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PACE ROUNDTABLE

Free Trade or Protectionism — Is Free Enterprise Competition Possible in Today's International Economy?

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PACE ROUNDTABLE I

Free Trade or Protectionism -- Is Free Enterprise Competition Possible in Today's International Economy?

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Distinguished Professor,
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Keynote Speaker:

Mr. Fred DeTurk
Chairman of DeTurk, Rich and Company, Inc.
Former President of Phelps Dodge Industries

Panalists:

William Freund, Ph.D.
Chairperson and Professor of Economics and
International Business
Lubin Graduate School of Business and
Senior Vice President and Chief Economist
New York Stock Exchange

Donald Seibert
Retired Chairman and Chief Executive Officer
J. C. Penny Company

Leonard Silk, Ph.D.
Distinguished Visiting Professor of Economics
Lubin Graduate School of Business and
Economic Affairs Columnist of the
<u>New York Times</u>

Kenneth Thompson
Vice-Chairman of Sperry Corporation

INTRODUCTION

In a dynamic world economy, it is inevitable that some industries in the United States will experience international competition. In human terms, the loss of jobs and the subsequent impact on families, communities, and the economies of entire regions often leads to considerable political pressure for protectionism.

The justification for this can take many forms:

1) Foreign governments provide subsidies for commercial activities against free enterprise companies;

2) Low wages in foreign countries, sometimes called "slave wages," harm American workers;

3) International currencies are managed to give an advantage to foreign companies over American companies;

4) Some industries are considered crucial to the American economy and must not die, e.g., autos and steel;

5) National security requires that the American economy have the capacity to produce essential war-time materials;

The case against protectionism also has several justifications:

1) Consumers benefit most when they can purchase goods and services at the quality desired for the lowest possible price. International market dynamics force companies to maximize their competitive strengths and to minimize waste. Protectionism interferes with this valuable process and often only delays the inevitable decline of inefficient companies.

2) Industries seeking protection, e.g., autos and steel, sometimes pay the highest wages in the world and should not be subsidized by the average customer who often has a lower income.

3) Developing countries, especially those with large foreign debts, need access to the markets of the industrialized countries in order to thrive economically. This is also a matter of fundamental fairness in that the natural resources of the Third World are a major contributor to the high standard of living for American citizens.

Many agree with conceptual reasons on both sides of the protectionism/free trade debate. The benefits of free markets are important but economic security is also considered by many to be a vital factor -- particularly if one's job is linked to the auto, steel, textile, copper, or other threatened industries. If one agrees in part with both sides, the argument then turns on the proper role of government in performing two important functions:

1) How to protect private companies against unfair competitive practices or susbsidies from foreign governments;

2) How to provide the right kind and amount of assistance to key industries so that they will survive.

Exactly how these two functions should be performed is the subject of endless and complicated debate. To contribute to a better understanding of this and other important subjects, Pace University has initiated the Pace Roundtable, where distinguished individuals from business and the academic community analyze and debate current topics.

At the first Pace Roundtable, Mr. Fred DeTurk, recently President of Phelps Dodge Industries, served as the keynote speaker, presenting a strong case that the copper industry has been the victim of unfair competition from foreign governments.

The rationale in favor of free trade was eloquently put forth by other participants: Dr. William Freund, Senior Vice President and Chief Economist for the New York Stock Exchange, and author of "U.S. International Competitiveness: Perception and Reality" published in 1984; Mr. Donald Siebert, recently Chairman of the Board of Directors of J. C. Penney, who has been active in many efforts by the retail industry to have freer access to international textile products; and Dr. Leonard Silk, Economics Columnist for the New York Times. Another Roundtable panelist, Mr. Kenneth Thompson, contributed the perspective of a corporate executive who has been involved with several industries during his career at Sperry Corporation, culminating with the position of Vice-Chairman of the Board of Directors. The Roundtable discussion was ably moderated by Dr. Stephen Eyre, Distinguished Professor of Finance who holds the Citicorp Chair of Finance at Pace University.

The Roundtable discussion illustrated in great detail the many different facets of the protectionism/free trade debate. All participants agreed with Fred DeTurk that completely free trade is almost nonexistent in today's international economy. While there was some agreement with his argument that foreign governments and international financial institutions have distorted the free market process to the detriment of the American copper industry, there was disagreement as to what counter action could or should be taken by the U.S. government on behalf of the American copper industry.

Roundtable panelists argued that free international trade offers important economic benefits that transcend the individual circumstances of specific companies. But it was acknowledged that it is not easy for the government to stand by and do nothing in the face of economic and human suffering. Dr. Silk spoke of a continuum of no government intervention at one end, and complete government protection of private companies from the realities of competition at the other end, and recommended that we find some reasonable solutions somewhere in the middle of the continuum. Suggestions included giving direct subsidies to companies or workers rather than import quotas that distort world trade. Import quotas can also serve as de facto cartels which penalize consumers in the form of higher prices.

Another important aspect affecting government intervention is the political dimension. As discussed during the Rountable meeting, this is illustrated by the fact that the International Trade Commission (ITC), an independent, investigatory body of the U. S. government that analyzes the pros and cons of international trade disputes, recommended to President Ronald Reagan in mid-1984 that the American copper industry was entitled to protection against foreign competition. At approximately the same time, the ITC also recommended that quotas against foreign imports of steel not be established, and that steel industry relief should be in the form of a minimal increase in tariffs. President Reagan rejected the ITC recommendations in both cases. Relief was denied to the copper industry; while, at the same time, import quotas were to be negotiated for the steel industry. Some political analysts suggest that election-year considerations were crucial elements in leading President Reagan to reject both of the ITC recommendations.

Dr. Silk has indentified the important public policy issue -- what is the best middle way to deal with the economic and human effects of international trade? In seeking the appropriate middle path, several questions arise. What should be the rules of international trade? What government subsidies are fair and what government subsidies are unfair? What mechanisms should be used to resolve trade disputes? What aid should be given to displaced workers and injured communities?

Further study and thought are important in addressing international trade for it may be one of the most important sources of conflict during the remainder of the twentieth century -- conflict not only within the United States, but also among various nations. For example, protection for the steel industry not only causes disagreement within the United States, but it also leads to international conflict among the United States, Japan, European countries, and the Third World.

Developing nations, such as Brazil, Mexico, and South Korea are concerned that the industrialized world will divide up the world steel market among themselves and deny poorer countries the advantages of free trade. Hopefully, conflict over trade will serve as a departure point for constructive discussion among nations, leading to economic cooperation and future prosperity for people in all parts of the world.

