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OA/ID Number: 13773
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MEMORANDUM

TO: WHITE HOUSE SPEECH WRITING STAFF:
TONY SNOW
JOE DUGGAN
BOB SIMON

FROM: MARY DI LANDRO
DIRECTOR OF COMMUNICATIONS
THE BEACON COUNCIL

Jeb - current chm. last day
Burton
Landy - new chm.

DATE: SEPT. 9, 1991

RE: BACKGROUND INFORMATION FOR PRESIDENT'S SPEECH AT THE BEACON COUNCIL ANNUAL MEETING ON SEPT. 30

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Following is information -- including history and new leadership -- on The Beacon Council, Miami/Dade County, Florida's economic development organization.

I have attempted to address some of The White House's questions while encapsulating the particular challenges this community faces and the points we would like President Bush to cover when he speaks to our community and constituents. The President's endorsement of our new economic development plan of action -- and "TEAM MIAMI," the vehicle that The Beacon Council will use to execute these programs -- would surely help us hit the ground running. TEAM MIAMI is a similar to President Bush's "Enterprise of the Americas" in that it's based on the concept of public-private partnership and cooperation to get things done. (I have explained TEAM MIAMI in greater detail in the outline following.)

Regarding the issue of the impact free trade with Cuba would have on Miami, I have attached an article from Sunday's Miami Herald.

Please call me directly at (305) 536-8032 if you have any questions or need additional information.

lighthouse on Key Biscayne

½ Hispanic

2000 open to public

councilds general local govt mayors of Dade

businessmen

THE BEACON COUNCIL

The Beacon Council, Dade County, Florida's economic development organization, was formed by regional leaders in November 1985 as a public-private partnership. The mission of the Beacon Council is to guide and facilitate Dade County's economic growth.

A private not-for-profit partnership of Metro-Dade county government and the region's business community, the Beacon Council has an annual operating budget of $3.5 million for the fiscal year of October 1990 to October 1991. The organization employs 33 staff members.

PAST ACCOMPLISHMENTS

By promoting its business assets, The Beacon Council has worked with other community groups and leaders to bring out-of town investment -- both national and international --to Miami/Dade County. As a results of The Council's business development efforts, such companies as Palex Corporation, a Barcelona-based manufacturer of medical instruments; Recchi Spa, an Italian construction firm; Atlanta-based Arby's; and Kodak brought new operations to Miami.

The Beacon Council has also worked with local companies in retention and expansion activities. Greenwich Air Services, Associated Grocers and Airbus Service Center's training facility are a few of the local companies whose operations have been retained and/or expanded in Dade County.

On a daily basis, The Beacon Council's research department assists both local and out-of-town businesses

retrieve information, such as market analyses, site information, labor force and demographics information and other data.

RECENT DEVELOPMENTS

In July 1991, John C. Anderson became the Beacon Council's president and chief executive officer. Mr. Anderson, an economic development professional with 20 years' experience, has held a number of senior economic development and international trade posts.

In the public sector, Mr. Anderson has served as director of the Texas Department of Commerce; director of the State of Washington Department of Trade and Economic Development; and director of the State of Oregon Economic Development Department.

In the private sector, Mr. Anderson has held a number of management posts for a several business interests, including the Boeing Company of Seattle, Washington.

VISION:

The Beacon Council's fiscal 1991-92 programs have been developed to realize the following vision:

> By the end of the 20th century, Miami and Dade County, Florida, will evolve into a major world city and region with a trade-based, international economy linking the Americas with Europe and Asia. Our community will be a center for culture, education and recreation, offering an enviable quality of life to residents and visitors.

MISSION STATEMENT

The Beacon Council shall assist Miami and Dade County in achieving this vision by providing process, programs and leadership to facilitate the region's economic development.

PLAN OF ACTION

Phase I

In the first of its two-part business plan for fiscal 1991-92, the Beacon Council has identified eight business sectors in Dade County with the greatest prospects for growth. These sectors are industries or interests that have strong roots in Dade County; the county has the existing infrastructure to support these sectors, which include:

1. Headquarters Miami
2. Entrepot Miami (International Trade)
3. Health Technologies
4. Apparel Industry
5. Transportation-Related Industries
6. Marine & Related Industries
7. Leisure & Recreation Facilities
8. Film, Television & Recording Industries

Dedicated programs for the first four -- Headquarter Miami, Entrepot Miami, Apparel Industries and Health Technologies -- of these eight sectors will be launched as Target Development I Programs during fiscal 1991-92 (Oct. 1, 1991-Sept.30, 1992).

The last four -- Transportation-Related Industries,

Marine & Related Industries, Leisure & Recreational Facilities and Film, Television and Recording -- will be implemented as Target Development II programs during the following fiscal year.

Phase II

In the second part of its plan -- Business Assistance -- The Beacon Council will work toward the retention and expansion of existing businesses in Dade County. For fiscal 1991-92, the staff has developed specific, proactive programs that will identify and address the needs of local businesses in the region.

As part of the Business Assistance, The Council will also address general investors with interests not addressed by the Target Development I phase of its action plan.

Business Assistance is a particularly important phase of the overall action plan, given the slow-down of the U.S. economy and increased global competition.

MIAMI/DADE COUNTY'S CHALLENGES & OPPORTUNITIES

Implementing The Beacon Council's new plan of action -- a program that for Dade County entails an entirely new approach to countywide economic development -- faces particular challenges because of the unique community we represent. On the flip side, this community also affords some tremendous opportunities.

Following are the challenges/opportunities that make Miami/Dade County unlike any other in the U.S.:

* Miami is a young city that has not yet established the traditions and institutions typical of other major U.S. cities

* many of Miami's leaders are from out-of-town and have been here a relatively short time

* culturally, Miami is fractured; we have a cultural constituency unlike that of many other cities in the U.S.; our strong Latin community, which accounts for 49% percent of our total population, is now the majority -- consists of Cubans, South and Central Americans and immigrants from countries in the Caribbean Basin; our black community consists of Afro-Americans, Haitians, Jamaicans, etc.; a large number of constituents in our Anglo community are Jewish

* like many other cities, Miami has a crime problem and an educational system that need to be improved to address the demands of residents

* Southeast Florida's unemployment -- at 9.3% --is the highest its been in eight years and is currently higher than the national unemployment average of 6.8%; in Miami,

* major employers like Florida Power and Light Co. and Ryder have had substantial layoffs; Eastern Airlines, one of the largest employers in the county, closed its operations several months ago; there are 50,000 more people unemployed in Dade County since January 1991.

* tourism, one of Dade County's largest industries, has declined, due in large part to reduced consumer spending and repercussions of the Gulf War

* Miami boasts the second-largest international airport in the nation in terms of both passengers and cargo

* Miami's seaport is the cruise capital of the world and one of the largest cargo ports in the Southeast U.S.

* in the last five years, Miami has become the seat of major-league sports interests, including the Miami Heat, home of the Lipton International Tennis Tournament and, most recently, a National League baseball franchise, the Florida Marlins

* in the past five years, major performing arts interests, including the Miami City Ballet and the New World Symphony national training orchestra, have come to our area and there has been a push for a performing arts center for Dade County

TEAM MIAMI

This community has problems -- but it also has incredible opportunities. The Beacon Council has created a vehicle we hope will unite our splintered, young community. This vehicle will doubtless help Dade County harness its assets and talents to address problems and seize new economic opportunities.

This mechanism is TEAM MIAMI. It's a mechanism that operates on the spirit of cooperation among the groups -- both public and private -- whose expertise, functions and resources are needed to get the job done. TEAM MIAMI is partnership -- one that changes to suit the nature of a community problem or opportunity.

For instance, to attract the sponsors of an annual comedy festival to select Dade County as that festival's "home," TEAM MIAMI could be the City of Coral Gables, the Greater Miami Convention & Visitors Bureau, Metro-Dade Aviation Department, the Greater Miami Chamber of Commerce, SunBank and Florida Power and Light Co.

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Florida Gov. Haydon Burns announced that the state would purchase the property belonging to Alemán's widow. The 510 acres were the first parcel of land that would eventually become the 900-acre Bill Baggs State Park.

In 1971 the lighthouse was listed on the National Register of Historic Places. The light was relit in 1978 after 100 years of darkness and today sends a flashing white beam (6 seconds on, 6 seconds off) seven miles across the sea.

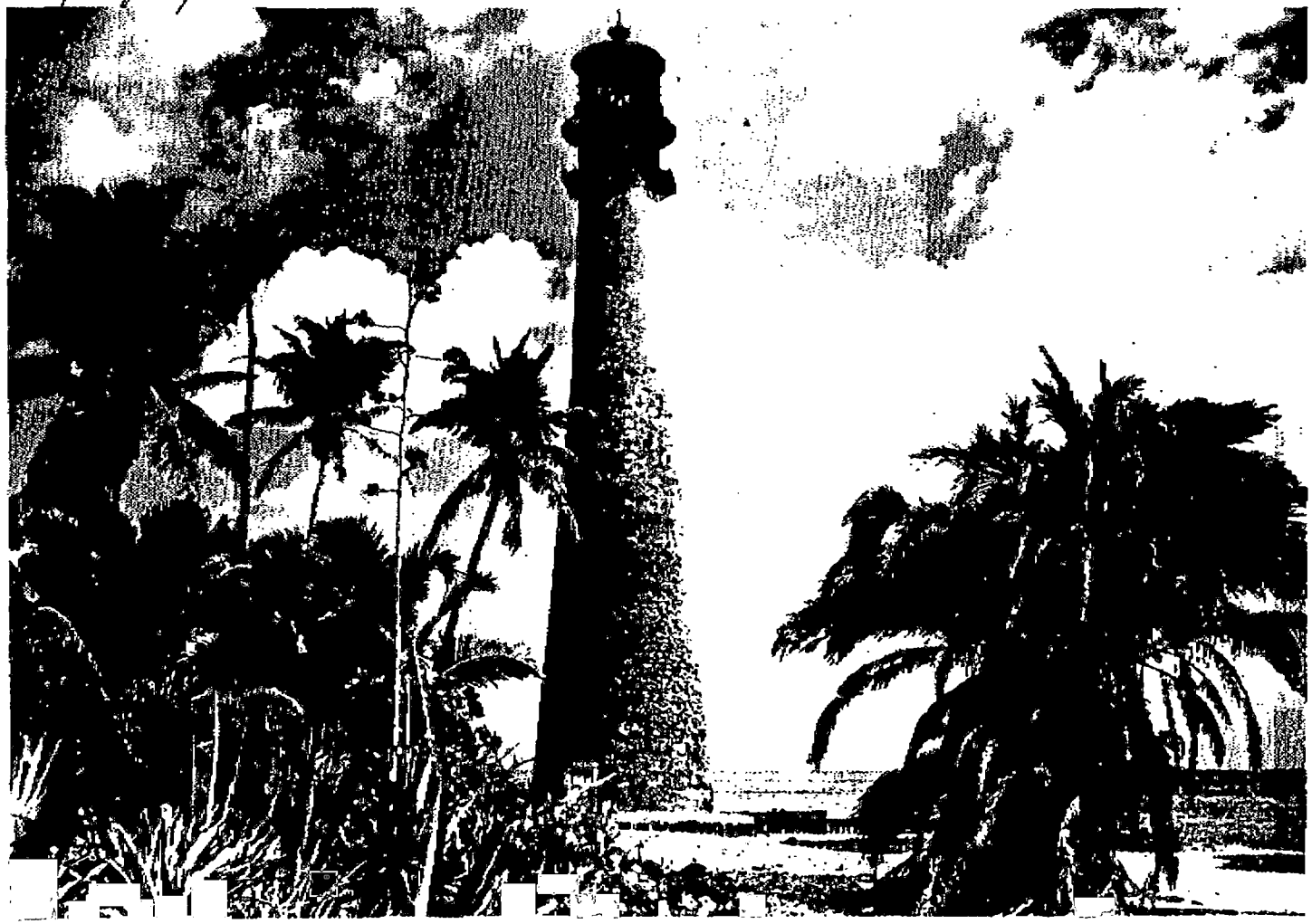
The light has been turned off due Today to deterioration/safety factors.

TODAY, the Cape Florida lighthouse is endangered. Each year nearly one million persons visit the Cape Florida park and historic site, yet money to repair and restore the lighthouse falls far short of what is needed to sustain its existence. The preservation of historic landmarks, like the Cape Florida lighthouse, is not insured by federal or state conservation measures.

The physical condition of the Cape Florida lighthouse is rapidly weakening. The exterior brick surface of the lighthouse tower is severely deteriorated with large areas of brick missing from the surface. Years of neglect, vandalism and the salt water environment have eroded the surface and caused a 50 percent loss of the exterior bricks. The long narrow windows seen from a southeasterly approach are sadly dilapidated and in disrepair.

The lighthouse interior is no longer open to the public. The winding interior stair, once climbed by visitors and lighthouse keepers alike, is decayed and in danger of collapsing. The watchroom's steel components are corroded and show the ravages of time. Numerous glass window panes are missing from the lantern and the steel enclosure in the lens room has deteriorated.

The architectural and engineering work involved in restoring the lighthouse is estimated to cost approximately $750,000, according to a feasibility study conducted through the Florida Department of State and the Department of Natural Resources. The work will consist of carefully stabilizing and preserving the lighthouse.





GEORG GERSTER, FROM PHOTO RESEARCHERS

Downtown Miami (*foreground*), with Port of Miami terminal in Biscayne Bay. Across the bay is Miami Beach.

MIAMI, mī-am'ē, is a city in southeastern Florida, the most southerly major city in the continental United States. It is located on the Atlantic coast, some 2° north of the Tropic of Cancer, and has a warm subtropical marine climate, with an average annual temperature of about 75° F (24° C). Because of its mild weather, ocean setting, and extensive resort facilities, Miami, together with its environs, is one of the great tourist centers of the world.

Miami and Environs. Miami, with an area of 54 square miles (140 sq km), fronts on Biscayne Bay, an arm of the Atlantic Ocean created by islands that constitute the northern reaches of the Florida Keys. The Miami River, which is connected by canal with Lake Okeechobee to the northwest, bisects the city. Miami is divided into four parts—Northwest, Northeast, Southwest, and Southeast—formed by the intersection of Flagler Street, running east and west, and Miami Avenue, running north and south.

Miami is the seat of Dade county, which is coextensive with the Miami metropolitan area, or Greater Miami. Greater Miami consists of 27 independent municipalities and of large unincorporated areas, some of which are heavily populated. Among the communities north of Miami are North Miami Beach, North Miami, and Miami Shores. Hialeah and Miami Springs are to the west, and Coral Gables, South Miami, and Homestead are to the south. On islands offshore, east of Miami across Biscayne Bay, are the luxurious resorts of Miami Beach, Surfside, and Bal Harbour. These communities, as well as fashionable Key Biscayne to the south, connect with the mainland by causeways.

Dade county covers 2,408 square miles (6,237 sq km), of which 354 square miles (917 sq km) is water. The western half of the county forms part of the Everglades National Park, one of the nation's most extensive wilderness preserves.

People. Greater Miami is predominantly white, but an increasing percentage of the city's population is nonwhite, mostly black, with a sprinkling of other races. More than a quarter million persons of Cuban origin live in and around Miami. This group has expanded greatly from an influx of refugees both after Castro came to power in Cuba in 1959 and during Castro's release of persons seeking to leave Cuba in 1980. A large segment of the population—about 14% of the total—consists of people 65 years of age or older, many of whom retired to Florida from the northern United States. In Miami Beach nearly half the residents are in this age group.

The city of Miami had a population of 1,681 in 1900. By 1960 it had increased to 291,688, by 1970 to 334,859, and by 1980 to 346,865. Greater Miami rose in population from 935,047 in 1960 to 1,267,792 in 1970 and to 1,625,781 in 1980.

Sports and Recreation. Few places offer such a variety of sports, both professional and nonprofessional, as the Miami area. There are extensive opportunities for aquatic activities—swimming, water skiing, skindiving, fishing, and boating—as well as for golf (over 40 courses), tennis, shuffleboard, bowling, and other sports.

Among professional sports there are Thoroughbred racing (at Hialeah and Calder tracks and at Gulfstream track in Hallandale, just north of the Dade county line), dog racing, and jai alai. The Miami Dolphins of the National Football League play at Joe Robbie Stadium, northwest of downtown Miami. The Orange Bowl is the site of the Orange Bowl Classic, a championship intercollegiate football game, held annually on New Year's Day, and the North-South College All-Star Game. Another sports facility is Marine Stadium, on Rickenbacker Causeway leading to Key Biscayne, for spectators of powerboat racing and regattas in Biscayne Bay.

Miami has a professi
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abroad. There are also
the Coconut Grove Play
atrical productions.

Places of Interest. Gr
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Gun Museum, and the
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Filed 8/29/91.

NOMINATION OF LAWRENCE B. LINDSEY TO BE A MEMBER OF THE BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM

Mr. RIEGLE, from the Committee on Banking, Housing, and Urban Affairs, submitted the following

REPORT

TOGETHER WITH

ADDITIONAL VIEWS

The Committee on Banking, Housing, and Urban Affairs, to which was referred the nomination of Lawrence B. Lindsey to be a member of the Board of Governors of the Federal Reserve System, reports favorably thereon and recommends that the nomination be confirmed.

COMMITTEE ACTION

The nomination of Lawrence B. Lindsey, of Virginia, to be a member of the Board of Governors of the Federal Reserve System for the unexpired term of fourteen years from February 1, 1986, vice Manuel H. Johnson, resigned, was submitted by President Bush to the Senate on February 28, 1991, and was referred to the Committee the same day. Mr. Lindsey testified before the Committee on May 7, 1991.

At its meeting on July 10, 1991, the Committee voted 16-5 to report the Lindsey nomination favorably to the Senate. Voting in favor of the nomination were Senators Garn, D'Amato, Gramm, Bond, Mack, Roth, Domenici, Kassebaum, Chafee, Dodd, Dixon, Shelby, Graham, Wirth, Kerry, and Bryan. Voting against the nomination were Senators Riegle, Cranston, Sarbanes, Sasser, and Sanford.

COMMITTEE COMMENTS

Mr. Lindsey has had a distinguished academic and professional background that qualifies him for the Federal Reserve nomination. He graduated magna cum laude from Bowdoin College in 1976. In 1981 he earned a Masters Degree in Economics from Harvard University and received his Ph.D. in Economics four years later. His Doctoral Dissertation received the National Tax Association's Outstanding Thesis Award for that year. Mr. Lindsey served three years, 1981-1984, at the Council of Economic Advisors under Chairmen Murray Weidenbaum and Martin Feldstein where he became Senior Staff Economist for Tax Policy. Mr. Lindsey joined the Harvard economics faculty in September 1984 and was promoted to Associate Professor in 1988. In January 1989, he joined the Bush Administration as Associate Director for Domestic Economic Policy in the White House Office of Policy Development. In January 1990, he was commissioned as a Special Assistant to the President for Domestic Economic Policy. Mr. Lindsey is the author of more than 40 publications on economic policy as well as a book, The Growth Experiment, published last year.

In approving the nomination, the Committee found that Mr. Lindsey met the qualifications and residency requirements required by law of all Federal Reserve nominees. The law requires "In selecting the members of the Board, not more than one of whom shall be selected from any one Federal Reserve district, the President shall have due regard to a fair representation of the financial, agricultural, industrial and commercial interests and geographic divisions of the country."

With respect to the residency requirement imposed by law, Mr. Lindsey has lived in the Fifth District for a total of five and a half years. He and his wife own a home in Clifton, Virginia where they have lived since Mr. Lindsey returned to join the Bush Administration. They have also resided in Arlington, Virginia. They own no real estate or personal property in any other state and vote, pay taxes, and register their cars in Virginia. Mr. Lindsey was commissioned from Virginia as an officer in January 1990, when he was named Special Assistant to the President.

The Committee majority shares President Bush's view that Mr. Lindsey is qualified to serve as a Federal Reserve Governor. Senator John Warner of Virginia testified to the Committee, "Lawrence Lindsey will make a great contribution as a Governor of the Federal Reserve, and I endorse his nomination." Senator Daniel Patrick Moynihan concurred, stating, "The

breadth and depth of Dr. Lindsey's knowledge, his skills and abilities make him, in my estimation, an ideal candidate for the Board of Governors." Stuart Eizenstat, Domestic Policy Advisor to President Jimmy Carter wrote, "I cannot think of a better fit between job and person than [Larry Lindsey] at the Fed -- particularly at this difficult time."

During his confirmation hearing, Mr. Lindsey cited three goals which he would seek as a Governor on the Federal Reserve Board. First, he would strive to ensure economic recovery and a regulatory stance which does not unnecessarily restrict credit conditions. Second, Mr. Lindsey believes that the Federal Reserve must play a guiding role in the reform of the nation's financial system in order to meet the challenges of the global marketplace of the 21st century. Third, as there is no long term tradeoff between higher economic growth and lower inflation, Mr. Lindsey feels that the Federal Reserve should gradually reduce the rate of inflation so that the nation may come to enjoy the long term benefits of price stability.

As a nominee, Mr. Lindsey combines academic and practical economic policy experience. Mr. Lindsey is an objective and pragmatic economist who will make decisions based on a balanced review of the best available evidence and not on preconceived notions or ideological views. For example, his book, The Growth Experiment, has received favorable review from all points of the political spectrum. It was favorably reviewed in both The New Republic and National Review, as well as numerous business publications and was cited in a report on the family published by the Progressive Policy Institute, Putting Children First: A Progressive Family Policy for the 1990s. Lindsey's doctoral thesis, which formed the basis for the analysis in his book, received the Outstanding Doctoral Dissertation Award from the National Tax Association, the oldest and most respected tax research organization in the country. His work has also received the Wriston/Citicorp award.

The majority recommends strongly that the full Senate confirm the President's nomination of Lawrence B. Lindsey to the Federal Reserve Board.

ADDITIONAL VIEWS OF SENATORS SANFORD, RIEGLE, CRANSTON, SARBANES, AND SASSER

We voted against Mr. Lindsey's nomination because we believe that he does not meet the qualifications for members of the Board of Governors of the Federal Reserve System specified in the Federal Reserve Act. We also believe that Mr. Lindsey lacks the depth and breadth of experience and the realistic appreciation of the problems of the U.S. economy that are needed on the Board of Governors at this time.

I. Over-representation of the First Federal Reserve District

The law setting forth the qualifications for appointment to the Board of Governors of the Federal Reserve System is contained in Section 10 of the Federal Reserve Act:

> "In selecting the members of the Board, not more than one of whom shall be selected from any one Federal Reserve District, the President shall have due regard to a fair representation of the financial, agricultural, industrial, and commercial interests, and geographical divisions of the country." (12 U.S.C. 241)

It is quite clear from the legislative history of the Federal Reserve Act that those involved in the establishment of the Federal Reserve System were very concerned about the distribution of power on the Board. At the time the Senate debated passage of the Federal Reserve Act, Senator Swanson, a member of the Senate Banking Committee, in defending the composition of the Federal Reserve Board, noted:

> "I am satisfied that a better system of appointment could not be devised, and I am satisfied that the Federal Reserve board when constituted will wisely, faithfully, fearlessly, and patriotically discharge the duties conferred upon them to the benefit of the country and without favoritism to any." Congressional Record, Vol. 50, Part 1, p. 5933, November 17, 1913.

In expressing views prior to the enactment of the Federal Reserve Act, Senator Newlands of Nevada, also a member of the Senate Banking Committee, outlined his vision of what was needed to meet the concerns of many. He stated:

> "I would then federalize these State reserve associations through the organization of a national banking board, of which a certain

proportion of the members should be selected by the national reserve associations under some plan that would promote proper geographical distribution." Congressional Record, Vol. 51, Part 1, p. 431, December 8, 1913.

In taking into account these concerns about the need for adequate geographical distribution of power on the Board of Governors, the Congress devised a structure with 12 Federal Reserve Districts in the country. A map outlining these districts follows these views. It also expressly prohibited membership on the Board of more than one person from any one Federal Reserve district.

Mr. Lindsey's nomination, in our view, is not consistent with these requirements. A fair reading of Mr. Lindsey's background, education and work experience quite clearly shows that he does not add any geographic diversity to the Federal Reserve Board. Mr. Lindsey's primary associations lie clearly in the First Federal Reserve District. That district includes the state of Maine, where Mr. Lindsey spent four years while attending college, and the state of Massachusetts, where Mr. Lindsey has spent half his entire professional life. He attended graduate school for his masters degree and

Ph.D. in Massachusetts and went on to spend 4 1/2 years teaching at a school there, from which he is still on leave.

However, currently serving on the Board of Governors is John LaWare, who was nominated and confirmed as a representative of the First Federal Reserve District. Mr. LaWare was a life-long resident of that district, and served as chief executive officer of a bank holding company in Boston. Another current Board member, David Mullins, also has strong ties to the First District, where he was a professor for many years, also at Harvard.*

The Second District is represented by Chairman Alan Greenspan, a nearly life-long resident of New York. Mr. Lindsey was born and grew up in New York State, which is in that district.

II. Not a Fair Representative of the Fifth District

In addition to our concerns that Mr. Lindsey would become, in effect, a second representative of the First District is our belief that Mr. Lindsey is

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* He was nominated as a representative of the Eighth Federal Reserve District, on the basis that he grew up, attended college, has family, personal relations, and maintains property in Arkansas. A third current Governor, Edward Kelley, attended Harvard, as did Mr. La Ware.

not a fair representative of the Fifth Federal Reserve District, from which he was nominated. The Fifth Federal Reserve District is comprised of North Carolina, South Carolina, Maryland, Virginia, the District of Columbia and parts of West Virginia. His only connections with the Fifth Federal Reserve District have been during the three years he was on the staff of the Council of Economic Advisers in the early 1980s, and during the most recent two and a half years while serving in the White House.

Mr. Lindsey, by his own admission during his confirmation hearing, has engaged in no significant economic activity in the Fifth Federal Reserve District other than living in a D.C. suburb, where he owns a house. His activities while living in Virginia have been solely working in the District of Columbia on policy issues for the White House, not engaging in any broad based activity that would give him contacts with or close knowledge of the business community or the financial communities of the Fifth District.

We do not believe that the Federal Reserve Act should be interpreted to be a mere residency requirement. It is not sufficient to have lived, however briefly, in the District from which one is nominated. A nominee must be able to speak for and have close knowledge of the economic life of

the District. Mr. Lindsey does not and cannot fairly be said to represent the interests of the Richmond Federal Reserve District.

Nor does Mr. Lindsey improve the representation of "financial, agricultural, industrial, [or] commercial interests," as called for in the statute. Mr. Mullins taught at Harvard while Mr. Lindsey taught there, and Mr. Greenspan served as Chairman of the Council of Economic Advisers for 4 years. In sum, Mr. Lindsey would be the fourth Board member (of six) from the Northeast, and the third whose last non-governmental job was in Boston. His work experience would be overlapped by that of other members.

Moreover, a look at the Federal Reserve nominees over the past decade indicates that the Congress and the President have taken seriously the geographic mandates of the statute in nominating and confirming members of the Board of Governors of the Federal Reserve. We believe this record is an appropriate precedent that we should continue to observe.

III. Lack of Broad Experience

In addition to our concerns about Mr. Lindsey's lack of contribution to the geographical or economic diversity of the Federal Reserve Board are our

concerns about the depth and breadth of experience that Mr. Lindsey would bring to the Federal Reserve Board. Mr. Lindsey is a 37 year old economist. He finished his Ph.D. in 1985, spent the next three years teaching, and has spent the last two years on the staff of the White House. He is the youngest ever to be nominated to the Federal Reserve Board and brings to the position a fairly narrow background and few, if any, contacts with the business or financial community.

At a time when the country is going through very difficult economic times, with more than 8 million Americans out of work, and with questions coming on all fronts about the direction our economy is headed, we are troubled at the prospect of putting on the Federal Reserve Board someone with no "hands on" experience.

We fear that Mr. Lindsey is likely to bring a narrow and academic view of the economy to the Board. He was specifically asked during his confirmation hearing who he would turn to if he wanted to get a sense of what was really going on in the private sector and in the business community and his response was, "Well, I think that I would call on academic economist friends of mine who have worked for business organizations." At a time when the Federal Reserve needs to be in close

touch with what is truly going on in the economy and the lives of workers and business people across the country, we find that response quite troubling.

While we might place less emphasis on these factors if Mr. Lindsey came to this position with truly unique and perfectly suited skills for the Board, we do not believe that he does. Indeed, his academic work has been almost entirely in the area of tax policy -- not the monetary policy issues that the Federal Reserve Board regularly considers. Most of his writings have focused on promoting a capital gains tax and studies supporting the Reagan tax cuts of the early 1980s. Whatever the merit of those studies may be, we do not believe that they make Mr. Lindsey well qualified for the Federal Reserve Board.

IV. Narrow Economic Views

Finally, our concerns over the appointment of Mr. Lindsey to the Board of Governors rest also with his views on the economy and the relationship between tax policy and monetary policy.

Just last year, Mr. Lindsey wrote a provocative book in which he makes a number of claims with which we take strong exception. Mr. Lindsey states, for example:

"Its effects [supply-side policy] have made the U.S. once again the leader of the world economy." The Growth Experiment, p. 4.

"[T]he Reagan tax cuts contributed only trivially to the booming deficits of the 1980s." p. 11.

"The Reagan boom was distinguished by an especially rapid growth in business investment." p. 11.

"The recovery of the eighties was not launched on a sea of red ink. Americans are not, as Reagan critics claim, in debt up to their ears. Their financial positions improved quite substantially ... " p. 11.

"The country has exchanged economic peril for economic prosperity ... Those days [the late 1970s] of constant crisis are gone, largely because the large tax rate cuts for upper-income and upper-middle-income

taxpayers restored the incentives that drive the American economy." p. 150.

We are quite concerned about the implications of these statements. They reflect, in our view, a gross distortion of the truth and a willingness to look at economic data through a particular set of rosy glasses. At a time when the economy of this country is in a considerable state of flux, we believe that we must have on the Board individuals who are willing to look openly and honestly at the condition of our economy, and who are willing to take steps to ensure economic prosperity for all Americans, not just for the wealthy few.

We are equally troubled by what these views say about the methods for resolving our current fiscal and economic troubles. Contrary to Mr. Lindsey's statements, we believe that many of the economic woes and the recession we have been experiencing are the direct result of the excesses of the 1980s, including the large 1981 Reagan tax cut, the significant increase in defense spending, and the expansive fiscal policy of the 1980s.

Moreover, we believe that fundamental problems in our economic sector can be traced to a lack of investment in infrastructure, both by the

government and the private sector. We do not see the tremendous growth in business investment that Mr. Lindsey does. Indeed, we are concerned by what the record shows to be a very significant drop in net business investment as a percent of GNP. Our net business investment over the past decade has averaged barely 2% of GNP, compared with average levels closer to 4% during the previous 3 decades.

Our concerns are also raised by the fact that corporations increased their borrowings dramatically during the 1980s, replacing more than half a trillion dollars of equity with debt. This massive increase in leveraging was brought on by the hostile takeover craze, the junk bond phenomena, and other activities in the securities markets that were largely overlooked by federal authorities but had a significant impact on American business and its competitiveness. We are concerned that the need to service extraordinary debt levels has contributed to the recession last year and this year, and diminishes our prospects of recovery.

We are also concerned about Mr. Lindsey's view that the economy is on the right track and that the 1981 tax cuts have "made the U.S. once again the leader of the world economy." Mr. Lindsey makes such statements despite the fact that in 1982, the United States was the world's

largest creditor, with net foreign investment of $258 billion, yet just eight years later had become the world's largest debtor, with a negative foreign investment balance of $360 billion.

Finally, to the extent that Mr. Lindsey's writings touch on monetary policy, we are disturbed by his belief that tax cuts, more than monetary policy, have been responsible for bringing inflation down. At great economic and social cost, the Federal Reserve succeeded in reducing inflation from double digit rates in 1981 to a range of 3 to 4 percent in subsequent years by raising and holding up interest rates long enough to induce a major recession. Despite Mr. Lindsey's claims to the contrary, interest rates finally fell because the Federal reserve ultimately responded to the serious deterioration of the economy and the sharply lower inflation rates. Inflation slowed because the economy slowed first, making it costly for workers and firms to continue raising wages and prices as rapidly.

Mr. Lindsey's analysis is especially troubling given the difficulties facing our economy. Because of our tremendous budget deficits, overleveraging in the private sector and a weakened financial services system, the Federal Reserve faces tough decisions. Indeed, in the recent past our monetary policy has been too restrictive, and the Federal Reserve

has been too slow to react to changes in the economy that signalled recession.

We are very concerned about the debilitated state of our economy, generally, and particularly the plight of the unemployed, and there is a danger that misjudgements by the Fed may hinder needed economic improvement. We believe that a Federal Reserve appointee should show evidence of a more balanced understanding of the role and power of monetary policy.

CONCLUSION

Because we do not believe that Mr. Lindsey fairly meets the geographical and economic representation requirements for the Board of Governors of the Federal Reserve and because we are troubled by his views of the economy, of where the nation is heading and of the role that monetary policy can and should play in setting our economic agenda, we oppose the confirmation of Mr. Lindsey to be a member of the Board of Governors and urge our colleagues to vote against his confirmation.

Terry Sanford.

Donald W. Riegle, Jr.

Alan Cranston.

Paul Sarbanes.

Jim Sasser.

THE BEACON COUNCIL

91 SEP 24 P1:50

ONE WORLD TRADE PLAZA, SUITE 2400
80 SOUTHWEST EIGHTH STREET
MIAMI, FLORIDA 33130
TELEPHONE: (305) 536-8000
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Date 9/24/91

7 No. of Pages Including Cover Sheet

TO TONY SNOW / BOB SIMON

FROM Mary Di Sandro

FAX# (202) 456-6218 PHONE # _____

SUBJECT _____

MESSAGE TONY/Bob - Following is a letter from Jeb Bush that will appear in The Miami Herald "VIEWPOINTS" SECTION ON SUNDAY 9/29. I BELIEVE IT WRAPS UP SOME OF THE ELEMENTS WE'VE DISCUSSED. ALSO FOLLOWING IS AN ARTICLE ON CRIME

SIGNED _____

Please contact us immediately if you do not receive all pages, or if there is a problem.

SHOULD YOU NEED ADDITONAL INFO ON CRIME, PARTICULARLY ITS ECONOMIC IMPACT, PLEASE CONTACT: WILLIAM WILBROOK, a Professor with the Dep't of Criminology at FLORIDA INT'L UNIVERSITY: (305) 554-3196.

FINAL COPY

"VIEWPOINTS"--THE MIAMI HERALD--9/29/91
By JEB BUSH
Chairman, The Beacon Council

Reaching the five-year mark is an important milestone for any organization. The Beacon Council, which will commemorate its fifth anniversary tomorrow, is no different.

Looking back over the past five years, we've seen significant change in our community and unprecedented change in the world. This is an opportune time to pause and consider what these changes mean to our community and what kind of vision we have for the future.

The Beacon Council begins its sixth year with a new president and CEO. This past July, after a four-month, nationwide search and a careful review of a number of qualified applicants, we welcomed John C. Anderson on board. With his outstanding credentials, we believe that this community has found the finest economic development professional in the country.

Over the past two months, The Beacon Council, under John's guidance, has undergone an intensive evaluation process. We've listened to community leaders, and we see clearly what these leaders envision as a preferred future for Miami/Dade County -- that by the turn of the century, Miami will have completed its evolution into a major world city -- a center of international trade, culture, education, health care and recreation, providing a desirable quality of life for our residents and visitors.

The Beacon Council's role is to assist Miami/Dade County in achieving this vision by providing process, programs and leadership to facilitate the community's economic development.

From our review, we have drawn several conclusions. First, this community must reach a consensus that economic development -- the means through which we can deliberately improve what would otherwise be the natural evolution of our community's economy -- must be a priority.

Our current 9.3 percent unemployment rate means almost 90,000 of our workers, both blue-collar and white-collar, are without jobs. It also means we have to reach that consensus now!

Many of you may wonder how economic development can affect your lives. The answer is simple. Healthy and thriving businesses are direct contributors to our community in every aspect. A healthy business community means a growing number of jobs and payroll dollars. Healthy businesses don't drain our infrastructure. Rather, they add to local, county, state and federal coffers way beyond what they receive in services. In addition, business men and women are major contributors of money and time to charitable and civic causes.

Second, to successfully meet the many challenges and opportunities change has brought to Dade County, The Beacon

Council must itself change.

The Beacon Council has developed a focused action plan to create the framework necessary to have a healthy and thriving business sector and, ultimately, contribute to the well-being of the overall community.

The Beacon Council has developed a 10-year economic development strategy to take us to the end of the decade and into the next century. The plan is designed to facilitate the changes in our economy necessary to achieve the preferred vision of the community we all share. The 1991-92 plan continues programs that have worked to date and introduces some new programs.

The Beacon Council will continue to:

- provide outstanding research and information services for local businesses and the policy makers of businesses contemplating investing in Miami/Dade County.
- take advantage of new economic development opportunities as they present themselves, as we have effectively done in the past.

The Beacon Council will:

- substantially increase our service and support to existing Dade County businesses.
- substantially increase our service and support to minority business development working closely with other public and private institutions in the community that

share this objective.

- place special emphasis on the needs and opportunities of businesses in industry sectors that offer the greatest opportunity for expansion over this decade.

  These targeted sector activities will include, but not be limited to: promoting Miami world-wide as an import-export trade center and location for trade services; promoting Miami as a regional office location or headquarters for businesses and organizations worldwide; encouraging the continued expansion and development of the health technology and service sector; promoting Miami for continued apparel, aviation and marine industry development; encouraging the expansion of the film, television, recording and print production industries; and promoting the development of leisure facilities to further expand our tourism product.

The Beacon Council will employ a vehicle this entire community can use to cooperatively encourage economic and social improvement -- **Team Miami.**

Team Miami is both a spirit and a process for getting things done. Through teamwork, we can harness our community's many talents and resources and turn our well-known cultural diversity into our competitive edge.

Team Miami will consist of business, government, academic and community leaders contributing their talents and time in solving problems or in taking advantage of economic opportunities.

The Team Miami approach can be applied to other aspects of our community's life as well. It can be used, for example, to address problems such as crime, drugs and homelessness.

We are fortunate that the Metro-Dade County Commission and the Mayor recognize that public-private partnerships like The Beacon Council are effective in stimulating business growth -- and in improving the way we all live.

I believe Miami is at a crossroads. For our community to realize its vision of a preferred future, teamwork is not optional -- it's mandatory. We all need to concentrate on a common goal rather than magnify our differences. Through Team Miami and economic development, we can dramatically improve our community's quality of life.

It's now time to roll up our sleeves and get to work.

THE MIAMI HERALD SAT., SEPT. 21 1991

2 more tourists robbed as city vows extra aid

By RACHEL L. SWARNS
Herald Staff Writer

Miami's battle against crimes on tourists gained momentum Friday when a group of politicians, lawyers and police officers got together to discuss the problem.


Bloom

The meeting followed yet another incident: two Germans robbed on Miami Beach. One victim was dragged two blocks when he refused to let go of the man driving off with his rental car Thursday night.

"We know we have a very serious problem," said state Rep. Elaine Bloom, D-Miami Beach, who organized the meeting. "We have to do everything we can to protect our visitors."

Some steps have already been taken:

■ Bloom has proposed scrapping a 2-year-old law that put easily recognizable license plates on rental cars.

■ A Dade prosecutor is on call 24 hours a day to take sworn statements from tourists who are robbed — just in case they can't return to testify against their assailants.

■ The Miami Police Department has set up a task force focusing on smash-and-grab robberies. Last month, 34 people were arrested.

■ The Greater Miami Chamber of Commerce will distribute pamphlets with crime prevention tips to hotels and rental car agencies at the end of September.

On Friday, additional suggestions were made:

■ Establish a hot line for tourists.

■ Establish a welcoming committee of volunteers who would distribute crime prevention information at Miami International Airport.

■ Distribute crime prevention brochures and show videos on flights to Miami.

■ Establish better communications between local police departments, so information about suspects and robbery tactics can be shared.

"This is still a wonderful place to be," Bloom said. "We just want to make sure tourists are as careful here as they are in their own countries."

The German tourists tried to be careful. They got their rental car agency to take the identifying bumper stickers off their red 1991 Buick Park Avenue.

It didn't help. The car license plate still started with a Y — marking the couple as a target for two young robbers waiting near the corner of Collins Avenue and 60th Street at 6 p.m. Thursday.

The men waved and said the car was on fire. When Dieter and Hanelore Hergesell stopped to check, one man grabbed the 49-year-old woman's purse. The other jumped into the driver's seat.

Hergesell, 51, grabbed the driver and the door as the car pulled off. The suspects dragged him for two blocks, banging on the tourist's hand until he fell in the street.

Then the robbers dumped the car in a parking lot on 41st Street. Miami Beach police officer Sgt. John Millerick saw the car and got an unmarked police car to watch it.

Two men returned two hours later. Eli Dawson, 25, was arrested on charges of strong arm robbery, aggravated battery, grand theft and burglary to a vehicle. Stacey Smith, 24, was arrested on charges of burglary and possession of marijuana.

Hergesell was treated at St. Francis Hospital. The couple recovered their belongings.



NEW STRATEGY: Scenes from the Greater Miam

Miami targe

By DAVID KIDWELL
Herald Staff Writer

Full-page color ads designed to entice young, affluent vacationers to Dade County will likely start turning up soon in such familiar U.S. magazines as National Geographic Traveler, Bride's and Ebony.

Greater Miami will be working to change its national image. Among other groups, tourism promoters will target affluent blacks.

There won't be any promotional packaging, no rock-bottom meal deals. Just a few photographs: a wind surfer on sky-blue water, a neon-lit Ocean Drive, a biracial young couple snuggling in the sand.

"Miami," the ads say, "a city with a rhythm all its own."

The Greater Miami Convention & Visitors Bureau is on the verge of a major shift in its year-old advertising plan.

Since last fall, it has spent $600,000 placing image-building

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FIU ascends to 8th place in nation, magazine says

TOP SCHOOLS

Top regional universities in the South, according to U.S.

Lega

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CASTRO SAYS CUBA IS GETTING NO RAW MATERIALS FROM SOVIETS
MEXICO CITY (AP) - CUBAN PRESIDENT FIDEL CASTRO SAID TUESDAY THAT CUBA HADN'T RECEIVED ANY RAW MATERIALS EXCEPT FOR OIL FROM THE SOVIET UNION DURING THE FIRST FIVE MONTHS OF THIS YEAR.

SPEAKING TO CHEMICAL AND MINING ENGINEERS, CASTRO SAID CUBA ALSO RECEIVED NO SPARE PARTS FOR SOVIET-MADE AND AGRICULTURAL MACHINERY, ACCORDING TO A DISPATCH FROM HAVANA BY NOTIMEX, THE OFFICIAL GOVERNMENT NEWS AGENCY.

CUBA IS SUFFERING PERHAPS ITS WORST ECONOMIC CRISIS SINCE THE 1959 REVOLUTION. THE FAILURE OF THE SOVIET ECONOMY HAS CAUSED SEVERE SHOCKS IN CUBA FOR A FEW YEARS, BUT IT APPARENTLY WAS THE FIRST TIME THAT SHIPMENTS OF KEY MATERIALS FOR CUBAN INDUSTRY HAD STOPPED ALTOGETHER.

CASTRO DID NOT SAY SPECIFICALLY WHICH MATERIALS WERE LACKING. HE SAID THE SOVIETS ARE KEEPING UP WITH THEIR PLEDGE OF 10 MILLION BARRELS OF CRUDE OIL FOR THE YEAR, BUT THAT IS ABOUT 30 PERCENT LESS THAN WHAT THEY USED TO SEND.

THE DISPATCH, MONITORED IN MEXICO CITY, SAID CASTRO RECOGNIZED THE SERIOUS PROBLEMS FACING HIS CARIBBEAN ISLAND NATION OF 10.5 MILLION PEOPLE, BUT DECLARED, ''WE WILL KEEP DEFENDING THE REVOLUTION AND SOCIALISM.''

CASTRO SAID THE SHORTAGES REQUIRE CUBANS TO PERFORM MIRACLES TO LET THE COUNTRY FUNCTION AND ASKED WORKERS TO WORK TOGETHER TO FIGHT A TOUGH SITUATION.

AN ESTIMATED 80 PERCENT OF CUBA'S COMMERCE IS WITH THE SOVIETS AND MUCH OF THE REST HAS BEEN WITH FORMER SOVIET BLOC NATIONS.

CUBA HAS BEEN HURTING FOR RAW MATERIALS SINCE THE UNITED STATES IMPOSED A TRADE AND ECONOMIC EMBARGO ON IT NEARLY 30 YEARS AGO AFTER CASTRO EXPROPRIATED AMERICAN COMPANIES.

INCREASING NUMBERS OF DEFECTIONS HAVE BEEN REPORTED FROM CUBA AS A RESULT OF THE CRISIS. IN THE LATEST CASE, ROBERTO CASIN CHIEF OF CUBA'S OFFICIAL PRENSA LATINA NEWS AGENCY IN MEXICO, RESIGNED LAST WEEK AND IS SEEKING POLITICAL ASYLUM.

THE VENEZUELAN GOVERNMENT SAID CASIN HAD REQUESTED ASYLUM THROUGH ITS EMBASSY IN MEXICO CITY AND THAT HIS PETITION WAS UNDER STUDY.

CASIN, HIS WIFE AND 3-YEAR-OLD DAUGHTER ARRIVED IN MIAMI ON MONDAY, THE MEXICO CITY NEWSPAPER LA JORNADA REPORTED TUESDAY.

''I HAVE FOUND IT IMPOSSIBLE TO KEEP CARRYING OUT OFFICIAL FUNCTIONS FOR A GOVERNMENT THAT HAS DISTANCED ITSELF FROM THE QUEST FOR LIBERTY AND THE RIGHTS OF THE CUBAN PEOPLE TO HAVE A BETTER LIFE,'' CASIN WROTE IN A THREE-PAGE LETTER TO THE FOREIGN CORRESPONDENTS' ASSOCIATION IN MEXICO.

AT U.N. HEADQUARTERS IN NEW YORK, WHERE CUBA HAS COME UNDER INCREASING PRESSURE FOR RIGHTS ABUSES, AMBASSADOR RICARDO ALARCON SAID HIS GOVERNMENT WILL NOT COOPERATE WITH RIGHTS INVESTIGATOR RAFAEL RIVAS POSADA, APPOINTED ON TUESDAY TO CHECK ON ANY HARASSMENT OF DISSIDENTS IN CUBA.

A 1991 RESOLUTION BY THE COMMISSION ON HUMAN RIGHTS CALLS FOR A SPECIAL INVESTIGATOR IN CUBA, BUT CASTRO'S GOVERNMENT CALLED THE RESOLUTION ''NULL AND VOID,'' AND ALARCON DESCRIBED IT AS A ''U.S. PLOT.''
AP-NY-07-02-91 1948EDT+

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AM-CUBA-SUGAR (SCHEDULED)
CUBAN SUGAR CROP DROPS AS FUEL, SPARES SHORTAGES HIT HARVEST
BY PASCAL FLETCHER

HAVANA, REUTER - CUBA'S STRATEGIC SUGAR INDUSTRY, HAMSTRUNG BY SHORTAGES OF FUEL AND SPARE PARTS, PRODUCED 7.6 MILLION TONS IN ITS 1990-91 HARVEST, SHORT OF THE OFFICIAL TARGET AND WELL BELOW LAST YEAR'S CROP OF JUST OVER EIGHT MILLION.

THE FALL-OFF IN PRODUCTION OF MORE THAN 400,000 TONS FROM 1989-90 WAS ONE OF THE SHARPEST SEASON-TO-SEASON HARVEST DROPS RECORDED IN THE LAST DECADE BY THE COMMUNIST-RULED ISLAND, WHICH IS THE WORLD'S BIGGEST SUGAR EXPORTER.

CUBA'S STATE-RUN MEDIA, REPORTING THE 1990-91 HARVEST FIGURE OF 7,623,000 TONS FRIDAY, QUOTED PRESIDENT FIDEL CASTRO AS SAYING THE COUNTRY'S SUGAR WORKER'S HAD DONE ''MIRACLES'' TO PRODUCE THIS.

THEY HAD MANAGED TO COMPLETE 95 PERCENT OF THE OFFICIAL SUGAR TARGET FOR THE SEASON, HE TOLD CUBA'S NATIONAL ASSEMBLY THURSDAY IN A SPECIAL DEBATE ON THE SUGAR INDUSTRY.

''PRODUCING 95 PERCENT OF THE TARGET IS A REAL ACHIEVEMENT IN THE CONDITIONS UNDER WHICH THEY HAD TO WORK,'' CASTRO SAID.

CUBAN OFFICIALS BLAMED DIFFICULTIES IN THE 1990-91 HARVEST ON CHRONIC SHORTAGES OF FUEL, SPARE PARTS AND LUBRICANTS, COMBINED WITH HEAVY RAIN FROM MID-APRIL ONWARD WHICH INTERFERED WITH CUTTING AND MILLING IN THE LAST TWO MONTHS OF THE SEASON.

IN MANY GROWING AREAS, OXEN REPLACED TRACTORS TO SAVE FUEL.

BUT THE COUNTRY'S 4,000 MECHANICAL HARVESTERS, THE MAINSTAY OF THE CANE-CUTTING OPERATION, WERE KEPT IN SERVICE AS THEY WERE JUDGED LESS EXPENSIVE OVERALL THAN A MASSIVE MANUAL CUTTING OPERATION WHICH WOULD HAVE INVOLVED MOBILIZING, HOUSING AND FEEDING SEVERAL HUNDREDS OF THOUSANDS OF CANE CUTTERS.

THE INDUSTRIAL SHORTAGES ARE THE RESULT OF DISRUPTIONS TO CUBA'S TRADE LINKS WITH THE SOVIET UNION, THE ISLAND'S MAIN ECONOMIC SUPPLIER AND THE BIGGEST BUYER OF CUBAN SUGAR.

LOCAL ANALYSTS SAID NEW IRRIGATION, CULTIVATION AND HERBICIDE TECHNIQUES INTRODUCED IN MOST OF THE ISLAND'S CANE-GROWING AREAS MAY HAVE HELPED TO AVOID AN EVEN BIGGER SHORTFALL IN THE HARVEST.

CASTRO SAID SUGAR REMAINED CENTRAL TO CUBA'S ECONOMY, NOT ONLY BECAUSE IT WAS THE ISLAND'S MAIN TRADING COMMODITY FOR BOTH HARD CASH AND BARTER BUT ALSO BECAUSE OF THE IMPORTANT BYPRODUCTS IT COULD GENERATE.

THESE RANGED FROM ANIMAL FEED, AN IMPORTANT SUBSTITUTE FOR COSTLY IMPORTS, TO OTHER PRODUCTS WITH INDUSTRIAL AND BIO-CHEMICAL USES LIKE FURFURAL AND DEXTRANE.

DURING THE ASSEMBLY DEBATE, JULIO GARCIA OLIVERAS, PRESIDENT OF CUBA'S CHAMBER OF COMMERCE, SAID THE GOVERNMENT SHOULD BOOST RESEARCH AND DEVELOPMENT IN SUGAR BY-PRODUCTS TO TAP WHAT HE SAID WAS A LUCRATIVE, HARD-CURRENCY EARNING EXPORT MARKET.

SUGAR MINISTER JUAN HERRERA SAID THE SUGAR INDUSTRY ACCOUNTED FOR 80 PERCENT OF CUBA'S EXPORTS AND GENERATED 20 PERCENT OF ITS GROSS NATIONAL PRODUCT. THE MINISTRY OPERATED 156 SUGAR MILLS AND 368 OTHER FACTORIES PRODUCING A RANGE OF BY-PRODUCTS, INCLUDING RUM.

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MSPRINGMANN 1 September 20, 19

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COMMUNISM, CUBAN-STYLE, SEEN DOOMED DESPITE TOUGH CASTRO TALK
BY BERND DEBUSMANN
WASHINGTON, REUTER - DESPITE FIDEL CASTRO'S AVOWED RESISTANCE TO CHANGE, EXPERTS HEAR THE BELLS TOLLING FOR ORTHODOX COMMUNISM IN CUBA.
''NO ONE HAS CHANGED MORE THAN US,'' CASTRO TOLD REPORTERS AT AN IBERO-AMERICAN SUMMIT IN THE MEXICAN CITY OF GUADALAJARA LAST WEEK. ''NOW, WHAT WE ARE NOT GOING TO DO IS CHANGE AGAIN.''
BUT EXPERTS ON CUBA IN THE UNITED STATES AND ELSEWHERE SAY CASTRO HAS LITTLE CHOICE BUT TO INTRODUCE REFORMS OR RISK THE COMPLETE ECONOMIC COLLAPSE OF HIS COUNTRY, ONE OF THE WORLD'S LAST BASTIONS OF COMMUNISM.
''I CAN'T SEE THEM HOLDING OUT MUCH LONGER,'' SAID SUSAN KAUFMAN PURCELL OF THE INDEPENDENT AMERICAS SOCIETY IN NEW YORK. ''I THINK THE ECONOMIC DETERIORATION WILL CONTINUE AND I DON'T SEE HOW HE (CASTRO) IS GOING TO AVOID MAKING SOME ECONOMIC CHANGES.''
NEVER A MODEL OF EFFICIENCY, THE CENTRALLY-PLANNED CUBAN ECONOMY WAS PLUNGED INTO CRISIS BY THE END OF THE COLD WAR. IT HAS ALSO SUFFERED FROM THE GRADUAL WITHDRAWAL OF AID AND SUBSIDIES MOSCOW USED TO PROVIDE FOR THE PRIVILEGE OF HAVING AN OUTPOST OF SOVIET POWER 90 MILES FROM THE UNITED STATES.
THE LONDON-BASED INSTITUTE OF STRATEGIC STUDIES DESCRIBES THE SITUATION IN CUBA AS THE WORST SINCE 1959, WHEN CASTRO TOOK POWER. CUBA, THE INSTITUTE SAYS, IS CLOSE TO ECONOMIC COLLAPSE.
A 3-MILLION TON SHORTFALL IN SHIPMENTS OF SOVIET FUEL, STILL SUPPLIED BY THE SOVIET UNION AT PREFERENTIAL RATES, HAVE BECOME SO SEVERE THAT TRACTORS ARE BEING REPLACED BY OXEN AND PUBLIC BUSES BY BICYCLES.
FROM NEXT YEAR, CUBA WILL HAVE TO PAY FOR ALL ITS SOVIET OIL IN HARD CURRENCY.
''ONE WAY OR THE OTHER, THERE WILL BE CHANGE,'' SAID ISAAC COHEN, DIRECTOR OF THE WASHINGTON OFFICE OF THE UNITED NATIONS ECONOMIC COMMISSION FOR LATIN AMERICA AND THE CARIBBEAN.
''WHETHER POLITICAL REFORM WILL PRECEDE ECONOMIC REFORM OR THE OTHER WAY ROUND NO ONE KNOWS. BUT IT HAS TO HAPPEN. EVERYBODY AGREES THAT THERE HAS TO BE SOME KIND OF STRUCTURAL ADAPTATION OF THIS ECONOMY TO A NEW WORLD.''
U.S. OFFICIALS AND DIPLOMATS SAY CASTRO IS EQUALLY RELUCTANT TO OPEN THE ECONOMY AND TO OPEN THE POLITICAL PROCESS.
''FOR HIM, BOTH GLASNOST AND PERESTROIKA ARE DIRTY WORDS,'' SAID A LATIN AMERICAN DIPLOMAT, REFERRING TO THE TWIN PILLARS OF REFORMS IN THE SOVIET UNION.
SOME EXPERTS THINK NEXT MONTH'S PAN AMERICAN SPORTS GAMES IN CUBA COULD LIGHT THE SPARK FOR MASS DEMONSTRATIONS OF THE TYPE WHICH BROUGHT DOWN COMMUNIST GOVERNMENTS IN EASTERN EUROPE OVER THE PAST FEW YEARS.
CUBAN DISSIDENTS MIGHT TAKE ADVANTAGE OF THE PRESENCE OF HUNDREDS OF FOREIGN JOURNALISTS DURING THE GAMES TO AIR THEIR GRIEVANCES.
''IT'S REALLY REMARKABLE THAT THERE HASN'T BEEN MORE OF A POLITICAL AND SOCIAL SURGE OF DISCONTENT SO FAR,'' SAID DOUGLAS PAYNE, A LATIN AMERICA EXPERT AT FREEDOM HOUSE, A CONSERVATIVE THINK TANK IN NEW YORK.
''BUT IF IT BEGINS TO DEVELOP MOMENTUM, CASTRO CAN DO LITTLE

BUT USE THE HEAVY HAND OF REPRESSION... HIS ECONOMIC OPTIONS (TO MOLLIFY DISCONTENT) ARE LIMITED.''

CUBA'S PREFERENTIAL TRADE LINKS AND BARTER AGREEMENTS WITH EASTERN EUROPE VANISHED AFTER THE FALL OF COMMUNISM THERE. NOW THE GOVERNMENT IS ACCELERATING AMBITIOUS PROJECTS TO ATTRACT FOREIGN TOURISTS AND, WITH THEM, HARD CURRENCY.

BUT TOURISM PROJECTS, EXPERTS SAY, HAVE HAD A FLIP SIDE. THEY HELPED CREATE WHAT CRITICS TERM ''ECONOMIC APARTHEID.''

ORDINARY CUBANS, WHO ARE NOT ALLOWED TO HAVE DOLLARS, ARE EFFECTIVELY BARRED FROM A STRING OF TOP-CLASS HOTELS AND RESTAURANTS, WHICH ACCEPT DOLLARS ONLY. AN ENTIRE HOLIDAY ISLAND, CAYO LARGO, IS OFF LIMITS FOR CUBANS -- EXCEPT CUBANS WHO WORK THERE.

AT LEAST PART OF CUBA'S ACUTE ECONOMIC PROBLEMS APPEAR TO RESULT FROM U.S. PRESSURE ON THE SOVIET UNION TO LOOSEN ITS LINKS TO WHAT WAS ONCE MOSCOW'S MOST EXPENSIVE ALLY.

''SINCE BUSH HAS BEEN IN THE WHITE HOUSE, HE UTILIZED NEARLY EVERY SUMMIT WITH (SOVIET LEADER MIKHAIL) GORBACHEV TO TURN THE SCREWS...ON CUBA,'' SAID PAYNE. ''EACH TIME, BUSH EXACTED CONCESSIONS ON THE SOVIET RELATIONSHIP WITH CUBA.''

PAYNE CITED THE U.S.-SOVIET SUMMER IN JUNE LAST YEAR.

HE SAID: ''GORBACHEV NEEDED TO TALK ABOUT TRADE AND ACCESS TO MARKETS AND BUSH PRESSURED ON CUBA. WITHIN TWO MONTHS, THERE WAS A DECIDED CHANGE IN THE RHETORICAL LINE OUT OF MOSCOW AND IT BECAME EVIDENT THE SOVIETS WERE CUTTING BACK ON OIL DELIVERIES.''

REUTER
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MSPRINGMANN 1 September 20, 19

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SECSTATE WASHINGTON DC//ARA/CCA//
USIA WASHINGTON DC//VOA/M//
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((TEXT)) HAVANA, 2 AUG (EFE) -- THE DOMESTIC TRADE MINISTRY TODAY ANNOUNCED THAT THE RATION CARDS THAT REGULATE THE PURCHASE OF CONSUMER GOODS IN CUBA WILL BE IN EFFECT FOR ANOTHER YEAR -- UNTIL AUGUST 1992.

THE CURRENT RATION CARDS WERE ISSUED IN 1990, WHEN ALL PRODUCTS ON THE ISLAND WERE RATIONED.

THE SITUATION HAS DETERIORATED IN RECENT MONTHS AND SOME PRODUCTS THAT BEFORE COULD BE ACQUIRED ON THE FREE MARKET HAVE AGAIN BECOME SCARCE AND THEIR DISTRIBUTION IS NOW BEING CONTROLLED WITH RATION CARDS, WHICH WERE INTRODUCED ON THE ISLAND IN THE 1960'S.
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CASTRO'S OPTIONS SHRINK FURTHER WITH END OF SOVIET COMMUNISM
BY JOSEPH B. FRAZIER=
ASSOCIATED PRESS WRITER=

MEXICO CITY (AP) - CUBA FACES FURTHER BELT-TIGHTENING WITH THE SHREDDING OF SOVIET COMMUNISM REGARDLESS OF MOSCOW'S POLICY TOWARD FIDEL CASTRO'S HARD-LINE COMMUNIST STATE.

THE LOSS OF SUPPORT AND TRADE FROM EASTERN EUROPE ALREADY HAS CUBA SCRAPING ITS PLATE. FOOD, FUEL AND SPARE PARTS ARE SCARCE AND QUICKLY GETTING SCARCER. THE SOVIET UNION HAS BEEN SCALING BACK ON AID AND OIL TO CUBA AND IS LIKELY TO DO SO EVEN MORE.

CUBA HAS DEVELOPED WHAT IT CALLS A ''ZERO OPTION,'' A PLAN THAT FORESEES A POSSIBLE TOTAL CUTOFF OF OIL SHIPMENTS. IT HAS BEEN TESTED IN SOME TOWNS AND EXPERIMENTAL FARMS AND ENVISIONS, AMONG OTHER THINGS, COMMUNAL KITCHENS AND USING CHARCOAL AS AN ENERGY SOURCE.

