has a choice if it's going to succeed in the Gulf. The congressional fuss may have convinced Saddam that the U.S. consensus will fracture as it did in Vietnam. By now only a congressional mandate may convince Saddam that the U.S. really would fight a war.

If Congress does vote a declaration down, then at least Mr. Nunn and his allies will have to accept responsibility for what happens next in the Gulf. Perhaps the Senate has a plan to dispatch Jesse Jackson to negotiate the release of the hostages? Or maybe Paul Warnke is ready to negotiate an arms control treaty with Saddam, complete with "on-site inspection" of his nuclear sites? Unlike hearings, in a debate with a vote Congress would have to answer questions too.



Sam Nunn

Potomac Watch

By Paul A. Gigot

be consulted, and lately President Bush hasn't done his legendary schmoozing. Mr. Nunn learned about this month's decision to add troops to the Gulf only hours before Mr. Bush announced it, in a phone call from Defense Secretary Dick Cheney. But in meetings only a day earlier, the senator hadn't received even a hint of the bigger deployment. He was clearly irked.

By now, though, the rift looks bigger than any lack of private consultation. It's become a public dispute over policy. To his credit, Mr. Nunn isn't merely debating procedure; he's going right at the substance. President Bush wants to build up the threat of war, and perhaps even fight a war, to compel Saddam Hussein to leave Kuwait. Mr. Nunn has begun to suggest that he sides with the doves who want to give economic sanctions time to do that job, perhaps as long as 18 months. In short, Mr. Nunn is offering his own judgment as a second commander-in-chief.

The Nunn hearings threatened to be a long argument for this emerging position, until Henry Kissinger showed up. Democrats had fawned all over earlier witnesses, especially dovish former generals. But the former secretary of state spoiled the love-in. He sounded like a realist among innocents.

THE WASHINGTON POST

11/30/90

Charles Krauthammer

Make Congress Choose

Enough earnest questions, idle talk and stacked hearings.

Three days after the Iraqi invasion of Kuwait, former secretary of defense James Schlesinger rushed into print to declare that "there is no effective policy option available to respond to the seizure of Kuwait." An oil embargo? That would be so ruinous to us that Saddam "could be assured that any threat not to buy his oil would be an idle one." The United States, wrote Schlesinger, is "now attempting to persuade all nations not to buy Iraqi oil." But other nations will cheat, and thank goodness for it: "Other nations will be buying Iraqi crude at knockdown prices, but that is better than our being successful in our attempt [at embargo], for that would be devastating."

Four months later, Senate Armed Services Committee chairman Sam Nunn (D-Ga.) kicks off the national debate on war and peace in the Gulf by calling as his lead witness the same James R. Schlesinger. Schlesinger's message? That the embargo on Iraq is such a smashing success ("the most successful ever achieved aside from time of war") that it must not be interfered with by any precipitous military action.

Schlesinger's, er, flexibility on this issue did not seem to bother the senators. In four hours of hearings, not one was so indelicate as to ask the Schlesinger of November about the Schlesinger of August. Why? Because for most members of the committee, today's Schlesinger is a most useful witness: a reputed hard-liner who makes the case they want to make—the case against war—without their having to make it.

The Democrats' agenda in these hearings is clear: (1) To raise enough doubts about U.S. policy to give them cover if it fails. But (2) to stop short of openly voting for their preferred policy—indefinite sanctions—because that would make them responsible for its success or failure. Hence the choice of Schlesinger—followed by two former chairmen of the Joint Chiefs—to present their victory-through-embargo line.

As part of the choreography, Sen. Nunn began the hearings in utmost modesty, not with answers but with questions. "What are our vital interests in the Persian Gulf region?" "Will United Nations economic sanctions force Iraq to withdraw from Kuwait?" "How durable is the multinational coalition?"

Important questions all. But they are not new: everybody who has been thinking about the Gulf has been struggling with them for the past four months. Moreover, the reason that these questions are still around after four months is that they have no definitive answer. There are simply too many unknowns: the stability of the Saudi regime, the morale of Saddam's troops, the staying power of the American public, the rate of breakdown of Iraqi equipment and the rate of breakdown of the allied coalition. And war itself is a maelstrom of contingencies.

Nunn is not going to get clear answers to his questions. And questions alone are cheap unless in the end one is prepared to make a judgment. In an atmosphere of unavoidable uncertainty, the president is going to have to make a decision. So should Congress.

Simply holding hearings is a way for Democrats in Congress to put themselves in a no-lose position. If the president chooses war and it turns out badly, they can say I told you so. If the president chooses war and wins, who will then remember the questions and the doubts amid the general euphoria?

After all, we've just won the Cold War, and all those defeatists who had urged that we sue for peace now act as if nothing had been said. If the McGovern, the Fondas, the

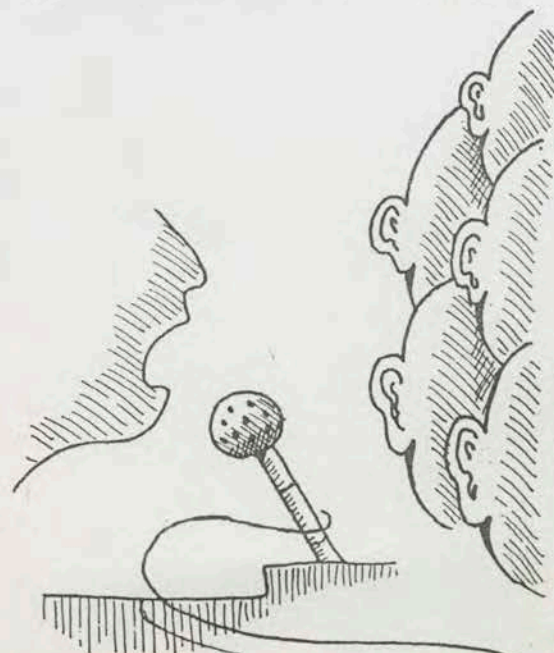
freezeniks of the world have been chastened, I've missed it. In fact, many are back with free advice on the Gulf. The Catholic bishops met earlier this month and once again deplored war and contraception.

