

VITAL SPEECHES

— OF THE DAY —

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Vital Speeches of the Day

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VOL. LXIX

OCTOBER 1, 2003

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Peace Must Be A Multilateral Cause

WE NEED HELP TO SECURE PEACE

Address by GEORGE W. BUSH, *President of the United States*

Delivered to the General Assembly of the United Nations, New York, New York, September 24, 2003

Mr. Secretary General; Mr. President; distinguished delegates; ladies and gentlemen: Twenty-four months ago — and yesterday in the memory of America — the center of New York City became a battlefield, and a graveyard, and the symbol of an unfinished war. Since that day, terrorists have struck in Bali, Mombassa, in Casablanca, in Riyadh, in Jakarta, in Jerusalem — measuring the advance of their cause in the chaos and innocent suffering they leave behind.

Last month, terrorists brought their war to the United Nations itself. The U.N. headquarters in Baghdad stood for order and compassion — and for that reason, the terrorists decided it must be destroyed. Among the 22 people who were murdered was Sergio Vieira de Mello. Over the decades, this good and brave man from Brazil gave help to the afflicted in Bangladesh, Cypress, Mozambique, Lebanon, Cambodia, Central Africa, Kosovo, and East Timor, and was aiding the people of Iraq in their time of need. America joins you, his colleagues, in honoring the memory of Senor Vieira de Mello, and the memory of all who died with him in the service to the United Nations.

By the victims they choose, and by the means they use, the terrorists have clarified the struggle we are in. Those who target relief workers for death have set themselves against all humanity. Those who incite murder and cel-

ebrate suicide reveal their contempt for life, itself. They have no place in any religious faith; they have no claim on the world's sympathy; and they should have no friend in this chamber.

Events during the past two years have set before us the clearest of divides: between those who seek order, and those who spread chaos; between those who work for peaceful change, and those who adopt the methods of gangsters; between those who honor the rights of man, and those who deliberately take the lives of men and women and children without mercy or shame.

Between these alternatives there is no neutral ground. All governments that support terror are complicit in a war against civilization. No government should ignore the threat of terror, because to look the other way gives terrorists the chance to regroup and recruit and prepare. And all nations that fight terror, as if the lives of their own people depend on it, will earn the favorable judgment of history.

The former regimes of Afghanistan and Iraq knew these alternatives, and made their choices. The Taliban was a sponsor and servant of terrorism. When confronted, that regime chose defiance, and that regime is no more. Afghanistan's President, who is here today, now represents a free people who are building a decent and just society; they're building a nation fully joined in the war

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GEORGE W. BUSH

against terror.

The regime of Saddam Hussein cultivated ties to terror while it built weapons of mass destruction. It used those weapons in acts of mass murder, and refused to account for them when confronted by the world. The Security Council was right to be alarmed. The Security Council was right to demand that Iraq destroy its illegal weapons and prove that it had done so. The Security Council was right to vow serious consequences if Iraq refused to comply. And because there were consequences, because a coalition of nations acted to defend the peace, and the credibility of the United Nations, Iraq is free, and today we are joined by representatives of a liberated country.

Saddam Hussein's monuments have been removed and not only his statues. The true monuments of his rule and his character — the torture chambers, and the rape rooms, and the prison cells for innocent children — are closed. And as we discover the killing fields and mass graves of Iraq, the true scale of Saddam's cruelty is being revealed.

The Iraqi people are meeting hardships and challenges, like every nation that has set out on the path of democracy. Yet their future promises lives of dignity and freedom, and that is a world away from the squalid, vicious tyranny they have known. Across Iraq, life is being improved by liberty. Across the Middle East, people are safer because an unstable aggressor has been removed from power. Across the world, nations are more secure because an ally of terror has fallen.

Our actions in Afghanistan and Iraq were supported by many governments, and America is grateful to each one. I also recognize that some of the sovereign nations of this assembly disagreed with our actions. Yet there was, and there remains, unity among us on the fundamental principles and objectives of the United Nations. We are dedicated to the defense of our collective security, and to the advance of human rights. These permanent commitments call us to great work in the world, work we must do together. So let us move forward.

First, we must stand with the people of Afghanistan and Iraq as they build free and stable countries. The terrorists and their allies fear and fight this progress above all, because free people embrace hope over resentment, and choose peace over violence.

The United Nations has been a friend of the Afghan people, distributing food and medicine, helping refugees return home, advising on a new constitution, and helping to prepare the way for nationwide elections. NATO has taken over the U.N.-mandated security force in Kabul. American and coalition forces continue to track and defeat al Qaeda terrorists and remnants of the Taliban. Our efforts to rebuild that country go on. I have recently proposed to spend an additional \$1.2 billion for the Afghan

reconstruction effort, and I urge other nations to continue contributing to this important cause.

In the nation of Iraq, the United Nations is carrying out vital and effective work every day. By the end of 2004, more than 90 percent of Iraqi children under age five will have been immunized against preventable diseases such as polio, tuberculosis and measles, thanks to the hard work and high ideals of UNICEF. Iraq's food distribution system is operational, delivering nearly a half-million tons of food per month, thanks to the skill and expertise of the World Food Program.

Our international coalition in Iraq is meeting its responsibilities. We are conducting precision raids against terrorists and holdouts of the former regime. These killers are at war with the Iraqi people. They have made Iraq the central front in the war on terror, and they will be defeated. Our coalition has made sure that Iraq's former dictator will never again use weapons of mass destruction. We are interviewing Iraqi citizens and analyzing records of the old regime to reveal the full extent of its weapons programs and its long campaign of deception. We're training Iraqi police and border guards and a new army, so the Iraqi people can assume full responsibility for their own security.

And at the same time, our coalition is helping to improve the daily lives of the Iraqi people. The old regime built palaces while letting schools decay, so we are rebuilding more than a thousand schools. The old regime starved hospitals of resources, so we have helped to supply and reopen hospitals across Iraq. The old regime built up armies and weapons, while allowing the nation's infrastructure to crumble, so we are rehabilitating power plants, water and sanitation facilities, bridges and airports. I proposed to Congress that the United States provide additional funding for our work in Iraq, the greatest financial commitment of its kind since the Marshall Plan. Having helped to liberate Iraq, we will honor our pledges to Iraq, and by helping the Iraqi people build a stable and peaceful country, we will make our own countries more secure.

The primary goal of our coalition in Iraq is self-government for the people of Iraq, reached by orderly and democratic process. This process must unfold according to the needs of Iraqis, neither hurried, nor delayed by the wishes of other parties. And the United Nations can contribute greatly to the cause of Iraq self-government. America is working with friends and allies on a new Security Council resolution, which will expand the U.N.'s role in Iraq. As in the aftermath of other conflicts, the United Nations should assist in developing a constitution, in training civil servants, and conducting free and fair elections.

Iraq now has a Governing Council, the first truly representative institution in that country. Iraq's new leaders

are showing the openness and tolerance that democracy requires, and they're also showing courage. Yet every young democracy needs the help of friends. Now the nation of Iraq needs and deserves our aid, and all nations of goodwill should step forward and provide that support.

The success of a free Iraq will be watched and noted throughout the region. Millions will see that freedom, equality, and material progress are possible at the heart of the Middle East. Leaders in the region will face the clearest evidence that free institutions and open societies are the only path to long-term national success and dignity. And a transformed Middle East would benefit the entire world, by undermining the ideologies that export violence to other lands.

Iraq as a dictatorship had great power to destabilize the Middle East; Iraq as a democracy will have great power to inspire the Middle East. The advance of democratic institutions in Iraq is setting an example that others, including the Palestinian people, would be wise to follow. The Palestinian cause is betrayed by leaders who cling to power by feeding old hatreds and destroying the good work of others. The Palestinian people deserve their own state, and they will gain that state by embracing new leaders committed to reform, to fighting terror, and to building peace. All parties in the Middle East must meet their responsibilities and carry out the commitments they made at Aqaba. Israel must work to create the conditions that will allow a peaceful Palestinian state to emerge. And Arab nations must cut off funding and other support for terrorist organizations. America will work with every nation in the region that acts boldly for the sake of peace.

A second challenge we must confront together is the proliferation of weapons of mass destruction. Outlaw regimes that possess nuclear, chemical and biological weapons — and the means to deliver them — would be able to use blackmail and create chaos in entire regions. These weapons could be used by terrorists to bring sudden disaster and suffering on a scale we can scarcely imagine. The deadly combination of outlaw regimes and terror networks and weapons of mass murder is a peril that cannot be ignored or wished away. If such a danger is allowed to fully materialize, all words, all protests, will come too late. Nations of the world must have the wisdom and the will to stop grave threats before they arrive.

One crucial step is to secure the most dangerous materials at their source. For more than a decade, the United States has worked with Russia and other states of the former Soviet Union to dismantle, destroy, or secure weapons and dangerous materials left over from another era. Last year in Canada, the G8 nations agreed to provide up to \$20 billion — half of it from the United States — to fight this proliferation risk over the next 10 years. Since

then, six additional countries have joined the effort. More are needed, and I urge other nations to help us meet this danger.

We're also improving our capability to interdict lethal materials in transit. Through our Proliferation Security Initiative, 11 nations are preparing to search planes and ships, trains and trucks carrying suspect cargo, and to seize weapons or missile shipments that raise proliferation concerns. These nations have agreed on a set of interdiction principles, consistent with legal — current legal authorities. And we're working to expand the Proliferation Security Initiative to other countries. We're determined to keep the world's most destructive weapons away from all our shores, and out of the hands of our common enemies.

Because proliferators will use any route or channel that is open to them, we need the broadest possible cooperation to stop them. Today, I ask the U.N. Security Council to adopt a new anti-proliferation resolution. This resolution should call on all members of the U.N. to criminalize the proliferation of weapons — weapons of mass destruction, to enact strict export controls consistent with international standards, and to secure any and all sensitive materials within their own borders. The United States stands ready to help any nation draft these new laws, and to assist in their enforcement.

A third challenge we share is a challenge to our conscience. We must act decisively to meet the humanitarian crises of our time. The United States has begun to carry out the Emergency Plan for AIDS Relief, aimed at preventing AIDS on a massive scale, and treating millions who have the disease already. We have pledged \$15 billion over five years to fight AIDS around the world.

My country is acting to save lives from famine, as well. We're providing more than \$1.4 billion in global emergency food aid, and I've asked our United States Congress for \$200 million for a new famine fund, so we can act quickly when the first signs of famine appear. Every nation on every continent should generously add their resources to the fight against disease and desperate hunger.

There's another humanitarian crisis spreading, yet hidden from view. Each year, an estimated 800,000 to 900,000 human beings are bought, sold or forced across the world's borders. Among them are hundreds of thousands of teenage girls, and others as young as five, who fall victim to the sex trade. This commerce in human life generates billions of dollars each year — much of which is used to finance organized crime.

There's a special evil in the abuse and exploitation of the most innocent and vulnerable. The victims of sex trade see little of life before they see the very worst of life — an underground of brutality and lonely fear. Those who create these victims and profit from their suffering must

be severely punished. Those who patronize this industry debase themselves and deepen the misery of others. And governments that tolerate this trade are tolerating a form of slavery.

This problem has appeared in my own country, and we are working to stop it. The PROTECT Act, which I signed into law this year, makes it a crime for any person to enter the United States, or for any citizen to travel abroad, for the purpose of sex tourism involving children. The Department of Justice is actively investigating sex tour operators and patrons, who can face up to 30 years in prison. Under the Trafficking Victims Protection Act, the United States is using sanctions against governments to discourage human trafficking.

The victims of this industry also need help from members of the United Nations. And this begins with clear standards and the certainty of punishment under laws of every country. Today, some nations make it a crime to sexually abuse children abroad. Such conduct should be a crime in all nations. Governments should inform travelers of the harm this industry does, and the severe punishments that will fall on its patrons. The American government is committing \$50 million to support the good work of organizations that are rescuing women and children from exploitation, and giving them shelter and medical treatment and the hope of a new life. I urge other governments to do their part.

We must show new energy in fighting back an old evil.

Nearly two centuries after the abolition of the transatlantic slave trade, and more than a century after slavery was officially ended in its last strongholds, the trade in human beings for any purpose must not be allowed to thrive in our time.

All the challenges I have spoken of this morning require urgent attention and moral clarity. Helping Afghanistan and Iraq to succeed as free nations in a transformed region, cutting off the avenues of proliferation, abolishing modern forms of slavery — these are the kinds of great tasks for which the United Nations was founded. In each case, careful discussion is needed, and also decisive action. Our good intentions will be credited only if we achieve good outcomes.

As an original signer of the U.N. Charter, the United States of America is committed to the United Nations. And we show that commitment by working to fulfill the U.N.'s stated purposes, and give meaning to its ideals. The founding documents of the United Nations and the founding documents of America stand in the same tradition. Both assert that human beings should never be reduced to objects of power or commerce, because their dignity is inherent. Both require — both recognize a moral law that stands above men and nations, which must be defended and enforced by men and nations. And both point the way to peace, the peace that comes when all are free. We secure that peace with our courage, and we must show that courage together. May God bless you all.

Cultivating Peace As An Antidote To Violence

SINCERE PRACTICE IS IMPORTANT FOR PROMOTION OF RELIGIOUS HARMONY

Address by HIS HOLINESS XIV DALAI LAMA, TENZIN GYATSO

Delivered to the Washington National Cathedral, Washington, D.C., September 11, 2003

For beings who have no home, no support, Who are deprived of refuge and are destitute, To such beings may I become in future, A guardian, an ally, a friend, a refuge, and a support, May I help end their pains and the origins of such pains, May I become for these beings a source of all happiness.

I am deeply humbled and also honored to have this opportunity to share some of my thoughts and say a few words in this very august and sacred cathedral where all of us have gathered together to share a platform to pray for peace and also to remember the many victims who suffered unimaginable tragedy two years ago in New York, Washington and Pennsylvania.

Participation in this interfaith prayer will be a source of, in one sense, joy for all of us in that it has provided a forum for people from different religious traditions to come together to pray for a united purpose, but at the same time,

since it is also an occasion to remember the unimaginable tragedy that occurred on this soil two years ago it is also a source of sadness.

However, I believe as presented by the seventh century Buddhist master Shantideva, who wrote the following:

“If the problem is such that there is a solution, there is no need to worry about it; if there is no solution, then there is no point in being overwhelmed and paralyzed.”

As someone who takes these words to heart, I believe that the tragedy that people have suffered is something that has already happened. It is a historical event. However, it is important not to be depressed, demoralized and paralyzed by the past event, but rather to remember the event and try to utilize (the event) towards a kind of spiritualized opportunity for personal growth and also forgiveness.

So the moral responsibilities and the tasks that fall on our shoulders are two fold. One is to pray for the victims

of the tragedy, particularly the family members and beloved ones of those who died and show them solidarity and share in their pain. The second is to ensure on the part of each and every one of us at the individual level to ensure that nothing like this ever happens in the future.