The proceedings which follow are a reflection of the opinions of prominent individuals within the business and academic community which hopefully will stimulate further thought and study.

Larry Bridwell

Dr. Lawrence Bridwell
Assistant Chairperson and
Associate Professor of Management
Lubin Graduate School of Business
March 1985

ROUNDTABLE DISCUSSION

Stephen Eyre:

As we go forward with our proceedings today, we will be examining an exciting topic -- free trade or protectionism. Is free-enterprise competition possible in today's international economy? In the discussion that we were having in the anteroom before lunch somebody mentioned free trade and Fred said, "What is that?" So, this is really why we're here. What is free to one person might not be quite so free to somebody else. We are very fortunate to have such a distinguished group here today to examine this topic. I think everyone of the participants in some way, shape, or form has had a lot to do with international trade.

We are hopeful that at the end of this discussion we will have most of the issues on the table. We might have walked down the road a little bit toward thinking about the solutions of some of these issues. But, in any event, I know we will have a good discussion. Fred DeTurk is going to start off; he has some very interesting observations about the copper industry. As all of you know, Fred, for thirty years or more, was part of a very wonderful company known as Phelps Dodge and has had a lot of experience in this field. He will speak for ten to twelve minutes. Then we will ask our panelists to make a few comments -- five to ten minutes -- and then we will open the meeting to a general discussion.

Fred, would you start off and tell us why you think the copper industry is an industry that deserves perhaps a small amount of protection in an environment that we would generally call free trade.

Fred DeTurk:

Thank you, Steve. I do this with a little bit of trepidation because I know that Larry was looking for someone to support the position of protectionism. I was willing to take this position with the understanding that my support is selective and not all-encompassing.

I will begin this presentation with a few disclaimers. First, unlike many of you, I am not an economist. That is by no means an apology, nor is it contrary to some current thinking, a boast. It is a statement of fact meant to position me in the event that subsequent discussions or questions delve into some of the more arcane aspects of the "dismal science."

Second, I'm not a banker. This admission is made with considerable regret since I believe that bankers are the orchestrators of the business symphony. Perhaps, if I had trained or worked as one, the logic supporting some of their actions, particularly in the international field, would be clearer to me.

Third, I'm not a protectionist. I believe in free and fair trade right along with motherhood, America, and apple pie. However, in my opinion, very little that passes today as free trade is truly free, and fairness, if it was ever understood, is a forgotten concept in the field of international trade.

Hopefully, these positioning remarks will provide perspective for what follows: namely, selected observations and views on protectionism by a man who, having spent most of his working career in "smokestack" industry, now wears the mantel of a management consultant. I'd like to tell my clients that management consultants are not necessarily brighter or better informed than the people they advise. They are, however, unencumbered by operational responsibility or emotional involvement and thus are able to approach a problem with greater detachment and freedom from distraction: qualities which I trust will be reflected in my remarks.

Webster's Seventh Collegiate Dictionary contains a definition of free as follows: "Having no trade restrictions, not subject to government regulations; not subject to restriction or official control." Given this definition, it is quite clear that free trade and indeed free enterprise, do not exist in the real world; therefore, our debate should focus on those regulations, restrictions, and controls which are acceptable and those which are not acceptable. Acceptability implies judgment and, although this is not Philosophy 101, the reasoning and decisions of some judges in the free trade court are worthy of scrutiny. It would appear that positions are taken and decisions rendered not on the basis of right or fairness but rather on the basis of size and political clout. In order to explore this, let's take a look at an industry which has had some recent notoriety and with which I am reasonably familiar.

President Reagan last month saw fit to deny the domestic copper mining industry any relief against foreign imports, even though such relief had been recommended (for the second time) by the International Trade Commission. Further, he declined to take informal actions designed to pressure foreign miners into cutting back on production. What makes copper so different from steel, automobiles, textiles, etc.? Is it possible that its constituency is too small and that it is located in traditionally Republican areas?

Whether or not one takes this cynical position, there is no doubt that the U.S. copper mining industry is in trouble. So much so that even the rich and powerful oil companies that scrambled to buy into the game not so many years ago have lost or are losing interest in it. So much so that the copper mining industry is a candidate for the endangered species list, with extinction in the U.S. a real possibility. How did this happen to a once proud, profitable, and powerful industry?

We have all read how American steel companies have allowed their facilities to run down until they have become enlarged, rusted antiques, unable to compete with sleek, modern plants abroad. Has this happened in copper? Not according to a 1984 study made to assist the executive branch of the U.S. government in its evaluation of the economic conditions of the copper industry prepared by the highly respected CRU Consultants Inc. That report states, "The U.S. copper industry is the most efficient in the world in terms of ore mined and milled per manhour." Even the New York Times, a publication which has been notably antagonistic toward the copper industry's attempts to gain government support, stated in its August 20, 1984 editorial on the subject, "Protection is usually rationalized as a way of saving companies and jobs while an industry modernizes. But American copper mines are very modern."

Much has been said about substitution for copper by aluminum, plastics, and glass fibers. Perhaps this is the reason the U.S. industry is fairing so poorly. Well, despite some ups and downs in the demand for copper -- admittedly a cyclical commodity -- most forecasters, outside the producers themselves, still predict growth in the 1 to 2 percent per annum range. Certainly not high flier growth, but good enough, according to the CRU study, to require an investment in new mine capacity for about 250,000 metric tons per year to keep pace with usage and offset ore depletion in existing mines.

What about the U.S. copper industry's reputation as a high cost producer on a worldwide basis? Perhaps that's what is driving them out of the marketplace. George Munroe, Chairman of Phelps Dodge Corporation, is not an unbiased witness in this case. But, he is one of the most intellectually honest people I have ever met. He said in a August 20, 1984 letter to the editor of the New York Times: "We believe costs of production at most U.S. mines operating today rank in about the middle of the cost spectrum in the world's mines." The CRU report seems to support this position when it states, "The U.S. is not a low cost producer in the world's context. This does not, however, imply that it is inefficient, outdated, or in any way a worthy candidate for the industrial scrap heep. It would be a viable industry were it competing in a truly free market."

The point was made earlier that international trade is not free and nowhere is the clumsy hand of intervention so apparent as it is in the copper industry. This meddling comes primarily from three sources: 1) governments which are owners and operators of mines: 2) public multilateral financial institutions; and 3) U.S. government environmental agencies. Let's briefly look at all three and examine the impact on copper.