The Gulf battle lines today are becoming clear and quite partisan. Republicans (most, for now) support the president as he marches toward a winter war. Democrats tend toward a sanctions and no-war policy. But most prefer to have others say it for them.

Claiborne Pell (D-R.I.), chairman of the Senate Foreign Relations Committee, holds his own set of Gulf hearings next week with a stacked witness list. Apart from Secretary of State James Baker, eight witnesses have been chosen by the Democrats. (Minority witnesses have not yet been announced.) Not one has expressed support for the president's war policy. Zbigniew Brzezinski counsels containment. The National Council of Churches counsels withdrawal. In between are such Democratic doves as Arthur Schlesinger, Robert McNamara and John K. Galbraith. And, of course, the bishops. No anti-war parlay is complete without them.

At the opening of the Nunn hearings, Sen. Carl Levin (D-Mich.) complained that for Congress to approve in advance the use of force would be to give the president a blank check. But what is any declaration of war if not a blank check? What did Congress give FDR in December of 1941 if not a blank check? The Constitution is quite clear. On war, Congress decides whether. The commander-in-chief then decides how.

The choice between containment and war is agonizingly difficult. The outcome for each is highly uncertain. But choosing in contingent circumstances is the essence of policy making. Questions and stacked hearings will not do. Congress has to decide. The president should call Congress back into session immediately, present it with a resolution authorizing the use of force and make the gutless wonders choose.



BY MARGARET SCOTT

Resolution Sets Jan. 15 Deadline For Withdrawal

Associated Press

This is the text of Security Council Resolution 678, giving Iraq until Jan. 15 to withdraw from Kuwait or face possible military action by member states:

The Security Council,

Recalling and reaffirming its resolutions 660 (1990), 661 (1990), 662 (1990), 664 (1990), 665 (1990), 666 (1990), 667 (1990), 669 (1990), 670 (1990), 674 (1990), and 677 (1990).

Noting that, despite all efforts by the United Nations, Iraq refuses to comply with its obligation to implement Resolution 660 (1990) and the above subsequent relevant resolutions, in flagrant contempt of the Council,

Mindful of its duties and responsibilities under the Charter of the United Nations for the maintenance and preservation of international peace and security,

Determined to secure full compliance with its decisions,

Acting under Chapter VII of the Charter of the United Nations,

1. Demands that Iraq comply fully with Resolution 660 (1990) and all subsequent relevant resolutions and decides, while maintaining all its decisions, to allow Iraq one final opportunity, as a pause of goodwill, to do so;

2. Authorizes member states cooperating with the government of Kuwait, unless Iraq on or before 15 January 1991 fully implements, as set forth in paragraph 1 above, the foregoing resolutions, to use all necessary means to uphold and implement Security Council Resolution 660 and all subsequent relevant resolutions and to restore international peace and security in the area;

3. Requests all states to provide appropriate support for the actions undertaken in pursuance of paragraph 2 of this resolution;

4. Requests the states concerned to keep the Council regularly informed on the progress of actions undertaken pursuant to paragraphs 2 and 3 of this resolution;

5. Decides to remain seized of the matter.

DRAFT

Whereas the Congress recognizes the historic action taken by the United Nations Security Council on November 28, 1990, in passing Resolution 678, which "authorizes member states ... to use all necessary means" to "restore international peace and security" in the Persian Gulf region.

Now, therefore, be it resolved by the Senate and House of Representatives of the United States of America in Congress assembled, That:

1. The United States, in accordance with Security Council Resolution 678, is prepared to use all necessary means to achieve the goals outlined in Resolution 678 and the ten earlier resolutions on the Persian Gulf crisis passed by the Security Council since August 2, 1990, and articulated by the President of the United States in his Address to the Nation of [DATE].

2. The President shall continue to consult with the Congress on decisions on the means necessary to achieve those goals.

ROLL CALL

THE NEWSPAPER OF CAPITOL HILL

Established 1955
Founding Editor and Publisher, Sidney Yudain
Vol. 36, No. 43 • Thursday, November 29, 1990

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Roll Call (ISSN 0035-788X) is published twice weekly (except two weeks in August and two weeks in December) on Mondays and Thursdays. The publication office is 900 Second Street, NE, Washington, DC 20002. Copyright 1990 Levitt Communications, Inc. Reproduction of this publication in whole or part is prohibited except with the written permission of the publisher. Roll Call maintains strict neutrality on all partisan issues. Subscriptions to Roll Call are \$175 for one year (96 issues), \$325 for two years. Phone: 202/289-4900. Roll Call is printed on recycled paper.

Editorial

President Bush Should Reconvene Congress

The Persian Gulf crisis has presented Democrats in Congress with a dilemma — one that Senate Majority George Mitchell (D-Maine) appears, at least for now, to have finessed as beautifully as he finessed the capital-gains tax cut earlier in the 101st Congress. The dilemma is this: On the one hand, Congress wants to assert its right to declare war. On the other hand, many Democrats don't want to go on the record either for or against the use of troops against Saddam Hussein. The solution, as crafted by Mitchell and Sen. Sam Nunn (D-Ga), chairman of the Armed Services Committee, is to snipe, to grouse, and to complain — but not actually to vote on either a declaration of war or a resolution that clearly takes a stand on Gulf strategy and tactics. We think that this solution, while it makes temporary political sense, in the long run hurts the institution. It's also dishonest. Congress has every right to debate the proper US role in the Gulf, but that debate should revolve around a serious resolution or a declaration of war. The resolution could resemble the one that the United Nations Security Council will consider today: permitting the use of force to remove Saddam Hussein from Kuwait. Or, as columnist Charles Krauthammer suggested last week, it could simply be a reaffirmation of the Carter Doctrine, enunciated Jan. 23, 1980. That doctrine declares that "an attempt by any outside force to gain control of the Persian Gulf region will be regarded as an assault on the vital interests of the United States of America. And such an assault will be repelled by any means necessary, including military force."