In my view, I think there are two levels to take measure as preventive measures. One, certainly leaders, governments and others have been taking certain measures. At another level, I believe all these tragic human actions come out of a certain motivation. Such unbelievable sort of tragedy happened because of hatred and jealousy—immense destructive emotions. So like in order to promote positive actions we have to make effort to promote positive emotions. Similarly, in order to prevent negative actions, destructive actions, we should make efforts to reduce, or if possible, eliminate, these negative inflicted emotions. Here, each of us, I think, has some way to make a contribution. So basically I believe the promotion of compassion, forgiveness and contentment, self-discipline—these things I feel are most important matter of preventive measures for the long run.

So, firstly, (it can be done) through education and also (through) parents' kindness towards children. Through that way you cultivate in the minds of millions of children, our future generation, the coming younger generation. I think through education, through awareness, these basic human values can be increased, can be strengthened.

Recently I noticed in New York and some other places, when the failure of electricity happened, I was told, unlike previous times, this time much more peace. No chaotic situation. I think because mainly I think people really now believe in helping each other. Compassionate attitude toward one another is the best way to reduce anxiety and problems. I think that is a good sign, a sign of progress. When I heard that I really felt that is really a sign of hope. So through education, certainly, we can promote these good qualities of human being.

Then second, the various different religious traditions, in spite of different philosophy, different traditions, all have the same message—message of love, compassion, forgiveness, tolerance, contentment, and self-discipline. Therefore, all have the same potential to help humanity through promotion of these basic human values. And also, I think in these tragic events, in some cases, even religious narrow-minded view may have been involved. So the promotion of religious harmony, harmony among the different religious traditions is, I think, in the long run, may be very useful in two fields: one promotion of human values and one to reduce these sectarian violence.

And perhaps, whether appropriate or not I don't know, but in any case I feel so I would like to take this opportunity as a freedom of speech. So I would like to express

one thing. As I mentioned earlier, all the major religious traditions have the same potential. All are talking about these good things. At the same time, in all the religious traditions among the followers of these different traditions, there are some mischievous people. Always happen, always there. So, therefore, sometimes some people will get the impression because these recent sort of terrorist activities some Muslims involve. So some people get the impression that the Muslim religion is more militant, more violent. I think that is a mistake. Among my friends, some are Muslims. They are very compassionate. Very generous, very nice.

So when I had some discussions with my Muslim friends they told me very clearly, anyone who creates pain, harm on others, that is not Muslim. They said like that. And their behavior (is) also very gentle. Therefore, it is not, I think, right to (put the) blame on one tradition as a whole.

Then, finally, I would like to take this opportunity (to share) one of my fundamental beliefs. That is, once we accept religion, then we should be serious, and should be very sincere. Sometimes we take religion almost like ornaments. Ornaments can be easily taken out and can be put there.

So religion, as I mentioned earlier, these very useful concepts—love, compassion, sense of brotherhood, sisterhood I think these should be part of our life, part of ourselves. So, in day and night, even in dreams. If you seriously take this message of one's own tradition, then even in dream when some negative emotion are about to come, you can make an effort to withstand.

So, (take) for example, the practice of contentment. When you go shopping, your greed, unlimited greed comes. Or your neighbor having a new car, a new television, you may feel a little jealousy, little uncomfortable. At such a moment, remember, if you are a Christian remember God, his message of contentment, message of sense of brotherhood, sisterhood on the basis of compassion, love, then these negative emotions automatically are reduced. And when you face your either you call your enemy or someone who usually irritates you, at that time, that very moment, think and remember that that person is also a creature of God. And also, remember the image of God. Automatically, immediately the intensity of negative feelings will be reduced. That is a way of practice, not when we gather in the Cathedral, short moment close our eyes and think of God, but outside nothing there. That is a mistake.

So through practice we can increase mindfulness. One small example. Of course, I am not a good practitioner, but a beginner of practitioner. But in my dream, whenever I come across some negative things, like fighting, or some attachment like sexual attachment, then at that mo-

ment in the dream, I immediately remember I am Buddhist monk. I should not... I should not do that. So it is useful.

So I think (for) a good Christian, a good Muslim, a good Jew or a good Hindu will gain the same experience because all teachings carry these same message. So the question is whether we are really sincere, or serious or not, that is the question. If we are not very sincere, not very serious, then I think (it is) better to say, I am not a religious person, I am not a believer. Then you have more freedom, or whatever you do. Then I think the meaning of self-discipline. Self-discipline is something (involving) resistance by volunteering. Not imposing something from others. So actually, discipline is something like protection of your own greater long-term interest. Just like a sick person. Even if that person wants something to eat or to drink, but then immediately (remembers), "I got some trouble in stomach or something so I should not eat that." So resists. So that is discipline out of one's own interest.

Otherwise, sometimes you see people get the impres-

sion that once you accept religion seriously, lot of discipline is necessary. That is troublesome. That kind of attitude is wrong. So the real question is whether we accept religion or not is up to the individual. Our freedom — once we accept religion, we should practice (it) sincerely. So this also will have another benefit, that is another positive effect. That is, once you gain some experience, inner spiritual experience, then that person can (feel) much easier to see the value of other traditions, not just mere different philosophies, or different traditions or different appearances, but because of your own some inner spiritual experiences you can see the value or potential of other traditions. That is very helpful to develop respect.

I am a Buddhist. Sometimes I describe myself as a staunch Buddhist. But at the same time because I can see all the great potential, same potential therefore I always admire Christianity, or Muslim, Judaism, different Hinduism, Jainism, so on. So therefore sincere practice is something very important for promotion of religious harmony. So that's all, thank you!

Paper Money And Tyranny

FEDERAL RESERVE LIMITING IT'S PROPENSITY TO INFLATE OUR WAY TO PROSPERITY

Address by RON PAUL, *Congressman from Texas*

Delivered to the House of Representatives, Washington, D.C., September 5, 2003

All great republics throughout history cherished sound money. This meant that the monetary unit was a commodity of honest weight and purity. When money was sound, civilizations were found to be more prosperous and freedom thrived. The less free a society becomes, the greater the likelihood its money is being debased and the economic well-being of its citizens diminished.

Alan Greenspan, years before he became Federal Reserve Board Chairman in charge of flagrantly debasing the U.S. dollar, wrote about this connection between sound money, prosperity, and freedom. In his article "Gold and Economic Freedom" (The Objectivist, July 1966), Greenspan starts by saying: "An almost hysterical antagonism toward the gold standard is an issue that unites statists of all persuasions. They seem to sense...that gold and economic freedom are inseparable." Further he states that: "Under the gold standard, a free banking system stands as the protector of an economy's stability and balanced growth."

Astoundingly, Mr. Greenspan's analysis of the 1929 market crash, and how the Fed precipitated the crisis, directly parallels current conditions we are experiencing under his management of the Fed. Greenspan explains: "The excess credit which the Fed pumped into the economy

spilled over into the stock market- triggering a fantastic speculative boom." And, "...By 1929 the speculative imbalances had become overwhelming and unmanageable by the Fed." Greenspan concluded his article by stating: "In the absence of the gold standard, there is no way to protect savings from confiscation through inflation."

He explains that the "shabby secret" of the proponents of big government and paper money is that deficit spending is simply nothing more than a "scheme for the hidden confiscation of wealth." Yet here we are today with a purely fiat monetary system, managed almost exclusively by Alan Greenspan, who once so correctly denounced the Fed's role in the Depression while recognizing the need for sound money.

The Founders of this country, and a large majority of the American people up until the 1930s, disdained paper money, respected commodity money, and disapproved of a central bank's monopoly control of money creation and interest rates. Ironically, it was the abuse of the gold standard, the Fed's credit-creating habits of the 1920s, and its subsequent mischief in the 1930s, that not only gave us the Great Depression, but also prolonged it. Yet sound money was blamed for all the suffering. That's why people hardly objected when Roosevelt and his statist friends confiscated gold and radically debased the currency, ush-

ering in the age of worldwide fiat currencies with which the international economy struggles today.

If honest money and freedom are inseparable, as Mr. Greenspan argued, and paper money leads to tyranny, one must wonder why it's so popular with economists, the business community, bankers, and our government officials. The simplest explanation is that it's a human trait to always seek the comforts of wealth with the least amount of effort. This desire is quite positive when it inspires hard work and innovation in a capitalist society. Productivity is improved and the standard of living goes up for everyone. This process has permitted the poorest in today's capitalist countries to enjoy luxuries never available to the royalty of old.

But this human trait of seeking wealth and comfort with the least amount of effort is often abused. It leads some to believe that by certain monetary manipulations, wealth can be made more available to everyone. Those who believe in fiat money often believe wealth can be increased without a commensurate amount of hard work and innovation. They also come to believe that savings and market control of interest rates are not only unnecessary, but actually hinder a productive growing economy.

Concern for liberty is replaced by the illusion that material benefits can be more easily obtained with fiat money than through hard work and ingenuity. The perceived benefits soon become of greater concern for society than the preservation of liberty. This does not mean proponents of fiat money embark on a crusade to promote tyranny, though that is what it leads to, but rather they hope they have found the philosopher's stone and a modern alternative to the challenge of turning lead into gold.

Our Founders thoroughly understood this issue, and warned us against the temptation to seek wealth and fortune without the work and savings that real prosperity requires. James Madison warned of "The pestilent effects of paper money," as the Founders had vivid memories of the destructiveness of the Continental dollar. George Mason of Virginia said that he had a "Mortal hatred to paper money." Constitutional Convention delegate Oliver Ellsworth from Connecticut thought the convention "A favorable moment to shut and bar the door against paper money."

This view of the evils of paper money was shared by almost all the delegates to the convention, and was the reason the Constitution limited congressional authority to deal with the issue and mandated that only gold and silver could be legal tender. Paper money was prohibited and no central bank was authorized. Over and above the economic reasons for honest money, however, Madison argued the moral case for such. Paper money, he explained, destroyed "The necessary confidence between man and

man, on necessary confidence in public councils, on the industry and morals of people and on the character of republican government."

The Founders were well aware of the biblical admonitions against dishonest weights and measures, debased silver, and watered-down wine. The issue of sound money throughout history has been as much a moral issue as an economic or political issue.

Even with this history and great concern expressed by the Founders, the barriers to paper money have been torn asunder. The Constitution has not been changed, but is no longer applied to the issue of money. It was once explained to me, during the debate over going to war in Iraq, that a declaration of war was not needed because to ask for such a declaration was "frivolous" and that the portion of the Constitution dealing with congressional war power was "anachronistic." So too, it seems that the power over money given to Congress alone and limited to coinage and honest weights, is now also "anachronistic."

If indeed our generation can make the case for paper money, issued by an unauthorized central bank, it behooves us to at least have enough respect for the Constitution to amend it in a proper fashion. Ignoring the Constitution in order to perform a pernicious act is detrimental in two ways. First, debasing the currency as a deliberate policy is economically destructive beyond measure. Second, doing it without consideration for the rule of law undermines the entire fabric of our Constitutional republic.

Though the need for sound money is currently not a pressing issue for Congress, it's something that cannot be ignored because serious economic problems resulting from our paper money system are being forced upon us. As a matter of fact, we deal with the consequences on a daily basis, yet fail to see the connection between our economic problems and the mischief orchestrated by the Federal Reserve.

All the great religions teach honesty in money, and the economic shortcomings of paper money were well known when the Constitution was written, so we must try to understand why an entire generation of Americans have come to accept paper money without hesitation, without question. Most Americans are oblivious to the entire issue of the nature and importance of money. Many in authority, however, have either been misled by false notions or see that the power to create money is indeed a power they enjoy, as they promote their agenda of welfarism at home and empire abroad.

Money is a moral, economic, and political issue. Since the monetary unit measures every economic transaction, from wages to prices, taxes, and interest rates, it is vitally important that its value is honestly established in the marketplace without bankers, government, politicians, or the

Federal Reserve manipulating its value to serve special interests.

Money As a Moral Issue

The moral issue regarding money should be the easiest to understand, but almost no one in Washington thinks of money in these terms. Although there is a growing and deserved distrust in government per se, trust in money and the Federal Reserve's ability to manage it remains strong. No one would welcome a counterfeiter to town, yet this same authority is blindly given to our central bank without any serious oversight by the Congress.

When the government can replicate the monetary unit at will without regard to cost, whether it's paper currency or a computer entry, it's morally identical to the counterfeiter who illegally prints currency. Both ways, it's fraud.

A fiat monetary system allows power and influence to fall into the hands of those who control the creation of new money, and to those who get to use the money or credit early in its circulation. The insidious and eventual cost falls on unidentified victims who are usually oblivious to the cause of their plight. This system of legalized plunder (though not constitutional) allows one group to benefit at the expense of another. An actual transfer of wealth goes from the poor and the middle class to those in privileged financial positions.

In many societies the middle class has actually been wiped out by monetary inflation, which always accompanies fiat money. The high cost of living and loss of jobs hits one segment of society, while in the early stages of inflation, the business class actually benefits from the easy credit. An astute stock investor or home builder can make millions in the boom phase of the business cycle, while the poor and those dependent on fixed incomes can't keep up with the rising cost of living.

Fiat money is also immoral because it allows government to finance special interest legislation that otherwise would have to be paid for by direct taxation or by productive enterprise. This transfer of wealth occurs without directly taking the money out of someone's pocket. Every dollar created dilutes the value of existing dollars in circulation. Those individuals who worked hard, paid their taxes, and saved some money for a rainy day are hit the hardest, with their dollars being depreciated in value while earning interest that is kept artificially low by the Federal Reserve easy-credit policy. The easy credit helps investors and consumers who have no qualms about going into debt and even declaring bankruptcy.

If one sees the welfare state and foreign militarism as improper and immoral, one understands how the license to print money permits these policies to go forward far more easily than if they had to be paid for immediately by direct taxation.

Printing money, which is literally inflation, is nothing more than a sinister and evil form of hidden taxation. It's unfair and deceptive, and accordingly strongly opposed by the authors of the Constitution. That is why there is no authority for Congress, the Federal Reserve, or the executive branch to operate the current system of money we have today.

Money As a Political Issue

Although the money issue today is of little political interest to the parties and politicians, it should not be ignored. Policy makers must contend with the consequences of the business cycle, which result from the fiat monetary system under which we operate. They may not understand the connection now, but eventually they must.

In the past, money and gold have been dominant issues in several major political campaigns. We find that when the people have had a voice in the matter, they inevitably chose gold over paper. To the common man, it just makes sense. As a matter of fact, a large number of Americans, perhaps a majority, still believe our dollar is backed by huge hoards of gold in Fort Knox.

The monetary issue, along with the desire to have free trade among the states, prompted those at the Constitutional Convention to seek solutions to problems that plagued the post-revolutionary war economy. This post-war recession was greatly aggravated by the collapse of the unsound fiat Continental dollar. The people, through their representatives, spoke loudly and clearly for gold and silver over paper.

Andrew Jackson, a strong proponent of gold and opponent of central banking (the Second Bank of the United States,) was a hero to the working class and was twice elected president. This issue was fully debated in his presidential campaigns. The people voted for gold over paper.

In the 1870s, the people once again spoke out clearly against the greenback inflation of Lincoln. Notoriously, governments go to paper money while rejecting gold to promote unpopular and unaffordable wars. The return to gold in 1879 went smoothly and was welcomed by the people, putting behind them the disastrous Civil War inflationary period.

Grover Cleveland, elected twice to the presidency, was also a strong advocate of the gold standard.

