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President Wolfensohn - Briefings Books for Presidents Meetings - Meeting Material
Fiscal Year 1997 - Committee of Sponsoring Organizations of the Treadway

A L E X I S



de TOCQUEVILLE
INSTITUTION

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Co-Chairman

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SUMMARY OF ACTIVITIES

A L E X I S



de TOCQUEVILLE
I N S T I T U T I O N



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LETTER FROM THE HONORABLE JACK F. KEMP:

The Alexis de Tocqueville Institution is on the cutting edge of promoting democratic, capitalist ideas both at home and abroad.

AdTI's goal is to undermine tyranny no matter what form it assumes, and to assist in making self-government the norm for every society in the 21st century. The Institution favors the use of forms of economic leverage, multilateral lending, defense and military strategies, and other tools to consolidate and advance democratic institutions globally.

At home, we advocate policies that will restore government of, by, and for all of our people. These policies include strengthening free markets, reducing government intrusion, promoting autonomy for the traditional family, and encouraging broad-based economic growth, all for the purpose of ensuring America's rightful place at the vanguard of the world's democratic future.

What makes AdTI different from the other think tanks? First of all, the Institution is lean and flexible, not large and immobile. Second, its research projects and programs are usually sponsored by a bipartisan group of pro-growth, pro-democracy policymakers, which heightens the Institution's credibility with the press and in policy-making circles. Third, it focuses on public policy issues that are often ignored by the larger think tanks, such as assessing the practices of the IMF or detailing the cost of state regulation.

I am indeed proud and honored to be Co-Chairman with Senator Lieberman of this outstanding Institution, and look forward to continuing its important work over the next few years.

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LETTER FROM THE HONORABLE JOSEPH I. LIEBERMAN:

I am pleased to serve as Honorary Co-Chairman of the Alexis de Tocqueville Institution because it is taking the lead in forging a new bipartisan consensus for economic growth and freedom at home, and democracy abroad.

What makes the Institution unique is its ability to bring people together behind common public policy goals. The Institution's research programs have been sponsored by prominent individuals, economists and journalists from across the ideological and political spectrum, such as former Secretaries of State Cyrus Vance and Edmund Muskie, former Secretary of the Treasury Bill Simon, former Vice Chairman of the Federal Reserve Manuel Johnson, Senator Bill Bradley, Senator Connie Mack, Boston Mayor Raymond Flynn, New Republic Editor-in-Chief Martin Peretz, former White House aide Hodding Carter, and author George Gilder.

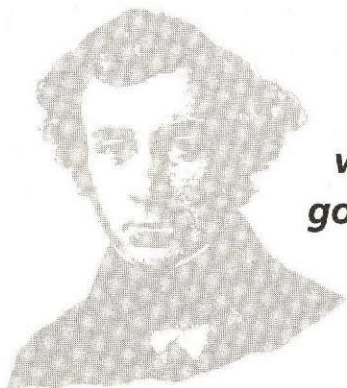
We need to apply Tocquevillian principles to current problems. To quote de Tocqueville, "they (Americans) admit that what appears to them today to be good, may be superseded by something better tomorrow." That spirit of optimism must replace the defeatism that too often characterizes our political scene.

I am pleased to be working with Jack Kemp and AdTI in an effort to build a "better tomorrow."

MISSION STATEMENT

The Alexis de Tocqueville Institution (AdTI) is a non-partisan, non-profit educational research foundation established to conduct, publish, and publicize research on the promotion and perfection of economic liberty, political freedom, opportunity, and democracy in the United States and around the world.

In advancing the democratic capitalist experiment at home and abroad, the Institution will examine public policies that strengthen free markets, reduce government intrusion, promote autonomy for the traditional family as the true basis of liberty, and encourage broad-based economic growth.



***"In a free society,
Lincoln said, he
who molds opinion
goes deeper than he
who enacts laws
and pronounces
decisions.***

***The first task of statesmanship is
not legislation but the molding
of that opinion from which all
legislation flows."***

– Harry Jaffa





HOW THE INSTITUTION WORKS

The purpose of the Alexis de Tocqueville Institution is to conduct, publish, and publicize research on the extension of economic liberty, freedom and democracy around the world. Much of this work is performed for the Institution by persons aged 20-35, interested in careers in journalism, the academy, or government policy. The Institution thus produces its cutting-edge research at a low cost, while helping future leaders to gain the experience and publication record critical to obtaining a position in these fields.

Obviously, terms like “democracy” and “freedom” have different meanings as applied to widely different institutions over time. Yet we believe that the revolution of political and economic liberty, far from having reached its crest, may be only in its early stages. We are innately positive about the applicability of the principles of democracy to a wide range of countries and institutions – while recognizing the prudent admonition of Edmund Burke: “All that is necessary for evil to triumph is for good men to do nothing.”

The Institution conducts most of its activities by providing research grants to scholars, journalists, and others interested in producing a particular paper on an aspect of policy we deem worthy of research. These papers are reviewed by leading experts in the field to insure accuracy and quality. AdTI then acts as broker to get this important work the attention it deserves in the press; our work has been repeatedly cited in major press and scholarly reviews, including *The Wall Street Journal*, *The New York Times*, *Washington Post*, *Newsweek*, and many major TV and radio outlets.

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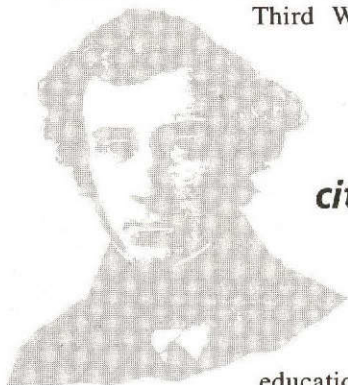
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HOW THE INSTITUTION WORKS

Our research papers generally aim at one of two goals:

1. Putting an important idea, such as developing new policies to block the spread of nuclear technology to Third World dictators, or building



"AdTI's work has been repeatedly cited in major press and scholarly reviews."

education-choice systems, on the agenda with sufficient original research and analysis to command attention; and

2. On matters already on the agenda, assisting the evaluation of existing policies, institutions, or proposals from a free-market perspective that might otherwise be lacking from the public debate.

AdTI does not aspire to replace or duplicate the work of any of the fine public policy research institutions in the U.S. Its place in this constellation is unique.

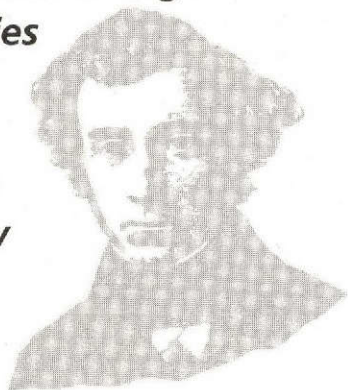
First, AdTI blends a mixture of already-famous scholars and writers with a pool of young articulate persons who would like to be involved in public policy. One of the imperfections in our own democracy, as observers from Charles Peters to William F. Buckley have noted, is a rigid credentialism which consigns policy debate only to lifetime, professional politicians. AdTI aims, frankly, to

HOW THE INSTITUTION WORKS

help open up the political field by bringing in fresh voices, people who otherwise might not get involved.

Second, we are lean and flexible, not large and immobile. Our success will be measured not in cranking out a large number of studies on many different policy debates, but on producing a few important achievements on the margin of the most critical debates. By its nature, the margin is in motion – it sometimes needs not a smart dime but a fast nickel.

"Our success will be measured not in cranking out a large number of studies on many different policy debates, but on producing a few important achievements on the margin of the most critical debates."



AdTI offers assistance to young journalists, scholars, economists, business leaders, and others eager to promote the democratic capitalist revolution – the William Buckleys and Charlie Peterses of tomorrow.

AID TO RUSSIA

In April 1993, on the eve of the Clinton-Yeltsin summit and the Russian referendum, the Alexis de Tocqueville Institution (AdTI) released a statement of principles for aid to Russia and the Newly Independent States (NIS) endorsed by a select group of U.S. leaders from the political, business and academic communities.

The statement of principles that follows was drafted and circulated by Senator Joseph I. Lieberman and former U.S. Housing Secretary Jack F. Kemp, the Honorary Co-Chairmen of the Alexis de Tocqueville Institution.



***"AdTI released
a statement of
principles for aid to
Russia...endorsed by
a select group of
U.S. leaders."***

The statement was endorsed by Senator Richard Lugar (R-Indiana), Congressman Lee Hamilton (D-Indiana), former Treasury Secretary William Simon, former Secretary of State Edmund Muskie, Mr. Barton Biggs, Chairman of Morgan Stanley Asset Management Inc., Professor Paul Nitze of Johns Hopkins University, Congressman Newt Gingrich (R-Georgia), Mr. George Soros, President of the Open Society Fund, and former U.N. Ambassador Jeane Kirkpatrick, among others.

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STATEMENT OF PRINCIPLES FOR AID TO RUSSIA

1. The West under the leadership of the United States should commit itself to a significantly larger and more urgent effort to help Russia and the other Newly Independent States (NIS) build a democracy and a market economy;
2. We should endeavor to seek the implementation of START I and II, and to make sure that all the NIS sign the nuclear non-proliferation treaty;
3. Our economic assistance program should be viewed as an investment in the future of the United States, as well as in the future of Russia and the NIS;
4. The overall aim of our aid program should be to do good and to do well – helping build the markets of Russia and the NIS, while at the same time seeking new opportunities for U.S. firms doing business in these emerging nations;
5. Any investment and assistance program should reflect the special circumstances of Russia, should be developed in direct consultation with the government and people of Russia, should take into consideration the fact that Russia is building a democracy as well as a market economy, should make full use of all resources available to the United States and the West, including those of the international financial institutions, and should include restructuring of the debt owed by Russia to the West but amassed in part by the Soviet Union; and
6. We support the formation of a G-7 working group to coordinate assistance efforts and the regularization of the recent practice of including Russia at G-7 conferences.