Until the mid to late 1960s, almost all of the Western World copper production was in the hands of private companies. In addition to producers in the United States and Canada, U.S. companies controlled production in Chile and Peru, while Zambian producers were under the direction of the Anglo-American corporation, AMEX. Belgium's Union Miniere owned the mines in Zaire. Together, they accounted for about 80 percent of the copper production in the free world. These companies were subject to the discipline of the balance sheet, and thus responded to periods of oversupply with production cutbacks and vice versa. Therefore, although copper is a commodity known for its price volatility, reasonable stability was important to the market.

About twenty years ago this situation started to change. Private control began to erode and finally government ownership of copper mines was imposed in Chile, Peru, Zambia, and Zaire. The result is that state-owned mines now control 40 to 50 percent of the Western World copper production, and our U.S. industry is in competition with sovereign governments. What has been the effect in the marketplace?

Government owners of copper mines are included in the list of LDCs. In each case, they depend on copper for most or a substantial portion of their exports. Additionally, the mines represent a major source of employment for their citizens. In an effort to obtain hard currency, while maintaining high employment levels, they have attempted to compensate for foreign prices -- the result of over supply -- by increasing exports. The result is continuing downward pressure on prices. Since copper sales are primarily dollar denominated, they have been able to compensate somewhat for these price deductions by devaluing the local currency, thus, reducing costs. For example, in 1982 two of Chile's four mines were incurring losses. Chile, in response to this situation, devalued the peso by almost 50 percent against the dollar and the two money losers were immediately returned to profitability. Over the last ten years, as a result of this aberrant behavior on the part of state-owned mines, copper prices in constant dollars have fallen to their lowest levels since the 1930s depression. In eight of the ten years prices have been depressed, while the two "good" years were below the average since World War II. How long can government owners and operators keep this up? Thanks in large measure to public, multilateral financial institutions such as the IMF and the World Bank, it would appear that the answer is indefinitely.

The IMF in 1982 and 1983 loaned an aggregate of $1.7 billion to the four principal countries in which copper production is under government control. This, during a period when copper prices were near their lowest levels in real terms in this century. Since the current rules governing use of the IMF Compensatory Financing Facility penalize a member when production is curtailed or stocks are withheld from the market, there is a disincentive for recipients to reduce output in periods of oversupply in order to stabilize prices. Domestic miners, therefore, have borne the full brunt of production cutbacks designed to restore supply and demand balance. The U.S. taxpayer provides about one out of every four dollars to the capital of the IMF and other international banks. We are, then, spending our dollars to maintain full employment in a Third World country when the direct and inevitable result is the furloughing of many thousands of American workers and the paralyzing of what is an essential industry for our country.

The IMF is not the only culprit in this affair. This year the World Bank's International Finance Corporation approved loans of $75 million and $7 million to Zambia and Zaire, respectively, for modernization of their copper facilities. At the same time, the Inter-American Development Bank extended a $268 million loan to the Chilean copper industry. Thus, competitors of U.S. copper mining companies are able to borrow money at favorable rates at a time when our domestic companies find it difficult to borrow at any cost. Furthermore, in February of this year the commercial banks extended $780 million in new loans to Chile, no doubt comforted by the fact that Chile's ability to repay is substantially assured through the facilities of IMF. An article in the November 14, 1983 issue of Fortune Magazine pointed out, "The IMF is the perpetrator of an international Ponzi scheme, whereby U.S. banks keep bad loans on their books at face value, lend more money so that their debtors can pay interest payments, rely on the IMF's injecting funds into debtors to assist the process, and paradoxically end up showing increased earnings despite the deteriorating quality of their loan portfolios. Indeed, the critics maintain that by encouraging the banks' belief in ultimate bailout the IMF inspired reckless loan policies in the first place."

The proper posture for multilateral financial institutions is an issue which has been receiving considerable attention lately. It deserves to receive more. In the meantime, as long as the rules encourage disregard for the law of supply and demand, the U.S. copper industry and, indeed, the American public will suffer. Short-term advantages to the user in terms of lower prices will eventually evaporate as domestic production dies, to be replaced by offshore government-controlled operations, not to mention the real possiblity of embargoes or, worse, disappearance of capacity behind the Iron Curtain.

So far, we have touched on the intervention of foreign governments and multilateral financial institutions. How about interference from Washington? Alas, it, too, is contributing to the copper industry's woes.

It is commonly agreed that environmental controls cost domestic copper miners between ten and fifteen cents per pound. When one considers that the selling price for copper is about fifty-six cents per pound on the New York Commodity Exchange, it is clear that these environmental costs are a significant percentage of the price. The copper industry does not argue against a clean environment. True, there are honest differences of opinion about how clean is clean and the proper method of achieving our national aims, but there is no disagreement about the objective. The point is that copper produced in Latin

America and Africa does not bear this cost burden. It is true that European and Japanese producers do carry environmental costs, but their copper is not competitive with U.S. copper. In Japan, local producers are protected by tariffs and other devices. This shelters the Japanese industry and subsidizes their smelters to allow competition in world markets.

Isn't it strange that automobiles without acceptable pollution controls are not allowed to be imported into this country; but, copper produced in ways that does spoil the world environment has no trouble gaining admission? Even more perplexing is the fact that smelters without environmental controls can be built within a few miles of our border, supported by U.S.-backed loans and intended to increase imports into this country. It seems totally hypocritical to subsidize an industry in a lesser-developed country for the sake of providing employment and lessening wants, only to have that industry contribute to a decline in the health of its own citizens, like polluting the air they breathe.

So what's the bottom line? Shall we let the free market function? Taking this position is to be on the side of the angels; however, the free-market solution assumes that the free market exists. It does <u>not</u> in the copper industry! Intervention by foreign governments, multilateral financial institutions, and domestic environmental agencies has provided a massive advantage for foreign, state-owned mines.

Even if you don't believe in the doctrine of fairness, allowing the U.S. copper industry to die in the interest of short-term financial gain and Band-Aid treatment for the wounds of certain LDCs will lead inevitably to higher prices and loss of control of a material vital to the security of the United States.

Stephen Eyre:

Don, you've been very active in the textile and retail industries for many years. Don has been with J. C. Penney for his whole career. He was Chairman and Chief Executive Officer and just retired from that position.