Again, in the presidential race of 1896, William McKinley argued the case for gold. In spite of the great orations by William Jennings Bryant, who supported monetary inflation and made a mocking "Cross of Gold" speech, the people rallied behind McKinley's bland but correct arguments for sound money.

The 20th Century was much less sympathetic to gold. Since 1913 central banking has been accepted in the United States without much debate, despite the many economic

and political horrors caused or worsened by the Federal Reserve since its establishment. The ups and downs of the economy have all come as a consequence of Fed policies, from the Great Depression to the horrendous stagflation of the '70s, as well as the current ongoing economic crisis.

A central bank and fiat money enable government to maintain an easy war policy that under strict monetary rules would not be achievable. In other words, countries with sound monetary policies would rarely go to war because they could not afford to, especially if they were not attacked. The people could not be taxed enough to support wars without destroying the economy. But by printing money, the cost can be delayed and hidden, sometimes for years if not decades. To be truly opposed to preemptive and unnecessary wars one must advocate sound money to prevent the promoters of war from financing their imperialism.

Look at how the military budget is exploding, deficits are exploding, and tax revenues are going down. No problem; the Fed is there and will print whatever is needed to meet our military commitments, whether it's wise to do so or not.

The money issue should indeed be a gigantic political issue. Fiat money hurts the economy, finances wars, and allows for excessive welfarism. When these connections are realized and understood, it will once again become a major political issue, since paper money never lasts. Ultimately politicians will not have a choice of whether to address or take a position on the money issue. The people and circumstances will demand it.

We do hear some talk about monetary policy and criticism directed toward the Federal Reserve, but it falls far short of what I'm talking about. Big-spending welfarists constantly complain about Fed policy, usually demanding lower interest rates even when rates are at historic lows. Big-government conservatives promoting grand worldwide military operations, while arguing that "deficits don't matter" as long as marginal tax rates are lowered, also constantly criticize the Fed for high interest rates and lack of liquidity. Coming from both the left and the right, these demands would not occur if money could not be created out of thin air at will. Both sides are asking for the same thing from the Fed for different reasons. They want the printing presses to run faster and create more credit, so that the economy will be healed like magic- or so they believe.

This is not the kind of interest in the Fed that we need. I'm anticipating that we should and one day will be forced to deal with the definition of the dollar and what money should consist of. The current superficial discussion about money merely shows a desire to tinker with the current

system in hopes of improving the deteriorating economy. There will be a point, though, when the tinkering will no longer be of any benefit and even the best advice will be of no value. We have just gone through two-and-a-half years of tinkering with 13 rate cuts, and recovery has not yet been achieved. It's just possible that we're much closer than anyone realizes to that day when it will become absolutely necessary to deal with the monetary issue- both philosophically and strategically- and forget about the band-aid approach to the current system.

Money as an Economic Issue

For a time, the economic consequences of paper money may seem benign and even helpful, but are always disruptive to economic growth and prosperity.

Economic planners of the Keynesian-socialist type have always relished control over money creation in their efforts to regulate and plan the economy. They have no qualms with using this power to pursue their egalitarian dreams of wealth redistribution. That force and fraud are used to make the economic system supposedly fairer is of little concern to them.

There are also many conservatives who do not endorse central economic planning as those on the left do, but nevertheless concede this authority to the Federal Reserve to manipulate the economy through monetary policy. Only a small group of constitutionalists, libertarians, and Austrian free-market economists reject the notion that central planning, through interest-rate and money-supply manipulation, is a productive endeavor.

Many sincere politicians, bureaucrats, and bankers endorse the current system, not out of malice or greed, but because it's the only system they have know. The principles of sound money and free market banking are not taught in our universities. The overwhelming consensus in Washington, as well as around the world, is that commodity money without a central bank is no longer practical or necessary. Be assured, though, that certain individuals who greatly benefit from a paper money system know exactly why the restraints that a commodities standard would have are unacceptable.

Though the economic consequences of paper money in the early stage affect lower-income and middle-class citizens, history shows that when the destruction of monetary value becomes rampant, nearly everyone suffers and the economic and political structure becomes unstable. There's good reason for all of us to be concerned about our monetary system and the future of the dollar.

Nations that live beyond their means must always pay for their extravagance. It's easy to understand why future generations inherit a burden when the national debt piles up. This requires others to pay the interest and debts when they come due. The victims are never the recipi-

ents of the borrowed funds. But this is not exactly what happens when a country pays off its debt. The debt, in nominal terms, always goes up, and since it is still accepted by mainstream economists that just borrowing endlessly is not the road to permanent prosperity, real debt must be reduced. Depreciating the value of the dollar does that. If the dollar loses 10% of its value, the national debt of \$6.5 trillion is reduced in real terms by \$650 billion dollars. That's a pretty neat trick and quite helpful- to the government.

That's why the Fed screams about a coming deflation, so it can continue the devaluation of the dollar unabated. The politicians don't mind, the bankers welcome the business activity, and the recipients of the funds passed out by Congress never complain. The greater the debt, the greater the need to inflate the currency, since debt cannot be the source of long-term wealth. Individuals and corporations who borrow too much eventually must cut back and pay off debt and start anew, but governments rarely do.

But where's the hitch? This process, which seems to be a creative way of paying off debt, eventually undermines the capitalist structure of the economy, thus making it difficult to produce wealth, and that's when the whole process comes to an end. This system causes many economic problems, but most of them stem from the Fed's interference with the market rate of interest that it achieves through credit creation and printing money.

Nearly 100 years ago, Austrian economist Ludwig von Mises explained and predicted the failure of socialism. Without a pricing mechanism, the delicate balance between consumers and producers would be destroyed. Freely fluctuating prices provide vital information to the entrepreneur who is making key decisions on production. Without this information, major mistakes are made. A central planning bureaucrat cannot be a substitute for the law of supply and demand.

Though generally accepted by most modern economists and politicians, there is little hesitancy in accepting the omnipotent wisdom of the Federal Reserve to know the "price" of money- the interest rate- and its proper supply. For decades, and especially during the 1990s- when Chairman Greenspan was held in such high esteem, and no one dared question his judgment or the wisdom of the system- this process was allowed to run unimpeded by political or market restraints. Just as we must eventually pay for our perpetual deficits, continuous manipulation of interest and credit will also extract a payment.

Artificially low interest rates deceive investors into believing that rates are low because savings are high and represent funds not spent on consumption. When the Fed creates bank deposits out of thin air making loans available at below-market rates, mal-investment and overca-

capacity results, setting the stage for the next recession or depression. The easy credit policy is welcomed by many: stock-market investors, home builders, home buyers, congressional spendthrifts, bankers, and many other consumers who enjoy borrowing at low rates and not worrying about repayment. However, perpetual good times cannot come from a printing press or easy credit created by a Federal Reserve computer. The piper will demand payment, and the downturn in the business cycle will see to it. The downturn is locked into place by the artificial boom that everyone enjoys, despite the dreams that we have ushered in a "new economic era." Let there be no doubt: the business cycle, the stagflation, the recessions, the depressions, and the inflations are not a result of capitalism and sound money, but rather are a direct result of paper money and a central bank that is incapable of managing it.

Our current monetary system makes it tempting for all parties, individuals, corporations, and government to go into debt. It encourages consumption over investment and production. Incentives to save are diminished by the Fed's making new credit available to everyone and keeping interest rates on saving so low that few find it advisable to save for a rainy day. This is made worse by taxing interest earned on savings. It plays havoc with those who do save and want to live off their interest. The artificial rates may be 4, 5, or even 6% below the market rate, and the savers- many who are elderly and on fixed incomes- suffer unfairly at the hands of Alan Greenspan, who believes that resorting to money creation will solve our problems and give us perpetual prosperity.

Lowering interest rates at times, especially early in the stages of monetary debasement, will produce the desired effects and stimulate another boom-bust cycle. But eventually the distortions and imbalances between consumption and production, and the excessive debt, prevent the monetary stimulus from doing very much to boost the economy. Just look at what's been happening in Japan for the last 12 years. When conditions get bad enough the only recourse will be to have major monetary reform to restore confidence in the system.

The two conditions that result from fiat money that are more likely to concern the people are inflation of prices and unemployment. Unfortunately, few realize these problems are directly related to our monetary system. Instead of demanding reforms, the chorus from both the right and left is for the Fed to do more of the same- only faster. If our problem stems from easy credit and interest-rate manipulation by the Fed, demanding more will not do much to help. Sadly, it will only make our problems worse.

Ironically, the more successful the money managers are at restoring growth or prolonging the boom with their monetary machinations, the greater are the distortions and

imbalances in the economy. This means that when corrections are eventually forced upon us, they are much more painful and more people suffer with the correction lasting longer.

Today's economic conditions reflect a fiat monetary system held together by many tricks and luck over the past 30 years. The world has been awash in paper money since removal of the last vestige of the gold standard by Richard Nixon when he buried the Bretton Woods agreement- the gold exchange standard- on August 15, 1971. Since then we've been on a worldwide paper dollar standard. Quite possibly we are seeing the beginning of the end of that system. If so, tough times are ahead for the United States and the world economy.

A paper monetary standard means there are no restraints on the printing press or on federal deficits. In 1971, M3 was \$776 billion; today it stands at \$8.9 trillion, an 1100% increase. Our national debt in 1971 was \$408 billion; today it stands at \$6.8 trillion, a 1600% increase. Since that time, our dollar has lost almost 80% of its purchasing power. Common sense tells us that this process is not sustainable and something has to give. So far, no one in Washington seems interested.

Although dollar creation is ultimately the key to its value, many other factors play a part in its perceived value, such as: the strength of our economy, our political stability, our military power, the benefit of the dollar being the key reserve currency of the world, and the relative weakness of other nation's economies and their currencies. For these reasons, the dollar has enjoyed a special place in the world economy. Increases in productivity have also helped to bestow undeserved trust in our economy with consumer prices, to some degree, being held in check and fooling the people, at the urging of the Fed, that "inflation" is not a problem. Trust is an important factor in how the dollar is perceived. Sound money encourages trust, but trust can come from these other sources as well. But when this trust is lost, which always occurs with paper money, the delayed adjustments can hit with a vengeance.

Following the breakdown of the Bretton Woods agreement, the world essentially accepted the dollar as a replacement for gold, to be held in reserve upon which even more monetary expansion could occur. It was a great arrangement that up until now seemed to make everyone happy.

We own the printing press and create as many dollars as we please. These dollars are used to buy federal debt. This allows our debt to be monetized and the spendthrift Congress, of course, finds this a delightful convenience and never complains. As the dollars circulate through our fractional reserve banking system, they expand many times over. With our excess dollars at home, our trading partners are only too happy to accept these dollars in order to

sell us their products. Because our dollar is relatively strong compared to other currencies, we can buy foreign products at a discounted price. In other words, we get to create the world's reserve currency at no cost, spend it overseas, and receive manufactured goods in return. Our excess dollars go abroad and other countries-especially Japan and China- are only too happy to loan them right back to us by buying our government and GSE debt. Up until now both sides have been happy with this arrangement.

But all good things must come to an end and this arrangement is ending. The process put us into a position of being a huge debtor nation, with our current account deficit of more than \$600 billion per year now exceeding 5% of our GDP. We now owe foreigners more than any other nation ever owed in all of history, over \$3 trillion.

A debt of this sort always ends by the currency of the debtor nation decreasing in value. And that's what has started to happen with the dollar, although it still has a long way to go. Our free lunch cannot last. Printing money, buying foreign products, and selling foreign holders of dollars our debt ends when the foreign holders of this debt become concerned with the dollar's future value.

Once this process starts, interest rates will rise. And in recent weeks, despite the frenetic effort of the Fed to keep interest rates low, they are actually rising instead. The official explanation is that this is due to an economic rebound with an increase in demand for loans. Yet a decrease in demand for our debt and reluctance to hold our dollars is a more likely cause. Only time will tell whether the economy rebounds to any significant degree, but one must be aware that rising interest rates and serious price inflation can also reflect a weak dollar and a weak economy. The stagflation of the 1970s baffled many conventional economists, but not the Austrian economists. Many other countries have in the past suffered from the extremes of inflation in an inflationary depression, and we are not immune from that happening here. Our monetary and fiscal policies are actually conducive to such a scenario.

In the short run, the current system gives us a free ride, our paper buys cheap goods from overseas, and foreigners risk all by financing our extravagance. But in the long run, we will surely pay for living beyond our means. Debt will be paid for one way or another. An inflated currency always comes back to haunt those who enjoyed the "benefits" of inflation. Although this process is extremely dangerous, many economists and politicians do not see it as a currency problem and are only too willing to find a villain to attack. Surprisingly the villain is often the foreigner who foolishly takes our paper for useful goods and accommodates us by loaning the proceeds back to us.

It's true that the system encourages exportation of jobs as we buy more and more foreign goods. But nobody

understands the Fed role in this, so the cries go out to punish the competition with tariffs. Protectionism is a predictable consequence of paper- money inflation, just as is the impoverishment of an entire middle class. It should surprise no one that even in the boom phase of the 1990s, there were still many people who became poorer. Yet all we hear are calls for more government mischief to correct the problems with tariffs, increased welfare for the poor, increased unemployment benefits, deficit spending, and special interest tax reduction, none of which can solve the problems ingrained in a system that operates with paper money and a central bank.

If inflation were equitable and treated all classes the same, it would be less socially divisive. But while some see their incomes going up above the rate of inflation (movie stars, CEOs, stock brokers, speculators, professional athletes,) others see their incomes stagnate like lower-middle-income workers, retired people, and farmers. Likewise, the rise in the cost of living hurts the poor and middle class more than the wealthy. Because inflation treats certain groups unfairly, anger and envy are directed toward those who have benefited.

The long-term philosophic problem with this is that the central bank and the fiat monetary system are not blamed; instead free market capitalism is. This is what happened in the 1930s. The Keynesians, who grew to dominate economic thinking at the time, erroneously blamed the gold standard, balanced budgets, and capitalism instead of tax increases, tariffs, and Fed policy. This country cannot afford another attack on economic liberty similar to what followed the 1929 crash that ushered in the economic interventionism and inflationism which we have been saddled with ever since. These policies have brought us to the brink of another colossal economic downturn and we need to be prepared.

Big business and banking deserve our harsh criticism, but not because they are big or because they make a lot of money. Our criticism should come because of the special benefits they receive from a monetary system designed to assist the business class at the expense of the working class. Labor leader Samuel Gompers understood this and feared paper money and a central bank while arguing the case for gold. Since the monetary system is used to finance deficits that come from war expenditures, the military industrial complex is a strong supporter of the current monetary system.

Liberals foolishly believe that they can control the process and curtail the benefits going to corporations and banks by increasing the spending for welfare for the poor. But this never happens. Powerful financial special interests control the government spending process and throw only crumbs to the poor. The fallacy with this approach is that

the advocates fail to see the harm done to the poor, with cost of living increases and job losses that are a natural consequence of monetary debasement. Therefore, even more liberal control over the spending process can never compensate for the great harm done to the economy and the poor by the Federal Reserve's effort to manage an unmanageable fiat monetary system.