STATEMENT OF PRINCIPLES FOR AID TO RUSSIA

JOSEPH LIEBERMAN
United States Senator

JACK KEMP
Former Secretary of
Housing and Urban
Development

RICHARD LUGAR
United States Senator
Senate Foreign Relations
Committee

LEE HAMILTON
Member of Congress
Chairman, House Foreign
Affairs Committee

NEWT GINGRICH
Member of Congress
House Minority Whip

EDMUND MUSKIE
Former Secretary of State
Former United States
Senator

WILLIAM SIMON
Former Secretary of the
Treasury

WILLIAM BENNETT
Former Secretary of
Education

GEORGE SOROS
President, Open Society
Fund

PAUL NITZE
Founder and Diplomat in
Residence
Paul H. Nitze School of
Advanced International
Studies
Johns Hopkins University

JEANE J. KIRKPATRICK
Former U.S. Ambassador
to the United Nations

STROM THURMOND
United States Senator
Ranking Member,
Senate Armed Services
Committee

BARTON M. BIGGS
Chairman, Morgan
Stanley Asset
Management, Inc.

JAMES A. COURTER
Chairman, Defense Base
Closure and Realignment
Commission
Former Member of
Congress

FRANK H. MURKOWSKI
United States Senator
Senate Foreign Relations
Committee

VIN WEBER
Former Member of
Congress



STATEMENT OF PRINCIPLES FOR AID TO RUSSIA

ROBERT W. KASTEN, JR.
Former United States
Senator

MICHAEL BOSKIN
Former Chairman,
Council of Economic
Advisors

HARALD MALMGREN
Former Deputy
United States Trade
Representative

THOMAS H. KEAN
Former Governor of
New Jersey

RICHARD RAHN
President, Novecon Inc.

JUDY SHELTON
Senior Research Fellow,
The Hoover Institution

BRUCE MORRISON
Former Member of
Congress

ARTHUR B. LAFFER
President, A.B. Laffer,
V.A. Canto & Associates

HOWARD BERMAN
Member of Congress
House Foreign Affairs
Committee

MANUEL JOHNSON
Former Vice Chairman of
the Federal Reserve
Board

RICHARD GARDNER
Professor of Law and
International Organizations,
Columbia Law School
Former U.S. Ambassador
to Italy

SHIRLEY WILLIAMS
Professor of Politics,
Kennedy School
of Government
Harvard University

LARRY PRESSLER
United States Senator

**JOHN KENNETH
GALBRAITH**
Professor of Economics,
Harvard University

JAMES TOBIN
Professor of Economics,
Yale University

RICHARD LEONE
President, Twentieth
Century Fund

ROBERT TORRICELLI
Member of Congress



STATEMENT OF PRINCIPLES FOR AID TO RUSSIA

HELMUT SONNENFELDT

Guest Scholar, The
Brookings Institution

DAVID M. ABSHIRE

President, Center for
Strategic and International
Studies

ESTEBAN TORRES

Member of Congress

JOHN LEHMAN

Former Secretary of
the Navy

ALEXANDER HAIG

Former Secretary of State

Kemp Gives Clinton Boost on Russia Aid

Former HUD Secretary Jack Kemp teamed up with Democratic Senator Joseph I. Lieberman of Connecticut to issue a statement of principles dealing with aid to (Russia and the newly independent states).

"The West under the leadership of the United States should commit itself to a significantly larger and more urgent effort to help Russia and the other newly independent states (NIS) build a democracy," their statement said.

It was issued under the flag of a newly-energized think tank, the Alexis de Tocqueville Institution, named for the Frenchman who penned the monumental book *Democracy in America* in 1835.

Kemp and Lieberman are the Honorary Co-Chairmen of the Institution.

However, Kemp did more than lend his name to the statement. According to one of the advisory board members, Merrick (Mac) Carey, Kemp obtained the endorsements of a number of linkage conservatives.

Among them are House Minority Whip Newt Gingrich, R-GA; Mrs. Jeane Kirkpatrick, President Reagan's United Nations ambassador; former Education Secretary William Bennett; Vin Weber, a former congressman who chairs Empower America, and Sen. Strom Thurmond, R-SC. The fact Kemp and the Republicans backed this unpopular initiative at a time when President Clinton is very vulnerable carries immense historic significance.

Buffalo News,
Monday April 5, 1993

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MEDIA COVERAGE

Senator Joseph Lieberman on Aid to Russia

CNBC: You and some colleagues from the Alexis de Tocqueville Institution put out a list of ideas on the terms of what Russian aid should be. You said that we should endeavor to seek the implementation of START I and START II. Would you suggest linking any aid to the resolution of those two treaties in the Russian Parliament?

Senator Lieberman: Let me say first I'm very proud to have been part of this statement, which I co-wrote with Jack Kemp. This is a remarkably bipartisan statement: Dick Lugar, Lee Hamilton, Ed Muskie, Newt Gingrich. I don't know if you follow

economics, but we got both Art Laffer and Jim Tobin on the same statement. You can't find too many statements that the two of them have signed. So we're very proud of this. My own feeling is that we ought not to directly link aid to the implementation of START I and II as if it were a contract. But we ought to talk about the two simultaneously, to give our friends in Russia and Ukraine a clear understanding that this matters an awful lot to us. It's part of our helping out the Russians so as to avoid the need to tool up again on the military side and reduce that threat.

*CNBC-TV Interview,
Thursday, April 1, 1993*

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THE IMF ASSESSMENT PROJECT

The establishment of a hospitable climate for economic growth is uniquely found in countries with a philosophy of limited government and open markets. Few actors are more important to the task of building the economy of the "new world order" in the image of American ideas and institutions than the International Monetary Fund.

The focus of the IMF Assessment Project, a research program of the Alexis de Tocqueville Institution, has been to produce a series of objective evaluations of the International Monetary Fund, with special emphasis on the Fund's economic programs for developing countries and for Eastern Europe.

***"The focus of the IMF
Assessment Project
has been to produce
a series of objective
evaluations of the
International
Monetary Fund."***

The IMF is arguably the most important economic institution in the world economy today. The *Financial Times* of London has called the Fund "the West's most powerful institution." Yet while it is often mentioned, attacked, and defended, there is little understanding among the public, the press, scholars, and public officials as to how the Fund operates, and what its actual policies are. A non-scientific survey conducted by AdTI in 1986 found that Latin American elites asked to name the foreign institution most important to their country's aspirations for democracy named the IMF more than any other.



THE IMF ASSESSMENT PROJECT

The Fund's importance has risen even higher in recent years. Since the Plaza Accord of 1985, the Fund has assumed an important role in the effort to coordinate the monetary policies of the G-7 nations. In 1990, the G-7 ministers gave the IMF a special assignment to oversee and aid in the restructuring of the Soviet economy.

Despite this vital role, the IMF is the object of only sporadic attention from the press, the Congress, and academics. Many academic papers are written about the IMF, but their analysis is based on a thin data base, since the very question of what the IMF's policy recipe is has not been systematically established.

***"AdTI's first report,
IMF Conditionality,
1980-1991, has been
praised by scholars
and present and
former policy-
makers."***

AdTI's first report in our series, *IMF Conditionality, 1980-1991*, has been praised by scholars, U.S. and foreign officials, present and former policymakers, and members of the press. The report provides a specific, objective, documented account of the key elements of IMF conditionality regarding debtor country tax and exchange rates, monetary policies, social welfare programs and other policies, and a statistical report on the economic performance of countries that have adopted IMF sponsored reforms. Forthcoming studies include an analysis of military spending in IMF loan-recipient countries.

G7 Passes the Future of Russia to the IMF

Recent research into the IMF policies and operations over the past decade by the Alexis de Tocqueville Institution, a U.S. think tank...raises the question as to whether the Fund is best suited to the task of promoting reform in Russia...That Russia could well backslide is suggested by the IMF Assessment Project carried out by the Alexis de Tocqueville Institution of Arlington, Virginia.

According to Mr. Gregory Fossedal, the Institution's Chairman, achieving currency stabilization and inflation reduction have

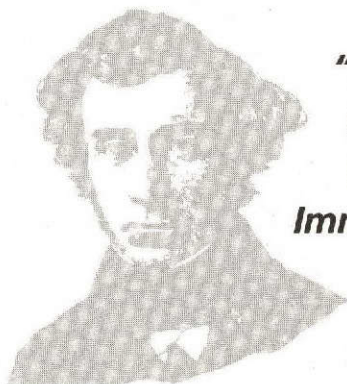
been among the weakest areas of Fund performance. The Institution's study of 90 IMF programs between 1980 and 1991 also found that the successful achievement of monetary and fiscal targets depended crucially on the implementation of fiscal and monetary policies as planned. Mr. Fossedal argues that the IMF is most successful in countries with long-standing democratic and capitalist traditions. He wonders whether the Fund can be the "bold, energetic catalyst" needed to rebuild the former communist states.

Financial Times,
July 13, 1992



THE AMERICAN IMMIGRATION INSTITUTE

In 1990, AdTI launched the American Immigration Institute research program. The AII program works to increase public understanding of immigration and how it makes life richer for U.S. residents, both economically and culturally.



***"Within months of
its official launch-
ing, the American
Immigration Institute
was gaining
notice."***

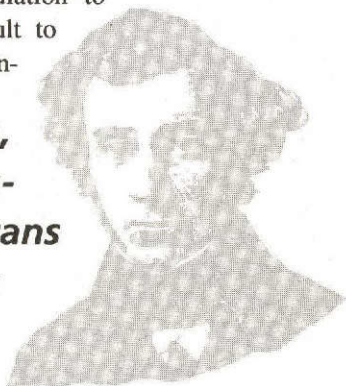
Within months of its official launching, AII was gaining notice as a major player on the U.S. policy scene. *The Economist* cheered AII as a model for positive-sum "politics of the Nineties." The *National Journal* included AII as one of "the most prominent" and influential groups in the immigration debate. Congress enacted the most pro-immigration reform in a quarter century, increasing U.S. legal immigration quotas by 30 percent. "The American Immigration Institute," commented Boston Mayor Raymond Flynn, "can take pride in having helped produce this dramatic change."