Donald Seibert:

While acknowledging some differences between the textile situation and the copper situation, I am glad that I was not in the copper industry. And now I know why. I don't think that I would be in a position at all to debate much of what has just been said because I would have to start out with, I believe, how you stand on the issue with regard to complete fairness in the free trade equation. You can't really have free trade without some kind of rules. I do think though that on the standpoint of making any kind of contribution you would have to stay within your own sphere of competency and, in my case, I think it relates primarily to those industries and suppliers that are important to a general merchandise group or industry. The retail industry is presently engaged in a series of discussions with the current administration on how the rules should be constructed or written. Our discussions include a law suit with the present administration. We find this uncomfortable, but apparently this is also part of today's process. I have some statistics here and other statements on the issue of jobs as it relates to our industry and to protectionism. The retail industry currently employs just under seventeen million workers or about 15 percent of the American workforce. It's a number that is important to us when we talk about saving jobs or creating jobs. The growth of employment in the United States from 1978 to 1983 was about 4 percent or .80 percent on an annualized basis. Total growth of employment in the retail sector during the five-year period was, say, 6.3 percent or 1.2 percent on an annualized basis, which is very rapid employment growth, faster than any other sector and the trend is continuing.

Yet, when we get involved in our debates on trade, we hear primarily about saving jobs through import restrictions and not of creating jobs in a dynamic competitive industry. Also, there is some evidence that jobs saved by protectionist measures have at least sponsored jobs that could have been created elsewhere. There is an estimated $23 billion worth of annual protection for textiles and apparel workers. The wages in that industry, within domestic apparel, still range between 25 to 40 percent of the national average manufacturing wage. We believe that exports of agricultural commodities and other manufacturers' (aircrafts, chemicals, semiconductors, for example) and services will clearly suffer if world trade shrinks. The Commerce Department's rule of thumb is that one of every eight workers manufacturers for export. We do not think the government should be trading these jobs for other jobs. (An interesting aside here -- I was having a conversation recently on this subject with one of my friends who runs one of our leading textile suppliers in this country and I asked where they were getting most of their equipment. He told me that they were responding to competitive pressures by introducing more sophisticated equipment in some of their facilities in order to drive costs down. I asked where the equipment was coming from. He answered that half or more of this equipment was coming from offshore. The answer to the obvious question of why was quality, availability, and price. The same kind of answer that we are given when selecting foreign suppliers.)

We are pleased that the Federal Reserve Board shows textile mills in the United States working at 88 percent capacity. Also, that the Bureau of Labor Statistics shows employment rising in this industry, a reverse in trend. We are pleased about that because our industry is the biggest customer of the U.S. textile and apparel industry. The imports give the textile industry better value and better choice, and that is fine. But that also is our argument: better value and better choice for everyone. We recognize the need for adjustment, assistance for business, workers, and communities. And we are prepared to join in supporting efforts to design a factor of contrary assistance and to help them make their adjustments to world competition.

A couple of other interesting figures; the Congressional Budget Office studied the current auto domestic content bill and noted that we could expect to see 104,000 American workers swept from jobs by price increases and retaliatory measures of other countries, even as 38,000 jobs are being saved by such a bill in the auto sector.

The proposed steel import quota bill now before Congress provides another example. Th Budget Office figures new steel quotas would take about $7.7 billion from consumers in 1989. Maintaining existing tariff and quota barriers on textile apparel and the additional proposal to restrict imports even more are double-edged. While the domestic textile and apparel manufacturers lost about 400,000 jobs from 1978 to 1983, the retail industry created almost a million. The tariffs and quotas cost consumers and inevitably cut into total retail sales that could have created even more jobs.

I suppose, in summary, before we adjust our rules, we would argue for looking at all sectors of the economy to conclude the net effect across the board, including the consumer. In our particular situation, we think there are enough restrictive rules and regulations on the books to pretty much maintain a fairly competitive market for textiles.

Stephen Eyre:

Thank you, Don. I think we'll turn to this side of the table now, and ask Bill Freund if he will give us his thoughts. Bill is a member of our faculty here at Pace. His principal assignment is to take care of the New York Stock Exchange and, with a few of the other people down there, push the right buttons so the market will continue to do something positive. It's a pleasure to have you here. We're looking forward to hearing what you have to say.

William Freund:

I, like Fred DeTurk, have a disclaimer, I am an economist. Perhaps you know the definition of an economist, it is someone who knows how to make love in twenty-three different ways, but doesn't know a girl! And, I don't know very much about the copper industry. But I really have not come to talk about copper, mainly because I don't want to show my ignorance.

I have, however, studied the basic competitiveness of U.S. manufacturing, which is perhaps more important, unless you're in the copper industry. More to the point, I think it is plainly wrong to prescribe national economic policies on the basis of the experience of any one industry. The study that I make reference to was published recently by the New York Stock Exchange. It is called, "U.S. International Competitiveness: Perception and Reality."

The question is frequently raised, increasingly so in recent months, as to whether the U.S. has lost its basic competitiveness in exports and imports. It's a natural human tendency to infer conclusions from the experience of the most vocal or sometimes the most visible industries. There is no doubt that we have had sick industries and problem industries. We cite them in this report. They include autos, steel, textiles, shoes, copper -- the list is rather well known. These are industries that have been losing seriously in their share of world trade. What we overlook is our strength in many other industries. For example, in computers we have more than 36 percent of the world export market; in aerospace, 31 percent; and in office equipment, 30 percent.

You might be surprised to know that in 1970 the U.S. accounted for 12.8 percent of all world manufacturing, in 1977 12.6 percent, and in 1982 it was 12.3 percent. There has been no particular trend up or down in our share of manufacturing trade worldwide.

There are many other boring statistics that I could cite, but I will control the impulse, except to say that twenty-two U.S. manufacturing industries held first or second place in world exports in 1972. Today it's twenty-three such industries.

What we often confuse in lamenting our declining international competitiveness is that what has happened in the last two years is not an indication of a basic inability to compete. What has happened, as I think you all know, is that the value of the U.S. dollar vis-a-vis other currencies has soared. All you have to do is travel to Europe to know that the dollar rises almost every day. That has nothing to do, in my opinion, with the basic competitiveness of American manufacturing. It has to do with a large Federal budget deficit which has caused unprecedentedly high real rates of interest and sucked in foreign investment and has caused the dollar to rise in value.

There's a fascinating report done recently by Morgan Guaranty Bank which says that in the last couple of years the U.S. trade deficit (which is now roughly $120 billion a year) has increased substantially because of the higher U.S. dollar value in international markets. About one-third of our deteriorating trade balance is due to that. Another one-third of our deteriorating trade balance, they say, is due to a faster economic growth here than abroad, which draws in imports and limits our exports to foreign countries. And the final third of our poorer trade balance is explained by the inability of the Latin American countries to buy about $20 billion of our exports because of their huge burden of debt. In part, too, our trade balance has been hurt by the fast and welcome growth of exports from newly industralized countries, affectionately called NICs by economists.