Economic intervention, financed by inflation, is high-stakes government. It provides the incentive for the big money to "invest" in gaining government control. The big money comes from those who have it- corporations and banking interests. That's why literally billions of dollars are spent on elections and lobbying. The only way to restore equity is to change the primary function of government from economic planning and militarism to protecting liberty. Without money, the poor and middle class are disenfranchised since access for the most part requires money. Obviously, this is not a partisan issue since both major parties are controlled by wealthy special interests. Only the rhetoric is different.

Our current economic problems are directly related to the monetary excesses of three decades and the more recent efforts by the Federal Reserve to thwart the correction that the market is forcing upon us. Since 1998, there has been a sustained attack on corporate profits. Before that, profits and earnings were inflated and fictitious, with WorldCom and Enron being prime examples. In spite of the 13 rate cuts since 2001, economic growth has not been restored.

Paper money encourages speculation, excessive debt, and misdirected investments. The market, however, always moves in the direction of eliminating bad investments, liquidating debt, and reducing speculative excesses. What we have seen, especially since the stock market peak of early 2000, is a knock-down, drag-out battle between the Fed's effort to avoid a recession, limit the recession, and stimulate growth with its only tool, money creation, while the market demands the elimination of bad investments and excess debt. The Fed was also motivated to save the stock market from collapsing, which in some ways they have been able to do.

The market, in contrast, will insist on liquidation of unsustainable debt, removal of investment mistakes made over several decades, and a dramatic revaluation of the stock market. In this go-around, the Fed has pulled out all the stops and is more determined than ever, yet the market is saying that new and healthy growth cannot occur until a major cleansing of the system occurs. Does anyone think that tariffs and interest rates of 1% will encourage the rebuilding of our steel and textile industries anytime soon? Obviously, something more is needed.

The world central bankers are concerned with the lack

of response to low interest rates and they have joined in a concerted effort to rescue the world economy through a policy of protecting the dollar's role in the world economy, denying that inflation exists, and justifying unlimited expansion of the dollar money supply. To maintain confidence in the dollar, gold prices must be held in check. In the 1960s our government didn't want a vote of no confidence in the dollar, and for a couple of decades, the price of gold was artificially held at \$35 per ounce. That, of course, did not last.

In recent years, there has been a coordinated effort by the world central bankers to keep the gold price in check by dumping part of their large horde of gold into the market. This has worked to a degree, but just as it could not be sustained in the 1960s, until Nixon declared the Bretton Woods agreement dead in 1971, this effort will fail as well.

The market price of gold is important because it reflects the ultimate confidence in the dollar. An artificially low price for gold contributes to false confidence and when this is lost, more chaos ensues as the market adjusts for the delay.

Monetary policy today is designed to demonetize gold and guarantee for the first time that paper can serve as an adequate substitute in the hands of wise central bankers. Trust, then, has to be transferred from gold to the politicians and bureaucrats who are in charge of our monetary system. This fails to recognize the obvious reason that market participants throughout history have always preferred to deal with real assets, real money, rather than government paper. This contest between paper and honest money is of much greater significance than many realize. We should know the outcome of this struggle within the next decade.

Alan Greenspan, although once a strong advocate for the gold standard, now believes he knows what the outcome of this battle will be. Is it just wishful thinking on his part? In an answer to a question I asked before the Financial Services Committee in February 2003, Chairman Greenspan made an effort to convince me that paper money now works as well as gold: "I have been quite surprised, and I must say pleased, by the fact that central banks have been able to effectively simulate many of the characteristics of the gold standard by constraining the degree of finance in a manner which effectively brought down the general price levels."

Earlier, in December 2002, Mr. Greenspan spoke before the Economic Club of New York and addressed the same subject: "The record of the past 20 years appears to underscore the observation that, although pressures for excess issuance of fiat money are chronic, a prudent monetary policy maintained over a protracted period of time can contain the forces of inflation." There are several prob-

lems with this optimistic assessment. First, efficient central bankers will never replace the invisible hand of a commodity monetary standard. Second, using government price indexes to measure the success of a managed fiat currency should not be reassuring.

These indexes can be arbitrarily altered to imply a successful monetary policy. Also, price increases of consumer goods are not a litmus test for measuring the harm done by the money managers at the Fed. The development of overcapacity, excessive debt, and speculation still occur, even when prices happen to remain reasonably stable due to increases in productivity and technology. Chairman Greenspan makes his argument because he hopes he's right that sound money is no longer necessary, and also because it's an excuse to keep the inflation of the money supply going for as long as possible, hoping a miracle will restore sound growth to the economy. But that's only a dream.

We are now faced with an economy that is far from robust and may get a lot worse before rebounding. If not now, the time will soon come when the conventional wisdom of the last 90 years, since the Fed was created, will have to be challenged. If the conditions have changed and the routine of fiscal and monetary stimulation don't work, we better prepare ourselves for the aftermath of a failed dollar system, which will not be limited to the United States.

An interesting headline appeared in the New York Times on July 31, 2003, "Commodity Costs Soar, But Factories Don't Bustle." What is observed here is a sea change in attitude by investors shifting their investment funds and speculation into things of real value and out of financial areas, such as stocks and bonds. This shift shows that in spite of the most aggressive Fed policy in history in the past three years, the economy remains sluggish and interest rates are actually rising. What can the Fed do? If this trend continues, there's little they can do. Not only do I believe this trend will continue, I believe it's likely to accelerate. This policy plays havoc with our economy; reduces revenues, prompts increases in federal spending, increases in deficits and debt occur, and interest costs rise, compounding our budgetary woes.

The set of circumstances we face today are unique and quite different from all the other recessions the Federal Reserve has had to deal with. Generally, interest rates are raised to slow the economy and dampen price inflation. At the bottom of the cycle interest rates are lowered to stimulate the economy. But this time around, the recession came in spite of huge and significant interest rate reductions by the Fed. This aggressive policy did not prevent the recession as was hoped; so far it has not produced the desired recovery.

Now we're at the bottom of the cycle and interest rates not only can't be lowered, they are rising. This is a unique and dangerous combination of events. This set of circumstances can only occur with fiat money and indicates that further manipulation of the money supply and interest rates by the Fed will have little if any effect.

The odds aren't very good that the Fed will adopt a policy of not inflating the money supply because of some very painful consequences that would result. Also there would be a need to remove the pressure on the Fed to accommodate the big spenders in Congress. Since there are essentially only two groups that have any influence on spending levels, big-government liberals and big-government conservatives, that's not about to happen. Poverty is going to worsen due to our monetary and fiscal policies, so spending on the war on poverty will accelerate.

Our obsession with policing the world, nation building, and pre-emptive war are not likely to soon go away, since both Republican and Democratic leaders endorse them. Instead, the cost of defending the American empire is going to accelerate. A country that is getting poorer cannot pay these bills with higher taxation nor can they find enough excess funds for the people to loan to the government. The only recourse is for the Federal Reserve to accommodate and monetize the federal debt, and that, of course, is inflation.

It's now admitted that the deficit is out of control, with next year's deficit reaching over one-half trillion dollars, not counting the billions borrowed from "trust funds" like Social Security. I'm sticking to my prediction that within a few years the national debt will increase over \$1 trillion in one fiscal year. So far, so good, no big market reactions, the dollar is holding its own and the administration and congressional leaders are not alarmed. But they ought to be.

I agree, it would be politically tough to bite the bullet and deal with our extravagance, both fiscal and monetary, but the repercussions here at home from a loss of confidence in the dollar throughout the world will not be a pretty sight to behold. I don't see any way we are going to avoid the crisis.

We do have some options to minimize the suffering. If we decided to, we could permit some alternatives to the current system of money and banking we have today.

Already, we took a big step in this direction. Gold was illegal to own between 1933 and 1976. Today millions of Americans do own some gold.

Gold contracts are legal, but a settlement of any dispute is always in Federal Reserve notes. This makes gold contracts of limited value.

For gold to be an alternative to Federal Reserve notes, taxes on any transactions in gold must be removed, both sales and capital gains.

Holding gold should be permitted in any pension fund, just as dollars are permitted in a checking account of these funds.

Repeal of all legal tender laws is a must. Sound money never requires the force of legal tender laws. Only paper money requires such laws.

These proposals, even if put in place tomorrow, would not solve all the problems we face. It would though, legalize freedom of choice in money, and many who worry about having their savings wiped out by a depreciating dollar would at least have another option. This option would ease some of the difficulties that are surely to come from runaway deficits in a weakening economy with skyrocketing inflation.

Curbing the scope of government and limiting its size to that prescribed in the Constitution is the goal that we should seek. But political reality makes this option available to us only after a national bankruptcy has occurred. We need not face that catastrophe. What we need to do is to strictly limit the power of government to meddle in our economy and our personal affairs, and stay out of the internal affairs of other nations.

Conclusion

It's no coincidence that during the period following the establishment of the Federal Reserve and the elimination of the gold standard, a huge growth in the size of the federal government and its debt occurred. Believers in big government, whether on the left or right, vociferously reject the constraints on government growth that gold demands.

Liberty is virtually impossible to protect when the people allow their government to print money at will. Inevitably, the left will demand more economic interventionism, the right more militarism and empire building. Both sides, either inadvertently or deliberately, will foster corporatism. Those whose greatest interest is in liberty and self-reliance are lost in the shuffle. Though left and right have different goals and serve different special-interest groups, they are only too willing to compromise and support each other's programs.

If unchecked, the economic and political chaos that comes from currency destruction inevitably leads to tyranny- a consequence of which the Founders were well aware. For 90 years we have lived with a central bank, with the last 32 years absent of any restraint on money creation. The longer the process lasts, the faster the printing presses have to run in an effort to maintain stability. They are currently running at record rate. It was predictable and is understandable that our national debt is now expanding at a record rate.

The panicky effort of the Fed to stimulate economic growth does produce what it considers favorable economic

reports, recently citing second quarter growth this year at 3.1%. But in the footnotes, we find that military spending-almost all of which is overseas- was up an astounding 46%. This, of course, represents deficit spending financed by the Federal Reserve's printing press. In the same quarter, after-tax corporate profits fell 3.4%. This is hardly a reassuring report on the health of our economy and merely

reflects the bankruptcy of current economic policy.

Real economic growth won't return until confidence in the entire system is restored. And that is impossible as long as it depends on the politicians not spending too much money and the Federal Reserve limiting its propensity to inflate our way to prosperity. Only sound money and limited government can do that.

Facing The Challenges Ahead

THE SERIOUS POLICY ISSUES FACING THE UNITED STATES

Address by MURRAY WEIDENBAUM, *Honorary Chairman of the Weidenbaum Center on the Economy, Government, and Public Policy at Washington University in St. Louis*

Delivered to the Westwood Country Club, St. Louis, Missouri, September 10, 2003

The presidential election campaign has started early. That is usually a bad time for any serious discussion of public policy. After all, I still remember one presidential campaign where the most important issue seemed to be the status of Quemoy and Matsu. Those were two trivial and virtually deserted little islands off the coast of Taiwan. There also was a presidential debate on closing the missile gap. After the campaign, it turned out that there was no U.S. missile gap. In fact, it was the Soviets who had the missile gap.

On the economic front, we more recently witnessed a campaign successfully attacking the sitting president for not doing anything to get us out of recession. The data now show that the upturn in the economy started well before election day. Under current circumstances, I confidently forecast that Republicans will tell us how great this wonderful economy is, while Democrats will be crying in their beer because of the horrible economic conditions we are experiencing.

Before we get caught in the campaign crossfire, let me try to sketch out what I believe to be the serious questions facing the American people. Who knows, we may yet be pleasantly surprised by a candidate dealing with some of these tough matters. In any event, these problems will be here after the polls close on that fateful Tuesday in November.

To get us started, I would like to lay out the serious policy issues that will face the president of the United States, Republican or Democrat, who is inaugurated in January 2005. We can summarize that presidential policy agenda with eight key questions:

1. How can the United States achieve a stronger economy?
2. Related to that, how can we avoid inflation as well as deflation?
3. How can we reduce those huge budget deficits?
4. What do we do when the temporary tax cuts ex-

pire?

5. How can we finance social security and medicare when the baby boomers retire?

6. How do we cope with rapidly expanding government regulation?

7. How can we meet the global competitive challenge, especially from China and India?

8. How do we face future threats to the national security?

Even if I had the capability, I do not have the time tonight to even try to provide comprehensive answers to each of these questions. However, as an economist I believe that I can provide some helpful starting points.

As you may have noticed, the American economy is not exactly booming. Nevertheless, an upturn is now underway. The economy is rising by about 2-1/2 percent this year. Three rounds of tax cuts and quadruple that number of interest rate reductions have provided substantial stimulus to a sluggish economy. Declines in oil prices have helped lower the cost of domestic production and a drop in the international exchange rate of the dollar is encouraging exports. The continued upturn in military procurement is another plus to the economy.

Nevertheless, my rubber band theory of business cycles seems to be working well - surely better than the more formal econometric models. Sharp and long recessions generate big snapbacks. Mild recessions, however, are usually followed by shallow recoveries. That happens because there is no opportunity for the accumulation of large backlogs of internet business and consumer demands. Surely, this is our current experience. The result is a slow and drawn out recovery.

At this point I suggest that we let the economic medicine do its work and not overdose the patient. Decision-makers in Washington, D.C., always want to show the public how active they are. However, they now would be well advised to take an economic form of the physicians'

Hippocratic Oath: first pledge to do no harm.

We had a good reminder of the need for a moderate economic policy during this summer. When the new higher budget deficit numbers were published, interest rates started to turn up. Additional federal spending programs, designed to prod the economy, could have further adverse economic effects - especially if they led to another round of interest rate increases.

We do have to get used to the fact that we are now living in a very different economic environment than the 1990s. That was an unsustainable boom time. The economic future is likely to be more modest than the feverish pace of the last decade. I do not expect that the United States in the coming decade will see economic growth of well over 4 percent for three years in a row, as we did in the late 1990s. Fortunes will not be made as frequently, nor lost as quickly in this new and more sustainable economic environment.

By the way, a lot of people are suspicious of any report that the economy is turning up, whatever the rate, so long as unemployment stays high. A little lesson in economics may be in order. We have a growing population - about 1 percent a year. With rising productivity, the average worker produces more, about 2 percent a year. That means that the economy has to grow by 3 percent just to keep unemployment steady. We only bring down the unemployment rate when the economy is growing faster than 3 percent. That is why earlier this year, while the economy was growing slowly, the unemployment rate was edging up.

I console my students with the fact that, if the economy were not so complicated, we would not need so many economists.

In recent years, the United States has avoided the economic extremes of inflation and deflation. Of course, some individual prices - especially of services - continue to rise even when the economy is weak. Meanwhile, the prices of other items, mainly manufactured goods, decline even when the economy is growing. Prices of individual products frequently fluctuate, especially in response to new technology or foreign competition. Those forces are always present in a healthy and dynamic economy. On balance, we have achieved an unusual degree of overall price stability. The peddlers of doom and gloom may generate some headlines. But, inevitably, they depart from the scene.

Some members of the Federal Reserve Board have been making statements on inflation and deflation which are subject to varying interpretations. However noble their intentions, they often have confused financial markets. At this point, I believe that the Fed Board would be well advised to take a long vacation. The time for additional monetary stimulus is over. Over the past decades, the Fed has done a good job and they should leave well enough

alone.