CUBA PRODUCES A TINY AMOUNT OF LOW-QUALITY, HIGH-SULFUR OIL USED MOSTLY TO MOSTLY TO FUEL THE CEMENT INDUSTRY.

SO FAR MOSCOW HAS NOT SAID WHAT IT MIGHT DO ABOUT CUBA, ALTHOUGH RUSSIAN PRESIDENT BORIS YELTSIN HAS SAID THAT THE COUNTRY, WHICH IS IN AN ECONOMIC CRISIS, CANNOT AFFORD TO CONTINUE ITS LARGESSE TO FORMER CLIENT STATES.

THIS COULD AFFECT NOT ONLY OIL BUT OTHER ESSENTIALS SUCH AS WHEAT, WHICH CUBA GETS FROM THE SOVIETS.

CASTRO'S GOVERNMENT HAS SAID LITTLE PUBLICLY ABOUT THE ABORTIVE SOVIET COUP AND ITS AFTERMATH, CITING IT AS AN INTERNAL SOVIET AFFAIR.

THE CRUMBLING OF THE EASTERN EUROPEAN BLOC LAST YEAR COST CUBA AN ESTIMATED 90 PERCENT OF ITS FOREIGN MARKETS. COMECON, THE EAST EUROPEAN TRADE GROUP OF WHICH CUBA WAS A MEMBER, HAS DISSOLVED.

THE CIA ESTIMATES THE SOVIET SUBSIDY TO CUBA WAS ABOUT $3.5 BILLION LAST YEAR, DOWN FROM $4.16 BILLION IN 1989. MOST OF IT WAS IN MANUFACTURED GOODS.

SOME CUBA-WATCHERS IN WASHINGTON CONTEND THE SOVIETS OVERVALUED THE GOODS AND THAT THE REAL FIGURE IS CLOSER TO $1.5 BILLION TO $2 BILLION.

''ABOUT 35 PERCENT (OF SOVIET TRADE WITH CUBA) IS IN MANUFACTURED GOODS THAT ARE OF SUCH POOR QUALITY THAT IT IS IMPOSSIBLE TO SELL THEM ANYWHERE ELSE,'' GILLIAN GUNN, A CUBA SPECIALIST WITH THE CARNEGIE ENDOWMENT FOR PEACE IN WASHINGTON, SAID IN A TELEPHONE INTERVIEW. ''CUBA HAS NO CHOICE, SO IT BUYS THEM.

SHE SAID THE SOVIETS HAVE BECOME HEAVILY DEPENDANT ON THE CITRUS AND SUGAR THEY GET IN EXCHANGE FOR THE GOODS AND OIL BUT THAT THE EMOTIONAL LASHING OUT IN THE SOVIET UNION MAY LEAD TO A CUT IN TIES ON IDEOLOGICAL GROUNDS AS A SYMBOL OF THE PAST REGIME THAT MUST BE ESTROYED.

CUBA'S DESPERATION, MEANWHILE, SHOWS MORE BY THE DAY.

DOMESTIC AIRLINE PASSENGERS WRAP THEIR AIRLINE LUNCHES OF BREAD AND COLD CUTS IN NAPKINS AND SAVE THEM TO EAT LATER OR FOR OTHERS. PAPER NAPKINS AND PLASTIC FORKS ALSO ARE TUCKED AWAY, AS ARE UNOPENED CANS OF SOFT DRINKS, VIRTUALLY UNAVAILABLE TO MOST CUBANS.

CUBA, MEANWHILE, HAS INCREASED ITS DEALINGS WITH CHINA BY 150 PERCENT IN THE PAST THREE YEARS.

THOSE TIES AMONG OTHER TOPICS ARE SCHEDULED FOR DISCUSSION WHEN JIANG ZEMING, THE SECRETARY-GENERAL OF CHINA'S COMMUNIST PARTY,

VISITS CUBA IN SEPTEMBER. VICE PRESIDENT CARLOS RAFAEL RODRIGUEZ RETURNED FROM A 10-DAY TRIP TO CHINA A MONTH AGO.

A HALF-MILLION CHINESE BICYCLES HAVE APPEARED ON CUBAN STREETS. CUBA EXPECTS TO HAVE THAT MANY MORE BY THE END OF THE YEAR AND 1.5 MILLION BY NEXT SUMMER.

IN THE COUNTRYSIDE, OXCARTS GRADUALLY ARE REPLACING FARM MACHINERY. THE MILITARY NOW BURNS WOOD INSTEAD OF OIL TO COOK THE TROOPS' FOOD AND THE GOVERNMENT IS EXPERIMENTING WITH WINDMILLS TO GENERATE ELECTRICITY.

THERE ARE LINES FOR EVERYTHING AND VIRTUALLY EVERYTHING IS RATIONED. RATION CARDS GUARANTEE ONLY THE RIGHT TO BUY AN ITEM IF IT IS AVAILABLE. IT DOES NOT GUARANTEE THE SUPPLY.

AMERICAN CARS BROUGHT IN BEFORE THE U.S. EMBARGO 30 YEARS AGO ARE ON BLOCKS FOR LACK OF PARTS, AS ARE MANY OF THE EASTERN BLOC VEHICLES BROUGHT IN LATER.

THE SOVIETS HAVE PULLED MANY OF THEIR ADVISERS FROM CUBA BUT HAVE LEFT THOSE WORKING ON THE COUNTRY'S FIRST NUCLEAR POWER PLANT.

''IF THEY WITHDRAW THEM THE CUBANS COULD PROBABLY FINISH IT BUT THEY MIGHT DO SO IN A WAY THAT WOULD MAKE THE REST OF THE WORLD VERY NERVOUS,'' MS. GUNN SAID. ''IT MIGHT BE IN THE INTERESTS OF THE UNITED STATES IF THE SOVIETS STAY ON.''

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SOUTH FLORIDA BENEFITS FROM CUBAN CRISIS@

MIAMI (UPI) _ THE ECONOMIC CRISIS IN CUBA AND THE DECISION BY CUBAN PRESIDENT FIDEL CASTRO TO DROP SEVERAL TRAVEL RESTRICTIONS HAVE BEEN VERY PROFITABLE FOR MIAMI-AREA TRAVEL AND SHIPPING BUSINESSES, A PUBLISHED REPORT SAID SUNDAY.

TICKET SALES AND SHIPPING HAVE INCREASED DRAMATICALLY, RESULTING IN A PROFITABLE RELATIONSHIP BETWEEN THE UNITED STATES AND CUBA DESPITE A 30-YEAR-OLD TRADE EMBARGO, SAID THE MIAMI HERALD.

THE COMMERCIAL EXCHANGE COULD MEAN AT LEAST $135 MILLION FOR THE CUBAN GOVERNMENT BY THE END OF THE YEAR. ABOUT $100 MILLION WOULD COME FROM TICKET SALES AND THE REST PRIMARILY FROM SHIPMENTS OF MONEY, MERCHANDISING AND MEDICINE, THE HERALD SAID.

OVERALL, THE INDUSTRY THAT HANDLES THE TRAVEL AND SHIPMENT TRANSACTIONS WITH CUBA GENERATES REVENUES OF MORE THAN $200 MILLION ANNUALLY. ABOUT $80 MILLION OF THAT WILL REMAIN IN DADE COUNTY AND THE REST WILL GO TO CUBA, SAID ANTONIO JORGE, A CUBA SPECIALIST AT FLORIDA INTERNATIONAL UNIVERSITY.

THE FIGURES ARE BASED ON CALCULATIONS MADE BY JORGE AND THE CUBAN AMERICAN NATIONAL FOUNDATION.

JORGE SAID REVENUE FROM EXILE TRANSACTIONS HELPS FINANCE CUBA'S TRADE DEFICIT, ESTIMATED AT AROUND $500 MILLION.

''EXILES SUBSIDIZE AT LEAST 20 PERCENT OR 25 PERCENT OF THE DEFICIT,'' HE SAID.

FIU ECONOMICS PROFESSOR JORGE SALAZAR SAID INCOME FROM THE EXILE COMMUNITY TRANSACTIONS MAKES UP 22.5 PERCENT OF CUBA'S ANNUAL AVERAGE HARD-CURRENCY RESERVES OF $900 MILLION.

THE FIGURES WERE DISPUTED BY THE CUBAN INTERESTS SECTION IN WASHINGTON, AND IT SAID REVENUE FROM CUBA FROM U.S. TRAVEL AND MERCHANDISE IS MINIMAL. CUBAN OFFICIALS WOULD NOT PROVIDE THEIR GOVERNMENT'S FIGURES ON THE EXCHANGE.

THE CURRENT EXCHANGE IS WELL BELOW THE PEAK $1 BILLION IN YEARLY TRADE BETWEEN THE TWO COUNTRIES BEFORE CASTRO CAME INTO POWER IN 1959. THE EMBARGO WAS DECLARED IN 1962.

THE EMBARGO PROHIBITS ALL TRADE WITH CUBA. THE NEW EXEMPTIONS ARE CONSIDERED HUMANITARIAN IN NATURE AND ALLOW EXILES TO SEND UP TO $200 A MONTH IN MERCHANDISE TO RELATIVES IN CUBA AND BRING FAMILY MEMBERS FOR SHORT VISITS TO THE UNITED STATES.

EXILES ALSO CAN SEND UP TO $500 IN MONEY EVERY THREE MONTHS TO A HOUSEHOLD IN CUBA.

OFFICIALS SAY TRAVEL IN SOME INSTANCES HAS GONE UP NEARLY 70 PERCENT WHILE SHIPPING HAS NEARLY DOUBLED.

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AM-CUBA-CIGARETTES (SCHEDULED)
CUBA RATIONS ALL DOMESTIC SALES OF CIGARS AND CIGARETTES
BY PASCAL FLETCHER
HAVANA, REUTER - COMMUNIST-RULED CUBA, KNOWN FOR ITS CHOICE TOBACCO AND WORLD-FAMOUS CIGARS, SAID MONDAY IT WOULD RATION ALL SALES OF CIGARETTES AND CIGARS TO ITS OWN PEOPLE.
THE MOVE ANNOUNCED BY THE STATE-RUN MEDIA WAS A FURTHER HEAVY BLOW TO CUBA'S MORE THAN 10 MILLION PEOPLE, WHO ARE AMONG THE HIGHEST TOBACCO CONSUMERS IN THE WORLD.
THEY ARE ALREADY SUFFERING WIDESPREAD SHORTAGES OF PRACTICALLY ALL FOOD AND CONSUMER ITEMS BECAUSE OF DISRUPTIONS TO TRADE WITH EASTERN EUROPE AND THE SOVIET UNION, TRADITIONALLY THE ISLAND'S MAIN ECONOMIC SUPPLIER.
MANY, BUT NOT ALL, OF CUBA'S HUNDREDS OF THOUSANDS OF SMOKERS ALREADY RECEIVED A FIXED QUOTA OF CIGARS AND CIGARETTES IN THEIR MONTHLY FOOD RATION. BUT UNTIL NOW, SMOKERS COULD ALSO PURCHASE ADDITIONAL SUPPLIES OF BOTH FREELY IN STATE SHOPS.
THE STATEMENT BLAMED THE SHORTAGES ON A HUGE RECENT SURGE IN DEMAND FOR CIGARETTES AND PROBLEMS IN PRODUCTION SUCH AS ANTIQUATED MACHINERY AND LACK OF SPARE PARTS. IT ALSO CITED INDISCIPLINE AND ABSENTEEISM AMONG WORKERS AT CIGARETTE FACTORIES IN THE CARIBBEAN ISLAND NATION.
ENSURING A FAIR AND EVEN DISTRIBUTION WAS PREFERABLE TO USING PRICE RISES TO REGULATE CONSUMPTION AND CONTROLLED SALES WOULD STOP HOARDING AND BLACK MARKETEERING, IT ADDED.
UNDER THE NEW SYSTEM, ADULT SMOKERS WHO RECEIVED FOUR PACKETS OF CIGARETTES IN THEIR MONTHLY RATION WOULD BE ALLOWED TO BUY ONLY TWO MORE PACKETS A MONTH.
THOSE WHO DID NOT PREVIOUSLY RECEIVE A TOBACCO RATION QUOTA WOULD BE ALLOWED TO BUY UP TO SIX PACKETS A MONTH.
THE OFFICIAL STATEMENT DID NOT SAY WHETHER THE MEASURES WOULD AFFECT CUBA'S EXPORTS OF TOBACCO AND CIGARS, WHICH ARE PRIZED AROUND THE WORLD. THEY ARE AN IMPORTANT SOURCE OF FOREIGN EXCHANGE.
IN RECENT MONTHS, CIGARETTES AND TO A LESSER EXTENT CIGARS HAD BEEN IN SHORT SUPPLY ON THE LOCAL MARKET, CAUSING LARGE LINES TO FORM OUTSIDE KIOSKS.
BUT CUBA'S BEST CIGARS AND CIGARETTES ARE ABUNDANTLY AVAILABLE TO DOLLAR-SPENDING FOREIGN VISITORS WHO SHOP AT SPECIAL TOURIST STORES. THIS IS A SOURCE OF GREAT RESENTMENT TO ORDINARY CUBANS WHO CANNOT BY LAW HAVE DOLLARS AND SO CANNOT SHOP THERE.
CUBANS ARE ALSO ENCOUNTERING DIFFICULTIES IN BUYING ENOUGH OF THEIR OTHER FAVORITE VICE -- RUM.
WHILE FOREIGN TOURISTS CAN BUY IN DOLLARS A WIDE ARRAY OF CHOICE BOTTLED BRANDS, ORDINARY CUBANS MUST MAKE DO WITH THE CHEAPEST VARIETY, DISTRIBUTED BY TANKERS AT STREET-CORNER BARS.
THE TOBACCO RATIONING MOVE CAME JUST FOUR DAYS AFTER THE COMMUNIST AUTHORITIES ANNOUNCED THE RATIONING OF BOTTLED LIQUID GAS, THE FUEL MOST USED FOR COOKING ON THE ISLAND.
CUBAN PRESIDENT FIDEL CASTRO HAS SAID THAT, WHATEVER HAPPENS IN THE SOVIET UNION AND HOWEVER TOUGH THE ECONOMIC PRESSURES ARE, CUBA WILL NEVER ABANDON ITS ONE-PARTY COMMUNIST SYSTEM.
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N.Y. Times 9-10-91

Cigars and Cigarettes Are Rationed in Cuba

HAVANA, Sept. 9 (Reuters) — Cuba, known for its choice tobacco and world-famous cigars, said today that it would ration all sales of cigarettes and cigars to its own people.

The move, announced by the state-run news outlets, was another big blow to Cuba's more than 10 million people, who are among the heaviest tobacco consumers in the world.

They are already suffering widespread shortages of practically all food and consumer items because of disruptions in Cuba's trade with Eastern Europe and the Soviet Union, the Communist-governed island's main economic supplier.

Many, but not all, of Cuba's hundreds of thousands of smokers already received a fixed quota of cigars and cigarettes in their monthly food ration. But until now, smokers could buy additional supplies in state shops.

The Government attributed the tobacco shortage to production problems and a huge surge in demand for cigarettes.

CUBA: CRIPPLED ICON
First of Two Articles

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Communists Press Forth —By Oxcart

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By Lee Hockstader
Washington Post Foreign Service

SANTIAGO DE CUBA

On the outskirts of this Caribbean city, not far from where Theodore Roosevelt and his Rough Riders charged up San Juan Hill a century ago, there is an old meat packing plant called the Empacadora Santiago where dress rehearsals are underway for Cuba's bleak socialist destiny. Code name: The Zero Option.

Lourdes Duarte, the no-nonsense manager, starts the guided tour in the giant freezers, where Cuban workers wearing Russian fur hats tend to stiff slabs of pork.

"Right now we are preparing in every way for the Zero Option," she said, referring to an apocalyptic future in which the Soviet Union would cut off shipments of petroleum, food and other supplies—a possibility that has become less far-fetched since the failed coup and Communist meltdown in Moscow.

"We rehearse for this at least once a month. We use charcoal and kindling instead of kerosene for the ovens. We practice slaughtering the animals here so they don't have to be transported by truck from the slaughterhouse. We have drills so that our products would be distributed using ox-drawn carts instead of delivery trucks."

But the austerity plans go beyond fuel-saving. Soap has been unavailable for months, so the plant washes blood-stained aprons with crude cakes made partly of pig fat. To save money in the cafeteria, drippings from the ovens are collected to use in making croquettes.

"Every one of us is convinced we must fight and struggle to make do, to find some other way to make things work," said Duarte, echoing President Fidel Castro's slogan-laden vision of what could be socialism's last stand.

Cuba, an island of 10.7 million people that for three decades has defied American power and pressure and stood as a beacon for Latin leftists and Third World revolutionaries, has become a crippled icon, staggering grimly toward a forbidding horizon.

As the largess of its Soviet patron shrivels, the Cuban revolution's achievements in public health and education and its own brand of social and economic equality are heaving and creaking under the weight of an unwieldy centralized economy that does not work and an American trade embargo that does.

More than at any juncture since Castro's 1959 New Year's Day triumph, what is at stake in this crisis is not the shape of his revolution but its survival in a world turned upside down.

Cuba's Contrasts

The fraying fabric of Cuban society was laid bare this summer for a reporter who spent a month here, crisscrossing the island and conducting scores of unmonitored interviews in Havana and 11 of the country's 14 provinces.

Spread over an area the size of Pennsylvania, Cuba is carpeted with endless green fields of sugar cane broken only by billboards pitching Castro's revolutionary dictums. A motorist can stick to back roads all day, hopping from perfect beaches of tall palms and white sand to lazy rural hamlets of tidy wooden shacks and streets muddy from afternoon downpours.

But it is in the larger towns and cities, where three out of four Cubans live, that Cuba's contrasts spring into focus. Stately old mansions, once homes to the bourgeoisie, are cracked and peeling from want of paint. Grand plazas and leafy boulevards, the legacy of colonial times, are fringed with drab apartment blocks and squat public buildings, the legacy of socialism. And in the ubiquitous lines that form for groceries, transport, restaurants and even ice cream, there is an inordinately large number of uniformed men and women of Cuba's army, police and militias.

A visitor was able to question factory workers and farmhands, shopkeepers and pharmacists, bus passengers, teachers and doctors. While most people spoke freely, many preferred not to give their names for fear of retribution from the government's security aparatus.

The impression was of a fiercely proud and nationalistic people, far better educated and more self-assured than in other Spanish-speaking countries of the region, whose daily lives and routines have been upended and squeezed by far-away events moving at breakneck speed.

Like their compatriots in the meat-packing plant, many Cubans are planning for even worse times to come. Many say they are ready for sacrifices. But the busy preparations and bold talk are a veneer that fails to mask Cubans' profound pessimism about the future.

Beyond Castro's barrage of slogans and labels—the already declared "Special Period in Time of Peace," the coming "Zero Option," the apocalyptic "Socialism or Death" are currently in vogue—the plain fact is that life for virtually everyone in Cuba is getting worse and harder at an astonishing rate.

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Faced with more acute food shortages since communism dissolved in Eastern Europe, the government is responding with an epic feat of social engineering. Hundreds of thousands of factory and office workers are being sent to work stints in the countryside—often against their will and without their families—to move Cuba closer to food self-sufficiency.

In Havana's outlying suburbs, the government already has begun construction of about 30 "new towns," where thousands of workers will be moved from the capital to work in the fields beginning next year.

At the 6,150-acre Yabu farm near the heartland city of Santa Clara, Jose Padron, the land manager, gave this blunt assessment of how thousands of city slickers are adjusting to their new rustic lives: "It's not a question of whether they like it. It's a necessity."

Cuban officials point to production figures that show increases in fruit, vegetables and pork. Yet judging by the test that ordinary Cubans use—what is available on grocery shelves—the government's emergency food plan has yet to show results. The appearance of a truck full of fresh corn in downtown Havana a few weeks ago was enough to send 100 people scrambling for a place in line.

In addition to the social upheaval underway across the island, even humdrum functions of daily existence are bending to the exigencies of Cuba's most severe economic crisis.

"There's been no soap for four months," said a 40-year-old textile designer in Villa Clara province, east of Havana in the island's midriff. "How can a person live without soap?"

On highways and country roads across the island, sharp cuts in Soviet fuel supplies have curtailed bus service, leaving Cuba a country of hitchhikers who wait for hours to get to work or to the store.

In the Sierra Maestra, the rugged eastern mountain range where Castro and his revolutionaries launched their insurrection 35 years ago, an old woman who remembers feeding and sheltering the small rebel band shook her head sadly at all the shortages. There was no pasta, she said, no matches. She had been searching for weeks for a certain antibiotic, to no avail.

"We can't continue like this," she said.

'The Essentials of Life'

The government points out rightly that Cuba's standard of living is better than in many other countries of the Caribbean and Latin America. There are no filthy children scrambling over garbage heaps to compete with vultures for scraps of food, as in El Salvador. There are no death squads preying upon the weakest and poorest, as in Guatemala. There is none of the festering disease and crushing poverty that is on display in any village in Haiti or Honduras or Nicaragua. The violent crime, random killing and manic drug trade that are Colombia's scourge, and Jamaica's, are practically unknown in Cuba.

Government officials frequently trumpet the revolution's achievements of lowering infant mortality or increasing daily calorie consumption. "What we are trying is to guarantee the essentials of life," said Raul Taladrid, vice minister for economic cooperation.

But for many Cubans, especially the two-thirds of the population born since Castro's 1959 revolution, that modest goal is not enough. For them, Latin America is not the standard; the United States is. And three decades of anti-American propaganda have done practically nothing to blunt the appetite for the consumer goods that are so abundant just 90 miles across the Straits of Florida.

Many Cubans fear that if their island is relatively well off compared to their Latin neighbors, this only means they have farther to fall. Billboards around the island read, "We trust in the future!" But given Castro's chilling warnings about the Zero Option and, more recently, the unraveling of the Soviet Union, few Cubans seem to share that view.

The evidence of unmet consumer demand is everywhere. In Miramar, an elegant Havana neighborhood now in graceful decay, hundreds of people stand in line every day at an old mansion called the House of Gold. Many are waiting to trade away their family's most treasured heirlooms.

Cubans come with 40-year-old, top-of-the-line Swiss watches, silver dining sets, necklaces, earrings, baubles of every description. Inside, the articles are appraised and bought by the state for dollar-denominated "traveler's checks." The checks are worthless outside Cuba but can be used at special dollar stores around the country to buy imported clothing, electronics and appliances. The government then sells the watches and jewelry on the international market for desperately needed dollars.

But for Castro's government, the most painful example of the undulled consumer impulse is the gradual resurgence of prostitution in Havana and Santiago de Cuba, the two largest cities. In the capital, they are known as "Flowers of Fifth Avenue" for the street where they ply their trade. These students or workers, who want more than wages and rationing coupons can buy, wait outside Havana Club—a new disco for dollar-paying tourists—for clients with greenbacks who will take them shopping.

Having years ago proclaimed an end to prostitution as an achievement of the revolution, Cuban officials insist they are cracking down anew. "We're not tolerating it," said a red-faced Juan Escalona, president of the National Assembly, at a testy news conference last month. Judging from the attitude of police on Fifth Avenue, however, the opposite is true.

The American middle-class ideal, brought tantalizingly home to Cuba by letters, calls and visits by the 1 million Cubans living in the United States and by pervasive media images of American life, has shaped Cubans' expectations. If many Cubans see America as socially chaotic or physically dangerous, they also imagine it to be an economic paradise.

"Kids in particular compare Cuba with the United States," said a 30-year-old grocer in Matanzas, a town east of Havana. "That's not fair, but it's the fact."

The result is the wrenching spectacle of hundreds of Cuban youngsters fleeing across the Straits of Florida to the United States every month aboard flimsy rafts fashioned of inner tubes and plywood. More than 1,700 have arrived that way already this year, braving sun, currents and sharks, and U.S. immigration officials in Florida predict the numbers will soar once hurricane season is over this fall.

For those who stay, the simplest purchases are often a trial.

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Along Cuba's southeastern coast, in the shadow of the Sierra Maestra, a 29-year-old mother and her 8-year-old daughter stood waiting for the bus one Saturday last month. They needed to go 15 miles to the town of Chivirico, where there is a small general store that sells fabric.

They arrived at the bus stop at noon, but by 4 there was still no bus. A few dozen other people also waited, but none was so desperate as the mother and her daughter, who stood in the middle of the road frantically flagging down cars.

Under Cuba's rationing system, fabric is bought according to a complicated system that assigns everyone on the island a designated time to buy certain goods. The last time the woman was eligible, six weeks earlier, family obligations kept her from going shopping. Unless she made it to Chivirico this day, she would have to wait six weeks more—and already her daughter had outgrown her clothes.

"The buses are making me crazy!" she told a motorist who offered her a ride. "Every month it gets worse. It makes everything impossible. What if there's an emergency? It's incredible."

It was a complaint heard dozens of times in a tour across Cuba—from doctors who could not reach the hospital for work in the morning to vacationers who could not get home after an afternoon at the beach.

'Everyone Hopes'

But to understand the dimensions of the problem, it is instructive to visit the main bus terminal in Holguin, a large provincial capital in the east. Buses are the main form of transportation in Cuba, where there are only about 150,000 privately owned cars. At 9 on a weekday morning last month, hundreds of passengers were milling about the Holguin terminal waiting for buses running on a sharply reduced schedule.

The reason: petroleum shipments from the Soviet Union, which account for more than 90 percent of the nation's fuel supply, have been slashed by more than a quarter since 1989. While oil is still going to priority sectors of the economy, such as factories, farms and hospitals, fuel for public transportation have been sharply curtailed. On top of that, spare parts for the buses, which are made in Hungary and Japan, are scarce.

"In May, we received notice one day: Our gasoline supply was cut by about 85 percent," said Rolando Pinilla, the beleaguered business manager of the Holguin bus terminal. "We had to cut two of our 14 routes altogether. Some of the others now don't go every day. And we have fewer buses running the routes we're still operating.

"Everyone hopes it'll get better, but in the meantime you just have to put up with the complaints."

In fact, the Soviet Union's annual 10 million-ton oil shipment, which is the Cuban economy's most vital lifeline, looks more threatened than ever. Most of the Soviet oil comes from the Russian republic, whose president, Boris Yeltsin, has made clear that he favors ending Moscow's charitable trade subsidy for Cuba.

If the Soviet Union does suspend its oil shipments, or begin to require Cuba to pay for them in dollars rather that the current sugar-for-oil swap that has long favored Havana, that would force Cuba either to activate the Zero Option or find large sums of hard currency to pay for oil.

But finding sources of hard currency—dollars—is a particular problem for Cuba. Having suspended payments on its international debt, Cuba cannot borrow abroad. Its cash reserves, never very large, were drained by the staggering cost of staging last month's Pan American Games, a prestige event that Cuba agreed to host years before its economy began to crumble.

The country's dollar supply was further depleted this year when delays in shipments of grain and other supplies from the Soviet Union forced Cuba to turn to the world market. Without warning this spring, Havana residents were informed that daily bread rationing was in effect—one roll per customer. Meanwhile, as Cuban officials bargained with hundreds of new Soviet trading companies to set dollar-valued prices and contracts, Havana was shelling out precious cash to buy emergency supplies of grain from Canada and Argentina and rubber from Mexico.

The shortages have caused some sectors of the economy simply to grind to a halt. Most new commercial construction projects in Havana, as well as many in the provinces, have been suspended. It is common to see half-finished sites apparently abandoned.

At the Universal Products Co., a warehouse outside Holguin, Orlando Fernandez, the assistant business manager, surveyed his shrinking inventory of construction materials.

"Almost all our wood came from the Soviet Union. That's down by 20 to 30 percent," he said. "Same thing for sheet metal and steel beams. About half the glass used for construction is imported, and that's down." Distribution has been complicated partly by a suspension in the shipment of tires from Romania and Czechoslovakia, he added.

Elsewhere, trade relations have been collapsing even faster. A long-standing deal that brought 23,000 tons of East German powdered milk a year to the island in return for Cuban sugar was canceled after German unification.

"It's not fair," said Taladrid, the economic vice minister. "They had no right to do that."

Also lost from former East European trading partners: fats and cooking oil, canned meat and vegetables, frozen chicken, grains, cereals and cheese. In addition, penicillin and other antibiotics and medications formerly furnished by Eastern Europe are in short supply, leading doctors and pharmacists to improvise and substitute.

"Our first priority is to recuperate what we've lost in food imports from Eastern Europe," said Eugenio Balari, director of the Cuban Institute for Research and Orientation of Internal Demand. "If one product is in short supply, we're trying to increase production of another, similar product. The goal is to maintain the level of calorie consumption."

Therefore, Balari explained, the Cuban diet is changing: Instead of bread, Cubans are eating more rice; instead of fresh meat, more tubers such as yucca.

The survival program does not stop at food production. To save energy and make up for reduced bus service, the government is importing more than a half-million Chinese bicycles this year. There has been heavy investment in the island's biotechnology industry, which appears to be paying off: Exports of pharmaceuticals will generate more hard currency this year than Cuba's legendary cigars and tobacco. New hotel construction is expected to add about 5,000 new rooms this year in a bid to lure more tourists who would pay dollars for food, service and lodging that is a cut above what is available for Cubans.

Trade Embargo Tightens

The effort to generate dollars is at times stymied by the United States' 30-year-old trade embargo, which bars American firms from trading with Cuba and most Americans from spending money there. The embargo has become harder to elude since the 1989 U.S. invasion of Panama, which has stanched the flow of some American goods from Panama to Cuba.

Cuban officials and some European diplomats and investors in Cuba contend that Washington has further tightened the screws on the embargo as Cuba's economy has withered, and there is some evidence they are right.

Last year, for example, a tourist resort planned for Cuba's Cayo Coco island lost one of its main investors, a large Spanish tobacco concern called Tabacalera, when U.S. officials pressed the firm to withdraw, according to Cuban and Spanish officials in Havana. The Miami Herald reported last month that U.S. government pressure also forced VASP Brazilian Airlines to break off talks with Castro aimed at forging an operating partnership with Cuba's state airline.

But in most other enterprises, Cuba's balky, centralized economy is stalled not by U.S. interference but by its own inefficiency. Near the mid-island town of Sancti Spiritus, for example, the manager of an aging tile and bathroom fixtures plant described the government's efforts

to attract foreign investors to modernize his factory and make it more productive.

"We've had representatives visit from an Italian firm and a Spanish firm. They both came out and talked, and you know the government is offering 50-50 partnerships. But we never heard from either of them again," he said.

Were they deterred by Cuba's political uncertainty? Or did the United States step in to dissuade them?

"No, nothing to do with that. It's the system. I can't blame them. Tourism is an attractive investment because you can insulate it from the system—it's just services, and those can be separated somewhat from the system.

"But it's another thing to come in and try to retool a factory from scratch. You're dealing with getting spare parts, the distribution problems, fuel problems, supplies of everything.

"It's not about politics, it's a question of what works and what doesn't. This country doesn't work."

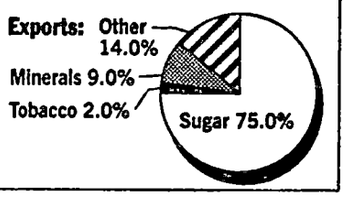
NEXT: Protests embargoed

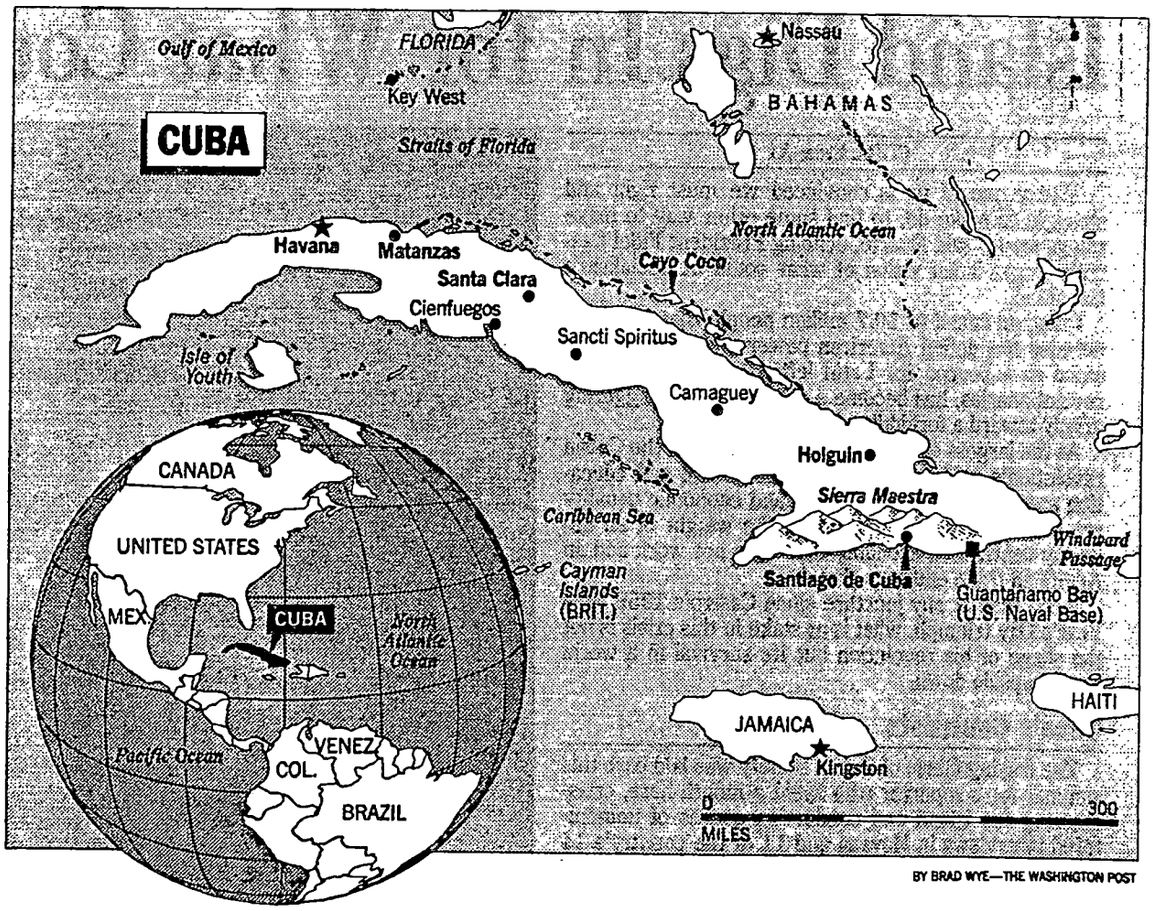
CUBA AT A GLANCE

Area: 44,218 square miles, nearly the size of Pennsylvania.

Population: 10.5 million (1990)

Chief Industries: Sugar is the most important export by far. Tobacco, coffee and many fruits are also grown. Textiles, wood products, and cigars remain key industries. A U.S. embargo, imposed in 1962, ravaged the island's industrial economy.





BY BRAD WYE—THE WASHINGTON POST

WALL ST.J.:09-12-91

Cuban Casualty 171/178

Fidel Castro has been putting up a brave front, but realities are beginning to intrude on his personal never-never land. As the demise of the Soviet empire lets the air out of the Cuban economy, he is finally paying the price for serving so many years as a hireling to Communist bosses in Moscow. With their subsidies and military presence, they kept him politically alive but on a short leash. Now he, and the Cuban people, will pay the price for the country's lack of accomplishment during its years as a Soviet satellite.

This prospect faces him because of the news from Moscow yesterday. Mikhail Gorbachev, Soviet president and nominative chairman of the governing State Council of the new Union of Sovereign States, told U.S. Secretary of State James Baker yesterday that he intends to begin pulling 11,000 Soviet troops out of Cuba.

Mr. Gorbachev informed the U.S. Secretary that future relationships between his country and Cuba will be only political and economic, which presumably means that they will no longer be military. Quite likely, Mr. Gorbachev thinks he now has more important fish to fry than listening in on American telephone conversations with the help of the sophisticated Soviet military-communications facility in Cuba. This spying plus the Soviet bombers and submarines that use Cuba as a base have been a significant annoyance to the U.S. over the years, and at times a genuine threat.

Mr. Baker thought Mr. Gorbachev's move would do wonders for public opinion in the United States, a mild hint that Americans might now be more friendly toward granting economic aid to Moscow. So Mr. Castro becomes the odd man out. The Russians will have a better chance at getting Western aid. Castro's aid from Russia is dwindling away, a victim of the failure of the Communist system he served so loyally.

His own system, propped up for so long by Soviet subsidies, is breaking down too. As an AP dispatch reported yesterday, "virtually everything available in Cuba is rationed, from food to paper to shoes, and long lines for scarce items are a common sight in the capital city of Havana. On Monday the Cuban government voted to begin tobacco rationing and said it will start rationing cooking gas on Sunday."

The Journal's Jose de Cordoba reported from Havana yesterday that the government is now trying to crank up joint ventures with foreign capitalists to help replace lost trade with the East Bloc. Still, the head of Cuba's committee for economic cooperation calls capitalism "a trap for whoever wants to fall into it."

Indeed, Mr. Castro says Cuba will remain a Communist country, and he no doubt will adhere to his passionate hatred of all things Yankee as well. None of which will represent much trouble for anyone other than the Cuban people.

Castro's days as the mastermind of the communist revolution in the Caribbean—which had one great, but temporary, success in the Sandinista revolution in Nicaragua—are numbered. How long Cubans will be willing to suffer abject poverty in support of their generalissimo's passions is an open question. But the likely answer would seem to be, not much longer.

EAST EUROPE THE OUTLOOK NOW

▶3M'S STRATEGY ▶INFORMATION HIGHWAYS: THE GLOBAL RACE

INTERNATIONAL BusinessWeek

SEPTEMBER 16, 1991

A McGRAW-HILL PUBLICATION

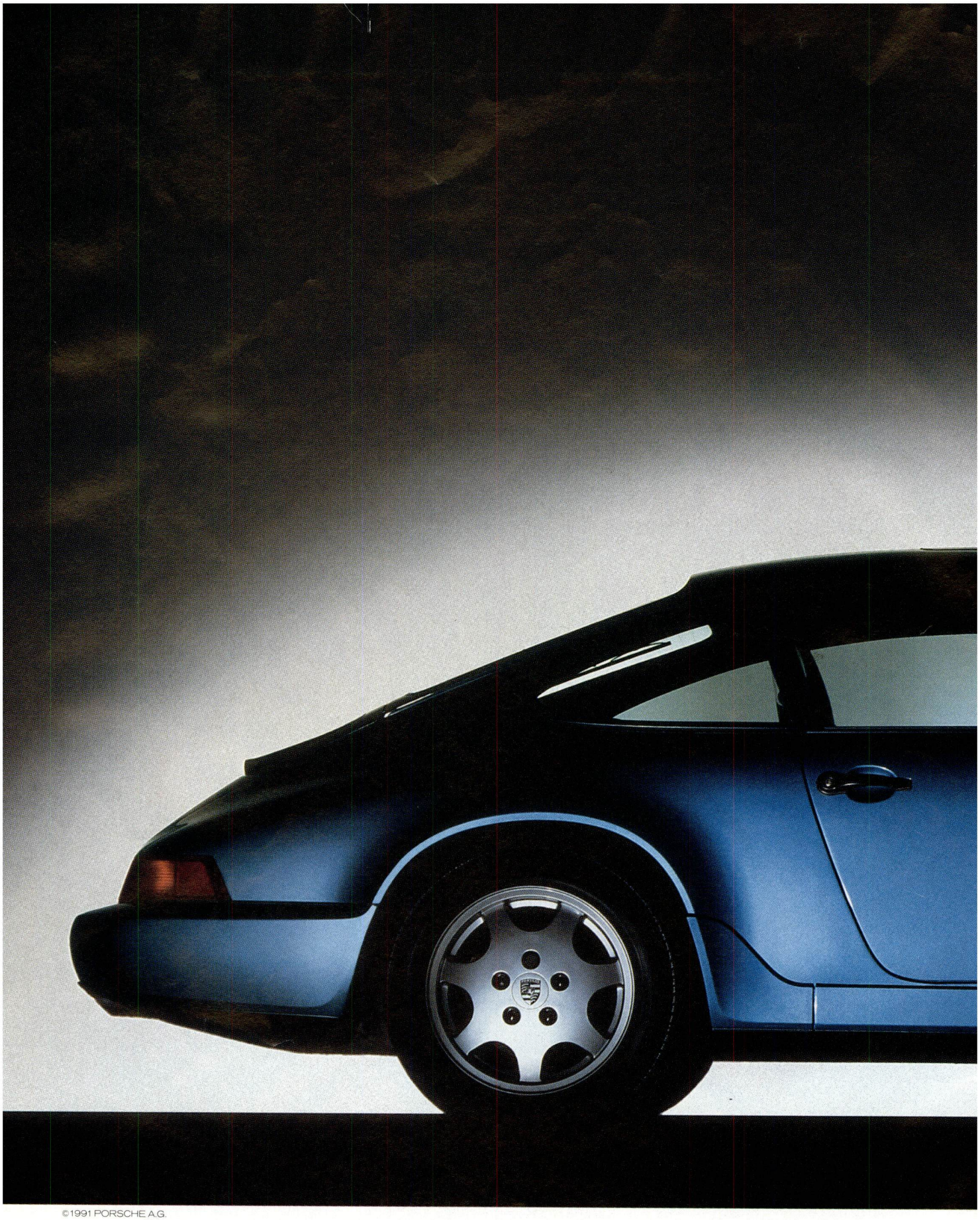
MIAMI

FOREIGN INVESTORS ARE FLOCKING TO ONE OF NORTH AMERICA'S HOTTEST BUSINESS CITIES

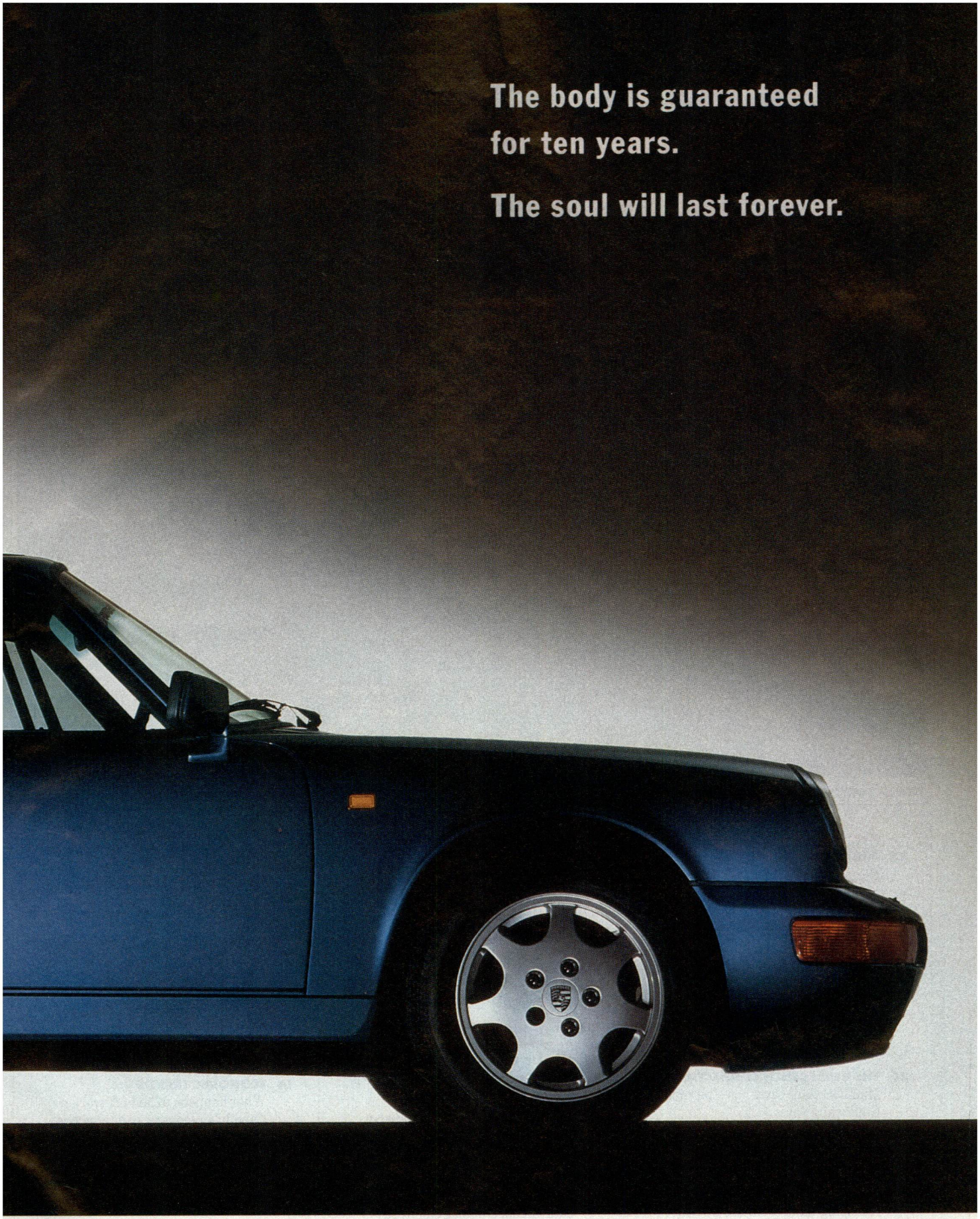


AUSTRALIA.....A $2.50
AUSTRIA.....SCH 35
BELGIUM.....B. FR. 120
DENMARK.....D. KR. 22.00
FINLAND.....F. MK. 12.50
FRANCE.....F. FR. 18.00
GERMANY.....DM 6.00
GREECE.....DRS. 330
HOLLAND.....FL 5.90
HONG KONG.....HK $25
ITALY.....LIT. 3,000
JAPAN.....Y720 (Y699)
LUXEMBOURG.....L. FR. 110
MALAYSIA.....M. $6.00
MEXICO.....MEX. $10,000
NORWAY.....N. KR. 19.00
SINGAPORE.....S. $5.50
SPAIN.....PTS. 295
SWEDEN.....S. KR. 25.00
SWITZERLAND.....S. FR. 4.50
UNITED KINGDOM.....£1.50
UNITED STATES.....US $2.50

NUMBER 3221-551



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The body is guaranteed
for ten years.
The soul will last forever.

PORSCHE

NUMBER 3221 - 551 BusinessWeek SEPTEMBER 16,1991



WORLD TRADE CENTER: MIAMI HAS REBOUNDED IN A BIG WAY TO BECOME A COSMOPOLITAN CITY—EVEN THE TOURISTS ARE COMING BACK

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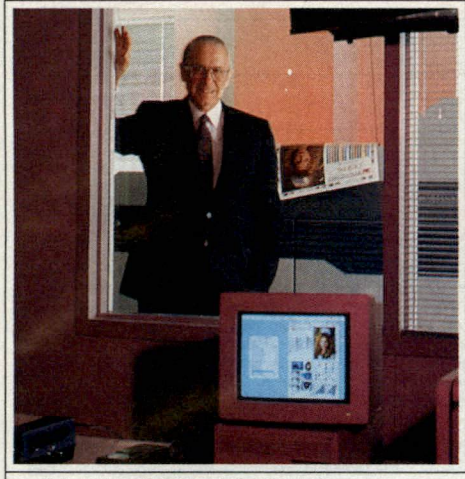
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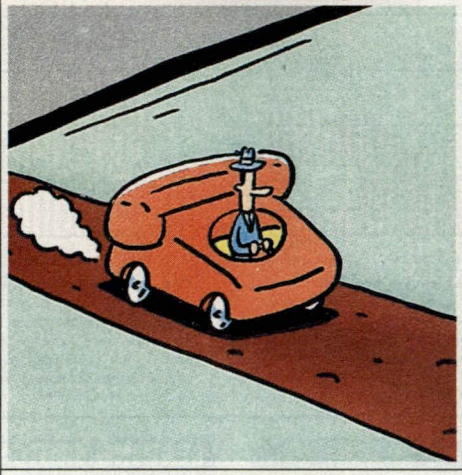
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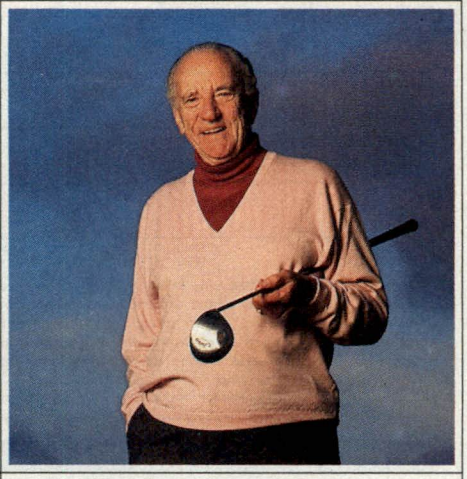
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COVER ILLUSTRATION BY COCO MASUDA; PHOTOGRAPH ABOVE BY RANDY TAYLOR/GAMMA-LIAISON







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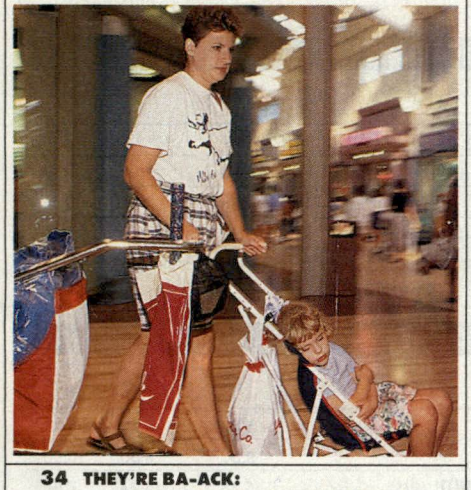
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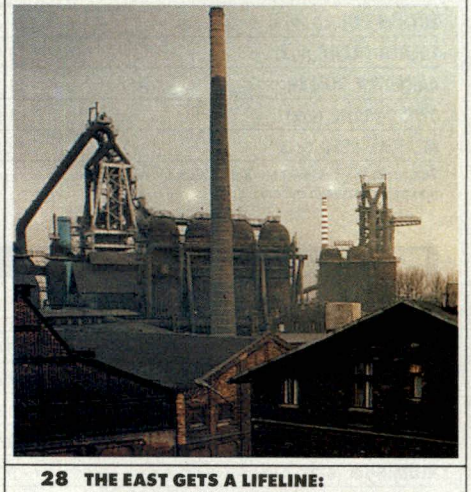
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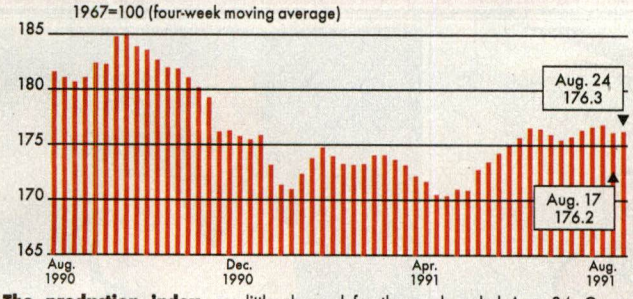
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Business Week (ISSN 0007-7135) published weekly, except for one issue in January, by McGraw-Hill Inc. Subscriber rates available on request. Executive, Editorial, Circulation, and Advertising Offices: 1221 Avenue of the Americas, New York, N. Y. 10020. Second-class postage paid at New York, N. Y., and at additional mailing offices. Title Reg. in U. S. Patent Office. **Postmaster:** Send Form 3579 to BUSINESS WEEK, P. O. Box 430, Hightstown, N. J. 08520. Argentina: Clasificada por el Correo Argentino como de "interes general" bajo tarifa postal reducida. Concesion No. 873.

BusinessWeek Index

PRODUCTION

Change from last week: 0.1%
Change from last year: −2.7%

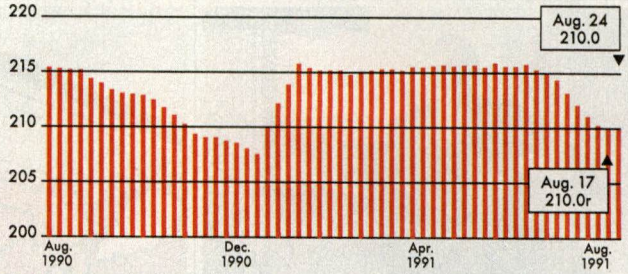


The production index was little changed for the week ended Aug. 24. On a seasonally adjusted basis, output of lumber, rail-freight traffic, paperboard, coal, and electric power increased. Truck, steel, and paper production declined. Auto and crude-oil refining output levels were unchanged from the previous week. Before calculation of the four-week moving average, the index advanced strongly, to 177.9, from 176.5 in the prior week.

BW production index copyright 1991 by McGraw-Hill Inc.

LEADING

Change from last week: 0.0%
Change from last year: −2.4%



The leading index was flat during the week ended Aug. 24, as the index continued to signal sluggish economic growth in the coming months. Stock prices were lower, and the growth in real estate loans has fallen sharply since early July. On the plus side were lower bond yields, a smaller rate of decline in materials prices, a drop in the number of business failures, and an increase in M2. Prior to calculation of the four-week moving average, the index dropped to 209.8, from 210.5.

Leading index copyright 1991 by Center for International Business Cycle Research

PRODUCTION INDICATORS

	Latest week	Week ago	% Change year ago
STEEL (8/31) thous. of net tons	1,599	1,583#	−16.1
AUTOS (8/31) units	107,788	111,948r#	−14.2
TRUCKS (8/31) units	75,996	70,691r#	2.2
ELECTRIC POWER (8/31) millions of kilowatt-hours	65,905	62,667#	1.0
CRUDE-OIL REFINING (8/31) thous. of bbl./day	14,099	13,873#	−0.5
COAL (8/24) thous. of net tons	20,837#	20,388	−0.2
PAPERBOARD (8/24) thous. of tons	820.1#	789.0r	10.8
PAPER (8/24) thous. of tons	771.0#	771.0r	0.0
LUMBER (8/24) millions of ft.	515.3#	488.7	7.4
RAIL FREIGHT (8/24) billions of ton-miles	20.2#	19.9	−3.8

Sources: American Iron & Steel Institute, *Ward's Automotive Reports*, Edison Electric Institute, American Petroleum Institute, Energy Dept., American Paper Institute, WWPA[1], SFPA[2], Association of American Railroads.

FOREIGN EXCHANGE

	Latest week	Week ago	Year ago
JAPANESE YEN (9/4)	135	137	141
GERMAN MARK (9/4)	1.74	1.74	1.56
BRITISH POUND (9/4)	1.69	1.69	1.89
FRENCH FRANC (9/4)	5.90	5.90	5.23
CANADIAN DOLLAR (9/4)	1.14	1.14	1.16
SWISS FRANC (9/4)	1.52	1.52	1.30
MEXICAN PESO (9/4)[3]	3,034	3,034	2,892

Sources: Major New York banks. Currencies expressed in units per U. S. dollar, except for British pound expressed in dollars.

PRICES

	Latest week	Week ago	% Change year ago
GOLD (9/4) $/troy oz.	348.700	354.500	−9.0
STEEL SCRAP (9/3) #1 heavy, $/ton	97.00	94.00	−16.0
FOODSTUFFS (8/30) index, 1967=100	202.5	204.9	−4.8
COPPER (8/31) ¢/lb.	107.5	104.8	−19.5
ALUMINUM (8/31) ¢/lb.	58.1	57.9	−29.1
WHEAT (8/31) #2 hard, $/bu.	3.21	3.07	12.6
COTTON (8/31) strict low middling 1-1/16 in., ¢/lb.	65.19	65.36	−13.0

Sources: London Wednesday final setting, Chicago market, Commodity Research Bureau, *Metals Week*, Kansas City market, Memphis market.

LEADING INDICATORS

	Latest week	Week ago	% Change year ago
STOCK PRICES (8/30) S&P 500	395.09	386.40	22.8
CORPORATE BOND YIELD, Aaa (8/30)	8.70%	8.68%	−9.0
INDUSTRIAL MATERIALS PRICES (8/30)	97.0	96.6	−7.9
BUSINESS FAILURES (8/23)	339	355	16.1
REAL ESTATE LOANS (8/21) billions	$398.2	$399.7	3.9
MONEY SUPPLY, M2 (8/19) billions	$3,407.0	$3,400.4r	2.9
INITIAL CLAIMS, UNEMPLOYMENT (8/17) thous.	421	430	10.2

Sources: Standard & Poor's, Moodys, *Journal of Commerce* (index: 1980=100), Dun & Bradstreet (failures of large companies), Federal Reserve Board, Labor Dept. CIBCR seasonally adjusts data on business failures and real estate loans.

MONTHLY ECONOMIC INDICATORS

	Latest month	Month ago	% Change year ago
CONSTR. SPENDING (July) annual rate, billions	$404.9	$398.7r	−10.6
PERSONAL INCOME (July) annual rate, billions	$4,807.7	$4,813.3r	3.1
12 LEADING INDICATORS COMPOSITE (July) index	145.4	143.7	−0.5
NEW HOME SALES (July) annual rate. thous.	472	516r	−12.8

Sources: Census Bureau, Commerce Dept.

MONETARY INDICATORS

	Latest week	Week ago	% Change year ago
MONEY SUPPLY, M1 (8/19)	$864.9	$862.8r	5.7
BANKS' BUSINESS LOANS (8/21)	299.8	299.9	−6.9
FREE RESERVES (8/21)	656r	171r	NM
NONFINANCIAL COMMERCIAL PAPER (8/21)	139.7	140.7	−3.7

Sources: Federal Reserve Board (in billions, except for free reserves, which are expressed for a two-week period in millions).

MONEY MARKET RATES

	Latest week	Week ago	Year ago
FEDERAL FUNDS (9/3)	5.82%	5.59%	8.25%
PRIME (9/4)	8.50	8.50	10.00
COMMERCIAL PAPER 3-MONTH (9/3)	5.76	5.74	7.85
CERTIFICATES OF DEPOSIT 3-MONTH (9/4)	5.60	5.66	7.94
EURODOLLAR 3-MONTH (8/31)	5.64	5.58	8.08

Sources: Federal Reserve Board, First Boston

#Raw data in the production indicators are seasonally adjusted in computing the BW index (chart); other components (estimated and not listed) include machinery and defense equipment.
1=Western Wood Products Assn. 2=Southern Forest Products Assn. 3=Free market value NA=Not available r=revised NM=Not meaningful



A ROWING~BOAT FOR A LIQUEUR. (POSSIBLY THE BEST SWAP IN HISTORY.)

A red-faced English officer burst into the little hut.

"We have found your boat, MacKinnon! You will rot prison!" There was no fear in the old clan chief's art, only pride. And in his plaid, a strange gift from the val rebel he had spirited to safety.

MacKinnon survived the dungeon and so did his reward: the recipe for Prince Charles Edward Stuart's personal liqueur.

The drink that became Drambuie.

To this day, only one MacKinnon in each generation knows the formula.

He will confess to the use of rare 15 year old malt whiskies.

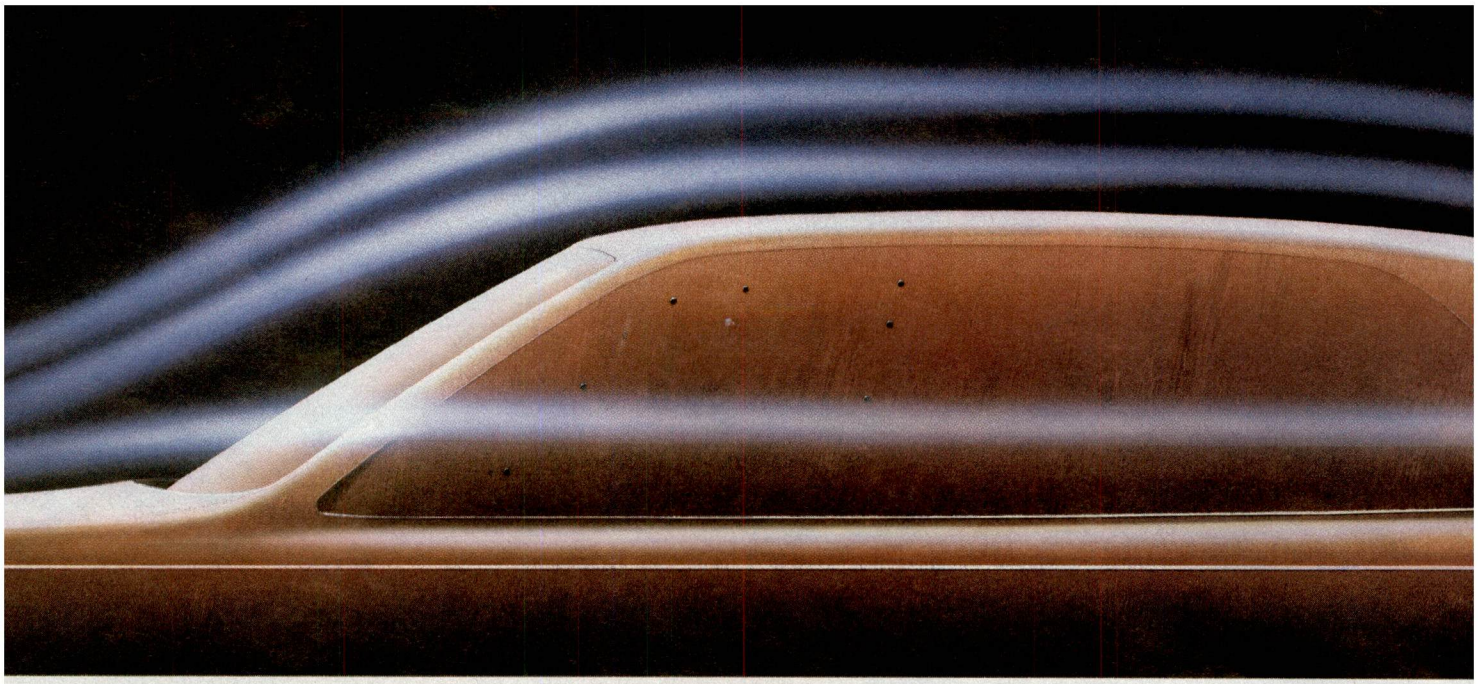
He will reveal that Drambuie is sweet and mellow on its own, slightly drier over ice and a match for most mixers.