And so I think we ought to be very careful in prescribing protectionism to deal with what ails the American economy and I would argue that our trade deficit is not a good indication of what ails us or what ails American business. I had a letter a couple of days ago from a glass manufacturer. He said, "You know, I'm technologically as proficient as the Japanese; I can turn out glass bottles just as efficiently as they. But I can't compete because the value of the dollar has risen so sharply. There's nothing I could do technologically to offset that."

The remedy for our soaring dollar is not protection but to do something about high real interest rates and our misguided fiscal policies.

The dangers of protectionism have been known since David Ricardo and hardly need repetition here. The great risk that Mr. Seibert referred to is retaliation. If foreign markets retaliate, it will hurt other exporters, particularly our farmers who depend so heavily on foreign markets. Consumers will be asked to pay higher prices. When steel prices go up, our automobiles cost more and become less competitive in world markets. And so, I would like to end this brief statement by saying that, while in some cases there may be reason for protectionism, we ought to be very sure that it is imposed only as a last resort and, more importantly, that it is imposed on a temporary basis only. We must convince the rest of the world that these are our intentions.

Stephen Eyre:

Thank you very much, Bill. Ken Thompson, we're very happy to have you here today as an industrialist and a recently retired member in senior management of the Sperry Corporation, I look forward to hearing your comments.

Kenneth Thompson:

Thank you, Steve.

These guys have overwhelmed me. They come with prepared talks and they have all the material, facts, figures, and the information. Maybe I am a little bit like Henry VIII when he was talking to Ann Boleyn and said, "I won't keep you long." But, I will stay completely away from copper. I'm sure anything I try to utter in that direction would create a reply that I couldn't handle. I'll talk a little bit about Sperry, and Sperry's products, because I think they fit with this.

I fully agree with Fred's definition of free trade, there is no such thing that exists in the world today and there hasn't been for a long, long time. Fair trade is the area that, in my mind, means pulling governments out of the trade question to a far greater extent than has been done in the past. I think our competition often is between governments and government regulations, almost more than between the industries and the industries' products themselves.

I'll break Sperry products into three elements in so far as trade is concerned: The military market includes all of the equipment that's designed for military aircraft, in the world. The U.S. Navy, Air Force, Army, Marines, and Coast Guard are Sperry's primary prospects and customers, but Sperry also sells to many other nations of the free world. The Communist countries, particularly the Soviet Union and China, would very much like to receive a lot of the technology that's involved here.

The second element is computers. I'll separate these into two categories; first, the part that goes into military application (whatever they might be); and second, the one that is for business use, which is the largest bulk of computer sales.

The third element, farm equipment, comes under the Sperry New Holland Division.

All farm equipment manufacturers in this country are fortunate enough to be able to operate in a world where trade barriers, be they tariff barriers or nontariff barriers, just don't exist to any extent. Sometimes there's paperwork, sometimes there's a stall of getting components or products in, but it is rare that we see a protectionist situation in farm equipment.

Let me take the military by itself because it is sort of a new world in comparison to the one we have been talking about. When speaking of the military I use it in a very broad sense, i.e., both defensive and offensive weapons. The capabilities that exist within this country are desired by other countries of the world. Some of these countries are our friends today and may be our enemies tomorrow. Iran is a good case in point. And some are almost historic opponents. (I hate to use the word enemies, but that's about the category that it falls into.)

The government wants to improve the sale of any military product that could be utilized offensively or defensively. We don't disagree with that at all. The only thing that they have done is to place such an imposition on it that actually there are times when an American company, an American producer, is not able to compete with, say, a French producer, or an English producer, or even a West German producer. Their governments will permit them to sell equipment of a higher level of sophistication than the U.S. government will permit an American manufacturer, creating an unfair kind of balance. Perhaps this is an over generalization, but the thought is that if that level of sophistication is available anywhere in the free world then the American manufacturer ought to be able to sell it.

I'm sure there isn't any American manufacturer, and I hope there isn't, (I know it certainly isn't at Sperry) that would want to sell a recent technological product to any foreign government which would give that government an advantage over America or its allies. And yet, we're forbidden to sell certain products which can be bought quite readily in France or in these other countries that I've mentioned. There is a balance here that is being determined in Washington. And I'm not sure it is always determined on the best possible basis.

With regard to the second element, computers, a key country is Japan. They have won the image of quality, and they have been very successful at it. They wanted their national products to be shipped based on high technology. But when you're facing Japan, you're not just facing Mitsubishi, Mitsui, or Hitachi, you're facing Japan Incorporated. The Japanese government has functioned like a consortium with manufacturers, to help them develop products for sales throughout the world and to be competitive. This means that existing companies like ours would have to produce products within Japan, bringing technology into the country. And this has been done. Some of the products, however, require a volume that cannot be found in the Japanese market by itself. Therefore, one has to ship the product in from the United States or from a European plant. At the same time, one must ship products out of Japanese manufacturing facilities (where we are partners) in order to balance it out. But the Japanese government imposes a 15 percent tariff. We, in turn, impose a tariff of, I believe, 3 percent. We get this imbalance all the time, making it difficult to compete with non-Japanese produced products.

I refer to these three areas (military, computers, agriculture) because they are three different kinds of worlds. When we think back to the days when we were so proud of our positive balance of trade in America, we see the elements that were leading it then and still are, e.g., agricultural commodities. Secondly, in aircraft, Boeing has been the major force in that field. You can go into any airport in the world and look around and see Boeings lined up along with Lockheeds and Douglases. Now, however, you see a lot of Airbuses, not only in foreign airports, but also in airports here, flown by American carriers. Aerospatiale, as you must know, is the result of a consortium owned by the French, German, British, and, I think, Italian governments. Again, with their strategy being much like the Japanese, their number-one criteria is jobs. And our number-one criteria, dictated by this area that we are in called "Wall Street, America," is Earnings Per Share. These are almost diametrically opposed. Therefore, their products can come into our marketplace. And foreign government backing can take the form of research or financing of the product, or whatever.

Still, even with these advantages, and I may be idealistic (most probably I am), any nation has to be able to compete in the world on the ability to produce, to provide a better service for the same dollar. A total package, value package, if you will, must be provided to consumers, regardless of what language they speak or where they live. We have seen this country, as well as other countries, changing from what it was able to compete with years ago to what it has to compete with today, and what it will have to compete with in the years head, which many people say will put greater emphasis on services than on hardware. Again, going back to the computer industry, the hardware itself has been shrinking in size and cost and growing rapidly in capabilities. The services of software, computer maintenance, handling, and guidance are becoming far greater factors than the hardware itself.