CENTER ON REGULATION AND ECONOMIC GROWTH

The Center on Regulation and Economic Growth, a research program of the Alexis de Tocqueville Institution, has begun producing a series of timely and informative evaluations of the cost and the impact of government regulation on consumers, workers and businesses. The Center is chaired by former U.S. Senator Bob Kasten (R-Wisconsin) and includes a select group of public officials, academicians and business leaders.

We believe there is an urgent need for such an assessment because regulatory activity in Washington and in the state capitals has increased in recent years. Unlike taxation, the cost of regulation to Americans is often difficult to see. When a regulation is en-

"Unlike taxation, the cost of regulation to Americans is often difficult to see."



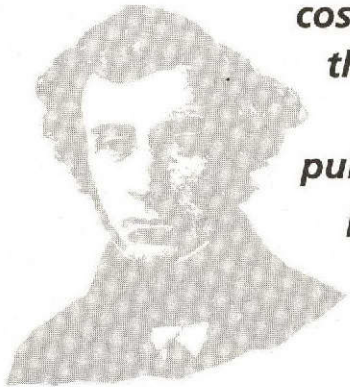
acted, the public tends to focus only on the direct and immediate impact of the regulation; there is little understanding of opportunity costs and adverse consequences of excessive regulation on consumer choices, consumer prices, job creation and overall economic performance.

More than 150 years ago, Alexis de Tocqueville warned in *Democracy in America* against an American government which in its zeal to do good works, "covers the surface of society with a network of small complicated rules, minute and



CENTER ON REGULATION AND ECONOMIC GROWTH

uniform, through which the most original minds and the most energetic characters cannot penetrate.”



“A greater understanding of the cost of regulation on the American economy among the public, the press and public officials can make a critical contribution to regulatory policy-making.”

Research studies published by the Center on Regulation and Economic Growth will be objective and informational. We believe a greater understanding of the cost of regulation on the American economy among the public, the press and public officials can make a critical contribution to regulatory policymaking on both the state and federal levels.

State Regulation Project A number of recent studies have assessed the growing cost of federal regulation. Yet none have assessed the cost of state level regulation. In many cases, regulation on the state level is more burdensome and intrusive than on the federal level.

A path breaking project of the Center on Regulation and Economic Growth will be to assess the cost and impact of state level regulation on the American economy.

VALUE ADDED TAX PROJECT

AdTI is pleased to have Bruce Bartlett, a former key U.S. Treasury official, running its Value Added Tax Project. Mr. Bartlett has already published high profile articles on this potential new form of taxation in *The Wall Street Journal*, and produced an in-depth analysis for circulation to key decision makers and journalists. As the Clinton Administration continues to float trial balloons on a VAT, Mr. Bartlett will expand his review of other countries' experience with value added taxes.

***"Bruce Bartlett,
a former key
U.S. Treasury
official, is running
the project."***





AdTI STAFF MEMBERS

Gregory Fossedal Gregory A. Fossedal is Executive Chairman of the Alexis de Tocqueville Institution. From 1983 to 1986, Mr. Fossedal was an editorial writer for *The Wall Street Journal*, writing signed features and editorials on U.S. and international monetary policy and the rise of capitalist democracies.

In 1986, Mr. Fossedal became a fellow at Stanford University's Hoover Institution, and since 1990 has been the Director for Emerging Markets Services at Lehrman, Bell, Mueller, Cannon, Inc. He is the author of four books, including *The Democratic Imperative: Exporting the American Revolution*. The Hoover Institution Press has also recently published his latest book, *Our Finest Hour*, a biography of William L. Clayton, one of the key architects of the Marshall Plan, GATT, and other U.S. post-war economic initiatives.

Mr. Fossedal has written numerous articles published in *Commentary*, *The American Spectator*, *The New York Times*, *Policy Review*, *The New Republic*, *Harper's*, and *Reader's Digest*. He has appeared on the MacNeil/Lehrer Newshour, CBS News Nightwatch, and CNN's Crossfire.

Merrick Carey Merrick Carey became President of the Alexis de Tocqueville Institution in May, 1993. Prior to joining AdTI, Mr. Carey was Press Secretary to Representative Jack Kemp (1982-1984), who is now Co-Chairman of the Institution. From 1985 to 1987, Carey was Chief of Staff to Representative James Courter, a member of the House Armed Services and Iran-Contra Committees, and in 1989 he served as Director of Intergovernmental Affairs for New Jersey Governor Thomas Kean. From 1990-1993, Carey was Executive Vice President of the international economic advisory firm Johnson Smick International. He is a Senior Advisor for *The International Economy* magazine.



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AdTI STAFF MEMBERS

Mr. Carey has a B.A. in History and Political Science from Drew University in Madison, New Jersey. Presently a Lieutenant (Junior Grade) in the United States Naval Reserve (Intelligence), Carey served as a mobilized reservist for seven months during Operation Desert Shield and Desert Storm at U.S. Navy Headquarters in Europe.

Cesar Conda Cesar V. Conda is the Executive Director of the Alexis de Tocqueville Institution. From 1990 to 1992, Conda was the Republican Staff Director of the U.S. Senate Small Business Committee for Sen. Robert W. Kasten, Jr. (R-WI), the Committee's Ranking Member. Prior to that he was a legislative assistant on Sen. Kasten's personal staff for four years where he specialized in tax, budget, regulatory, housing, and international economic policy issues.

From 1984 to 1986, Conda was an economic analyst for the U.S. Chamber of Commerce where he specialized in budget and tax issues. In 1984, he was a policy analyst for the Competitive Enterprise Institute (CEI), specializing in budget issues, international trade, and international financial institutions. From 1984 to 1992, he served on the CEI Board of Directors.

Conda has written editorials on economic issues which have appeared in *The Wall Street Journal*, *Washington Times*, and *Tax Notes*. He co-authored the chapter on "Business Community Perspectives on Reducing the Federal Deficit" in a 1987 book entitled, *A Nation in Debt*. Cesar Conda is a graduate of the College of William and Mary in Williamsburg, Virginia, where he received his B.A. in economics.

Rachael Applegate Rachael Applegate is Program Director for the Alexis de Tocqueville Institution. Prior to joining the Institution in 1991, Ms. Applegate worked for the health division of the Children's Defense Fund, a children's advocacy group in Washington, DC.



AdTI STAFF MEMBERS

Ms. Applegate was a principal researcher and co-author of the IMF Assessment Project's first report, *IMF Conditionality, 1980-1991*. She is currently working on a study for the IMFAP which analyzes military and social spending levels of IMF loan-recipient countries.

Ms. Applegate received her Bachelor of Arts degree in International Relations and Russian Studies from Colgate University in Hamilton, New York.

AdTI Associates and Fellows:

Bruce Bartlett	David Juday
John Berthoud	Roman Lyniuk
Nancy Bord	Brose McVey
David Burton	Bill Orzechowski
Michael Herson	Rob Shapiro
Tom Humbert	Jonathan Tolman



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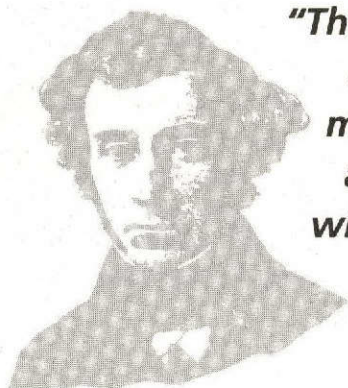
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The Alexis de Tocqueville Institution is a non-profit education and research organization dedicated to the promotion of capitalism and democracy, both in the United States and throughout the world. AdTI believes, as Alexis de Tocqueville did, that capitalism and democracy must ultimately stand or fall together; neither can exist for long without the other. An economy without capitalism is, in the long run, an economy condemned to poverty, and poverty is poor soil in which to grow democracy. At the same time, capitalism cannot long survive in an anti-democratic society, because the suppression of political rights will eventually undermine the institutions which support capitalism as well: a free judiciary, freedom of contract, a free press and the rest.

For too long, however, the promotion of capitalism has been viewed as the province of the "Right," while democracy has been the province of the "Left." Moreover, support for one has often been viewed as



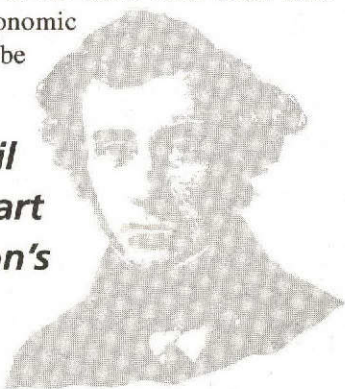
"The principal goal of AdTI is to end the meaningless debate and move forward with both capitalism and democracy at home and abroad."

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coming at the expense of the other. The unfortunate result of this gridlock has been that both capitalism and democracy have suffered. This is nowhere more evident than in the struggle of the people in the former Communist states of Eastern Europe to become both capitalists and democrats at the same time. Both their political and their economic development continue to be

***"...the AdTI
Advisory Council
is an integral part
of the Institution's
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constrained by a fruitless debate about whether economic or political reform should come first, when in fact both must proceed apace.

The principal goal of AdTI is to end the meaningless debate and move forward with both capitalism and democracy at home and abroad. Toward this end, AdTI seeks support from like-minded individuals willing not only to lend their financial assistance, but also to become actively involved in the development and dissemination of its work. AdTI invites supporters of its philosophy to become partners in its mission by joining AdTI's Advisory Council by pledging \$10,000 a year in tax deductible donations.

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Members of AdTI's Advisory Council will have the opportunity to take a direct role in its programs and will be acknowledged on its letterhead if they so desire. In addition to invitations to all Institution events and copies of all its publications and videos, they will be able to commission research by AdTI staff and draw upon its resources to bring their own views to the attention of policymakers and the public. Issues of interest to the Advisory Council, which are consistent with the overall philosophy and mission of the Institution, can be developed into AdTI publications or articles or letters in national publications.