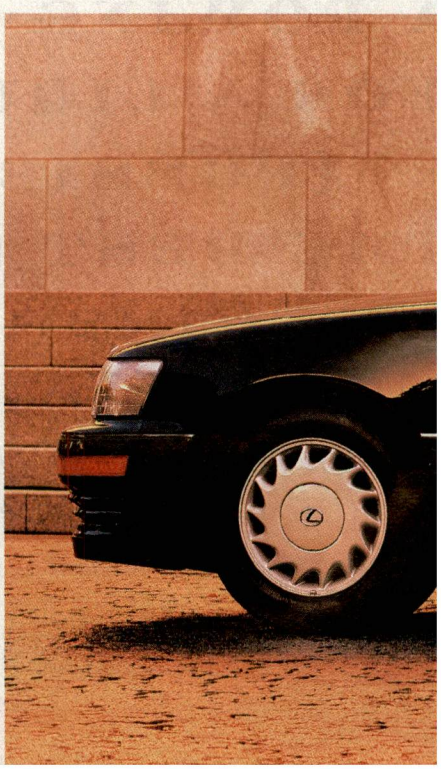
But ask about a certain secret herbal essence and he'll be rather more forthcoming.

He'll tell you to go and jump in a loch.

TILL MADE TO THE PRINCE'S SECRET RECIPE.



THE STORY OF THE CLAY MODEL AND THE SEVEN MICROPHONES.





Prevention is always better than a cure. That is why Lexus engineers didn't wait until the LS400 was a reality to start thinking about the problem of wind noise. Unlike other carmakers, they began at the earliest stages of its development.

Before one of the first clay models entered the wind tunnel for testing, they placed seven microphones in strategic locations. This enabled them to study and monitor those areas particularly susceptible to wind noise.

When it came time to develop the first LS400 prototypes, the engineers made modifications in design according to the results of their experiments. As a result, the LS400 not only has the lowest coefficient of drag (Cd) of any car in its class, it also has one of the world's quietest cabins.

THE SOUND OF SILENCE.

Lexus was able to achieve its extraordinary quietness and Cd figure of 0.29 as a result of an extraordinary design; where aerodynamics and aesthetics, often seen as antagonists, were united in uncompromising and remarkable harmony.

INSPIRED TO PERFECTION.

In every detail, great and small, Lexus is a new automobile. From its 4.0-litre 32-valve V8 engine to its world-first liquid crystal display rearview mirror. What isn't new, however, is the 50 years of automotive experience that went into the making of Lexus. A result which has turned another page in the history of the automobile.

LEXUS

A New Division of Toyota



Lexus LS400

Models may vary according to market.

Should a computer dictate the



terms of your corporate merger?

MERGERS. Strategic alliances. Joint ventures. All over the world, companies are joining forces to better meet the changing demands of a changing world.

And even though computers won't dictate the terms of the final agreement, they'll probably have a lot to say in the final analysis. They have to work together, just like everyone else, if the venture is to be a success. Alas, computer incompatibility can sour the sweetest deal.

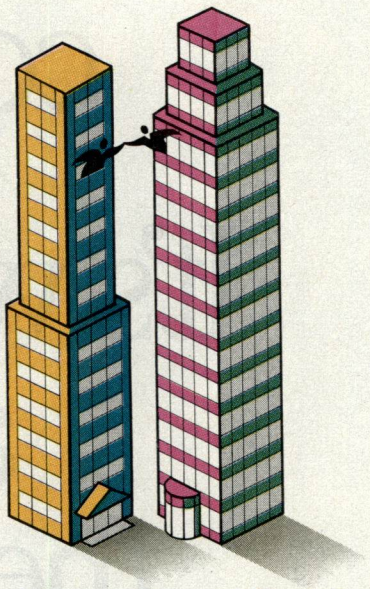
That's where ScaNet comes in—the *intelligent* network that can connect over 85% of all computer hardware regardless of age or intelligence. Including a lot of so-called "incompatible" equipment like IBM and DEC.

Think of ScaNet as a highway for computers. It's the road information takes as it travels from computer to computer. We supply the pavement and the road signs so that everything runs smoothly—the infrastructure. And we didn't invent yet another set of "rules of the road" either. ScaNet's based on ISO/OSI—an internationally recognized standard. Like red means stop.

We've designed special gateways, communication servers and terminal servers that convert information to and from ISO/OSI so that different equipment—and even different networks—can work together. About the only thing we *don't* build is computers. After all, would you ask a car manufacturer to build you a road?

ScaNet helps you get important information to the people who need it—*when* they need it. To improve marketing efforts. To keep R&D projects on the right track. To coordinate sales and production. To establish a natural flow of information so that you get the most out of your resources and make the most of your capacity.

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RANK XEROX

The real question isn't where ideas come from.

It's where they go and how they get there.

Everyone is capable of having a good idea. But every company isn't capable of taking advantage of the ideas people come up with. All too often, there are barriers between people and departments that keep ideas from being explored, debated, nurtured and communicated. It doesn't have to happen that way.

Still, breaking those barriers down is no easy matter. The first step is to recognize that ideas themselves are the true products of people who work in offices. And that all the initiatives and innovations these "knowledge workers" generate, create what you might call the "intellectual capital" of a company.

The second step is to recognize that the full value of those ideas can only be appreciated if they are effectively communicated. At Rank Xerox, for example, an idea about capturing information to help improve customer service wasn't fully realized until it found its way into a document.

The idea amounted to a simple observation. Rank Xerox service representatives were learning as much about solving customer problems from casual conversations with each other as they were from their manuals. But that knowledge was never captured or distributed. So we instituted regular sessions where "war stories" were encouraged, shared, and then put into documents and sent throughout the company. That meant better service for our customers, as well as improved product design.

Of course, none of that knowledge could be captured, shared, presented, or distributed without the document or the copiers, fax machines, printers, scanners, workstations and publishing systems that are the communications lifeline of any company. It's just one way Rank Xerox technology can help people work together to create and orchestrate the most valuable asset any company can ever enjoy.

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TWENTYSOMETHINGS: WHO'S TO BLAME FOR THEIR PROBLEMS?

The article "What happened to the American dream?" (Cover Story, Aug. 19) on the plight of the under-30 generation hit on something my wife and I have been sensing for some time. After two years as a New York banker, I earn more than my father did after 20 years as a civil servant. Yet, we feel like we are worse off than he was at the same stage in life. The twentysomething crowd is shut out of the single-family home market unless it has near-six-digit incomes or gets help from relatives.

Perhaps more important is the ever-increasing tax burden. Twenty-five years ago, our parents paid about 18% of their wages and salaries to the three levels of government. Today, we pay about 25% for what is probably a lower level of government services. If our policymakers really want to increase national savings and help young, middle-income Americans surveyed in your article, they should cut taxes and spending now.

C. Ross
Katonah, N. Y.

Gee, what a surprise! After a decade of hollowing out the economy, there's no money, medical care, or decent jobs for our kids. We overpay incompetent executives, shyster lawyers, and greedy elderly. We give our best jobs to the Japanese, Koreans, Mexicans, et al. and lay off our own people. The last Depression was about the impoverished working class, and the next one will be, too. A Third World economy can't support a First World living for anyone—working or retired. If the Social Security generation and the executive class want to keep collecting those fat checks, they had better get concerned about the welfare of the young workers who support the system.

Daniel H. Houck
Silver Spring, Md.

It is not fair to compare the prosperity of today's young families with those from 20 years ago. Previous generations benefited from the power of America's unions, which allowed unskilled, untrained, and unambitious people to make obscene amounts of money. These jobs have been moving to other countries that have a more cost-competitive labor force. The prosperity of today's young families should be compared with those of other countries. It isn't our economy that has eroded, it is our work ethic.

Kevin P. O'Flynn
Canton, Mich.

CORRECTIONS & CLARIFICATIONS

In the story "A power surge in home PCs" (Information Processing, Aug. 26), we misstated market researcher Link Resources Inc.'s estimate for worldwide home-computer sales in 1990. The correct number is $4.29 billion.

AN AGENCY PUTS ITS MONEY WHERE ITS ACCOUNTS ARE

I was quoted out of context in a recent piece ("JWT: Fraying carpets and frayed nerves," Marketing, Aug. 19). I said about the budgeting process, "The philosophy on their side is 'demand the outrageous,' on our side, it is 'give the least.' Out of the resulting compromise comes what's best for both." The last sentence was left out of the quotation.

To me, this epitomizes the exaggerated emphasis on WPP's role, which the entire article exhibits. I don't know a single agency that has not taken steps in this recessionary period to contain costs.

We certainly have, yet J. Walter Thompson has added $190 million in new billings in the first six months of 1991, not including the Northwest Airlines assignment. It's true: We're not spending money on carpets. We are spending it on giving our clients better work.

Burt Manning
Chairman/CEO
J. Walter Thompson Co.
New York

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BUSINESS WEEK ****3221 - 551
SEPTEMBER 16, 1991 ISSN 0007-7135

Published weekly, except for one issue in January, by McGraw-Hill, Inc. Founder: James H. McGraw (1860-1948). Printed in the Netherlands. Subscription rates available upon request. Allow four to six weeks for shipment. Executive, Editorial, Circulation, and Advertising Offices: McGraw-Hill Building, 1221 Avenue of the Americas, New York, N.Y. 10020. Telephone: (212) 512-2000. Domestic Telex: 12-7960; International Telex: 232365; Cable: McGraw-Hill New York; TWX: 710-581-4879. European Circulation Center, McGraw-Hill House, Maidenhead, Berks, England. Telephone: (0628) 23431; Telex: 848640.

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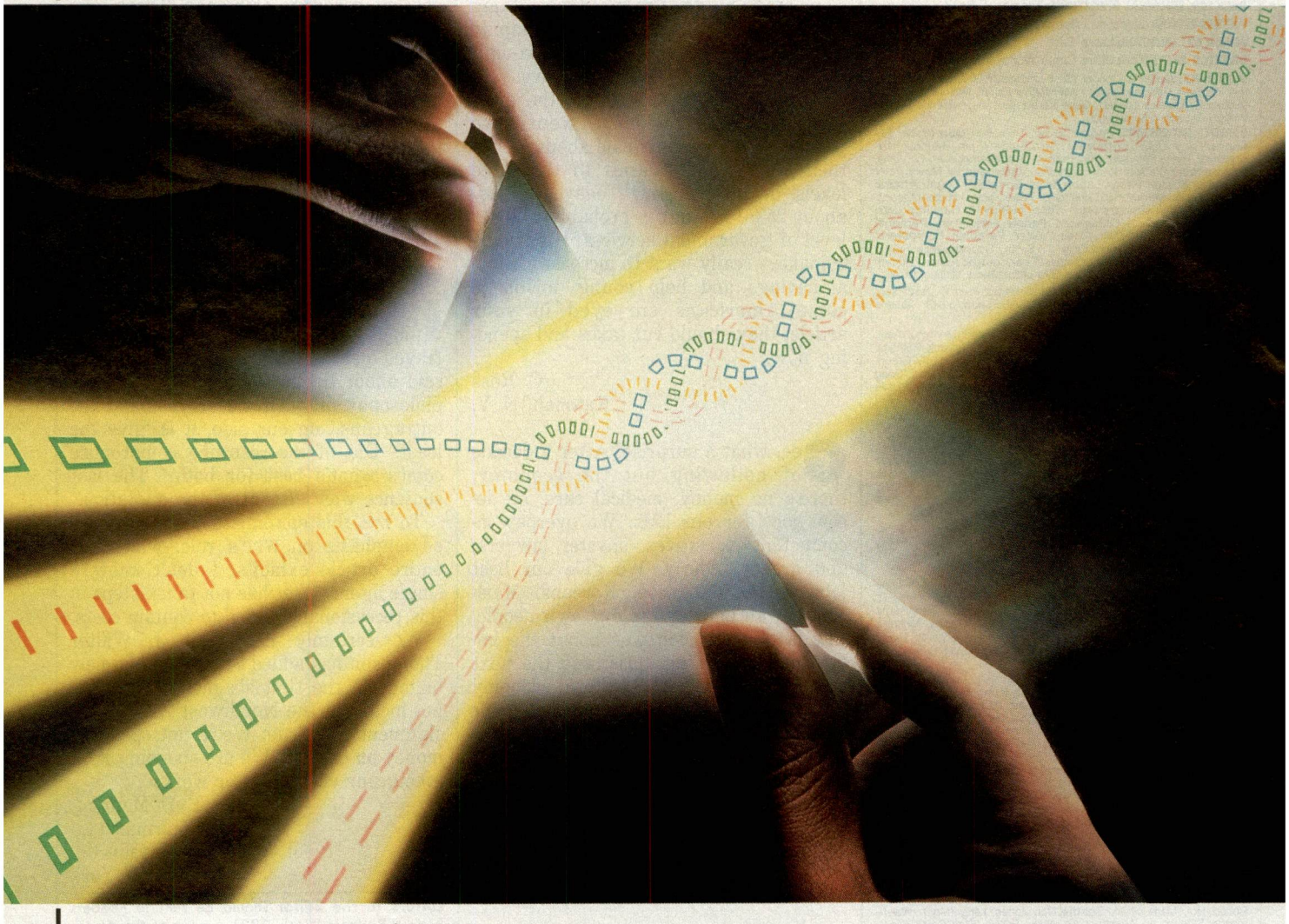
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BUSINESS WEEK es una revista semanal editada desde 1929, impresa en los talleres de Royal Smeets Offset, Molenveldstraat 90, Weert, Holanda. Editor responsable John W. Patten en domicilio, 1221 Avenue of the Americas, New York, U.S.A. Publicacion periodica registrada en Mexico en Septiembre 14, 1989 con el numero 083 0989.

Ericsson Transport Network Architecture

Laying the foundations of a responsive public network



Ericsson Transport Network Architecture. A new concept from Ericsson that provides a stable, integrated platform for the entire digital public network – and offers users new levels of reliability, availability and flexibility.

Within the public network, the transport network provides the infrastructure. It includes not simply the transmission links in the network, but the switching, routing and control facilities which provide bandwidth where the network needs it, when the network needs it.

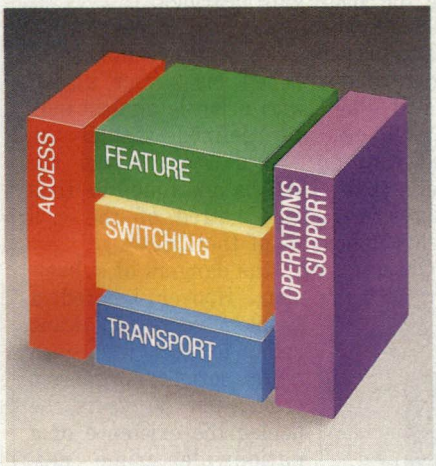
With the Ericsson Transport Network Architecture, network operators achieve faster provision of transmission services, faster response to changing customer needs, more efficient use of network capacity, and a smooth evolution to the next-generation SDH (Synchronous Digital Hierarchy) networks of the '90s.

The results are greater satisfaction for users, and opportunities for operators to save costs in operation and maintenance – increased competitiveness for users and operators in an increasingly competitive world.

The transport network – wideband transmission capacity where it's needed

As the world's networks approach full digitalisation with optical fibre links, network operators are focussing on network structure, network services, and network management *beyond* the digital per-call switch.

A new Ericsson model offers a rational logic for network structure and development. It clusters network functions and the systems which provide them on a series of levels.



At the sides of the model are the access systems; and an integrated set of operations support systems to manage and control all the layers of the network model.

Within the model, features and customer services on the upper level are supported by the network intelligence located in the per-call switches on the switching level.

And at the transport level, supporting the switching, is the Ericsson Transport Network – no longer merely transmission and transmission systems, but a network layer with its own coherent logic.

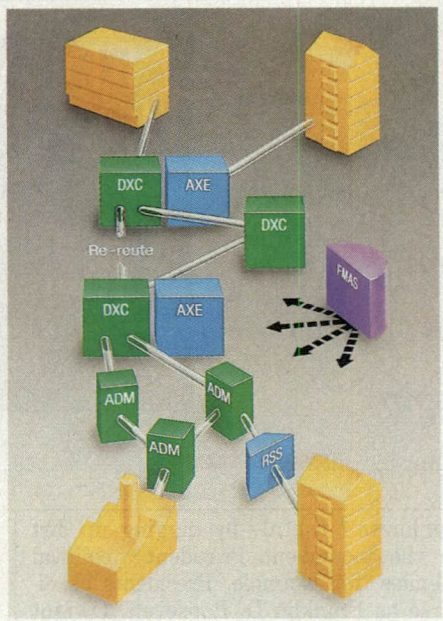
TMOS is an Ericsson trademark for its Telecommunications Management and Operations Support system.

Two significant transport network facilities: command-controlled routing ... automated traffic management

Ericsson's transport network systems optimise performance in the transport network in two significant areas.

Its capability in command-controlled routing offers users dramatic improvements in *flexibility*. Network operators can set up or rearrange routes very quickly without manual site work – to meet customer requirements immediately *and* make dramatic savings in the cost of network operation and maintenance. And because the Ericsson Transport Network Architecture allows operators to monitor networks constantly, they can introduce advanced new services with confidence.

Similarly, its automatic traffic management improves *availability* and *reliability*. Traffic restoration when faults occur is largely automated; new connections are facilitated; and network fill factors of 70% can be routinely achieved.



From Ericsson: advanced new transport network products

The backbone is a high-capacity synchronous network of optical transmission links.

The network incorporates bandwidth switching through digital cross-connects (DXCs) – semi-permanent switches with holding times of hours, days or weeks, under software control.

And in the complete transport network architecture, an external control system, interfaced with the transmission links, offers operators full control.

Ericsson is developing products in all three areas:

- DXC switches for 2 Mb/s, 34 Mb/s, and 140 Mb/s plesiochronous transmission channels, as well as 155 Mb/s synchronous transmission channels;
- transmission systems which conform to the emerging Synchronous Digital Hierarchy (SDH) standards, with transport capacity for 155 Mb/s, 620 Mb/s, and 2.5 Gb/s;
- FMAS – Facility Management System – a package within Ericsson's TMOS total network management system which offers transport network control and increases network utilisation to 70% and above.
- Series 7000 Plus transmission systems – plesiochronous transmission systems upgraded with TMN (Telecommunications Management Network) interfaces to FMAS to provide a smooth evolution to the true SDH.

For more information on Ericsson's Transport Network Architecture, post the coupon for your copy of Go with the stream *– a new brochure which describes the systems, their applications, and the benefits they offer.*

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J. EDGAR HOOVER: THE MAN AND THE SECRETS
By Curt Gentry
Norton • 846pp • $29.95

THE LAWMAN WHO TRAMPLED ON THE LAW

John Edgar Hoover was born in 1895 in the shadow of the nation's Capitol, died at the age of 77 in his Washington bedroom, and is buried 13 blocks from his birthplace. He left Washington only occasionally, never traveled abroad, never married, did not read books, did not go to plays or concerts, and did not express any new or startling ideas. He was to the marrow of his bones the quintessential Washington bureaucrat.

Why, then, read 846 pages about such a colorless man? Simple. The Federal Bureau of Investigation, the agency to which Hoover devoted 55 years of his life—48 as director—is our national police force. And as author Curt Gentry describes in *J. Edgar Hoover: The Man and the Secrets*, on almost every day of those years, the FBI broke the law.

Under Hoover's direction, its agents opened people's mail, tapped phones, and broke into houses and offices. They used listening devices, blackmail, and paid informants. They spread damaging—often false—information about individuals and organizations. And while their targets included many known or suspected criminals, they included even more elected and appointed officials, foreign diplomats, executives, labor and civil rights leaders, and private citizens whose exercise of their First Amendment rights offended Hoover.

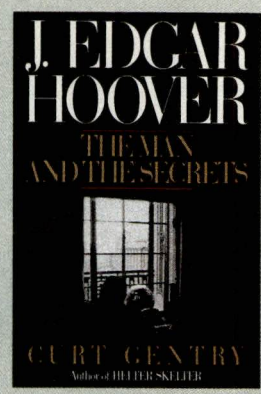
Gentry, who with Vincent Bugliosi wrote *Helter Skelter: The True Story of the Manson Murders*, labored 15 years on this fact-crammed biography. What he has given us is a blistering portrayal of the bureaucrat run amok.

Nominally, Hoover was never more than a second-tier official, one of many who worked for the Attorney General. But as soon as the 29-year-old night-school lawyer became FBI director in May, 1924, he set about transforming the fumbling, corrupt back office of the Justice Dept. into the country's most powerful domestic agency. With unflagging energy and calculated ruthlessness, he cleaned house and introduced professional standards. He also shaped the bureau into an instrument for expressing his values, foibles, and prejudices.

Over the years, many people wanted his job or wanted him out of it. Yet he outlasted 17 Attorneys General and every President from Woodrow Wilson to Lyndon B. Johnson. John F. Kennedy and Richard M. Nixon tried to get rid of him, but only death succeeded.

Hoover knew how to survive and thrive in the Washington jungle by making himself useful—by digging up dirt on the incumbent President's political enemies, for example. Presidents as diverse as Franklin D. Roosevelt, Dwight D. Eisenhower, and Lyndon Johnson rewarded him with special favors, and he became virtually independent of the Attorney General. More important, Hoover knew how to make himself feared. By midcareer, he had become a kind of sacred monster, admired by some, hated by many, but feared by everyone—senators, representatives, White House aides, and, yes, Presidents.

Early on, Hoover understood the terror that the secret dossier can inspire



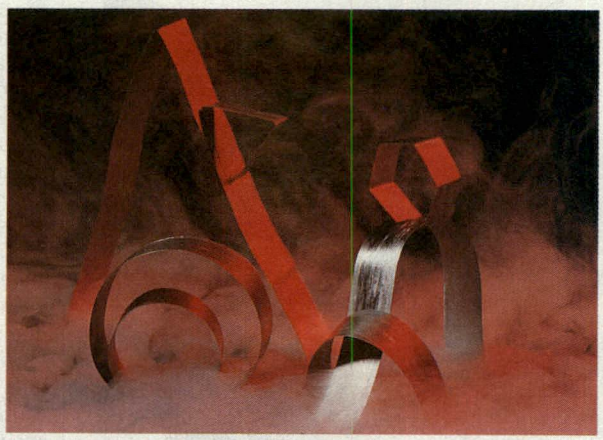
Early on, he understood the terror that the dossier—that indispensable tool of every secret policeman—can inspire. As the years passed, his agents fattened the files at headquarters with reports on everything they could unearth about thousands of people—words and deeds, facts, conjectures and rumors, and most useful, the dirty little secrets (financial, sexual, and so forth) that, if made public, can bring down even the most powerful. In 1972, when news of Hoover's death spread around the capital, nearly everyone's first reaction was: Where are his files? By then, his longtime secretary was busy destroying them, along with his appointment books dating from 1924—a job that took two months. Gentry reports that a lot of people believe some of Hoover's files survived, including a compromising one on Senator Sam J. Ervin that protected the bureau during the Watergate hearings.

Hoover held extremely narrow political and social views, which ossified as he aged. He launched his career during World War I with a battle against subversives—flexibly defined—that continued through World War II and the McCarthyite hysteria and found its final expression in his hatred of the civil rights upheavals of the 1960s.

Obsessed with the dangers of subversion, Hoover ignored a problem many Americans came to feel was even more serious: organized crime. For 30 years, he denied the existence of a nationwide crime network. The Mafia, he insisted, was something dreamed up by journalists. Theories to explain his blindness abounded. Former Attorney General Ramsey Clark thought he worried that proximity to organized crime would corrupt his agents. Others speculated that he wanted to protect those of his friends, such as Stork Club owner Sherman Billingsley, who were on the fringes of the mob.

In November, 1947, when a gathering of the country's mob leaders at Apalachin, N. Y., burst into the headlines, the FBI was caught flat-footed. Critics of the bureau, including a brash young Senate investigator named Robert F. Kennedy, leveled withering attacks. Hoover then authorized the Top Hoodlum Program, one of the FBI's largest wiretapping operations. Over some five years, it yielded extensive information about the scope of mob operations, including political tie-ins Hoover could use against his enemies.

Hoover's enemies list, inaugurated in 1919, lengthened steadily to include hundreds of people: bureaucratic rivals, such as Central Intelligence Agency head William J. Donovan; government officials who opposed him in one way or another, such as Supreme Court Justice Felix Frankfurter; and people whose



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politics or conduct he disapproved of, such as Martin Luther King Jr. Almost inevitably, Hoover's enemies became targets of surveillance.

Hoover had no compunctions about leaking files where they would do the most harm. He frequently trafficked in rumors of homosexuality, using them, for example, against Eleanor Roosevelt and Adlai E. Stevenson. Oddly enough—or perhaps not—he was pursued throughout his career by rumors that he himself was homosexual. Gentry reports the rumors but adds nothing, probably because there is nothing to add. For 44 years, Hoover worked with, dined with, and went on vacations with Clyde A. Tolson, the 's associate director. The relationship was clearly the emotional centerpiece of Hoover's life, but no conclusive evidence ever surfaced that he was actively homosexual.

Handling his material with a compelling sense of drama, Gentry has written a fascinating cautionary tale. His exploration of how Hoover and the ran out of control reaches beyond the character of one man to the nature of secret police and the dilemma they pose in a democracy: How can we make sure that the agents of the law themselves remain within the law and accountable to elected officials?

When the office that would become the was proposed in 1908, Gentry notes, many thoughtful people worried aloud about the potential threat to civil liberties. More practical members of Congress objected that a secret police would be used by the Administration in office to spy on them. Congress refused to authorize the bureau, but it was set up anyway, more or less clandestinely, and immediately set about confirming its critics' fears. A few years later, Attorney General (later Supreme Court Chief Justice) Harlan Fiske Stone issued prophetic guidelines to prevent possible "abuses of power." Most important, he insisted that the agency be limited to investigating only illegal conduct, not political or other opinions. "When a police system passes beyond these limits," he warned, "it is dangerous to the proper administration of justice and to human liberty." Ironically, it later fell to Fiske to name an director, and he chose Hoover.

After Hoover's death, some reforms were initiated. Yet in 1988, it came to light that, in the early 1980s, under Director William H. Webster, who now heads the , the "reformed" had aggressively investigated critics of the Reagan Administration's Central American policy. At the , old habits, like old directors, die hard.

BY JACK PATTERSON

Patterson, now retired, was previously BUSINESS WEEK's editorial page editor.

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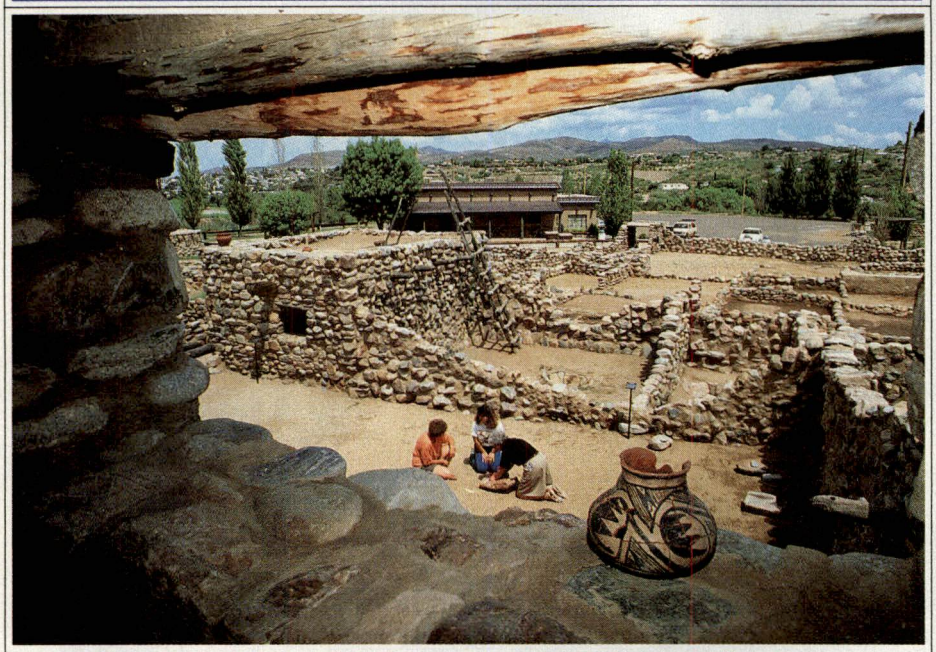


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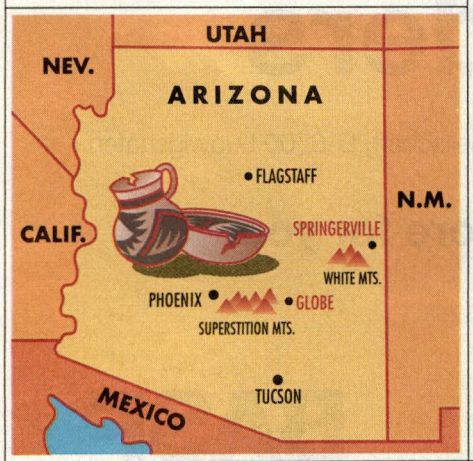


GLOBE'S BESH-BA-GOWAH: FEEL FREE TO ROAM THE RUINS—BUT NO DIGGING, PLEASE

TWO TOWNS THAT HAVE GONE TO RUINS—HAPPILY

The deep blue sky takes on a hint of pink over the mountains to the west, then turns violet as the first evening stars appear. I'm standing on the roof of a two-story pueblo where, seven centuries ago, Salado Indians no doubt took in sunsets just as beautiful.

The pueblo is a showpiece of the Besh-Ba-Gowah Archaeological Park that opened in 1988 outside the mining town of Globe, Ariz. Such an attraction in tourist-thin eastern Arizona was too good an idea to be wasted on just Globe. So Springerville, about 100 miles away, borrowed it. Last spring, the town opened the state's second municipally owned and operated archaeological park, Casa Malpais. Both parks represent a feisty effort by the two communities to stave off the same fate as their ruins and become ghost towns—of which Arizona has no shortage, alas.



PHOTOGRAPH BY DON STEVENSON; MAP BY ALBERTO MENA/BW

When copper was king in Globe and timber ruled Springerville, the ruins were ignored by just about everyone except a few lowlifes who would plunder the sites for relics. But in the late 1970s, copper prices plunged, and so did the economy of Globe, whose 6,900 residents directly or indirectly depended on the gaping open-pit mines that pock the town's outskirts. Springerville thrived a little longer on its pine forest, which for more than 30 years supported the town's single sawmill and 1,850 residents—most of them Mormons. But a year ago, when the construction business nose-dived, the mill closed—nobody knew for how long. A new power plant provided some jobs, but not enough: Some 300 houses ended up vacant.

Globe, "the city the world was named after," is an unpretentious place, nondescript except for its holes—some two miles wide and 1,000 feet deep—which could swallow 20 Globes and still leave room for a Springerville or two. Not much seems to happen, except that every now and then, someone will pop up on the local news declaring that he stumbled onto the Lost Dutchman gold mine up in the Superstition Mountains, but when he got back it was gone.

Nor is anyone sure what happened to the

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Letter From Eastern Arizona

Indians. Besh-Ba-Gowah was occupied from about 1225 to 1400 by the Salado. Their direct supply lines were somewhat superior to those of modern-day Globe, where, if you want to do any serious shopping, you have to go to Phoenix. The ruins have given up metal and macaw feathers from what is now Mexico and Guatemala, seashells from the Pacific and the Gulf of Mexico, and pottery from all over, including Utah and Colorado. Salado artisans set to work on these materials, and jewelry, sandals, and other finished goods were shipped out.

Theories about why the settlement was abandoned range from drought to conflicts with neighbors. Distant tribes, including the Pima and Hopi, claim the Salado as ancestors, but the local Apache do not (even though they contributed the name Besh-Ba-Gowah: "place of metal").

SNAKE MEDICINE. For travelers who are used to being separated from archaeological relics by glass or rope, this site is a treat. Globe dug deep into its civic kitty and, with the help of state funds, hired professionals to excavate the ruins. Some of the original walls still stand, while others have been rebuilt using mud and river stones, just as the Salado did. Pathways wind around reconstructed walls and through T-shaped doorways.

Since its 1988 opening, the park has attracted up to 15,000 visitors a year. Nominal admission fees don't cover operating costs, which are subsidized by the town. City Manager John Wise says Globe kicked in $54,600 last year, but he's pleased: He figures the tourist trade more than makes up for the loss, sprinkling money throughout the local economy. I certainly did my share—willingly. I'm an archaeologist, but I came as a tourist and thoroughly enjoyed each day that rolled by under bright blue skies and fluffy white clouds. But the one thing that's more fun than looking at relics is troweling them out, and that you can't do at Besh-Ba-Gowah.

At Casa Malpais, however, after filling out a bit of paperwork, one can be in dig heaven. A massive volunteer force has risen up to run the project. Evoking Tom Sawyer's ploy in getting Aunt Polly's fence whitewashed by convincing all his friends that doing the chore would be a privilege, Springerville has kept the number of paid employees to a minimum and depends on help from what is now, after Phoenix, the second-largest chapter of the Arizona Archaeological & Historical Society. The local chapter's 130 members help with every aspect of the park, from excavating to guiding tours.

But the project took a bit of selling. Folks in town regarded the site as just a "pile of rocks," says Gordon Howe, Springerville's director of economic development. "They thought it was stupid to make a park out of an old Indian ruin they had been crawling around on and stealing pots from for a hundred years."

The archaeologist in charge, John Hohmann, was a crucial element in building support. His flamboyant style—leaning toward Indiana Jones—apparently didn't hurt: When he's in the field, Hohmann is known for carrying a .357 Magnum and a knife as long as your forearm—the weaponry needed "for snakes." He gave tours of the site to locals and taught them a bit about archaeology.

Now, Casa Malpais, too, is drawing its share of tourists visiting the Grand Canyon and such well-traveled trails as Interstates 10 and 17 to Springerville, a straitlaced Mormon town 7,000 feet up in the mountains. Some 700 visitors a week pay $3 a head for an experience very different from Besh-Ba-Gowah. Casa Malpais, Spanish for "house of the badlands," has no plans for reconstruction and, so far, no interpretive signs. Visitors get a lecture as they watch the site being excavated and stabilized. The archaeologists are either digging with trowels or standing at a screen sifting through dirt. They are looking for potsherds and other minute items that may be seeing the light of day for the first time since the 14th century, when the Mogollon Indians abandoned the 70-room pueblo.

> At Casa Malpais, near Springerville, volunteers help with everything from excavating to guiding tours

Springerville made the news in April, when Hohmann announced that the only known catacombs in North America had been discovered nearby. These are off-limits to everyone, however, since tribes elsewhere in Arizona regard the Mogollon farmers, hunters, and potters as their ancestors and believe that disrupting a grave disturbs the spirit of the occupant.

Things are looking up for both towns now. In Globe, the copper business is reviving, thanks in large part to a smelter that is being modernized by Denver's Cyprus Minerals Co. In Springerville, the sawmill reopened in April, although with only one-third of the previous work force. And in the fall, the town plans to open Arizona's first domed high-school stadium, paid for by a special school tax. That's a record for Springerville: two big deals in one year.

CHRISTINA ELNORA GARZA

Former BW Intern Garza has returned to Northern Arizona University in Flagstaff, where she is a master's candidate in applied archaeology.

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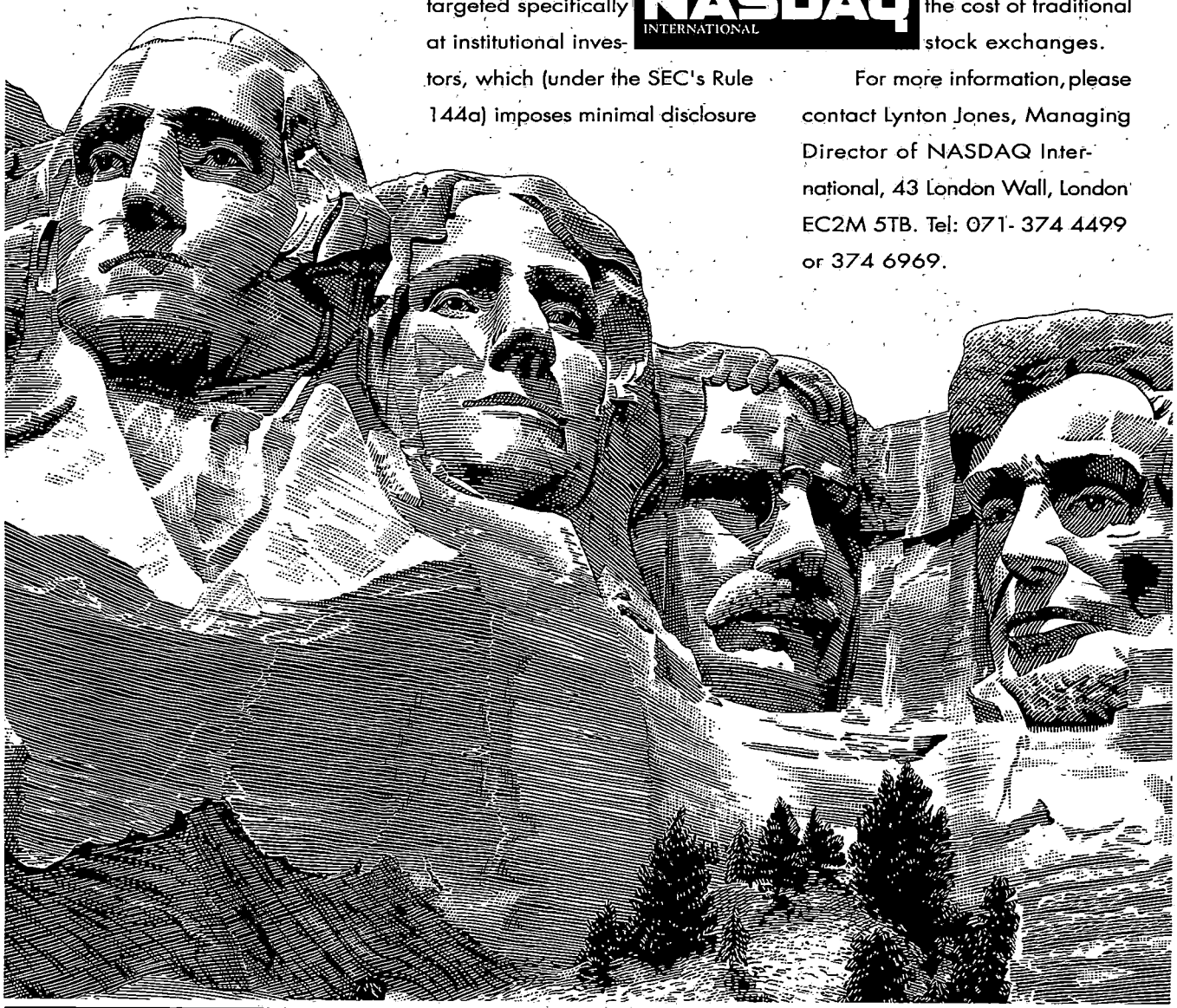
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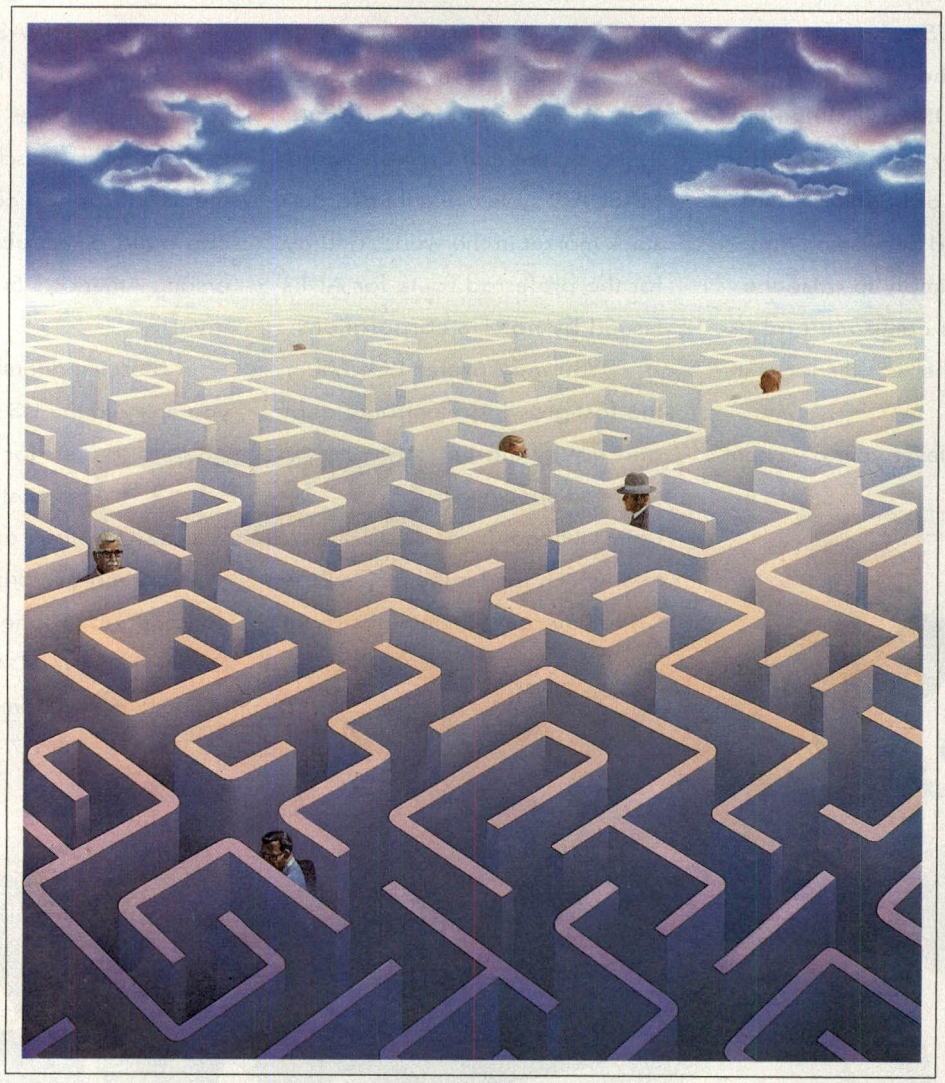
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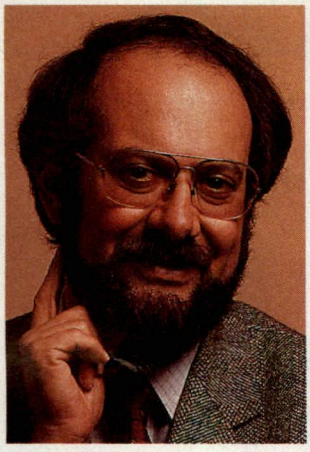


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IF CONNECTICUT COULD DO IT, WHY NOT . . .

BY ROBERT KUTTNER



The state's new income tax allows a lower sales-tax rate, gives tax relief to corporations and investors, buys a balanced budget—and it's progressive. Congress, take note

One of the most remarkable and instructive events of late summer was Connecticut's enactment of an income tax—remarkable because Connecticut was one of the diehard anti-income-tax states; instructive because the state's liberals showed what clarity of purpose, organization, and resolve can accomplish. For a decade, these political virtues have been almost wholly absent on the liberal left.

Connecticut's tax system has long been a fiscal calamity, with a highly regressive tax code, heavy dependence on property and sales taxes, high taxes on investment income, and no taxes on wages and salaries—a dismal blend of unfairness and bad economics. A recent study by Citizens for Tax Justice ranked the state among the six worst in the regressiveness of its overall tax system. An average household in the lowest 20% of income paid 16.3% of its earnings in state and local taxes; a household in the top 1% paid only 5.5%.

Besides its plain inequity, this system had several economic disadvantages. Heavy reliance on sales taxes (at a rate of 8%, one of the highest in the country) meant extreme fiscal volatility. Retail sales, and hence sales-tax receipts, tend to rise faster than incomes during booms, and fall faster in recessions. With no personal income tax, Connecticut was forced to levy stiff taxes both on corporate profits and on dividend and capital-gains income. Along with retail sales, profits and capital gains are more vulnerable to recessions than wages and salaries. This structural volatility caused tax receipts to nose-dive in the 1990-91 recession and gave Connecticut the worst budget imbalance in the nation.

BITING THE BULLET. Four factors made it possible for the Nutmeg State to overcome its historical antipathy to income taxes. First, the sheer enormity of the fiscal crisis demanded basic reform. Second, new Governor Lowell P. Weicker Jr., a former liberal Republican U. S. senator elected as an independent, was willing to take the necessary political heat. Weicker vetoed three budgets before finally signing the one he wanted on Aug. 22. Third, major elements of Connecticut's business community swallowed their ideological reservations about progressive taxation and decided that an income tax was the lesser evil. With an income tax, Connecticut would finally enjoy fiscal stability, and the state's exorbitant taxes on corporate profits and investment income could be reduced to more normal levels.

But the most intriguing factor was the key role played by Connecticut's progressives. Since 1980, Connecticut liberals have joined forces in an increasingly effective coalition called LEAP—the Legislative Electoral Action Program. LEAP has managed to do what conservatives did so well throughout the 1980s—get serious about both first principles and politics. With the backing of labor, citizen-action, environmental, and civil rights groups, LEAP mobilized volunteers and targeted and won legislative seats. They built a caucus, which has emerged as the swing bloc in the state legislature. As Connecticut's fiscal crisis deepened in 1989 and 1990, liberals refused to support any budget that achieved balance either through steep spending cuts in social services programs or through new regressive taxes. By the current session, the progressive group was the best organized bloc in the Assembly and became Weicker's key ally.

In contrast, a rump of conservative Democrats associated with the Democratic Leadership Council pursued an opposite strategy of deferring to Republicans. They decided that Democrats needed above all to shed the "tax-and-spend" image. This meant letting Republicans design the three successive tax packages Weicker vetoed. The idea was that the budget should bear Republican fingerprints, which would then allow Democrats to play the role of antitax party. But as this bipartisan coalition was held responsible for the unpopular and regressive budgets that Weicker kept refusing to sign, the strategy backfired. In the end, the liberals worked closely with both Weicker and business leaders, and the eventual tax package was stunningly progressive.

Under its new system, Connecticut gets a nominally flat income tax of 4.5%. But thanks to exemptions and credits, the tax is steeply progressive. A household with $24,000 income pays no taxes. One with $40,000 pays about 1%. One with $100,000 pays about 3%, and thanks to the deductibility of state income taxes against the federal income tax, nobody pays more than an effective 3.3%. The tax allows Connecticut to reduce its sales-tax rate from 8% to 6%, gives tax relief to corporations and investors, and buys a balanced budget. As part of the package, the state trims spending by over $1 billion and finances economic development through new bond issues.

We will know in November, 1992, whether Connecticut's voters will punish legislators who voted for a more progressive tax system. I suspect that this reform will prove to be sound politics as well as sensible fiscal policy. The story has implications far beyond Connecticut, for it suggests that when liberals recover their souls and their wits, they can make politics a lot more interesting and even win enactment of good policies. Would that Congress got the message.

ROBERT KUTTNER IS ECONOMICS CORRESPONDENT FOR *THE NEW REPUBLIC* AND AUTHOR OF *THE END OF LAISSEZ-FAIRE*

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Economic Trends

BY GENE KORETZ

WHAT HAPPENS TO THE JOBLESS? MANY DON'T BOUNCE BACK

Although unemployment insurance claims are down a bit from the heady pace they hit earlier this year, they're still disturbingly high—and the drumbeat of announcements of staff cutbacks by major corporations continues unabated. Indeed, according to Dan Lacey, editor of the *Workplace Trends* newsletter, who has kept tabs on permanent cuts by big companies since 1988, the third quarter of 1991 will almost certainly break the previous record of 110,000 job reductions announced in the first quarter of this year.

What happens to laid-off workers? How long are they likely to stay unemployed? What are their chances of finding similar work? How will their new pay compare with former earnings?

Struck by the turmoil in labor markets in the 1980s, the Bureau of Labor Statistics began conducting biannual surveys of displaced workers in 1984 to answer such questions. The first survey covered workers laid off in the five years ending in 1983, a period marked by two recessions. The latest covers workers displaced from 1985 through 1989, years of continuing expansion.

Although employment rose at a relatively rapid clip in the second half of the 1980s, the BLS still found that about 4.3 million workers over 20 years old lost permanent jobs (held for at least three years)—only 14% less than in 1979-83. Some 59% of job losers were let go because their plant or company closed down or moved, and only 60% had advance warning that their jobs were in jeopardy. Four-fifths of those laid off were 25 to 54 years old.

Predictably, workers displaced from 1985 to 1989 had an easier time finding new jobs than those displaced earlier in the decade. By January, 1990, some 72% were back at work, compared with just 60% in January, 1984. But half of these were employed in different industries, and 45% actually had to change occupations. And it took reemployed workers an average of 8.2 weeks to find work.

Meanwhile, 14% of job losers were still unemployed in early 1990, and 14% had left the labor force. And of the 60% who received unemployment insurance, 44% had exhausted their benefits.

Perhaps the most striking aspect of the latest survey results is the downward mobility of so many workers. The median nominal wage of reemployed workers declined by 11.8%. Over 40% of workers back at full-time jobs were earning less than they had on their old ones, and more than 25% suffered pay cuts of 20% or more. An additional 11% of previous full-timers were either self-employed, working part-time, or working for no pay in a family business. And some 25% of workers who lost a job with health insurance still had no private coverage—at work or otherwise—in 1990.

Bad as these statistics appear, job losers affected by the 1990-91 recession are undoubtedly faring a lot worse. And the pain seems to be spreading to new areas, as the restructuring trend that wrenched the manufacturing sector some years ago accelerates in service industries such as banking, airlines, communications, advertising, and retailing.

HOW JOB-LOSERS FARE AFTER BEING LAID OFF

4.3 MILLION PEOPLE LOST PERMANENT JOBS FROM 1985 THROUGH 1989

IN JANUARY, 1990:

- ▶ 72% Were reemployed
- ▶ 14% Were still looking for work
- ▶ 14% Had left the labor force

OF FULL-TIMERS BACK AT WORK:

- ▶ 43.2% Were earning less than their original pay
- ▶ 27.5% Were earning 0% to 19% more
- ▶ 29.3% Were earning at least 20% more

DATA: BUREAU OF LABOR STATISTICS

TO SEE WHAT A REAL RECOVERY LOOKS LIKE, LOOK NORTHWARD

The news that economic activity actually declined in the second quarter has raised fears that the recovery may prove evanescent. But no such doubts are being entertained about growth north of the border. Canada, which entered recessionary territory earlier than the U.S. and stayed there a full year, has bounced back smartly.

Canada's government estimates that the economy rose at a healthy 4.9% annual pace in the second quarter. Residential investment has led the way, with housing starts up 12% in July and more than 100% since January. Meanwhile, auto sales and manufacturing have risen for four consecutive months. Economist Robert E. Mellman of Morgan Guaranty Trust Co. expects Canadian growth to stay strong through 1991—"assuming that the U.S. economy, which takes 75% of Canada's exports, picks up some steam."

BIG UPTICKS AREN'T ALWAYS THE START OF SOMETHING BIG

Take July's 21.5% surge in nondefense capital goods orders with a grain of salt, advise economists at Donaldson, Lufkin & Jenrette Securities Corp. They note that such orders soared by at least 20% only two times since 1969. One was last December, when a 24.9% rise was followed by five straight monthly declines. The other was in July, 1974, eight long months before the 1973-75 recession ended.

THE MODEST EFFECT OF A FAREWELL TO ARMSMAKING

Another industry experiencing job displacement is defense. But despite howls of pain from some affected regions, cutbacks in defense spending won't make much of a dent in U.S. employment or the overall economy, predicts the Defense Budget Project, a Washington nonprofit research group.

Defense outlays have already fallen 22% in real terms in the past five years and could decline an additional 13% by 1996. As a result, says the group, some 2.8% of America's gross national product will shift from defense to nondefense output in that 10-year period. That's far less than the 5.4% and 4.8% shifts in GNP that occurred in the 10 years following the Korean and Vietnam wars.

The DBP predicts that 814,228 defense-sector private jobs—25% of such jobs, but less than 1% of total private employment—will disappear between fiscal 1990 and 1996. Total job cuts—including military, civilian, and private-sector positions—will peak in 1993, when defense spending is set to drop 10%. But even in that year, the combined cuts will amount to only 0.3% of total U.S. employment as of 1990 and less than 1% of job rolls in the hardest-hit states—Virginia, Connecticut, Hawaii, California, Alaska—and in the District of Columbia.

The research group adds that many of the job cuts won't translate into higher unemployment, since they will be achieved through normal attrition or early retirement.

With Amy Borrus in Washington

ERIC HOFFMANN/BW

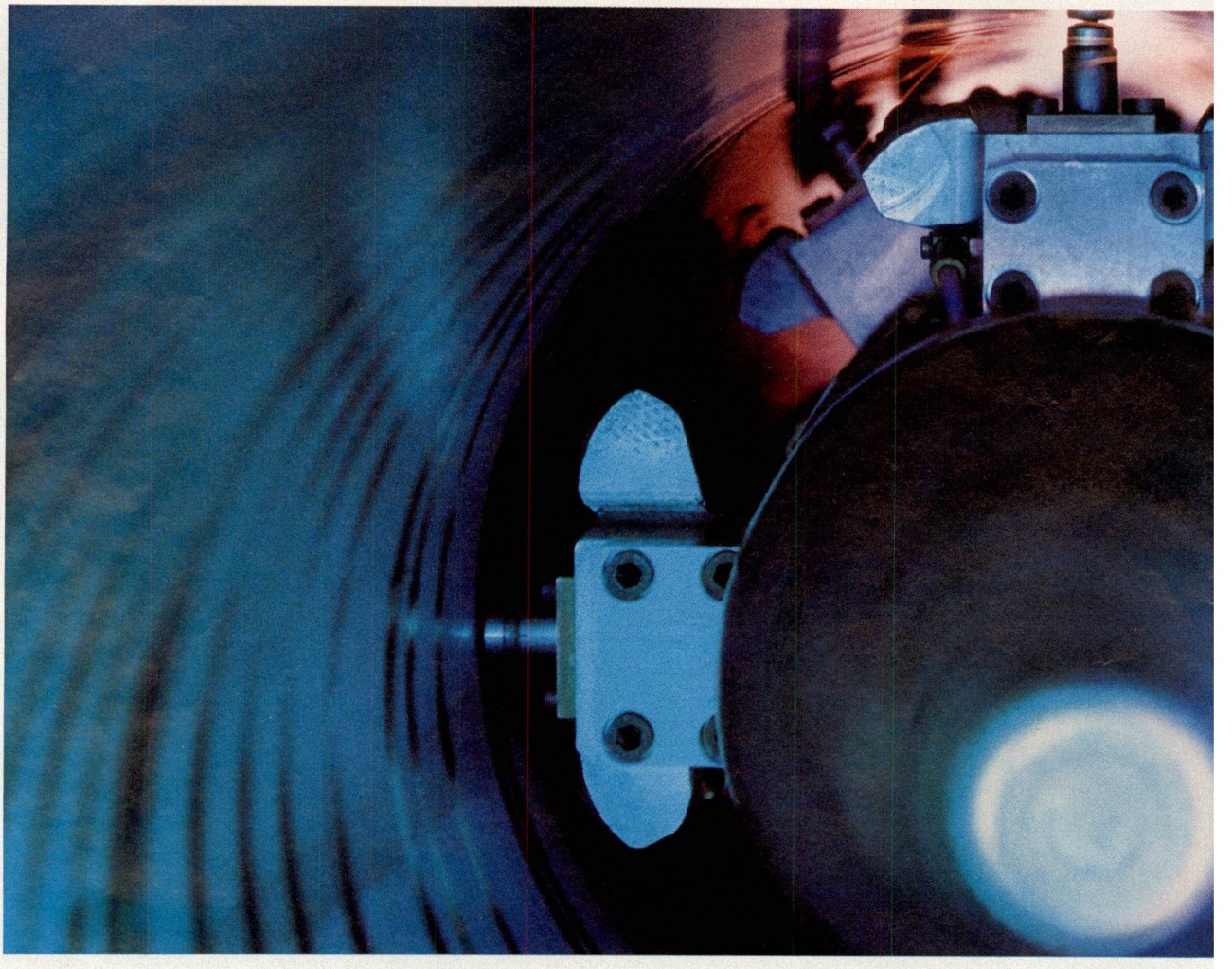
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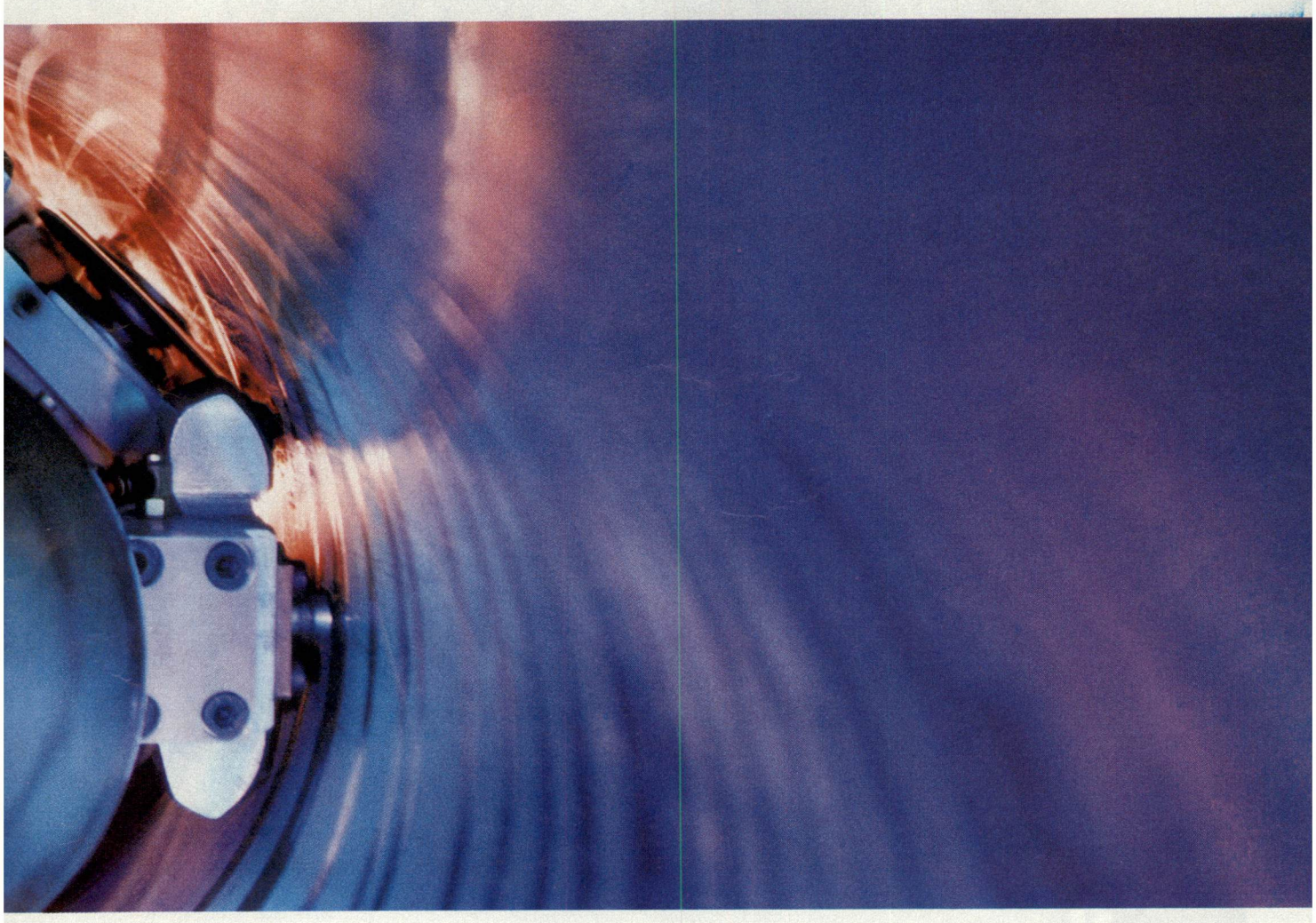
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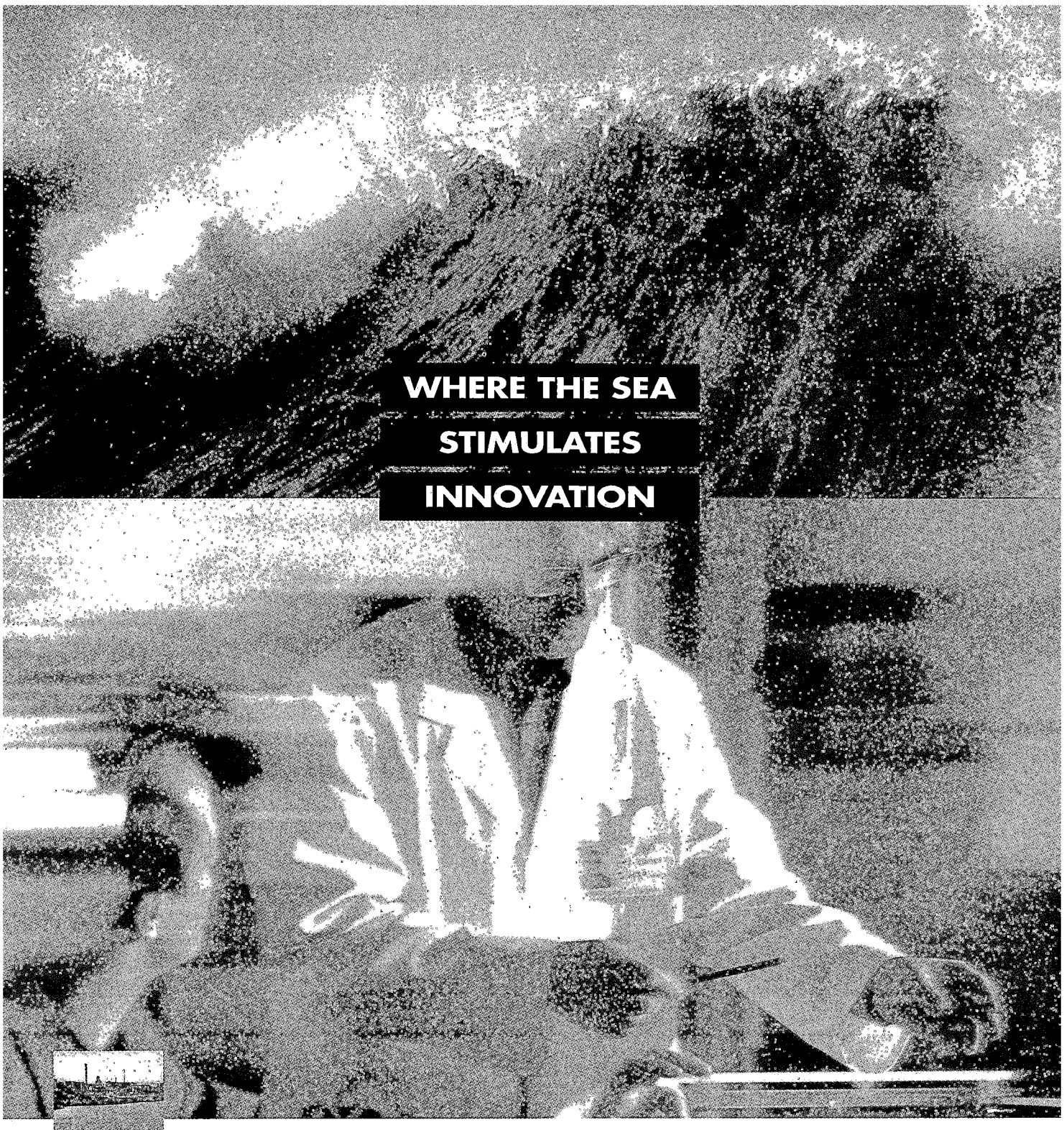


Clean energy

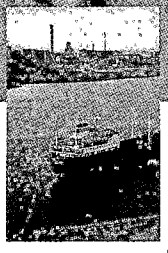
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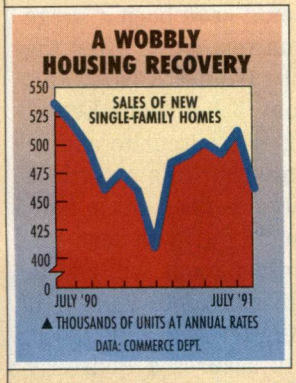
SEPTEMBER 16, 1991

BY JAMES C. COOPER AND KATHLEEN MADIGAN

CONSUMERS ARE WILLING, BUT THEIR WALLETS ARE WEAK

For a recovery that most economists believe is four or five months old, you would expect the data to look a lot more reassuring. Instead, some of the latest numbers are starting to raise doubts. Manufacturing looks upbeat, but the data from consumers are downright worrisome. That's an important split. It was a postwar burst of consumer spending that sparked the factory rebound, and consumers hold the key to the recovery's longevity.