Any manufacturer, regardless of nationality, has to move more effectively than the competition in order to stay alive. I'll stop at this point.

Stephen Eyre:

Thank you very much, Ken, for those very provocative thoughts. I will go back across the table here to another one of my colleagues on our faculty, Leonard Silk. I guess among other things that are written and talked about continuously today is bringing down budget deficits. We are all very grateful to you for mentioning this very real problem in your columns in the New York Times, where you are gainfully employed. We look forward to your comments.

Leonard Silk:

Thank you, Steve. I didn't know whether I was in the last spot because I was supposed to round up what everybody said or speak for myself. Well, that's fine. Incidentally, I am only talking for myself and not for the New York Times.

As I see it, the problem with this subject is that it has been going on for about three or four centuries, at least a century before Adam Smith, when America had a point of view corresponding to the tariffs. But since Adam Smith said he was not a protectionist, I will not confuse the case he was working with. Nevertheless, the fact that the subject is still around means that we can't kill it with one brilliant insight. I think the Smithian insight was brilliant and enduring, that is, competitiveness -- competition without government interference -- is the best policy. This is true domestically, and I think it's true internationally. I believe any sensible discussion in this area has to start from that premise. If one thought otherwise, then obviously we ought to be espousers of world cartels, of domestic systems that are planned and controlled, `a la communist systems or fascist systems. I think it's not a matter of ideology but a matter of demonstrated performance that a controlled system works better than an open system. Let's call it an essentially "free system."

If one wants to make a point that no system is free and trade is not free, of course, that is true. Indeed, one of the premises of economics which people like to start with is that "there ain't no free lunch." Anybody looking at human society knows that there is no such thing as ultimate and total freedom. That is an essential and open system rather than a closed. The policy question really is one of finding flaws in any system that is an essential and open system rather than a closed and controlled system. Thomas Carlyle coined the phrase, "open system" when referring to the physical sciences. I think it is referred to as the cheerful science because, when everybody is being dismal, from copper producers to makers of candles (as in a famous parable), disaster is going to follow unless you do something to help that industry -- to shut out the sun in the case of the candle makers, or to shut out growing imports in the case of the copper industry. Usually reasons enough can be found; if one won't do, another will suffice. If it isn't unfairness, it will be national security, and if it isn't national security, it will then be hunger, starvation, umemployment, the sinking of an industry, or the loss of jobs.

Economists, with very few exceptions, (conservative, liberal, or whatever) have usually responded, still respond, in disagreement. We think that we will have more growth, a more competitive situation, greater efficiency, and ultimately, more employment and more well-being, if we do not protect. Is that just a generalization that comes out of simple theorems, Smithian, Ricardian, or whatever? Again, I don't think so. I would commend to you a study that was done by Ann Kruger who is an economist. I was going to introduce her as the Senior Vice President for Economics in the World Bank, but since that makes a bad name in some quarters, I must tell you that Ann Kruger before that was Professor of Economics at the University of Minnesota and a member of the Advisory Board at the Agency for Economic Development. What her study demonstrates is that the countries that have been most open with trade policies are the ones which have grown the most. And this includes the Four Tigers, on the rim of Asia; it also includes this country.

We do not come into court with clean hands: this myth that somehow America is much better than others gets tremendously exaggerated. But, nevertheless, I think that, compared to those countries who are really protectionist, we have done well. Those countries like the African states or other developing countries, or European countries that are more protectionist, have not done so well.

Well, now, the sensible thing for me to do having started this way would be not to talk in specifics at all. One of my favorite cartoons ran in The New Yorker. It was a minister up in his pulpit after service, the church was empty, and standing next to him was a deacon with a collection plate and there was a quarter in it and a dime, and something that might have been a penny. The minister said to the deacon, "Well, back to the good old generalities, I guess."

But, I am going to talk a little bit more specifically about copper, not from any deep wisdom but from a little bit of reading and a little bit of conversation. I listened very carefully to the defense of the industry; however, on the cost issue, I was not overly impressed. You said, I believe, Mr. DeTurk, that it's not the worst cost producer; it's somewhere in the middle. I don't know what the horror examples are, but somewhere around the middle does not overwhelm me as the place to be, especially in a world where there is such heavy pressure on price. And this is true almost across the board. It's true with steel and it's true with prices for oil, because we've had a very soft time in the world. We've had a slump that really lasted from about 1979 until sometime in 1983 for most countries. In the U.S., we began to come out of the recession in 1983. But there are also undoubtedly some hangover effects from the preceeding period of inflation and boom during the Vietnam War and immediately after the war, leading up to about the seventies when the oil prices exploded. Some of the problems for certain industries touch upon prices that are cyclical.

Bill Freund did quote the Congressional figure on the price of American copper versus the price for the cost production price of Chilean copper. I don't have any other data to throw into that. My understanding is that the basic reason that our price is so much higher is that our mines have been worked down for so long that we're a high-cost producer of ore. We have got to dig deeper and do more work to get copper out of the earth. And if that isn't true, I'd like to know about it. It does seem to me that if we have good equipment, if we have able workers, (and this is not a very labor-intensive industry with modern mining equipment) then it must be the extravagant cost to dig deeper that puts up the price. Again, if this isn't so, I'd like to hear about it.

The costs of protection are enormous. If you're going to help an industry, I think the costs are awful for two reasons, the first is obvious, the second not so much so. The obvious reason is that the consumers pay for it in the form of higher prices. For instance, it's been estimated that we've been paying about $3,000 extra a car. That is a sort of static dead weight cost of protecting the automobile industry. "Well," you may say, "what the hell, let's do it." But multiply that $3,000 times the number of cars in the domestic market and it adds up to many billions of dollars.

I think the less obvious question is: What about the dynamics of this? Is it really going to make any industry better and more efficient to protect it against competition, or is it going to make it less so? Do we rescue anything? And this also has another aspect: It isn't only the competitive pressure that's on that specific industry, it's the pressures to get the resources employed in that industry into more efficient uses, to have those people and that capital move to where they can compete and where they are effective. That flexible response not only has to do with the well-being of a country but, not to be vague or preachy about it, to the welfare of a specific people: to the owners of capital, to the people that want a good return on their money, and to the workers who ought to be in the fields where they can make a decent living, not being protected in substandard industries (I'm not talking about copper, textiles, or whatever) -- just to save jobs and to obviate the necessity of their movement.