As you may have noticed, Congress has added a new gimmick to the already complex Internal Revenue Code. To limit the reported size of the tax cuts, expiration dates are now set. Thus, in the case of the tax reductions voted earlier this year, the child credit and the marriage penalty relief run out in 2005. Small business expensing ends in 2006. Dividend rate reductions only extend to 2009. And the general rate cuts terminate in 2010. There are so many "sunrises" and "sunsets" in the new tax bill that the tax experts in Washington call it the Fiddler on the Roof Law.

It is unlikely that Congress will let all of those tax benefits expire. That would be equivalent to a series of tax increases. However, extending the cuts will reduce the future flow of revenue to the Treasury - even after making a generous allowance for the feedback effect of faster economic growth. All that would make it more difficult to return to small deficits, much less to the budget surpluses we experienced in 1998-2001.

Moreover, the goal of comprehensive tax reform - which is endorsed by almost every presidential candidate - is as illusive as ever. Nevertheless, the increased complexity of the tax system generated in the last few years makes true tax reform more necessary than ever.

Now let us turn to the spending side of the budget. To put the problem in a nutshell, Congress has voted more benefits than revenues to pay for them. Some researchers have tried to quantify that imbalance for the years ahead. The results are staggering - totaling trillions of dollars of promised but unfinanced benefits. The big surprise, at least to me, is that, however large the social security deficit will be, the Medicare finance problem will be many times worse.

Financing social security in the years ahead will be especially difficult because of the underlying demographic trends - and the odd way we are responding to them. Let me try to describe the basic policy problem. Despite all the scare talk about dangerous chemicals and other hazards in the environment, Americans are living longer. Over the past 30 years, average life expectancy has increased from 71 years to 77. At the same time, on average we are retiring earlier. The most common age of retirement has fallen from 65 to 62. Reducing the number of years that we pay into the social security trust fund and lengthening the period over which we receive benefits is a tough combination for those administering the social security program and other government retirement programs.

On past occasions, I have suggested that social security benefits should start at age 65, not 62. I once had the temerity to propose that change at a meeting of a commission on financing retirement on which I was serving. Talk about getting hooted down. But I still believe it is a good

idea. More fundamentally, Congress has to decide whether social security is a retirement system or a welfare program. Now it is a combination of both, even though we do not usually think about it that way.

Yes, it sounds harsh, but granting every social security retiree an automatic annual cost-of-living (COLA) increase is the economic equivalent of welfare. The COLA is paid for by somebody else, by the working population. Surely, the typical private insurance policy does not have a COLA provision. When I made this point in public during my White House days, one congressman called for my impeachment. Fortunately, I worked for a president who knew when laughter was the appropriate response.

While I am voicing unpopular thoughts, let me say that the basic shortcoming of medicare is an attitude encouraged by both political parties: "I want the best possible medical care, especially if somebody else is going to pay for it." To start the necessary but difficult reform process, I would use an approach imbedded in the typical automobile insurance policy: institute a reasonable deductible so that we do not swamp the health care system with paperwork for small claims. In health care, insurance should not include routine visits to the doctor, but it should extend generously to cover major illnesses.

Unfortunately, government is not good at making tough long-run decisions early. Unless big changes are made, social security and medicare are likely to run out of money - but not in the next few years. There is an important lesson to be learned from the S&L bailout of the 1980s - the longer you wait to act, the more difficult and more expensive is the bailout. I guess members of Congress are not exactly quick learners.

Since 2001, we have seen the fastest increase in government regulation in a very long time. The number of federal regulators today is 47 percent higher than last year's total. By far, the largest part of the increase - but not all of it - is in airline security. Like most Americans, I believe that preventing terrorist attacks is very important.

Nevertheless, it was sad to see that, in setting up the new Transportation Security Agency, Congress did not apply the lessons from previous regulatory experiences. One of those unlearned lessons is that hastily written laws are most likely to contain serious defects. That is especially so in the case of statutes setting unrealistic deadlines.

The unfortunate result has been unnecessary costs and needless disruption. Virtually every traveler has a horror story. I will not add to your collection - unless you press me. As in many other areas of regulation, the unanticipated consequences are severe. In this case, I believe that a major reason for the poor financial shape of the airlines is that many potential passengers have been scared off by the arbitrary and inconsistent application of those

new inspection rules.

The most fundamental shortcoming of the regulatory process - and recent regulatory legislation is no exception - is that each of these regulations is written in isolation, as if nothing else mattered. Just try asking whether there is a better way of achieving a given regulatory objective - whether there is a more cost/effective approach to clean water or healthier air or airline security. From my own experience in a variety of regulatory areas, I assure you that you will be lambasted for trying to undermine the regulatory objective. That close-minded attitude is equally apparent whether the subject is global warming or worker safety.

Let us take up another political hot potato - global competition. It does not reduce my commitment to free and open markets at home and abroad to state that American companies are facing rising global competition. To clear the air, let me say that most of the charges that foreign producers are engaged in unfair dumping of their products in our markets turn out to be groundless. It is not unfair for a company with lower costs to charge less than their competitors. American firms do that whenever they have the opportunity. We also have post-Christmas clearance sales without violating any laws, but when foreign producers try to do that, the chances are they will run afoul of our punitive anti-dumping laws.

We should worry about the real reasons why some domestic firms cannot meet the foreign competition. It is unfair for government programs and union rules to increase the cost of production in the United States. Featherbedding and needlessly burdensome regulations are luxuries that we have to dispense with if American companies are going to meet increasing tough foreign competition.

Perhaps the most curable competitiveness shortcoming is the inadequate education and training of millions of young Americans who are our potential workforce for the years ahead. We cannot blame the dropout rates in our central city high schools on foreign competition. It is sad to boast that the United States is number one among the industrialized nations measured by the high school dropout rate. By the way, we spend a lot more per student than other countries. The dropout problem is not the result of a lack of dollars for education.

In terms of foreign competition, a fundamental change is occurring which we need to understand better. I am referring to the evolution of China as an industrial power and the rise of India as a major service center. These strategic developments are generating problems as well as opportunities for U.S. business firms, workers, and consumers.

There is considerable historical precedent which gives us some insight into the longer-term implications. In the

early 19th century, Europe dominated the world economy. That monopoly ended with the rise of the United States as a major industrial power. Europe's share of world commerce declined and the adjustments at times were painful. However, the overall results were very positive. Total world trade rose. So did living standards in both Europe and America.

A similar situation has been developing in Asia. Japan became a major economic power in the 20th century - and the pace of economic development accelerated, with results comparable to the European experience in the previous century. In the 21st century, we can expect China and India to become world economic leaders. The effects good and bad - are likely to be similar to earlier experiences.

A word of warning arises from China's earlier history. In the 15th century, China was arguably the most prosperous and advanced nation in the world. China was not the backward place that many Americans visualize. Rather, it was the innovator that Western nations followed. China invented paper, gunpowder, the cannon, the magnetic compass, the clock, the wheelbarrow, movable type, and nautical innovations such as the rear rudder. Chinese technicians were casting molten iron many centuries before Europeans discovered the process.

What changed the situation? Suddenly, the Emperor of China arbitrarily cut off commerce with the rest of the globe. China descended into a long period of economic and intellectual stagnation, from which it has only begun to emerge.

Nevertheless, there is a very positive side to the subject of international competition. The puppet-parading protesters so visible in Seattle and Genoa were wrong. The emotional outcries against the international economy were mistaken. Globalization is working. When we penetrate the noise, it turns out that those "terrible" multinational enterprises are creating widespread wealth. More people have moved out of poverty in the developing countries in the last two decades than ever before in world history.

It is clear that we live in a dangerous world and that a substantial military force will be required for the foreseeable future. We can argue about the exact size and composition of the military establishment and, of course, when to exert that military power. Nevertheless, in view of the continuing supersized budget deficits, we know that there will be constant pressure from the proponents of civilian programs to limit the growth of military spending.

Under the circumstances, it will be highly desirable to cut back the expensive but low priority vestiges of the Cold War that are still imbedded in the Defense Department's budget. The place to start is to close down the military bases that are no longer needed in view of

today's security needs. There is no shortage of such potential candidates for the budgetary axe. Experience, however, tells us that every community affected will rise up in opposition. A solid phalanx of business, labor, and civic leaders will declare how essential this old military facility is for the region's economic welfare and, of course, for the nation's security.

My favorite example is a base in the Washington, D.C., area which, by every standard, should be closed down. What keeps it going? By sheer coincidence it has a great golf course used by the top brass, military and civilian. Even more important than the base closings is the need to modernize the bureaucratic way in which the Department of Defense awards tens of billions of dollars of contracts each year.

Military procurement dollars would go much further if the Pentagon would strip out the many bureaucratic restrictions that currently burden the acquisition of weapon systems. Examples include prohibiting the purchase of clothing and even fibers of "foreign origin," mandating the procurement of items composed of the highest percentage of recycled material, and providing a monetary preference to low-noise emissions products. My favorite is requiring the purchase of specific supplies from the Federal Prison Industries. That appeals to my sense of irony because it is illegal to import any items produced by foreign prison labor.

Surely, whatever presidential administration is in office in the years ahead will have to make many tough decisions in order to match military requirements and fiscal reality.

As you can see, there will be no shortage of problems facing the United States in the years ahead. The sensible approach - which is not always followed - is to deal with these issues promptly, before they reach crisis proportions. It is also important to put these matters in perspective.

Warts and all, the United States is still the freest society and has the strongest economy of any industrial nation on the face of the globe. That is not just the result of good luck. Our country possesses six special characteristics that are the key to our continued economic prosperity. Too often we take these factors for granted - and we should not:

1. A strong entrepreneurial spirit. Americans are constantly starting up new enterprises. In contrast, most Europeans with discretionary resources are satisfied with just maintaining the status quo. One obvious manifestation is that they traditionally take much longer vacations - and simultaneously resent our greater economic success. More fundamentally, European businesses face far more onerous regulation than our companies - not that regulatory burdens are exactly light in the United States.

2. A substantial small cap stock market. In no other

country can a new business with a promising product idea hope to raise substantial amounts of capital in the equity market. Elsewhere, a new business typically has to rely on bank loans and family wealth.

3. Comparatively low taxes. We all love to gripe about the high taxes we pay. I readily admit that I am no exception. However, in comparison with most other nations, we have a smaller public sector and therefore lower tax burdens.

4. High labor mobility. Yes, it is easier to lay off workers in the United States than in Europe. But there is another side to the coin: American employers are far more likely to hire new workers. The overall result of these divergent trends, over the decades, is striking: job stagnation and high unemployment in Western Europe and job growth and lower unemployment here.

5. World class higher education. Where do people in other countries send their youngsters to college, especially for advanced degrees? Not to Beijing University or Tokyo or Berlin, and certainly not to Riyadh University. Parents who can afford to do so send their young people to American universities. The research being performed at our major universities is also a vital asset, which leads to the last point.

6. Advancing technology. A silent but strategic crossover occurred in the 1980s. Until then, most research and

development (R&D) in the United States was sponsored and financed by the Department of Defense. Military needs determined the direction of the bulk of our scientific and engineering efforts.

Since then, however, R&D has been primarily financed and sponsored by private enterprise. The business share is now up to 70 percent. That is a tribute to the power of private economic incentives. This massive civilian investment in the fruits of science and technology - tens of billions of dollars a year - can be expected to enhance American competitiveness. That will come about by generating a future flow of new and better commercial products as well as improved production methods. One result is already measurable. The United States consistently runs a surplus of exports over imports in high-tech products and services. Our strength in technology will be especially vital in the years ahead as China and India become more powerful competitors in the global marketplace.

To sum up briefly, the United States will face a host of challenging public policy problems in the years ahead - and we will have tremendous resources to deal with them. Whoever is president in the years ahead, we can wish him or her good judgment and especially good luck. Let me leave you with the forecast of my favorite economist, the cowboy humorist Will Rogers. He said, "Things will get better, despite our efforts to improve them."

Economic Development

THE PARTNER OF SUSTAINABILITY

Address by J. STEVEN WHISLER, *Chairman, President and Chief Executive Officer, Phelps Dodge Corporation*

Delivered to the 26th Mining Convention, Arequipa, Peru, September 16, 2003

Thank you, Roque Benavides, and good morning to each of you. I'm pleased to be with you today, and it's a pleasure to share the stage with Wayne Murdy, Juan Villarz and Alex Harrelson.

Whenever I address a group like this, I remind myself of an adage we've all heard: Talk is cheap. In the mining industry, we know exactly why this is true. It's basic economics. Talk is cheap because the supply greatly exceeds the demand! And with that in mind, I'll do my best to be brief.

Of course, talk also is cheap because it's relatively easy to deliver ... far easier than the actions needed to back it up when claims and commitments are made. That's why I'm cautious when approaching a topic like the one we're considering today ... sustainable development.

In a discussion of this subject, there is plenty of room for misunderstanding and misinterpretation. The topic can be unwieldy because the definitions of sustainability are so wide-ranging and the expectations in many quarters

are so high but also so different. In the search for common ground, the concept, and not its definition or the particulars or the implications, is sometimes all that can be agreed upon. Even when discussing positions that are 180 degrees apart, parties will boldly announce their agreement on the concept. I don't believe that approach does anyone any good. It's important, therefore, that we be clear about exactly what it is we're discussing.

For today, let's focus on a definition we all know, the one created in 1987 through the Brundtland Study of the World Commission on Environment and Development. According to this definition, sustainable development is development that meets the needs of the present without compromising the ability of future generations to meet their own needs.

It's difficult to argue with the sentiments embodied in this definition. We want to meet the needs of the present, and we want to make sure that the lives of our children, our grandchildren and our great-grandchildren are not

harmful by what we do in our generation.

As is often the case, however, this definition provides a vision, but it's not an intricate, detailed plan. It begs the question of who, exactly, is responsible for sustainable development and how, exactly, it will be achieved.

I also suspect that many people are less likely to hear the first stated objective - meeting the needs of the present - and more likely to hear the second - making sure that future generations can meet their own needs.

Similarly, I suspect that many people are more likely to hear the word "sustainable" than they are the word "development." And that's unfortunate, because development is important. In fact, economic development is the imperative for raising the standard of living for people throughout the world.

The truth is, there really is not much to sustain if not much has been developed. Any reasonable discussion of sustainable development, therefore, must begin with an understanding that economic development improves lives in numerous ways. It's important for the present generation, and, I believe, it produces resources, systems, knowledge and skills that help future generations meet their needs. When done properly and responsibly, development is not at odds with sustainability but is, in fact, its partner.

Mining, as a basic industry, plays a vital role in economic development. It often can jumpstart and provide a foundation for economic development in a country.

In the nation of Peru, mining has been a leading sector of the economy for the past decade, averaging 9 percent growth per year from 1992 through 2002. Mining represents about 5 percent of the gross domestic product and 45 percent of the country's exports.

Mining, of course, brings investment dollars and creates jobs. In the mid-1990s, a major modernization at our Cerro Verde mine in Peru required nearly \$240 million in new investment dollars. The mine employs about 660 people. Our annual payroll is about \$12 million U.S. dollars, and many of our employees own shares of the mine.

