

Ex-Trade Negotiator Forms Think Tank

By Stuart Auerbach
Washington Post Staff Writer

Former Reagan administration trade negotiator Clyde Prestowitz, one of the leading advocates of a tougher trade stance toward Japan, has shifted direction to focus on America's lagging international competitiveness.

Backed by \$1.4 million a year in largely corporate funding, Prestowitz has started a Washington-based think tank, the Economic Strategy Institute, which he said is aimed at developing "an overall approach to make the U.S. highly competitive" in a changing world in which "the competition is going to be more geoeconomic than geopolitical."

ESI will hold its kick-off dinner tonight, bringing together a number of America's political, corporate and la-

bor leaders. The dinner committee includes House Majority Leader Richard Gephardt (D-Mo.) and Senate Minority Leader Robert Dole (R-Kan.); the president of the National Association of Manufacturers; the heads of the steel workers, auto workers and communications workers unions; and senior executives from high-technology corporations such as TRW Inc. and Motorola Inc. and a major textile producing firm, Milliken & Co.

"We are going to try to redefine what economic strategy is," said Ronald A. Morse, ESI's executive director. "We want to look at it from the corporate standpoint, not the Washington policy or the macroeconomic standpoint. We are going to be the think tank of the '90s, the think tank for America."

Like Prestowitz, Morse is a Japan specialist. He was one of the first U.S.

analysts to suggest that heavy Japanese spending on Washington lobbying, including the use of former U.S. government officials, tilted the U.S. decision-making process in favor of Tokyo.

Prestowitz was controversial as a U.S. trade negotiator with Japan, and his book on the U.S.-Japan trade relationship, "Trading Places," was controversial when it was published two years ago. Following form, Prestowitz's think tank also is likely to be highly controversial.

Although neither he nor his primary associates are economists, Prestowitz does not hesitate to express disdain for what he calls conventional economic wisdom, especially the free market views espoused by rival think tanks. He dismisses them as "highly theoretical" and "based on assumptions made to simplify economic mod-

els that everybody knows do not hold in the real world."

Traditional economists, Prestowitz argues, believe it doesn't matter if America produces \$100 worth of potato chips or \$100 worth of computer chips. "We think the composition of the American economy and American trade is important," he said, emphasizing that computer chips are a technology for the future, while potato chips belong to the past.

"I'm smiling. I've been called a lot of things in my life, but I've never been accused of being theoretical," said Fred Bergsten, head of the Institute for International Economics, a rival think tank.

Prestowitz said his think tank's contribution will be the creation of "an overall approach to making the United States highly competitive." The ESI approach calls for doubling the rate of investment, stressing long-term gain over short-term goals and a trade policy "that deals with the world as it is."

MEMORANDUM

June 5, 1990

TO: Senator Dole

FROM: Kathy Ormiston

SUBJECT: Economic Strategy Institute Speech

Logistics:

The event is at Adirondacks Restaurant in Union Station. Cocktails begin at 6:30. They want you to start speaking toward the end of the cocktail party -- about 7:15.

You will be introduced by Clyde Prestowitz, author of Trading Places. Senator Bentsen will follow you.

What they want you to talk about:

They expect you to speak for between three and six minutes. Basically they would like you to make laudatory comments about the founding of the Economic Strategy Institute and Clyde Prestowitz. Carolyn has put together some remarks for you.

Other speakers:

Although Mr. Prestowitz originally expected him to come, Senator Byrd will not be attending the event. During the dinner, they will ask some of the CEO's present to make remarks.

Guest list highlights:

Members of Congress:

Senator Lloyd Bentsen
Rep. Dick Gephardt, D-MO
Rep. Amo Houghton, R-NY
Rep. Nancy Johnson, R-CT
Rep. Sander Levin, D-Mich
Rep. Don Ritter, R-Penn
Senator John Rockefeller

Others:

James Billington, Library of Congress
Ron Brown, DNC
James Fallows, Atlantic Monthly
David Gergen, U.S. News and World Report
Jerry Jasinowski, NAM
Robert Kuttner, New Republic
Bob Reischauer, CBO
Martin and Susan Tolchin, authors of Buying America

A complete guest list is attached.

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Kent Calder
Japan Chair
Center for Strategic and International Studies

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Thomas Collamore
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SPEAK (briefly)

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Mindy

1 May 1990

Senator Robert Dole
SH 141
Washington, DC 20510

Dear Senator Dole,

As Bob Lighthizer may have told you, I have founded a new Washington think tank known as the Economic Strategy Institute. As you will see from the enclosed material, I've been fortunate enough to receive support of a number of leading corporate chief executives and union leaders as well as of several key academics and Washington operatives.