I think it's very difficult to charge economists for not paying attention to the welfare of copper. In general, we are supposed to think about the welfare of the country or, indeed, the welfare of the world. And to take a very hostile, aggressive attitude toward another country, Third World or whatever, could be a very dangerous thing. This country has prospered and grown with the expansion of the world market. When we get into cyclical trouble we begin to complain. But, in general, if you examine the post-war period, it's been a period of great expansion for all the different kinds of industries we have, with the exception of those that are in trouble for some particular reason. I think consumers benefit, I think the nation benefits, I think even our industry, looking at it in general not specifically, benefits. I rest my case. Thank you very much.

Stephen Eyre:

We're very fortunate and happy to have two other outside guests here today, Jim Henessey, who is Executive Vice President of Marketing for NYNEX and David Sanchez of Morgan Guaranty Trust. Jim, I'm sure you're responsible for those radio ads I hear about, the fellow in the corn field talking to the home office, over his new NYNEX phone. We're very happy to have both of you here. The others are all employed by the good doctors here. Fred, I think Leonard has put some questions on the table about some of the things that you said, would you care to have a chance to rebut some of those points?

Fred DeTurk:

I'd be pleased to! I think we should start with the question of cost and that middle position that Mr. Silk finds unimpressive. First of all, when we talked about Chile and its production cost at 40 cents per pound, we were talking about certain mines of Chile and not the Chilean copper mining industry per se. I assure you there are high-cost mines in Chile as well, some of them being in the highest cost U.S. range. The mines of Zambia and Zaire are primarily high cost also. Now, Chile's 40 cents per pound cost in today's environment: I think I addressed that a little bit in my remarks. Those costs come about, at least in part, through the mechanism of devaluation of currencies against the dollar. And, although I mentioned in my talk that Chile had devalued its currency by about 50 percent to make two unprofitable mines profitable, the fact is that over the last couple of years they devalued their currency against the dollar by 120 percent. Despite this, there are indeed some mines in Chile with a lower cost than the mines in the U.S.

Now, what does the middle position mean? The middle position means that 50 percent of the mines are lower cost and 50 percent higher cost. The lower 50 percent cannot, in fact, supply the needs to the free world. You are going to need, even under today's conditions, 70 to 80 percent of the available capacity to supply that need. Most of the U.S. industry should survive profitably given this situation. If in fact the U.S. copper industry were competing against privately owned mines abroad, we would be able to compete on a price basis. I tried to address in my talk the fact that those sovereign government owners of copper mines are getting their money at low cost. They're getting their money under circumstances whereby U.S. miners cannot compete on equal terms.

Now, what do I advocate? First of all, I, too, believe in free enterprise and in the laws of supply and demand. They should be allowed to function without artificial supports and interferences mentioned in my talk. I would suggest that the market price should seek levels, whatever they may be, determined by those laws. If U.S. mines are too high cost to compete under that circumstance, so be it.

We do focus on Chile because Chile has specifically taken the position that they are out to drive the higher cost mines out of business and they focus on U.S. mines. The fact of the matter is that if they are going to drive the higher cost mines out of business, they should attack the mines in Zaire and Zambia also, because they are high cost mines. But we don't allow that to happen because these nations get support from the IMF and the other multilateral banks.

It occurs to me that if we were to change the rules of the IMF and suggest that the capacity removed from production at a time of oversupply should be paid for through the IMF or other banks, we would have the position of supply and demand coming into balance again. I know from the reaction of this group and others that I am a voice in the wilderness in this regard.

I think the copper industry is unique and special. I think the aid given to the steel industry is inappropriate and aid given to the textile industry would be inappropriate and I think aid given to the automotive industry is inappropriate; quite frankly, because they're not under the same situation as copper. You see, 50 percent of the world mining capacity is in the hands of the four countries I mentioned: Zambia, Zaire, Chile, and Peru. These countries own the mines. It doesn't matter that IMF money goes to the country and not directly to the mines. Money is tangible and once these countries receive it, it goes to support the mines because these mines are, in fact, their major source of exports and employment -- in Zambia and Zaire, close to 100 percent; in Chile, probably on the order of 60 to 70 percent range; in Peru, not quite so much.

When you boil it down, if you took the U.S mines out of the game, someone, somewhere is going to come along with enough new capacity to meet about 30 percent of the demand in the free world. That capacity is not available in the remaining mines. Someone would have to build new mines at today's prices and somebody is going to have to support the cost of that construction. I submit to you that the temporary advantage in terms of today's low cost for copper will quickly evaporate and we will find ourselves paying enormously higher costs in the future because of supply/demand imbalance. We, in fact, run the risk of having an OPEC-type situation in copper which could have the effect of tremendously increasing the cost of living. I've used too much time already, so I'll step back and listen.

Leonard Silk:

I would like to respond briefly and I hope helpfully because, God knows, that if these roundtables are worth anything, they should not be adversarial, but a thinking together. And so, in the spirit of real friendship, I would like to say that I think you are batting on a very sticky wicket. Again, you impaled yourself by making the IMF your main target. The IMF doesn't make project loans; it is not specifically trying to put you guys out of business. What it is trying to do is to help some countries with very serious debt and payment trouble stay afloat. Basically, the IMF tends to support balanced payments.

Perhaps if there had been more government lending for balance of payment reasons, some of our commercial banks, which shall here be nameless, would be in a lot less trouble now.

I think that, given everything else I know, at least about the world, the case to abolish the IMF because it hurts copper is not a very good case. That's not what it's supposed to do, it's not what it's about.

If you do it on a selective basis, you might prevent IMF loans to a country which is in a field of production that is competitive with some American producers. If the World Bank is subsidizing an industry that is uncompetitive elsewhere, that should stop. I agree with that. But my own understanding is that the World Bank is not supposed to lend on that basis, that it is supposed to ascertain whether an industry is indeed competitive, whether it can earn back marginal cost of production at a proper rate before it makes project loans. Now, if that is not the case, (in Peru, Zambia, Zaire, or Chile, for that matter) then the IMF should be criticized and attacked for not enforcing its own rules. But I don't know if that has begun. I don't know if that has been established. I think I'll stop at this point.

Bill Freund:

Well, I would still like to know what the costs are of copper production in the United States compared with low-cost producers. I still haven't heard the numbers.

As far as the International Monetary Fund is concerned, I hold with Len that there's another factor. I think I heard that it's okay to lend the money, but make sure they phase out their copper production. In other words, you want to subsidize those countries who are doing nothing and having their people unemployed rather than digging copper mines. Obviously, that is, not what I would suggest. In that case, I didn't understand what you were proposing with respect to the IMF.