You're all aware of the multiplier effect that direct jobs have on an economy. At Cerro Verde, we estimate that the 660 jobs we provide create three times as many jobs around Arequipa as businesses work to meet the wants and needs of our employees and the mine itself.

Mining operations also become customers for local businesses providing goods and services. Cerro Verde's operational purchases are more than \$75 million each year, and most of that spending occurs in the area around Arequipa.

Mining, in addition to direct employment, often brings the benefits of improved infrastructure to regions in which mines are developed. A good example is our proposed participation in the Pillones Dam project north of the mine,

a project that will create an important new resource for the Arequipa region and the country.

With the dam, Cerro Verde can extend its current mining life by about 25 years. During that time, we will be able to provide jobs to an additional 300 permanent employees. The feasibility of such an extension is dependent upon our ability to secure a reliable supply of water for our future operations, and our participation in the dam project will help us in this regard. If we can reach agreement and secure the necessary water rights, we're willing to provide a significant portion of the capital needed to build the dam - capital the government would otherwise have to provide. The dam, in addition to providing a necessary resource to a major economic engine in the region, would be a long-term resource for the community and its future generations. We are eager to help bring this infrastructure project into being for the mutual benefit of the region, the country and the mine.

Some benefits of mining are not so quantifiable, but they are real nonetheless. For example, employees at a mine often become interested in developing their skills and pursuing the increased educational opportunities that the financial base of mining can provide. Intelligent mine operators will encourage that interest, which often gets passed on to subsequent generations.

Mining also gives employees the resources they need to take better care of themselves. At Phelps Dodge, we hold health and safety as a core value. We work hard to teach employees to live safe, healthy lives, and we encourage them to become champions of health and safety among their families and in their communities. Again, this improves the quality of life not only for the present generation but also future generations.

All of us are aware that some individual mine sites will never be sustainable. The products they create, however, may be sustainable; copper, for instance, once mined and refined, can be recycled indefinitely and put to a variety of uses that society finds for it.

Each individual mine has a finite life; sooner or later, the mineral resources of the mine will be depleted. For this reason we, as an industry, have to be careful about our definition and our position on sustainable development. We have to be clear that when discussing a property that produces a depleting resource, sustainability doesn't mean that we can magically make that property bring forth minerals forever.

There are steps we can take, however, to support the principles of sustainable development and help future generations meet their needs.

The U.S. National Mining Association, for example, has developed a series of principles involving sustainable development for its members. These principles address the

issue from three perspectives - environmental, social and economic. They include such ideas as:

- * Recognizing and being responsive to possible environmental impacts of exploration activities.

- * Developing approaches to mine planning and development responsive to possible environmental impacts through every stage of the mining cycle, including closure and post-closure activities.

- * Planning in advance for the timely reclamation of sites in accordance with site-specific criteria and recognizing community priorities, needs and interests as the mine approaches and reaches closure.

- * Being a leader in developing, establishing and implementing good environmental practices.

- * Being committed to the safety, health, development and well-being of employees.

- * Treating employees with respect.

- * Being a progressive, constructive partner to advance the economic, educational and social infrastructures of the communities in which we operate.

- * Creating wealth and products that contribute to economic prosperity.

- * Helping eliminate poverty and providing economic opportunities.

- * Contributing to national, regional and local economic well-being and security through the creation of employment opportunities, wage payments, purchase of goods and materials, and payment of fair and competitive taxes and usage fees.

These are all principles that Phelps Dodge is willing to commit to so that we can do our part to further sustainable development. We believe that most responsible mining companies support these or similar principles.

Many of you may be aware of our operational improvement program called Quest for Zero, which we've been using to strive for zero defects, zero waste, zero variance in production processes and, importantly, zero safety and environmental incidents. The program has its roots in our Zero and Beyond safety initiative, a program we've been using for a number of years to become one of the safest mine operators in the world.

I've always believed that there's a direct correlation between improving efficiency and lowering environmental impact. The more efficient a company is, the less waste it produces, and the less energy it consumes. At Phelps Dodge, we've worked hard to be a technology leader in the industry, and we've usually found that as we introduce and improve technology, we lower our environmental impact.

I'm pleased that two of our South American mines - Cerro Verde and Candelaria in Chile - are ISO 14001 certified, and many of our other operations will have the systems in place to qualify for certification in the next several

years. More broadly, members of the mining council in Peru all recently signed a code of ethics committing them to operate in an ethical, safe, environmentally responsible manner. A document with signatures from all mining council members was recently delivered to President Toledo. It's important that we act together in this way for the good of the industry and Peru.

At Cerro Verde and all our mines, we work hard to avoid environmental incidents. When we have one, however, our code of ethics requires us to acknowledge it, accept responsibility for it and fix the problems caused by it. Our credibility, and that of the industry, depends on being responsible and accountable in this way. And of course, remediation of such problems supports long-term sustainable development.

Let me make one other comment about this issue. There are a number of organizations advancing the ideals of sustainable development. Some are quietly effective; others are quite vocal in their assertion that if you do not belong to their group, you are not committed to the concept. I personally have serious concerns about this approach and its corollary: that the sustainable development concept can somehow be turned into a competitive advantage. It's akin to trying to prove which of the world's religions is superior, and it ultimately runs the risk of costing society more than it benefits.

It's important to remember that no one in this industry, or any other industry or group for that matter, has a monopoly on sustainable development or its goals. In the end, we all must contribute and support each other for the goals of sustainable development to be realized. Time will be much better spent by finding areas in which can mutually work toward results instead of vying for recognition as the premier thought leader on the issue of sustainable development.

I would emphasize, however, that industry in general and mining in particular cannot shoulder the burden of sustainable development all by themselves. True sustainability requires a partnership of industry, government and society.

Government's role is, first, to create a climate that strikes a balance between the varied interests of all its citizens and the ability of business to succeed. It also must ensure stability so that business can count on continuity in operations, provide a safe environment for employees, move its products to market and deliver adequate returns to shareholders.

Specifically in regard to mining, government needs to recognize that often there are significant mineral resources at a mine even after active mining ends. Good government will allow cost-effective future access to those resources if improved technology or increases in metal prices justify the resumption of operations.

Government also should recognize that when mining

generates tax revenue, the funds should be allocated properly between national needs and local needs. This is important so that local communities truly experience the benefits of mining. Government also must anticipate and plan for the ultimate closing of a mine so the local and regional economies will have alternative support bases. This will help ensure that communities will have the resources to sustain and grow after the active life of a mine has ended.

Finally, government must recognize the importance of establishing a good framework in which business can operate. A business like mining requires an enormous investment, and companies must have as clear a picture as possible of the risks and rewards of a project. It's crucial that government live up to the terms and conditions it agrees to when a company is working through the business case for a mine.

Turning to the role of society in sustainability, it's important that society acknowledge the benefits industry creates. By extension, this means society must understand that taking a position of "not in my back yard" is neither practical nor productive, especially in the case of mining, which must operate where resources are found.

Society needs to recognize that activities with a focused impact, such as mining, can bring far more benefits and far less damage than widespread impacts such as the deforestation that results from poverty. In fact, it's vital that society understands that the true enemy of sustainability is not development but poverty, which leads people to interact with their environment in desperate and often devastating ways. The tools for combating poverty come only with intelligent, prudent development.

Let me reiterate one last time that economic development is the true cornerstone and partner of sustainability. It meets the needs of the present generation, and it creates the resources, systems, knowledge and skills that help future generations meet their needs.

I opened by telling you that talk is cheap. Let me close, however, by saying that discussion is valuable. It's important that we talk not only among ourselves but also have productive discussions with leaders in government and society. We all have a role to play in sustainable development, and it's important to us ... and to our children, our grandchildren and our great-grandchildren ... that we work together to make it happen. Thank you.

Israel, India, And The United States

A NEW PARTNERSHIP AGAINST TERRORISM

Address by THOMAS NEUMANN, *Executive Director, Jewish Institute for National Security Affairs*

Delivered to the U.S. India Political Action Committee International Conference on Terrorism in India, Washington, D.C., July 17, 2003

Thank you for that very kind introduction. I'm delighted to be here with you today, with so many distinguished national security experts. I congratulate you on your very timely and exciting program. There is certainly no more important agenda than the one you have before you.

The twenty-first century has begun in a most inauspicious way. It is not just September 11th and the subsequent wars in Afghanistan and Iraq. Today, nearly one-fifth of the world's borders are in dispute. At this very moment, there are more than 40 international conflicts raging, and two thirds of all the world's governments are authoritarian.

Already, the twenty-first century is significantly different from the twentieth.

Almost since the beginning of this century America has been at war. It is not a war of our choosing and it will not be a war of short duration. Jim Woolsey, the former director of the CIA, calls it the Fourth World War, the third World War being the Cold War.

We are at war because we are strong and also because we have been weak. As the sole superpower we are

resented. Yet there also have been times when we have appeared weak: in Somalia, in Lebanon, in Tanzania and Kenya, and in the attack on the U.S.S. Cole.

Misjudging our resolve, on September 11th the terrorists pushed the envelope considerably further-and they were surprised by our response.

Newt Gingrich, who I believe is one of the most astute observers of national security issues, defined the post September 11th transformation in five different ways, as follows:

1) Globalization applies to national security. In other words "if we are not over there, they will be over here."

2) The issues are non-negotiable. These people hate us and they feel good if we die.

3) Weapons of mass destruction change everything. We are dealing with a terrifying capacity to kill. It forces us to change our strategy from containment to preemption. The kind of devastation and destruction that once resulted from years of battle now can be unleashed in hours.

4) Islamist extremists are our strategic competitor and Al Qaeda is but a symptom.

5) The nature of the attacks on us can change dramati-

cally. Our very strengths can become our weaknesses. A stadium holding a 100,000 people becomes a target and an airplane becomes a lethal weapon.

Terrorism has become the enemy's choice for engaging us. Unlike traditional wars where the targets are military, the terrorist seeks out civilians. What Americans and Israelis call collateral damage is the primary objective of the terrorist. And it is a fact that most of these terrorists, although not all, are Islamists.

The countries who are number one on the terrorist hit list are Israel, India and the United States. That unfortunate commonality is what brings us together today.

All three countries are democracies. All three are robust and resilient and all three are open societies. It would therefore be a wise decision for these three countries to cooperate in their struggle against terrorism.

That is why JINSA, the Jewish Institute for National Security Affairs, has been fostering trilateral cooperation between these countries. Last year JINSA sponsored a conference in New Delhi focusing on national security, intelligence and counter-terrorism. Speakers included Dewy Claridge, who created the CIA's counterintelligence center, the former Israel Defense Force chief of staff, the head of Israel's national Security Council, the former head of counter-terrorism at India's external intelligence service, the former head of Mossad and the former head of FBI counter-terrorism.

Our objective in this conference was not academic but practical. Not only to have an exchange of ideas, which is always valuable in itself, but to set in motion a process of cooperation between these three democracies—a process of working together and exchanging both intelligence information and ideas. This is now happening. We are having the second conference this February in Israel.

In a statement issued to the press after the New Delhi Conference, the conferees agreed that

“The United States, India and Israel, as sister democracies and common victims of international terrorism, should pool their resources and experiences in dealing with this menace. We urge the creation of a trilateral governmental mechanism to promote cooperation and concerted action against terrorism, and we call on other like-minded nations to join us. At the same time, we conferees will continue to work together as a private organization informing the public, and influencing governments toward this goal.

“All three countries have been victims of terrorism. All three must have a common determination to oppose terrorism wherever it rears its head. And all three must take appropriate action against those who fund, incite, train, or give safe haven to terrorists. Since terrorism is an international menace, so our response must be international in character.”

We are developing a new partnership against terrorism—a partnership with enormous potential.

The other program we are undertaking to counter terrorism is our Law Enforcement Exchange Program (LEEP). Israeli law enforcement is the world's most experienced in dealing with terrorism—due, unfortunately to its long and painful history of defending its citizens against acts of terror. By contrast, American law enforcement until September 11th had little experience with terrorism. Today our law enforcement people are required to be the first responders. The LEEP program brings together American law enforcement officials with their Israeli counterparts. So far, we have involved more than 7,000 senior law enforcement officials.

But the problem of terrorism goes far beyond Israel, India and the United States.

The Russians, who were among the originators of terrorism as a political vehicle, are now among its victims. While most acts of Chechen terrorism take place on Chechen soil, Moscow itself is not immune. Last October, you may recall, about 800 Russian theater-goers were taken hostage. When the crisis ended 129 of these innocent civilians were dead.

In Spain, Basque separatists continue their acts of terrorism against the Spanish government.

In Nepal, that tiny state in the Himalayas, it is estimated that 7,000 have been killed in a civil war. 5,000 died in the last 14 months alone.

In Afghanistan, where America was quick and decisive, it would be an error to assume that all is now well. Outside of Kabul the situation is still chaotic. The warlords are still in charge and armed.

Everybody is aware of what is happening in Iraq. We won the conventional war, but are still confronted with cowardly terroristic attacks on American soldiers.

In the Philippines the terrorist group Abu Sayyaf is seeking to establish an Islamic state. There is evidence of links between Abu Sayyaf and Al Qaeda. Last October the terrorists were blamed for two bombings that killed and injured over 150 people.

In Indonesia, 200 people were killed in Bali by the radical group Jemaah Islamiah.

The list goes on. The countries in conflict are literally too numerous to mention. They are not just in Asia and the Middle East. They are in Africa, Europe and Latin America.

Terrorism is a factor everywhere. It is the system that the weaker side employs to compensate for its weakness. But no cause can justify the conscious slaughtering of innocents. In war there is collateral damage, but in terrorism the innocent are the target.

How can the civilized world respond to terrorism? How

can we, as citizens?

First and foremost-there can be no compromise with terrorism. It is often said that terrorism is built on hopelessness. I disagree. I believe that terrorism is built on hope-the hope that if they inflict enough suffering their opponents will make concession after concession to accommodate the terrorists' wishes.

This is why the events in the Middle East are so important to India, the United States and other victims of terrorism. If Israel can be forced to compromise as a result of Hamas or even Al Fatah activity, every terrorist in the world will be encouraged.

It can be argued that it was Israel's withdrawal from Lebanon that sparked the second intifada. The argument was that if Israel could not withstand the bloodshed and the loss of life in Lebanon, then at some point they would not be able to withstand the bloodshed and loss of life in Israel.

Every terrorist has a grievance - whether it is the Chechens, Al Qaeda or Hamas. One cannot legitimize the terrorism of one group and reject the terrorism of another group. If you can target Israeli civilians then you can target Indian civilians and you can also target Spanish civilians.

There are three kinds of terrorists - state-sponsored, groups unrelated to states and individuals or small groups with grievances.

In state-sponsored terrorism we must go after the spon-

sor, whether it be Iraq, Iran or Syria. There need to be consequences for sponsoring those who would kill and maim the innocent.

And we have to remember that a single individual with a vial of bacteria can create an act of terror. John Mohammed and John Malvo, the Washington snipers, were not traditional terrorists. But their actions demonstrated how two people, lone wolves, could terrorize a city.

The free world has to battle terrorism. That is why America's action against Iraq was justified and important. It sent a message.

Similar messages have to be sent to places like Saudi Arabia, which still finances most terrorist groups throughout the world. They are the financiers of madrasses that teach the gospel of hate. As you know, there is a growing feeling in Washington that we have been apologizing for the Saudis for too long.