So far, shoppers have done their part. Consumer spending has risen for three consecutive months. In July, real outlays began the third quarter at a 3.7% annual rate above their average of the second quarter, when they rose at a 2.8% pace. Since consumer spending is two-thirds of gross national product, the July level of outlays virtually assures the first advance in real GNP since the third quarter of 1990.



But can shoppers continue to spend at such a heady pace? The signs are not favorable. Income growth remains far below the pace of spending. The savings cushion is skimpy. And the rebound in housing is showing signs of fatigue (chart).

In addition, consumers remain worried about job security. And rightfully so. The Conference Board's index of help-wanted advertising fell to an eight-year low in July. Unless job and income growth show more pep, consumers will not be in a very festive mood as the important holiday shopping season gets under way.

In July, shoppers spent a fair amount of time in stores. Consumer spending increased by 0.4%, after adjusting for inflation. Real outlays for durable goods rose a strong 1.1%, with big advances in cars, appliances, and furniture. Spending for nondurable goods surged by 0.7%, as clothing and food sales were up. Outlays for services slipped by 0.1% in July. But that was the result of a fall in energy use. Demand for services remains on a solid upward track.

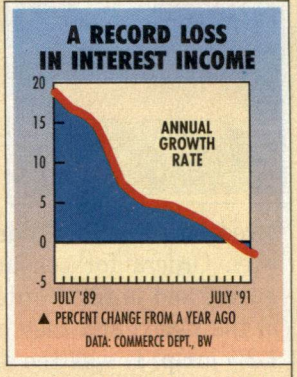
TAXES TAKE A BIGGER BITE

But while shoppers seem willing, their wallets are weak. Personal income slipped by 0.1% in July, with a 0.3% decline in wages and salaries. After adjusting for inflation and taxes, real disposable income is 0.7% below its level of a year earlier. And take-home pay may shrink further, because the record hikes in state and local taxes will cut into earnings in coming months.

Even before those hikes, the economy was already carrying a record tax burden. During the year ended last quarter, receipts at the federal, state, and local levels—excluding federal grants to states—stood at 32.7% of gross national product. That's the highest four-quarter burden in the postwar era. The tax bite typically falls during recessions, but this time, it rose.

After hitting bottom in January, real disposable income has since increased by an annual rate of 2.2%. But consumer spending has grown by more than twice that, with a 4.9% gain. This split is eroding savings, which, as a percent of disposable income, sank to 3.7% in July, from 4.1% in June, and from 4.7% a year ago.

Consumers often draw down their savings in a recession, but they already had sparse nest eggs heading into the 1990-91 downturn. The savings rate now is far lower than in the early months of any past recovery.



The decline in savings—along with the drop in interest rates—has caused a sharp fall in interest income. Such earnings have dropped for seven consecutive months and are 1.2% below their level of last July (chart). That's the biggest decline in the postwar era, and only the second time that interest-income growth has been negative. With interest rates headed even lower, such earnings are likely to shrink further.

Lower interest income will combine with higher taxes and slower job growth to hold down gains in personal income for the rest of the year. And less cash will cause a further squeeze on household balance sheets.

NEW HOMES MAY STAND EMPTY

Shaky consumer finances already have rattled the housing rebound. Sales of new single-family homes fell a steep 8.5% in July, to an annual rate of 472,000. Despite lower mortgage rates, buyers are holding back because of job worries and affordability problems.

Unless demand picks up, builders will find themselves with an oversupply of homes. Construction picked up this summer on the strength of the spring rebound in housing. In July, total construction spending jumped by 1.6%. The gain was led by outlays for single-family housing, which surged by 5.1%.

Even with the July jump, construction began the third quarter little changed from its pace of the second quar-

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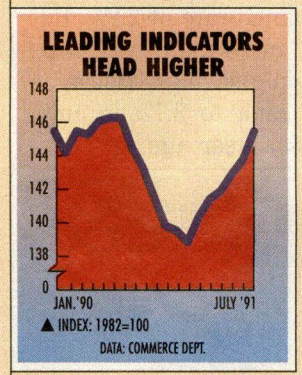
Business Outlook

ter. Moreover, homebuilders reported fewer buyers in August, as well, so construction activity may have fallen back last month. If so, the building sector could be a drag on economic growth this quarter.

INDUSTRIAL ACTIVITY IS BRISK, FOR NOW

New questions about the housing recovery, combined with the August dropoff in car sales and the poor state of consumer fundamentals, threaten to put a damper on the rebound in manufacturing. To be sure, factories are faring O. K. at the end of summer, but if consumers start pulling back, autumn may be a tougher go.

The Commerce Dept. reported that factory orders jumped 6.2% in July, the largest gain in 20 years, and the National Association of Purchasing Management says that bookings remained strong in August.

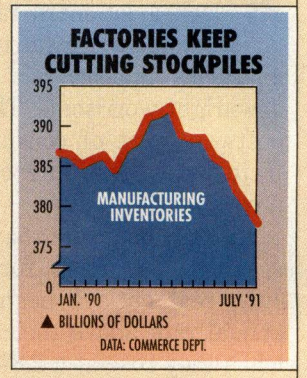


Order strength helped to boost the purchasing managers' index, a composite gauge of manufacturing activity, to 54.8% in August. That reading was the highest since December, 1988, and the index has now surpassed 50%, the dividing line between expansion and contraction in the factory sector, for the third consecutive month.

The gain in factory orders filtered into the July index of leading indicators in a big way. Orders for consumer goods, bookings for capital goods, and unfilled orders are three of the 11 indicators in the index, and they contributed virtually all of July's 1.2% jump. It was the sixth consecutive increase (chart).

The continued rise in the leading index bodes well for the recovery, but orders are almost certain to retrace some of their July gains in August. An oversized increase in aircraft bookings and quirks in Commerce's seasonal adjustment helped to lift the July numbers.

In addition, manufacturers' inventories now appear to be in a comfortable balance with demand. Manufacturers' stockpiles declined 0.6% in July, the seventh drop in the past eight months (chart). Because shipments have been rising, the ratio of inventories to sales fell to 1.57 in July. The ratio had jumped sharply during the recession as demand fell, indicating that stock levels were higher than desired. But in July, the ratio was about where it was in June of last year, before the recession began.



By this measure, inventories are not excessively low, such that manufacturers would need to rev up production for fear of not having the goods to meet demand. Instead, the current rate of output is sufficient for the pace of shipments. And unless demand picks up, output is not likely to grow much faster this fall than it grew during the summer. Conversely, however, if demand sputters, output may slow down as well.

Detroit may already be offering a case in point. Auto production for the third quarter was scheduled at an annual rate of 6.5 million. That would have been a surge from 5.3 million in the second quarter. Now, after the August slump in car sales, Detroit says it has pared this quarter's production to only about 5.9 million. Economists had expected the boost from car output to add as much as 2 percentage points to this quarter's growth in real GNP. Now, the potential impact has been cut in half.

Still, a positive third quarter for GNP growth seems in the bag. Production of cars and other goods will add to GNP, even if the output ends up in inventory. And if consumers pull back a little in August and September, the high level of spending in July assures a quarterly gain in outlays. However, keeping GNP in plus territory in the fourth quarter could be a tougher challenge.

THE WEEK AHEAD

INSTALLMENT CREDIT

Monday, Sept. 9

Consumers probably reduced their installment debt levels by about $280 million in July, say economists surveyed by MMS International, a unit of McGraw-Hill Inc. Credit has fallen in seven of the last nine months, including a $1.8 billion drop in June. Declines in auto financing and personal bank loans will offset a gain in revolving debt. A modest rise in credit-card use is suggested by an increase in nonauto retail sales in July.

PRODUCER PRICE INDEX

Thursday, Sept. 12, 8:30 a.m.

The MMS consensus expects that producer prices of finished goods likely grew by 0.3% in August. Higher fuel costs will lead the gain. Producer prices fell 0.3% in June and 0.2% in July, as the recession cut any upward pressures on materials prices. Producer prices have risen just 2.9% in the past year. Excluding food and energy, prices probably rose by 0.2% in August, the same modest gain as in July.

CONSUMER PRICE INDEX

Friday, Sept. 13, 8:30 a.m.

Consumer prices likely advanced by 0.3% in August, after edging up 0.2% in July. Excluding food and energy, prices also are expected to rise by 0.3%. Higher sales taxes on some items will offset a fallback in apparel prices, which surged 0.9% in July. That jump helped to lift nonfood, nonenergy consumer prices by 0.4% in July. The expected August increase would place the total CPI less than 4% above its level of a year ago, a sharp improvement from its 5.6% pace in the 12 months before that. The inflation rate at the consumer level hasn't fallen below 4% since early 1988.

RETAIL SALES

Friday, Sept. 13, 8:30 a.m.

The MMS economists are looking for little change in retail sales for August. That's suggested by slumping new-car sales. However, sales outside of autos are expected to rise by just 0.3% in August, the same modest gain as in July. That would be a weak showing for the back-to-school shopping season.

PAUL GRANGE/BW

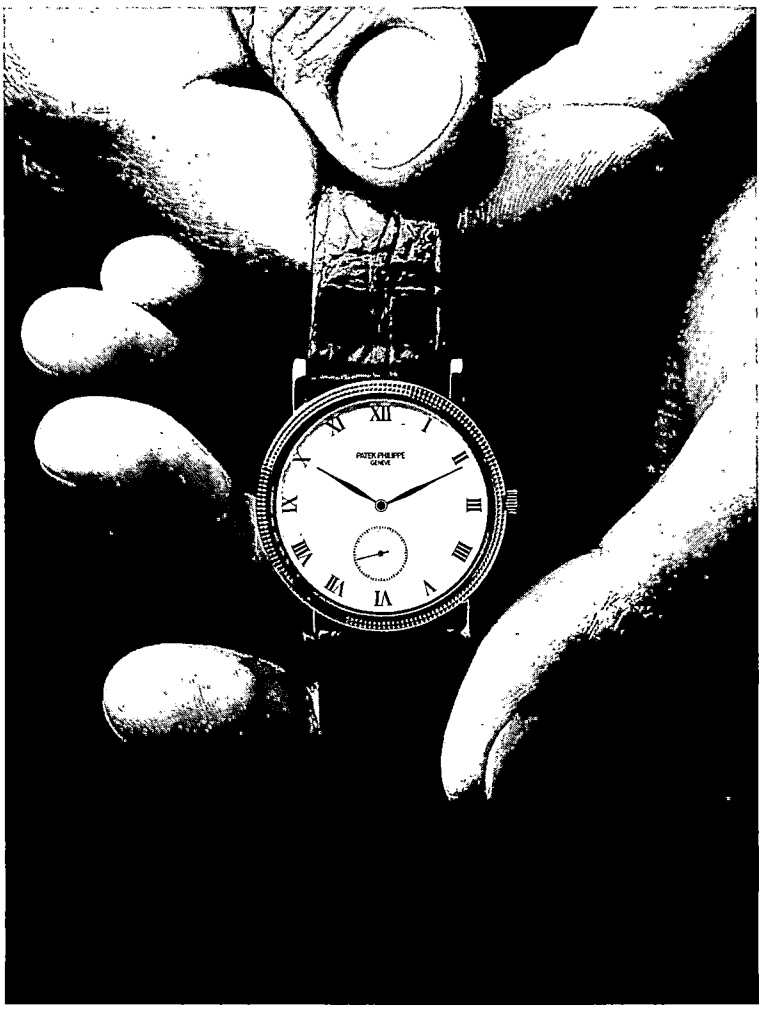
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SEPTEMBER 16, 1991

MIAMI

FOREIGN INVESTORS ARE FLOCKING TO ONE OF NORTH AMERICA'S HOTTEST BUSINESS CITIES

The image of Miami as the cocaine-snorting, Uzi-toting Gomorrah of America, is a well-traveled one. When Thomas Ferguson, former president of the Beacon Council, an economic development body, was in South Korea thumping Miami business not long ago, he flipped on his hotel television set. There, clad in his trademark pastels, was Don Johnson blasting through a *Miami Vice* episode—and speaking dubbed Korean. The next morning, Ferguson learned that a Korean manufacturer of cigarette lighters had bypassed Miami when he had scouted plant locations in Florida. Why? "Oh, *Miami Vice*, *Miami Vice*, not safe, not safe," the manufacturer said.

Maybe that was Miami's image in the 1980s. But like the popular TV show, that view is no longer prime-time. Miami still has its unique set of problems. Arms



and drugs are still pillars of its underground economy. And its battered image received a new blow recently with a highly publicized shooting of two British tourists. But such flaws aren't preventing the emergence of a thriving and sophisticated mecca for international trade. Building on its deep Hispanic roots and proximity to promising markets in Mexico, the Caribbean, and South America, Miami is attracting a surprising new wave of blue-chip investors and traders from the U. S., Europe, and Asia.

When ground is broken for the 40-story Bristol Tower condominium overlooking Biscayne Bay this fall, about one-third of its 147 units will be owned by Germans, French, and Italians. One reason is that companies ranging from France's Aerospatiale to Italy's sewing machine maker Rimoldi are opening operations in Miami. Edward Bolden, president of the U. S. unit of French aerospace company Sextant Avionique, dined at Café Des Arts in Miami Beach last January and heard a different language at each table. "It was like having a mini-U. N. there," he says.

What also marks Miami's emergence as more than a hub for drugs, guns, and fast money is the arrival of big American companies. Both American Telephone & Telegraph Co. and Texaco Inc. are expanding their Miami offices, gearing up for new opportunities in the telephone and oil industries of Latin America. General Motors Corp. recently decided to relocate its Latin American strategists from São Paulo to Miami, and Eastman Kodak Co. is moving its Latin American head-

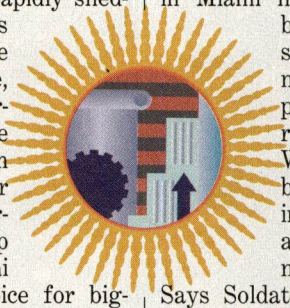


PHOTOGRAPH BY RANDY TAYLOR/GAMMA-LIAISON

quarters to Miami from Rochester, N. Y. Hewlett-Packard Co. relocated its Latin American headquarters to Miami from Mexico City because it offered a more diverse Spanish-speaking labor pool and better telephone and airline connections throughout the region.

As a result of its expanding international links, economist Manuel Lasaga estimates that at least 25% of Miami's economy is directly tied to international commerce and tourism. Only New York's John F. Kennedy International Airport today moves more foreign passengers and cargo than Miami International Airport. Miami's and a few small neighboring ports move more containerized cargo to Latin America than any other U. S. harbor (chart).

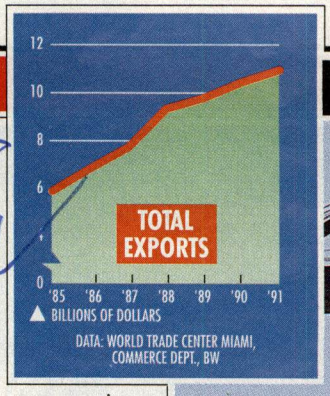
LOOKING NORTH. Several watershed events underlie Miami's new international reach. Latin America is rapidly shedding its anti-*Yanqui* policies and learning how to manage its pile of debt. One by one, countries such as Brazil, Argentina, and Venezuela are turning away from state-run economies, looking north for partners and capital. By virtue of its location and deep trade links southward, Miami is the headquarters of choice for big-league Americans, Asians, and Europeans eager to crack this long-dormant market. "Some say you can learn more about Buenos Aires or São Paulo in Miami because everyone's there," says Peter K. Kresl, an economist at Bucknell University.



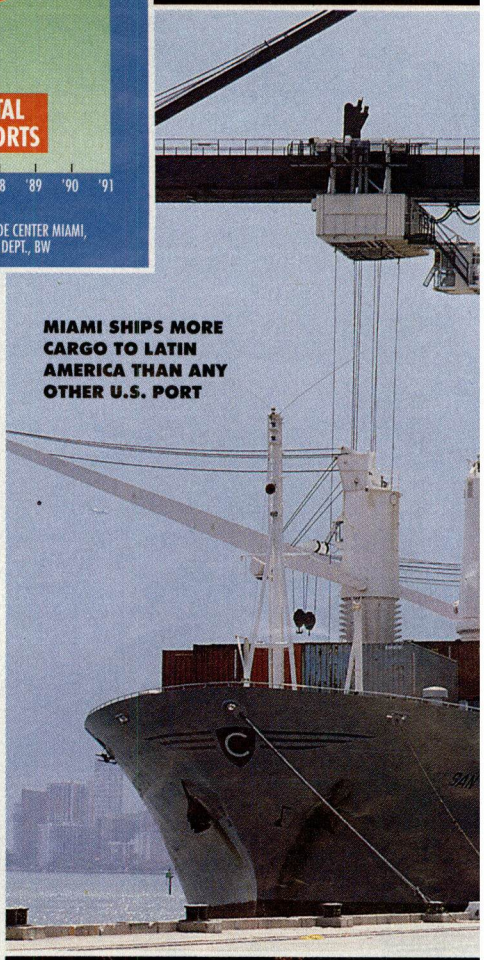
What's more, expectations are high these days that Fidel Castro will soon fall from power in Cuba. The ongoing turmoil in the Soviet Union means dwindling support for the island (page 33). Only a 30-minute airplane ride away and full of expatriate Cubans eager to reestablish ties, Miami will be first to reap the rewards of a reopened Cuba.

And as Mexico negotiates a bold new free-trade agreement with the U. S., north-south business along the entire southern border of the U. S. is percolating. Miami is not attracting manufacturing investment as much as it is emerging as the administrative and managerial hub, a point of access where companies are moving decision-making for the region. Trade is also building between Miami and Caribbean islands as well as Central American countries that have preferential trade rights with the U. S.

Indeed, as trade winds blow in from all directions, Miami is securing its status as what urban experts call a "gateway" city, going beyond its role as a purely Latin hub. In much the same way, Buffalo is a center for Canada-U. S. trade, and Seattle and Los Angeles serve the Pacific Rim. Cities need the global economy as much as the domestic economy to develop these days, says Panayotis Soldatos, who studies international cities at the University of Montreal.



Indeed, the old local economy is a shambles. The city watched helplessly as its largest corporation, Eastern Air Lines Inc., died a slow death. Its biggest bank, Southeast Banking Corp., is now on the ropes. The largest savings and loan, CenTrust Bank, flamed out along with its free-spending chairman, David Paul. Since the 1980s, as many as 10 federally chartered international bank offices and 15 state-chartered agencies in Miami have closed. A construction bust and a glut of office space compound local economic woes, as high unemployment, at nearly 9%, fuels racial tensions and crime. With its key industries gone belly-up, Miami's gamble on international trade to generate jobs and growth is beginning to pay off just in time. Says Soldatos: "To compete with such major players as Charlotte, Tampa, and Atlanta, Miami needs international alliances. That in turn will enhance its domestic position."

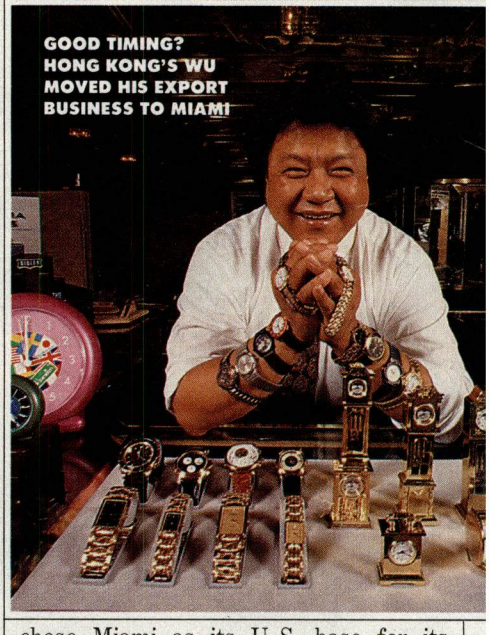


MIAMI SHIPS MORE CARGO TO LATIN AMERICA THAN ANY OTHER U.S. PORT

OUTDOOR CAFES. Miami's growing international flavor is also drawing back tourists who steered clear of the bad old city in the early 1980s. Now, Europeans in particular are charmed by the 1930s Art Deco district in Miami Beach. The strip of freshly painted pastel hotels, restaurants, and clubs lures the European jet set. A once-small enclave of photographers and artists is growing into a lively fashion and advertising industry, using the blue, pink, and lime-green buildings as backdrops. Devastated by Walt Disney World and other Orlando-area theme parks, which siphoned off American tourists beginning in the 1970s, Miami is rebounding.

More Europeans also are living in Miami either on assignment for their companies or for U. S. companies. There are now 70 French companies in the Miami area, double the number five years ago, from Aerospatiale, which is locating an Airbus servicing center here, to shipbuilder GEC Alsthom International Inc. (page 26).

With some natural affinity, Spaniards are coming in droves. There are more Spanish banks than any other foreign group. MAPFRE, a Madrid-based insurance company operating in 26 countries, chose Miami as its U. S. base for its Hispanic flavor and entrepreneurial spirit. Iberia Air Lines, the Spanish carrier, just won rights to service four flights to Mexico and South America from Miami. Even Aeroflot, the Soviet airline, is bypassing Havana and switching its refueling center for the Latin America area to Miami.



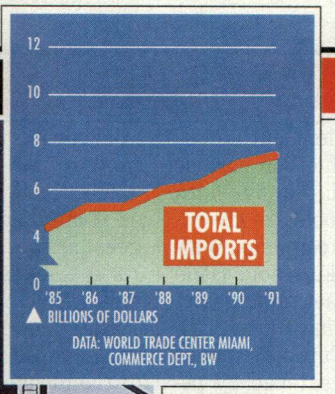
GOOD TIMING? HONG KONG'S WU MOVED HIS EXPORT BUSINESS TO MIAMI

Asians, too—mostly Taiwanese, Hong

[CLOCKWISE FROM TOP] PHOTOGRAPHS BY ACEY HARPER; RICHARD HOBBS/SILVER IMAGE; GERALD DAVIS; CHARTS BY ALBERTO MENA/BW

WHY ITS PORTS ARE BUSTLING







ART DECO PARADISE: MIAMI'S FASHION AND ADVERTISING INDUSTRIES ARE BOOMING

Kong Chinese, and South Koreans—are arriving in greater numbers, drawn to the markets in the Caribbean and southward. Taiwanese computer maker Acer Inc. decided to locate in Coral Gables, following its chief competitor, DTK Computer Inc. Taiwan-based DTK set up shop in 1988 to tap Latin America, particularly Venezuela. Now, DTK has decided to install one of two U. S. computer assembly lines in Miami, where thousands of machines will be made for sale in the U. S. and Latin America.

Other Asian traders have also set up shop. The Hong Kong Trade Development Council moved its Panama offices to Miami in 1988 because of political instability. Samson Wu, vice-president of Marsan Trading Corp., which exports luxury items such as Bulova and Gucci watches to Latin America, did likewise.

The Japanese have long been reticent to expand their stakes in Miami, partly because of its swashbuckling image. But there are signs that they, too, are nibbling. One company is Mitsui & Co., the big Japanese trader, which is half-owner of Caribbean Cutting Services, employer of 200 people in Miami. Taking advantage of trade preference laws, the company buys U. S. cloth, cuts it in Miami, and ships it to Haiti, where it is sewn into children's clothes that are then returned to Miami for sale in the U. S.

PAN-AMERICAN MOSAIC. Miami's strong Latin character has for so long been determined by its large Cuban population that few realize how many other groups call the city home. Even among Hispanics, the demographics are changing. Since 1970, the Hispanic population has tripled, and in 1990, it accounted for nearly half of the metropolitan area's population of 1.9 million. Cubans make up two-thirds of the Hispanics, but the numbers of Nicaraguans, Colombians, and Venezuelans are growing at a faster rate. Brazilian shopkeepers are moving into downtown Flagler Street stores. More than 150 Brazilian restaurants, shops, and trading houses are now part of Miami's mosaic.

Indeed, Latin culture is now in the very fiber of the city. Spanish isn't heard just in the kitchens or barber shops but in banks and boardrooms. It's also read in newspapers, billboards, and junk mail. Bilingual phone messages and business cards are commonplace. And visitors to corporate and law offices are offered a choice of coffee—*Americano* or *Cubano,* the thick dark concoction from Cuba.

Miami's dramatic demographic changes haven't suited everyone. As the Hispanic population grew, the white population dropped 20% in the 1980s. Although the city's internationalization provides opportunities for some people, the administrative and managerial jobs it creates do little to help Miami's large working class.

And Miami in 1991 is still very much a segregated community. Without Spanish, language can be a barrier to employment. Black attorney Gary Siplin says blacks are shut out of the workforce—particularly in tourism—by the Spanish-speaking majority. Complains Siplin: "Why do you need to speak Spanish to make a bed, park a car, or wash dishes?" That brand of discrimination necessarily creates friction—and that friction

occasionally erupts in violent outbursts.

Miami has its share of other chronic big-city troubles as well. Sunny skies and blue water aside, schools are crowded, and traffic snarls are common. Worried about Los Angeles-like smog, Dade County, which encompasses Miami and neighboring cities, is getting tough with auto-exhaust pollution. Future supplies of drinking water are threatened by periodic droughts and continued population growth on the fringes of the Everglades. And the woes will be exacerbated if another huge wave of Cuban refugees arrives. So far this year, nearly 1,200 Cubans have landed in Miami, almost triple the total last year.

But the opportunities seem to outweigh these worries, at least in the eyes of the business world. AT&T has added 70 people to its Miami office over the past two years. Last fall, the same office landed 60% of a fiber-optics contract, valued at $330 million, to upgrade Mexico's telecommunications infrastructure.

Further solidifying Miami's role as a communications hub, AT&T also has laid the first undersea fiber-optic cable to South America, connecting southern Florida to Puerto Rico, Jamaica, the Dominican Republic, and Colombia. And it's working with Spain, Italy, and Mexico to build another fiber-optic link between those countries, the Caribbean, and Florida. "People think all business in Miami is focused exclusively on Latin America, but that's not true," says AT&T regional spokesman Vincent Salas. "A lot of our customers are getting data-transmission and other services that are going to Europe and Canada."

Likewise, Texaco's Miami office, which is responsible for Latin America and the Caribbean, has increased its staff by 33%, to 240 employees, since 1987 to pursue new ventures in Colombia and Venezuela. Hewlett-Packard moved regional administrative functions to Miami from Mexico this past March, largely because of Miami's broader connections. "Miami provides a more Latin American environment than Mexico because it has people from other countries," explains Rui Da Costa, regional general manager for HP.

U.S. SPRINGBOARD. Conversely, some Latin American companies are using Miami as a springboard to the U. S. With a trade agreement on the horizon, Mexican steelmaker Alceros Galpin has set up a U. S. office in Miami to purchase cheaper and better quality U. S. steel. The free-trade deal could eliminate 15% in duties the company pays to import U. S. steel into Mexico and eliminate border delays, says manager Vita Samuels. She has also talked with a German steel company in Miami about importing both steel and technology into Mexico.

Miami will always be a unique place, part seedy, part elegant, with a penchant for flash. Great dramas play out in the sun-baked city, from the tragedy of fleeing Haitians washing up on its shores to the farce of Panama strongman Manuel Noriega on trial. It may never lose all of its *Miami Vice* notoriety, but Miamians no longer feel the need to apologize for their city. It's even home to the Florida Marlins, one of two new major league baseball teams. The city's social ills notwithstanding, a new population mix and set of business connections are turning Miami into one of North America's most dynamic cities for business.

By Gail De George and Antonio N. Fins, with Irene Recio, in Miami

A DASH OF FRENCH SPICE IN MIAMI'S ETHNIC STEW



RIBEIRAUD AND FRIEND ON BISCAYNE BAY: HE HAS LOVED MIAMI SINCE CHILDHOOD

When Christian Ribeiraud finished his business studies in France at the Collège Lamartinière in Lyons, he had no doubt where he would settle. The 26-year-old had visited Miami with his family as a boy and liked its style. Now, he puts his skills to work for Prudential Securities Group as a broker for European and Latin American clients and spends weekends boating on Biscayne Bay. "Miami has big businesses, international banks, and numerous daily flights," says Ribeiraud. "But it's also a very pleasant place to live."

Ribeiraud and many French compatriots are part of Miami's new international milieu. The city's Latin flavor is well-established. But the French population tripled in the 1980s, to 10,000. The expatriates gather for French cultural events, concerts, dinners, and meetings. Le Provençal, a French restaurant in neighboring Coral Gables, is a favorite Friday night gathering spot.

Some French are drawn to Miami's sun-sea lifestyle and come by themselves. Most, however, relocate with their companies. There are now 70 French companies in Miami, up from 30 in 1985, and the number is growing. Outinord Universal Inc., a French maker of construction materials, opened offices in New York and Miami nine years ago to expand in the Western Hemisphere. Then, two years ago, the New York office closed, and operations were consolidated in Miami. Says Comptroller Donald Callaman: "Miami is just an easier place to do business."

FLYING HIGH. Servicing Miami's traditional cruise-ship business has long been a draw for the French, but now, Miami's air connections seem to be a major attraction. Airbus, the European aircraft consortium, operates its North American flight training center in Miami, and that has helped create a French aerospace presence. French giant Aerospatiale, one of the members of the Airbus consortium, arrived in 1988 when it bought an interest in Barfield Corp., an instrument-repair business that services Airbus planes. Sextant Avionique chose Miami over Atlanta and Dallas for its U. S. headquarters.

The French display sangfroid when it comes to Miami's rough-and-tumble ways. Barfield CEO Phillippe Dubrun has had his home and car burglarized, but he says crime is to be expected in all major U. S. cities. It is simply part of the cost of doing a burgeoning business. "The reality of Miami is very different than the perception in Europe," says Dubrun. For the transplanted French, Miami is a new City of Light.

By Irene Recio with Gail DeGeorge in Miami

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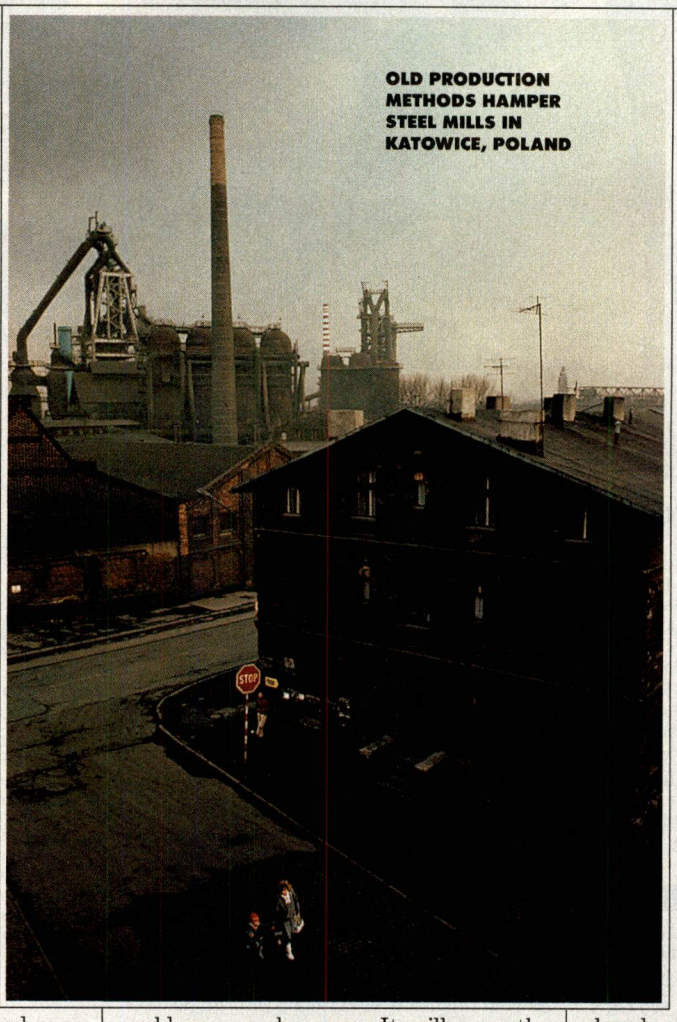
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WHY EASTERN EUROPE IS GETTING A WARM EMBRACE FROM THE EC

The community fears that imploding economies could send swarms of immigrants westward

Eastern Europeans had much to cheer about when the Soviet power structure flew apart just days after an abortive coup in mid-August. Czechs and Hungarians hailed the Soviet collapse by singing in Wenceslas Square and bidding up shares on the Budapest Stock Exchange. Playing to a prime-time television audience in Poland, President Lech Walesa phoned and quipped about life in jail with another former political prisoner: Soviet leader Mikhail Gorbachev.

But that's not the biggest reason to celebrate. As the Soviet Union unravels, Eastern Europe suddenly finds itself in the warm embrace of Western Europe. Behind the change are fears that an imploding Soviet economy could send swarms of immigrants westward. To secure the East's safe transition to a market economy, the EC is now willing to set aside its worries about floods of cheap products from the East. It's likely to offer associate status to Poland, Hungary, and Czechoslovakia before yearend. Romania and Bulgaria could follow later. "For Western Europe, the dilemma is simple. Either we increase aid and open our markets or we open our borders to immigrants," says Pierre Tailbot, senior vice-president for Eastern Europe at the Banque Nationale de Paris.



OLD PRODUCTION METHODS HAMPER STEEL MILLS IN KATOWICE, POLAND

CHRISTOPHER PILLITZ/NETWORK/MATRIX

BONANZA? By casting a lifeline to the East, the EC is laying the foundations of a post-cold-war Europe. A much bigger free trade zone is emerging on the eve of 1992. "It's possible we will end up with a community of 24 or more," says EC Foreign Commisioner Frans Andriessen. To meet this new challenge, the EC will have to rethink its plans for economic and political union. Its December deadlines for new political and monetary treaties may have to be pushed back.

Gaining associate-member status could prove a bonanza. It will pave the way for a gradual lifting of quotas on agricultural products, textiles, and steel from Eastern Europe. "That could bring stability to whole sectors of industry," says Andrzej Kozakiewicz, a Polish economic adviser. At the same time, leaders such as German Chancellor Helmut Kohl want to tie any Soviet aid from the EC to a pledge that a portion of the money will be used to buy East European goods.

> The EC is now likely to offer associate status to Poland, Hungary, and Czechoslovakia by yearend

Foreign investment also could get a boost. Western companies eager to size up vast new markets in Russia and adjoining republics are likely to plunk down their capital first in Eastern Europe, where reforms are further along and knowledge of the Soviet market is deep. Already, a bidding war is brewing among General Motors, Fiat, and Citroën for a stake in Polish auto maker FSO as gateway to the Soviet market. "There should be more of a chance for concrete projects to attract Western money," says Gerard Bloch-Morhange, a vice-president for French computer maker Groupe Bull.

GATEWAY. A reconfigured Soviet Union may ultimately prove a powerful trading partner for the East Europeans. But for the next few years, most analysts expect a turbulent transition period for the Soviet economy, marked by soaring inflation, shortages, and a wave of bankruptcies. Yet the impact of much of this turmoil on Eastern Europe has already been felt. Trade dropped off sharply earlier this year when the Soviets demanded that payments be made in scarce dollars. It won't increase any time soon, since the Soviet republics don't yet have the banks or convertible currencies needed for foreign trade. "Without banks authorized to engage in foreign trade, it's impossible to begin selling to the republics," says Janos Lendvai, head of international economic relations at Hungary's Industry Ministry.

In the most optimistic case, the Soviet republics will need two years to lay the foundations for a market economy. That's why the EC is moving fast. If the worst happens, a collapsing Soviet economy or civil war could send millions of

immigrants streaming into the wobbly economies of Eastern Europe. The added strain could topple the region's first post-communist governments if the poverty-stricken clamor for an end to the painful transition to a market economy. That danger became clear last fall during Poland's presidential elections, when dark-horse nationalist candidate Stanislaw Tyminski took a stunning 23% of the vote in a race against Lech Walesa.

There's no question that Poland, Czechoslovakia, and Hungary need Western help fast. "All these countries must weather a deep recession for the next one to two years, losing 10% to 14% of GNP a year," says Andreas Gummich, a Deutsche Bank economist and Eastern Europe expert.

STUMBLING GIANTS. Facing bankruptcy are hundreds of huge state enterprises. Their demise threatens many ambitious privatization schemes. Even some companies with Western joint-venture partners have gone under, including the Hungarian telecommunications giant Videoton, which went into bankruptcy last week. Groupe Bull is now scaling down its joint venture with Videoton. "It's a warning for countries where the situation is even tougher," laments Groupe Bull's Bloch-Morhange.

The crisis is most severe in Poland, where industry is weakest. Giant tractor maker Ursus, with 23,000 employees, collapsed this July and is being liquidated. In the textile region around Lódź, unemployment has already hit 18%, while antiquated production methods hamper steel factories in Katowice. The economic crisis is the hottest issue in the runup to parliamentary elections on Oct. 27.

Big economic and legal reforms adopted over the past two years should smooth the way for Western help. Everything from stock markets to new courts are starting to take shape, and currencies are already partially convertible. PlanEcon Inc., a Washington consulting firm, predicts that new investment in the East will total $7.8 billion next year. That's a 53% increase over the $5.1 billion invested this year.

Eastern Europe's infrastructure is improving steadily as well. Satellite and mobile phone services are coming on line in Poland and Hungary. The changes haven't gone unnoticed. "Nine months ago, the investors coming here were one-man operations," says William D. Kirst, managing partner at Price Waterhouse in Warsaw. "Now, there's a shift to investing capital." That's the best indication yet that Eastern Europe's struggling democracies are ready to join the new Europe.

By Gail E. Schares in Warsaw, with Stewart Toy in Paris

JAPAN



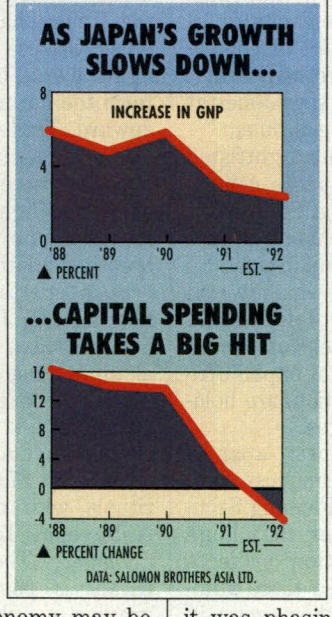
KICKING TIRES: SALES ARE SO SLOW THAT HONDA IS THROWING IN FREE OPTION PACKAGES

LOWER SALES, SLOWER FACTORIES . . . *WHERE?*

Japan is still healthy, of course—but downbeat signs are popping up

The monthly report from Japan's Economic Planning Agency seemed routine. In August, the economy once again marched smartly ahead, notching its 57th straight month of expansion. But beyond the glowing EPA report, private economists see trouble ahead. Says Russell B. Jones at UBS Phillips & Drew International in Tokyo: "The economy is not as robust as the EPA thinks."

After nearly five years of powerful growth, Japan's fleet-footed economy is showing its first real signs of fatigue. Consumers, troubled by high interest rates and prices, are leaving slick new cars and wide-screen televisions to collect dust in quiet showrooms. Rising inventories are forcing manufacturers to cut production. Battered by high interest rates, companies are scaling back capital spending (table).



As a result, Japan's economy may be in for a shock. "An industrial recession has already begun," says Robert A. Feldman, an economist at Salomon Brothers Asia Ltd. He predicts that Japan's economy will shrink 0.4% in the last half of the fiscal year ending next Mar. 31. If so, that would be the first time Japan has had back-to-back negative quarters since the 1974-75 oil shock.

Even with a weak second half, growth for the full year will come in around 3%. But that's half of last year's pace—and a radical slowdown by Japanese standards (table). It may spell trouble for the West, too. As the economy stalls, Japan is importing less while its exports keep steaming ahead. In this year's first seven months, Japan's trade surplus jumped 54%.

CURB SERVICE. The cooling in consumer demand has put auto sales in a skid. Off 12 months in a row, passenger car purchases slipped an additional 6% in August. To stem the decline, dealers are making more house calls and offering discounts. Honda Motor Co. tossed in a package of pricey options for free to boost sales of one model it was phasing out. As auto sales fall, suppliers from steel producers to glassmakers are preparing for leaner times. "Orders are definitely falling," says Asahi Glass Co. director Osamu Wada. "The year ahead will be tough."

High interest rates have triggered a

PHOTOGRAPH BY SHIGERU KUNITA; CHART BY ERIC HOFFMANN/BW

recession in homebuilding as well. New starts are down 21% for the year, with no sign of an upturn. Likewise, a drop in contracts for small office buildings is paring earnings at some steel manufacturers. Tokyo Steel Manufacturing Co. predicts that weak demand for steel girders will slash its profits by 14% this year. Retail sales have also gone soft: JVC Co. is predicting a 63% drop in profits, in part because of weaker video camera sales.

The profit plunge comes at a time when cash balances at Japanese companies are at their lowest levels since 1987. Unable to tap the sour stock market to raise cash, companies are loading up on debt. Nissan Motor Corp. borrowed $5.4 billion in 1990 to cover its investment plans. The cost: $285 million in interest, soaking up roughly one-fifth of the company's operating profits. This year, Nissan has reduced its capital investment by 13% and may make another cut. Companies such as NEC Corp. and Mitsubishi Electric Corp. are in similar binds.

HOLDING THE LINE. The squeeze may get much worse, particularly for companies that issued convertible bonds in the late 1980s. Investors snapped up the bonds, assuming they would be able to convert them to stock at a comfortable profit once the underlying share price rose above the conversion price. But because of the stock market crash, many issuers will have to buy back their bonds when they mature. Some $250 billion in convertible bonds will come due between now and 1994. That's roughly what Japanese companies raise in the capital markets in a typical year. "A lot of companies are going to have to refinance that debt at much higher cost," says Jones at UBS. "It's going to be a big problem."

High interest rates and tightfisted bank lending are pushing more companies over the edge. On Aug. 26, leading condominium developer Maruko Inc. went bankrupt with $2 billion in debt. So far this year, bankruptcies—mainly real estate speculators—have left behind about six times as much debt as during all of 1990. Even so, Bank of Japan officials, worried by 3.5% inflation, are holding the line on interest rates.

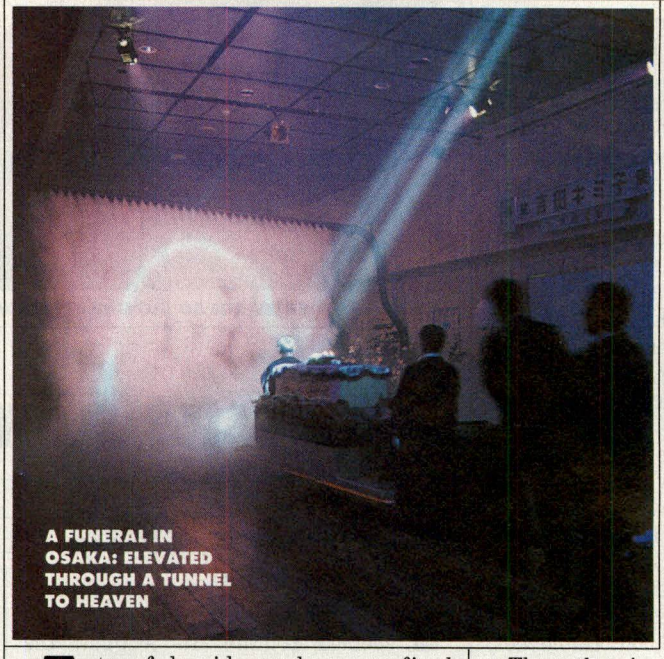
Some analysts do not expect Japan to slow down much more. Economist Paul A. Summerville at Jardine Fleming Securities Ltd. in Tokyo argues that huge state-sponsored construction projects and the growing demand for more automation to overcome labor shortages will sustain capital spending. Says Summerville: "This will pave the road for a new period of balanced growth." Until those forces are fully at work, though, Japan will move a lot slower.

By Ted Holden in Tokyo

JAPAN

REST IN PEACE . . . WITH LASERS, SMOKE, AND SYNTHESIZER MUSIC

Japan's $7 billion mortuary industry has a new hit: High-tech funerals



A FUNERAL IN OSAKA: ELEVATED THROUGH A TUNNEL TO HEAVEN

A tearful widow places a final chrysanthemum in her husband's casket, then climbs onto a platform behind the coffin while a Buddhist monk recites prayers up front. Suddenly, the funeral-hall lights dim, synthesized music blares, and pink and green laser lights pierce billowing dry-ice smoke to form the outline of a tunnel tilting heavenward. Trailed by family members, the platform is wheeled 50 yards before disappearing in clouds and a blinding flash of orange light. "This is very strange," mutters one mourner. "Wonderful!" breathes another.

Such spectacular *sayonaras* are the new rage in Japan. Gyokusenin funeral hall in Osaka, which unveiled the ethereal tunnel last March, choreographs five high-tech obsequies a day. And nearly everyone opts for the three-minute procession that adds $370 to Gyokusenin's customary $7,000 fee. "We capture old rituals with modern techniques," says Nobuyoshi Tomikawa, a Gyokusenin manager. "The era of dark, somber funerals is past." And Japan's rapidly graying population ensures that the $7 billion funeral business will remain a growth industry.

Large multistoried funeral halls, some doubling as wedding halls, are replacing homes or local temples as the site of last rites. "The quality of grief is changing in the cities," says Masao Fujii, professor of religious sociology at Taisho University. For a generation bred on computers and TV, he says, technology helps communicate.

'BEAM ME UP.' Other entrepreneurs are discovering the same thing. One funeral parlor in Yokohama is building an audiovisual wonderland that includes a planetarium projector. Several others are starting to show videos of the dearly departed or play tapes of his *karaoke* singing—a far cry from somber Buddhist sutras.

Then there's the corporate send-off, held by big companies for senior executives. Mitsui & Co. recently joined with religious-goods supplier Maruki to launch a corporate-funeral satellite network. Three cameras beaming a one-hour transmission to employees at five sites costs $36,000. "Satellite funerals will be a huge new business," predicts Hajime Himonya, editor of funeral-industry trade journal *Gekkan Sogi*.

Leaving this world Japanese-style is already an expensive proposition. Services in Tokyo average $20,000, but many easily run to $75,000. That includes mortician and temple fees, flowers, rented altars, and food and drink for the guests.

Real estate is a growing problem, too. Although 95% of all Japanese are cremated, keeping grave-site space needs small, the scarcity of land means that costs are exorbitant—$28,000 or more for a tiny private temple plot. As a result, multistory underground mausoleums, condominium plots, and even temporary pay-locker urn holders are cropping up.

Still, not everyone is crazy about modern tinkering and high-tech displays. "It's a show," grumbles Yasuko Kiyoda, who came to Gyokusenin for her neighbor's funeral. "There's no time to cry."

By Karen Lowry Miller in Osaka

THEY'RE ALL SCREAMING FOR HAAGEN-DAZS

Europe and Japan are wild about the rich Bronx-born ice cream

It has been a steamy late summer in London. But that only partly explains why on some evenings lines of ice cream-crazed consumers stretch around the corner of the big Häagen-Dazs shop in Leicester Square, London's tourist hub. Opened in April, 1990, the shop served nearly a million people in its first year and pulled in more than $2.5 million in sales. "It's easily the largest-selling ice cream shop in the world under a trademark name," says John Riccitiello, Häagen-Dazs Co.'s senior vice-president for international sales.

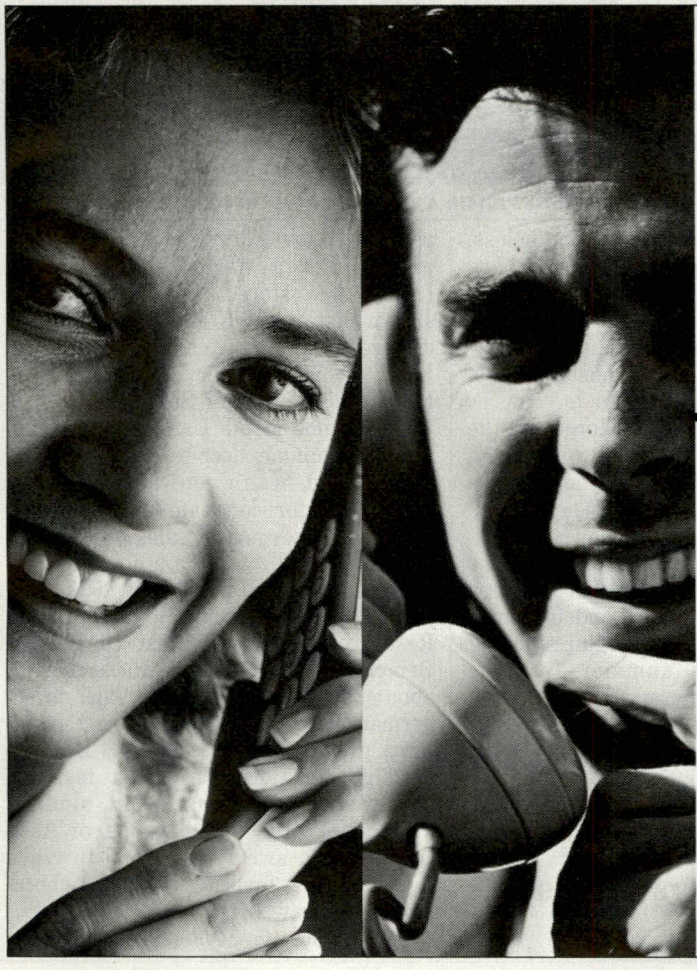
World, watch your waistline. Häagen-Dazs, the hyper-rich U. S. ice cream with the ersatz Scandinavian name, is the latest hot American export. Powered mainly by a successful joint venture with Suntory International Corp., Häagen-Dazs sales in Japan have doubled, to $120 million, since 1989. In Europe, its sales have zoomed in just two years from $2 million to $30 million, nearly all in Britain, France, and Germany, and Riccitiello expects them to more than triple in the next 12 months. The company's first European plant, a $70 million factory in Arras, France, is scheduled to open late next year, replacing ice cream exports from the U. S.

Founded 30 years ago in the Bronx, N. Y., the brand was bought in 1983 by Pillsbury Co. Ignoring international opportunities, the Minneapolis-based company concentrated on keeping Häagen-Dazs atop the booming U. S. market for



FRENCH SENSATION: LINING UP AT ONE OF FOUR HAAGEN-DAZS SHOPS IN PARIS

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superpremium ice cream. But after Britain's Grand Metropolitan PLC gobbled up Pillsbury in 1989, Häagen-Dazs was brought from the back of the freezer and pushed overseas. Grand Met brought in executives with experience in international consumer brands, including Riccitiello, from PepsiCo Inc., and Häagen-Dazs Chief Executive Officer Ove Sorensen, formerly of Mars Inc. and PepsiCo. By 1995, Häagen-Dazs executives figure consumers will be licking up $1 billion worth of their product annually, double the volume expected this year. By then, just over half of total sales are expected to come from international markets, vs. 30% now.

To whet foreign appetites, the strategy was simple: First, introduce the brand at a few high-end retailers, follow by building company-owned stores in high-traffic areas, and then roll out in convenience stores and supermarkets. Free tastings—5 million in Europe alone this year—rather than advertising have been the order of the day, until recently. Now, sexy and controversial ads are popping up in Europe and Japan. In Britain, print ads feature seminude couples feeding the ice cream to each other. A billboard campaign in Japan uses a black-and-white photo of a young couple kissing in public, a near-taboo. Nonetheless, the poster is so popular that many have been ripped off as collector items.



SENSUOUS PITCH: A PRINT AD FROM THE BRITISH CAMPAIGN

FEEDING FRENZY. Häagen-Dazs has quickly broken through cultural barriers. In Britain, ice cream consumption is just seven liters per capita a year, or one-third the U. S. level. Moreover, the British have traditionally purchased mostly low-grade local brands of ice cream, some versions not even containing dairy products. Now, they are shelling out $5 a pint, double or triple the price of homegrown brands. Europa Foods Ltd., a 45-shop London convenience-store chain, only began stocking Häagen-Dazs this summer—yet the brand is likely to account for 20% of all ice cream sales this year. So jammed are the four Häagen-Dazs stores in Paris that nearby kiosks are staying open later to catch the spillover. In some French supermarkets, which are grabbing more and more business from traditional mom-and-pop outlets, freestanding freezer cases stocking only Häagen-Dazs are showing up in high-traffic areas. This fall in Japan, Häagen-Dazs will launch its lower-fat frozen yogurt, and it'll begin test-marketing in Europe next year.

Häagen-Dazs' success abroad is beginning to draw competitors. Boston-based Steve's Homemade Ice Cream Inc., owned by Andal Corp., jumped into Japan two years after Häagen-Dazs. Two months ago, it started showing up in London-area stores. "Häagen-Dazs has shown that the U. K. public is ready for ice cream of this quality," says Gary Laird, owner of Dairy Pride Ltd., the London distributor of Steve's.

Back home in the U. S., Häagen-Dazs remains popular, despite increased competition and health consciousness. In a flat market for ice cream last year, Häagen-Dazs supermarket sales of $115 million were up 20%, and in a down market through the first quarter of 1991, they jumped 31%, according to Information Resources Inc. Its nearest competitor, Ben & Jerry's Homemade Inc., racks up about half of Häagen-Dazs' sales in supermarkets. But overseas offers the biggest growth. And wherever Häagen-Dazs goes, it's discovering that tastes in ice cream are remarkably similar. Whether it's the U. S., Europe, or Asia, those with a sweet tooth tend to crave the longtime favorites—vanilla, chocolate, and strawberry.

By Mark Maremont in London

A pint of Häagen-Dazs fetches $5 in Britain—two or three times the price of competitors' brands

EDITED BY JOHN PEARSON

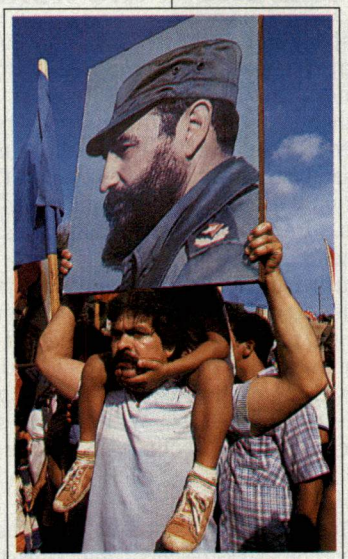
NOW FIDEL REALLY HAS TO TOUGH IT OUT ALONE

Stop helping Fidel Castro. That message to Moscow has been popping up in almost every press conference by President Bush since the failed Soviet coup. Bush's urging is superfluous, however, because Soviet-Cuban ties are certain to shrink drastically, with or without U. S. prodding. The result for hard-pressed Cubans seems likely to be Option Zero—Castro's term for the deprivation Cuba will face if its lifeline to the vanishing Soviet bloc is cut.

Many in the Bush Administration believe Castro's regime won't survive. "Cuba's going to solve itself," says a State Dept. official. "We don't have to do anything." Despite the grim prospects and crumbling economy, however, Castro is expected to propose modest market-oriented reforms at most when the Communist Party's Fourth Congress meets, starting on Oct. 10. And his vow to keep the Communist faith at all costs seems to rule out any easing of the party's rigid political grip.

Moscow has already cut Cuban aid sharply. Now, with the Soviet republics facing economic turmoil at home, their assistance to Cuba and other former satellites "will be stopped completely," predicts Andrei Kortunov, a foreign policy expert at Moscow's Institute of the USA & Canada. Although the big Russian Republic is more ready than others to pursue an independent foreign policy, it will be interested mostly in the European Community and East Asia, Kortunov says. Relations with Third World countries such as Cuba, he observes, "were artificial creatures of the superpower status that is no more."

That applies to military as well as economic ties. With the end of the cold war, most of the 3,000 Soviet troops in Cuba are left without a mission. They are a legacy of the deal that ended the 1962 missile crisis: The U. S. promised not to attack Cuba, and Moscow pledged not to station offensive weapons there—but didn't agree to withdraw all troops. The Soviets are still supplying military aid worth $1.5 billion annually.



CASTRO MAY IMPOSE 'OPTION ZERO': SEVERE BELT-TIGHTENING

Wayne S. Smith, a Cuba expert at Johns Hopkins University, expects the Soviet military presence to shrink but not disappear. Soviet forces on the island include military advisers, 1,200 regular troops, and 1,000 military personnel at the big electronic spy installation at Lourdes, outside Havana. Among other things, the facility enables the Soviets to monitor U. S. arms-control compliance. The Soviets aren't likely to cut all military aid, because then "the Cubans probably wouldn't let them keep Lourdes," Smith says. "Rationally, they should want to hold on to it to verify compliance with arms-control treaties." But in the current confusion, the republics may care less than Moscow once did about how the U. S. carries out arms accords.

ONE-WAY PASSAGE. If the Soviet Union disintegrates, changes in policy toward Cuba "will likely be seen very quickly, by the end of the year," Kortunov says. He argues that a gradual reduction in aid, estimated at up to $2.5 billion a year, would help avoid creating chaos on the island. But he sees time running out for a restructuring of Soviet-Cuban relations, particularly because Castro seems unwilling to make significant reforms.

That prospect suits Miami's powerful exile lobby, the Cuban American National Foundation. A delegation from the foundation planned to fly to Moscow in early September to urge Soviet and Russian leaders to keep turning the screws on Cuba. One result is the stream of one-way Cuban tourists flying to Miami. So far there's no sign that Castro is losing his grip. But the refugees fear the hardship of Option Zero—or the upheaval if, for lack of a Soviet lifeline, Castro's regime eventually founders.