The question is: Are Members who are so eager to criticize the President's policy in hearings and in interviews ready to go on the record with a vote in opposition to that policy, ready to make a choice that posterity can read? We doubt it. Members, who correctly detect a weakening of American will, are also worried about getting caught on the wrong side of history. And they should be worried. "Rarely in the post-war world," as Krauthammer writes, "have the issues been as clear as they are in the Gulf crisis today." But if America wants to choose appeasement, if America is no longer prepared to use force against this poison gasser and torturer (and for those who want particulars, we urge a reading of *Saddam Hussein and the Crisis in the Gulf* by Judith Miller of the New York Times and Laurie Mylroie of Harvard) who committed an act of aggression with not the slightest ambiguity, then let's not continue the pantomime. Let's call it quits as soon as possible.

Our guess is that, when the roll is called, Members will stop playing games. They will vote history, future, and conscience. But the problem is that politics seems to dictate that the roll not be called any time soon. We have a solution: Since the leaders of the House and Senate do not appear ready to bring Congress back into session, we urge the President to do so. "He may," says the Constitution in Article II, Sect. 3, "on extraordinary occasions, convene both Houses." Let him do so next week, so we can at last have an up-or-down vote on the most important issue facing this nation.

40886

OPINION

B-4

THE KANSAS CITY STAR

Vol. 111, Tuesday, December 4, 1990, No. 78
A Capital Cities/ABC, Inc., Newspaper

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A matter of conscience

Fallout from Tom Watson's resignation at the Kansas City Country Club over its failure to accept a Jewish member continues to focus attention on this community. The matter has received an abundance of publicity and no doubt there will be more. Everybody wants to say something about it.

But how many ways can you say that the club's action is unfortunate, wrong and smacks of bigotry?

Henry Bloch, whose proposed membership was withdrawn, has suffered humiliation. Members of the club have been held up to ridicule.

That a person of Bloch's caliber would have his proposed membership withdrawn is deplorable. Private clubs and their members have a right to choose who belongs and with whom they associate. But our society, and this newspaper, looks with disdain upon discrimination of any kind.

Many in the Kansas City community have worked hard in recent years to reduce prejudice and discrimination here. Everyone from schoolchildren to police officers to corporate executives has been instructed on the virtues of tolerance. Religious leaders

exhort us to respect and befriend people from backgrounds different from our own. Much has been accomplished; much remains to be done.

Clearly, not every member of the Kansas City Country Club embraces what has happened. There is no way of knowing, but evidence indicates that a vast majority of members wish there had been another, much happier scenario than the one that occurred.

This incident has brought focus on the status of private clubs throughout the metropolitan area. Some have no restrictions based on race, creed, religious inclination or gender. Some of these happen to be newer clubs.

The criteria for many clubs — and they are the traditional ones — are how well people are liked, how many friends they have, and whether they will enhance the club socially. The KCCC has a non-discrimination policy, it is said, but it and all other clubs are very protective of the membership roster. They have a right to be, but that leaves in its wake various accusations of bigotry and discrimination.

Elizabeth Dole's record

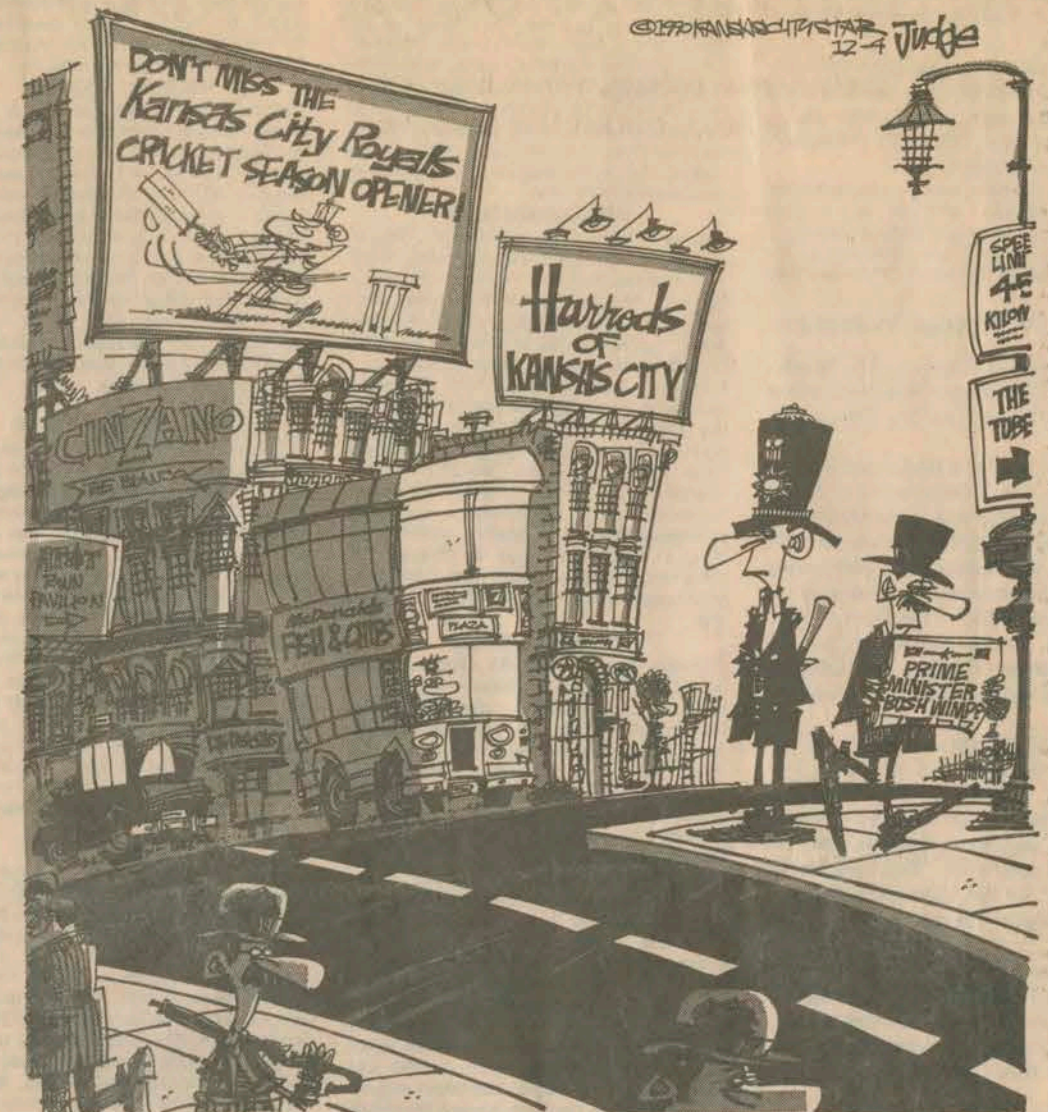
The governmental career of Elizabeth Dole is notable for two distinct reasons. Dole has blazed a trail for her gender by attaining positions of leadership at the upper reaches of the federal government. Gender aside, Dole has been an effective public servant for a quarter century, showing versatility in dealing with demanding presidential missions.