Groups and cells are difficult but they can be penetrated. We must do so in order to try to save the next generation.

We need to be united, strong, and unrelenting in our pursuit of terrorists-and unapologetic. Perhaps most of all, we need to be patient.

Until recently, it can be said, we lacked the political will to fight terrorism. September 11 changed that. Not just for the United States-but for every other nation throughout the globe. Thank you.

The Change In How We Deal With Crisis

THE SEVEN MYTHS OF HIGHLY EFFECTIVE PLAINTIFF'S LAWYERS

Address By STEVEN B. HANTLER, *Assistant General Counselor DaimlerChrysler*

Delivered to the Republican Attorneys General Association Summer Meeting, Las Vegas, June 2, 2003

It is an honor to be with a group devoted to the Constitution and our free enterprise system. It's important to remember that these two systems reinforce one another. The Constitution provides the framework of our rights and responsibilities as citizens. The free market system operates within that system to guide our role as consumers and producers of personal and social wealth.

It's all too easy to forget, in the midst of blazing headlines about the undeniable misdeeds of a handful of corporations, that profits remain the lifeblood of our free enterprise system. Yet with a broad brush, plaintiff's lawyers and their surrogates are busy painting all of business as inherently suspect just for seeking profits. Behind this assault on corporate America is a threat to our free enterprise system-and even the rule of law itself.

Before I explain these assertions, let me first draw attention to the ironic fact that those who very publicly portray their indignation about corporate misdeeds choose not

to recognize a money scandal that is all around them.

I am talking about places that one legal observer calls "magic jurisdictions"¹ - places that the American Tort Reform Association less politely calls "judicial hellholes."² These are jurisdictions, this legal observer says:

[W]here the judiciary is elected with verdict money. The trial lawyers have established relationships with the judges that are elected; they're State Court judges; they're popul[ists]. They've got large populations of voters who are in on the deal, they're getting their place in many cases. And so, it's a political force in their jurisdiction, and it's almost impossible to get a fair trial if you're a defendant in some of these places. The plaintiff lawyer walks in there and writes the number on the blackboard, and the first juror meets the last one coming out of the door with that amount of money . . . The cases are not won in the courtroom. They're won on the back roads long before the case goes to trial. Any lawyer fresh out of law school

can walk in there and win the case, so it doesn't matter what the evidence or the law is.³

The legal observer is none other than Dick Scruggs, one of the most successful plaintiff's lawyers in the country - and we should all thank him for his candor.

To understand how America has become beholden to these judicial hellholes, we have to look beyond the \$2 million car paint jobs and cups of spilled coffee. We have to look to the deeper currents of American culture in which lawsuits have become our society's principal domestic drama, just as Westerns once were.

Just as the sheriff was always the good guy, legal thrillers are invariably told from the plaintiffs' perspective. In all of them - *A Civil Action*,⁴ *The Rainmaker*,⁵ and *The Practice*⁶ - the story reaches the denouement when the courageous trial attorney in the person of John Travolta, young Matt Damon, or fiery Dylan McDermott, hammers the rail and tells the jury a great wrong has been done. Somebody has got to pay.

Our culture - saturated in the drama of the law - is in danger of forsaking the rule of law. To understand why this is, we need to get behind the sound stage and address seven fictions the trial bar uses to change our culture and exploit the law. These are *The Seven Myths of Highly Effective Plaintiff's Lawyers*.

Myth No. 1

The 1st Myth is that corporations put profits ahead of safety and honesty, and large damage awards are the only way to get corporations to act responsibly.

When Kip Viscusi at Harvard Law School studied the impact of punitive damages on safety, he found that juries award punitive damages so randomly and in such unpredictable amounts that there is no linkage between a firm's conduct and expected damages.⁷ In short, he found that punitive damages do not deter wrongful conduct.⁸

Still, every plaintiff's lawyer wants to hammer on that rail with theatrical indignation, accusing a company of endangering a human life to scrimp on, say, an 85-cent part, and demanding a huge punitive damage award to "send a message" to the company's head office.

The truth is that most corporations care deeply about the safety of their customers. That is the only way to do business in the modern world.

I know this is true of the auto industry. The plaintiff's lawyers often claim that auto companies knowingly place defective products into the marketplace. Yet Ford executives drive Fords, General Motors executives drive GM cars, and I drive a Chrysler 300M. These are the very same vehicles that our spouses and children ride in every day. To suggest that we knowingly place defective vehicles into the marketplace is not only wrong, it is insulting.

But do profits and costs enter into our manufacturing

decisions? You bet they do.

This is made out by the trial bar to sound heinous - as if we were risking lives on the altar of profits.

The truth is that we could make a vehicle impervious to just about any kind of accident. In fact, such a vehicle is available. It is called an Abrams tank-it weighs close to 70 tons, and costs more than \$4 million.⁹ I don't believe the government is offering 0% financing or generous rebates on Abrams tanks.

In any event, the public does not want tanks. It will only pay for cars that offer "reasonable safety" based on U.S. government standards: in other words, the safety that the public can afford. This necessarily forces auto companies to make the same kind of cost-benefit analysis consumers make when they choose between large cars and smaller, less expensive cars.

The really tough safety decisions auto makers have to make are not between cost and safety. The tough decisions often come from weighing the hazards and benefits of a given technology. For example, in the auto industry laminated side window glazing can reduce ejection in certain accidents, but it may also increase head and neck injuries in others.¹⁰ These are the tough decisions.

Moreover, what a company learns about safety is often used against it. If a company improves a product, it is not applauded for acting on the basis of new knowledge. Instead, it is exposed to the charge that the company should have made that improvement earlier.

Finally, in today's environment, good corporations are slammed for succeeding - as if all success was like that of Enron or WorldCom. This is the Ralph Nader line. Mr. Nader and his colleagues once served a useful purpose in heightening the awareness of both consumers and producers on safety. After forty years, however, Mr. Nader still speaks of a "corporate plutocracy" that is "moving on all fronts to advance narrow profit motives at the expense of civic values."¹¹ This is the language of the past, and of zealotry and conspiracy theory; language that, if it still lurks anywhere else in our society, lives only in the lesser movies of Oliver Stone.

The Naderites, however, are not irrelevant. They serve as a Greek chorus, distorting the culture and providing ideological cover for the trial bar.

Myth No. 2

The 2nd Myth is that the so-called "liability crisis" is an invention of corporations to limit their liability for wrongdoing.

In the face of the everyday experience of businesses, legislators, lawyers, and judges, the plaintiff's bar claims that there is no legal crisis.¹² The plaintiff's bar also claims that punitive damages - which are central to the crisis - are in fact fairly uncommon and relatively low.¹³

Much of their evidence rests on a flawed study from the Association of Trial Lawyers of America, or ATLA, which was based on incomplete information.¹⁴ Even its author conceded that there is no comprehensive data about punitive damages awards available.¹⁵ The truth is, to know the real extent of punitive damage awards in America, one would need access to thousands of paper files in thousands of county courthouse basements.

The impacts of lawsuits, however, can be measured. They can be measured in terms of the destruction of national wealth.

A Tillinghast Towers-Perrin study reveals the U.S. tort system cost \$205 billion in 2001.¹⁶ This amounts to \$721 for every man, woman and child in the country and is an astonishing 14 percent increase in tort costs since 2000.¹⁷ The President's Council of Economic Advisors also reported that the cost of lawsuits is "far more than enough money to solve Social Security's long-term financing crisis."¹⁸

Putting this in terms that every American family would appreciate, our annual tort costs would pay for more than three months of groceries, six months of utility payments, or eight months of health care costs for all of those families.

Or consider that just the costs of asbestos litigation could reach \$200 billion - more than the California Northridge earthquake, Hurricane Andrew and September 11th terrorist attacks combined.¹⁹

The costs are not only national - they are international. Tort costs are so high that they are beginning to affect the willingness of exporters to do business in the United States.²⁰ The Austrians have a wonderful cognate-Nordamerika-Risiko-that reflects the need for excessively high premiums to cover insurance in the United States. America is acquiring an international reputation as a legal backwater.²¹

Nowhere, however, does lawsuit abuse inflict more harm than in the area of medical care. According to Jury Verdict Research, Inc., more than half of all medical malpractice jury awards today top \$1 million, and the average jury award has increased to \$3.5 million.²² Excessive damages and unwarranted lawsuits drive doctors out of practice and raise the costs of health care through out-of-pocket payments, insurance premiums, and taxes.²³

The U.S. Department of Health and Human Services reports that Americans are at risk of not being able to find a doctor when they need one.²⁴ In some states, the cost of malpractice for delivering a baby heaps another \$2,000 on the bill that a mother must pay to obstetricians.²⁵

One finding in the HHS report is truly staggering: If reasonable limits were placed on non-economic damages in medical malpractice cases, there would be enough

money to pay for a Medicare prescription drug benefit plan and help uninsured Americans obtain health coverage.²⁶

Yet ATLA maintains that there is no tort crisis.

Myth No. 3

The 3rd Myth is that punitive damages are rarely awarded or are always reduced on appeal.

This is a strange assertion. If awards were so rare, why would plaintiff's lawyers waste their time pleading them in every case? Why would they fight hammer and tong to stop legislation placing reasonable limits on punitive awards?

You know the answer: Settlement leverage. To borrow a Las Vegas analogy, the "heavy dice" effect of punitive damages, especially in "magic jurisdictions," coerces many defendants to settle. As Yale Law School Professor George Priest has observed, "the availability of unlimited punitive damages affects 95 percent to 98 percent of cases that settle out of court prior to trial. It is obvious and indisputable that a punitive damage claim increases the magnitude of the ultimate settlement and, indeed, affects the entire settlement process, increasing the likelihood of litigation."²⁷

And what about those defendants that don't settle, and lose an eye-popping verdict at trial? In the new world of billion-dollar verdicts, oppressive bonding requirements may deprive a defendant of its right to appeal.²⁸

Myth No. 4

The 4th Myth is that class action lawsuits serve the public good by marrying efficiency with justice.

U.S. class action law underwent a radical transformation in 1966 when Rule 23 was revised to reverse the "opt in" provision to one requiring class members to "opt out."²⁹ As a result of this one change, countless thousands have been conscripted into class actions, often unknowingly, and sometimes even held in suits against their will.

Class-action impresario Bill Lerach quipped that "I have the greatest practice of law in the world . . . I have no clients."³⁰ This is, indeed, clientless law. A Florida judge wrote of one lawsuit that it "appears to be the class litigation equivalent of the 'squeegee boys' who used to frequent major urban intersections and who would run up to a stopped car, splash soapy water on its perfectly clean windshield and expect payment for the uninvited service of wiping it off."³¹

Not only do class actions often address specious "injuries," they often cheat the very clients they purport to serve, leaving them with near-worthless coupons - but netting the lawyers millions. For example, in a class action against Carnival Cruise Lines, for the alleged inflation of port charges, former passengers received coupons worth \$25 to \$55 to be used for a future cruise, or redeemed for cash

at 15 to 20 percent of face value. The class action plaintiffs' counsel were set to receive \$5 million in attorney fees as part of the settlement.³²

Another class action settlement arose from allegations that Ralph Lauren inflated the suggested retail price on its Polo line at outlet stores. The take? Plaintiffs' lawyers walked away with \$675,000 in fees. Their clients-the actual customers-can apply for 10 percent-off coupons (assuming they still have receipts from purchases made between July 15, 1991, and January 10, 2000).³³

There is some good news - judges are now starting to reject these suits and their aims. The bad news, however, is that it only takes one judge to bring a defendant to its knees. This is because class actions can thrive in a relatively small number of jurisdictions - many of them small, rural and remote from the social consequences of bankrupting verdicts.

Consider rural Madison County, Illinois. More class action lawsuits have been filed per capita in Madison, where juries are known to be generous, than in any other county in the United States.³⁴ Two recent verdicts from Madison County jurors came in at \$250 million and \$10 billion.³⁵

Clearly, something is drawing plaintiff's lawyers to this court like bees to honey. A hint of that "something" might be found in the contributions made to the political campaigns of local judges. The personal injury bar contributes more than 75 percent of the estimated \$800,000 given to local judges' political campaigns. According to the Manhattan Institute's Center for Legal Policy, there was a projected 3,650 percent increase in class-action filings in this one Illinois circuit court over a four-year period.³⁶

Myth No. 5

The 5th Myth is that litigation protects consumers when regulators fail to act.

In the federal regulatory process, safety policy is developed by a balanced, expert-led investigation of risks. Federal auto safety investigators and scientists want to know all the pertinent facts affecting vehicle safety. In the tort process, where the stakes are the titanic profits of the blame industry, the investigative process is anything but scientific.

The legal system deliberately blinds itself to many pertinent facts through arcane and discriminatory rules of evidence. In 29 states, for example, juries are not allowed to hear that an injured plaintiff failed to wear a seatbelt. Incredibly, the fact that the driver at fault was drunk or drove through a red light is not admissible in many courts.

Juries should know these facts. They should also know about the initiatives voluntarily taken by the auto industry. Consider one initiative, right-hand outside mirrors. They were not required by any federal standard. The same is

true of anti-lock brakes; side air bags; built-in child seats; adjustable pedals so small occupants can sit farther back; seat-belt devices to take the slack out of the belt in the case of a severe crash; or load-limiting seatbelts, that stretch when the forces on an occupant begin to exceed the level where broken ribs can occur.

None of these features and driver assists was required by any regulatory directive. The car companies offered these items because customers appreciate them, and because it was the right thing to do.

While auto companies are making this progress, developments in the courtroom impede safety. On the basis of courtroom polemics, juries with no technical expertise are asked to render verdicts that, in effect, set new national safety standards. For example, regulators can determine that a given vehicle part is safe. Twelve juries can find that part to be safe. But if the 13th jury finds it defective, and reinforces that decision with an eye-popping verdict, that 13th jury sweeps away the methodical deliberations of the other juries and federal regulators alike.³⁷

Regulators, on the other hand, do not dictate design in this way. They seek one result - safety.

Between 1966, when the Motor Vehicle Safety Act was signed, to 1990, about 250,000 lives were saved because of federal safety programs. Over a half million additional lives were saved because of public safety campaigns and advances made by the auto industry.

Nevertheless, some personal injury lawyers and their surrogates believe that they "know better." Former Labor Secretary Robert Reich was correct when he said that "[t]he era of big government may be over, but the era of regulation through litigation has just begun."³⁸

This era of regulation through litigation began with the marriage of attorneys general, bound by oath to the Constitution - and plaintiff's lawyers, bound by their devotion to the pursuit of profit.³⁹ This is matrimony of the unholy sort.

The hiring of private lawyers to do the public's business is the only public process in which billions of dollars in services can be contracted with a small number of individuals, without any oversight, standards, or accountability - just the Attorney General's assurance that he or she has picked the best lawyer. Even then, these sweetheart deals sometimes fall apart - as romances do - ending in bitter lawsuits against the states for more settlement money.

Such practices should be of great concern to more than just American business. They should concern every one of us because we are in danger of becoming a nation not of laws, but of jurors.

Myth No. 6

The 6th Myth is closest to my everyday practice - the myth that corporations settle lawsuits to cover up their

wrongdoing.