In short, the AdTI Advisory Council is an integral part of the Institution's work, linking together its professional staff with the interests and expertise of its supporters in the private sector. Not only does AdTI view this approach as "democratic," but it also views it as essential to bridging the communications gap between our national government and the American people. In the long run, alienation between a people and their government can be just as much a threat to democracy as other, more overt, threats.

If you would like to join in this effort and be a part of the Alexis de Tocqueville Institution's work, please join the Advisory Council. Of course, other levels of support are deeply appreciated. An outstanding program of policy seminars and issue research is available for all donors.



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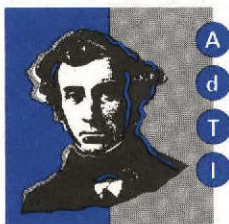
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GUEST EDITORIAL

Africa Is Getting On The Growth Track

By JACK KEMP
& REP. DONALD M. PAYNE

Congressmen Crane's and Rangel's proposed trade and investment initiative, which is strongly supported by President Clinton, is a bipartisan act of vision.

For too long, Africa has been neglected by American foreign economic policy and Western diplomacy generally. It's also, as Gregory Fossetal of the Emerging Markets Group has called it, "the biggest investment opportunity in the world — in the sense that there is the largest gap between actual production and potential production."

Clinton's program could be improved, and hopefully will, as Congress weighs proposed legislation of its own. Most important, the U.S. should do something to address the burden of economic austerity being imposed on Africa by the International Monetary Fund. Too often, the IMF encourages currency devaluation, high tax rates, and other measures that stifle growth.

But the president's program is helpful, and well-timed. To some Western investors, Africa remains a continent sunk in corruption, inflation, despotism and socialism.

Yet recently, it has enjoyed what South Africa's Deputy Executive Vice President Thabo Mbeki rightly calls the beginnings of an "African Renaissance" in markets and opportunity.

Privatization: From 1988 through 1994, at least seven African countries achieved asset privatizations exceeding 5% of industrial production per year: Tanzania, Mozambique, Uganda, Togo, Benin, Zimbabwe, and Ghana. No Latin American or Asian country matched this pace through the 1980s as a whole, though a handful did during a period of intense activity.

Ghana's selloff of the Ashanti gold fields topped 3% of GDP in one year alone, and set a new standard for African privatization. Between 1990 and 1995, the pace of privatization offerings in sub-Saharan Africa doubled. In 1997, 800 significant

offerings are expected in 17 countries.

Tax reform: Britain, France and the other colonial powers took much with them when they left, an Ethiopian economist complained recently — their judges, their newspapers, their constitutions. Unfortunately, they did leave their tax codes.

Accordingly, Africa lived most of the '60s, '70s and '80s under tax codes designed with very little concern for domestic development and, in some cases, designed to perpetuate low-wage, commodity-based production. In 1991, the average top tax rate in Africa exceeded 50%.

This is both unfortunate and ironic since, given its abundance of human potential, Africa needs more than other countries to retain skilled labor and reward effort. Given the level of political and other risks involved, it also needs to promote higher after-tax rates of return to labor, capital and investment than in the secure, developed countries.

In recent years, though, the country-average highest rate of taxation in Africa has declined by nearly eight percentage points. The rate of taxation on per-capita average income has fallen by seven percentage points.

Politics: African capitalism is becoming significantly more democratic. Recently, the Alexis de Tocqueville Institution adapted the Freedom House annual freedom rankings into a 100-point scale, with 100 denoting the freest regime. On that scale, the average African country stood at just 16 points in 1985. It improved to an average of 31 by 1995, and according to the latest rankings, is getting close to 40.

Most important is the improvement in some of Africa's investable debt and equities markets, including South Africa (21 to 64), Ghana (7 to 36), and Madagascar (21 to 57).

"Some investors are lukewarm about democracy as a growth factor for markets," notes SJJ Investments Chairman Clifford Sobel. "But they shouldn't be, because governments that respect their own people's rights are more likely to respect the rule of law, contracts, and other things that are prime risks for investors, insurers

and others."

Solid foundations: Africa has some solid assets in the competition for capital, and not just its natural and human resources. One is a record of steady monetary policy: From 1970 to 1990, Africa's continental inflation rate was virtually the same as that of Asia, and a fraction of the annual price increases in Latin America.

A history of sovereign debt defaults by Salomon Brothers shows Africa's record is no worse than that of other developing regions, despite higher rates of interest. Hence, it offers a greater level of return for a given level of risk. African profit margins for major Western corporations, according to corporate consultant Michael Johns, are running at close to 25%.

African leaders would like some help building this hopeful start into a full-scale boom. Yet they aren't, for the most part, asking for more official development assistance, or even for special consideration on debt and other arrangements. And most especially, they don't need more austerity policies from the International Monetary Fund, which promote currency devaluations and high tax rates.

They'd like expanded trade, as well as aid, from the West — the two are not mutually exclusive. Fortunately, there are moves in that direction in Congress. A coalition including Reps. Phil Crane, R-Ill., Bill McCollum, R-Fla., and Rep. Charles Rangel, D-N.Y., now backs a bill for U.S.-Africa trade liberalization.

Many African leaders would be happiest if investors took notice of the high rates of return in their countries and of the policy changes that are making Africa a place to invest — not just for minerals but for people, and not for sentiment, but for profit.

Kemp was the Republican nominee for vice president in 1996 and co-chairs the Alexis de Tocqueville Institution. He is also a co-director of Empower America. Payne, D-N.J., is a member of the House Africa subcommittee and chairman of the Congressional Black Caucus International Relations Task Force.

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THURSDAY, MAY 15, 1997

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The IMF's Role in Zaire's Decline

By GREGORY FOSSEDAL

Once President Mobutu Sese Seko has made his last stand in Zaire and a new government has consolidated its power, the developed nations will inevitably want to send aid via the International Monetary Fund. This is a good time, then, to consider how IMF policies have helped impoverish the people of Zaire.

IMF intervention, like Mr. Mobutu's rule, dates to the presidency of Lyndon Johnson. Ever since then, the U.S. and its allies have closely overseen Zairian economic policy by approving a series of IMF loans and associated conditions — promises by the government of Zaire to make certain adjustments in tax, spending and monetary policy. (The IMF's weighted voting scheme gives the U.S. a veto on major decisions, and a nearly 20% voting share on other questions.)

In June 1967, the IMF approved Zaire's first economic stabilization program, backed by a \$27 million line of credit. The hope, in the words of economic historian Winsome J. Leslie, was to "re-establish economic growth."

'Steadily Weakening Economy'

Zaire had no such luck. By 1974, per capita agricultural production was off more than 15% in inflation-adjusted terms. Per capita gross domestic product was up slightly, but only thanks to a massive increase in copper prices that followed U.S. suspension of the Bretton Woods agreement in 1971. "The country's growing debt burden," a later observer noted, "was part of a steadily weakening economy."

From 1976 to 1981, the IMF increased Zaire's debt burden, lending \$52 million (coupled with \$235 million from the Paris Club) in exchange for a series of 1978 "reforms." Zaire placed IMF and other foreign officials in key positions in the central bank, finance ministry and office of debt management. "Belgium is sending 30 to 40 customs inspectors to stop bribery and smuggling," U.S. News & World Report said in 1979. "Europeans run the vital river-transport system. France is considering sending tax experts, and a United Nations team is moving in to make some order out of the budget."



Mobutu Sese Seko

In 1976 Zaire raised personal income tax rates by 20 percentage points. Three years later it imposed a small payroll tax, a major paperwork burden on businesses. Five times from 1976 to 1981, the zaire, the national currency, was devalued, at the urging of the IMF.

Despite two more Paris Club reschedulings of official debt (1979 and 1981), an IMF "stabilization" plan (1979) and line of credit increase (1981), and a London Club rescheduling of debt to commercial banks (1980), Zaire's debt woes continued. Pro-

'These reforms,' the IMF director said in February 1991, 'are producing results—positive real growth.'

duction declined by 4% to 6% every year from 1974 to 1979, rose a meager 2% in 1980, then plunged again in 1981. By 1982, after 15 years of IMF assistance, Zaire had a lower per capita GDP than in 1967, faced a default on its debt and was suspended from further use of its IMF facility. But 1983 brought a new agreement, for \$356 million. The IMF's imprimatur allowed Zaire to attract other foreign loans, increasing its overall foreign debt to more than \$5 billion from \$3 billion in 1978.

Perhaps with this additional money and "tough" adjustment policies, Zaire could begin to grow. In consultation with the IMF, officials devalued the zaire another 77.5%. Inflation raged, and tax-bracket creep became a gallop, with Zairians earning as little as \$2,000 per year thrown into the top — 60% — tax bracket.

Zairian laborers weren't willing to work for 40% take-home pay. Production lagged; the underground economy flourished; tax revenues dwindled to 40% of budget projections. Then Zaire imposed a 30% surtax on "imported services" and on Zairian income from abroad. This wasn't enough to make up the revenue shortfall, so the IMF and Europeans helped Zaire to establish a value-added tax, which now stands at 18%.

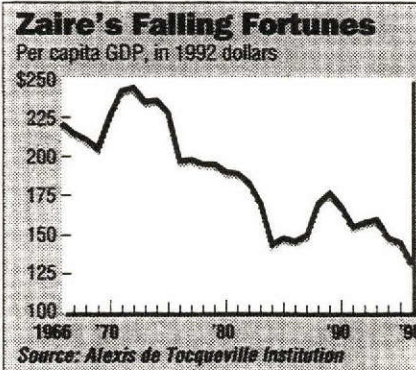
The record of failure stood at nearly 20 years when IMF Director Michel Camdessus reportedly praised Zaire as one of several African countries that were troubled, but "on track" for "economic growth soon." A few months later — in May 1987 — Zaire was forced to abandon its agreement with the IMF in the face of food riots. But the IMF patched together a new economic program for 1989-91, bringing further devaluations of the zaire.

"These reforms," Mr. Camdessus told a joint meeting of the IMF and Association of African Central Banks in February 1991, "are producing results — positive real growth." By that summer, Zaire's real growth rate had fallen to minus 5%, and it has remained negative each year since.