By Gail DeGeorge in Miami and Rose Brady in Moscow, with Amy Borrus in Washington

GLOBAL WRAPUP

ARGENTINA

After a number of false starts, President Carlos Menem's sell-off plan is finally whittling down Argentina's huge inventory of official assets, large and small. On Aug. 29, bidders paid $1.3 million for five floors of office space in downtown Buenos Aires, and developers are eyeing 2½ acres of prime land near the presidential palace to be auctioned on Sept. 19. Petrochemical and steel plants will go on the block later this year.

Getting rid of money-losing operations and gaining auction income have helped Menem trim the budget deficit and brake inflation. Now, investors are pushing Buenos Aires' stock market to record highs. San Francisco's G. T. Global Financial Services Inc. and Merrill Lynch & Co. recently launched investment funds to channel money into Argentina and other Latin nations.

UNITED NATIONS

The U. S. and other leading U. N. members may urge Secretary General Javier Pérez de Cuellar to stay on a year or two beyond his second five-year term, which ends on Dec. 31. The Organization of African Unity, arguing that it is Africa's turn to hold the top U. N. post, has endorsed six African candidates to replace him. But the dizzy pace of global change makes having an experienced hand at the U. N. all the more important. Pérez and his deputies are involved in sensitive peacemaking efforts from Cambodia to the Middle East. On Sept. 16, Pérez will confer in New York with El Salvador President Alfredo Cristiani and guerrilla chiefs in the U. N.'s effort to end that country's civil war.

In 1981, Pérez was the compromise choice when China deadlocked the Security Council by backing Africa's candidate against former Secretary General Kurt Waldheim, supported by the U. S., the Soviet Union, Britain, and France. Now, with the Soviets moving closer to the West, China may be wary of another confrontation at the U. N.

RICHARD VOGEL/GAMMA-LIAISON

RETAILING

THEY'RE BA-ACK

IT'S NO SPREE, BUT SHOPPERS ARE SHOPPING AGAIN

Penny-pinching consumers hurting retailers? Not if the Bender family has anything to say about it.

On the Sunday before Labor Day, pharmacist Michael Bender took his wife, Marcia, and son, Matthew, to Gurnee Mills, a new, 2 million-square-foot outlet mall north of Chicago. Matthew, 14, had already gotten $500 worth of new clothes for school. Still, his mother wanted to "pick up some odds and ends." So she bought him a trendy-looking cotton shirt for $20. Is the recession cutting into back-to-school shopping? "You wouldn't know it here," said Michael Bender, surveying the estimated 100,000 shoppers who crowded the mall.

You wouldn't know it in a lot of places. While hardly booming, back-to-school sales are up. At Burlington Coat Factory, a discount chain that last year moved $790 million in apparel, Chairman Monroe G. Milstein says: "So far, we're ahead in the high single digits." At casual-wear purveyor Benetton, spokesman Peter Fressola notes: "Within the last two weeks, business has really picked up. Some of our stores are reporting double-digit increases."

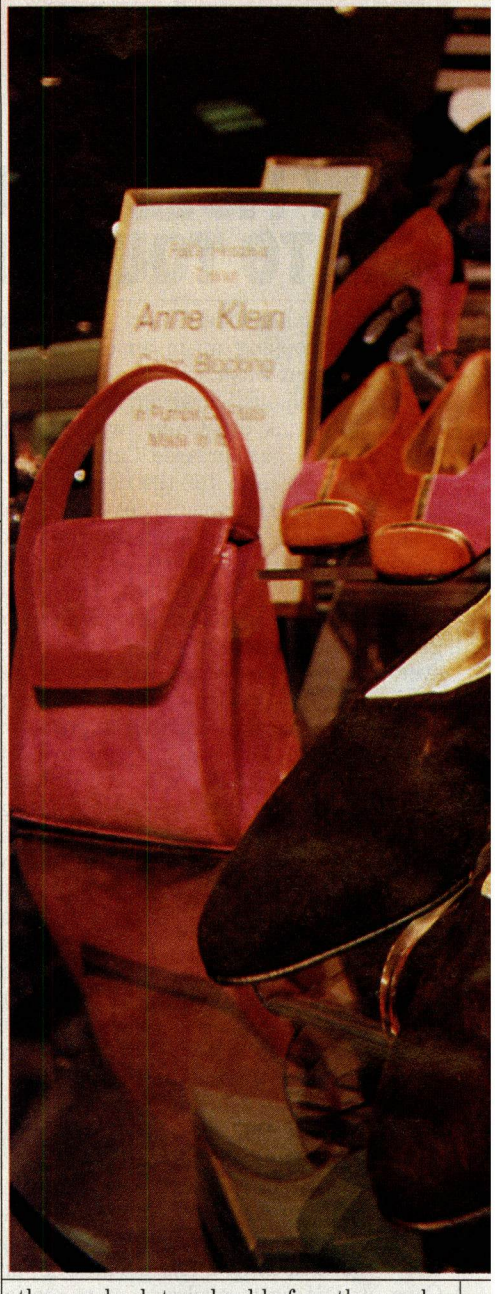
Even at Abraham & Straus, a division of bankrupt Federated Department Stores Inc. based in Brooklyn, N. Y., "back-to-school sales are much better," says Senior Vice-President Francesco Cantarella. He adds: "We haven't seen any stuff that people look at and wonder, 'When is that going to be marked down?' "

MAKING DO. Reports like these from the store aisles offer comfort and hope that's been a long time coming to U. S. retailers. They've spent the past year or more cutting stocks, slashing prices, and praying for paying customers. Consumers, many of whom a couple years back shopped just for the sport of it, have been making do with what they have—or, when they must lay out cash, they've been buying cheaper goods. Kay Cardenas, a Burlingame (Calif.) preschool teacher and mother of a sixth-grader, recently refused to shell out $50 for the Guess? jeans skirt her daughter coveted. "There was only a half-yard of denim in it," she says. "I explained to her that it wasn't a value."

Such frugality may leave some households glowing with virtue. But taken together, all those tight fists helped last year to throw the economy—two-thirds of which depends on consumer spending—into recession. With retail sales generally down about 3.5% so far this year, any gains over even 1990's spotty record will be welcome (chart). Nor could the improvement arrive at a better time: The back-to-school and Christmas seasons are pivotal periods when shoppers spend more money than the rest of the year combined. That's why economists were so heartened recently when R. H. Macy & Co. said it expects its sales to leap some 8% over the next six months.

Not every retailer is enjoying the surge. A spokesman at J. C. Penney Co. says back-to-school sales "have been disappointing." At Dayton Hudson Corp., President Stephen E. Watson reports recent sales are up a tad, but less than expected. He thinks some kids—including his own daughter—are waiting until they go back to school before they make their purchases. One more warning sign: Until consumers' incomes get growing again, any rebound in retailing necessarily will be dampened. "You can only draw on savings growth for so long to get spending growth," notes Carl Steidtmann, chief economist at retail consultants Management Horizons. "That's a limited string to push on."

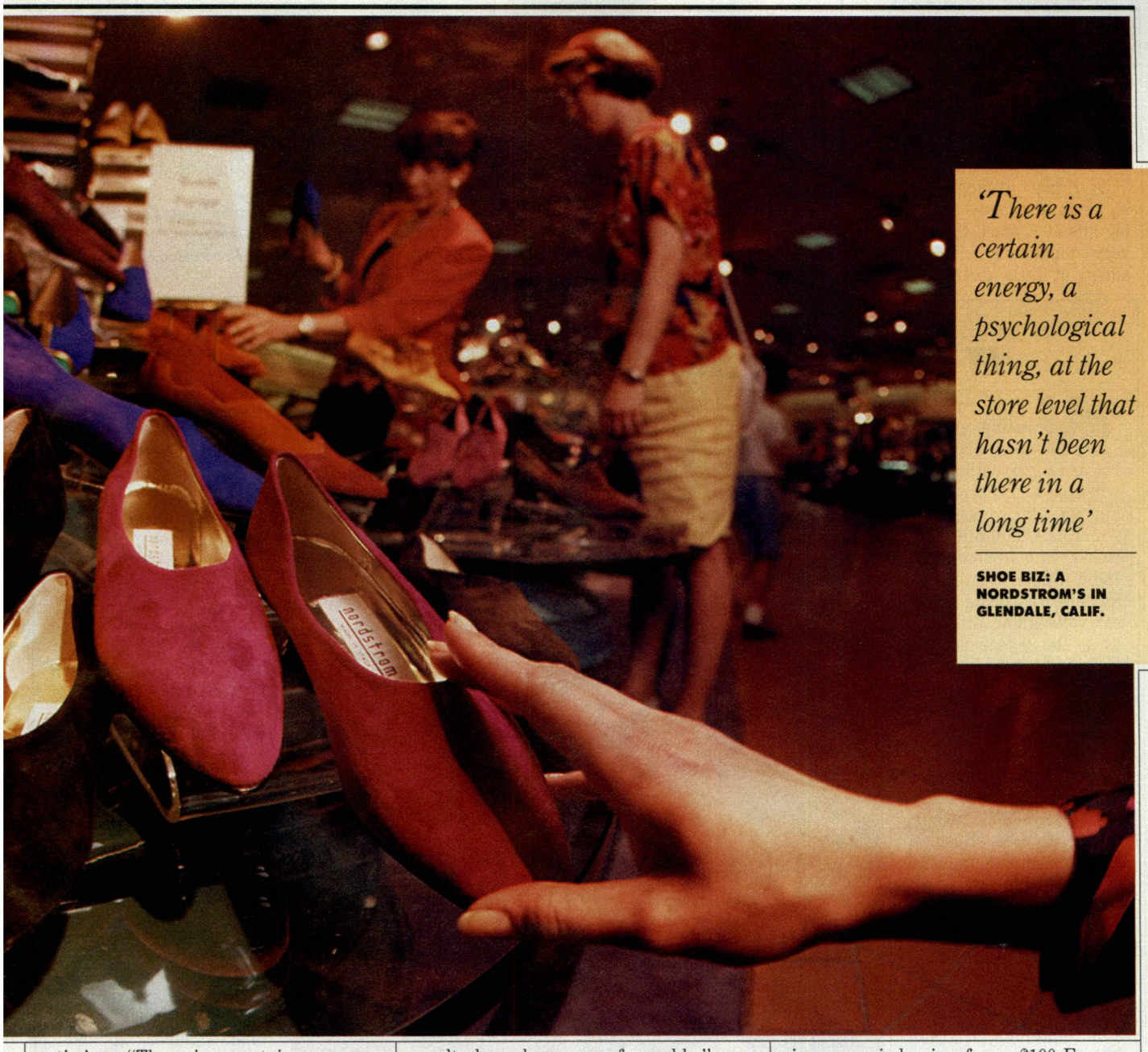
That said, Steidtmann still expects consumers to start opening their wallets. "There is a lot of pent-up demand out there," he notes. "People didn't shop for a good 12 to 18 months, and eventually stuff wears out." Plus, a combination of events—easier credit, stabilizing home prices, lower energy bills, and rising stocks—seems to be fostering





JAMMED: THE GURNEE MILLS OUTLET MALL IN SUBURBAN CHICAGO

(TOP TO BOTTOM) PHOTOGRAPHS BY MARK RICHARDS; MICHAEL L. ABRAMSON; CHART BY ALBERTO MENA/BW



'There is a certain energy, a psychological thing, at the store level that hasn't been there in a long time'

SHOE BIZ: A NORDSTROM'S IN GLENDALE, CALIF.

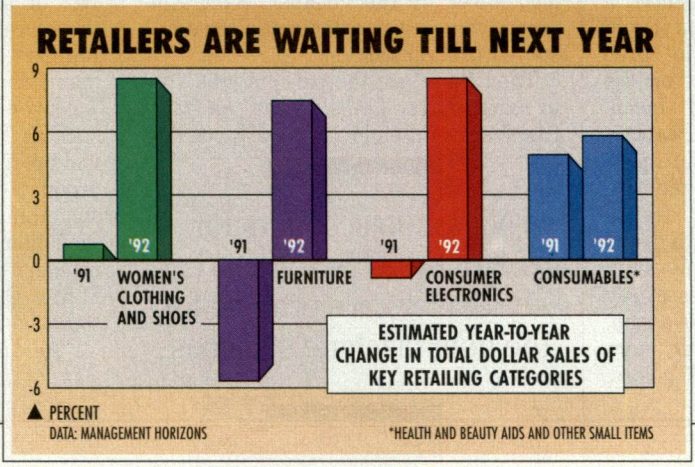
optimism. "There is a certain energy, a psychological thing, at the store level that hasn't been there in a long time," observes Benetton's Fressola.

Some stores plainly are doing better than others. Which ones? "The stores that offer value-oriented merchandise with really moderate prices are going to end up with the lion's share of the business," says Kurt Barnard, a retail consultant in New York. "The others will sit there with their tongues hanging out."

DOTS FINE. That's good news for the so-called off-price retailers that take name-brand remainders and discount them. At Boston-based T. J. Maxx, for instance, Hurricane Bob briefly dampened East Coast sales, but executives remain sanguine. "Off-pricers' results have been very favorable," says a spokeswoman. "We're well-positioned for the economy."

And those that aren't well-positioned are trying to get that way fast. Po Chan, a partner in Yountville Clothes for Children, a four-store chain in the San Francisco area, is buying fewer $100 European party dresses for infants these days. Instead, she's stocking up on domestically made dresses marked at $50 to $60.

Big department stores and chains are trying to catch consumers with inexpensive-but-trendy items. "What's doing well is less-serious-looking fashion," says Sarah Davies, corporate fashion director at Nordstrom Inc. "Anything too serious or too basic or too classic everyone is leaving behind, because they already have it in their closets." At Abraham & Straus, shoppers are grabbing most any garment covered with dots, says Cantarella: "Big dots, small dots, there is a lot of excitement about dots this year." Wild colors also remain hot: At Gurnee Mills, a kiosk



called Originals is selling lots of $14.95 T-shirts. They look like '60s-era tie-dye shirts, but the colors change when something warm—a hand, or hot breath—comes in contact with them.

At K mart, "skeggings"—skirts with leggings attached—are going fast. Also big hits at K mart: the Lisa Frank line of very feminine-looking school supplies aimed at little girls, and Elmer's Glu-colors—glue in neon pink, green, yellow, orange, and blue. Wal-Mart shoppers are snapping up small coolers, backpacks, and lunch kits in bright colors. Near colleges, Wal-Mart is winning with Bed in a Bag, a comforter-and-sheet set.

While consumers hold off on those $100 baby dresses, many still are hot for bargains. "My spending is up 20%, but I'm buying because I have to," says San Francisco physician Ellen Howse. She recently purchased a new refrigerator and a Mazda minivan, feeling she got good deals on both. That's the spirit retailers are counting on to carry them into 1992.

By Laura Zinn in New York and Julia Flynn Siler in Chicago, with Alice Z. Cuneo in San Francisco, and bureau reports

AT $200 A POP, WILL SUPER NINTENDO HAVE LEGS?

With the speed of Super Mario racing to rescue the princess, Larson Lee flew into his dad's car without shoes and socks when he heard the news he was waiting for. After pestering Nintendo of America's 800-number operator for weeks, he had confirmed that the new 16-bit Super Nintendo Entertainment System was being unpacked at his local video-game store. Within 15 minutes, the 9-year-old San Franciscan got his dad to plunk down some $200 for the latest in home video entertainment. "If we waited for Christmas, I didn't know if we would be able to find one," says his father, Larry G. Lee. Besides, after six long months of hard lobbying from Larson, "I figured life would be a lot easier if I bought it now."

One of 32 million U. S. customers already enthralled with Nintendo's 8-bit machine, Larson isn't the only one going crazy for the new system. "We're very excited about it," says Michael Goldstein, vice-chairman of Toys 'R' Us, which had its cache of Super NESes flown to the East Coast in late August to get a jump on rivals. The Nintendo Entertainment Center, a shop in Daly City, Calif., reports it sold out its stock of 60 systems in three days. "It's the hottest product on the market in 1991," said Gary M Jacobson, a toy analyst at Kidder, Peabody & Co. Nintendo expects to ship up to 2.5 million units in the next six months.

STAYING POWER? The early frenzy over the 16-bit machine seems to dispel fears that players would simply shun the system, which also requires pricey game cartridges going for $50 a pop. The 16-bit system provides richer, more vivid graphics in an array of colors, producing an effect that's close to arcade quality. "It's the difference between a prop and jet," says Scott Bauhofer, merchandise manager for personal electronics with Good Guys Inc., a chain of 32 California and Nevada stores. Philips will collaborate with Nintendo on a CD-ROM capability to allow future games to contain actual movie footage.

With 1990 U. S. sales of $3.4 billion, Nintendo expects the new system to rack up $700 million. But outsiders still wonder if, after the fanatics finish devouring the first few batches, such an expensive machine will have the staying power of the cheaper, 8-bit Nintendo, whose suggested retail price has stayed around $99.

Then there are the parents who vow to resist. Larry Lee says his son benefits from Nintendo by avidly reading manuals on the game and writing up his own Nintendo guide on the family computer. But Sandra Powers of San Francisco does not expect to buy Super NES for her two boys. "We just had our talk about no Nintendo during school," she says. Cindy Elsbree of Gilroy, Calif., is also hesitant: "With $200 I would probably find something with more educational value."

And Nintendo, which has dominated the 8-bit market, has been beaten to the punch in 16-bit systems by Sega of America's Genesis, with its hot game featuring a speedy hedgehog named Sonic. Sega, which vows to make 16 bits the undisputed standard for video games, has been sold out since July. And Sega's systems are compatible with older 8-bit versions through a $35 adapter, giving Sega a software library for Genesis that is currently seven times that of Nintendo's Super NES. Nintendo intends to maintain its 8-bit market separately, while promoting Super NES to advanced players. About 18 Super NES games will be out by Christmas.

Plenty of people want Nintendo to succeed. It accounts for an astounding 16% of the total U. S. toy market, so the success of Super NES will affect toy retailers deeply. And if Nintendo can't crank them out fast enough, analyst Jacobson figures traditional toymakers such as Tyco Toys Inc. and Mattel Inc. will profit by selling their own low-tech products to kids and parents who want something under the tree but can't get their hands on Super NES. Whether for retailers or other toymakers, the Super Mario Brothers' next big adventure could be rescuing Christmas.

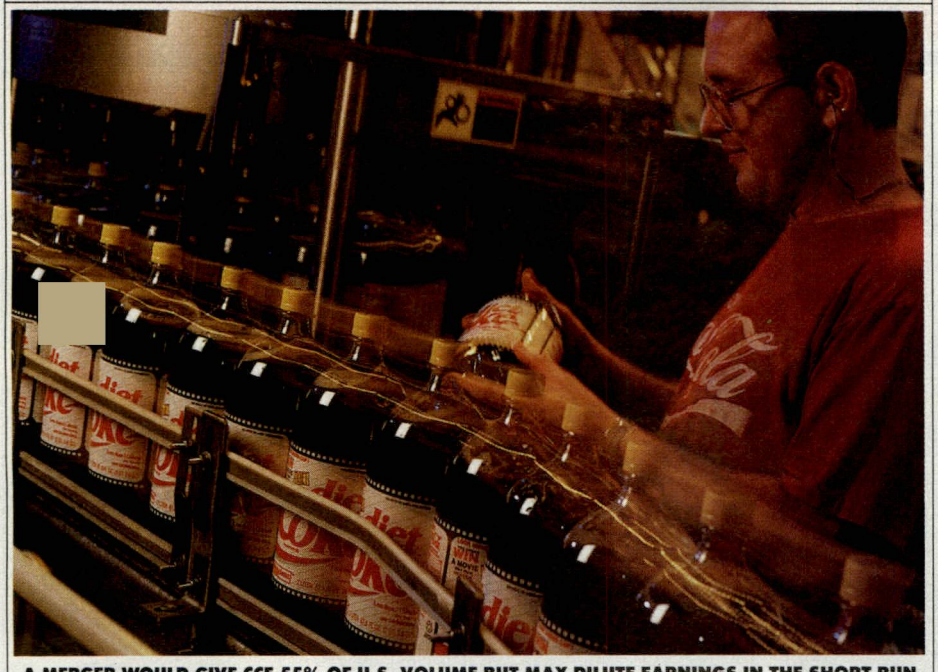
By Alice Z. Cuneo in San Francisco, with Thane Peterson in New York



SUPER NES AT TOYS 'R' US: THE FIRST BATCHES ARE SELLING FAST

STEVE WINTER

Nintendo accounts for 16% of the U.S. toy market, so retailers are praying for the new machine's success



A MERGER WOULD GIVE CCE 55% OF U.S. VOLUME BUT MAY DILUTE EARNINGS IN THE SHORT RUN

JOHNSTON MAY BE TH BOTTLER THAT REFRESHES

A merger could bring CCE badly needed management savvy

Stockholders at Coca-Cola Co. have plenty to cheer about. Average annual return on the stock has been 29% for the past five years. On the other hand, shareholders of the soft-drink giant's 49%-owned Coca-Cola Enterprises Inc., the largest Coke bottler, are apt to be groaning. The stock is languishing around 14⅜, slightly below the initial offering price of 16 five years ago.

CCE's latest move may finally offer hope of improvement. On Aug. 30, CCE announced it planned to acquire privately owned Johnston Coca-Cola Bottling Group in Chattanooga, the second-largest domestic Coke bottler, for about $450 million in CCE stock. The combined company would give CCE control of 55% of Coke's U.S. bottling volume. Equally important, it would bring CCE a group of veteran bottling managers hoping to rejuvenate the acquirer.

BODEGA BODIES. Until now, CCE has been run by Brian G. Dyson. The former head of Coca-Cola USA, he played a big role in the successful Diet Coke introduction in 1982 and was known as a savvy marketer. But he had little of the hands-on manufacturing experience good bottlers need. During his five-year tenure, he built a centralized management structure with a large corporate staff but few decision-makers at the local level. Industry consultants call that a mistake, since bottlers must work closely with all customers—from national chains to tiny neighborhood bodegas. "In the bottling business, you've got hundreds of marketing decisions every day," says Prudential Securities Inc. analyst George Thompson. "You can't just sit in Atlanta."

That's where Johnston's structure may serve as a model. It is decentralized, with each of nine operating groups run by a general manager. According to Johnston President Henry A. Schimberg, who will keep that title at the combined company, local management is key to tailoring promotions with merchants, which help move product without slashing prices and make it easier to respond to competition. Pespi-Cola USA, which owns most of its bottlers, switched to a regional structure for all operations three years ago.

Johnston's results support Schimberg's philosophy. The company has recorded losses for the past five years because of debts from acquisition, but it is one of the few bottlers to post volume growth. Case sales were up 8.3% in the quarter that ended Apr. 30, 1991.

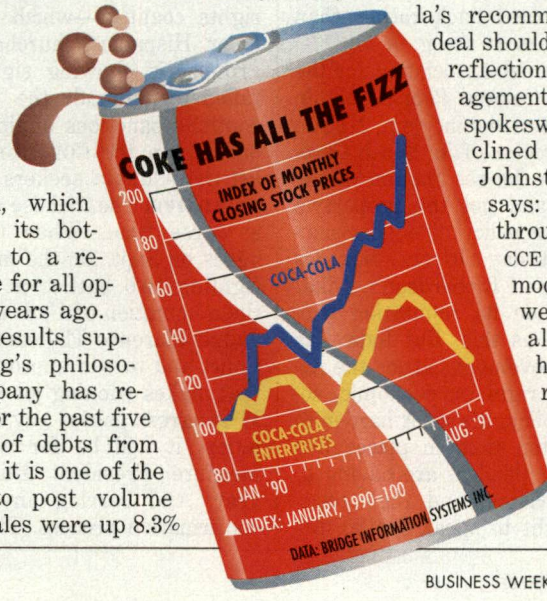
CCE was created in 1986, when Coke bought and consolidated several bottlers, primarily in the West and Southeast. Coke spun off 51% of the new company's shares, allowing the soft-drink giant to push off its balance sheet the $3.1 billion in acquisition debt.

SUGAR FIX. The dynamics of Coke's business are more attractive than those of its bottler. Coke's primary business is selling concentrate and syrup to bottlers, and it also provides marketing support to sell Coke. Bottlers compete on a scrappier level: They manufacture and distribute soft drinks to the retail and fountain outlets and handle most local promotion. At one time, bottlers held long-term, fixed-price contracts for Coca-Cola concentrate and syrup that allowed for price increases only when sugar prices rose. But when Coke spun off CCE and bought stakes in other bottlers, new contracts called for regular increases tied to inflation.

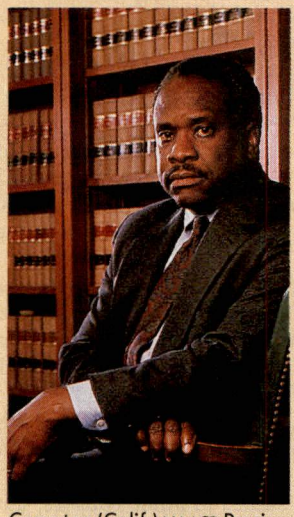
That was good for Coke but made things tougher for the bottlers. Thus CCE, which was formed just as a major falloff in consumption and fierce price wars hit the soft-drink industry, had little room to maneuver. Despite aggressive cost reductions, CCE's margins slipped from 10% in 1987 to 8% in 1990. And CCE recently said it expected earnings per share for 1991 to be between 30¢ and 35¢—half the 65¢ that analysts were estimating. Another bearish factor: CCE, with $2.8 billion of long-term debt already, will inherit Johnston's $1 billion in debt, which could dilute earnings, analysts say.

The plan calls for Summerfield K. Johnston, chairman of the smaller bottler, to become CEO of the new company, replacing Dyson, who becomes vice-chairman. In what seems a clear indication that Coke calls the shots for CCE, Coke conferred with Johnston for weeks about an acquisition without input from CCE, Johnston executives say. "Coca-Cola's recommendation of the deal should not be read as a reflection on CCE's management," says a Coke spokeswoman. Dyson declined comment. But Johnston's Schimberg says: "If the deal goes through, you will see CCE adopt the same modus operandi that we have." Eventually, CCE shareholders may have reason to cheer—if they stick around.

By Walecia Konrad in Atlanta



PHOTOGRAPH BY ANDY SNOW/SABA; CHART BY ROB DOYLE/BW





Compton (Calif.) NAACP President Royce W. Esters (right) backs Judge Clarence Thomas because he embodies the self-help philosophy: 'We need to move away from the belief that America owes me something or else I'm going to steal'

HAS THE CIVIL RIGHTS MOVEMENT GONE 'TERRIBLY WRONG'?

The wrangle over Thomas is only one sign of strain in the coalition

On a Saturday afternoon earlier this summer, Cub Scout Pack 409 of New Ellenton, S. C., arrived at Richardson's Lake in nearby Aiken County for a day of swimming and picnicking. But the excursion was cut short. The lake's manager refused to admit two of the scouts, who were black, so the group turned back rather than leave two members at the gate.

Enter the National Association for the Advancement of Colored People. Within hours of learning of the incident, Nelson B. Rivers III, director of its South Carolina chapter, won the resignation of the lake's manager and got the property's owners to adopt a policy of nondiscrimination. The next day, Rivers took his family swimming at Richardson's Lake.

The NAACP made its reputation winning fights such as this. But today, as the civil rights movement battles the nation's tilt to the right on economic, social, and legal policy, it's a lot harder to win in Washington than in places like Aiken. Civil rights leaders are having to prove their relevance—and their once-unquestioned right to speak for 30 million black Americans. "Something has gone terribly wrong," says Howard University political scientist Ronald W. Walters. "Many blacks are turned off by the civil rights movement."

Civil rights organizations have been hit hard financially by the recession. Moreover, the once formidable civil rights coalition—which includes blacks, labor, Hispanics, churches, and women's groups—is showing signs of strain. It failed to persuade the White House to continue sanctions against South Africa or to stop the GOP from calling rights activists "quota seekers."

EXPLOSIVE. The malaise couldn't come at a worse time. When Congress reconvenes on Sept. 10, the movement will be fighting two battles at once: to defeat the nomination of U. S. Court of Appeals Judge Clarence Thomas to the Supreme Court and to win approval of a measure that makes winning job-bias suits easier. If Congress passes any civil rights legislation, it will be far weaker than the measure President Bush vetoed last year. And barring any slipups in the confirmation process, Thomas is expected to join the high court next month.

The Thomas nomination in particular has set off a bomb in the civil rights tent. It exploded tensions that had long been building between civil rights leaders and growing numbers of blacks who believe that self-help efforts work better than government programs. Nearly every civil rights group—with the exception of the National Urban League, which is neutral—opposes Thomas. But he has considerable grass-roots support. Larkin Campbell, a Columbia (S. C.) lawyer and NAACP member in favor of Thomas, says the group's leaders "don't necessarily represent the opinions of their own membership."

NAACP Chairman William F. Gibson concedes his group lost touch with younger blacks several years ago but insists things are back on track. "The idea that we are out of the mainstream is wrong," he says. True, a new BUSINESS WEEK/Louis Harris & Associates poll shows 88% of blacks feel the NAACP is an effective representative. But 56% of those polled support Thomas' confirmation, despite the opposition of civil rights groups (page 39).

Civil rights leaders dismiss such polls as the views of the uninformed. Says William L. Taylor, a civil rights lawyer: "The pollsters are talking to people who know no more than that Thomas is black and an American success story." But it's precisely Thomas' up-from-poverty background that makes him attractive to

[L TO R] PHOTOGRAPHS BY MARTIN SIMON/SABA; EDUARDO CITRINBLUM

many blacks. Royce W. Esters, president of the NAACP chapter in Compton, Calif., backs Thomas because he personifies the self-help philosophy. "We need to move away from the belief that America owes me something or else I'm going to steal," Esters says. The chapter voted to support Thomas, but under pressure from the parent group, members have agreed to voice support as individuals.

To some extent, the civil rights movement is a victim of its own success. The legislative victories of the 1960s, which outlawed discrimination in education, voting, and employment, have helped thousands of black households to move into the middle class. This group is far from monolithic and often challenges civil rights orthodoxy. "Blacks will not be pigeonholed anymore," says W. Allan Bean, a 30-year-old black entrepreneur from Washington who backs Thomas.

SPLITS. The civil rights bill will be another big test for the movement. The cohesion of the Leadership Conference on Civil Rights will be challenged this fall when the Senate takes up the measure. Women's groups want the right to seek unlimited damages and jury trials for job bias. Blacks, who already have these rights, want the bill to focus on provisions that would make it easier to prove discrimination. These differences, plus White House interference, scuttled a compromise on the bill last spring.

Ralph G. Neas, director of the 185-member coalition, admits some tensions but disputes that civil rights groups are in trouble. "When you have an economy going downhill and two branches of government that are openly hostile to civil rights, I think the coalition is doing well," he says. Neas notes such triumphs as the Americans with Disabilities Act, the minimum-wage increase, and passage of a child-care bill.

But the Leadership Conference has dubious claims to these "victories." Bush supported the disabilities bill. The minimum-wage-hike bill was watered down to meet White House demands. And the movement itself was split on the child care bill because it provided federal funds to religious organizations.

Any loss of the movement's political muscle could be a boon for industry. It may be easier now for business to thwart the civil rights bill as well as efforts to raise corporate taxes. There could be a downside, though. If Thomas makes a conservative majority on civil rights issues, the court may undermine affirmative action and leave employers' hiring practices in disarray.

That's why the battle over Thomas is more than a fight over a vacant seat on the Supreme Court. It is a fight for the very soul of the civil rights movement.

By Paula Dwyer and Tim Smart in Washington

Business Week/Harris Poll

HOW BLACKS VIEW THOMAS AND THEIR LEADERS



SHOULD THOMAS BE CONFIRMED?

■ As you probably know, President Bush has nominated Judge Clarence Thomas, who is black, to the U. S. Supreme Court to take the place of Justice Thurgood Marshall, who is also black. If you had to decide today, would you favor or oppose Judge Clarence Thomas for the Supreme Court?

Favor ..... 56% Oppose .... 31% Not sure 13%

WEIGHING THE NOMINEE'S PROS AND CONS

■ Let me read you some statements about Judge Clarence Thomas and his nomination for the Supreme Court. Do you agree or disagree with each?

	Agree	Disagree	Not sure
Judge Thomas should be confirmed because it is important to continue to have a black on the Supreme Court	60%	37%	3%
Judge Thomas should be rejected because he is opposed to affirmative action for blacks and other minorities	40%	53%	7%
Judge Thomas should be confirmed because he is the best-qualified person for the Supreme Court at this time	55%	37%	8%
Judge Thomas should be rejected because most black organizations are opposed to his nomination	27%	69%	4%
Judge Thomas should be confirmed because he will be a role model for young blacks because he came from such poor beginnings	62%	35%	3%
Judge Thomas should be rejected because he will stand for the opposite of everything Thurgood Marshall stood for	33%	58%	9%
Judge Thomas should be confirmed because President Bush thinks he is the right choice	45%	53%	2%
Judge Thomas should be rejected because if he is on the Supreme Court other blacks like him won't get the same opportunities he got under affirmative action	33%	61%	6%

DOES BLACK LEADERSHIP REPRESENT YOU?

■ How effective do you feel each of the following people or organizations is in representing black people like you—very effective, somewhat effective, not very effective, or not at all effective?

	Very	Somewhat	Not very	Not at all	Not sure
NAACP	54%	34%	5%	3%	4%
Urban League	34%	47%	5%	5%	9%
Leadership Conference on Civil Rights	44%	42%	4%	4%	6%
Black Muslim leaders	19%	34%	17%	21%	9%
Southern Christian Leadership Conference	25%	46%	11%	7%	11%
Reverend Jesse Jackson	56%	33%	4%	6%	1%
Black elected officials, like congressmen, governors, and mayors	33%	51%	8%	3%	5%
Leaders of black militant groups	15%	41%	18%	19%	7%

WHAT ABOUT BLACK GROUPS' OPPOSITION TO THOMAS?

■ Do you think the opposition of most civil rights organizations to the Thomas nomination serves the best interests of blacks, or not?

Serves best interests 56%
Does not 36%
Not sure 8%

Edited by Mark N. Vamos

Survey of 500 black adults conducted Aug. 29-Sept. 2, 1991, for BUSINESS WEEK by Louis Harris & Associates Inc. Results should be accurate to within four percentage points.

RAY VELLA/BW

SOVIET UNION

INCHING TOWARD A DECLARATION OF INTERDEPENDENCE

But any new Soviet economic union will have to weather tough times

The euphoria of a sweeping democratic victory still hangs in the Moscow air. But now, the hard work has begun. Leaders of 15 former Soviet republics are thrashing out an economic treaty to prevent the total collapse of their trade and an outbreak of economic warfare. Their aim, says Russian Prime Minister Ivan Silayev, is to create an economic union loosely modeled after the European Community.

Events are moving fast. On Sept. 4, the Soviet Parliament gave preliminary approval to a plan to transform the Soviet Union from a political monolith controlled by the Kremlin into a loose confederation of independent states. Without the Communist Party, the glue to hold such a confederation together will have to be new economic agreements.

But cutting those deals is a daunting task. The republics must decide how to divvy up $64 billion in foreign debt, create a coherent monetary and banking system, and manage the country's gold and precious-metals reserves. Warns economist Yevgeny Yasin: "If they can't agree to accept certain rules of the game and take unpopular sacrifices, the 15 republics will collapse."

The obstacles are huge. Before the failure of the hardliners' takeover, the Kremlin had run up a budget deficit of more than $150 billion. Meanwhile, trade among the republics had disintegrated into haphazard bartering. By yearend, output could plunge by 20%, and inflation could spiral to Third World levels.

FREE TRADE. There's no dearth of proposals for a new economic union, a concept first dreamed up two years ago by the late dissident Andrei Sakharov. An interrepublic committee, for example, could manage common economic policies while an arbitration committee settles trade disputes. Trade throughout the former Soviet Union would be free of restraints, and customs rules would be uniform. Poor republics in Central Asia could tap a special development fund to ease their transition. A new financial system could be set up in which each republic would have its own state bank, but financial policy would be coordinated. And a monetary system modeled after the European Community's could be established to let currencies trade in a fixed range.

Ideally, says Silayev, the union would include all 15 republics. It would also be open to the Soviet Union's former partners in the now-defunct Council for Mutual Economic Assistance, especially Czechoslovakia, Hungary, and Poland. Members would be allowed to choose full or observer status. Economists say it's almost certain that the newly independent Baltic states would at least opt for observer status to get such crucial supplies as Soviet oil and gas.

But any new economic union will mean weathering some tough times. Republics can no longer depend on huge Kremlin subsidies for housing, transportation, or food. Prices must be freed, which will badly hurt the nearly 50 million Soviets who live on extremely low fixed incomes—about 16% of the population. It will now be the republics' task to create social safety nets to ease the pain of higher prices. And some, such as the Ukraine, Moldavia, and the Baltics, will have to dismantle their trade barriers and customs posts.

Despite widespread support for a new economic union, cracks are already appearing. Ukraine President Leonid Kravchuk complains that the committee heading the negotiations is too dominated by Russians. Other republican leaders fret about a flurry of bankruptcies among inefficient state enterprises, since the old system of state orders from the central government will be dismantled. That could lead to popular unrest or spill over into ethnic strife if winter brings food and fuel shortages in some areas.

WHOSE GOLD? Moreover, many worry that fights will erupt over the dividing of gold and other natural resources. Those reserves could be important for republics, such as the Ukraine, that need financial backing for the convertible currencies they aim to float in the next six months. The disputes could also affect Russia's ability to make its currency convertible within the year. Other republics may not go for the tight monetary policy needed to curb inflation.

If that turns out to be the case, the changing situation in the former Soviet Union will continue in the near term to stymie Western bankers and financial institutions. Western bankers no doubt tremble at the prospect of trying to collect interest payments from 15 debtors instead of one. But Silayev insists that "we will maintain all of our international economic obligations."

So whether and how quickly the former Soviet republics can negotiate a workable economic union is just as unpredictable as the changing Soviet political scene. Down the road, an economic union could ease free trade among countries and republics from Ireland to the Far East. But for now, the 15 Soviet republics and their trading partners must prepare for another hard winter.

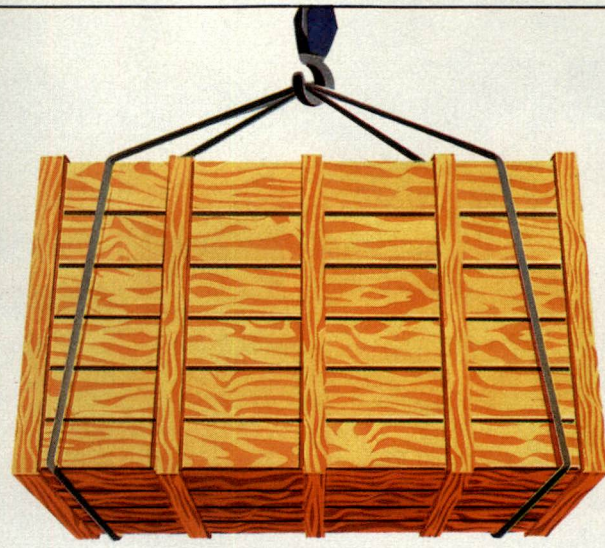
By Rose Brady, with Patricia Kranz, in Moscow

■ Prices must be freed, which will badly hurt the nearly 50 million Soviets who live on extremely low fixed incomes. And it now falls to the republics to create social safety nets to ease the pain of inflation



RIKKI ROSEN/SABA

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Commentary/by Howard Gleckman

HOW THE BUDGET DEAL HAS CHOKED OFF AMERICA'S CHOICES

The Soviet Union collapses, taking with it the rationale for 40 years of U.S. diplomatic and military strategy. And how does Washington respond? In the only way it knows—by bickering over the budget process.

President Bush does not stir the nation with his vision of a post-Soviet world. Democrats, including House Majority Leader Richard A. Gephardt (D-Mo.) and House Armed Services Committee Chairman Les Aspin (D-Wis.), do not offer blueprints for a new world order. Instead, Bush and congressional leaders immediately fall to squabbling over whether the 1990 budget rules should be bent to shift money from the Pentagon to foreign aid.

Unfortunately, the $300 billion deficit and the new budget rules it has spun have hog-tied U.S. policy. Last year's fiscal deal may or may not bring down the deficit, but it guarantees that no matter what happens in the world, the priorities agreed upon last November remain fixed through fiscal 1993.

TIGHT RULES. This is not an unanticipated consequence of a well-intentioned law. The agreement is, rather, working exactly as planned. "The purpose of the budget deal was to make it impossible to do anything new," says Price Waterhouse budget analyst Stanley E. Collender. "In the past 12 months, we've seen some of the most dramatic changes in history, yet we have no ability to change priorities."

Congress and the President agreed to divide discretionary spending into three categories: military, foreign policy, and domestic (chart). The total amount spent for each was cast in stone until after the 1992 elections. For example, it was agreed in November, 1990—when Soviet President Mikhail Gorbachev was yielding to right-wing pressure to crack down on the Baltics—that $19.8 billion would be spent on foreign aid in fiscal 1993 and that $295 billion would go to the Pentagon.

Congress may spend more on an individual program within a class but only under sharply restrictive rules. It could provide aid to Soviet republics—but only by cutting spending for, say, Israel or Poland. Or the President could clear the way by declaring an emergency, exempting the added cost from the caps. Bush did that this year in order to provide aid to Kurdish refugees. But he used the same power to block extra unemployment benefits for unemployed workers—simply by refusing to declare a budget emergency.



U.S. TROOPS DURING NATO MANEUVERS IN EUROPE: STILL NECESSARY?

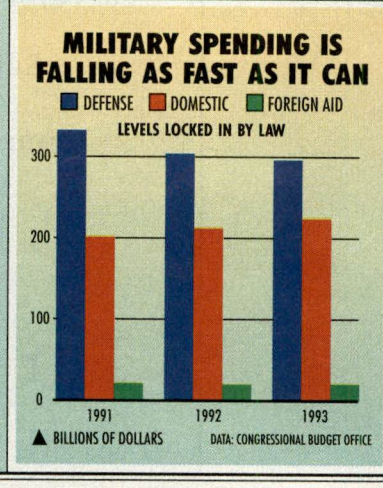
Aspin and Gephardt want to shift a small fraction of military spending to provide humanitarian aid to the Soviets. That would require an easing of budget rules. But the White House stoutly opposes any change in the caps.

CAMPAIGN TOOL. All this is just as Budget Director Richard G. Darman had hoped when he dreamed up the spending caps. The scheme gives Bush the equivalent of a line-item veto. Not incidentally, it also gives Darman enormous new power within the Administration. In the past, the budget director had tremendous clout over domestic programs. Now, the spending caps give budgetmeister Darman new influence over foreign aid and military spending.

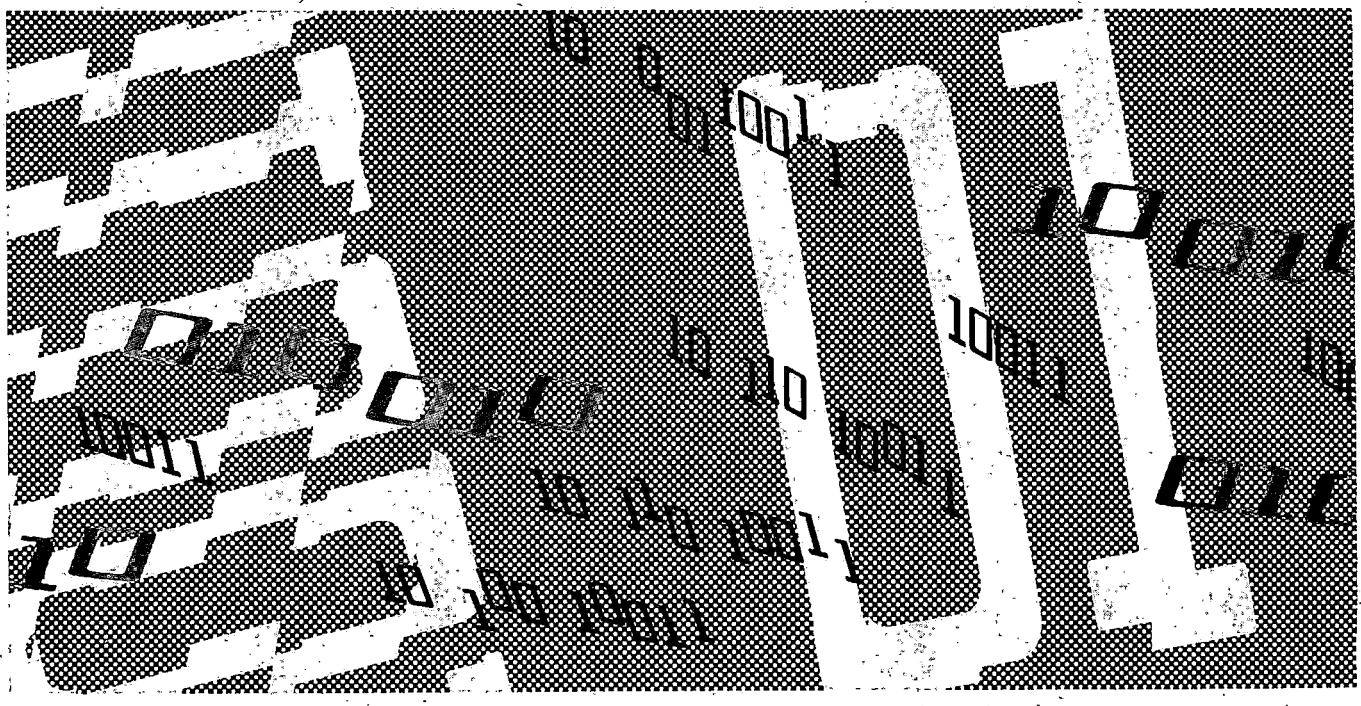
The arrangement also gives Bush a powerful campaign tool. GOP strategists know that the President's Achilles' heel is his lack of a domestic agenda. And they are comfortable in the knowledge that Democrats have been unable to reach a consensus on an alternative. But fiscal paralysis gives Bush extra insurance. For even if the Democrats can agree on a domestic alternative, the budget crunch makes it all but impossible for Congress to shift its spending priorities in any dramatic way until after the 1992 elections. The 1990 budget deal is the wrapping around the fiscal box that the Democrats have helped build for themselves over the past decade.

BIG CHANCE. Trouble is, fiscal paralysis is punishing the nation as well. Former Congressional Budget Office Director Rudolph G. Penner for years has argued that the deficit creates economic problems by cutting national saving and the opportunities for productive investment. But Penner now worries that the bigger cost is not economic, but political: "The political paralysis, the inability to make decisions on a common-sense basis may, in fact, cost us more than the loss of savings."

The collapse of the Soviet empire offers Americans a perfect chance to reassess their national goals. Should money no longer needed for defense against a crumbling enemy be spent on education or the environment? Should taxes be cut? Is it still necessary to protect Europe from the Soviets? Instead of grappling with these basic questions, Bush and the Congress are wrangling over Title XIII of the Omnibus Budget Reconciliation Act of 1990 and the Section 302(a) rules of the Congressional Budget Act of 1974.

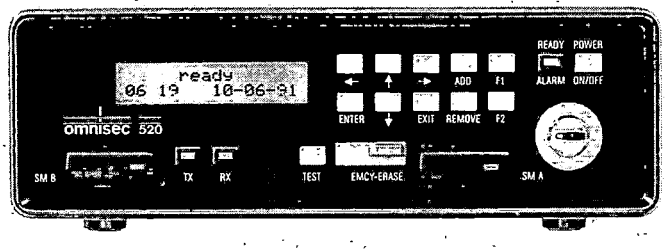


PHOTOGRAPH BY JOHN GIORDANO/SABA; CHART BY LAUREL DAUNIS/BW



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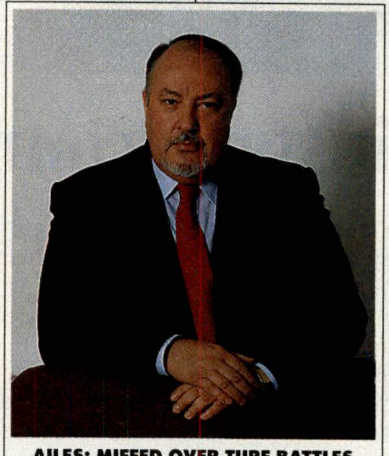
EDITED BY STEPHEN H. WILDSTROM

FOR BUSH, A WEAK RUN IN '92 COULD HOBBLE A SECOND TERM

George Bush couldn't have hoped for a better August. He got to enjoy one of his hyperactive Maine vacations, leaping from fishing boat to golf tee while events abroad reminded voters that foreign policy—Bush's strong suit—remains vitally important. But to the President's political advisers, this summer has been a season of intense frustration. With less than a year to go before Bush's certain renomination at the Republican convention in Houston, the President is showing no interest in getting his reelection campaign going. "We're all chomping at the bit, and the President is a total zombie," grumbles a senior strategist.

Yet while Bush bides his time, trouble may be brewing. Leaders of the Bush campaign-in-waiting, deprived of a chance to take on the enemy, are bickering among themselves, squabbling over turf, and musing about pursuing other opportunities if the race doesn't get started soon. "These are people who love politics," explains Stephen Hess of the Brookings Institution. "If they don't have anybody else to fight with, they fight with each other."

So far, the Democrats—still lacking a credible, willing candidate—are poorly positioned to take advantage of turmoil in the Bush camp. But politics is a treacherous business. If issues swing the Democrats' way, or a major scandal erupts within the Administration, or a heavyweight contender emerges, Bush could come to regret the slow start of his reelection bid.



AILES: MIFFED OVER TURF BATTLES

USUAL SUSPECTS. Normally, the campaign's key players would be in place by now. The script calls for Commerce Secretary Robert A. Mosbacher to resign his post to become campaign chairman, chief fund-raiser, and Bush's best buddy on the campaign staff. Veteran pollster Robert M. Teeter will serve as chief political strategist. NWA Inc. Vice-Chairman Frederick V. Malek plans to leave the airline to run day-to-day operations, and Roger Ailes is expected to design campaign ads and media strategy. Chief of Staff John H. Sununu would stay at the White House with little direct role in the campaign, a prospect that doesn't please the combative Sununu.

But that organization is now in jeopardy. Ailes, for example, is unhappy with White House image-meister Sigmund Rogich, who has let it be known that he wants to handle campaign media. Ailes has been huffing that he may stay off the team. Other key players privately say they wonder if their commitment to the reelection effort is worth it when the President steadfastly refuses to even talk about the upcoming campaign, let alone plan it.

RELUCTANT WARRIOR. The President did allow the topic of campaign plans to come up at an August session at Camp David, but got annoyed when the discussion reignited a dispute between the backers of Sununu and Teeter. "That's it. No more," Sununu muttered to aides in Kennebunkport, Me., after trying to raise the subject with Bush.

Bush's diffidence has also put a hold on the development of campaign issues. He invited domestic advisers to Kennebunkport but limited their discussion to his paltry plans for the remainder of this term. With Bush yet to craft a campaign stance on such hot topics as abortion and health care, there's a danger that the White House will let the Democrats steal a march on 1992. Republicans are woefully divided on both issues.

Bush, riding high on his latest foreign crisis, wants to enjoy the luxury of being a President rather than a Presidential candidate for as long as possible. And, to be sure, once Bush decides to throw the campaign into gear, his team can take shape almost instantly. But Bush's willingness to let the campaign drift may cost him in the end: His reluctance to develop an agenda for the next four years could leave him victorious but lacking a mandate to tackle the nation's problems.

By Douglas A. Harbrecht

CAPITAL WRAPUP

REDISTRICTING

New congressional districts being drawn up by state legislatures show that population loss is causing a rapid erosion of big cities' political clout. In Maryland, Democratic Governor William Donald Schaefer, a former Baltimore mayor, threatens to veto a Democratic-backed plan that dramatically shifts voting strength from the Baltimore area to the Washington suburbs. California Assembly Speaker Willie Brown Jr. (D), meanwhile, sees no way to avoid a big transfer of power from Los Angeles and San Francisco to San Diego and the counties around L. A.—with a major loss of Democratic strength. And in Illinois, where Chicago must lose a seat, the dominant GOP is pushing a plan that would force veteran Democratic Representatives Dan Rostenkowski and Frank Annunzio into the same district.

CANDIDATES

The 1992 campaign is young, but steel company executive Joe Cannon, GOP candidate for a Senate seat from Utah, has offered what might be its most novel proposal. He suggests a $1 million bonus for lawmakers "who will go into a room and balance the budget." Cannon is favored to win nomination for the seat being vacated by Republican Jake Garn.

BENEFITS

Employers and the health insurance industry are getting worried about a bill that would give workers denied benefits the right to sue in state courts. The Supreme Court has held that the Employee Retirement Income Security Act bars such state suits. But Senator Howard Metzenbaum (D-Ohio) and Representative Howard L. Berman (D-Calif.) have been picking up support for a measure reversing the high court's decision. Action in state courts would leave employers and insurers vulnerable to punitive damages, barred under ERISA, and force them to cope with a hodgepodge of state case law.

MICHAEL EVANS/SYGMA

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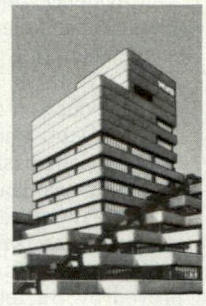


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SALOMON: HONESTY IS THE GUTSIEST POLICY

Buffett's candor may give potential litigants more ammo against the firm

It has been a bravura performance. Since Warren E. Buffett took over as chief executive of scandal-ridden Salomon Inc., he has moved aggressively, and for the most part effectively, to restore public confidence in the firm, reassure customers, and reassert the firm's dominance over the massive government-securities market.

But Buffett faces another challenge that could be just as daunting: the growing legal assault on Salomon by private plaintiffs and government regulators. Interviews with analysts and litigants, as well as BUSINESS WEEK's own early estimates, suggest that the firm's liability bill could even reach $1 billion—equal to almost a third of its $3.3 billion net worth.

Treasury investors, Salomon stockholders, and competitors have already filed about 35 civil suits against Salomon, its former top executives, and its board of directors, which includes Buffett. They differ in scope and detail, but all the suits claim damages from the firm's admitted misdeeds, which include violating the rules governing Treasury security auctions and bidding on behalf of customers without their permission. And evidence released by the firm indicates that it failed to stem further violations when the problem came to light. Some 25 states are probing Salomon's misbehavior and may levy fines. And the Justice Dept. and the Securities & Exchange Commission are likely to bring civil and criminal actions, which could carry heavy penalties.

'SUBSTANTIAL STEPS.' Salomon's prospects, by most accounts, have been improved by Buffett's strategy of coming clean. In a statement on Sept. 4 before the House subcommittee on telecommunications & finance, Buffett added fresh details of misdeeds. The firm, the statement said, ended up controlling $10.6 billion, or 94% of the May Treasury-note auction. That's far higher than its prior admissions.

Buffett's stance, which contrasts sharply with the stonewalling of now-bankrupt Drexel Burnham Lambert Inc., could score points with prosecutors. "The unquestionably substantial steps taken by Salomon inevitably reduce the government's need to punish," says Bruce Baird, who prosecuted Drexel.

Nevertheless, Buffett's and Salomon's admissions could backfire in the civil arena. Not only are Salomon's disclosures triggering suits but they could make them easier to win. Plaintiffs' attorneys such as Arthur Abbey say they plan to use what Buffett has said as evidence against Salomon in court. As Abbey puts it: "When you go on TV and say you did it, that's not any different than the guy who goes down to the police station, gets videotaped, and makes a confession."

Salomon refuses to discuss its exposure. But in a recent filing with the SEC, the firm noted that such legal-liability estimates are premature until it completes its own review and the various government agencies take action.

In forecasting Salomon's ultimate liability bill, the logical starting point is Drexel. To settle charges of securities fraud, Drexel paid the federal government $650 million in fines and penalties, and it paid $8.2 million to states. Drexel has also spent more than $300 million in legal bills. And the firm has yet to reach a final settlement with civil litigants, which could add a few hundred million dollars more, lawyers say. Including that settlement, says Drexel spokesman Steven S. Anreder, the firm's final litigation bill will likely be "well in excess of $1 billion."

RESTRAINT. Legal experts doubt that the government will hit Salomon that hard. While prosecutors were eager to punish Drexel, which was

THE LEGAL ASSAULT AGAINST SALOMON

TREASURY INVESTORS

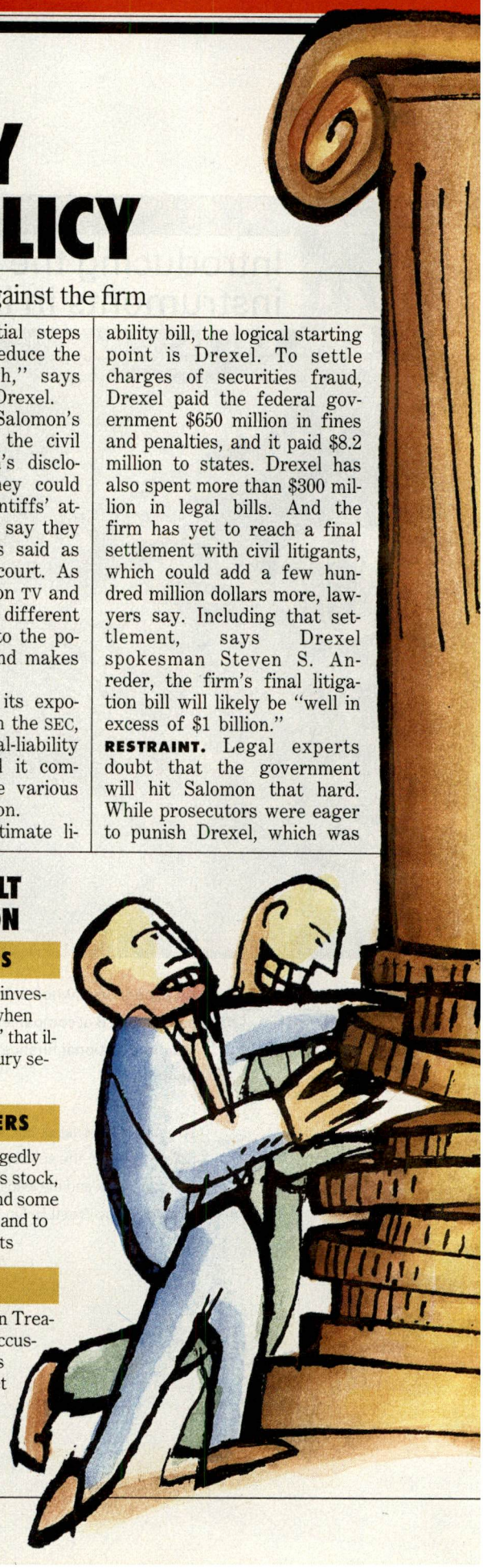
In civil suits, Treasury securities investors are alleging they were hurt when Salomon perpetrated a "squeeze" that illegally inflated the price of Treasury securities in the secondary market

SALOMON SHAREHOLDERS

Salomon's stockholders, who allegedly were damaged by the decline in its stock, are suing the firm, its directors, and some executives to recoup their losses and to recover bonuses and other payouts

COMPETITORS

Primary dealers that lost money in Treasury auctions are planning suits accusing Salomon of antitrust violations and securities fraud. Other market players including dealers, hedge funds, and arbitrageurs, are also likely to sue, alleging they were hurt by Salomon's behavior



SCOTT MENCHIN

regarded as a noxious renegade, there may be a reluctance by the Federal Reserve and the Treasury, as well as some prosecutors, to come down too hard on Salomon because of its still-commanding position in government-securities sales. Still, a few Wall Street observers expect Salomon, whose admitted malfeasance was broader than Drexel's, to be hit with total fines of between $200 million and $400 million.

Legal fees could be lower than those of Drexel, which battled the government for several years. But damages could be far greater. Drexel was privately owned, but Salomon was public, and its shareholders lost millions when the stock plummeted. And while Drexel's admitted violations were quite narrow, Salomon's had wide market impact and allegedly damaged many market participants. The total figure could soar if courts decide to triple the damages under the antitrust or racketeering laws. "The Treasury market is the world's largest securities market. All interest rates are set off of this market. The potential is enormous," says one official at another dealer, which is considering legal action against the firm. He adds: "We could easily get into a $1 billion-plus scenario."

Given Salomon's active cooperation, and barring further revelations of wrongdoing, the government's investigations will probably be concluded relatively promptly with a global settlement of the various civil and criminal probes.

'ILLUSION.' The civil litigation, however, could drag on for years and, according to Bruce Baird, could potentially be more damaging. So far, the pending cases, which were filed in New York and Delaware and some of which make allegations that go beyond Salomon's admissions, break down into several groups. Those filed by Salomon's investors appear to be the most straightforward. In a New York case seeking class-action status, for instance, shareholders sued Salomon and some of the firm's officials for failing to disclose illegal Treasury bids during the period in which they purchased their shares. That, according to the suit, created an "illusion of operating performance" that lured them into buying the shares.

SOME EARLY ESTIMATES OF SALOMON'S LIABILITY BILL RUN AS HIGH AS $1 BILLION

These stockholders are seeking to recoup their losses. While they don't specify an amount, Salomon's common stock price in 1991 has plummeted from a high of $37 to around $25, about a $1.3 billion decline in its market capitalization. Lawsuits by other Salomon shareholders allege that the firm's directors and officers breached their fiduciary duties by failing to detect the illegal conduct, covering up the conduct once it came to light, and making "false and misleading disclosures" in SEC filings and other places. They are demanding unspecified compensatory and punitive damages.