I don't need to spend a lot of time responding to this Myth. Dick Scruggs actually provides the best response and his candid comments bear repeating:

"The trial lawyers have established relationships with the judges that are elected . . . They've got large populations of voters who are in on the deal . . . and it's almost impossible to get a fair trial if you're a defendant in some of these places."⁴⁰

This, of course, causes some corporations to settle lawsuits for which they have a meritorious defense. Another factor that contributes to an uneven playing field in many courtrooms is the trial bar's ongoing campaign to demonize profits. Especially in closing arguments, the trial bar seems to equate profits or success with wrongdoing. And, judging by the eye-popping verdicts in some jurisdictions, many trial lawyers could earn an Academy Award for their performances.

The truth is that profits are the lifeblood of our economy and produce social wealth and benefits. To cite an example from an industry different from my own, consider General Electric-which under its previous chairman boosted its profits by 650 percent.⁴¹ Can any intelligent person debate the immense social wealth and benefits created by GE during the Jack Welch years?

GE's prosperity not only creates jobs and funds pension and health care plans, it also allows its employees to give more to their communities. To name just one example, GE engineers volunteer to raise the standards of a Cincinnati school-a school that once sent 5 percent of its students to college, and now sends 60 percent of them to higher education. Fifty-five thousand GE people from all over the world volunteer their time.⁴² Former CEO Jack Welch puts it like this: "A corporation's role in society, first and foremost, is to win, to be successful, to be profitable, to grow. Because when you do that, you pay taxes. You have people who are not scared, hanging on. They give back to their community."⁴³

Myth No. 7

The 7th and Final Myth of Highly Effective Plaintiff's Lawyers is that like David-against-Goliath, the trial lawyers are outgunned by powerful and resourceful corporations.

This is the most cherished trial lawyer myth, perpetuated in countless movies, that there are a few Robin Hoods out there struggling against the armed might of the powerful Sheriff. It deserves to be said that Robin Hood didn't fly around Sherwood Forest in a Gulfstream IV or V, own mansions, private golf courses or a losing baseball team.

Robin Hood, after all, gave to the poor. Six trial lawyers and their firms took more than \$5 billion as fees for their firms from tobacco litigation - monies that many be-

lieve belong in state treasuries for health care and education.⁴⁴ Indeed, some of these erstwhile Robin Hoods, like Peter Angelos, are seeking to take even more. Angelos sued the State of Maryland for 25 percent of the state's \$4.4 billion share of the tobacco settlement.⁴⁵

Examined closely, the trial bar looks less like a tender shepherd boy with a slingshot and more like a band of Goliaths with flamethrowers.

The point here is not that they are very rich men. They are. The point is that their law firms are even richer - with the depth and agility to field an army of well-paid experts, legal strategists, private detectives, jury consultants and top public relations people. Against such enterprises, even the largest corporations can be intimidated.

In exposing these myths, I don't mean to suggest that there is no need for a strong system of torts. I do mean to suggest that our system is wildly out of balance.

It is out of balance because the outcomes we used to joke about are becoming reality. Consider that no less a scholar than Harvard Law School Professor Larry Tribe is presaging a movement to grant 13th Amendment protections to cats, dogs, mice, and chimpanzees. Nowhere, Mr. Tribe notes, does it state in the U.S. Constitution that only humans are covered. "Nonhuman animals certainly can be given standing," he says.⁴⁶

Lawyers used to joke that someday people would sue fast food restaurants. Now lawsuits are proliferating against fast-food chains for making people obese.⁴⁷ This is a ridiculous, imbalanced system, but it is no joke.

As I said at the beginning of my talk, the basis of the civil justice crisis emerges from culture. That our culture has changed is undeniable. Neighbors have an argument. Years ago, they would have worked it out over the backyard fence. What do they do now? The New American Way - they sue.

Someone likes McDonald's food too much. What do they do? They sue.

Parents are upset over an umpire's call. What do they do? They sue.

I am 50 years old and I have been practicing law since 1978. My generation is now leading this country, and not a day goes by that I don't worry about what we are teaching our kids.

This came home to me a few years ago when my son and I were driving in the car and couldn't reach an agreement on whether we would go to McDonald's or Taco Bell. He suggested that we call someone named Ted to settle our dispute. Ted? I asked him who that was. He pointed to a billboard we were approaching, advertising a plaintiff's firm with the toll-free number of 1-800-CALL-TED.

I laughed then, but I worry now. I can see that this is

truly a struggle to make it clear to the next generation what real justice looks like.

This is a struggle for the hearts and minds of the American people. This is a struggle to tell our story. Thank you.

Top Secrets From An Expert

HOW I SURVIVED 20 YEARS IN THE COMMUNICATION BUSINESS

Address by SUSAN PETERSON, *Founder & President, The Communication Center(r)/ Susan Peterson Productions Inc.*

Delivered to a group of Public Relations Women, Washington, D.C., September 17, 2003

Survival is a funny business. There's something surreal and unreal about it. You really can't quite believe it-and it was only 'yesterday' when I walked into an office looking like a bag lady with two grocery bags full of pads and pencils to begin my new life.

Looking back, there's lots I'd like to impart to you but I purposely kept it down to only five management secrets-mainly so I wouldn't go on too long and because I really want to hear from you as well.

First of all, giving advice is a dangerous business. There are probably 6 million 593 thousand ways to manage or run a business or department. In other words,

there's no right or wrong way...just different ways. I wasted a lot of years looking for the big secret of management only to realize after 20 years,

there is none. What works one place does not work in another place.

So why then share secrets? Because it's a way to communicate...to share information, and a way to learn from each other.

Here's the deal- I'll give you my top secrets...then you give me yours. And together, we'll figure it all out!

I want to start with a little historical advice given to me by my father when I started my business. My dad was a lumberman. He owned his own saw mill and my mother did the book-keeping. They employed about 30 to 40 men. I remember as a child being embarrassed when my dad would write down as his occupation: 'self-employed.' In my child's mind, that was different. Everyone else had fathers who worked for the railroad, or the forest service. I didn't know then what I know now. Now I couldn't be prouder.

When I was a CBS correspondent, my father used to track every time I was on the air reporting from London. He would get up early in the morning and stay up at night to see if he could catch my reports. Thank God we didn't have 24 hour news reports then! He was my biggest fan. And he especially loved to go to the post office every morning in our small town in Michigan where he'd wait to hear "Hey Harold, I saw your daughter on television last night."

So it was with some trepidation that I came home to tell my Dad that I was leaving the television news business to

start my own business. At first, he was stunned. "You're going into business?" He asked. "Yes," I said tentatively.

And then I saw a look I've never seen in my dad- he just puffed up his chest and beamed! He couldn't have been prouder. Later he took me aside and of all the things I know he wanted to say to me, he gave me only one piece of advice: 'Learn by your mistakes.'

That was probably the best advice ever given to me by anyone. From my father, it was golden because it said I could and would make mistakes. He gave me permission to make them and then learn from them. So every time I'd make a mistake-and believe me, there have been plenty—I'd think of my Dad, pick myself up and go on.

And to this day, in our media training business we have a culture of learning from our mistakes. At one time, we even had special awards for what we called the 'mistake of the month.' But unlike my father, I couldn't boil my advice down to just one-after all, I am a communicator! So here are the five top management secrets I've learned through the years.

1st secret: Live by one mantra-it can get done tomorrow! This may sound simple yet it's the key to a well balanced and productive life. The mantra was actually given to me by a friend and our corporate lawyer, Wanda Reif. In the first few years Wanda watched me in the hectic and frantic period of founding a business. That's where you do everything. I hustle the work, do the work, write the invoices and pay the bills.

Just like you, I thought I should get as much as possible out of every day: and that meant staying late-until 8 or 9 at night and working on a lot of weekends. That was when Wanda took me aside and said: Let me teach you a mantra: 'if it doesn't get done by six o'clock, it can get done tomorrow. And if it can't get done by 6 o'clock on Friday night, it can get done on Monday.'

Now that sounds amazingly simplistic and impossible. But when you study workaholic behavior, you find that it breeds more workaholic behavior. It's a never-ending cycle. So I began to take her advice. She was right. I learned how to squeeze it all in. I found I had far more productive days. I learned to set up tasks with deadlines within the day. And I learned to go home and get a life.

Now it's important to realize that there are always ex-

ceptions—even to mantras. Once in a while it slips to 6:15 or 6:30. That happens. And if I have a training session the next day, I take my homework home and work. But that mantra has given me balance in my life...and more important for my clients, I am fresher and less tired.

Plus, you become a role model for your employees. You respect their personal time and it means if we ever have to ask them to work late or come early, they do it willingly.

And one more point to add: how many of you feel you are sleep-deprived? Well, the research shows that most of us are—and unless you're getting 8 hours of sleep, you can't be creative. That extra hour is REM sleep—critical for your capacity to be creative. Our clients hire us for our creativity—in developing messages, or ideas for their speeches & interviews. In other words, part of what we sell is creativity. So, I've become an 8 hour baby. It's done wonders for our business—not to mention my marriage!

2nd secret: You need to make room on your calendar for a crisis—every day! As managers or business owners we often go from one meeting to the next.

In fact, in the early days, I found my schedule was so booked that people were grabbing me in the hallways or as I was leaving the building in order to get critical things decided. It was crazy. Sound familiar?

Then I read about a manager who had an excellent reputation for being a great manager—a man who always had time for the big decisions. His philosophy was that every day has at least one crisis of one form or another—and our problem is that we never make time for it to happen. Instead, he clears his calendar and rarely schedules meetings, especially back-to-back ones. He just waits for the crisis to happen.

Now the so-called crisis can be like yesterday—a last-minute request for immediate training. We had to turn upside down for an hour or so in order to respond. A crisis can also be finishing a multi-year proposal or organizing a PowerPoint presentation. Whatever it is and whoever needs me...I'm ready and available to help because my calendar is cleared. It's made me a better...and a more responsive manager. The irony is that if you are ready for a crisis—it never becomes one—because you have time to deal with it.

And speaking of being responsive, I hope you're all believers in “MBWA”—management by walking around. I try to walk around our building every day and have what I call ‘little management moments.’ I see people in their offices...They tell me what's on their minds or what they're dealing with.

We handle it then and there so we don't need lots of meetings. And it's amazing what you pick up just by walk-

ing around. It's the most effective way to manage—in my humble opinion.

Now onto the 3rd piece of management advice: Turn yourself and your organization into a lean, mean learning machine. Continuous learning is critical to you and to your organization. You have to work on constantly expanding your horizons—‘dusting the cobwebs out of your eyes’ as my father would say.

How do you do that? First, always take advantage of any executive education programs. Example; every year, for ten years, I attended a four-day leadership institute run by the National Foundation for Women Business Owners—Now the Center for Women's Business Research. I learned so much about how to be a better business owner and a better person. And for three years in a row, I took an entire month every summer to attend Harvard Business School in a special program for entrepreneurs and business owners called OPM. That was the best experience and investment I ever made in myself. I urge you to consider it.

Besides yourself—don't forget about your employees or those you manage. Develop your employees and they will develop your business. We emphasize professional development here. In fact, our trainers pick different areas each year where they want more expertise—whether it be crisis, speechwriting or leadership—and we make sure they get to conferences or seminars to expand their knowledge. And once they attend, they come back and teach us what they've learned. Plus, like many businesses, we have tuition reimbursements. In our small company, we've already had three employees get their masters degree while working for us. And we've benefited.

We work hard on creating a constant learning environment here. We subscribe to dozens of newspapers and magazines. Internally, we send around clippings of our clients or issues in the news to keep everyone informed. We call them “trainer or office alerts”. We have a trainer library and give book reports. No matter what business you're in— you should be in the business of learning.

Secret #4: Find creative & unique ways to communicate. And new ways may be going back to the old ways. Let me explain: Through these 20 years, I've seen technology present us and even swamp us with all the different options and ways to communicate. It's almost overwhelming. I just read that each person averages more than an hour each day dealing with emails— another hour added to our already-overloaded days. And a friend of mine just got carpal tunnel of the elbow from lifting her Blackberry- or “crackberry” as it's called- from its leather casing.

My advice—as a communication person—is to find creative ways to communicate— using technology or avoiding

it. Let me give you a few examples: Instead of my conveying comments or compliments from clients, I now transfer messages that clients leave me in my voice mail, and send them out to everyone else in the organization. It's a great morale booster for employees to hear directly from our clients-and it gives credit to the people responsible for a great training session.

I do emails- but only to deal with information and facts- because emails miss "tone". Real communication, guess what? I do personal notes. I mean the old- fashioned kind where I hand-written a few sentences. In fact, I've turned it into an art form that's become my signature. I collect fun cards for every occasion so I have them at the ready. And the result? When I asked one oil executive what was the best form of communication for her, she told me-"Those personal notes of yours...they get through and stand out in all the piles of stuff I go through."

I'm also an inveterate clipper-I always am clipping something from a newspaper or magazine. It drives my husband crazy. Each morning I attach short notes and get them off to a client or contact. One executive told me how much those little notes meant: "It keep reminding me that you're thinking of me-it's top of mind marketing!"

So communicate, communicate, communicate- with your own ways that make you stand out with your own signature!

Now #5— My favorite secret-become a visionary leader. For years I tried to master being a manager...and I don't think I really succeeded. I love people and I love projects, but often management is dealing with personnel problems and

vacation schedules and the like. I'm terrible with such things. The way out of all that is to figure out what you're good at...and delegate everything else! For example, I used to handle every training we scheduled-I liked being in touch with our clients. But the logistics drove me nuts. That is now in far more capable hands than mine. Same for customizing all our training- I loved doing it but I was driving people crazy in the process.

After a lot of thought and preparation -and prodded by the leadership institute-I chose to become a visionary leader-a leader who focuses on the vision of where we

need to be and go. I try now to be a leader who takes time to think and who is not drawn into the black hole of the everyday. It allows me freedom to attend different events-to meet new people and hopefully, new prospective clients-to expand our company. It allows me to bring back new information to grow our company.

Being a visionary leader also means "letting go". Our organization has very talented people-but they need the space and room to add their own energies and ideas. My role now is to be a guiding force. And there's a fine balance between setting standards and micromanaging. I'm always grappling with that balancing act...and sometimes, I fail miserably. Sometimes I truly believe that taking out dead flowers from our office floral arrangement is part of my job description! Attention to such details often brings people back!

One supreme act of "letting go" was changing our company's perception on employees who leave us. In the early days, I used to consider it almost like a betrayal. It always catches you by surprise and it usually throws off the whole organization for several months. Now we approach each departure as a 'graduation'-a natural part of a process where someone is ready to move on and we celebrate it.!

What's rather interesting is that now employees who are thinking about leaving feel free to come to me. I work with them to help them get a better job or another position. Actually it puts me more in control of the whole process-so there's no surprises and no hard feelings. I don't know if it has any connection, but we now have a very low turnover rate. I highly recommend 'graduations' as the way to go.

So there you have it:

It can get done tomorrow.

Make room on your calendar for a crisis-every day.

Turn yourself and your organization into a lean, mean learning machine.

Find new and creative ways to communicate

And become a visionary leader.

Now I'm sure you have some top secrets as well.

So let's hear your ideas.