We now approach the 30th anniversary of Zaire's first major IMF tranche. In that time, per capita GDP has declined by more than 40%; annual inflation has commonly run to triple figures, sometimes four or five figures. Even an IMF document com-

plains that Zaire has been caught "in a vicious cycle of hyperinflation and currency depreciation."

Yet as recently as December 1995, IMF officials saw hope for Zaire — if only it would follow more faithfully the advice of a generation. "Zaire's sickly economy is showing signs of recovery thanks to stringent government reforms, IMF officials say," the African Economic Digest reported on Dec. 18, 1995.



The IMF, of course, can't bear all the blame for Zaire's poverty. It's becoming clear that Mr. Mobutu himself squirreled away a good portion of the money lent to him by the fund and other institutions — as have other corrupt rulers like Ferdinand Marcos in the Philippines and Manuel Noriega in Panama.

But while the combination of corruption and bad economic policies has crippled Zaire's economy, African states that have pursued growth policies, such as Botswana, Ghana, Kenya and Uganda,

(over please)

have enjoyed strong real per capita growth rates. If the IMF will encourage other African states to adopt like policies — or get out of the way and let them do so — then they will produce like results. By now, the U.S. should know better than to rely on the well-intended but poisonous policy mix coming from the IMF and other international creditors. At times, the Clinton administration has signaled that it does. Vice President Al Gore made a cogent attack on IMF austerity in Russia in December 1993. The administration hasn't followed through, though.

The IMF could build a platform for prosperity in Zaire and elsewhere. It could, for instance, promote solid currencies, rather than frequent competitive devaluations. This would not only reduce inflation and bracket creep, but would promote trade

liberalization, lower interest rates and spur growth.

Meanwhile, tax rates in Africa could easily be lowered across the board with no loss of revenue, probably with long-term gains. In a handful of countries where the fund has allowed tax rate reductions, including Botswana, Kenya and Uganda, economic growth has soared.

Real Reason to Lend

If such policies led African countries to run short-term balance-of-payments or fiscal deficits, the resulting revival of growth would give developed countries and taxpayers a real reason to lend money through the IMF and other conditional lending institutions. Facilitating needed deficits to fuel capital imports and growth, as former Federal Reserve Vice Chairman

Manuel Johnson has argued, is a logical role for the fund, at least now that it no longer takes its own role of stabilizing currencies and promoting trade seriously.

The IMF and the World Bank have recently proposed new funding for efforts to promote African growth. What Africa really needs is for the IMF to rethink its policies completely. The sooner the current approach is "replaced by the can-do, pro-growth optimism that has enabled others to succeed," as former Bon-Art International CEO Clifford Sobel notes, "the sooner Zaire can join such neighbors as Botswana, Ghana and Uganda on the road to prosperity."

Mr. Fossedal is chairman of the Alexis de Tocqueville Institution and director of its IMF Assessment Project.

The New York Times

TUESDAY, MARCH 10, 1992

I.M.F. Is Found to Spur Growth, at Social Cost

By STEVEN GREENHOUSE

Special to The New York Times

WASHINGTON, March 9 — A report by an independent panel of economists concludes that developing countries that follow the programs of the International Monetary Fund usually make substantial cuts in social welfare spending as well as large cuts in their top income tax rates.

But that conclusion, which tends to bolster longtime criticisms of the secretive international lending institution, was accompanied by another: Countries that adhere to I.M.F. programs increase their growth more and reduce their trade-deficit problems faster than do countries that fail to follow the fund's prescriptions.

The report, by a nonpartisan group called the I.M.F. Assessment Project, concludes that the I.M.F. systematically pushes countries to reduce their budget deficits and that as a result these countries usually agree to cuts in food subsidies, housing spending or other social spending.

The report found that developing countries that adhered to the I.M.F.'s fiscal and monetary targets in the late 1980's saw their economic growth jump from 2 percent a year to 4.1 percent, while countries that failed to meet the targets saw their growth inch up from 1.1 percent to 1.4 percent.

Closely Guarded Operations

The project, which was financed by foundations, companies and individuals, sought to shed more light on the I.M.F.'s closely guarded operations. It was carried out by a group of economists, both conservative and liberal, under the aegis of the Alexis de Tocqueville Institution, a nonprofit research foundation based in Arlington, Va. The project's advisory board includes Cyrus R. Vance, who was Secretary of State under President Jimmy Carter, and William E. Simon, who was Treasury Secretary under President Gerald R. Ford.

The group found that the I.M.F. did not dictate programs to developing countries that turn to it for financial aid. It said the I.M.F. strived to tailor its recommendations to the conditions of individual countries, but in doing so, generally encouraged "the development of free markets, the removal of price controls and a reduced reliance on state ownership."

The study, led by Gregory A. Fossedal, a research fellow at the Hoover Institution, noted that the I.M.F. pressed countries to adopt policies favorable to wealth creation, and as a result often recommended that they lower their top tax rates. The report showed that in 20 countries with I.M.F. programs, the average top tax rate was cut to 39 percent in 1990 from 59 percent in 1982. I.M.F. officials have long said that cutting the top tax rate helps to reduce tax evasion.

The report showed that in 48 I.M.F. programs from 1986 to 1990, 92 percent of the countries reduced spending in housing, health care or economic aid programs like food subsidies. It also said that 62 percent of the programs made cuts in two of those three areas, and that 29 percent of the programs involved overall social spending cuts of more than 20 percent. In these countries, social spending was reduced from 11.1 percent of gross national product to 10.2 percent. The report said that 78 percent of these programs called for cuts in overall government spending.

Maintaining Safety Net

The report said that in pushing for deficit reduction, the I.M.F. did not stress cutting social spending. It added, "The I.M.F. now routinely insists that countries make a reasonable effort to maintain a social safety net."

I.M.F. officials said they had not yet seen the report, so they could not comment. But officials of the fund have long asserted that they do not tell countries receiving I.M.F. help

A project seeks to shed light on the closely guarded fund operations.

what to do, saying they set up targets for cutting budget deficits and then leave it to the countries to decide how to cut their deficits. I.M.F. officials have often advised countries that they should weigh social spending more effectively, arguing, for example, that food subsidies are inefficient because in many cases they help those who are not poor.

"There's a tendency to reduce social spending across the board," said Mr. Fossedal, the project's chairman. "At the same time the fund argues that it's possible to have reduced levels of spending, yet constant, or even increased, levels of real benefit for the poor."

The report said that reducing poverty and improving the environment "do not appear to be elements" of I.M.F. programs, while "limited or reduced spending in these areas tends to be" an element of such programs.

On exchange rates, the report states that the fund prefers that countries adopt floating or flexible exchange rates because devaluing their currencies helps reduce their trade and current account deficits. But such devaluations often hurt consumers by raising the price of imported goods.

"The fund seeks to minimize its involvement in specific tax and budget policies," the report said. "It works with countries in an effort to set prudent, sustainable overall limits on budget, trade and monetary policy."

FINANCIAL TIMES

MONDAY JULY 13 1992

IF any organisation emerged with its stature enhanced from last week's lacklustre Group of Seven economic summit in Munich, it was the International Monetary Fund.

Mr Michel Camdessus, the IMF's managing director, made an unprecedented appearance at a G7 meeting to brief finance ministers about his negotiations in Moscow on Russia's economic reform programme. The backing given by the G7 communiqué to co-operation between the IMF and Russia showed how the big industrial democracies have effectively subcontracted responsibility for helping Russia and other former Soviet republics integrate into the world economy to the IMF.

But is the IMF's high-profile role in Russia such a good thing? Is the fund itself the right organisation to deal with Russia's problems? Could it be that the western industrial powers are overestimating its ability to keep Russia on track? Is there a danger that it will be overwhelmed by the huge difficulties to be tackled in Russia and emerge from the experience with its prestige and effectiveness diminished?

The failure of the Russian government to achieve economic policy goals set five months ago must cast some doubt on whether it will meet the performance targets agreed with Mr Camdessus just before he went to Munich.

Recent research into the IMF policies and operations over the past decade by the Alexis de Tocqueville Institution, a US think tank, also raises the question as to whether the fund is best suited to the task of promoting economic reform in Russia.

Mr Camdessus agreed in Moscow to release a first \$1bn tranche of IMF credits to Russia in return for sharp cuts in its projected budget deficit and inflation by December. Russia will reduce its inflation to less than 10 per cent a month by the end of 1992 from 15 per

G7 passes the future of Russia to the IMF

cent (and rising) at present. It plans to cut its domestically financed fiscal deficit from 17 per cent of gross domestic product to 5 per cent in the same period.

It was not clear in Munich how this would be achieved. The necessary fiscal and monetary measures will be introduced over the coming weeks. The IMF has been assured that most will be enacted by presidential decree, presumably after parliament breaks up for the summer this week.

Yegor Gaidar, his prime minister, means anything, the Russian government should be able to count on Mr Yeltsin's support in pushing ahead with economic reform. There is some hope that the Russian people and parliament, looking as they are over the abyss at hyperinflation, will pull back and put up with the conditions that IMF support will entail.

There is little doubt that the conditions will be painful. Moreover, the IMF will have leverage because of the staged

tion reduction have been among the weakest areas of fund performance. The institution's study of 90 IMF programmes between 1980 and 1991 also found that the successful achievement of monetary and fiscal targets depended crucially on the implementation of fiscal and monetary policies as planned.

Mr Fossedal argues that the IMF is most successful in countries with long-standing democratic and capitalist traditions. He wonders whether the fund can be the "bold, energetic catalyst" needed to rebuild the former communist states.

"The last time the West faced a challenge of this magnitude, after World War Two, the IMF, the World Bank and the UN Rehabilitation and Relief Agency all spent two years attempting to revive the economy of western Europe, to no avail," he says. Harking back to the introduction of the Marshall Plan, he says: "Only when a special self-terminating executive agency was funded, created, debated openly, co-ordinated with joint commissions in the recipient countries, and staffed by the businessmen and investors who would be called upon to support it, did the more focused efforts of the fund and the Bank begin to bear fruit."