I know you share our concern with the steady erosion of America's industrial, technological, and financial strength. I believe you also share our frustration with the increasingly unrealistic trade policies of our government. The purpose of the Institute is to create the realization that we are facing unprecedented problems and to develop the rationale and policies for addressing them. We believe the essence of this is adoption of an integrated and coordinated American strategy aimed at achieving economic leadership.

fund - raised NO

To launch the Institute, we are planning a dinner on June 5. The Dinner Committee for this event presently includes Roger Milliken, Chairman, Milliken & Co., George Fisher, Chairman, Motorola, Joseph Gorman, Chairman, TRW, Don Peterson, former Chairman, Ford Motor, Gerald Greenwald, President, Chrysler Corp, Bob Galvin, former Chairman, Motorola, Linn Williams, President, U.S. Steel Workers, Morton Bahr, President, Telecommunications Workers, Howard Samuel, Vice President, AFL-CIO, and Merle Heinrichs, Chairman, Kearny Foundation.

This should be confirmed with Byrd's office

In addition, Senator Robert Byrd has also agreed to serve on the Dinner Committee. I would therefore, very much appreciate it if you would accept this invitation to be a member of our Dinner Committee. I hope that you can attend the event and that you would be willing to say a few words, but if it does not fit your schedule, I would still be grateful if you would allow us to list you as a supporter on the Dinner Committee. With very best regards.

yes - on committee ? - speaking

Sincerely,

Clyde V. Prestowitz, Jr.

Clyde V. Prestowitz, Jr.
President, ESI

Kathy
June 5
Adirondacks Restaurant
Yonkers -
you should probably check to see purpose of dinner and confirm Byrd before asking the Senator.
Shuli

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ECONOMIC STRATEGY INSTITUTE

BACKGROUND

As we prepare to enter the twenty-first century, the United States faces an unprecedented situation that poses fundamental questions about the very nature of its future as a society. The Pax Americana, that period of overwhelming American industrial, technological, financial and military supremacy, has ended in the decade of the 1980's. Eight years ago, the United States was number one in GNP per capita, industrial productivity and high technology and was the world's largest creditor nation and its leading military power. Today only the latter is still true. We are seventh in GNP per capita, and no longer the clear leader in industrial productivity and technology. We are the world's largest debtor nation while the foundation of our national security advantages is eroded.

The consequences of this development are immense and fundamental. The ability of the United States to lead the free world has already been severely weakened. If present trends continue, the U.S. will suffer slower growth, a substantial decline in its standard of living, lose control of key decisions in its own economy to those who control our purse-strings, suffer a loss of value added in its industrial production as a result of increased dependency on foreign technology, and be forced to shrink substantially its military forces and commitments, as well as governmental investments in education, infrastructures, and R & D. Clearly the U.S. could not continue as the leader of the free world under these circumstances.

Beyond this, however, is an even more important question. For all of its history, the U.S. has been a nation that offered haven and refuge, hope and opportunity. It asserted a universal ethic; anyone could become an American. Social and philosophical differences were submerged in the American dream. Today America suffers from severe problems. One fourth of its children will not graduate from high school. Its infrastructure is crumbling and its unfunded maintenance bill runs into the trillions of dollars. Vast areas of its central cities are controlled by drug kings while it struggles to absorb the new immigrants in its southwestern states.

As a troubled economy, the United States will not be able to educate the children of its growing underclass, nor rebuild the bridges and roads and gutted housing, much less integrate the newcomers into the mainstream of its society. In short, the consequence of falling behind is that America will not be the America of history. There will be a landmass on the map and it will have the same name, but it won't be the same place.

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To reverse these trends and insure that the heritage we pass on will be as good as the one we received, one overriding goal must be achieved. The United States must become fully competitive with the other leading economic powers. Today it is not. This is particularly true with regard to Japan but there are also increasing problems with the Asian NIC's and it is likely that a revitalized EEC will become a much more formidable competitor in the future as it forges a Europe-wide economic strategy to supplement its newly integrated market.

The success of Japan and the NIC's vis-a-vis the U.S. is in large part due to significant differences in financial environments, cultural openness, business structures and relationships, industrial and competition policies, government-business relationships, and investment and trade policies. Most importantly, these countries have considered economic performance as the very basis of national security and have approached their economic policy-making from a strategic viewpoint. The result is manifested in the differences cited above, and of course, in their superior overall economic performances and immense trade imbalances.