Dole, whose last assignment was as secretary of labor, is leaving the government to head the American Red Cross. Her contribution to the public will continue; the

of transportation and was appointed secretary of labor by President Bush.

Not surprisingly, her time at Labor drew mixed reviews from union officials. Dole impressed some of them with her efforts to improve safety in the workplace, to break the "glass ceiling" for women and minorities in top management positions, and to impose stricter enforcement of employment laws relating to children.

She was praised for taking a bold, risky role in mediating a bitter dispute last year between miners and a coal company. The



IF PAUL REVERE HAD WORKED FOR THE
NATIONAL WEATHER SERVICE...

LETTERS TO THE STAR

Smoking solution

It's getting to be quite tiresome and outright boring to read those petty complaints voiced by smokers and non-smokers alike. Here is my solution to the whole problem:

1. Smoking will be prohibited by law everywhere, and all smokers must register with the FBI or the CIA if living overseas.
2. The income lost due to the eliminated sales of "sin items" will be replaced by a special tax levied on all non-smokers.

The rationale for the above solutions is as follows:

1. All smokers will suffer due to the lack of nicotine and thus paying for their sinful ways.
2. All non-smokers will replace the lost revenues for having their way.

WHERE TO WRITE

Letters

The Kansas City Star
1729 Grand Ave.
Kansas City, Mo. 64108

Letters must include the writer's signature, work and home telephone numbers, and address, although the telephone numbers and street address will not be published. All letters will be verified before publication and are subject to editing for length and clarity.

The world has benefited from Eisenhower's vision of "Atoms for Peace." As evidence, we have only to look at the events of the past few months. The isolation of Iraq would have been far more difficult if 26 nations of the world were not

Holiday dread

The holiday season is upon us again, and the newspapers and TV are showing agencies begging for assistance to help the poor. Bell ringers are outside stores and malls. Everywhere we look, someone has a hand out.

But what about us, the people who live paycheck to paycheck? We don't have credit cards, we don't have savings accounts. We earn too much to get food stamps and other assistance. We don't have money to buy a Christmas for our families.

Something is wrong here when hard-working people dread the holiday. Ho, ho, ho.

Micheleen Houze

Pleasant Hill
Only a shell

secretary of labor, is leaving the government to head the American Red Cross. Her contribution to the public will continue; the Red Cross is the largest public service agency in the United States. It has 250 million volunteers throughout the world.

Speakers at a testimonial for Dole would have plenty of material. She has served half a dozen presidents — Democratic and Republican — from Lyndon Johnson forward.

Her duties for Johnson included planning the first national conference on the deaf. Subsequent assignments covered a variety of responsibilities: consumer affairs for President Nixon, trade for Presidents Ford and Carter. She was President Reagan's secretary

She was praised for taking a bold, risky role in mediating a bitter dispute last year between miners and a coal company. The bargaining produced a contract.

Much of her effort at the department has centered on improving the work force, which is growing at its slowest pace in four decades. She has been concerned with finding ways to produce workers who can help the United States compete in the global economy in the years ahead.

Dole, the wife of Senate Republican Leader Bob Dole of Kansas, is one of the most visible women in America. She now moves to a new challenge where she can again set an example for public service.

Missouri's trees

State government should be a leader in promoting conservation and protection of natural resources. Missouri's program, known as Operation Tree, represents a good approach by joining citizens and their government in a worthy endeavor: the saving of forests through recycling and other efforts, and the planting of more trees.

One component of this program, announced by Gov. John Ashcroft in October, lets Missourians in seven cities exchange stacks of newspapers for coupons that will be good for live trees that can be taken home for planting. Earlier, the governor called upon Missourians to plant 1 million trees.