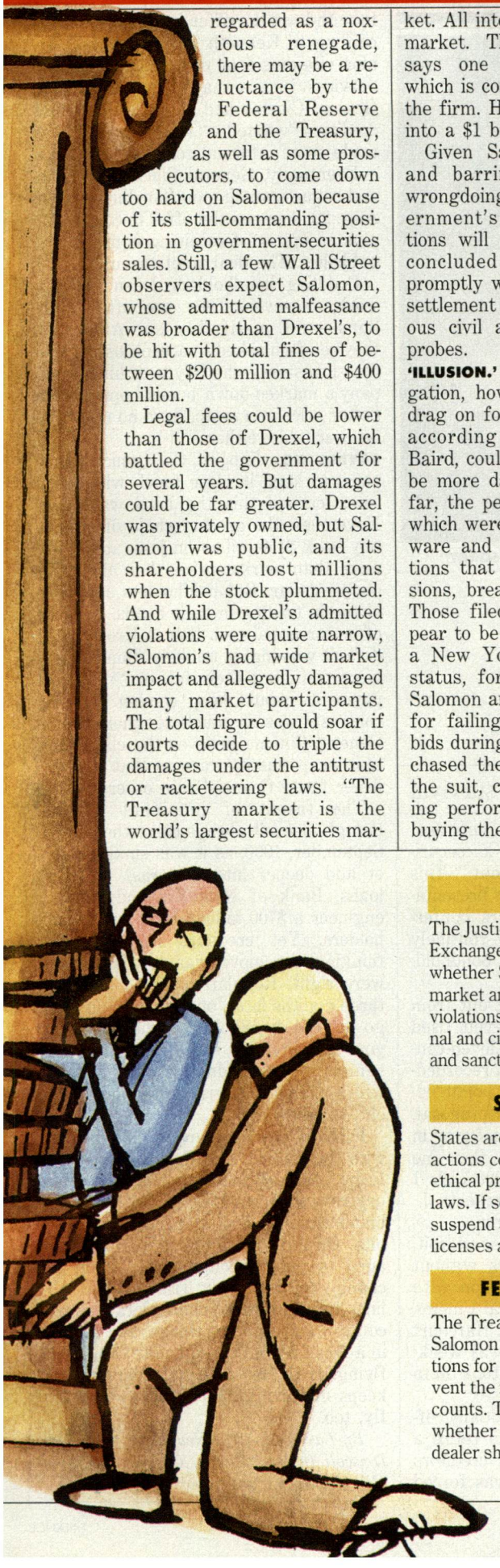
Treasury-securities investors are likely to be active litigants. Such suits filed so far, most seeking class-action status, generally allege that the plaintiffs were hurt by the impact of Salomon's misdeeds on Treasury prices. One plaintiff, Susan Katz, who claims she is part of a class of "thousands" of investors, alleges that Salomon artificially inflated prices, which forced people who purchased securities, such as Katz, to pay excessively high prices.

BAD PUBLICITY. Although none have been filed so far, lawyers predict that numerous Wall Street firms, including primary dealers, hedge funds, and arbitrageurs, may sue on the grounds that they were also damaged. One likely group would be dealers who took short positions prior to Treasury auctions. By buying up most of the auctioned securities, Salomon allegedly "squeezed" shorts who wanted to cover their positions by buying securities at the auction. This forced the shorts to pay excessive prices.

Even if the eventual legal tab for Salomon's wrongdoing goes as high as $1 billion, the firm should have no trouble writing the checks, though its balance sheet would shrink seriously. Much more difficult to estimate, though, is the publicity and image impact of a steady barrage of civil lawsuits, settlements, and other actions. As much as anything, else, it was this that eventually sank Drexel.

As an investor, Warren Buffett has often been accorded almost magical powers. To keep everyone focused on Salomon's future prospects instead of its past wrongs will likely require all the magic he can muster.

By Michele Galen, with Leah Nathans Spiro in New York and Tim Smart and Dean Foust in Washington



PROSECUTORS

The Justice Dept. and the Securities & Exchange Commission are probing whether Salomon rigged the Treasury market and committed other securities violations. Penalties could include criminal and civil fines of $200 to $400 million, and sanctions

STATE REGULATORS

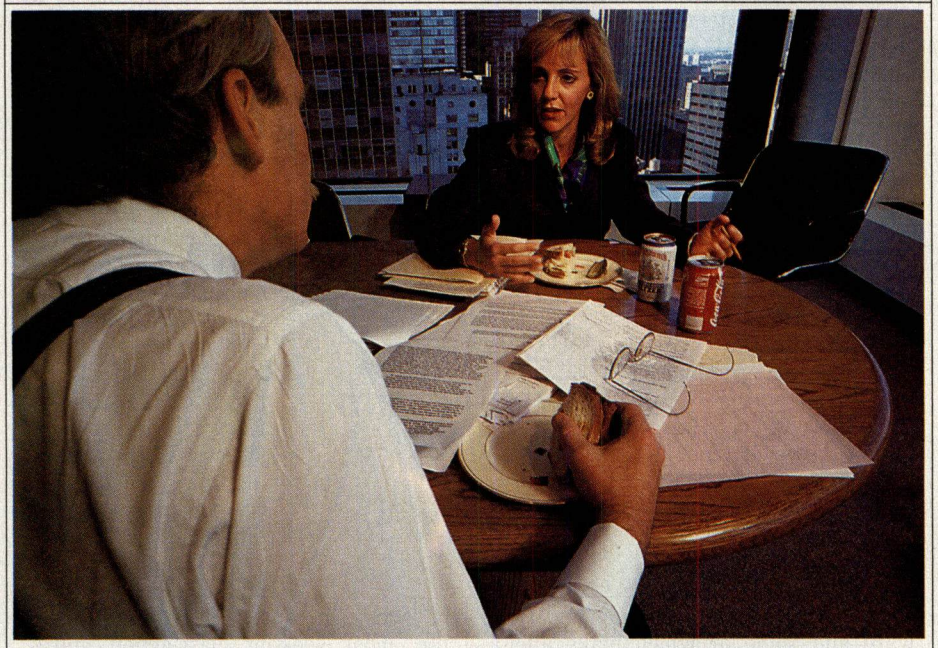
States are probing whether Salomon's actions constituted "dishonest and unethical practices" in violation of state laws. If so, the states could revoke or suspend Salomon's state broker-dealer licenses and impose fines

FEDERAL REGULATORS

The Treasury Dept., which has barred Salomon from bidding at Treasury auctions for customer accounts, could prevent the firm from bidding for its own accounts. The New York Fed is studying whether Salomon's status as a primary dealer should be revoked

DATA: BW

CORPORATE FINANCE



GEORGESON'S CRANE AND VAZZA: TREAT THE BONDHOLDERS WELL, OR "YOU'LL BE SORRY"

EDWARD KEATING

LOOK WHO'S SUDDENLY CODDLING BONDHOLDERS

For junk-laden companies, these investors hold the key to survival

Bondholders used to be an afterthought in corporations' investor relations: The main focus of IR executives was always the shareholders. No more. Bondholders can hold the keys to life or death for debt-burdened companies. To stay alive, these companies often have to persuade creditors, for instance, to swap high-interest junk bonds for cash, stock, or less-valuable paper.

That means IR officials are stepping up efforts to shower on bondholders the same attention shareholders get: soliciting their goodwill through meetings and mailings that soften them up. According to a recent survey by *Institutional Investor*, 31% of companies say they are paying more heed to bondholders than they did three years ago. "Treat the bondholders like outsiders, and you'll be sorry," says William M. Crane, co-chief operating officer of Georgeson & Co., an adviser on creditor relations.

5,000 ANSWERS. Resorts International Inc., the casino operator that emerged from Chapter 11 a year ago, has learned that lesson. To survive and prosper, Resorts still needs to restructure its remaining $456 million debt load. "Before they filed for bankruptcy, you couldn't even get anyone at the company on the phone," says Kaye C. Handley, debt analyst at Sass Lamle Rubin & Co. securities. "Lately, they seek us out." This spring, Resorts put on major presentations at two junk-bond investors' conferences. And the company now routinely sends out financial filings to bondholders and debt analysts.

Southland Corp.'s bid to dig out from under its $4.9 billion debt even used voice mail. In late 1989, the 7-Eleven convenience-store chain installed a recorded-information phone line to give bondholders the latest on its exchange proposal, which won approval after a brief stay in bankruptcy court. In 1990, the line logged 5,000 calls. "That's 5,000 calls I didn't have to take," says Markeeta L. McNatt, Southland's IR manager.

Not all corporations are so adroit. Many still unveil swap offers without consulting anyone. This obsession with secrecy almost scuttled General Cinema Corp.'s acquisition of publisher Harcourt Brace Jovanovich Inc., which was weakened by the $1.8 billion debt it took on to deter a raider in 1987.

The movie-theater chain initially offered bondholders $1 billion to retire a large chunk of HBJ's debt, but creditors balked, and General Cinema was forced to withdraw the offer in April, 1991. According to Kenneth T. Urbaszewski, senior vice-president of Kemper Financial Services Inc., a major HBJ bondholder, General Cinema had no idea what terms creditors wanted. "They should have made some informal contacts," he says.

Eventually, General Cinema wised up and began sounding out bondholders. On Aug. 22, it upped the offer to $1.2 billion plus an option of receiving equity in the publisher. The deal went through.

Coddling bondholders doesn't always work, however. They are often stubborn—and justifiably so. After all, they're often asked to accept losses. Vulture investors, who buy a troubled company's marked-down bonds hoping for a better price in a swap, have no reason to be charitable, either.

SAYING NO. Kroger Co., which takes pains to keep in close touch with creditors, learned this the hard way. Last November, the grocery chain offered to buy back $150 million in junk at slightly more than market price, then about 59¢ on the dollar. But boldholders saw little virtue in trading in their bonds. Because of its torrential cash flow, a Kroger debt default was highly unlikely. Bondholders were confident their fat 15.5% interest payments would keep coming. HBJ, by contrast, was in much tougher straits. General Cinema believes the clincher in that swap was its warning that the publisher faced financial ruin otherwise.

The threat of imminent demise, though, doesn't always carry the day. In September, 1990, as it was sinking deeper and deeper into a morass of failed loans, Bank of New England tried to engineer a $700 million swap with bondholders. Yet creditors backed away, thinking the move was too late. They were right. Regulators seized the bank three months later, on Jan. 6. "You don't go to the bondholders when drawing your last breath," says Diane J. Vazza, senior vice-president at Georgeson, which claims it advised the bank, a client, to move earlier.

Perhaps the master at deft dealing with bondholders is investor Carl C. Icahn, who combines an ability to project urgency with a willingness to offer the blandishments that get boldholders to bite. On July 30, for example, he managed to push through a $1 billion exchange for his ailing Trans World Airlines Inc. by giving bondholders majority control, among other things, and putting in a fresh $35 million. Result: TWA is still flying. If the art of bondholder-stroking keeps improving, more such swaps may fly, too.

By Larry Light in New York, with Lisa Driscoll in New Haven, Gail DeGeorge in Miami, and bureau reports

THOSE JUICY UTILITY YIELDS MAY LEAD TO A NASTY SHOCK

'What worries me is people buying . . . and ignoring the capital risk'

When falling interest rates give small investors sleepless nights, many seek the comfort of Wall Street's security blanket: electric utilities. With their unmatched dividend yields, power companies are drawing investors like moths to a light bulb, and utility funds are gaining a new generation of fans. "It's been pretty unrelenting," says Jeffrey W. Ubben, manager of three utility-oriented portfolios at Fidelity mutual-fund group in Boston. "Every day, there's new money from people who wonder: 'Where can I get above-money-market returns with growth?' "

Investors apparently feel they have found an answer to that question. And annual yields averaging 6.8% are undeniably attractive at a time when short-term interest rates are hovering a hair above 5%. But folks who buy electric-utility stocks right now, particularly on the basis of yield alone, may be setting themselves up for an unpleasant surprise. Ubben, for one, advises caution. "What worries me," he says, "is people buying my fund as a money-market substitute and ignoring the capital risk."

Power-company stocks are considerably more hazardous than they appear at first blush. To begin with, utility stocks are becoming victims of their own success. As share prices have been bid up, yields have eroded, and many utility stocks are changing hands at as much as 1.7 times book value—pricey for such companies. Also, analysts maintain that, based on historical patterns, the time for buying electric-company stocks is hardly ripe. Economists agree that the recession is waning—and that may present problems for recent investors. "Typically, utilities have done well when we're about to go into a recession"—not come out of one—observes Suresh L. Bhirud, CEO of Bhirud Associates, an investment-research boutique.

Moreover, the very popularity of utilities is making some investment pros queasy. They draw analogies to the recent onrush of small-investor cash into fixed-income mutual funds. Like investors in bond funds—which are also bought because of their yields—utility investors are making an interest-rate bet. The wager is that rates will remain in the doldrums. If rates rise, the market value of bonds will decline, offsetting the yields they pay—and punishing bond-fund net asset values.

Like bond funds, utility stocks are also adversely affected by rising interest rates. But the utility equation is considerably more perilous, because of the special circumstances—such as the 50 state utility regulators—that influence the fate of each company. "It's difficult to get enthusiastic about the group as a whole," says Sanford M. Cohen, who follows electric-utility stocks for Morgan Stanley & Co.

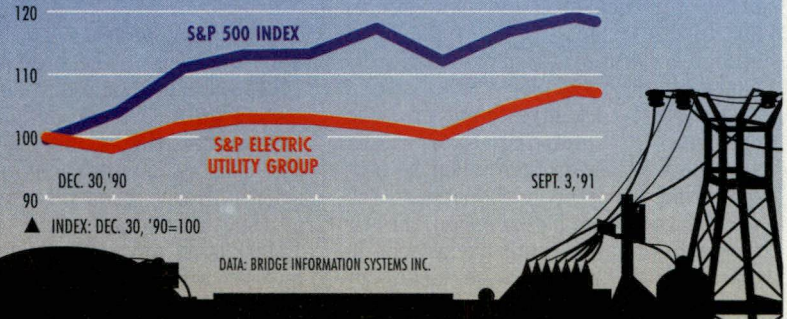
TIME-TESTED. Analysts argue that there are considerably better sanctuaries for investors seeking long-term, high-yield investments. With 30-year Treasury bonds carrying a riskless yield of just over 8%, they maintain it makes little sense to buy utility stocks yielding a full percentage point less. A better selection, in Cohen's view, would be AA-rated utility-company bonds, which now yield more than 9%. Like Treasuries, their asset values vary. But unlike bond funds or utility stocks, they can be cashed in at par at maturity. For investors who insist on electric-utility stocks, however, the cupboard is not entirely bare.

The trick in buying power-company stocks, for those who feel impelled to do so, is to avoid picking shares strictly on the basis of their current dividend yield. A more time-tested method is to buy lower-yield stocks that have a history of consistent dividend increases. Notes Ubben at Fidelity: "If I wanted to buy a utility, I'd look at price-to-book values and also make sure that the companies aren't going in for rate increases"—lest they find regulators ratcheting down their permitted return on equity. Ubben shuns Florida and California power companies, which face an uncertain regulatory climate but are, nevertheless, trading at a comparatively rich 1.6 times their book value. The companies that he favors are those capable of earnings growth without having to depend on the largess of regulators. His favorites include DQE in Pittsburgh, Philadelphia Electric, and Houston Industries. At Morgan Stanley, Cohen likes DPL of Dayton, which boasts a 7.6% yield and can be expected to realize annual dividend growth of 3% to 4%.

Dividends come in awfully handy when the market is treading water. But when the market took off earlier this year, utilities lagged behind, and growth stocks that don't pay dividends led the charge. So if the Dow Jones industrial average defies skeptics and surges well above 3000, power-company investors will wish that they had shown a little more guts.

By Gary Weiss in New York

ELECTRIC STOCKS HAVEN'T BEEN SHINING LIGHTS...



DATA: BRIDGE INFORMATION SYSTEMS INC.

...BUT SOME COMPANIES MAY TURN ON THE POWER

Company	Price 9/3	Yield	Company	Price 9/3	Yield
AMERICAN ELECTRIC POWER	30	8.0%	NIAGARA MOHAWK	16¼	3.9%
COMMONWEALTH EDISON	39⅝	7.5	OHIO EDISON	19¼	7.7
DPL	21¼	7.6	PHILADELPHIA ELECTRIC	21½	5.6
DQE	27¼	5.3	SOUTHERN CO.	27⅜	7.8
HOUSTON INDUSTRIES	37½	7.8	UNION ELECTRIC	31½	6.8

DATA: BW SURVEY OF ANALYSTS AND MONEY MANAGERS

RAY VELLA/BW

BY GENE G. MARCIAL

NIKE'S PACE COULD LEAVE NAYSAYERS IN THE DUST

When Jimmy Connors came out charging in one of his most dazzling performances ever during this year's U. S. Open, the shoes the tennis superstar wore caught Frank Podbelsek's eye. On TV, Connors has been pitching Converse sneakers. But what shoes did the 39-year-old phenomenon choose when it really mattered? Nikes. That was important to Podbelsek, an analyst at Gruntal & Co. in Beverly Hills, who thinks the shorts in Nike shares will take a pounding. He has been pounding the desk for clients to buy Nike, the world's largest maker of athletic shoes.

Nike officials confirmed that Connors told them he'd be wearing their shoes at the Open. Nike wouldn't elaborate on whether Connors will eventually endorse its products, but to Podbelsek, Connors' move confirms his view that Nike is the "dominant choice in the ultrahigh-performance category of athletic shoes." Nike also makes sports apparel and Cole Haan shoes.

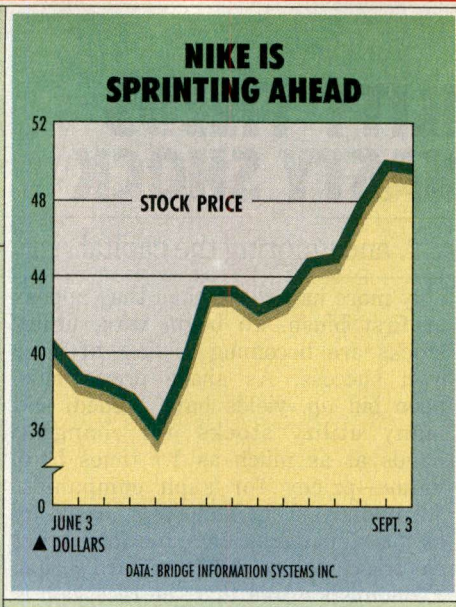
The shorts insist that Nike faces big inventory problems and write-downs that will lead to negative earnings surprises. But so far, that isn't panning out. In Podbelsek's view, the recent rise in Nike shares, from 35 in early July to nearly 50 on Sept. 3, is based primarily on reduced fears of an inventory glut. "Nike's recent results are proving that inventory levels aren't excessive," he says.

Many analysts believe that hurried short-covering by bears has contributed to the stock's recent upswing. Short positions in Nike peaked at 2.5 million shares on July 15—nearly triple April's level. But by Aug. 15, they had dwindled to 1.8 million, and some analysts think the number may shrink to about 1 million in September.

UPSIDE SURPRISE? Podbelsek believes the stock will climb to 60 this year, based on his earnings estimates of $4.15 a share for the year ending May 30, 1992, and $4.75 to $5 for 1993, vs. 1991's $3.77. And he figures his estimates are conservative. Judging by the shrinkage in Nike's inventory and its improving sales outlook, "Nike could pull an upside earnings surprise next year," says Podbelsek.

In fiscal 1991, Nike's strongest growth came from international sales, where revenues jumped 80%, from $480 million to $862 million, in part because of booming demand in Europe and Asia. Dean Witter Reynolds analyst Willard Brown expects overseas sales to remain strong. He projects growth of 30% for fiscal 1992 and an additional 20%-to-25% rise in 1993, with sales abroad accounting for 48% of total revenues by 1993, vs. 1990's 33%.

One New York investment pro who has been accumulating Nike shares says he was encouraged when he saw that Nike's recent introductions—the Air Huarache and its extension, the Air Mowabb—created retail excitement in the midst of an otherwise lackluster sales environment.



ERIC HOFFMANN/BW

A WIPER MAKER WIPES OFF DEBT

Lifetime Products, a highflier earlier this year, has plunged from 15 in late April to 5. One reason: The Dallas-based company, a major aftermarket maker of windshield wipers, was seen as too debt-laden. Indeed, Lifetime Products was spending 55% of its cash flow to pay down debt.

But some institutional money managers who have been buying shares say that worry is overblown. They note that debt dropped from $18 million last year to $10 million in July, 1991, and insiders expect it to shrink to $2 million by yearend. The bulls also cite management's plan to swap stock options held by three former directors for preferred shares. That will reduce the potential shares outstanding to 4 million from about 8 million.

Moreover, Lifetime expects to be smartly in the black this year after losing money in 1990. One San Francisco fund manager expects earnings to hit $8 million, or $2 a share, this year, and $11 million, or $2.75 a share, in 1992. He sees sales jumping to $65 million in 1992 from $50 million in 1991, buoyed by strong demand for the company's Tripledge wipers at such retailers as Sears Roebuck, Wal-Mart, and K mart. And Lifetime's other product, Spectrablade, a single-edged wiper made of a silicone-based synthetic, is being tested by auto makers in the U. S., Japan, and Europe. Lifetime's blades have a lifetime warranty.

One investor thinks Lifetime may sign a contract with at least one of those auto makers to supply Spectrablades as standard equipment on some of their cars as early as December. "If Lifetime meets its targets, the stock could hit 25 in two years," he says.

WHAT'S BUBBLING AT UNILAB?

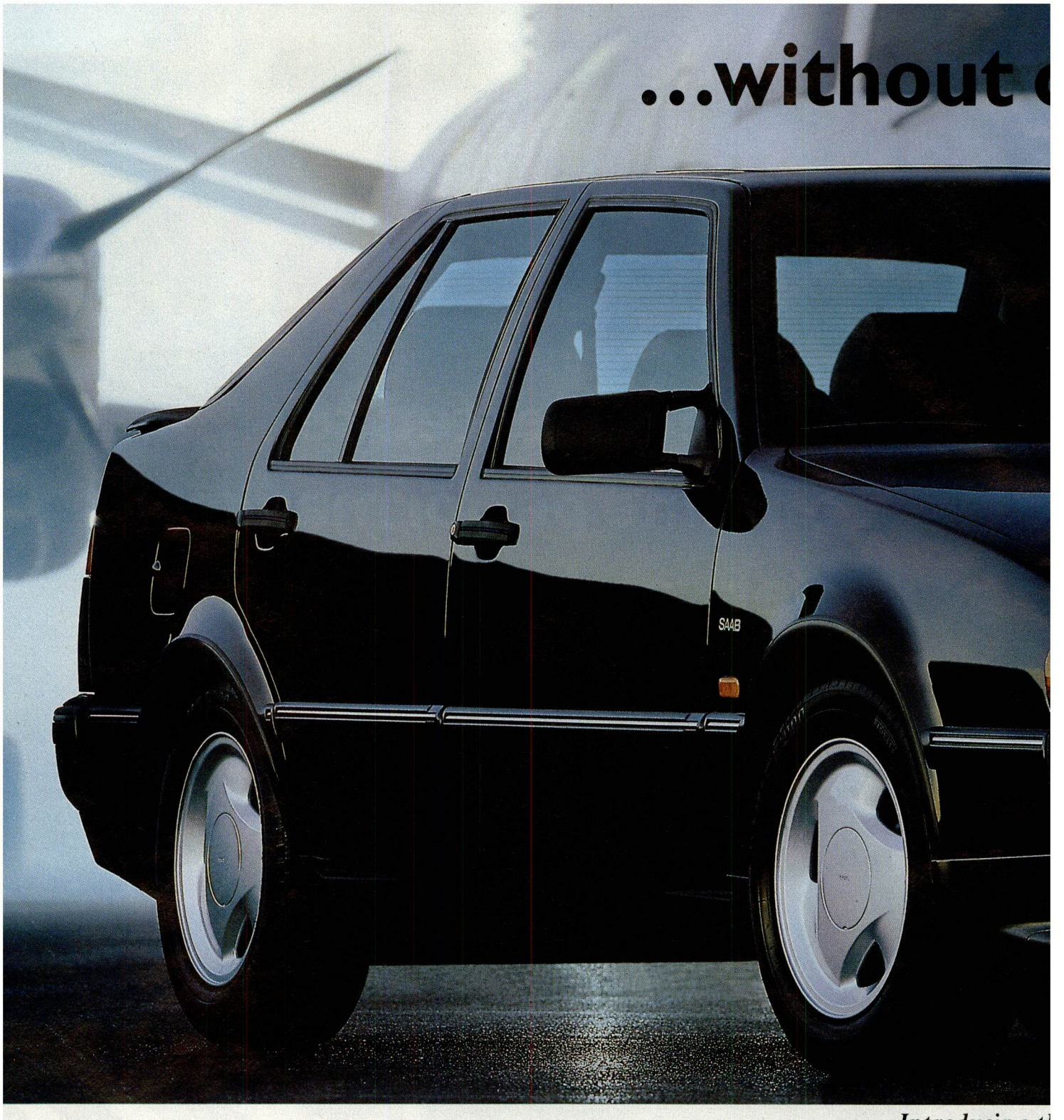
Clinical laboratories, a thriving business in the booming medical field, are fast developing a following on the Street. Although highly fragmented, the business is dominated by such big names as SmithKline Bioscience, Roche Biomedical, and National Health Laboratories. Overall, some 12,000 labs, most of which are small and privately held, take in about $20 billion to $25 billion annually.

One publicly traded company that has piqued the interest of smart-money players is Unilab. Its stock has already climbed from 6 in mid-June to 9½ on Sept. 3, but one New York investment pro thinks it's worth 15 based on the company's earnings outlook. He expects revenues to rise 10% in 1992, from $189 million in '91, with earnings hitting 44¢ a share from 9¢ this year.

Now for the takeover talk: Corning's MetPath unit still owns some 43% of Unilab even after its 1988 spin-off of the company. The curious thing is that MetPath has been raising its stake through open-market purchases.

According to one Unilab investor, Corning now realizes that Unilab is undervalued considering its rosy prospects. In addition, a European investor group bought the bulk of the 6 million new shares that Unilab sold in July in Europe through a Swiss underwriter. The group's intentions aren't known, but one investor thinks the stock could fetch close to 20 in a buyout.


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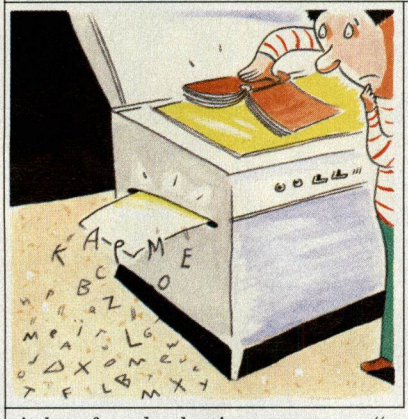
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Developments to Watch

EDITED BY OTIS PORT

PAPER THAT KEEPS SECRETS FROM PHOTOCOPIERS



For three decades, newsletter publishers and government censors have shared a common obsession: thwarting illicit photocopying of their pricey or secret information. Using blue paper was the first solution, and many other ink and paper colors have been tried—only to fall prey to newer copiers.

Now, Japan's Kiso Chemical Corp. believes it has found a lasting answer: a "secrets paper," dubbed KSP, that is protected by a very thin film of evaporated aluminum. The metal coating deflects and scatters a copier's light so that the machine can't distinguish between type and background. Feed the bronze-color sheets into a photocopier, and out will come all-black copies. The main drawback is cost: KSP's introductory price is about $1 per sheet, far more than regular paper, though that will drop with volume production. Still, the Osaka-based company expects to sell $2 million worth of KSP the first year and sees demand tripling by 1995.

A PATENT LIBRARY ON CD? YES, BUT THERE'S A HITCH

For the past two years, patent officials in the U. S., Europe, and Japan have quietly been trying to forge a common standard for storing patent data on the compact-disk-size platters known as CD ROMs. It now appears the effort is headed for a showdown in October. That's when U. S. and European officials expect to settle on their final specification—one that's at odds with what Japan wants.

An international standard is the kickoff for developing a worldwide patent data base that would be stored and disseminated on CD ROMs. This would greatly facilitate patent searches by companies hunting for new technology or pondering whether to license an existing patent or invest in new internal research. The Japanese were the first to broach the idea, but their proposal was based on an earlier scheme that U. S. and European officials felt was in need of an update. "They are somewhat upset that we haven't gone along," says Thomas P. Giammo, an assistant commissioner at the U. S. Patent Office. But he still holds out a "50-50" hope that Japan will switch to the U. S.-Europe standard.

BIOTECH'S NEWEST WONDERS COULD BE CANCER-KILLERS

Researchers see so-called antisense drugs as the next wave of biotechnology. Unlike biotech clones of natural human antibodies or proteins such as insulin, antisense drugs can actually block the production of disease-causing enzymes by abnormal genes. At the end of August, the technology moved a step closer to practicality when Genta Inc., a tiny San Diego biotech company, filed the first application for human testing.

Early next year, Houston's M. D. Anderson Cancer Center hopes to begin clinical trials of Genta's product on patients with chronic myelogenous leukemia, a cancer of the white blood cells. The drug is a strand of synthetic DNA that's a mirror image of the defective genetic material, called RNA, found in the leukemia cells. Once the antisense strand gets inside a cell, it binds to any flawed RNA, inactivating the faulty gene and eventually killing the leukemia cell.

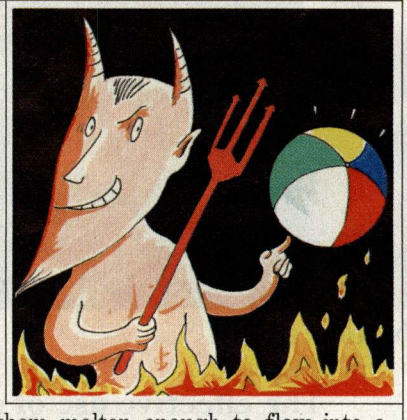
Anderson's researchers will extract and treat bone marrow samples. When the leukemia cells have been purged, the patients will receive radiation therapy and then get a transplant of their own bone marrow. If this approach works, Genta pegs the market for its antisense drug at $60 million a year.

VIDEO GIZMOS DO EVERYTHING BUT BAG THE GROCERIES

Supermarket shopping is on its way to becoming a more entertaining chore. Video screens are set to invade stores. Flat-panel displays on push carts will accompany shoppers, dispensing information on special promotions and, at the push of a button, dietary tips and recipes. And strategically spotted TV monitors will carry ads and community bulletins. It all stems from research showing that consumers make most buying decisions after they're in a store.

A fledgling Chicago company, Videocart Inc., already has shopping carts with video screens in some 40 test stores. Their displays change, responding to sensors in the ceiling or on shelves, as you move from aisle to aisle. ActMedia Inc. in Norwalk, Conn., is working with Salt Lake City's Klever Kart Inc. on a similar system, with testing scheduled for early 1992. ActMedia, the current leader in electronic in-store merchandising, also is collaborating with Turner Broadcasting System Inc. on Checkout Channel, designed to alleviate checkout boredom—and give stores one last shot at reminding you of something you forgot to buy. Its debut is set for October.

A SIMPLE TECHNIQUE MAY MAKE PLASTICS MELT-PROOF

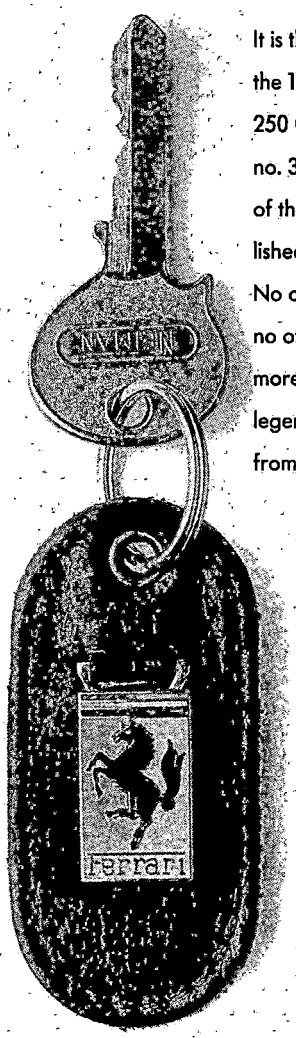


Polymers are long, repetitive chains of molecules, and most can be readily fabricated into such things as plastic milk bottles and beach balls. But these familiar plastics are sensitive to heat, sagging or melting at fairly low temperatures. While there are polymers that can withstand temperatures of 750 F or more, they often stubbornly resist processing. Getting them molten enough to flow into a mold takes so much heat that the polymer decomposes.

Samson A. Jenekhe, associate professor of chemical engineering at the University of Rochester, has now found an easy way to fabricate several such polymers: Just add gallium chloride or ferric chloride. These chemicals create "wedges" that force the polymer chains apart, so they can be dissolved by common solvents—and flow freely at near room temperature. After fabrication, the chemistry is reversed simply by immersing the shaped polymer in water or methanol. The technique works on several polymers with tongue-twisting names, better known by initials such as PBZT and PTMHT.

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CONSERVATION POWER

IT HAS A NEW LOOK THAT'S IGNITING AN ENERGY REVOLUTION

Back in the strident year of 1968, John E. Bryson and a handful of other students gathered in the paper-strewn offices of *The Yale Law Journal* to discuss their idea for a legal group dedicated to environmental protection. That notion became the Natural Resources Defense Council, now one of the country's most potent such groups. Some 23 years later, Bryson is still protecting the environment, but from a very different perspective: as chairman of Southern California Edison Co., one of the nation's largest electric utilities.

From his office in Rosemead, just east of Los Angeles, Bryson looks out over a sprawl of tract homes and highways. SoCal Edison thinks it will need 6,400 more megawatts of power by 2010 to keep all this humming, and Bryson plans to upgrade some old plants and buy a bit of energy from independent solar and geothermal producers. But 4,400 megawatts, or 69% of the new demand, will be met through conservation—freeing up electricity that now is used inefficiently. Twenty years ago, Bryson says, "we would have relied exclusively on new power plants."

TRENDSETTERS. Weaving what were anti-Establishment notions into everyday life, pioneers such as Bryson are igniting an energy revolution in the U. S. This year alone, some 200 utilities will pour $2 billion into 1,300 conservation programs. By the year 2000, these should "meet" demand for 24,000 megawatts, says the Edison Electric Institute (EEI), an industry group. That's 24 big power plants' worth of electricity, or about 7% of current peak demand. And that's just the start.

By 1993, tough new national standards will require that many refrigerators gulp 20% to 40% less energy. Two years later, similar rules will apply to washers, dryers, and other appliances. In the meantime, builders are using simple but important technologies to design homes that can be heated for $1 a day—and commercial buildings that take 50% less energy to light, heat, and cool. And a handful of trendsetting states have hatched plans to dampen gasoline consumption. They'll do it with incentives, penalties, and blueprints for development that focus more on mass transit, car pools, and walking.

In fact, while Washington fiddles over a national energy strategy, these eclectic approaches are evolving into a de facto energy diet for America. Conventional wisdom once held that all the easy efficiencies were realized in the wake of the 1973 Arab oil embargo: In the subsequent 13 years, higher mileage standards and other measures slashed energy intensity—the amount of energy used to generate $1 of gross national product—by 27% and cut $160 billion a year from the country's fuel bill.

It's true these gains have leveled off since the 1986 oil-price crash. Cheap energy short-circuited the drive to use less (chart,

THE BIG BANG FROM ENERGY EFFICIENCY

A tide of innovation is sweeping over every major sector of energy use. Here is what might be achieved with existing technologies in six areas that account for nearly half of America's energy demand



AIRPLANES

LIGHTWEIGHT MATERIALS, MORE EFFICIENT ENGINES, IMPROVED AERODYNAMICS, BETTER ROUTE PLANNING

1990 CONSUMPTION (QUADRILLION BTUs)	POTENTIAL SAVINGS: ENERGY	POTENTIAL SAVINGS: CO_2 (MILLIONS OF TONS)
2.1	30-50%	38-52

ELECTRIC MOTORS

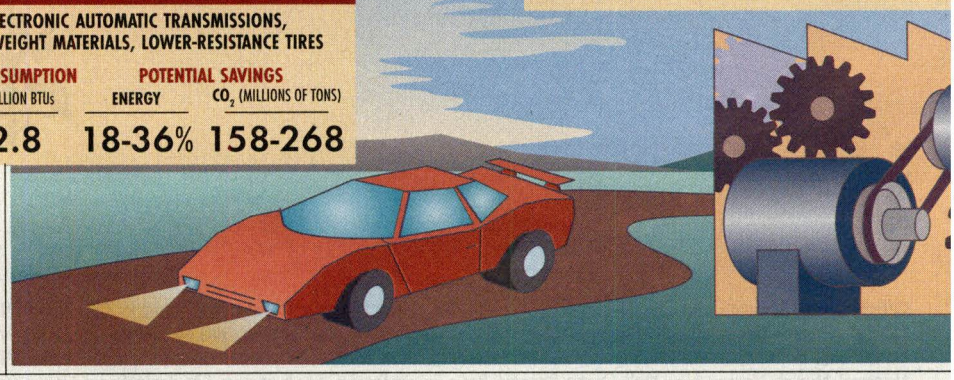
ADJUSTABLE-SPEED DRIVES, IMPROVED MOTOR DESIGNS

1990 CONSUMPTION (QUADRILLION BTUs)	POTENTIAL SAVINGS: ENERGY	POTENTIAL SAVINGS: CO_2 (MILLIONS OF TONS)
6.6	27-42%	162-255

CARS & LIGHT TRUCKS

ELECTRONIC AUTOMATIC TRANSMISSIONS, LIGHTWEIGHT MATERIALS, LOWER-RESISTANCE TIRES

1990 CONSUMPTION (QUADRILLION BTUs)	POTENTIAL SAVINGS: ENERGY	POTENTIAL SAVINGS: CO_2 (MILLIONS OF TONS)
12.8	18-36%	158-268



LAUREL DAUNIS/BW

page 61). And conservation will remain somewhat impeded as long as Congress procrastinates on energy policy and the White House, no doubt heeding strapped auto makers, opposes measures such as higher mileage standards.

But already, such setbacks look only temporary. "There's such a technological revolution in the pieces of energy efficiency and how you put them together that you can save twice as much electricity at a third the cost of five years ago," says Amory B. Lovins, an early proponent of the concept (page 62). No doubt about it, adds Hal Harvey, executive director of the Energy Foundation in San Francisco, a nonprofit group launched this year by several leading foundations to promote energy efficiency. "We have the wherewithal in the next decade to duplicate the advances we made between 1973 and 1986." The benefits are plain: lower energy bills, less pollution, less reliance on imported fuels.

'NEGAWATTS.' Several forces are converging to make all this happen. For example, 1990 Clean Air Act amendments that penalize sulfur-dioxide emissions will raise utility energy costs—and create an incentive to conserve. For U. S. industry, tough times plus international competition are making efficiency not only economically viable but essential. And conservation is becoming a frontline defense against global warming, since burning fossil fuels creates carbon dioxide and other greenhouse gases. In April, a National Academy of Sciences report concluded that if the U. S. boosted efficiency in buildings, vehicles, and industry as much as current technology permits, the country's greenhouse emissions could be cut by 22% at little or no net cost. It's the right thing to do, since the U. S. burns 30% of the world's fossil fuel.

WHILE THE FEDS FIDDLE OVER POLICY, A DE FACTO ENERGY DIET IS EMERGING

Efficiency does not necessarily mean using less of everything. It may mean using more electricity and less fossil fuel, or vice versa, depending on which does the job at hand most cheaply and with the least pollution. In the near term, however, the biggest economies will come largely from demand-side management—persuading or requiring energy consumers to waste less, though often they will not be aware that they're doing so. Utilities in particular are pursuing this idea, thanks mainly to regulatory changes. Logically enough, the way to boost utility profits has always been to build more plants, then get customers to use more power. But as new-plant costs went into orbit and as environmental challenges mounted, adding capacity became a much riskier proposition. Conservation was a way out—except that reducing electricity demand usually cut utility profits. That is, until 1989.

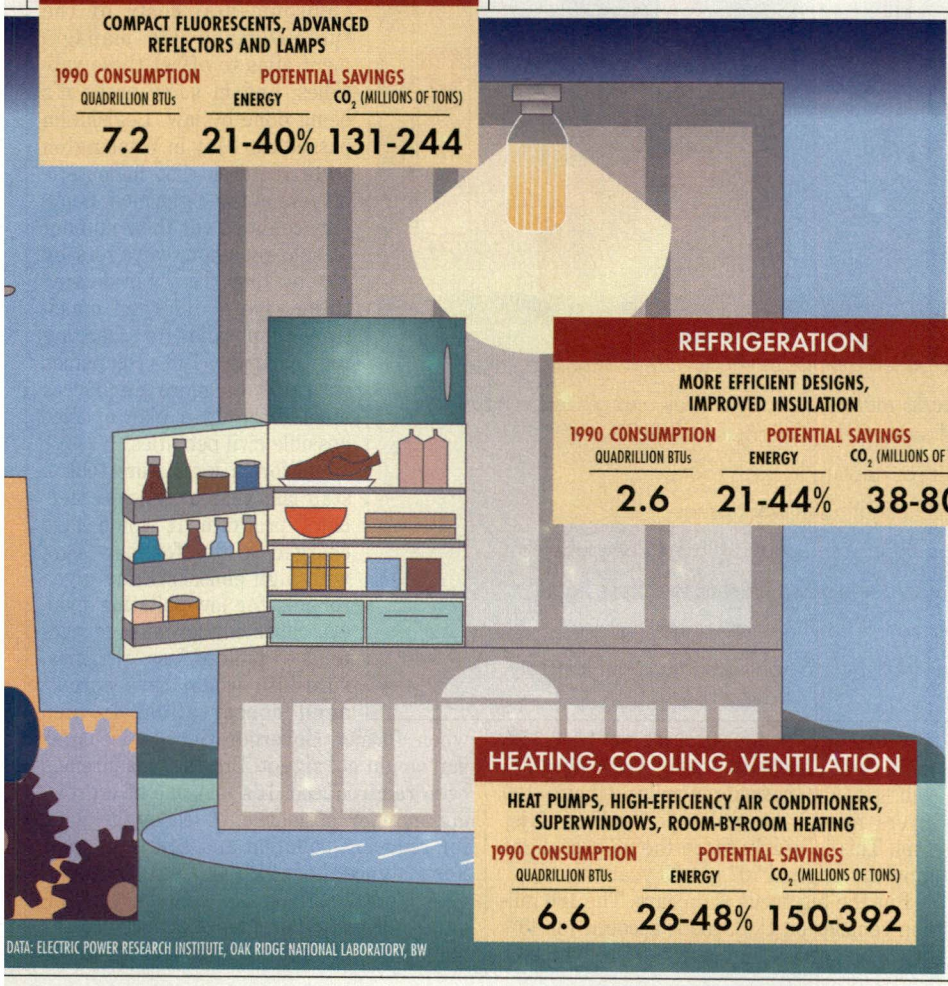
That summer, the National Association of Regulatory Utility Commissioners urged its members to find the cheapest power possible. No mystery there: Experts say it costs a nickel or less per kilowatt hour to implement conservation programs, half the price of juice from a new plant. So, state commissions have started to let utilities earn a return on their investments in programs—such as energy audits and rebates on energy-saving gadgets—that round up "negawatts," or conserved power. "That gave us a business opportunity for doing what previously was a social good deed," says John W. Rowe, president of New England Electric System. Last year, his company earned $8.3 million, a 12% return, on conservation programs.

So far, 19 states have switched to this approach, says Oakland (Calif.) consultants Barakat & Chamberlin Inc., and more will soon. On top of the efficiencies already planned, 18% to 38% could be cut from electricity demand projected for the year 2000, says the utility industry's research arm, the Electric Power Research Institute (EPRI) in Palo Alto, Calif. And that's with existing technologies.

SIMPLE TECH. Among the gluttons taking the slim-down treatment are residential and commercial buildings, which scarf up 36% of U. S. energy. A recent Lawrence Berkeley Laboratory study calculates that energy efficiency in buildings can be doubled in the next 20 years. Gregg D. Ander, chief architect at SoCal Edison, has seen a "complete turnaround" in the attitude of architects, builders, and interior designers in favor of energy efficiency. "And now," he adds, "clients are demanding it."

A case in point is the new headquarters of the National Audubon Society. Scaffolding outside the eight-story building in New York is the giveaway that the 100-year-old landmark is getting a $14 million face-lift. But it doesn't reveal the whole story. After the renovation, the building will use 68% less energy than called for by code and save its owners $100,000 a year in energy costs—all without any earthshaking technologies. "It's the interaction of simple decisions that leads to dramatic gains," says architect Randall L. Croxton, of Croxton Collaborative in New York.

Fluorescent lights, hung in special con-



figurations, minimize lighting: The building will use less than 0.57 watts per square foot, 75% below the 2.2 watts called efficient by New York State code, but still plenty of light to work by. Fewer watts generate less heat, making possible a smaller, less energy-guzzling air-conditioning system. New insulation in the walls and roof, plus the latest in double-pane windows, will keep heat in during winter and out in summer. And it will all pay for itself in five years.

More efficiency is being wrung from the stuff inside buildings. The latest desktop computers consume 1/6 the energy of the minicomputers they are replacing. New inkjet printers use 1/12 the standby power of laser printers. And new electric motors in everything from appliances to industrial turbines have electronic adjustable speed drives (ASDs), vs. the one- or two-speed settings on conventional motors. That way, they draw only the juice needed for the task. Arnold Fickett, vice-president for EPRI's customer-systems division, says ASDs eventually can save 10% of the electricity the U. S. uses today.

NICE PAYBACKS. Such news is an eye-opener for Industrial America, which burns 37% of the country's energy. Last year, Wisconsin Electric Power Co. put up half the $1.5 million extra cost of a more efficient melting system for Milwaukee's Charter Manufacturing Co. The move will cut Charter's steel costs by $10 a ton, save 60 million kilowatt hours over 10 years, and let the utility avoid $2 million in costs.

Such stories are becoming gospel. Bank of America is an early beneficiary of Pacific Gas & Electric Co.'s conservation drive, which Chairman Richard A. Clarke says will meet 75% of PG&E's new demand in the decade ahead. The bank got a $235,000 PG&E rebate on the $1.1 million retrofit of its San Francisco headquarters and is saving $400,000 annually on its energy bill—a 26-month payback on the project. And in this year's first quarter, New England Electric System got proposals for $125 million worth of projects—$40 million more than NEES had planned—after it offered to pay businesses up to 100% of the cost of more efficient equipment. Overwhelmed, the utility froze its program.

If it works with electricity, why not with fossil fuels? Nearly 25% of America's energy is used by planes, trains, trucks, boats, and automobiles, and they are the next—and toughest—challenge. In some cases, technology already has paid big rebates. Thanks to improved aerodynamics, lighter materials, and better engines, each new generation of commercial jet has been 15% more fuel efficient. Boeing Co.'s new 777 will get 100 passenger miles—that's 100 flyers moved one mile—per gallon of jet fuel. This is nearly twice the 55 passenger mpg the original 707 got 33 years ago.

But the big focus is on cars. The 180 million vehicles on U. S. roads account for 40% of the country's oil habit and produce 20% of its carbon dioxide. Dogged by federal mileage requirements, carmakers have cut weight, improved engines, adopted sleeker designs—and doubled efficiency since 1974. They aren't through yet. This fall, Honda Motor Co. will introduce a "lean-burn" engine in its Civic subcompact that will get 55 mpg on the highway. And improvements such as better spark plugs and lighter materials will cut the appetite of vehicles of every dimension (box).

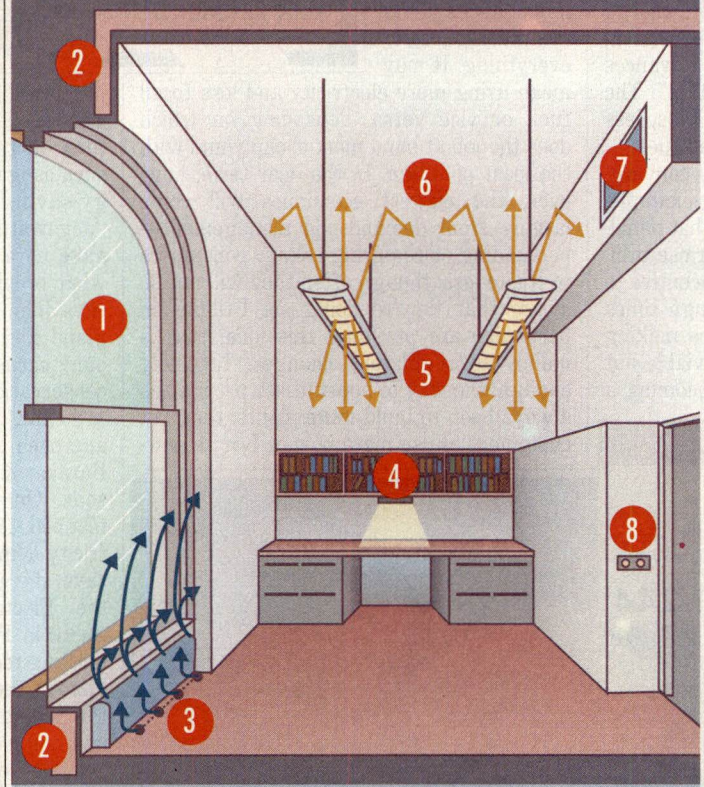
Still, lite cars are a hard sell when gasoline is cheap. That's where demand-side management comes in. No automobile version of the state utility commission exists to force changes. But there is last year's Clean Air Act, which set strict ozone and carbon-monoxide limits for cities seeking federal highway funds. Now, some state and local officials think the best way to comply is to amend driving habits.

'FEEBATE.' This effort starts from the perspective that transportation is heavily subsidized. Roads are usually free, as is much parking, and gasoline prices don't reflect the full environmental costs of the fuel. Demand-side management aims to offset these subsidies, and in some areas it's being done by law. Legislation passed last May in Washington state requires that major employers in the eight most populous counties cut their number of solo rush-hour voyagers by 35% by 1999. They can do anything, from offering mass-transit subsidies to charging for parking. But companies with 100 or more employees must draw up a plan or face possible civil penalties.

California legislators took a stab last year at a novel "feebate" program. It would have charged a fee for new cars with high emissions and given rebates for low-polluting models. Since higher-mileage cars tend to pollute less, the measure also would have encouraged conservation. It died when former Governor George Deukmejian would not sign it. But the measure has been reintroduced. It's just one of a growing number of market-based suggestions for reducing pollution and saving energy. For instance, Lodwrick M. Cook, chairman of Atlantic Richfield Co., would set a temporary 3¢-per-gallon gas tax, then use the money to buy pre-1976 models at $1,300

TOMORROW'S OFFICE, TODAY'S ENERGY-SAVING TECHNOLOGY

A highly efficient cooling and heating system plus a few relatively simple changes can cut energy-guzzling in offices 50% and more



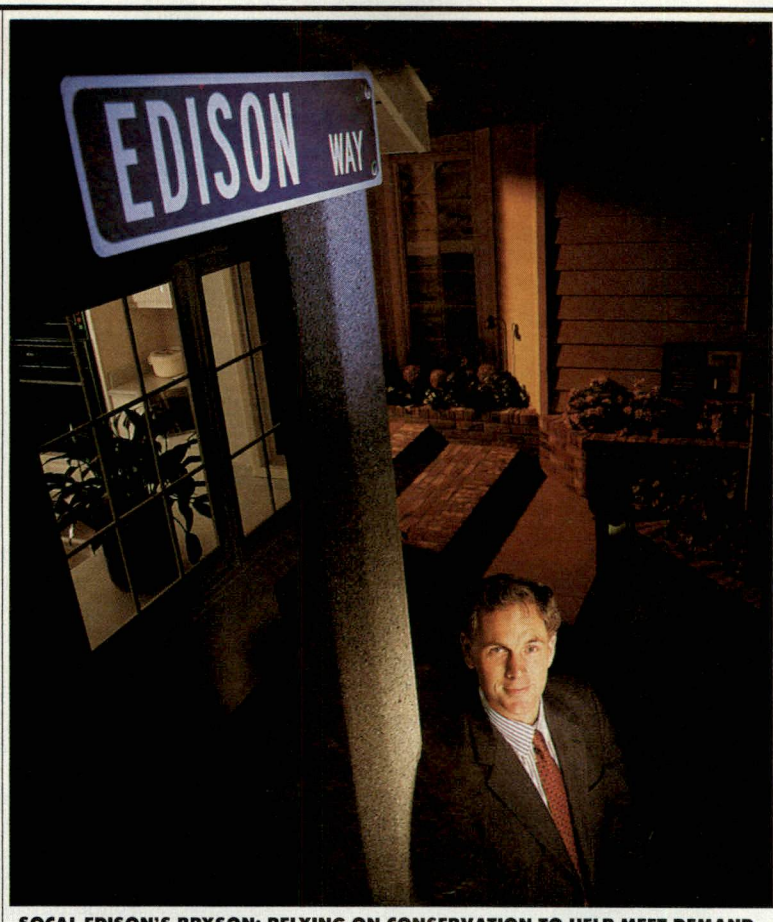
1 Double-paned aluminum windows with insulating films
2 High-performance insulation: Wall and glazed window area combined equal R-11; ceiling equals R-30
3 Controls for heating in each room
4 Adjustable lighting in work areas
5 Hanging fluorescent lamps with only one tube
6 Light-colored walls and finishes to diffuse light
7 Controls for air flow in each window office
8 Switches that shut off lights when a room is empty

DATA: CROXTON COLLABORATIVE

LAUREL DAUNIS/BW

apiece. "We could get rid of them in five years," says Cook—and just as quickly raise U. S. auto mileage by an average 5 mpg as owners of the clunkers bought higher-mileage cars.

If autos are a target, highways are, too. In response to a Sierra Club Legal Defense Fund (SCLDF) lawsuit, a U. S. in 1989 ordered San Francisco Bay Area highway planners to adopt a computer model that calculates the long-term impact of adding roads. The fund contends that while new roads can cut pollution by easing bottlenecks, in the long run, they encourage driving and worsen air quality. In March, the court approved a model that projects emissions effects of highway projects. The Bay Area's $6.5 billion plan, with 42 major projects, passed muster: The model showed it would do more good than harm. Still, by forcing a new set of calculations on road builders, the case could set a precedent, says Michael D. Meyer, a transportation expert at the Georgia Institute of Technology.



SOCAL EDISON'S BRYSON: RELYING ON CONSERVATION TO HELP MEET DEMAND

BIG BENEFITS. Already, in fact, last year's clean air amendments are breathing new life into efforts to better use existing roads. One of the most popular is high-occupancy-vehicle (HOV) lanes, reserved for cars with two or more riders. The idea is decades old, but it wasn't until the late 1980s, as air quality fell and congestion mounted, that it hit the streets in a big way. Now, the U. S. has 340 miles of HOV lanes in 20 urban areas—with 510 more miles planned this decade, says the Texas Transportation Institute (TTI) at Texas A&M University. Such lanes produce big benefits, judging from the 45-mile network that eases Houston's crawling, choking rush-hour crush. The TTI found that a new HOV lane, which can be reversed with the flow of rush-hour traffic, saved 6,200 gallons of gasoline and 13,420 pounds of carbon monoxide a day, vs. adding a lane in each direction. But the Houston system offers drivers few extra incentives, and in that sense is dated.

In March, by contrast, Seattle area governments adopted a plan to enlarge the region's 51-mile HOV network to 273 miles by the year 2000. To nudge drivers to use it, Seattle will offer preferential parking, special on-and-off-ramp lanes, and an HOV network on city streets. This system will play a crucial role in Vision 2020, a 30-year growth plan unveiled in January by 57 governments in greater Seattle. Nearly half of new development will be concentrated in 15 major centers. But instead of a warren of high-rise apartments, the plan calls for closely spaced homes built near mass-transit nodes and neighborhood stores—so people can get around without driving.

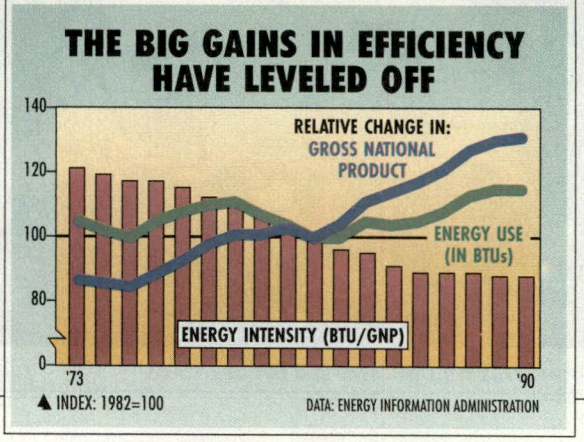
The project, which builds on others in California, Florida, Georgia, Minnesota, and Oregon, also entails a rapid-transit network, 300 miles of car-pool lanes, and a web of ferry services. Backers say this grand scheme is necessary if the region, which expects to add 1.5 million people to its current 2.7 million by 2010, is to avoid becoming a quagmire of pollution and congestion. "If we do it the low-density way, the only way to move people is by autos," says Ronald D. McCready, an official of the Puget Sound Council of Governments.

Such ideas are not without critics. Some complain that those who benefit most from demand-side management don't pay their fair share. On Cape Cod, Mass., for instance, residential customers of Commonwealth Electric Co. are paying an average of $5, or 8% to 10% more, on their monthly bill to help pay for conservation programs that mainly benefit businesses. A consumer group called IRATE has forced regulators to reexamine the process.

Perhaps the most vocal critic of utility programs is John Anderson, who heads the Washington (D. C.)-based Electricity Consumers Resource Council, an association of large industrial customers. Anderson says farsighted companies that already are energy efficient end up paying, through electricity rates, to help competitors catch up. And because utilities often use a generic approach instead of tailoring programs to a given site, he notes, "some programs are coming in at 25% to 30% of the claimed benefits." Such figures prompt some economists, such as Alfred E. Kahn of Cornell University, to warn that using regulatory power to launch conservation may "subsidize investments that are not efficient."

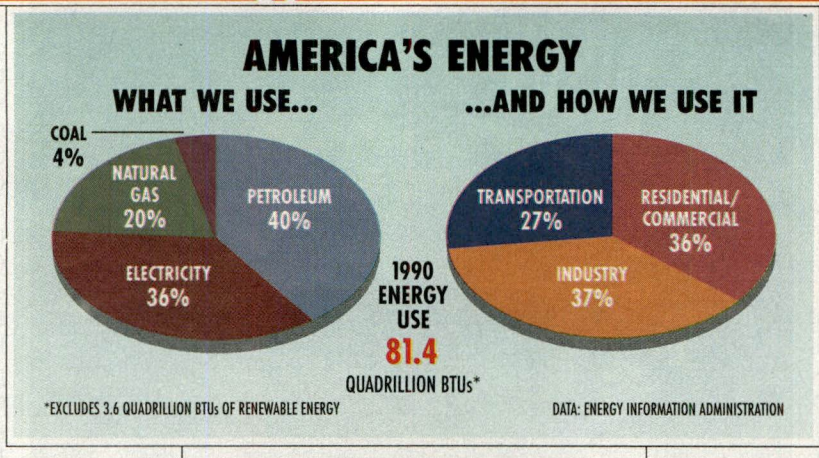
SETTING THE TONE. While that may be, it doesn't change one fact, says John P. Holdren, professor of energy and resources at the University of California at Berkeley: "Energy efficiency is the cleanest, cheapest, fastest way to improve the energy picture." Others argue that since oil, natural gas, and coal get various subsidies, efficiency should, too. That way, a conservation project with a five-year payoff can compete at budget-setting time. "Incentives are critical to help make what are marginal investments for companies worthwhile," says George W. Sarney, vice-president for energy services of Raytheon Co.

This is where Washington could set the tone. "We need a comprehensive package of carrots and some sticks backed up by information and education," declares Howard S. Geller, executive director of the American Council for an Energy-Efficient Economy, a nonprofit advocacy group in Washington, D. C. One speck of his wish has been granted. In January, the Environmental Protection Agency



PHOTOGRAPH BY DARRYL ESTRINE; CHART BY ALBERTO MENA/BW

launched Green Lights, a $1.5 million drive to get business to use more efficient lighting. Still, the U. S. government, the nation's largest energy user, is no model of virtue. A recent Office of Technology Assessment report says funding for energy efficiency in federal agencies fell from $297 million in 1981 to under $50 million last year.



OUT OF POCKET. Some 80 bills now in Congress aim to fill the policy void. These propose higher taxes on gas, or on the carbon content of fuel, stricter car-mileage levels, new standards for appliances and industrial motors, and efficiency mandates for buildings. Other ideas include spending more money to promote research on renewable energy sources such as solar or wind—and at least evening out the tax code. Currently, the cost of a parking space is a corporate deduction and isn't income for the employee using it. But there's no deduction for a subway pass worth more than $15 a month—and the pass is personal income.