The success of America's competitors has also been due to three additional factors: America's relegation of economic considerations to secondary status behind the diplomatic and military aspects of national security; America's failure to perceive the true nature of its competitors; and the tendency to hold tenaciously to obsolete and simplistic economic and trade doctrines. In short, the United States has failed to integrate economics into its strategic thinking.

American government, business, labor, and academic institutions are beginning to recognize and respond to certain aspects of the challenge of improving American competitiveness. Most of this work is broad and at the macro level. Little, if any, focuses systematically on the nature of the primary competition and the trade policies necessary to succeed against it. The links between trade policies, national security policies, domestic industrial structure, and macro-economic policies also continue to be neglected. In other words, no institution seems to be asserting the objective of striving for industrial, technological, and economic leadership while systematically devising and propagating policies aimed at achieving this leadership. We believe the time has come to do so.

PROPOSAL

We plan to establish an institute dedicated to informing the American government and private corporations and institutions of the nature of the primary competitive challenges facing the nation. The Institute will propose policies and actions for successfully meeting these challenges. We will draw wherever possible on the efforts of other institutions and individuals and focus our efforts in areas not otherwise adequately addressed. The currently planned efforts of the institute will include:

- A. Systematic analysis of the components of the competitive challenge and review of U.S. performance with regard to these factors.

Some examples of possible subjects of investigation are:

- Why macroeconomic policies are not sufficient to resolve the trade deficit problem.
- The impact of foreign and national security policies on U.S. competitiveness.
- The relationship of industrial structures to national savings rates (i.e., is low savings responsible for competitive weakness or is competitive weakness the cause of low savings).
- The impact of foreign investment and financial leverage (i.e. investment may be a net contribution to national wealth. But it can also be used as a strategic tool that undercuts national wealth and strength).
- The nature of Japanese industry and market controls (a review of the motivation, organization, and interconnection of Japanese industry with emphasis on implications for the U.S.)
- U.S. industry in the twenty-first century (i.e., a projection of when current trends are likely to lead the U.S. industrial structure).

- B. Preparation and presentation of testimony to the Congress and the Administration on these and other timely and pertinent issues.

The development of a quick response mechanism on issues of particular urgency will be a major objective.

- C. Publication of a newsletter dealing with trade and competition issues.

- D. Development of a network of concerned citizens who meet regularly and cooperate to influence events in both the public and private sectors. This might work through the creation of geographical chapters or correspondence committees.
- E. Development of a library of case studies and experience of U.S. companies. The purpose of this venture would be to enable U.S. firms to learn from the experience of others who have gone before. Too often U.S. executives and officials repeat the errors of their predecessors. This would be an attempt to prevent that.
- F. Development of a seminar for business executives and government officials aimed at achieving a more sophisticated understanding of strategic economic issues.
- G. Creation of a close relationship with key educational institutions to encourage relevant research and development of course materials in an effort to influence the thinking of future generations of leaders.
- H. Organization of cross-national dialogues to encourage better understanding of the differences between the U.S. and other systems and to facilitate problem solving.

The institute will seek to attract a small full-time staff of experts who can provide leadership in these efforts and conduct independent research when appropriate. In addition, the Institute, it will support outside experts on a project basis.

The institute will be funded for three years. Membership will be open to corporations, institutions, and other organizations which have interest in fostering competitiveness.

ECONOMIC STRATEGY INSTITUTE

The Economic Strategy Institute (ESI) is a new, private, non-profit research center dedicated to revitalizing the sources of American economic strength. The Institute is the first to examine the links among the economic policies, the technology trends, and the global security issues that will determine America's future. ESI seeks to stimulate debate on these areas of fundamental national concern. Working with industry, government, labor, and academia, the Institute challenges accepted doctrines and policies with a creative vision for the nation in an era when national security increasingly will be shaped by economic forces. ESI is committed to fostering a new American Spirit.