Mr Fossedal would like to see a new Marshall Plan for Russia with a new organisation that would move reforms ahead rapidly and have a \$50bn annual budget.

But herein lies the rub. One of the reasons the IMF has so much responsibility thrust upon it is that the western industrial nations either will not or cannot produce such financial support.

As Mr Brian Mulroney, the Canadian prime minister, pointed out last week, the US devoted 1.2 per cent of its gross national product to the Marshall Plan. So far, the G7's contribution to the former Soviet Union amounts to just 0.2 per cent of its combined GNP.

Economics Notebook

By Peter Norman

But are these goals realistic in the light of past experience? In late February Russia's government and central bank agreed a programme of stabilisation and reform that envisaged a sharp decline in inflation to a range of between 1 per cent and 3 per cent a month by the fourth quarter of this year when the budget deficit would be around zero. This programme appeared to be on track until upset by decisions of the Russian parliament in the spring.

Things may be different this time. The IMF has been careful to strengthen the hand of the Russian finance ministry in drawing up the new programme so that it can be considered as a Russian government programme. If the fulsome tribute made by President Boris Yeltsin in his Munich press conference to Mr

nature of its support. Another \$3bn of credits will not be released before autumn when Russia will have been obliged to meet further economic performance targets and sort out its monetary relations with other republics and especially those staying in the rouble zone. The promised \$6bn rouble stabilisation fund is further off. It depends on progress to currency stability and is unlikely before 1993. This drip-feed technique gives the IMF a strong negotiating position in the event of Russia backsliding on its targets.

That Russia could well backslide is suggested by the IMF Assessment Project carried out by the Alexis de Tocqueville Institution of Arlington near Washington. According to Mr Gregory Fossedal, the institution's chairman, achieving currency stabilisation and infla-

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WASH DC MAY 29 1997

Washington Times

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Letters

U.S. should invest more in sub-Saharan Africa

Jack Kemp's May 15 Op-Ed column, "Investing in Africa," and his spirited defense of the African Growth and Opportunity Bill before the House Ways and Means Committee emphasize the growing partnership between the United States and sub-Saharan Africa.

Three sets of figures clearly support his contention that U.S. businesses would benefit from greater trade and investment in this region:

- The United States exports 29 percent more to sub-Saharan Africa than to the countries of the former Soviet Union.

- These U.S. exports represent only 7 percent of sub-Saharan Africa's total imports, compared with 44 percent of the European Union's total imports.

- According to the U.S. Department of Commerce, U.S. direct investment in sub-Saharan Africa generated a

book return of 33 percent, compared with 12 percent in Latin America, 14 percent in Asia and the Pacific and 11 percent in Europe.

Unfortunately, success also sometimes breeds oversight, as in Mr. Kemp's otherwise excellent article.

Mauritius has registered the highest growth rates in Africa over the past decade and has cut its individual and corporate taxes to 30 percent. Eighty percent of Mauritius' national economy is in private hands. And this was all achieved with a multiparty democracy, a free press and the freedoms of association and expression.

The United States must support those economically successful countries in the region, which are capable of showing by example the benefits of democracy and free-market economies. It is essential

that sub-Saharan African countries, as latecomers to manufacturing, be able to compete on a level playing field with exporters with preferential programs from other regions of the world.

The provisions in the Crane-McDermott Bill to set up a flexible and stable African GSP (General System of Preferences) and the extension of quota-free treatment for textiles from the present 46 to the full 48 sub-Saharan countries, including Kenya and Mauritius, are important initiatives in this direction.

Implementing these proposals immediately would send a clear signal of U.S. commitment to increase trade with and investment in sub-Saharan Africa.

C. JESSERAMSING

Ambassador
Embassy of the Republic of Mauritius
Washington

It's hypocritical

A Morality Test for South Africa's Opposition

By Gregory A. Fossedal

STANFORD, Calif. — To earn popular support in America, third world resistance leaders must pass a kind of test. They must offer some reasonable prospect that their triumph will lead to a humane, democratic regime — and not a greater despotism. As they plead for greater support from the West in the form of sanctions, the leaders of the South African opposition now face precisely that challenge.

Boiled down to one question, the test is: Will you hold honest free elections? As evidence, resistance leaders should be ready to reject, actively and explicitly, extremists of the right or left who do not share their democratic commitment.

That is why South African Bishop Desmond M. Tutu's recent American tour was such a disappointment. True, some useful publicity was generated, a commodity in short supply since the South African Government imposed strict limits on the Western media. Even an oft-told story deserves retelling when it's as cruel as apartheid.

But few Americans oppose sanctions against South Africa because they are uninformed about, or numb to, apartheid. In fact, few Americans oppose sanctions: Even President Reagan, Representative Jack Kemp and columnist William Safire approve of some, limited measures. The stakes in the debate have changed.

The issue in South Africa is not whether the forces opposed to apartheid will triumph. They will, as Bishop Tutu confidently asserts. The question is, which forces — a broad, democratic opposition or a small clique of undemocratic Marx-ists, willing to ape apartheid's ruthlessness?

Gregory A. Fossedal is media fellow at the Stanford University's Hoover Institution on War, Revolution and Peace.

Will they
reject
extremists
lacking a
democratic
commitment?

The undemocratic forces within the resistance pose a clear threat. Several leaders of the African National Congress are avowed Marxists who may well prefer class war to balloting. Their numbers are small, but then so are those of many Marxist groups that have nevertheless managed to seize control of what were once democratic movements. Much of the African National Congress's money is raised in America and Europe. Here in the United States this month, Bishop Tutu solicited funds for the African National Congress with leaflets extolling such "freedom fighters" as Muammar el-Qaddafi of Libya and Daniel Ortega Saavedra of Nicaragua.

Bishop Tutu himself warns that if economic pressure is not applied to the apartheid Government soon, South African blacks' resentment may bubble over and give tyrants of the left a chance to seize control. His American supporters echo these prophecies. If cited as a possibility by so many longtime opponents of apartheid, the danger of a Marxist dictatorship must be something other than right-wing fantasy.

Yet this month, in a long speech at Stanford University, and in similar addresses at Atlanta and across the country, Bishop Tutu offered no plans for dealing with this danger. In

fact, he scarcely referred to it, dismissing such concerns as evasion of the "real issue." In Atlanta, he chided Americans for being so late to recognize that South Africa has a succession problem — and he suggested that the reason might be our ill motives. Asked what sort of government should follow apartheid, the Bishop said that South Africa's "legitimate leaders" would have to get together and do some "horse-trading."

In other words, the Bishop's attitude, and that of his American supporters, has been to take offense if one so much as raises the question of undemocratic infiltrators within their movement. "You are either for us or against us," Bishop Tutu told his

If Tutu and others are to earn popular American support, they can't evade this issue



campus audience. An important issue is thus treated with contempt.

Other freedom fighters — the contras in Nicaragua, the opposition in Cambodia and the Government of El Salvador — have had to answer similarly difficult questions, and to purge some of their own ranks, in order to win increased American aid. Indeed, all three of these groups are still on a sort of moral probation in the United States.

Even if they find it demeaning, freedom fighters looking for American support are wise to answer such concerns. In her campaign against Philippine dictator Ferdinand E. Marcos, Corazon A. Aquino has confronted head-on charges that her party is riddled with Communists. She has benefited, projecting an image of confidence and putting the Marxists on notice that only democrats are welcome in her opposition.

To ask for similar signals from apartheid's opponents is not to de-

mean them. It is the essence of democracy. In the same way, we expected, say, the Democrats to denounce student hecklers who would not allow the former chief delegate to the United Nations, Jeane J. Kirkpatrick, to speak at their college, and we expected Ronald Reagan to swiftly chastise fanatics who bombed an abortion clinic in the name of human life.

In a like way, Bishop Tutu and his supporters should denounce non-democrats in the African National Congress — should denounce them loudly and by name.

Instead, they have skirted the issue. Apartheid's opponents have made it difficult for people like Ronald Reagan and George Bush to support them, impugning the Administration's motives for applying sanctions (much tougher than any from Europe) and for sending Mr. Bush to Atlanta when Bishop Tutu was hon-

ored there recently. Apartheid's opponents should make it easy, not hard, for late-comers to jump on the bandwagon.

If they do not, they will betray those of us in the United States who have broken ranks with our own party to support them. To date, that support, by a handful of House Republicans and newspaper columnists, has rested mainly on hope — a gamble that leaders like Desmond Tutu will not allow the recent white dictatorship to be replaced by a black one.

If, on the other hand, Bishop Tutu and others can make some hard choices about membership in their own movement, our faith will be justified. And the apartheid opposition will tap into something strong: a moral consensus, on the part of a powerful and generous people, that South Africa's freedom fighters deserve our support. □

Should Washington lift its sanctions against South Africa?

By Drew Clark

JOHANNESBURG — Voters in national elections here seem to have cast a decisive ballot against apartheid and for a negotiated transition to democracy.

President-elect F.W. de Klerk has named reformists to several key Cabinet positions, including Gerrit Viljoen, who was credited with prompting significant improvements in black schools when he was minister of education. Viljoen is now the chief negotiator in constitutional reform talks with black leaders.

As debate continues about the proper U.S. economic relationship with transitional regimes — most notably in the Soviet bloc — Washington may also want to consider its options towards Pretoria.

Should the U.S. offer to remove its economic sanctions — and if so, at what cost? Until a few days ago, such talk seemed merely academic, and to many South Africans, it still is. Yet "the paradox of sanctions," as one observer has put it, "is

that you put them on hoping you can take them off." (Current U.S. legislation, in fact, calls for an easing of sanctions should the government take such steps as releasing Nelson Mandela and opening a dialogue on reform. The question is whether those conditions should be adjusted to meet new conditions, and/or actively negotiated with the South African government or with black leaders.)

The trick is to make the price for economic re-engagement low enough that a foreign government doesn't feel backed into a corner, but high enough that changes aren't merely cosmetic — an objective the U.S. met, according to many observers, in its sanctions against Polish martial law.