Big changes aren't likely this year. The Johnston-Wallop bill, the Senate proposal that embodies the Administration's strategy, concentrates on increasing energy supplies, not conservation, notes Eric Hirst, a corporate fellow studying energy efficiency at Oak Ridge National Laboratory. For one thing, it seeks to exploit the presumably oil-rich Arctic National Wildlife Refuge, a red flag for environmentalists. Observers say that it, and most other energy bills, will stall out this year. One exception might be revisions to the federal highway bill, which expires on Sept. 30. Under current law, Washington pays 90% of new interstate highway costs, vs. 75% for most mass-transit projects. New Senate and House bills call for 80% funding for both—and would let states spend federal funds on demand-side management.

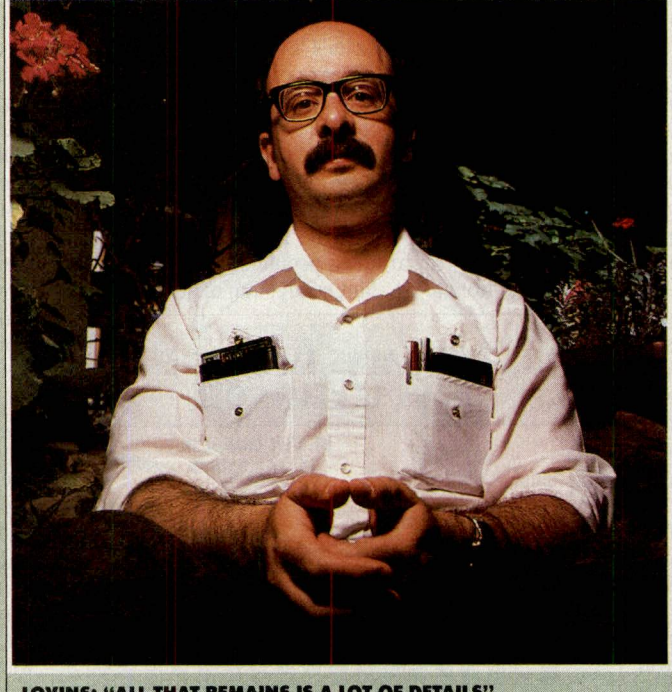
That's more than a drop in the bucket. But in a year marked by a war over oil, new signs of global warming, and lots of bluster over a national energy plan, it falls about three quarts shy of a gallon.

By Robert Buderi and Emily T. Smith in New York, with Maria Shao in San Francisco, Geoffrey Smith in Boston, Peter Hong in Washington, and bureau reports

AMORY LOVINS' ENERGY IDEAS DON'T SOUND SO DIM ANYMORE

If the gospel of energy efficiency has an evangelist, it must be Amory B. Lovins. In 1976, as an obscure consultant, he published an article in *Foreign Affairs*, the prestigious quarterly, asserting that it makes more economic sense to use energy efficiently than to increase energy supplies. That was heresy, since the accepted wisdom at the time held that growth in the gross national product depended on using more energy. The ensuing controversy put Lovins on the map.

He went on to co-found the Rocky Mountain Institute in Old Snowmass, Colo., where he is director of research and resident lightning rod. Over the years, audiences of CEOs, utility executives, and energy experts have laughed and catcalled at Lovins' assertions. Like his idea that current cost-effective technologies could cut U. S. electricity consumption by 75%—for only 0.6¢ per kilowatt-hour saved. Or that existing technologies could reduce the amount of oil the U. S. burns by 80%—for a few bucks per barrel saved. The problem of energy supply "has been conceptually solved" by efficiency, says Lovins, 43. "All that remains is a lot of details."



LOVINS: "ALL THAT REMAINS IS A LOT OF DETAILS"

Such pronouncements may still sound outrageous, but guess who isn't laughing now? Clark W. Gellings, director of the customer-systems division at the Electric Power Research Institute, the utility industry's research arm, calls Lovins "ahead of his time."

RMI is now a consultant on energy efficiency for some 70 utilities and 130 companies and agencies in 32 countries. Since 1986, the institute's revenues have nearly doubled, to $1.1 million, with 48% of the increase coming from consulting and other commercial ventures. It publishes a tome of technical recipes for wringing savings out of everything from household appliances to office equipment and lighting. Lovins also has helped nearly 30 state utility commissions grapple with energy-efficiency issues.

He has become "a national resource for [stimulating] discussions of energy efficiency," says Paul MacCready, designer of General Motors Corp.'s Impact electric car. Lovins also practices what he proselytizes: His 4,000-square-foot, stone-and-concrete home is mostly warmed by solar heating. The monthly electric bill: $5.

By Emily T. Smith in New York

PHOTOGRAPH BY RAY NG; CHART BY ALBERTO MENA/BW

What really constitutes financial strength in today's insurance marketplace? An impeccable balance sheet. And profits.

If you're concerned about the financial strength of your insurance organization, here are some questions you should ask.

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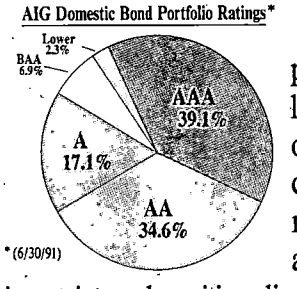
Very important. They provide an impartial, thoroughly researched measure of a company's financial strength. AIG holds the highest ratings awarded by the principal agencies. They are a prized asset, enabling us to capitalize on business opportunities not open to those without these credentials.

AIG Ratings:	
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Moody's	Aaa
A.M.Best Co.	A+*

*Domestic Property-Casualty Companies

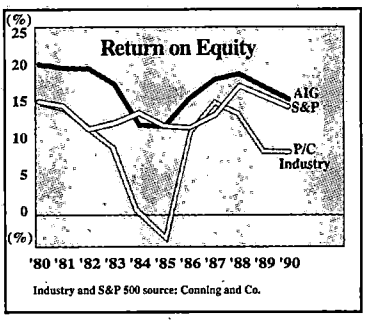
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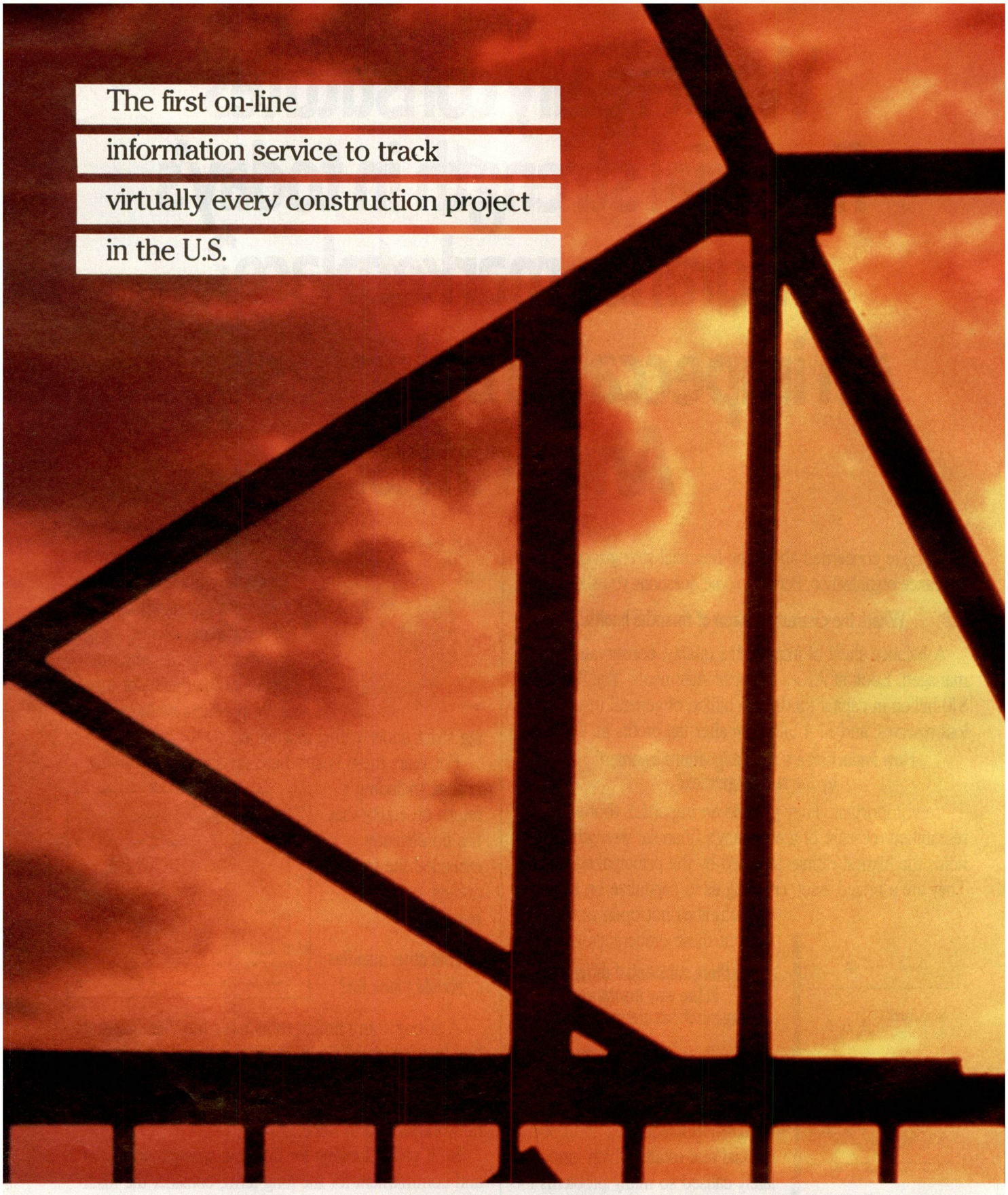


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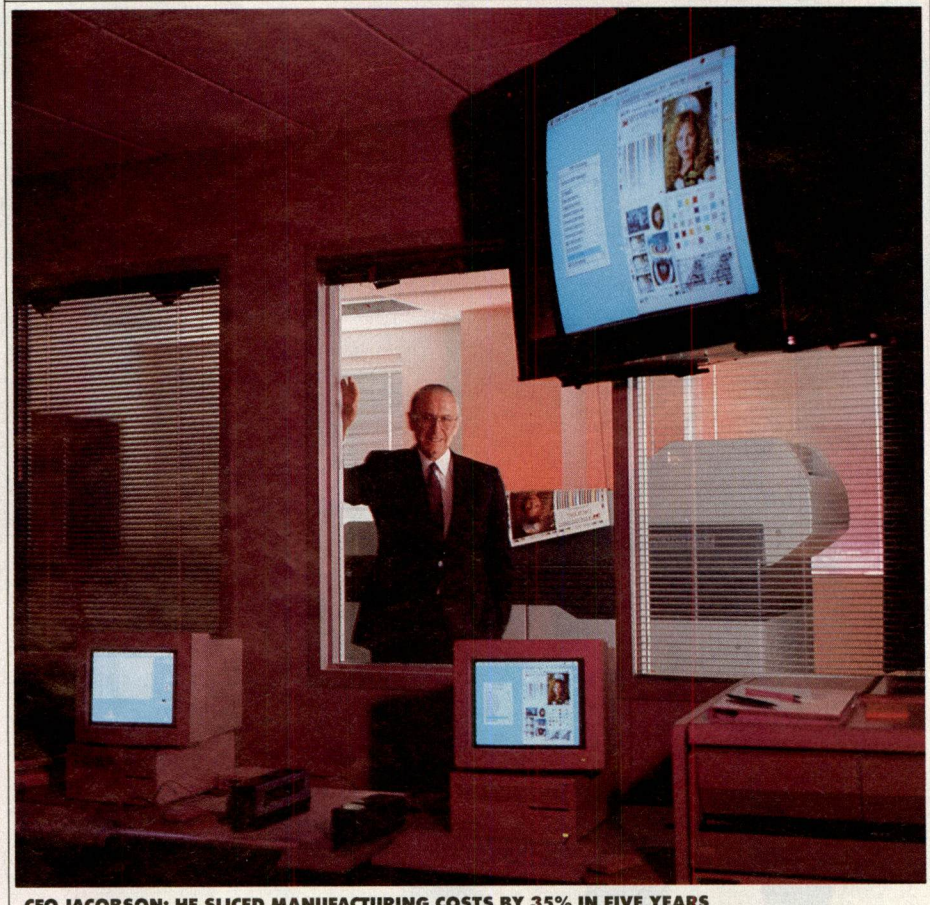


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STRATEGIES

3M RUN SCARED? FORGET ABOUT IT

The recession has hurt, but big cutbacks aren't in the cards



CEO JACOBSON: HE SLICED MANUFACTURING COSTS BY 35% IN FIVE YEARS

PHOTOGRAPH BY LAYNE KENNEDY; CHART BY PAUL GRANGE/BW

For some time now, Minnesota Mining & Manufacturing chief Allen F. Jacobson has been able to survey his domain with a certain measure of satisfaction. After all, few companies boast the innovative culture of 3M. Thanks to the creative zeal Jacobson fosters, nimble 3M turns out everything from low-tech Post-it notes to futuristic synthetic ligaments. Look at the results: Since 1985, 3M's net income has doubled, to $1.3 billion last year. And more than 30% of 3M's $13 billion in 1990 revenues came from products introduced during the past five years.

But the recent recession has been a humbling experience for the diversified manufacturer. Sagging demand for 3M's array of industrial products and stiff price competition abroad have battered the company. During the first half of 1991, 3M's net income tumbled 11.5%, to $599 million. Operating margins dropped to 15.6%, a 14% decline from their 1989 peak. Worse, explains Jacobson, "we don't see any recovery coming," during the next six months. Profits, he admits, will drop in 1991 for the first time in five years. Indeed, earnings are expected to fall 7.7%, to $1.2 billion, on $13.5 billion in revenues, reckons Theresa M. Gusman, an analyst with Salomon Brothers Inc.

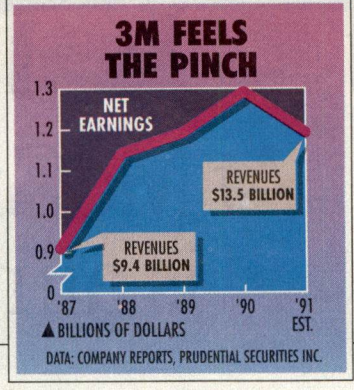
With that kind of a melancholy outlook, you'd think Jacobson would be sharpening his machete for some slashing. Forget about it. While other U.S. companies have retrenched by trimming research-and-development budgets, shelving new-product programs, and ousting managers, 3M has been readying itself for the coming rebound. True, the company has scrapped plans to boost capital spending by 10% this year. But it's still investing $1.3 billion to modernize its 101 factories worldwide. And there have been no layoffs among 3M's 89,000-plus employees. Research spending, the wellspring of the company's product successes, hasn't been sacrificed, either: 3M will ante up some $890 million on R&D this year. That's 6.6% of total sales—the same rate as last year and about double the average of U.S. industry.

WEAK SPOTS. At the same time, Jacobson is following through on ambitious goals set last year to cut manufacturing costs, while pushing 3M design engineers to speed up product-development cycles. Nor has Jacobson slackened the pace of 3M's aggressive move into such new overseas markets as Eastern Europe and the Soviet Union.

That's not to say that 3M hasn't been tightening a few screws to reflect tougher times. Like most companies, it's curtailing corporate travel. And it recently postponed the construction of an office building addition in Austin, Tex.

But Jacobson isn't easing up on his effort to get 3M to expand its product line, since many of the company's more than 60,000 offerings are still vulnerable to recession. Consider that about 40% of 3M's revenue stream comes from customers in such cyclical manufacturing fields as autos. The memory-technologies division is another weak spot: 3M's computer diskettes business has been hit by price competition from foreign rivals, including Sony Corp. While Jacobson insists he doesn't want to diversify away from his core customers, a couple of hits in less recession-prone businesses, such as health care, would surely help matters.

At the same time, 3M's international operations haven't offset problems stateside, as hoped. Indeed, the stronger dollar has zapped its business overseas. As a result, analysts expect international revenues, which account for 50% of the company's total, to be flat in the second half, compared with a 22% gain during the same period a year ago. Given the downturn, Prudential Securities Inc. analyst B. Alex Henderson says 3M should have throttled back overseas capital spending and acqui-



sitions more quickly. Still, 3M economist John McDevitt insists the company wasn't caught flat-footed: "We weren't surprised."

Still, Jacobson has managed to limit the recession's damage by running a pretty lean shop. From 1985 through 1990, his J35—that's J as in Jacobson—cost-cutting program has hit its goal of a 35% reduction in labor and manufacturing costs, largely by investing in automation, reconfiguring plant layouts, and using just-in-time inventory methods.

And 3M isn't letting up now. Last year, the company began yet another five-year progam—dubbed Challenge '95—to cut unit manufacturing costs 10% and manufacturing-cycle time by 50% from 1985 levels, among other goals. It all represents a dedicated effort to widen 3M's thinning operating margins and win over new customers with better service.

> Attention to the smallest of details has always been the hallmark of Jacobson's tenure as chief executive

Little successes already are adding up to some big savings. Earlier this year, for instance, managers at one industrial-tape plant cut the time it takes to switch from making one kind of tape to another by 30% and reduced waste by 25%, simply by rearranging machinery and changing some work practices. The 35 engineers and managers 3M assigned to the project used video recorders to study the changeover process. One revelation was that workers often didn't have the correct tools to perform the job. The simple answer: To slash the time wasted fetching tools, engineers staged tool boxes near changeover sites.

FULL PIPELINE. The changes go well beyond the plant floor. Service is being spruced up, too. For example, the medical-products division used to take an average of 49 days to process customer complaints—which naturally prompted even more complaints. "Some customers said 3M was hard to deal with," admits Thomas Redner, manager of quality systems. So, in late 1990, Redner pulled together a team from nine departments to reform the complaints procedure. Again, little details made a big difference. The company's sales reps now carry pre-addressed, postage-paid labels so they can quickly mail samples of defective products back to 3M labs for analysis. Now, says Redner, processing a complaint about the division's surgical masks or tapes takes only five days.

The process Jacobson most wants to make faster and cheaper is the one his engineers use to get new products out the door. He has ordered design, production, and marketing teams to work more closely together. Small wonder why: This approach allowed a team of 3M designers and production experts to cut by half—from six to three years—the development cycle for a new digital color proofer, a device used in commercial printing, which is expected to be rolled out in September.

This year alone, 3M will launch more than 200 new offerings. In these austere times, 3M is more often emphasizing products that can be marketed as cost-saving devices. Last April, the company's abrasives division introduced a computerized chemical-dispensing machine that controls and records the amount of chemicals—say floor cleaners or solvents—that are used in manufacturing plants. The idea, says Group Vice-President Robert J. Hershock, is to give companies a new way to monitor their chemical costs.

Jacobson is also turning up the heat overseas, where he sees 3M's current slowdown as transitory. The company is adding staff and marketing its array of telecommunication and highway products in emerging markets such as Poland, Czechoslovakia, and the Soviet Union. At the same time, 3M is pumping resources into the Far East, where markets for its products are still growing by as much as 20%. In Western Europe, 3M is spending $20 million to link its subsidiaries and customers together via computer so they can process orders more quickly. It also plans to build or expand four larger, more efficient warehouses in Europe to replace 17 minidistribution centers.

Attention to the smallest of details has always been the hallmark of Jacobson's management tenure. Known simply as Jake by most 3Mers, he retires on Oct. 31, after six years as chief executive. He will be replaced by L. D. DeSimone, a veteran of 3M's overseas operations who speaks four languages and, like Jacobson, is an engineer by training. DeSimone will be lucky in one respect: He will inherit a pipeline full of new products and a decidely leaner and more responsive 3M, thanks in large part to Jacobson's investments and handiwork during the downturn. Apparently, even a bone-jarring recession can be turned to advantage by smart managers.

By Kevin Kelly in St. Paul, Minn.

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L.A. GEAR CALLS IN A COBBLER

Stanley Gold may take a shot at resoling the once-hot shoemaker

Robert Y. Greenberg has always had a knack for selling. First, it was wigs. Later, it was roller skates for the trendy denizens of Venice Beach, Calif. Then, by 1989, he had hawked enough sneakers to turn tiny L. A. Gear Inc. into the nation's No. 3 athletic shoemaker in just four years. Says Josie Esquivel, an analyst at Shearson Lehman Brothers Inc.: "He's the quintessential salesman."

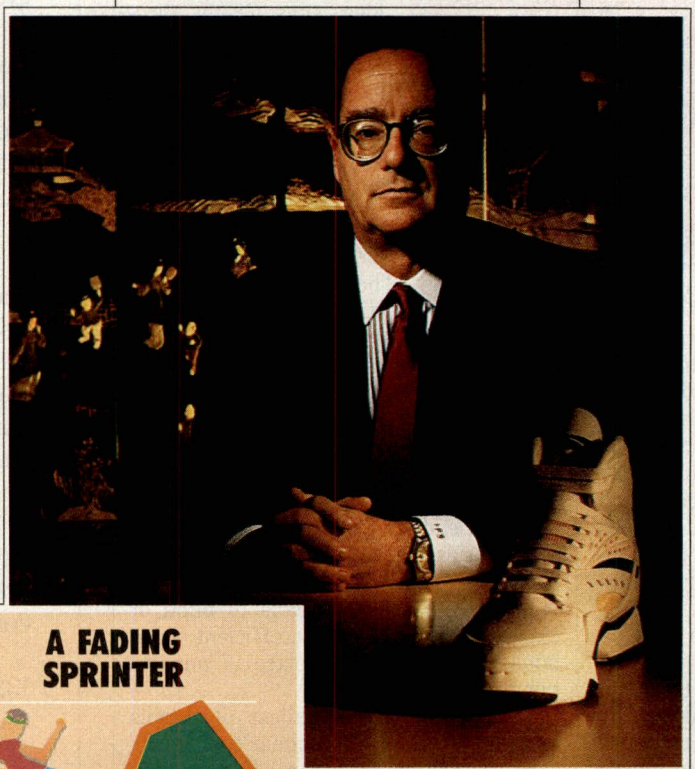
Greenberg's latest sale might be the most crucial of all. A deal to sell $100 million in new L. A. Gear convertible preferred stock is due to close by Sept. 13, three days after shareholders meet to vote on it. The buyer: Trefoil Capital Investors LP, whose chief, Stanley Gold, learned how to cure ailing companies for investor Roy Disney's Shamrock Holdings Inc. And L. A. Gear is ailing now that sales of its once-hot shoes have cooled. Analysts estimate the company's losses at $4 million on volume of some $900 million for its fiscal 1991. The stock, which soared from an initial offering price of 2¾ in 1986 to 50 in 1990, is now limping along at 11. The sneaker maker has technically violated loan covenants three times, prompting its banks to shrink credit from $360 million to $200 million.

Gold could still back out, as he did last November on a deal to buy 82% of Child World Inc. But Trefoil's cigar-chomping boss seems eager to take over. He says: "I'd like to see the company better focused, with tighter-run operations." The deal will give Trefoil a controlling stake that's convertible to 34% of the common.

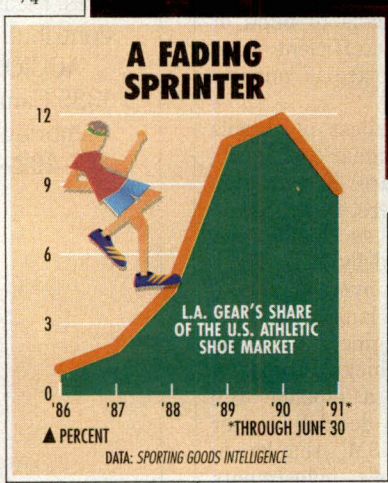
The big question is how Gold will make that stake pay off. A few years ago, Greenberg boasted he would push L. A. Gear past Reebok International Ltd. and Nike Inc. by 1991. And thanks to hot-selling spangled and fringed shoes promoted by such celebrities as Paula Abdul, Michael Jackson, and Kareem Abdul-Jabbar, sales shot from $11 million in 1985 to $902 million last year.

But this spectacular marketing success was also an enormous strain. Says Kevin J. Ventrudo, L. A. Gear's chief financial officer: "Everyone has pushed hard to keep the systems up with the growth." Analysts and investment bankers say the company's internal controls got out of hand. A shareholders' class-action lawsuit filed in U. S. District Court in Los Angeles calls those controls "chaotic and virtually nonexistent." Worse, the lawsuit alleges Greenberg and his staff inflated sales by tens of millions of dollars by improperly counting as revenues merchandise that was being stored in L. A. Gear's warehouses and docks, or by shipping goods to customers before they wanted it.

L. A. Gear has denied all allegations and filed a motion to dismiss the suit. But its accounting has also raised eyebrows at the Securities & Exchange Commission. In early July, the company reported a $258,000 profit for the second quarter—enough to satisfy bank covenants forbidding another loss. But the profit included future royalty income and future credits from suppliers. Under pressure from the SEC, L. A. Gear revised the results to show a $4 million loss. Ventrudo calls the company's accounting "defensible" and points out that both items were explained in the original statement.



GOLD: A MR. FIX-IT WHO ACTS FAST



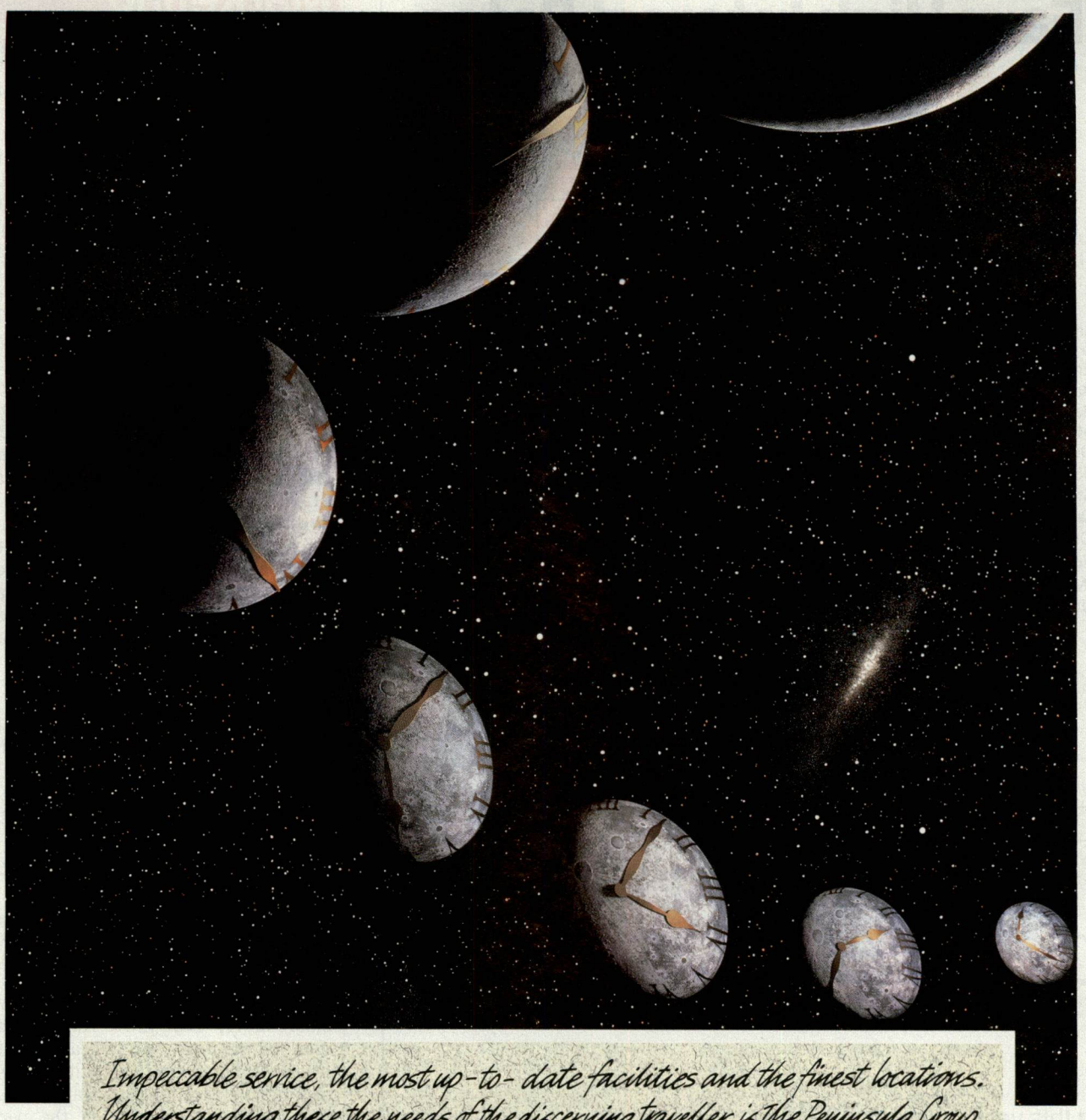
Gold may change L. A. Gear's bookkeeping, but fixing its marketing blunders will be trickier. Greenberg initially created a clear-cut image with brightly colored shoes and sexy ads aimed squarely at teenage girls. But to hit his $1 billion sales target, Greenberg tried to challenge Nike and Reebok directly by adding a line of men's performance shoes.

FOULED OUT. It was too much, too fast. The foray blurred L. A. Gear's image. Says John Horan, publisher of newsletter *Sporting Goods Intelligence:* "If Greenberg hadn't been so focused on doing a billion, he might still be on a roll." Then came bad publicity about L. A. Gear shoes that fell apart on the court when worn by a Marquette University basketball player. And L. A. Gear lost touch with the fickle teen crowd. It paid Michael Jackson $20 million to promote a line of black, silver-buckled shoes, but they bombed.

To unload these nonstarters, L. A. Gear has been jettisoning sneakers at deep discounts since late last year. Most of the shoes are gone now, the company says. But the effort has squeezed gross margins this year to 25%, down from 37% in 1990's first half. And new orders in the second quarter were down 27% from the year before.

Those numbers won't warm the heart of Stanley Gold, who likes to act fast. When Shamrock bought Central Soya Co. in 1985, Gold stepped in as president to slash overhead. He sold out in 1987

PHOTOGRAPH BY EDUARDO CITRINBLUM; CHART BY PAUL GRANGE/BW



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for a $125 million profit. After scooping up a 22% stake in oil-driller Enterra Corp. in 1985, Gold would often fly in to Houston to give advice.

At L. A. Gear, he's likely to play a similar role. Greenberg is expected to stay, but it will be Gold's team calling the shots. L. A. Gear will pay Trefoil's investment manager, Shamrock Capital Advisors Inc., $1.8 million for consulting services over the next three years. Gold says he'll bring in a chief operating officer, probably to oversee marketing. Two weeks after Trefoil agreed to invest, Sandy Saemann, Greenberg's second-in-command, departed. A flamboyant, gold-chain-decked manager, Saemann was the architect of the company's sexy ad campaigns, which often featured scantily clad models—and earned the nickname "L. A. Rear."

FURIOUS STORES. A staunch fan of strong brand names, Gold figures that the L. A. Gear label has enough cachet left to sell shoes and apparel profitably to young women. But L. A. Gear's name is apparently a liability in performance shoes. Already, the company has

Challenging Nike and Reebok with a line of men's performance shoes blurred L.A. Gear's image

dropped the L. A. Gear logo from its new $110 Catapult sneaker with high-tech carbon-fiber soles. "Taking the L. A. Gear logo off Catapult was a very smart move," says Steve Hayden, chairman of BBDO/LA, an ad agency that briefly handled the Catapult before resigning the account. But Hayden warns that building credibility in the performance market will still take years.

Gold will also have to heal the rift between L. A. Gear and disenchanted department stores and mass merchants. These retailers were stung when L. A. Gear dumped heavily discounted shoes elsewhere and undercut their prices. Gold must also make inroads with the sporting-goods stores that sell most of the high-price performance sneakers. These stores have traditionally shunned L. A. Gear models as trendy fashion shoes.

Assuming Greenberg pulls off his latest big sale, Stanley Gold will have his work cut out for him. The trick will be to move fast enough to make sure the company doesn't live up to another name once hurled its way: "L. A. Disappear."

By Kathleen Kerwin in Los Angeles

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HOW DO YOU BUILD AN INFORMATION HIGHWAY?

The U.S. is largely letting private industry answer the question—and hoping for the best

In 1955, a Democratic senator from Tennessee named Albert Gore spearheaded legislation to criss-cross the nation with interstate highways to secure the nation's defense and build its economy. Thirty-six years later, his son is back at it. Senator Albert Gore Jr. (D-Tenn.) wants the nation to build a whole new kind of highway system: an "information superhighway" with lanes made of glass fibers and cloverleafs of silicon.

Gore, a Presidential candidate in 1988, envisions this supernetwork as the first step in creating a new infrastructure—for a new Information Economy. His bill, the High Performance Computing Act, would fund research in how to manage and use superfast computers and networks. But, with its huge capacity to move bits of computer and video data nearly instantly across the country, the network also will serve as a proving ground for the type of national network that Gore and other advocates say is needed for the U. S. economy to be competitive. A national data superhighway would speed all sorts of transactions, give corporations a better handle on their businesses, and serve up dazzling entertainment and information services for consumers (page 74). "I think it will enable this country to leapfrog the Japanese," says Gore.

Japan—and other nations—are already investing heavily in the digital switches and optical fiber needed for such information superhighways. Japan's Nippon Telegraph & Telephone Corp., for instance, hopes to lay fiber-optic cables to every Japanese home, school, and business by 2015. France has swapped nearly all its creaky analog phone switches for digital ones. Singapore, which once had a laughably ancient phone system, has installed a state-of-the-art network to attract global investment. One expert, William H. Davidson, a professor at the University of Southern California and a phone-company consultant, warns that at this rate, by 1994 the U. S. could be near the bottom of his list of the top dozen telecom powers in the world.

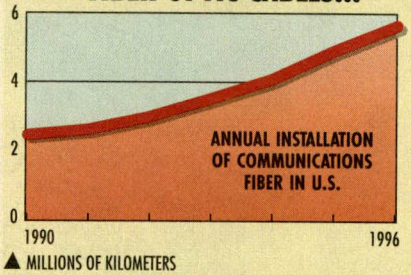
Even if Gore's bill passes, it won't do much to alter that picture in the near term. Unlike his father's highway bill, the High Performance Computing Act does not call for a massive, federally funded effort. It simply requests a dollop of federal dollars—just $2 billion over five years—to catalyze a much larger investment by a wide variety of private companies. The money in Gore's bill would go mainly for research on ways to use and interconnect supercomputers. About 20% would go to upgrade existing networks into a National Research & Education Network, linking schools, libraries, universities, and government researchers. Indeed, Gore's bill isn't so different from a White House plan to fund development of high-performance computing, including networking. Both efforts would rely on private industry to bootstrap research networks into commercial ventures.

PATCHWORK. Aside from deregulation-minded Britain, most other nations are pushing into advanced networks through their national phone carriers. With limited competition, they can quickly upgrade equipment and create new services by subsidizing them with guaranteed profits. In the 1980s, that led to impressive and rapid network upgrades in such countries as Germany, Hong Kong, and Switzerland. France Telecom, for example, was able to jump-start its popular Minitel information service by giving away $400 home computer terminals—an unthinkable gambit in the deregulated U. S. market.

So far, the competitors in the U. S. telecommunications market have created a profusion of new network services, such as WATS, 800, and 900 lines that are available in such variety nowhere else in the world. The question for the 1990s is whether the industry can create a globally competitive telecommunications infrastructure—without a greater government role.

Much depends on the answer. Today's telephone lines, built to handle the thin warble of a human voice, are woefully underpowered for torrents of computer data, images, and video. Yet the service economy seems to have an insatiable appetite for communications capacity—for conducting video teleconferences, processing financial and other transactions, distributing information-based services, and moving data from PC to PC. An inferior communications network could drive businesses such as stock trading and banking offshore—and ham-

THE SPREAD OF FIBER-OPTIC CABLES...



▲ MILLIONS OF KILOMETERS

...AND NEW TRANSMISSION METHODS...

FRAME RELAY (1991) A networking technology that exploits fiber optics' high quality to deliver data up to 10 times faster than today's packet switching. Handles data, but not voice or video

SWITCHED MULTIMEGABIT DATA SERVICE (SMDS) (1992/1994) A metropolitan-area service that local phone companies will offer to connect office PC networks and the like

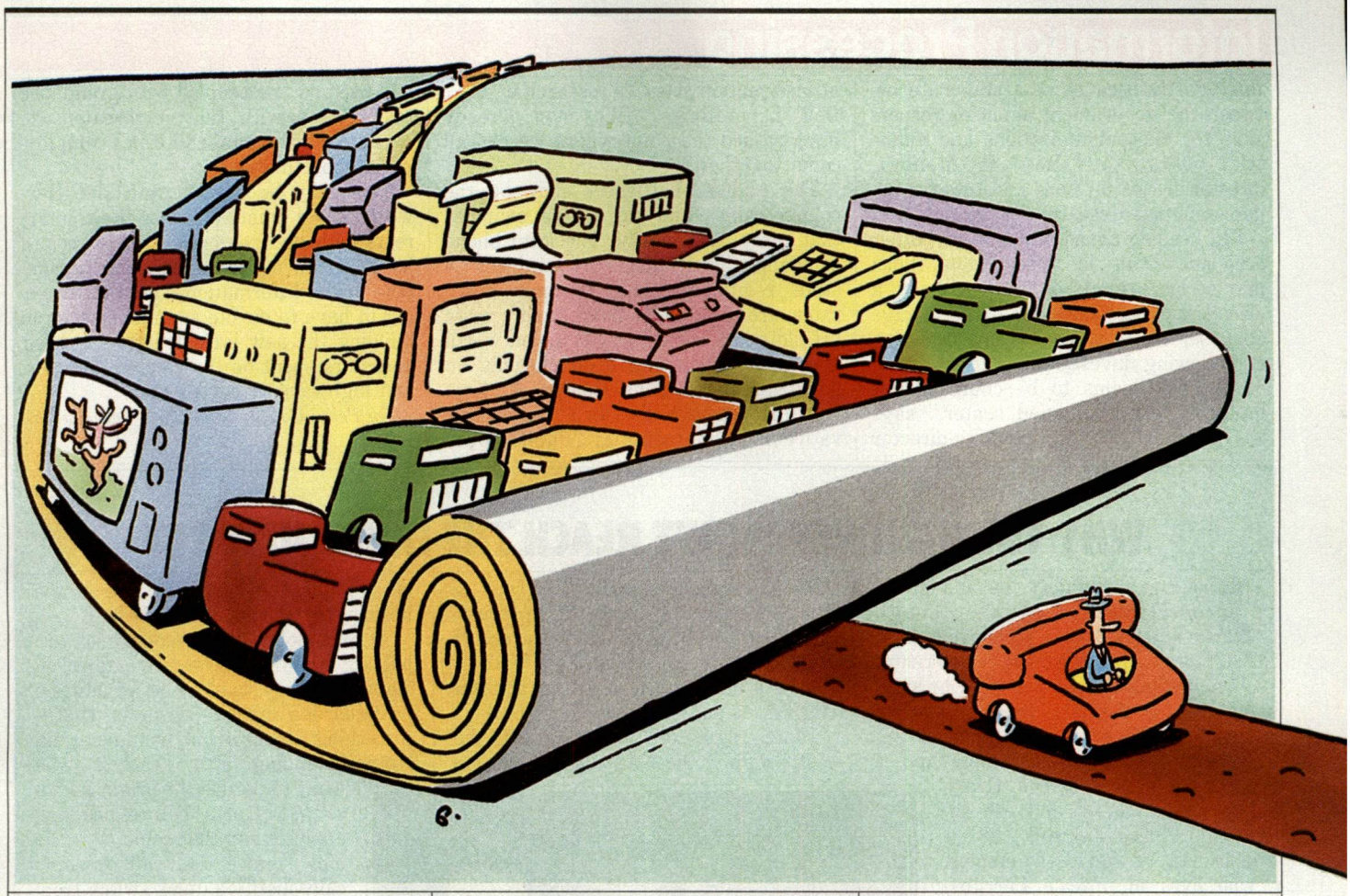
BROADBAND INTEGRATED SERVICES DIGITAL NETWORK (2001) Longer distance and higher speed than SMDS, but requires new network switches

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LAUREL DAUNIS/BW



per those businesses that remain behind.

The technological challenges of blanketing the nation with information superhighways are daunting. At speeds exceeding a billion bits per second, even fiber-optic cables can become clogged. If a circuit breaks during a long-distance transmission at such rates, an entire Encyclopaedia Britannica's worth of information could be lost in seconds. Reaching such velocity and keeping the data safe are challenges that Gore's bill—and other research programs already under way—would address.

Such research isn't enough, argues George H. Heilmeier, the new president of Bellcore, the research arm of the seven Baby Bell phone companies. He is advocating a National Information Act, covering everything from accelerating the adoption of new technology standards to deregulating the Baby Bells to consolidating control of telecommunications under a single federal agency. Today, says Heilmeier, "everybody's in charge, but nobody's in charge.... I'd like to see a bona fide information infrastructure rather than a fragmented world of different systems for everything."

But, critics say, Heilmeier's top-down approach could lead to a lengthy consensus-building process among the Baby Bells and other phone companies. The result might be "a very elegant network," says Lawrence J. Bouman, senior vice-president for program management and systems planning at MCI Communications Corp. "But it may be obsolete by the time it's deployed."

MCI and other long-distance companies have proved that competition can speed progress. As late as 1987, AT&T said it wouldn't convert its entire long-distance network to digital switching until 2010. But, goaded perhaps by U.S. Sprint Communications Co.'s boasting of an all-digital fiber network that could transmit the sound of a pin dropping, AT&T succeeded by 1990. Peter Beck, a former MCI executive and now chairman of Digital Access Corp., a data communications equipment maker, says startups such as his will continue to move faster than the giant telephone companies. "You don't need teams of 50 engineers to design things," says Beck. "That's what the telephone industry has not yet grasped."

In other countries, nationalized phone systems are building fiber-optic superhighways. The U.S. approach is riskier but may allow more innovation

Critics also note that the phone giants have had little to do with creating today's most complex data networks. Take Internet, a worldwide collection of 3,000 networks connecting research labs and universities that was made famous by hacker Robert Morris. To its fans, Internet's rapid but largely unplanned growth shows why information superhighways needn't be centrally managed.

STALEMATE. Now, with the help of private companies such as IBM and MCI, portions of Internet are receiving major upgrades. NSFNet, one of Internet's backbone networks, is accelerating from the 56,000 bits per second it achieved in 1987 to 45 million bits by yearend. Speeds of 1 billion bits per second are being pursued in five test projects around the country. Funding this is a $16 million federal grant to the nonprofit Corporation for National Research Initiatives. It's getting an estimated $300 million more from universities and companies that hope to commercialize the research. Gore's plan would expand these efforts.

So far, those initiatives are keeping the U.S. ahead of Japan in high-speed computer networking—despite NTT's goal of universal fiber by 2015. Why is

PHIL MARDEN

this? Partly because of a stalemate between the government agencies responsible for telecommunications and industrial policy, says Raul H. Mendez, director of Recruit Co.'s Institute for Supercomputing Research in Japan.

But keeping ahead of Japan and other economic rivals in telecommunications may be increasingly difficult. Already, a dire lack of standards looms as a huge obstacle, complicating buying decisions and slowing investment. "Every standards body seems to be churning out protocols left, right, and center," says A. G. "Sandy" Fraser, executive director of information sciences research at AT&T Bell Laboratories. "We may already have passed the point where we can all come together."

The biggest bottleneck may be the copper cables and old analog switches that carry calls locally. The local phone companies blame their backwardness on state regulators who, to hold down rates, are loath to let them rapidly write off old gear—including $60 billion worth of copper cable—and spend heavily on new equipment. Says George A. Keyworth II, research director at the conservative Hudson Institute: "Public policy has been so preoccupied with grandma's telephone service that it threatens to sacrifice her grandchildren's employment opportunities."

That may be crying wolf. But Keyworth has a point: Whether the solution rests with the free market or is abetted by government, for Americans to compete in the Information Age, they're going to have to devote as much energy to building the new infrastructure as their ancestors spent on the canals, railroads, and highways of earlier eras.

By Peter Coy in New York, with bureau reports

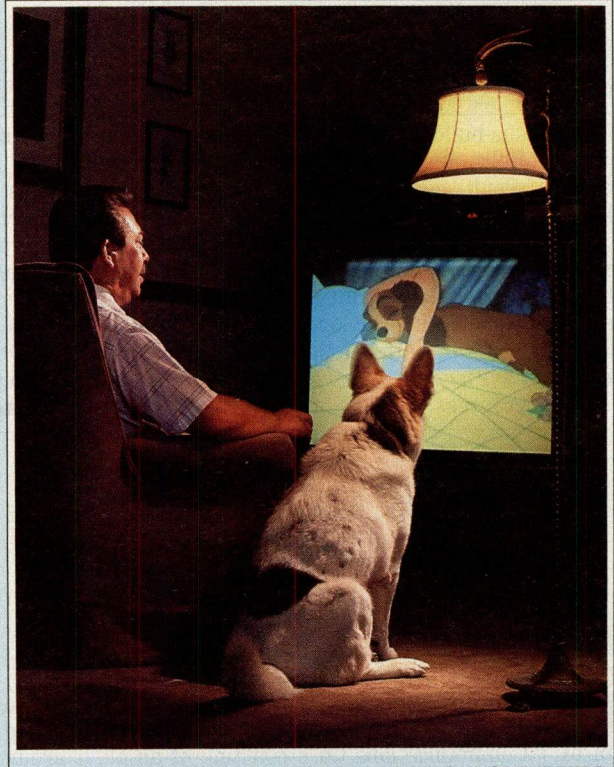
WHY THE HIGHWAY WON'T REACH THE HOME JUST YET

Jack Jakubik didn't die and go to couch-potato heaven, although some days it sure seems that way. No more driving to the video-rental shop, waiting for pay-per-view, or staying up for the late show. When he wants to see a movie—any of 20, in fact—he just zaps his remote and it appears on his TV screen. Every two weeks, there's a fresh selection. Says Jakubik, 48, a salesman of heavy equipment who lives in upscale Cerritos, Calif.: "I'm spoiled rotten."

So why can't the rest of us get our movies that way? We could, except for the $100 billion or more it would take to attach every U. S. home and office to a fiber-optic network. Then, everyone could have movies on demand, high-fidelity videophones, and other futuristic services. Jakubik is getting all that today as a participant in a GTE Corp. test in parts of this Southern California town. The question is: How urgent is it for GTE and other phone companies to make Jack Jakubiks of us all? And if it is urgent, who should pay?

RACING JAPAN. Backers of fiber to the home say the benefits of its greater information-carrying capacity would flow throughout the economy. It's not just choosing when you want to see *A Nightmare on Elm Street*. Fiber, they argue, would let more people work at home, with videophones and faster computer links, thereby reducing traffic congestion and pollution. It could improve education by letting kids tap into, say, the Library of Congress. Senator Conrad Burns (R-Mont.) is cosponsor of a bill calling for construction of a nationwide fiber network by 2015—just when Nippon Telegraph & Telephone Corp. plans to finish stringing Japan with fiber. Says Burns: "I want to be there before them. I know that is a big thing to ask. But at least it gives us something to focus on."

State regulators worry about the cost. In July, the National Association of Regulatory Utility Commissioners denounced Burns's bill. Their big fear: Local phone companies would overcharge their captive customers for installing fiber links that most aren't even asking for. Says New York State Public Service Commissioner Gail Garfield Schwartz: "Who needs fiber to the home? I don't think it has to go to every home. We could have fiber to the library, the school, the town hall."



"SPOILED ROTTEN": JAKUBIK RELAXING IN FRONT OF THE TUBE

EDUARDO CITRINBLUM

At this point, phone companies are holding off from aggressive fiber installation. They want to be let into the well-guarded cable-TV business, first—something Burns's bill would permit. Notwithstanding little scholars who want to peruse the original *Federalist* papers before bedtime, analysts say that cable TV is the only service that can economically justify a quick switch from copper to glass.

ROYAL TREATMENT. Meanwhile, several phone companies are searching for cheaper ways to pump information into the home. They talk of laying fiber only into neighborhoods at first, relying on existing copper wires for the final stretch into the home. Bellcore, the research arm of the seven Baby Bell phone holding companies, is working on a system that can use existing wires to transmit VCR-quality video. As another money-saver Centel Corp. is seeking Federal Communications Commission permission to test a microwave-to-the-home system from Motorola Inc.

No one's out to keep America's kids informationally deprived, but regulators, like Gail Garfield Schwartz, say matching Japan strand for fiber-optic strand isn't the best basis for making policy, especially if the installation cost shows up uninvited on customers' phone bills. Should these concerns prevail, the royal treatment accorded Jack Jakubik may not be granted to the rest of us for years to come.

By Peter Coy in New York, with bureau reports

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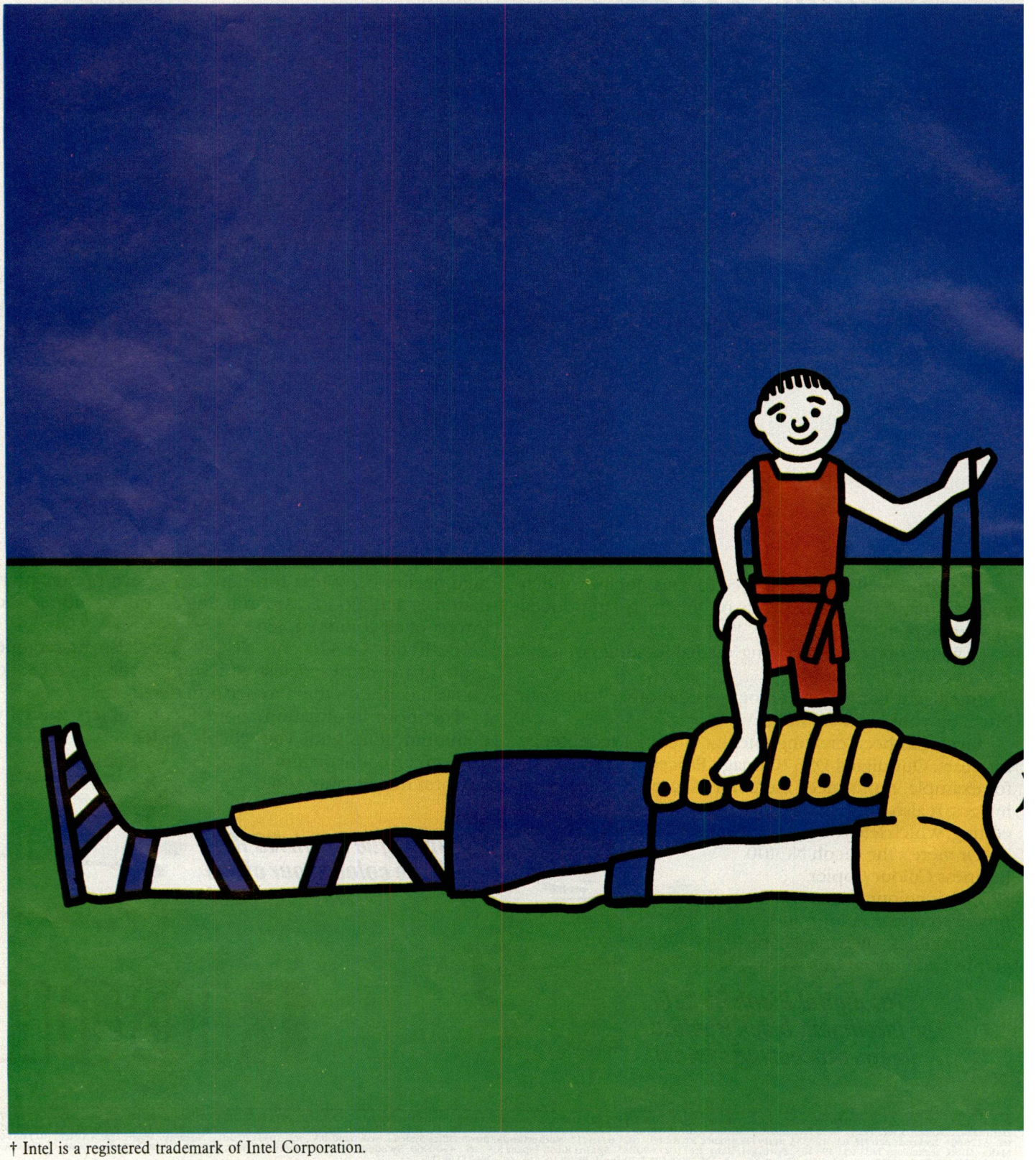


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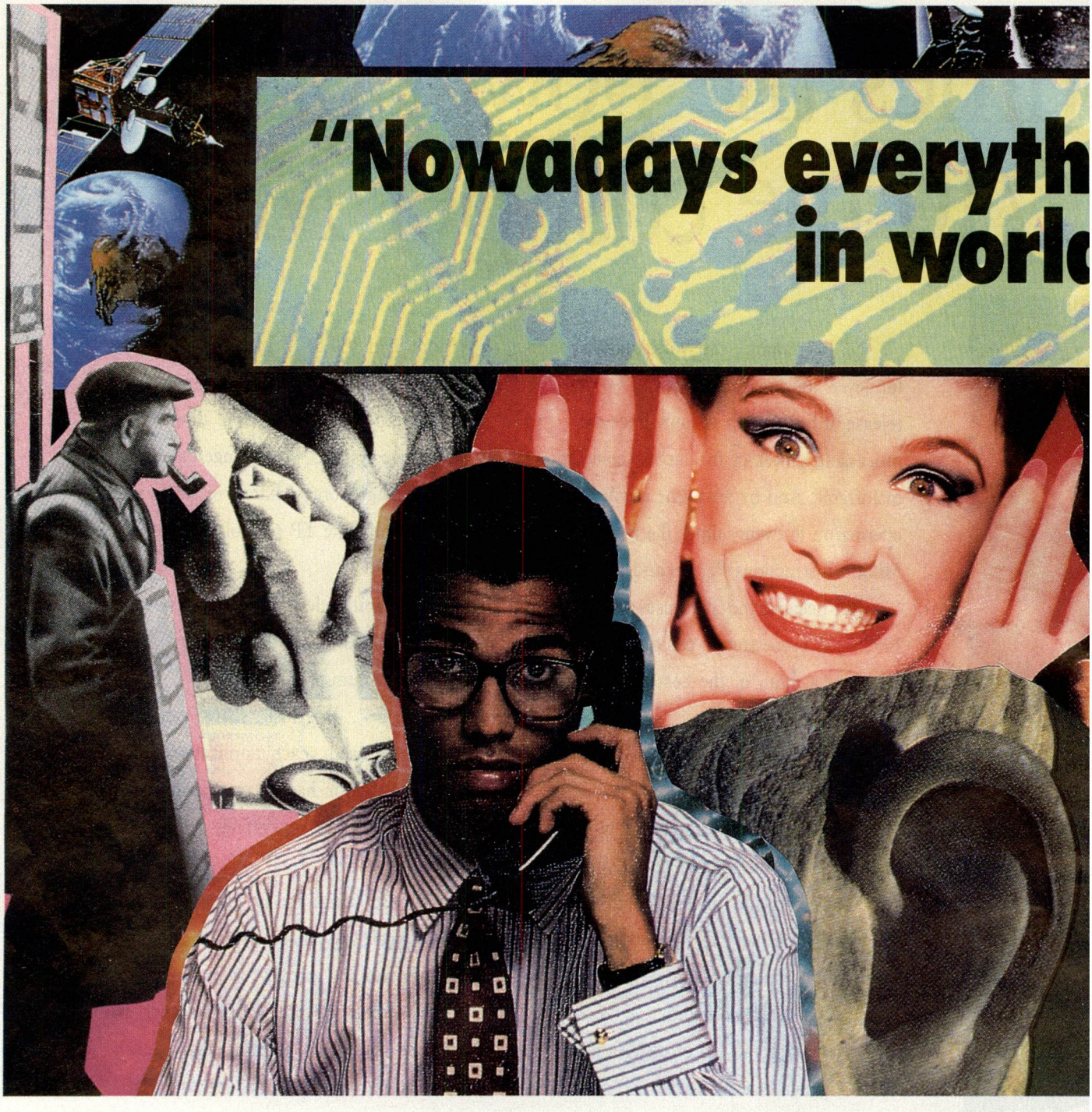
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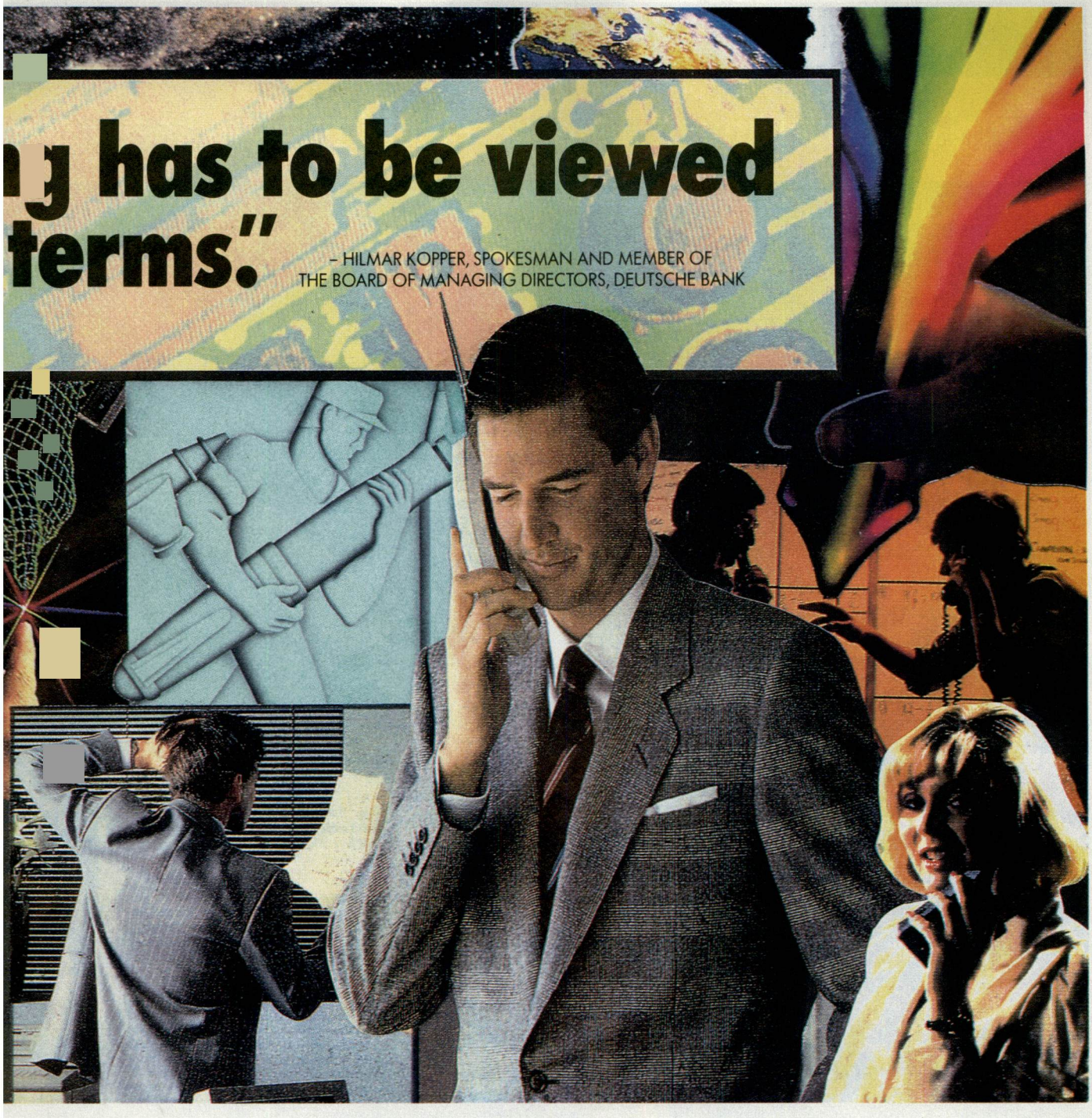
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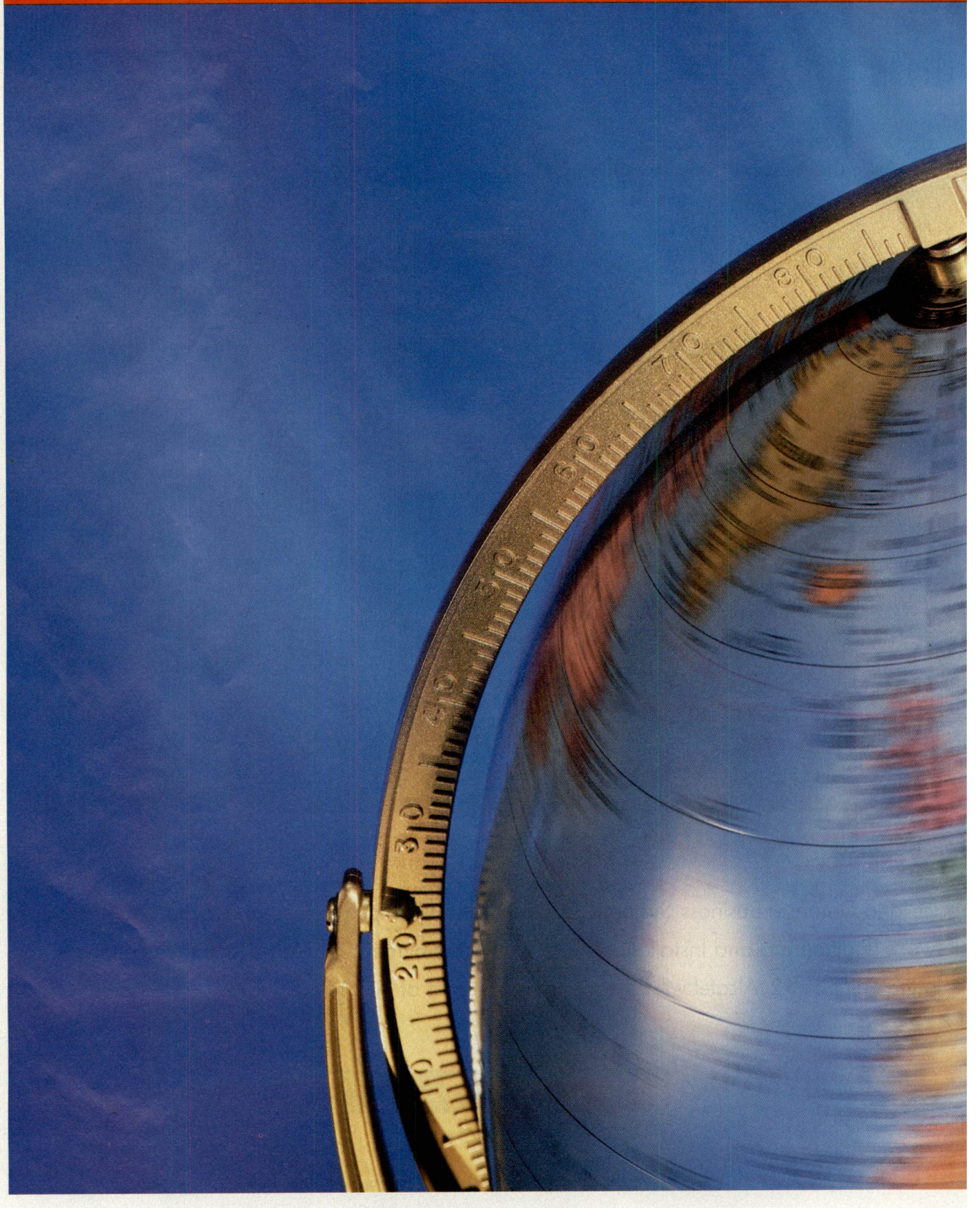
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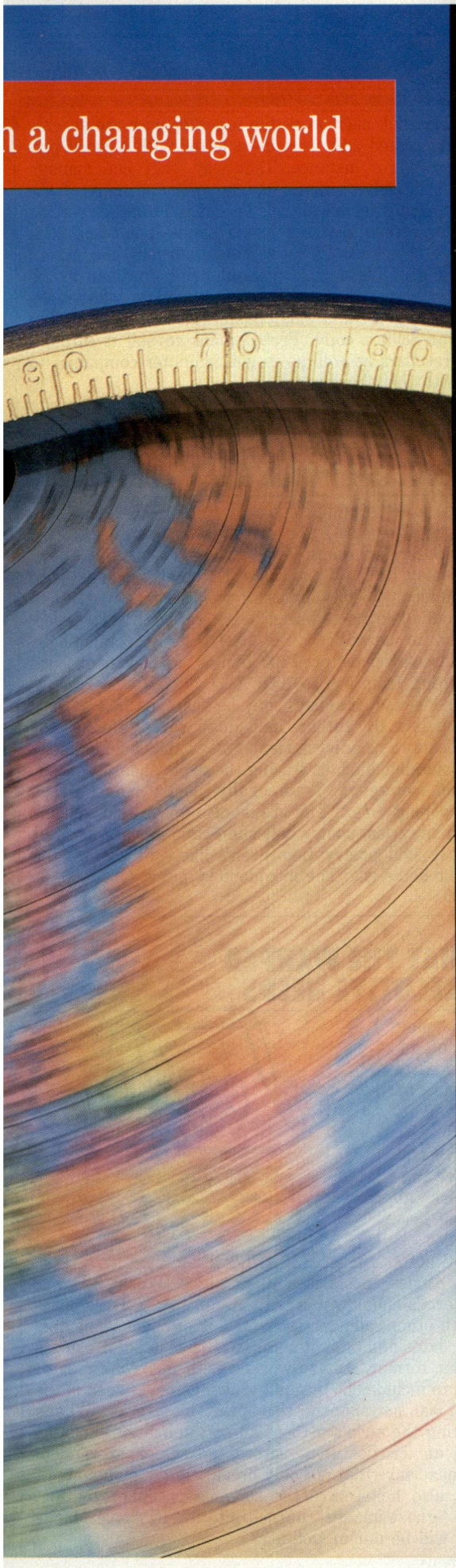
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BITS & BYTES

EDITED BY PAUL M. ENG

'OVER HILL, OVER DALE, WE WILL HIT THE PC TRAIL . . .'