The only other comment I would make is on the devaluation of currency. Did you say Chile has made itself competitive by devaluing its currency? Well, the fact is that in the last three years, the U.S. dollar has appreciated, vis-a-vis the French franc, the German mark, and the Japanese yen, and the Italian lira -- in very large amounts. If you go down that road, I submit to you every American manufacturer engaged in export can make exactly that same claim based upon the appreciation of the dollar. I have here the relevant numbers. The U.S. dollar has risen 50 percent across the board since July 1980. And even though our unit labor cost in manufacturing has not risen any faster in dollars than it did in Germany, France, and the United Kingdom, in terms of their local currency, when you adjust for the change in the exchange rate, you'll find that we had enormous cost increases. Without going into a great many confusing statistics (I'm afraid I've confused you already), the point is: If you want protection based on the soaring dollar, there is no beginning and no end to the industries that will claim the need for protection. A hundred and twenty billion dollar trade deficit attests to that problem.

Finally, I'd like to say that if we decide that we want to help an industry for whatever reasons, let's do it not by means of quotas for which the consumer pays indirectly such as the $3,000 per car that Len mentioned (which by the way hurts our other export industries that use the steel or the copper). Let's do it squarely. Let's say that we are going to subsidize our companies by x billion dollars a year and put that into the federal budget.

Leonard Silk:

I want to say that I think we have not given enough thought to how to help industries that we want to help in a more efficient way. Now, I'm not going to make a protectionist case at all, I hope, but an adjustment case, or a national interest case. It seems to me that the most efficient way, that is, the least costly and the most beneficial way, is to help industries adapt themselves to meet foreign competition. That means that workers may have to be retrained, they may have to be relocated. We have to adjust our labor force. Where industries are concerned, there are lots of ways that they can be helped during a period in which they turn themselves either into a slimmed-down industry or an industry moving in other directions. Now, that obviously would take us into the specific areas of tax policy or subsidiaries. It might also involve our getting into that very difficult area of industrial policy on where people should be.

It does seem to me that if we are determined to help particular industries, we should not work either at one end, which is protectionist (very high cost, inefficient, no dynamics) or necessarily at the other end, which is just to do absolutely nothing and see what happens. Rather, we should do what may lie in the middle. In philosophy there is a fallacy called "the fallacy of the missing middle" in which people either say "yes" or "no" in the extremes and nobody looks at what there is in the center. Well, it seems to me that many industries that have insisted on the most costly, least efficient solution should now be persuaded to turn their attention to the missing middle, and fashion things that may be temporarily useful, temporarily helpful, but not forever highly costly and highly inefficient.

Stephen Eyre:

I would like to ask our guests around the table if there are questions that come to mind. I am sure there are. This is such an interesting topic. I wish we had all day to continue it, unfortunately, we don't. The first question is from James Henessey, Executive Vice President of Marketing, NYNEX Corporation.

James Henessey:

I was curious as to what reasons the President offered when he turned down the chance to move in this way, toward protectionism.

Fred DeTurk:

Well, what he said was that if he imposed protection for the copper industry, he would endanger more jobs with this decision. What he meant was that the copper constituencies are in Arizona, Utah, Wyoming, New Mexico, and that, in fact, as I said earlier, there's no political clout coming out of those states, and they're Republican anyway. It didn't much matter politically what he did in terms of copper protection. On the other hand, he did decide to jawbone for steel because there's enormous political clout in that industry. I'm sure I'm overly cynical about it. It's very difficult to think otherwise with the background that I've got.

I should respond directly to one of Bill's questions, however, which relates to the production cost of copper in the United States. To be perfectly honest, you can't assign a general cost to the United States anymore than you can assign one to Chile. You can assign costs to a mine. There are high cost mines in the United States. For example, at the mine that Phelps Dodge has in Ajo, Arizona, they have installed a process within the last year called electrowinning. The electrowinning process allows that corporation to produce copper at that mine at a cost of about twenty cents a pound. Now, there are other mines that Phelps Dodge has, and certainly those that others have in the United States where costs might go up as high as a dollar a pound. You can say the same thing of Chilean mines. There are some very large mines in Chile. These are the mines that are really referred to in the statistics cited about cost. They are very efficient, and they will stay in the game under any kind of circumstances. It doesn't matter whether you protect U.S. copper or not, they'll still be very low cost mines. Some of the mines in Zambia and Zaire have costs of about a dollar twenty-five a pound. And in regard to the project that I mentioned earlier, with about seventy million dollars lent to the Zambians by the World Bank specifically for mine modernization, by any estimate that I've seen, the cost for those mines is well in excess of a dollar a pound. That money should not have been lent.

As I said to someone standing outside, I really am not a protectionist, but I am a man who believes in the British school of education which maintains that one ought to be able to take either side of a debate and pursue it; however, I do have some strong feelings about copper. Incidentally, I don't mean to single out the IMF alone among the financial institutions. I think some of the IMF rules for lending are inappropriate because I believe they exacerbate a situation that needn't be exacerbated if some changes are made.

Stephen Eyre:

Our second question is from David Sanchez, Financial Analyst with Morgan Guaranty Trust Company.

David Sanchez:

One concern I've had on my dealings with multilateral entities is that people who haven't worked in the public sector sometimes don't understand the process by which their investments are evaluated. Unfortunately, I found that a lot of times the estimation of the costs and benefit of a complex project in Zaire or Chile really can't be done on an objective basis. Complicating the scenario is the philosophy of some of the people in these organizations. An all too prevalent attitude is that there are certain investments that must be made regardless of their economic viability. You have, also, careers that are dependent on increasing the absolute levels of investments in their region.

I think one of the things that is encouraging, (and it's not going to help the recovery in certain U.S. industries in the short term) is the fact that the people who have planned a lot of these public-sector investments in developing countries are now beginning to get evidence that many of these "politically-driven" investments are not only economic failures but have incurred significant societal costs in the host countries. Another important point is that specialists have improved their ability to better quantify some of these costs and benefits. And this will be good for private enterprise in that the results of these more sophisticated studies will reinforce the efficiency of the private sector.

Stephen Eyre:

Well, I wish we had more time, but unfortunately, we don't. I would like to thank you all so very much, particularly Fred for his comments and the forthright approach with which he delivered them, and for the forthrightness of the other panelists: Don, Bill, and Leonard. Futhermore, I would like to thank Ed Mortola for the format for discussing this problem. It is a very interesting one. I think our first Pace Roundtable was a success. On behalf of all my colleagues at Pace, I want to thank all of our guests for being here today and for participating in such an interesting exercise.

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