Devising a re-engagement formula for South Africa is, as in the case of Poland, complexity-fraught. On the theory that no one can know better how to tailor U.S. South Africa policy better than South African reform advocates themselves, we recently put that question to leaders from across the South African political spectrum — including Neil Coleman of the South African Trade Unions; Eugene Nyathi of the Center for African Studies; top figures in the outlawed African National Congress (ANC); Dr. Oscar Dhlomo, the secretary-

general of Inkatha, and Stanley Mogoba, president of the Methodist Church in South Africa.

Despite the ideological diversity of the group, a surprising unity emerged.

Indeed, every group we contacted was able to envision some set of reforms, short of immediate one-man one-vote elections, that might justly trigger the removal of U.S. sanctions. (This unity, patience, and flexibility on the part of the country's voteless black majority is itself a reason for hope.) Even the radical African National Congress argues that once "free political discussions" can take place, parties to reform negotiations might define a new role "to be played by the international community, in ensuring a transition to democratic order." The ANC's core demands emerged as nearly identical to those proposed by the other groups:

- Release all political prisoners (the South African government last week did release eight aging leaders of the anti-apartheid movement; but hundreds of other activists are still detained, including Nelson Mandela);
- Lift all political bans on persons and organizations;
- End the state of emergency and throw

Clark is a reporter/researcher for the Alexis de Tocqueville Institution.

out such related legislation as the Security Act, and

- Repeal such apartheid legislation as the Group Areas Act.

"We recognize that it would be unrealistic for us to expect that every apartheid law be scrapped before negotiations," concedes Coleman, the spokesman for the Congress of South African Trade Unions. "However, if the government were to create a climate for negotiations — calling a cease-fire and allowing free political activity — that would presumably merit or be paralleled by a 'cease-fire' on sanctions from the international community." Longtime sanctions proponent Eugene Nyathi argues: "The main requirement is to 'un-ban' political organizations and those currently in detention — and begin negotiating with real leaders like Nelson Mandela. If these conditions are met, then I say let's re-examine the sanctions issue."

Virtually everyone we contacted was reluctant even to discuss the issue of "the right price" for removal of U.S. sanctions. Those who have long opposed U.S. sanctions — such as Mr. Mogoba of the Methodist Church and Dr. Dhlomo of the Zulu ethnic organization Inkatha — argue that sanctions should be dropped at no cost at

all. Those who have favored sanctions — such as Nyathi, Coleman, and an ANC official who spoke on the condition he not be identified — remain suspicious of any government gestures. "South Africa," as Coleman put it, "is an expert at creating false hopes."

In what may be a parallel to the U.S. debate, then, analysts here often seem hypnotized by the sanction debate as an end in itself — more eager to press their long-held views than to discuss alternative policies. (In August of 1986, Rep. Jim Courter proposed such a price-of-removal statement in a widely noted letter to Ronald Reagan. "We should link (sanctions) to a concrete plan so that all concerned parties will know whether, when, and why" sanctions would be applied and removed, he argued. But the administration showed little interest, choosing instead to wage an all-out battle against any sanctions at all.)

Events since, though, seem to discredit the sometimes extreme claims of both boosters and detractors. "Sanctions have had a major impact," as U.S. Assistant Secretary of State for African Affairs Herman Cohen puts it, "on the development of new thinking ... Now we must turn to what we can do in a positive way."

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An Investor's Guide to the IMF

By GREGORY FOSSEDAL

The World Bank recently issued an important critique of the policies of its sister institution, the International Monetary Fund. The critique is inadvertent: the report itself barely mentions the IMF. But a closer look at this year's Emerging Stock Markets Factbook — published by the Bank's International Finance Corporation — reveals that the IMF has a strong invisible hand in many, indeed most, of the major moves in emerging equity markets.

It's a role worth reviewing as the IMF and World Bank prepare for their annual meeting in Washington next week and as congressional conferees seek to hammer out a House-Senate agreement on the U.S. contribution to the Fund.

The table nearby lists the five emerging equity markets that experienced the biggest gains and losses in 1991 and 1992. If the performance of the capital markets is a true barometer, the IMF is a less consistent source of sound policy reform than many Western elites think. Indeed, the World Bank study, combined with what is known about Fund conditionality, shows that the IMF influenced most of the largest equity declines for both years.

With the Fund's encouragement, Turkey, Pakistan, Zimbabwe, Venezuela and Greece depreciated their currencies substantially in 1991, 1992, or both. Greece has combined this policy with a fiscal austerity program of tax hikes and budget cuts, with unusually public support from the IMF, producing another slump this summer. Zimbabwe has maintained tax rates of better than 50% on most wage earners in the above-ground economy. This year, Argentina increased its value-added and other consumption and nuisance taxes, while launching a harsh "tax enforcement" crackdown on businesses and individuals, with extensive IMF advice and assistance.

Experiences like these led one observer to comment early this year: "If you want to make money in emerging markets, all you have to do is buy equities when the IMF gets out; and if the IMF gets in, short the currency and the stock market." But anyone following that strategy would have missed out on the biggest equity gains in the world in both 1991 and 1992.

The Fund can take credit for many moves up. The IMF encouraged tax reform in Argentina and Brazil in the late 1980s that brought top income tax rates below 35%; it backed a Philippine peso that has been one of the developing world's most stable currencies this year; and it promoted the legal linking of the Argentine austral to the U.S. dollar in March, 1991. Since April of 1991, Colombia, while not a major borrower from the Fund, has adhered to a schedule of gradual depreciation (at a slower and more stable rate than previously) encouraged by

Nearly Always a Player

Of the ten largest emerging market increases for 1991 and 1992, the IMF was a major factor in eight. Of the ten largest declines for 1991 and 1992, the IMF was a major factor in seven.

WINNERS:

Country market (year)	Percent Change	Significant IMF agreement in effect?
Argentina (1991)	+392	Yes
Colombia (1991)	+174	Yes
Pakistan (1991)	+160	Yes
Brazil (1991)	+152	Yes
Mexico (1991)	+100	Yes
Colombia (1992)	+ 48	Yes
Philippines (1992)	+ 37	Yes
Chile (1992)	+ 31	No
Indonesia (1992)	+ 24	No
India (1992)	+ 22	Yes

LOSERS:

Country market (year)	Percent Change	Significant IMF agreement in effect?
Zimbabwe (1991)	-55	Yes
Turkey (1991)	-53	Yes
Indonesia (1991)	-43	No
Greece (1991)	-22	Yes
South Korea (1991)	-17	No
Turkey (1992)	-45.9	Yes
South Korea (1992)	-28.6	No
Venezuela (1992)	-21.8	Yes
Pakistan (1992)	-20.8	Yes
Argentina (1992)	- 9.7	Yes

Sources: Equities moves from IFC/World Bank; judgements about conditionality arrangements are the author's. 1992 figures for Jan. - July

IMF staff. Mexico has largely followed a similar policy with even slower devaluations and some periods of virtual fixity. And while the Fund did little to promote India's decision this spring to slash income tax rates by 20 percentage points across the board in the coming years, it did allow the change as consistent with India's fiscal targets with the Fund.

While Fund programs are often associated with both major increases and severe declines, the pattern is not random. Most of the leading gains in emerging markets took place in countries that substantially stabilized their currency, reduced tax rates, indexed already low rates to inflation, or some combination of these. Major declines have been associated with substantial depreciation, tax increases, or abrupt social welfare cuts.

Of course, the IMF is not the only factor driving these markets. Flat energy and commodity prices hurt a number of developing countries in recent years, just as high Western inflation helped some of them in the 1970s. Political and market scandals, and social unrest in these highly volatile countries also play a significant role. Still, the IMF and policies it promotes often prove to be the largest single factor in emerging market moves.

The lesson for investors? Track the Fund carefully. This summer, equities markets in Brazil and Mexico tumbled more than 20% in the wake of IMF agreements that markets read as a straw in the wind for a significant devaluation. (Uncertainty about the free trade agreement with Mexico, and a political scandal in Brazil, have also hurt.)

IMF-sponsored currency stabilization in the Philippines helped bring about a major bull market since March. So did the country's election, which brought no major reversal of democratic or policy trends.

For policy-makers, the lesson is that the IMF will play a critical role in making or breaking the world's evolution toward democratic capitalism. Given this, it's a shame the fund is such a mysterious entity, with remarkably little oversight from the U.S. Congress and other G-7 legislatures. Making the Fund a more consistent catalyst for growth ought to be an issue for serious candidates in this year's presidential and congressional elections. Politicians seem widely agreed that we now live in an integrated, global economy; yet the IMF is seldom discussed.

For the Fund itself, it might be worthwhile to take a look at the policies adopted by Argentina, Colombia, India, the Philippines and some of the other winners at the emerging market roulette wheel. Fund officials, who fear they will be tainted as "ideological," hesitate to adopt a general model for economic restructuring, stressing that all countries are special and unique. Maybe so, but low inflation and high growth look pretty much the same everywhere they occur, and certain policies from the IMF have tended to promote them in country after country.

Mr. Fossedal directs emerging markets research for Lehman Bell Mueller Cannon, and is the author of the forthcoming "Our Finest Hour: Will Clayton and the Marshall Plan" (Hoover Institution Press).

Conversely, Republicans can highlight the flaws in the Democratic proposals and introduce market-oriented reforms of their own. Haley Barbour, the former party chairman, recalls that among the reasons Republicans succeeded in defeating the Clinton plan in 1993-94 was that "they refused to let themselves be seen as against health care. They were for affordability and portability. That's what they have to do this time as well." Barbour also notes that notwithstanding Medicare, the single most Republican age group in last year's congressional elections were voters 65 and older.

Which way are Republicans leaning? One clue comes from an event sponsored by the House GOP

leadership on May 22. Gathered on a lawn outside the Capitol to showcase their commitment to children and families were representatives Deborah Pryce, Kay Granger, Anne Northup, Molinari, and House majority leader Dick Armey. There was lots of soothing talk about the GOP's family-friendly policies on subjects ranging from tax relief and crime to juvenile justice and education. But in the midst of all the public-policy cheerleading, two words never passed the Republicans' lips: health care.