The U. S. Marine Corps has set up a giant electronic library to help its people train and fight better anywhere in the world. Based on six IBM 3090 mainframe computers and optical disk drives from Filetek Inc., the system provides access to the equivalent of 234,000 300-page books. Eventually, the system will contain the entire Marine Corps University's collection of war-fighting texts, including graphical images, maps, oral histories, speeches, and even reports from the recent Persian Gulf battles.

Whether in a remote battlefield or in Quantico, Va., where the system is based, soldiers can use personal computers to browse through an electronic card catalog to find what they need. Later, linking into the central computers via satellite or telephone line, they'll be able to scan the stacks and access data. If a great deal of information is needed—say, to bone up on a particular geographic region or climate zone—reference materials may be copied onto a compact disk and sent out to the field.

HOW FAXED DATA CAN GO RIGHT INTO YOUR COMPUTER

Fax machines are great for corresponding, but when you're using them to collect business data—branch-office sales figures or payroll time sheets, for example—someone eventually has to copy the information into a computer. Now, Cardiff Software Inc., a Solana Beach (Calif.) startup, has developed a program called Teleform that reads faxes and converts pertinent information into standard data files.

The program, which requires an IBM PC equipped with Microsoft Corp.'s Windows software and a fax board, makes special forms that have boxes containing 3x3 grids of dots. Each letter and number must be handprinted by connecting the dots to follow set patterns. The letter O looks like a square, for example, but a "0" adds a diagonal slash through the middle. When the completed form is faxed back to the computer, the same program that created the form knows where to look for data and what kind of information each field contains. Teleform will come out in October, with a $995 list price. Cardiff says it's working on versions that can read free-form handwriting and typewritten text, too.

SOFTWARE THAT LETS YOU MANAGE YOUR FILES INTUITIVELY

Hate having to learn all of those hard-to-remember commands to get your different IBM PC programs to work? Proteo Technologies Corp. in Princeton, N. J., may have what you're looking for. Way You Work eliminates the need to master all those confusing DOS commands or file names.

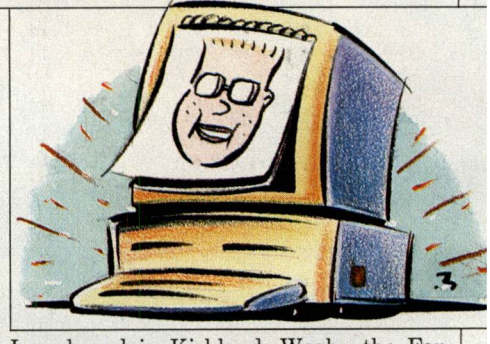
The company claims its product lets customers deal with "objects," which link each work file together with the specific program that created and uses it—a letter with a word processing program, for instance. That way, they can manage information intuitively, without having to know many of the system's underlying technicalities. To get the appropriate file on a computer screen requires just a simple point and click with a computer mouse. What's more, workers can assign objects meaningful file names, without being confined to the eight-character names that DOS uses. Targeted at salespeople, secretaries, managers, and small-business owners, Way You Work lists for $399 a copy. Proteo plans to sell it through dealers and resellers as well as to get computer companies to package it with their hardware.

NEW ON CD: EVERY ENGLISH POEM EVER WRITTEN

Alas, there used to be but one way to trace the influences of, say, Shakespeare's sonnets on all the English poetry that followed: search through lots and lots of books. But now, Chadwyck-Healey Ltd., a Cambridge (England) academic publisher, is compiling 4,500 volumes of works by 1,350 English poets onto four CD-ROMs to speed poetic research. The collection, designed to be viewed on IBM PCs or PC-compatibles, includes children's verse, pre-1800 hymns, and even obscure poems, all dating from 600 to 1900 A. D.

Fully cross-indexed, the disks may be searched in a variety of ways, including by author, individual words, phrases, or date of publication. Chadwyck-Healey says that should facilitate new scholarship, such as tracing the deployment of specific images and metaphors. Traditionally, poetry indexing has cited only opening lines. The disks also may help schools improve their libraries' poetry collections and save space. But even the most avid poetry fans aren't likely to acquire the disks for their home PCs: The introductory price is £22,000, or about $38,000.

JUST WHAT THE WARPED BUSY EXECUTIVE NEEDS



While keeping track of appointments is hardly a source of great amusement, fans of *The Far Side* cartoon strip will soon have reason to smirk at even the most hectic of schedules.

Created by software maker Amaze Inc., based in Kirkland, Wash., the Far Side Computer Calendar works with any IBM PC or PC-compatible. Similar to other calendar programs, it provides reminders of important dates and daily itineraries. But instead of using a bland calendar format, Amaze worked with *Far Side* creator Gary Larson to include 365 original drawings never seen in the more than 1,000 newspapers that print his works. What's more, reflecting the strip's offbeat humor, animations such as penguins on an ice floe float across the screen at random intervals. Amaze says that not only breaks up the monotony of the day but also helps save the screen's phosphor coating, from having "ghost images" burned into it. An Apple Macintosh version will be out in October.

MARK MATCHO

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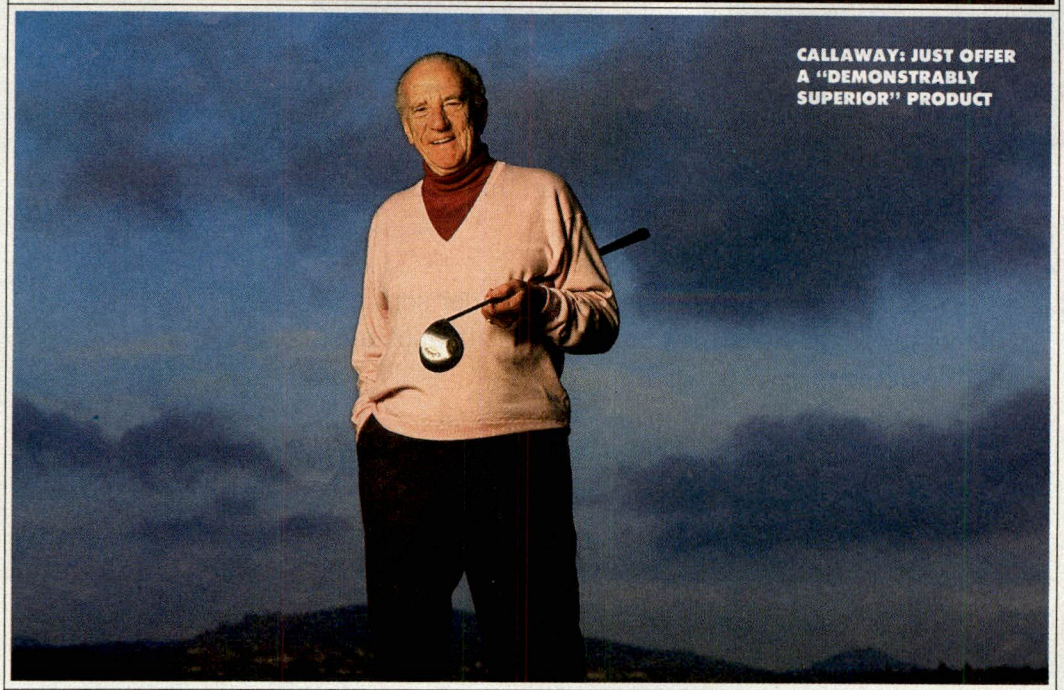
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ELY CALLAWAY: THE OLD MAN AND THE TEE

At 72, he's dazzling the golf club market with Big Bertha

It's 7:30 on a golden Southern California morning in November, and golf club maker Ely Callaway is at it again. Dragging a visiting pro to a local driving range, the 72-year-old former textile tycoon shoves a prototype of his latest club—a driver known as Big Bertha—into the skeptical pro's hands. The range is closed for business, but Callaway darts out onto the dewy fairway and scoops up a few balls lying in the grass. Then, he stands back and smiles as the pro swings approvingly in the early morning mist. "He wanted to get that club in my hands so badly," recalls pro Tom Bracken of Western Hills Country Club in Waterbury, Conn. "He is so enthusiastic that you are made to be a believer."

Believers are everywhere these days. With golfers from Chi Chi Rodriguez to George Bush teeing off with the Big Bertha driver, Callaway's tireless boosting is paying off as nobody would ever have predicted—except Callaway himself. The appeal is a new design that is larger, heavier, and more forgiving than most clubs. That helps explain how eight-year-old Callaway Golf Co., based in Carlsbad, Calif., has catapulted from a tiny specialty outfit selling mostly novelty clubs into the fastest-growing golf club maker in the country. At a time when most club sales are lagging, Callaway's revenues are expected to double for the fourth straight year, to about $40 million. That would put the company among the world's top 10 club makers.



The story of how Callaway, a newcomer to the golf business, pulled off such a feat is just the latest chapter in a career full of gambles and deft salesmanship. "You've got to create a product that is demonstrably superior to what's available in significant ways," explains Callaway in a twang left over from his boyhood days in Georgia. "And—most important—it has to be pleasingly different. That's all there is to it. Simple." Callaway harnessed that principle while climbing to the top at Burlington Industries Inc., where he became president at age 48. Later, he applied it to a risky wine venture that he wound up selling for a $10 million profit.

Now, Callaway has hit upon another huge success with a golf club that many consider revolutionary. Big Bertha's big clubhead means it has a larger sweet spot, so players don't have to worry as much about off-center hits. And because designers eliminated a weighty part of the shaft known as the hosel, they could add that weight to the head without making the club too heavy (diagram). That means golfers can hit the ball farther.

BUSH WHACK. The combined results are eliciting raves from weekend golfers and pros alike. "I never got off the tee so well in my life," George Bush said on national TV after whacking a good one with his Big Bertha. At $250, the club is more than twice as expensive as a normal driver. But New York retailer Richard Metz has been selling up to 120 Big Berthas a month this summer and is constantly running out of stock. "It's an unbelievable club," he says.

Nobody would agree with that more than Callaway. Tremendously proud of his accomplishments, he doesn't hesitate to trumpet them. He is, he boasts, one of the few truly creative people in the golf industry. The rest of the business, he argues, has grown bureaucratic and complacent.

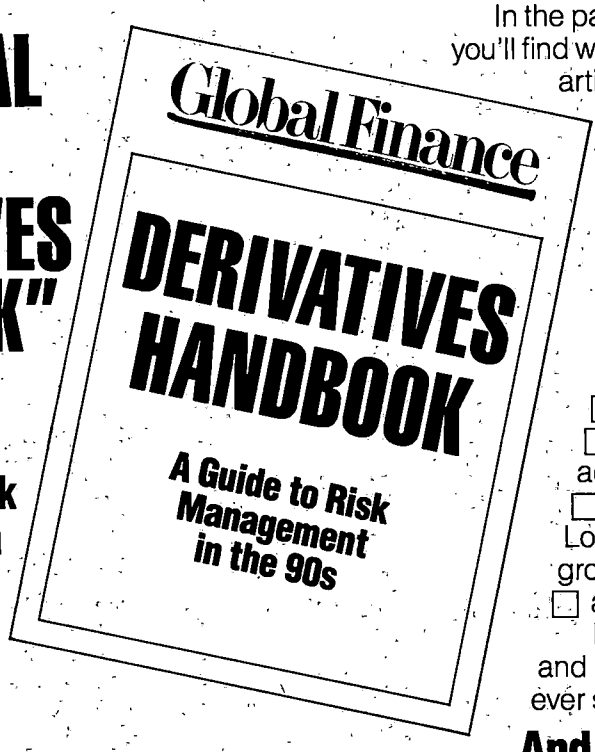
Whether that's true or not, there's little chance of anyone calling Callaway complacent. Fit and energetic, he darts around the office with the vitality of a man half his age, slapping backs and cracking jokes. Callaway's personal life has never lacked for change, either. Wife Cindy, 41, is his fourth. "You shouldn't focus on the number," says Callaway cheerfully. "I was married to

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the others for at least eight years each."

These days, he dotes on Big Bertha. Callaway keeps a close eye on manufacturing, touring his plant once or twice a day and greeting many of his 250 workers by name. But his real forte is in marketing. Each day, he spends hours chatting with golf dealers by phone. He writes much of the company's advertising copy, and he is always on the lookout for ways to squeeze the most out of a tight ad budget.

Earlier this year, as pros converged on Orlando for a trade show, he ran a full-page ad unveiling Big Bertha in the Southeast edition of *The Wall Street Journal.* Callaway had the paper delivered to every hotel room in the area—with a sticker on the front page pointing to the ad.

Not everyone is impressed with Big Bertha. Karsten Solheim, the designer of the innovative and hugely popular Ping golf equipment, notes that big clubheads have been on the market for years. What's propelling Big Bertha, he and other rivals claim, is mainly hype.

> Not everyone is impressed: Rivals say oversized clubheads have been around for years—only without Bertha's hype

Even so, the club does have an impressive technological pedigree. Callaway Golf President and chief designer Richard Helmstetter assembled a team of five aerospace and metallurgical engineers to design the head. They first came up with a version that was too small. A second prototype performed much better but was ugly. They scrapped that one, too. A year ago, the designers shortened the face and smoothed out the toe to make it look better, and they made the whole thing sturdier by using a different casting technique. Big Bertha, named after a World War I German cannon, was born.

A VINE ROMANCE. To help pay for development, Callaway got a friend to arrange a meeting with the General Electric Pension Fund in 1988. When he first approached GE's investment managers, they were doubtful. His company was too small and too unrelated to anything GE does. But Callaway persisted—and the pension fund wound up investing $10 million in return for a 54% stake in the company. "Ely's just such an engaging guy, he's difficult to say no to," says John H. Myers, executive vice-president of GE Investments.

Difficult, but not impossible. After working as a procurement officer in World War II, Callaway joined Burlington Industries and quickly rose through the ranks to become president of the textile company in 1968. But his engaging style wasn't enough to win him the intense contest for the CEO's job. So he left in 1973, putting his savings into building a vineyard on dusty ranch land outside San Diego.

It seemed an unlikely spot for a winery, but Callaway listened to the experts he hired and gave them a free hand. Within five years, they had some winners, and Callaway, with his usual panache, started selling the wines to top New York restaurants such as the Four Seasons and the Coach House. That move gave his Callaway Vineyard & Winery instant visibility and credibility—without spending a dime on advertising. Romantic as owning a winery sounds, though, Callaway was characteristically dry-eyed. When Hiram Walker & Sons Inc. offered $14 million for the company in 1981, he didn't hesitate.

INTO THE WOODS. Golf as a business came naturally to Callaway. Passionate about the sport, he won tournaments as a teen, and in the 1960s, he was his club's champion. He got into the business in 1983, first selling pricey replicas of old-fashioned hickory-shafted clubs. Convinced that modern golf clubs could be made better, he and Helmstetter started producing a line of irons called S2H2 in 1988, featuring the same hosel-free design as Big Bertha.

Gradually, Callaway has moved into licensing, including a line of golf balls carrying the name of golfing great Bobby Jones. Marketing is everything: Twelve Bobby Jones balls in a commemorative mahogany box retail for $125, or about eight times the normal price of a dozen balls.

Next year, Callaway plans to introduce a whole line of new irons and woods, hitting the market just as the excitement over Big Bertha may be fading. Showing off a prototype in his office, he is clearly pleased with the way things are going.

But then, with Callaway Golf doing so well, it may be time to sell or even take the company public. When Ely Callaway is involved, it's best not to rule out anything.

By Eric Schine in Carlsbad, Calif., and Peter Finch in New York

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SOCCER

THIS MAY BE THE KICK AMERICAN SOCCER NEEDS

Will hosting the '94 World Cup finally get the U.S. into the game?

It's a sweltering August night at Veterans Stadium in Philadelphia, and 13-year-old Kevin Sherry Jr. is pumped. His hair shaved in a soccer-ball motif, Sherry stands outside the players' entrance, eager for an autograph from a member of the U. S. national soccer team. "He eats, drinks, and sleeps soccer," says Kevin Sr., also a big fan.

The scene is one that American organizers of the World Cup, the sporting world's premier event, hope to repeat on a grand scale as they prepare to host the 1994 soccer championship—and finally get soccer soaring in the U. S. In tonight's exhibition match, the national team and the 44,261 in attendance do their best to silence critics who say the U. S. will never support the game. Two beautiful second-half goals prove the difference as the Americans beat a top British team, Sheffield Wednesday. By the middle of the second half, fans do the wave and chant: "U. S. A.! U. S. A.!"

The Philadelphia game is part of an international marketing road show for the U. S. team. This summer and fall, it's playing in a series of friendly matches here and abroad against top foreign teams. And the roster, whose members forged a dismal 0-3 record in the 1990 cup in Italy, is undergoing an overhaul.

Since the May arrival of colorful new coach Bora Milutinovic, a Yugoslav with international experience, play has improved dramatically. Milutinovic, who coached the 1986 Mexican and 1990 Costa Rican teams, is trying out different lineups to find the magic combo. Only a 4-0 loss in Austria to local power FCS Tirol marred a summer in which crowds of 40,000-plus saw the U. S. manage ties with Ireland at Foxboro, Mass.; with Italian great Juventus in New Haven; and with AC Milan in Chicago. In July, the U. S. won its first international trophy, beating Honduras 4-3 to win the championship of the U. S., Caribbean, and Central America. "Bora has just given us instant credibility," says midfielder Bruce Savage.

And that should certainly help put fans in the seats. Charles G. Cale, chief executive of World Cup USA 1994, the private group organizing the event, says he will need $250 million to $300 million to host the games. A large chunk of that will come from ticket revenues, and not just from American fans: Organizers project that the 52-game series will attract more than a million foreign visitors. "We expect we're going to sell every seat to every game," Cale says. Additional money for the U. S. team will come from sponsors such as American Airlines Inc., which will place the USA soccer logo on its planes, and from U. S. television rights. Negotiations are under way with ABC, CBS, ESPN, Fox, and Turner. It is expected that about a dozen key games will be on the networks, with the remainder on cable.

'FOCAL POINT.' The cup, held every four years, could be a marketing bonanza. In 1990, 26 billion people worldwide viewed the games on television, with more than 1 billion watching the final between West Germany and Argentina. That's 10 times the size of the Super Bowl audience. "Any company that is directly marketing to soccer looks to the World Cup as a focal point," says Paul Milone, president of Intersport Ltd. in Sterling, Va., maker and distributor of the Lanzera soccer shoe, which goes on sale in the U. S. next year.

The rivalry among cities for the games is ferocious. Twenty-six communities have already submitted bids, including six—Dallas, Los Angeles, Miami, New York, Tampa, and East Rutherford, N. J. (home of the Meadowlands sports complex)—vying for the final. "The bottom line is, if we stage four games, the economic impact will be $82 million, with tax revenues of $6 million," says Joanie Schirm, who leads Orlando's effort. Already, hoteliers there have committed 28,000 rooms—a quarter of those normally available during the peak summer season. Walt Disney Co. officials have expressed interest in staging the cup's opening ceremonies, Schirm says. And a two-minute video featuring kids extolling the virtues of soccer in Orlando is being shown around the world.

Luring young soccer fans is part of the U. S. strategy to use the World Cup to further development of soccer in the country. Plans are afoot for a professional league that would start after the cup ends in July, 1994. "There's a coordinated effort to keep the ball rolling," says Cale, "not just for 1994, but for the future of soccer in the U. S."

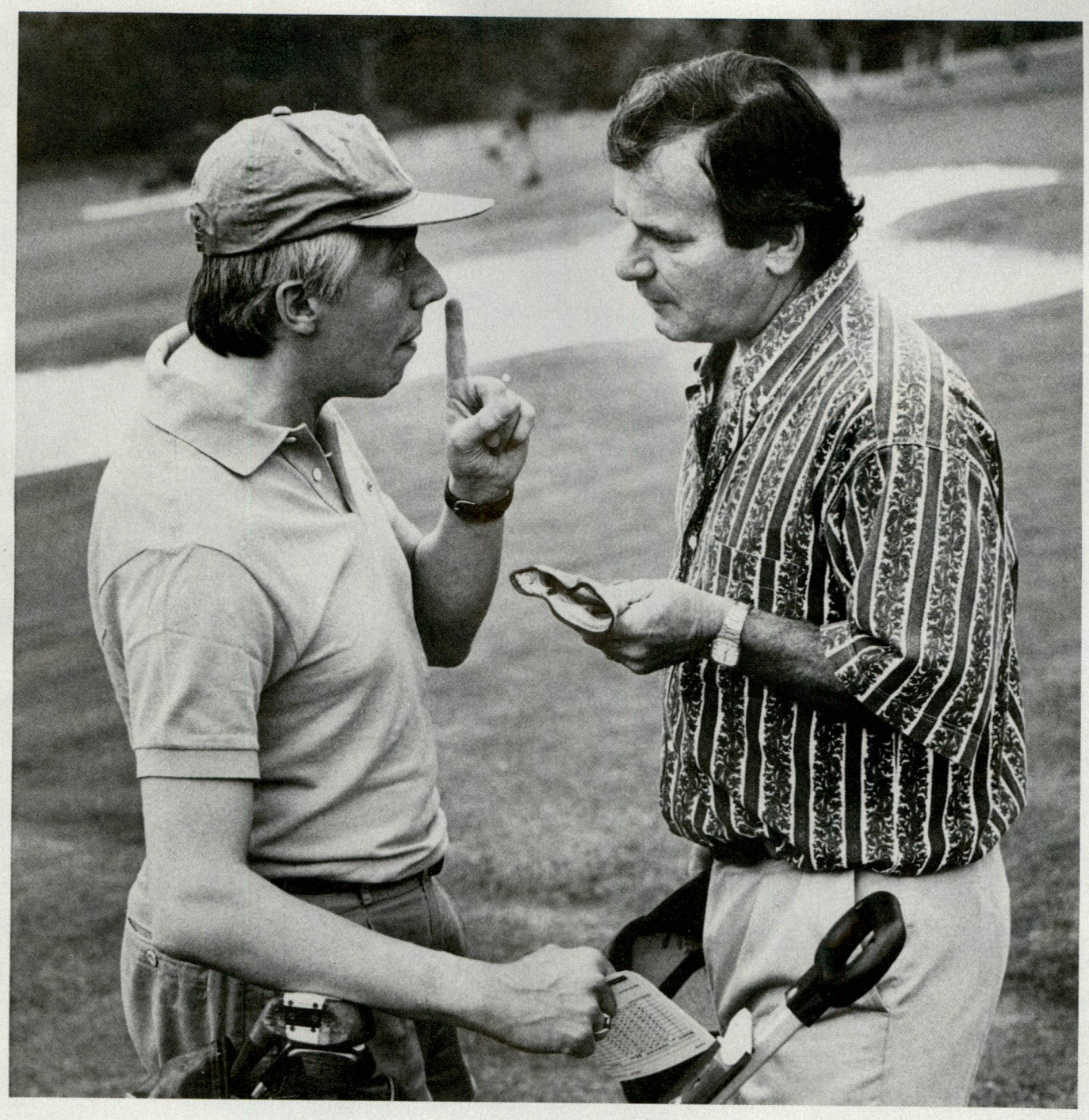
Who knows? Maybe the next time Kevin Sherry Jr. watches a soccer match in Philadelphia, he'll have a local team to cheer on.

By Tim Smart in Philadelphia



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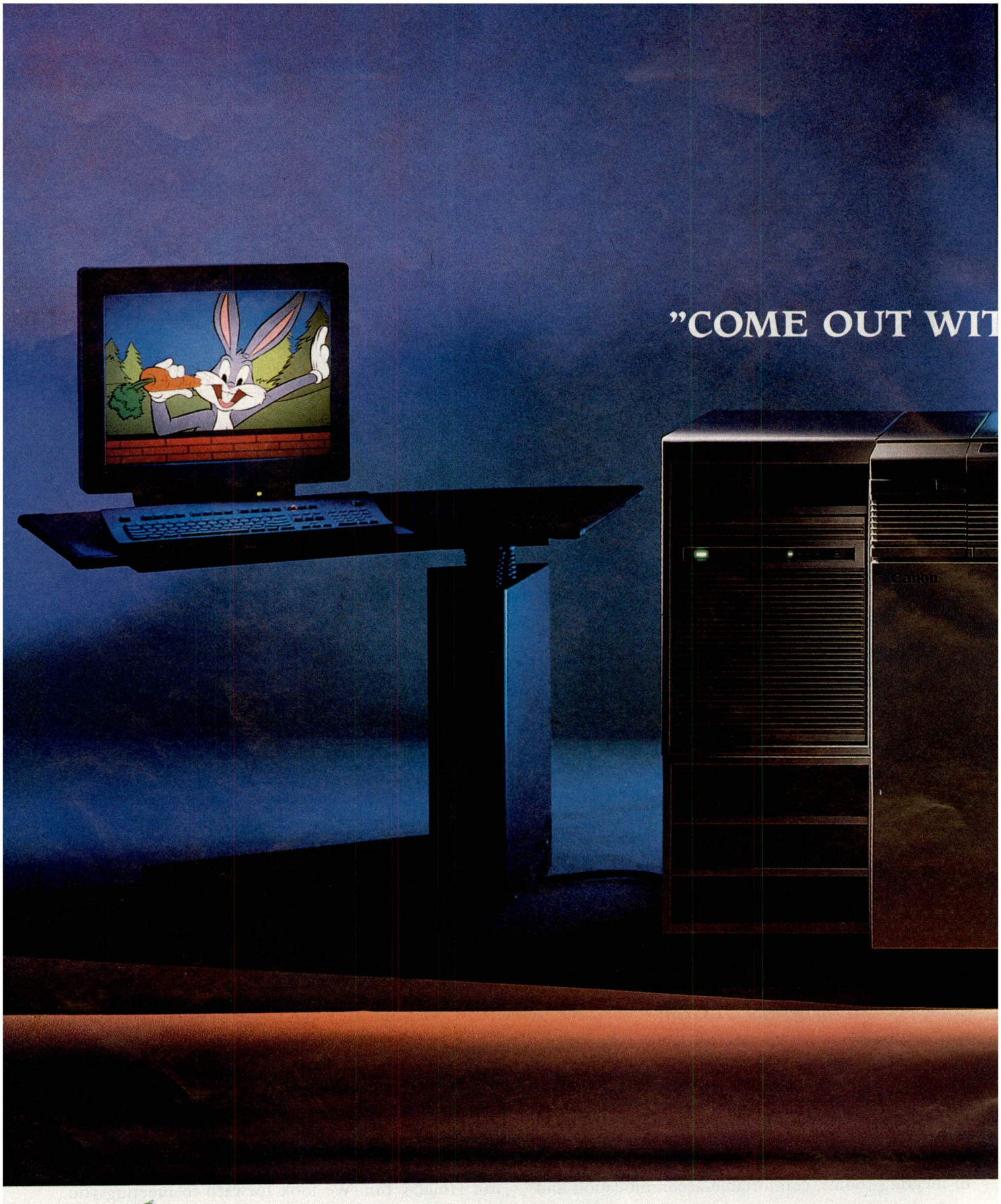
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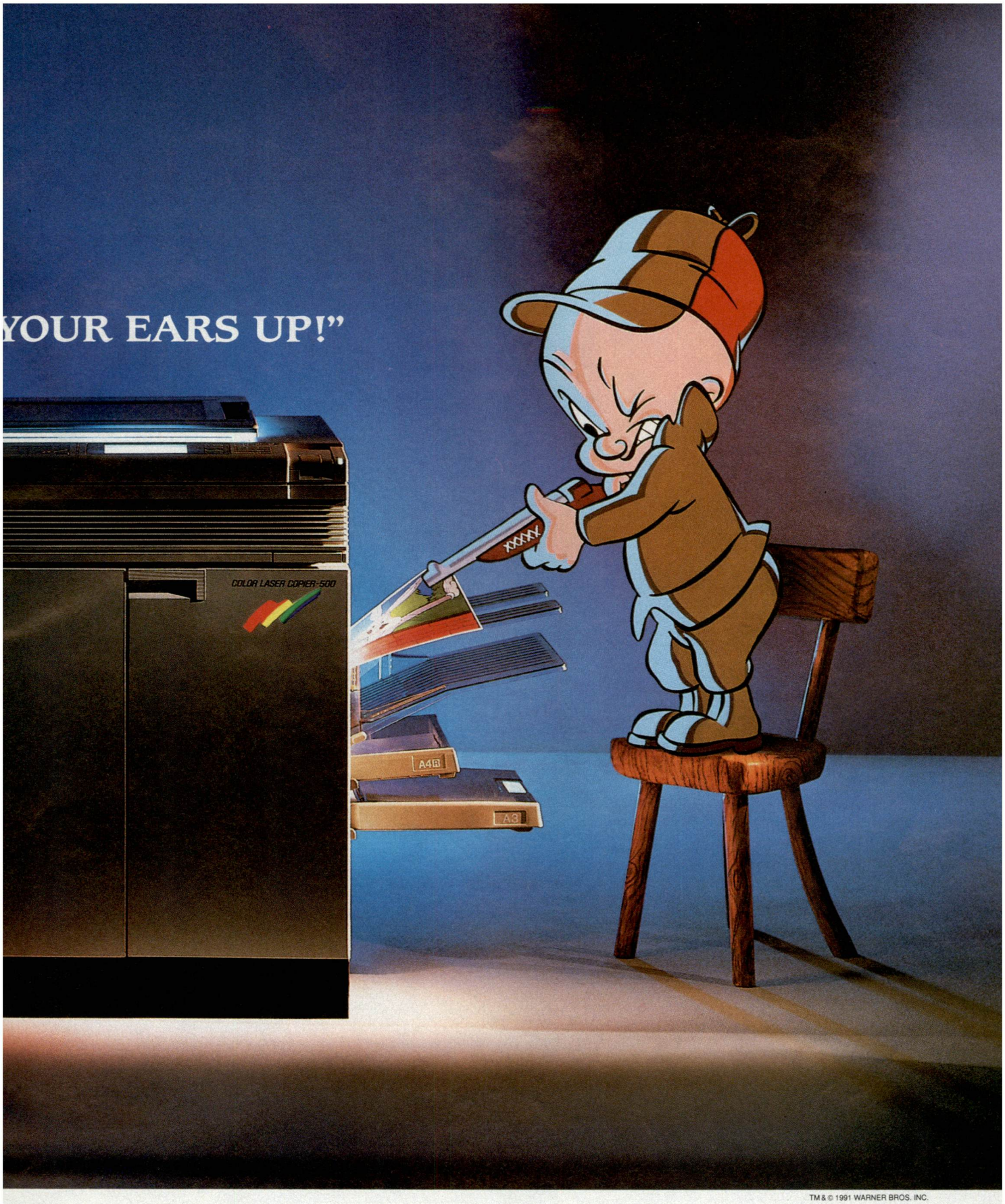
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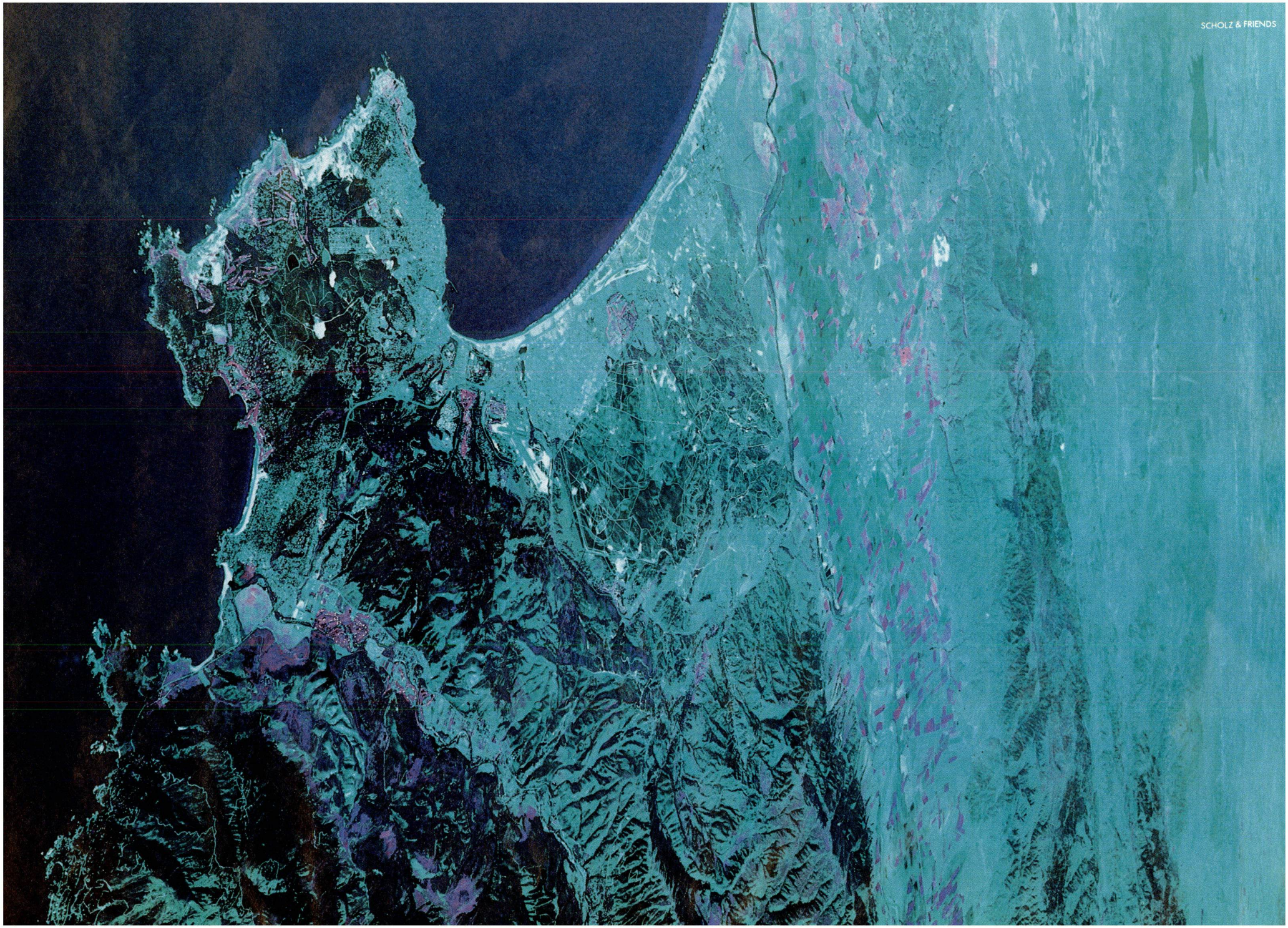
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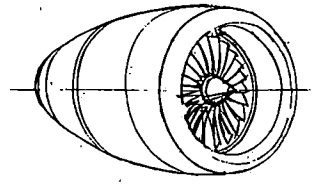
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Issue 6

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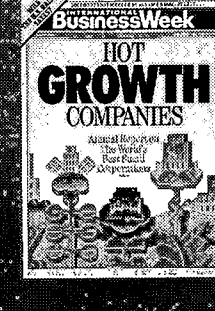
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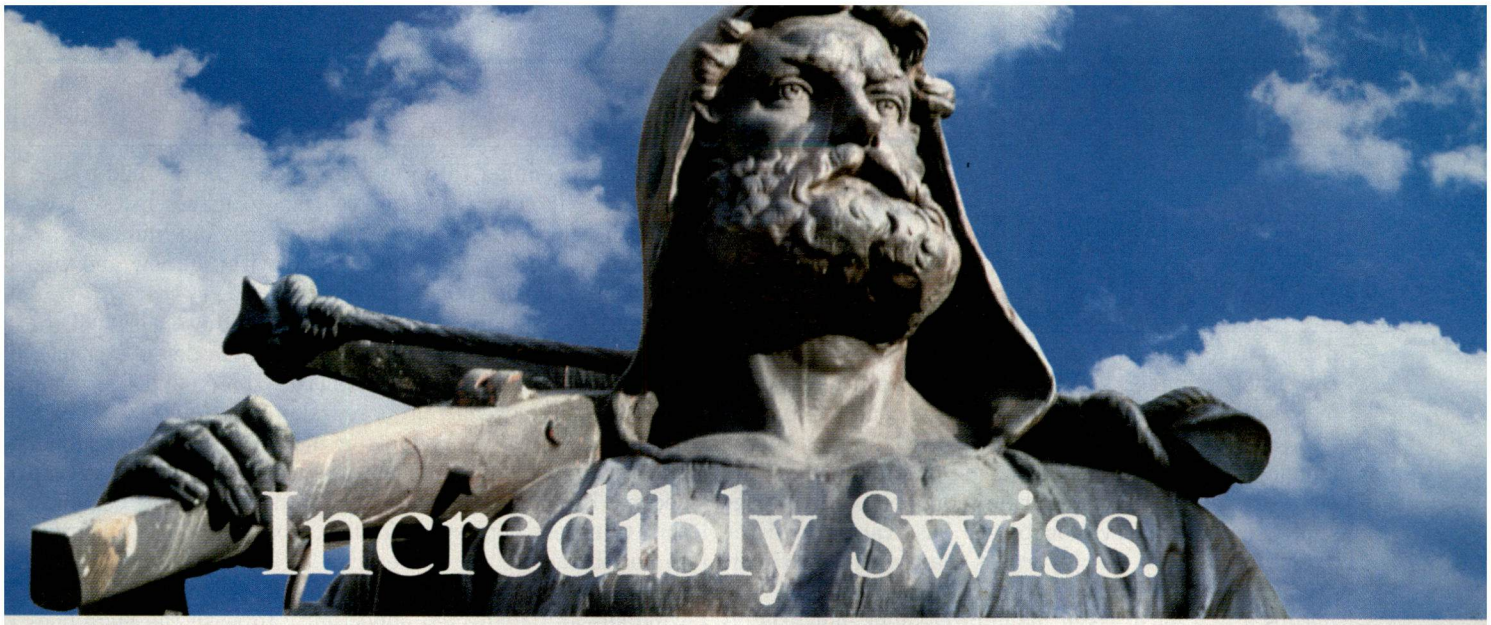
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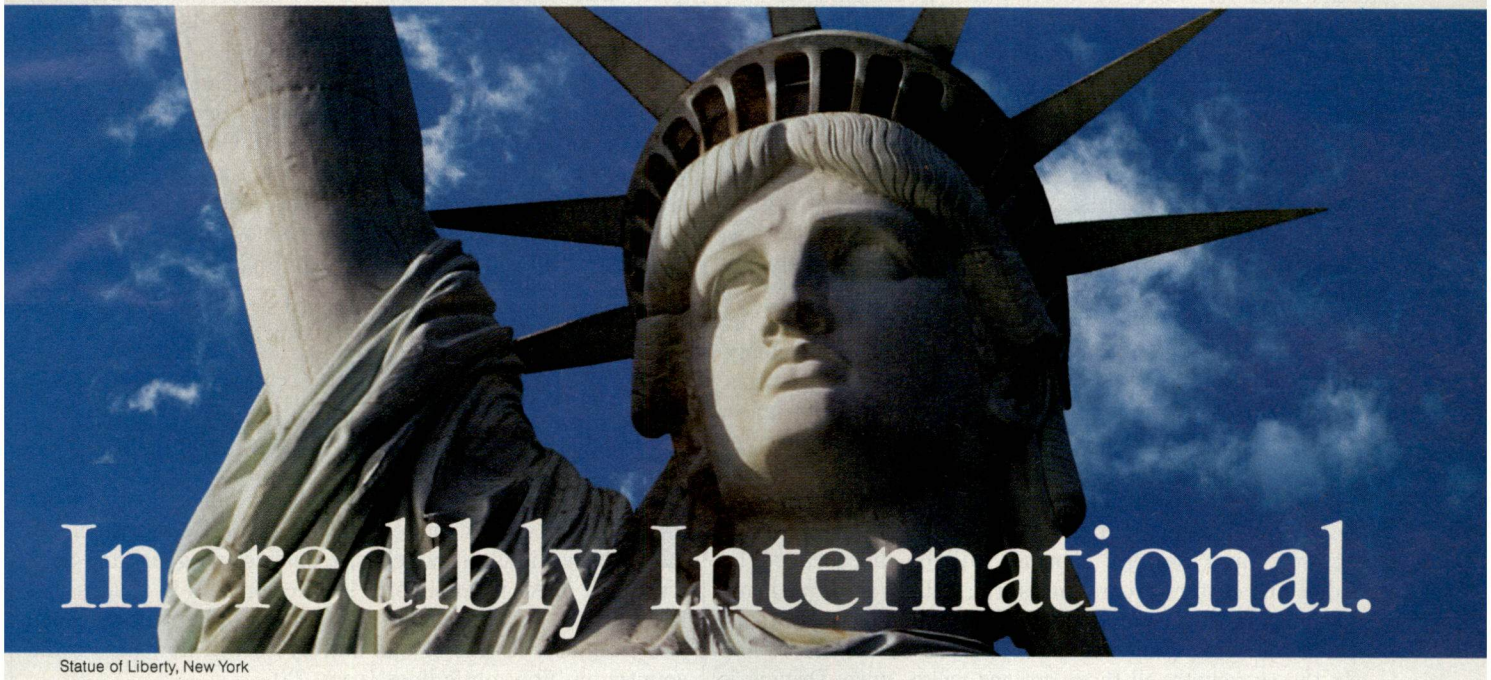
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Editorials

MAKING EVERY GALLON OF GAS COUNT

In the struggle to use energy more efficiently, a quiet revolution is under way. Using energy-efficient equipment and benefiting from regulatory incentives for utilities to save electricity, many companies have discovered that minimizing the high economic and environmental costs of energy by using less makes them more competitive (page 58). Indeed, this conservation power has transformed the utility industry from purveyors of megawatts into marketers of "negawatts," or saved energy.

There is still a lot of room for improvement, however. A fertile area for more dramatic gains is transportation—namely cars. The 180 million vehicles on U. S. roads account for 40% of the country's oil demand and produce 20% of its carbon dioxide. The need is to get people to drive less, and burn less fuel in the process. To that end, we've long held that a higher gasoline tax—up to 50¢ a gallon, with rebates for low-income drivers—makes sense. So do stricter new-car mileage standards. Many carmakers have argued that raising mileage levels means cutting car weight, size, and safety. But in July, both Honda and Mitsubishi announced new lean-burn engines that could improve fuel economy by 20%. And steady improvements in aluminum and plastic composites promise that lighter, higher-mileage cars will be just as big, safe, and powerful as today's models.

A host of other options—rush-hour tolls, car-pool lanes, rapid-transit networks—help minimize driving demand. For the longer haul, these measures must be merged with new land use and transportation plans. In Seattle, for instance, local governments are trying to concentrate new development into area centers. Car use will be discouraged by building the centers around mass-transit hubs and by changing zoning so that commercial and residential areas can be melded—allowing people to walk to work or the store.

In the aggregate, all these options make sense. Driving is heavily subsidized: Roads are usually free, likewise parking, and U. S. gas prices don't reflect the full social and environmental costs of the fuel. The policy objective must be to offset those subsidies.

HOW TO INVEST THAT PEACE DIVIDEND

With the evaporation of the Soviet military threat that saddled the U. S. with enormous budgets for 45 years, further spending cuts are inevitable. More than half of the $291 billion military budget is used to meet the NATO commitment to help defend Western Europe against attack by Soviet forces. Justifying anything like that level in the future makes no sense. The question facing the U. S. is what to do with the savings.

It will take time to determine how much and where to cut defense spending—including a slew of big-ticket weapons systems scheduled to go into production in the mid-to-late 1990s. Right now, there are too many unknowns, such as how the former Soviet republics work out military arrangements among one another and with Moscow and who will control Soviet nuclear forces.

Amid the debate over what to cut, there also will be hundreds of suggestions for ways to use the defense savings. Representatives Richard A. Gephardt (D-Mo.) and Les Aspin (D-Wis.) have already proposed skimming off $1 billion or more of the defense budget for aid to the Soviet republics and Eastern Europe. But as American fascination with the second Russian revolution fades, attention will certainly turn to urgent domestic priorities, from education to housing to health care to AIDS research.

Even so, the collapse of the Soviet Union is a historic windfall—an unexpected opportunity to slash the huge budget deficit and correct some of the distortions in the U. S. economy that resulted, in good part, from 45 years of cold war. Most of the expanded peace dividend should go to balance the budget. That will require more than fine-tuning the current spending categories. What is urgently needed is an overhaul of the basic budget accord. Obviously, the budget pact must not be allowed to lock the country permanently into unrealistically high defense outlays. The windfall must be invested wisely—and there is no sounder investment than curbing the runaway deficit.

MAY THE BEST FIBER OPTICS WIN

By the end of the century, telecommunications in most advanced economies will be radically transformed. New kinds of switches, transmission gear, and software will make it possible to send colorful, 3-D images just by dialing a phone number. Videoconferences will be cheap and frequent. Rivers of bits and bytes will flow across the country on fiber-optic lines (page 72).

But information superhighways won't appear by themselves. Many nations—notably France, Singapore, and Japan—have formed national programs to build advanced networks, with close coordination between the government and the leading national phone company. The U. S., meanwhile, is counting on competition among profit-minded companies to fill customers' needs. But laissez-faire has a dark side in telecommunications: incompatible, competing networks and uncertainty that slows down investment.

Some confusion is preordained in free markets, but steps can be taken to lessen it. Standards-setting bodies such as the American National Standards Institute need to streamline their procedures so that new technologies can be offered in a uniform fashion, and Congress should create a predictable environment for investors by settling some long-running debates. For example, investment dollars are being held back while potential players wait to see whether the Baby Bells will be allowed to own cable TV systems or make telecommunications equipment. Through such steps, the U. S. can approach the stability of national policy coordination while still enjoying the rewards of free markets.

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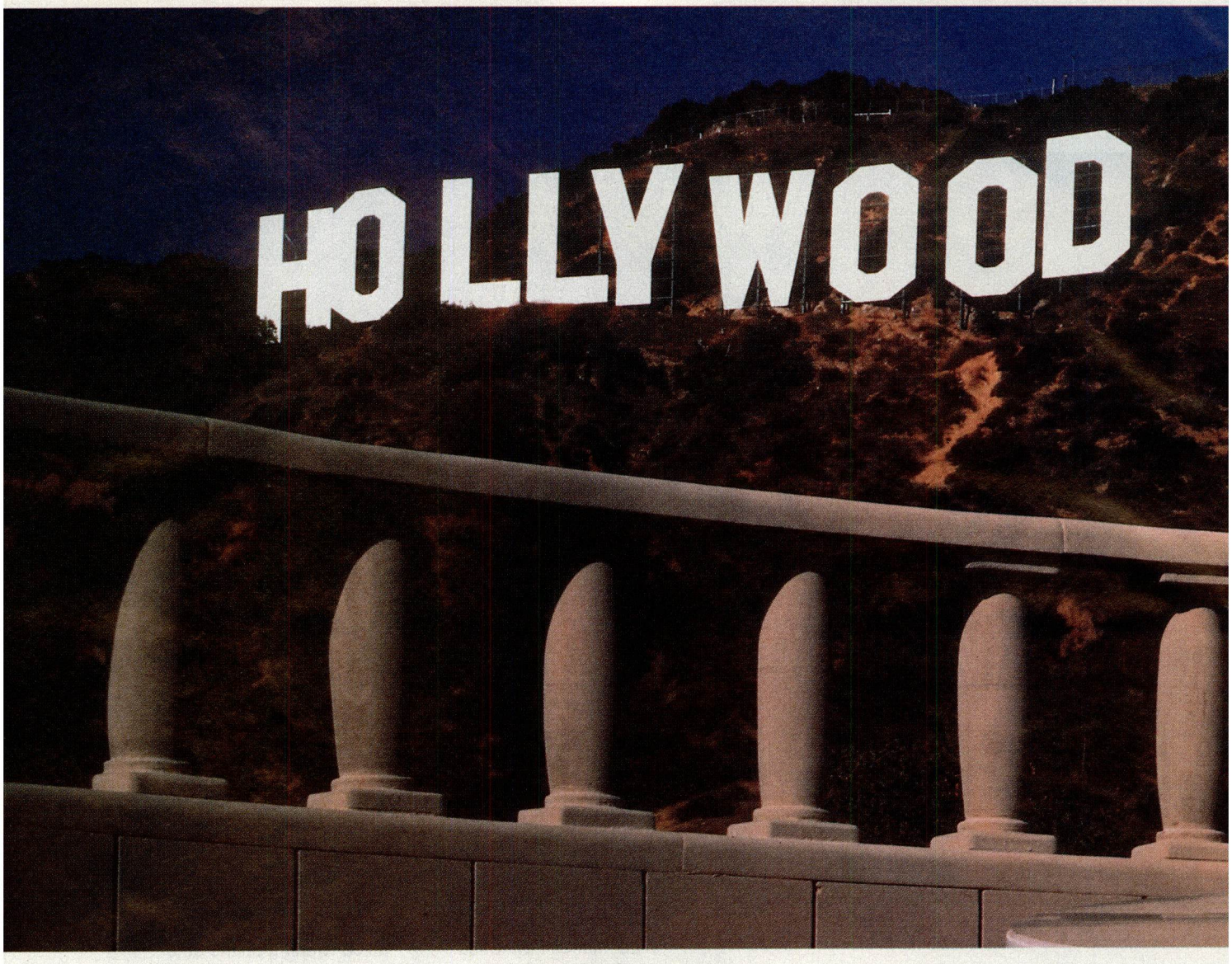


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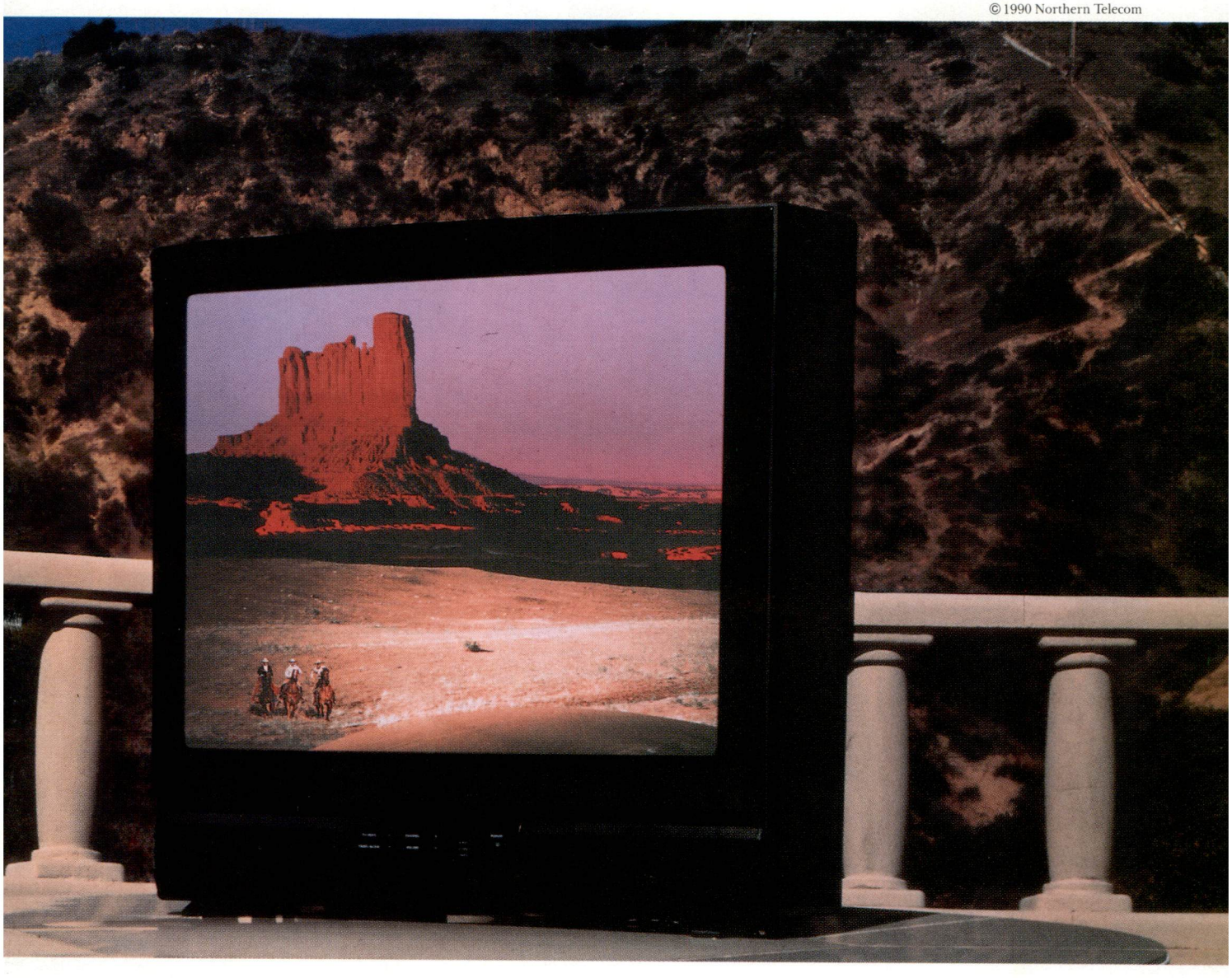
Away from Hollywood you'll also find us playing a major role on the small screen. In France Canal +, the leading French Pay TV network, uses a Northern Telecom automatic call distribution system to welcome new subscribers.

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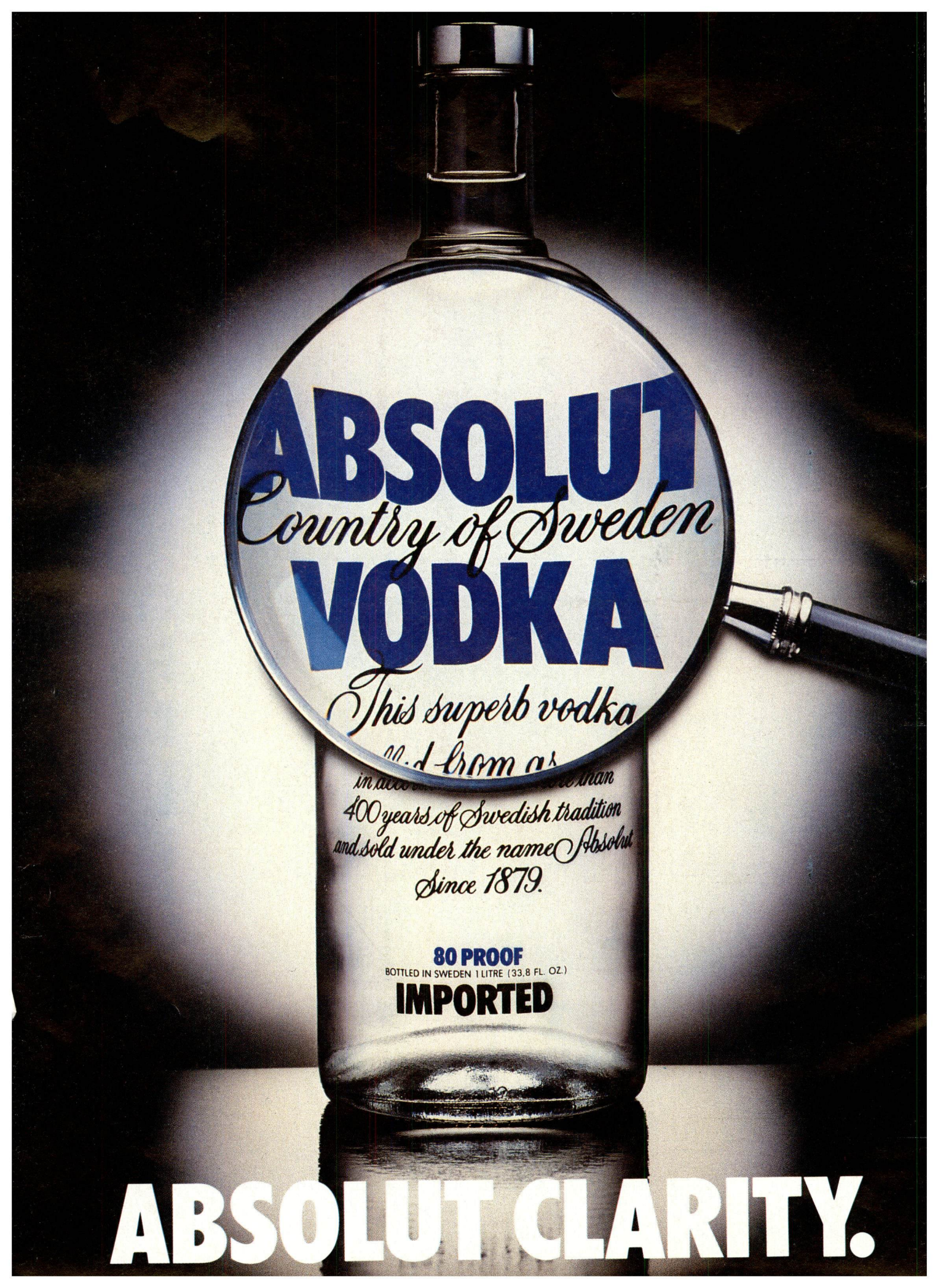
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