Other components of this program:

- Encourage landowners to plant trees on erodible land.
- Regenerate natural forests through the planting of trees on fields in state parks.
- Reclaim mined land through tree plantings.
- Pay for research projects that show how

trees can benefit good water quality.

Missouri is a particularly appropriate state to launch such a program. The state has suffered from one of the worst soil erosion problems in the nation, especially in the north. This topsoil loss, which is also being tackled through the state's soils-and-parks sales tax, can be slowed through the planting of trees on erodible land.

Trees also are important to the southern part of Missouri, where tourism and recreation depend on lush and full growth in state parks and forests.

Trees serve valuable purposes in the cities as well. Their shade can help reduce residential heating and cooling bills, conserve energy in offices, and beautify the neighborhoods, boulevards and parks.

By encouraging citizens to plant trees and to recycle paper products, the state is doing a service to future generations of Missourians who should live in — as the governor put it — “a cleaner and greener Missouri.”

Cameras in the courtroom

Cameras have been allowed to show the arguments in a case before the Texas Supreme Court. Contrary to some predictions, the session was not disrupted by this. In fact, there was agreement among the parties involved that the presence of the news media was soon forgotten.

The ease of this experience is pertinent to Missouri. This state is one of a few that bans cameras from its courtrooms. Many states, in one form or another, allow taping as well as still pictures.

Cameras can be valuable educational tools. The tapes, for example, are useful in helping law students to study and understand cases, to observe outstanding lawyers and judges in action. Additionally, tapes and photographs can play a useful role for historical purposes.

The sensational coverage of the Lindbergh kidnapping case in the 1930s led to

prohibition of microphones and cameras in most courtrooms across the nation. Technology and a demonstrated sensitivity of the media in recent years have done much to erase the unfortunate experiences of some 60 years ago.

In recent weeks the federal court system has moved toward a limited experiment.

It is time that Missouri shed its opposition. Missouri's courts should be opened to accommodate technological advances in the interest of a better-informed public.

TODAY'S BIBLE VERSE

Therefore shall ye observe all my statutes, and all my judgments, and do them: I am the Lord — Leviticus 19:37

paying for their sinful ways. All non-smokers will replace the lost revenues for having their way.

It seems only right to do it this way since the non-smokers had a relatively free ride with little or no expense. Shortly after the law has been passed and is enforced (sic), “Smoke Easies” will come into being and some “tobacco runners” will in years to come form a dynasty so that we will have somebody to elect to high offices.

It's all so simple, and it works (or not) just like the previous prohibition.

Franz B. Christoph

Kansas City

Human decency

I'll bet dollars, doughnuts or old socks that the people who didn't want Mr. Bloch in the Kansas City Country Club are some of the same ones who rush to the front pew every Sunday to show everyone what “good Christians” they are. Too bad that, for all their power and prestige, they never learned the simple human decency of Tommy Watson.

Christine Kenyon

Kansas City

Hurrah for Tom

As a member of the Jewish community of Kansas City, I wish to express my admiration for the statement made by Tom Watson by his resignation from the Kansas City Country Club.

Acting with the courage of his convictions, he has set an exemplary pattern which could well be followed by others, whether sports celebrities or just the guy next door.

He is specially commended for defending the religious faith of his wife and children although he himself is of another belief.

I feel certain that the entire Jewish community feels indebted to Tom for his stand against bigotry and for exposing the long-standing racial bias that continues to exist in such social clubs.

Hurrah and three cheers for Tom Watson, a real hero.

Haskell Sobol

Leawood

Atoms still for peace

As we mark the centennial of Dwight D. Eisenhower's birth, we ought to recall his historic “Atoms for Peace” address to the General Assembly of the United Nations. His address nearly four decades ago seems as pertinent now as then, its importance still intact.

On Dec. 3, 1958, he proposed an ambitious program for international cooperation on the development of peaceful uses of nuclear energy.

to look at the events of the past few months. The isolation of Iraq would have been far more difficult if 26 nations of the world were not operating about 430 nuclear power plants, thereby saving 6 million barrels of oil a day, equal to one-third of Persian Gulf oil production. In the steps the world has taken to meet one of the great challenges of our time — the transition from heavy dependence on imported oil to other energy sources — nuclear power has been a decisive factor.

Yet the U.S. now seems to be systematically backing away from nuclear power, just at the time we need to insulate our economy against foreign oil manipulation, protect the environment from the burning of fossil fuels, and ensure adequate power supplies.

As military expenditures wind down in this post-Cold War era of glasnost, we need to overcome our dangerous oil deficit. By returning to the moderate and cooperative policies which evolved under “Atoms for Peace,” the U.S. could restore the international competitiveness of the American economy.

William H. Miller

Professor,
Department of Nuclear
Engineering
University of Missouri
Columbia, Mo.

REMEMBER?

From The Star and Times of Dec. 4

10 years ago — 1980

A Jackson County circuit judge declared unconstitutional a new Missouri law designed to protect adults from domestic violence.

20 years ago — 1970

A lawsuit attacking the Harry S. Truman Sports Complex was dismissed. Sale of \$13 million in stadium revenue bonds can proceed and construction on the twin stadium can be completed.

30 years ago — 1960

A Titan Intercontinental ballistic missile exploded in its underground silo during fueling near Vandenberg Air Force Base, Calif.

40 years ago — 1950

U.S. congressional leaders have been briefed on the darkening situation in Korea following a strong offensive by the Chinese communists.

Maxine Howard and her miniature poodle won the Heart of America Kennel Club trial with a score of 198. Other placements were taken by O.E. Walton, Dr. W.H. Ryan and Mrs. Bert Pearson.

holiday. Ho, ho, ho.
Micheleen Houze

Pleasant Hill

Only a shell

The prophet Isaiah in speaking of “a vineyard on a very fruitful hill” provided a suitable image for Paseo High School as it was for the first generation or so after it was opened. That school, however, is no more.