Tuesday - June 5

To Celebrate
the Opening of the
Economic Strategy Institute

The Board of Directors

requests the pleasure of your company

at cocktails and dinner

on Tuesday, the fifth of June

at six-thirty o'clock

Adirondacks

Union Station

Washington, District of Columbia

The favor of a reply is requested
(202) 728-0993

In the single decade of the 1980s we have tumbled from being a leader in per capita output

It will be the task of ESI to foster such an effort by challenging old approaches and by developing an integrated, multi-dimensional strategy to realize the full potential of America's rich material and human resources. The strategy must be based on four key elements: a macro-economic policy designed to raise U.S. investment to the levels of

The institute will develop and elaborate its views in publications, testimony before the congress and the executive branch, and in briefings and seminars for a broad range of labor, business, and academic leaders as well as concerned citizens. By thus bridging the world of ideas and the world of action, the institute hopes to act as the nerve center of a movement to make America as great in the twenty-first century as it has been in the twentieth.

conomic Strategy Institute has been created to develop a new American agenda for the twenty-first century, one in which national security and economic growth will be defined more in geo-economic and geo-political or military terms. By challenging outmoded doctrines and examining the relationship between domestic and international economics, technological progress, and global issues, ESI aims to develop an integrated strategy that will halt erosion of the U.S. economy and assure the future of America's unique leadership.

ESI is a non-profit organization open to corporations and individuals that support the development of such a strategy. All contributions are gratefully acknowledged.

James H. Houghton
Gerrit Irish
Richard Maffers
Roger Mulliken
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Koiso Yachimatsu
Kensuke Yanoita

ESI

ESI NEWS

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CLYDE V. PRESTOWITZ, JR.

Clyde V. Prestowitz, Jr. is founder and president of the Economic Strategy Institute (ESI), a private, non-profit research center dedicated to defining a new American agenda for an era in which the United States will face unprecedented economic challenges without the benefit of past superiority in industry, technology and finance. Prestowitz was formerly senior associate at the Carnegie Endowment and a fellow at the Woodrow Wilson International Center for Scholars, where he wrote his influential book on the U.S.-Japan economic conflict,

TRADING PLACES.

In a recent issue, Regardie's magazine called Prestowitz "one of the most influential people in private Washington." His views are often cited in congressional debates and he is a frequent contributor to major newspapers, magazines and journals.

From 1981 until 1986, Prestowitz was successively Deputy Assistant Secretary of Commerce, Acting Assistant Secretary and Counselor to the Secretary of Commerce. In the latter position, he was the principal policy advisor to the secretary on all aspects of economic relationships between the United States and Japan. The Washington Post, describing Prestowitz, says, "First as a businessman and then . . . as counselor on Japan affairs to the secretary of commerce, he has been in a position to acquire extraordinary firsthand knowledge of trade and trade negotiations between Japan and the United States."

Before joining the Commerce Department, Prestowitz had an extensive international business career. He worked with Scott Paper Company in Philadelphia and Europe; with Egon Zehnder in Europe and Japan; and directed marketing operations in Europe, Asia and Latin America for the American Can Company. He has also served as a Foreign Service Officer in Washington, D.C. and Holland, and as a reporter for the Honolulu Star-Bulletin.

Prestowitz received a B.A. degree with honors from Swarthmore College, an M.A. degree in East-West Policies and Economics from the East-West Center of the University of Hawaii and an M.B.A. degree from the Wharton Graduate School of Business. He also studied at Keio University in Tokyo. He is fluent in Japanese, Dutch, German and French.

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DINNER COMMITTEE

Morton Bahr
Communications Workers of America

Owen Bieber
International Union, United Auto Workers

Senator Robert Byrd

Richard Cyert
Carnegie Mellon University

Senator Robert J. Dole

George M.C. Fisher
Motorola, Incorporated

Congressman Richard Gephardt

Joseph T. Gorman
TRW, Incorporated

Gerald Greenwald
Chrysler Corporation

Merle Heinrichs
Kearny Foundation

J. Richard Iverson
American Electronics Association

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Richard Mallory
Pacific Basin Economic Council

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Milliken & Company

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Howard D. Samuel
AFL-CIO

Lynn Williams
United Steel Workers of America

Alan Wm. Wolff
Dewey, Ballantine, Bushby, Palmer & Wood

Attached is the information you requested on the Economic Strategy Institute of which I am president. I really appreciate your help in getting us launched. It would be really nice if you could persuade Senator Dole to send us a message. It doesn't have to be more than a paragraph. Better yet, if you could persuade him to stop by and have a drink with us, I would be even happier. Whatever you can do is most appreciated.
Best regards.