The current authorities are not the ones who sowed salt in the vineyard. On Nov. 28 they merely demolished the shell of the old building.

It is a sad day for those of us who remember Paseo when it offered a college preparatory program as fine as any in the nation. Yet it may be just as well that there is no physical reminder of the departed glory.

In a day when reading and writing are not skills demanded of high school graduates, no one will be led to believe that there is the least connection between the institutions developed on the site and the school which was opened in 1926.

Arthur N. Wilkins

Kansas City

After the season...

To the person or persons who on the afternoon of Nov. 28 “removed” the Christmas lights from the exterior of my humble home, might I say this: I sincerely hope this holiday season greets you with a warm smile and embraces you with generous arms. Then when the magic of Christmas fades and we slide into the new year, I hope you are squashed by a passing truck.

Happy holidays.

Whit W. Welker

Kansas City

The roof overhead

Leawood officials have decided not to allow composition roofs, giving as reasons the cost of removing the old wood roof, the lowering of property values, and the lack of “curb appeal” of Prairie Village homes with such roofs. We had a composition roof put on over the old wood roof several years ago, as did a neighbor just recently. I won't comment on the curb appeal of our house, but the neighbor's new roof looks great!

There is nothing like a good fire to lower the value of one's property. Raccoons tearing holes in the roof to get into the attic like we had aren't fun either. Oversize houses with oversize yards, as found in Leawood among other places, don't have a lot of curb appeal to me, if one wants to get snobbish.

Wayne Sangster

Prairie Village

Elizabeth Dole's record

This document is from the collections at the Dole Archives, University of Kansas
<http://dolearchives.ku.edu>

The governmental career of Elizabeth Dole is notable for two distinct reasons. Dole has blazed a trail for her gender by attaining positions of leadership at the upper reaches of the federal government. Gender aside, Dole has been an effective public servant for a quarter century, showing versatility in dealing with demanding presidential missions.

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of transportation and was appointed secretary of labor by President Bush.

Not surprisingly, her time at Labor drew mixed reviews from union officials. Dole impressed some of them with her efforts to improve safety in the workplace, to break the "glass ceiling" for women and minorities in top management positions, and to impose stricter enforcement of employment laws relating to children.

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Dole, the wife of Senate Republican Leader Bob Dole of Kansas, is one of the most visible women in America. She now moves to a new challenge where she can again set an example for public service.

THE PREVIOUS RESOLUTIONS

EARLIER U.N. SECURITY COUNCIL RESPONSES TO THE PERSIAN GULF CRISIS

August 2, 1990

- ☐ **Resolution 660:** Condemned the invasion of Kuwait. Demanded Iraq's unconditional, immediate withdrawal and called on both countries to begin negotiations.

(Adopted 14-0; Yemen did not participate)



August 6

- ☐ **Resolution 661:** Imposed a trade and financial embargo on Iraq and occupied Kuwait. Established a special sanctions committee to implement the resolution. Called upon U.N. members to protect the assets of Kuwait around the world.

(Adopted 13-0; Cuba and Yemen abstained)

August 9

- ☐ **Resolution 662:** Declared Iraq's annexation of Kuwait null and void.

(Adopted by unanimous vote)

August 18

- ☐ **Resolution 664:** Demanded the immediate release of foreigners from Iraq and Kuwait and the right of diplomats to visit their nationals. Insisted that Iraq rescind its order closing diplomatic and consular missions in Kuwait.

(Adopted by unanimous vote)

August 25

- ☐ **Resolution 665:** Called on U.N. members with ships in the region to enforce sanctions by inspecting and verifying cargoes and destinations.

(Adopted 13-0; Cuba and Yemen abstained)

September 13

- ☐ **Resolution 666:** Reaffirmed that Iraq was responsible for the safety and well-being of foreign nationals. Specified guidelines for the delivery of food and medical supplies.

(Adopted 13-2; Cuba and Yemen against)

September 16

- ☐ **Resolution 667:** Condemned Iraqi aggression against diplomats and diplomatic compounds in Kuwait. Demanded the immediate release of foreign nationals.

(Adopted by unanimous vote)

September 24

- ☐ **Resolution 669:** Emphasized that only the special sanctions committee had the power to permit food, medicine or other humanitarian aid shipments to Iraq or occupied Kuwait.

(Adopted by unanimous vote)

September 25

- ☐ **Resolution 670:** Expanded the economic embargo to include air traffic in or out of Iraq and Kuwait, except for humanitarian aid authorized by the special sanctions committee. Called on U.N. member nations to detain Iraqi ships that could be used to break the naval embargo.

(Adopted 14-1; Cuba against)

October 29

- ☐ **Resolution 674:** Demanded that Iraq stop mistreating Kuwaiti and other foreign nationals. Reminded Iraq that it is liable for damages to foreigners or their property resulting from the invasion and occupation of Kuwait.

(Adopted 13-0; Cuba and Yemen abstained)

November 28

- ☐ **Resolution 677:** Condemned Iraq's attempts to change Kuwait's demographic composition. Also condemned Iraq's destruction of Kuwaiti civil records.

(Adopted by unanimous vote)

NOTE: The Security Council is composed of 15 members. Five are permanent: Britain, China, France, the Soviet Union and the United States. Ten non-permanent members are elected by the General Assembly to serve two-year terms. The non-permanent members this year are Canada, Colombia, Cuba, Ethiopia, Finland, Ivory Coast, Malaysia, Romania, Yemen and Zaire.