Clyde

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1300

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FACSIMILE COVER SHEET

Date 30 May 1990

TO: Shirley Burke / Sen. Dole's ofc

FROM: Clyde Prestowitz

FAX NUMBER: 224 - 3163

NUMBER OF PAGES (including cover): 5

NOTES: _____

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JUNE 5, 1990

TALKING POINTS

ECONOMIC STRATEGY INSTITUTE

O GOOD EVENING. I AM
PLEASED TO BE HERE
TO CONGRATULATE
CLYDE PRESTOWITZ
AND HIS STAFF ON THE
CREATION OF THE
ECONOMIC STRATEGY

INSTITUTE.

- SINCE THE PUBLICATION
OF HIS HARD—HITTING
BOOK, 'TRADING
PLACES', CLYDE HAS
BEEN TRYING TO WAKE
UP AMERICA TO THE
NEW CHALLENGE OF
ECONOMIC
COMPETITION.
- I KNOW FROM

PARTICIPATING IN THE
BUDGET SUMMIT
DISCUSSIONS, HOW
HARD IT CAN BE TO
CONVINCE PEOPLE,
EVEN GOVERNMENT
LEADERS, THAT THERE IS
A PROBLEM IN THE
FIRST PLACE, LET
ALONE A SOLUTION.

0 HIS MESSAGE IS EVEN

MORE CRITICAL NOW
THAT ECONOMIC
COMPETITION IS
REPLACING MILITARY
OR POLITICAL
CHALLENGES AS THE
MEASURE OF WORD
LEADERSHIP.

- CERTAINLY, NO ONE
COULD FAIL TO
WELCOME THE BIRTH

OF FREEDOM IN
EASTERN EUROPE AND
THE DISINTEGRATION OF
THE 'EVIL EMPIRE'.

HOWEVER, WE MUST
ALSO BE PREPARED TO
DEAL WITH THIS NEW
WORLD.

○ IF THE NEW
DEMOCRACY
MOVEMENTS PREVAIL —

— AND IT IS IN OUR
INTEREST TO HELP THEM
SUCCEED — WE WILL
HAVE ENORMOUS
OPPORTUNITIES, BOTH
POLITICAL AND
ECONOMIC. BUT WE
WILL ALSO NEED
SOUND POLICIES WHICH
RECOGNIZE OUR BEST
LONG—TERM INTERESTS

AT HOME AND
ABROAD.

- WE NEED TO SPUR THE
DEVELOPMENT OF
STRONG PRIVATE
SECTORS IN EACH NEW
DEMOCRACY. AND WE
NEED TO MAINTAIN THE
COMPETITIVENESS OF
OUR OWN ECONOMY
SO THAT WE CAN

PROVIDE THE 'JUMP
START' OF INVESTMENT
AND TECHNOLOGY
THEY SO DESPERATELY
NEED IN THE SHORT
TERM AND SO THAT
WE CAN ESTABLISH
LONG—TERM, MUTUALLY
BENEFICIAL, TRADE
PARTNERSHIPS.

- I DON'T UNDERESTIMATE
THE MAGNITUDE OF
THIS CHALLENGE.
- LAST YEAR, AT THE
SUGGESTION OF
SENATOR DANFORTH, I
CONVENED A TASK
FORCE OF REPUBLICAN
SENATORS TO ADDRESS
THOSE BARRIERS TO
COMPETITIVENESS THAT

ARE WITHIN THE
CONTROL OF THE
FEDERAL GOVERNMENT.

- LIKE YOU, WE WERE
NOT INTERESTED IN
ESTABLISHING A NEW
BUREAUCRACY CALLED
'INDUSTRIAL POLICY'.
HOWEVER, WE
RECOGNIZED THAT
AMERICA NEEDS

LEADERSHIP AND
COORDINATION IN ITS
TRADE AND ECONOMIC
POLICIES. OUR TASK
FORCE AIMED TO
ESTABLISH THOSE
PRIORITIES.

- WE HAVE
RECOMMENDED AND
INTRODUCED
LEGISLATION

PROVIDING TAX
INCENTIVES FOR
RESEARCH AND
EDUCATION, PRODUCT
LIABILITY REFORM,
ANTITRUST REFORM,
COORDINATION OF
STRATEGIC
TECHNOLOGIES, AND
THE PRESIDENT'S
CAPITAL GAINS

INCENTIVE.

- HOWEVER, IF THESE
AND OTHER INITIATIVES
ARE EVER TO BE
IMPLEMENTED, WE WILL
NEED THE IMPETUS OF
ORGANIZATIONS, SUCH
AS THE ECONOMIC
STRATEGY INSTITUTE, IN
POINTING OUT BOTH
THE PROBLEMS AND

THE SOLUTIONS.
O THANK YOU.