SOURCE: United Nations; Associated Press

COMPILED BY JAMES SCHWARTZ

BY MICHAEL DREW—THE WASHINGTON POST

NOVEMBER 29, 1990

TO: SENATOR DOLE
FROM: DAVE SPEARS
SUBJECT: GSM CREDITS

ATTACHED IS A DRAFT COPY OF THE MEMO TO THE PRESIDENT. ALSO ATTACHED IS A PAGE SUMMARIZING ADDITIONAL INFORMATION REGARDING SOVIET CREDITS.

UNDER THE U.S. - U.S.S.R. LONG TERM GRAIN AGREEMENT (LTA), THE SOVIETS HAVE PLEDGED TO BUY ABOUT 1.2 MILLION TONS OF WHEAT AND ABOUT 600,000 TONS OF CORN IN THE FINAL QUARTER OF 1990. DURING THE MEETINGS THIS WEEK, USDA OFFICIALS WERE ALL BUT TOLD THAT THIS COMMITMENT MAY NOT BE MET BECAUSE OF THE U.S. GOVERNMENT'S BEING UNWILLING TO GRANT CREDIT FOR THE PURCHASE OF AGRICULTURAL COMMODITIES. EVEN LARGER QUANTITIES ARE AT STAKE UNDER THE NEW LTA WHICH COMMENCES IN 1991.

THE SOVIETS ARE ESSENTIALLY REQUESTING 1-2 BILLION DOLLARS OF CREDIT IN THE FIRST YEAR.

ONE PROBLEM WITH YUETTER'S MEMO IS THAT IT DOESN'T REALLY INCLUDE OTHER OPTIONS.

ADDITIONAL OPTIONS.

I. IF IT TAKES SOME TIME TO GET THE WHITE HOUSE TO MOVE OFF THIS POSITION, YOU MAY WANT TO CONSIDER A BONUS EXPORT PLAN FOR THE SOVIETS WHICH COULD BE OPERATED UNDER EXISTING AUTHORITIES. UNDER THIS PLAN, FOR EACH DOLLAR'S WORTH OF WHEAT, CORN AND SOYBEANS (I.E., SOYBEAN PRODUCTS) THAT THE SOVIETS PURCHASED UNDER THE LONG-TERM GRAIN AGREEMENT, THEY WOULD RECEIVE A DOLLAR DENOMINATED CERTIFICATE WHICH WOULD ALLOW THEM TO PURCHASE ANY COMMODITY IN CCC INVENTORY. THE SOVIETS WOULD LIKELY SELL THESE BONUS EXPORT CERTIFICATES TO U.S. GRAIN EXPORTERS AND COOPERATIVES IN EXCHANGE FOR CASH.

THE ADVANTAGE THIS PROGRAM HAS OVER THE EXTENSION OF EXPORT CREDITS IS THAT YOU WOULD BE ASSURED THAT THE SOVIETS WOULD BUY WHEAT, CORN AND SOYBEANS UNDER THE LTA. U.S. GRAIN EXPORTERS TELL US THAT THE SOVIETS WILL LIKELY, AT LEAST IN THE SHORT RUN, USE EXPORT CREDITS TO BUY MORE VALUE-ADDED PRODUCTS (I.E., VEGETABLE OIL, BUTTER, MEAT, WHEAT FLOUR) RATHER THAN BULK COMMODITIES.

II. CREDITS FROM FOREIGN COUNTRIES, (I.E. JAPAN, SAUDI ARABIA). THE CONDITIONS COULD INCLUDE A REQUIREMENT TO PURCHASE UNITED STATES COMMODITIES.

NOV 29 1990

DRAFT

Revised: 12:05P

MEMORANDUM TO THE PRESIDENT

FROM: Clayton Yuetter
Robert Dole

SUBJECT: Soviet Export Credit Guarantees

Background:

World wheat production is a record high this year. Our own wheat production doubled from the drought reduced 1989 crop. Soviet production is estimated to be record high as well. In the Soviet market the Soviets shortage of foreign exchange has set off intense global competition for sales. All major exporters have offered special discounts and/or credits to the Soviets in order to book sales.

The United States has offered prices that are competitive with the European Community through our Export Enhancement Program (EEP). However, the Soviets have stated that they will also not purchase additional grain without credit. They have stated that refusal of credit makes our prices uncompetitive and, therefore, even the minimum purchase levels under the U.S.-U.S.S.R. Long Term Grain Agreement (LTA) will not be made without credit.

The Soviets have not made any wheat purchases from the United States since May 13. During this time the price of wheat has dropped over one dollar per bushel. Farmers and even Republican Congressman are referring to our unwillingness to provide credits to the Soviets as a grain embargo. The anti administration feeling in the farm and agribusiness communities is growing rapidly as a result.

Discussion:

1) Economics

a) The creditworthiness of the Soviet Union at this point in time is not high. However, if we continue to withhold credits, there are

DRAFT
NOV 29 1980

substantial domestic economic risks for U.S. agriculture. Over the next two years, the U.S. could possibly lose the whole 25 million tons of grain sales to the USSR that have been built into U.S. export forecasts. This worst case scenario could occur if the Soviets fulfilled all their wheat needs from other exporters' surplus stocks and reduced their corn imports (other countries could not meet all Soviet corn needs).

A 25-million-ton loss of exports would cause a sharp rise in government farm program costs. Grain prices would drop below their already weak level triggering higher income support payments under the farm bill. We estimate costs would rise by \$2.5-3.0 billion for the 1990 and 1991 grain crops alone (outyears would add costs).

The risk of higher budget cost can be reduced by increasing the size of acreage reduction programs. However, idling more land does not reduce the economic costs of smaller Soviet sales. Instead, the costs are shifted from the budget to the private sector. The costs are borne by farmers and farm input industries who suffer lower incomes as farm production shrinks.

Assuming adequate funding of the Export Enhancement Program, the Soviets would need around \$2.6 billion in credit to cover the 25 million tons of grain sales for the 1990 and 1991 grain crops we currently expect. This could be granted through 3-year GSM-102 loan guarantees, which would be similar to the terms provided to the Soviets by our export competitors.

2) Domestic Politics

Prices for almost all commodities have fallen. This is not unusual during harvest, but the extent of the decline has been unexpected. Prices are as low today for wheat and feed grains as they were in 1986 when we lost control of the Senate. For example, one year ago USDA estimated that the season average price for 1990 crop wheat would be \$3.20 per bushel. So far this year wheat prices have averaged around \$2.60 per bushel and are around \$2.40 per bushel today.

From a political standpoint we are getting strong signals that the bedrock Republican and/or conservative farmers of the Midwestern cornbelt are joining the ranks of the populist wheat belt constituency. The low wheat prices and general gloomy outlook are contributing to low corn prices and pessimism in the Midwest.

Time is of the essence.

Once a farmer has sold his grain at low prices, the fact that prices are rising again is of no consolation. Similarly, foreign sales lost today cannot be gained back, they are lost forever. Half of the 1990 sales season for wheat is already over. The Soviets have said that unless we act quickly they will have made all the purchases they need from our competitors and we will have lost a year's sales.

DRAFT

Page 3

NOV 29 1990

In the late 1980's we regained our position in the Soviet market after the Carter grain embargo and our own domestic policies of the early 1980's that made us uncompetitive. Giving market-share back to the Europeans and others will appear ludicrous to our American industry especially when we are being rebuffed by the EC in the Uruguay Round of Trade Negotiations.

If the Executive Branch does not act to deal with the economic and political dislocation in farm country, Congress will and will take the credit for breaking the so called embargo.

Possible consequences of Congressional action include reopening of the farm bill to increase price supports, force grain into government storage, reverse budget deficit measures, and force us to offer credit guarantees to the Soviets.

The political bludgeoning we would take during such a debate would be crushing.

Possible Solutions:

You have stated that you will not waive the Jackson-Vanick amendment for the USSR until such time as the Soviets have passed emigration reform legislation. We understand that the purpose behind this decision was to deny MFN trading status until such time as emigration reform was in place.

At the time the decision was made to link the Jackson-Vanick waiver to the passage of emigration reform legislation, it was not anticipated that the issue of granting credits or credit guarantees would arise. Credits had not been discussed or requested by the Soviets at that time.

You could maintain your position that MFN status will not be conferred until emigration reform legislation is passed and yet grant the opportunity for the Soviets to obtain credits. This could be accomplished by waiving Jackson-Vanick for the purpose of granting credit guarantees to the USSR. At the same time you would unequivocally state that you will not send the trade agreement forward to Congress (the necessary prerequisite for granting MFN trade status) until the emigration legislation is passed.

You preserve the original purpose for Jackson-Vanick waiver (MFN status which mainly relates to U.S. import of Soviet goods), but allow for the export of American agricultural products.

Conclusion:

Continuing not to grant credits to the Soviet Union will not only entail a very high political cost in the agricultural communities but also will force commodity prices lower and farm program outlays higher.

DRAFT

Page 4

The only way to avoid some of this expenditures is to force farmers to idle more land. This has costs to economy and is the antitheses of what we have tried to do with agriculture the past ten years. Forcing farmers to idle land will also force incomes down above and beyond what may be the impact of reconciliation budget cuts.

There is only one thing we can do in the short run to contain the damage of large harvests and slack demand--do whatever it takes to be competitive. From a political and economic standpoint we should meet our competition head on.

There are ways to preserve the objective of the Jackson-Vanick issue while at the same time moving American agricultural products.

Timing is urgent. This should have been done last month. If we wait another month we may as well not do it because the market opportunity will have been lost and the political damage will already have been complete.

Credits for Soviet Agricultural Purchases
(September/November 1990)

<u>Country</u>	<u>Amount</u>	<u>Commodity</u>
Australia	\$500 m.	wheat, wool
	unknown	Wheat Board credits
Belgium	unknown	
Canada	\$400 m.	wheat, barley
	\$850 m.	meat, butter, milk powder
European Community	\$1.5 b. (est)	
France	\$294 m.	wheat, flour, barley
Germany	\$480 m.	meat, barley, flour
France	\$400 m.	wheat, flour, barley
Italy	unknown	wheat, olive oil
Netherlands	unknown	
Spain	unknown	grains

Soviet Purchases by Origin
(September/November 1990)

<u>Country</u>	<u>Commodity</u>	<u>Quantity</u>
Canada	wheat	3-4 million tons
	barley	1 million tons
France	wheat	900,000 tons
	barley	500,000 tons

Changes in U.S. Commodity Prices and Crop Values
(July/November 1990)

<u>March 1991 Contract</u>	<u>July 1</u>	<u>November 28</u>	<u>Change (%)</u>
Wheat	\$3.60	\$2.43	\$1.17 (32)
Corn	2.95	2.33	.62 (21)
Soybeans	6.90	6.00	.90 (13)

<u>1990 Crop Size</u>	<u>July Value</u>	<u>November Value</u>	<u>Change</u>
2.7 b. bu. wheat	\$ 9.7 b.	\$ 6.6 b.	\$ 3.1 b.
7.9 b. bu. corn	23.3 b.	18.4 b.	4.9 b.
1.9 b. bu. soybeans	13.1 b.	11.4 b.	1.7 b.
Total reduced value			\$ 9.7 b.

The reduction in commodity prices since July is expected to increase farm program outlays in FY-91 by \$1-2 billion over the July baseline. If U.S. exports continue to fall, outlays in FY-91/95 could increase by a total of \$7-9 billion.