Matthew Rees is a staff writer for THE WEEKLY STANDARD.

FOREIGN AID THAT WORKED

by Gregory Fossedal

LEADERS IN AMERICA AND EUROPE will spend the next two weeks celebrating the fiftieth anniversary of the Marshall Plan, the American effort to lift the economies and the spirits of our allies at the dawn of the Cold War. But should they? As a standard critique of U.S. foreign aid has it, the Marshall Plan merely coincided with Western postwar revival. Some even argue it retarded European recovery, with significant growth coming only as the Marshall funds began running out.

For example, in a well-researched account of the plan's economic impact, George Mason University economist Tyler Cowen calls the "perceived successes" of the Marshall Plan a "myth." He denies that the plan was "a significant factor in West European postwar recovery" and that it encouraged "free enterprise and sound economic policy." If Cowen is right, the Marshall Plan would seem to have been a costly failure—deservedly cited as a prize exhibit in the conservative indictment of foreign aid.

In fact, however, there is a strong case to be made that the Marshall Plan was effective; even that it realized its central, animating purpose: to rescue Europe by encouraging policies conducive to economic growth. The Marshall Plan, in this view, worked not because it was an act of generosity, an extension of the New Deal. It worked because it fit with the other great postwar free-market economic reforms—the liberalization of commerce under the General Agreement on Tariffs and Trade, and the stabilization of currencies through the Bretton Woods system of fixed exchange rates. A study of the economic performance of participating countries gives a nuanced picture.

First, economic growth was not directly proportional to Marshall Plan dollars received. Countries that received more aid per capita

than the Marshall average—such as Sweden, Britain, and Greece—experienced relatively weak economic recovery (from 1947 through 1955, GNP rose 39 percent in Sweden, 31 percent in Britain, and 21 percent in Greece). Countries that received less aid—notably Germany and Italy—grew faster (148 percent and 57 percent respectively; Germany's impressive growth, by the way, was not just a recovery from the devastation of war but a 96 percent increase over output in 1938).

Second, trade was clearly beneficial. Countries that received Marshall Plan aid and also joined the GATT significantly out-performed those that only received aid. Five countries that both received significant foreign aid and joined GATT—Germany, France, Japan, Britain, and Sweden—enjoyed annual average GNP growth of 8.3 percent from 1947 through 1955 and average unemployment of 2.6 percent. Another four countries that received significant Marshall aid but remained outside GATT for much of the period—Italy, Denmark, Austria, and Greece—had GNP growth of 3.7 percent and 7.6 percent unemployment.

Finally, the stabilization of currencies was a turning point. After significant devaluations in the early postwar years, the key European countries, starting with Germany in 1948, succeeded in adhering to the discipline of the Bretton Woods system. It was at precisely this point that each of their equity markets—an excellent daily monitor of how market actors judge the likely future output of a nation's capital—began to soar. Some six months later in each country, production surged as well.

Revisionists cite the indisputable importance of

trade and monetary policies to argue that the Marshall Plan didn't matter; that the Europeans' own reform of their domestic economic policies is what did the trick. The problem with this argument is that the Marshall Plan encouraged just such reforms and enabled fragile governments in war-shattered countries to enact them. When Will Clayton—architect not only of the Marshall Plan proposal of June 5, 1947, but also of the ensuing European Recovery Plan and the first GATT agreement—was asked which piece of the scheme was most important to Europe's recovery, he answered, "I find it impossible to talk about them separately." The European Recovery Plan and GATT were both adopted by the participating countries in October 1947. The Bretton Woods framework had been in place since 1945 but began to be seriously implemented only with the German monetary reform of 1948. This came just as the Marshall aid began to flow.

In the weeks after Secretary of State George Marshall's announcement of America's intention to formulate an ambitious new aid plan—"a great big carrot" to promote policy reforms in Europe, as Clayton put it—a series of telling events transpired. France and Italy ejected the Communists from their coalition governments. Russia, which had received U.S. assistance under Lend-Lease and had played a sometimes disruptive role in administering United Nations relief in 1945-47, took itself and its satellites out of consideration for Marshall Plan aid, leaving the West a free hand. And Austria began to spin free of the Soviet orbit, establishing a government not accepted by Stalin and ultimately holding free elections.

In the Europe of 1947, the "fabric of civilization" was about to unravel, as Clayton, a self-made billionaire investor who knew something about markets, saw. It is all very well to praise the European reforms of 1948-53 for launching the continent's recovery; even accurate, up to a point. But would there have been democratic governments capable of enacting such policies without the Marshall Plan?

Ludwig Erhard, father of the German monetary and tax reforms of 1948, has been called the "real" author of European recovery. Yet Erhard himself, icon of the libertarian revisionists, deemed the Marshall Plan "absolutely essential" to the monetary reform that ensued. "Currency reform and the Marshall Plan," he told an audience in April 1948, "are both contributory factors of economic recovery . . . and must operate simultaneously, if they are to be fully effective." He continued: "Thanks to the aid we received, we could take the safe road of systematic reconstruction and recovery." The two, he said, "are inextricable." The plan provided a flow not only of money and imports, "but also of confidence, . . . preparing the ground for new capital to be raised."

This capital helped produce an average annual rate of growth in German stocks of 47.9 percent from the summer of 1948 through December 1955. It would not have happened without the Erhard reforms; but the Erhard reforms, according to Erhard, in turn depended on the plan.

What is the Marshall Plan's relevance today? By some standards, Russia, Poland, Ukraine, and the rest of Central Europe are better off than Germany, France, and Britain were in 1947. All, in fact, have some industrial base and a work force that performs well on standard math and science tests. There has even been some Western aid, though as a share of current U.S. output it pales beside the Marshall Plan's eventual \$15 billion.

What is missing this time is a vigorous Western policy of promoting economic growth among our former enemies. Trade integration with Western Europe has been sluggish. Aid has been mostly contingent on fiscal conditions laid down by the International Monetary Fund that have imposed burdensome income tax rates, crushed industrial production, and stimulated a mafia-based economy from Moscow to Kiev to Budapest. Foreign-aid critics of both right and left would do well to concentrate less on the cost and moral hazard attached to aid and more on the issue that matters most: what sort of policies our dollars are promoting.

Today, IMF policies are too often associated with high taxes, inflationary currency devaluations, and the slow or even negative economic growth they bring. This is especially so in the two regions where democratic capitalism is perhaps most fragile: Central and Eastern Europe and Africa. To its credit, the IMF participated in pro-growth tax relief in Latin America in the early 1990s, and it has contributed to currency stabilization in Eastern Europe recently. But even this latter achievement is imperiled by the fund's inability to help Russia, Ukraine, Poland, and other major clients to enact low-rate, base-broadening tax reforms.

Fifty years ago, under conditions less auspicious than today's, Americans launched a daring initiative that helped support democracy and economic freedom for hundreds of millions. Fortunately, no emergency effort on such a scale is necessary now. But certain efforts are appropriate, and it would be useful to apply the lessons learned—just as it is right to respect a great act of free-market statecraft: one that made the world safe for the mistaken baby-boomer view that "foreign aid never works."

Gregory Fossedal, author of Our Finest Hour, a history of Will Clayton and the Marshall Plan, is chairman of the Alexis de Tocqueville Institution. Peggy Garvey, a researcher at the institution, assisted with this article.

ALEXIS DE TOCQUEVILLE STATESMAN AWARD

REMARKS BY

GREGORY A. FOSSEDAL

AdTI EXECUTIVE CHAIRMAN

THE PLAZA, NEW YORK CITY, MAY 16, 1996

I had some things to say about Ambassador Holbrooke which I tossed out because we received so many letters, wires, and calls which say it better than I can. It may be useful, though, to explain a little what we are trying to do tonight.

We've named this award after Alexis de Tocqueville, and hope we are not taking his name in vain.

Tocqueville had some distinctive things to say about democratic statesmanship -- broadly defined to include not just traditional diplomacy, but also economic statecraft and popular leadership.

In the economic sphere, Tocqueville had a keen appreciation for America as a mobile, dynamic society.

It was a fair society, he said, because of possibility and potential. People didn't start out equal by any means, but they rose through labor, insight, study, savings, risk-taking. Property wasn't evenly divided, but everyone could acquire it -- and thus became shareholders in a great enterprise, America.

Today, much of our politics is aimed at dividing up a presumably static pie, at making zero-sum choices between different races, religious or economic groups, or individuals. This type of statecraft is sometimes necessary, and it is by no means unique to our age. It will never, however, be Tocquevillian.

Alexis de Tocqueville marveled, and taught Europe to marvel, at a political economy where immigrants melded into a common culture. Where the poor didn't resent the rich because they planned on being rich in the future. Where labor and capital found common interest -- indeed, where hard work, as Lincoln noted, could lead to capital, and the worker become the owner.

That's why the Tocqueville Award takes special note of the heroes that are out there creating value for the political economy across the board. People like Pat Rooney, who has put his money where his commitment to education is by giving scholarships to hundreds of inner-city kids in Indianapolis. People like Howard Jonas, whose International Discount Telecommunications has financed Digital Freedom Network. These are statesmen.

Tocquevillian statesmanship includes men of ideas, too. Men like Jack Kemp, now our co-chairman, who has taken the cause of growth and opportunity for the inner cities before a Republican Party that is not always friendly. And Senator Bradley, who was a voice for growth economics, and aiding freedom fighters in Afghanistan, at a time when these were not fashionable among Democrats.

What does all this have to do with Richard Holbrooke, who has been compared to Metternich, Bismarck, and Machiavelli -- not to mention Atilla the Hun -- as an unsentimental, sharp-elbowed negotiator?

Well, Tocqueville -- himself a diplomat later in his career -- insisted that statecraft could not be confined to mere moves on the chess board in a world of battling political systems, clashing ideals, popular movements, and economic competition.

In foreign policy, Tocqueville would insist, there is a dynamic similar to the possibility of mutual gain that is at the heart of many of our ideas about the economy, society, indeed personal relations. To put it in terms of the classic chess board analogy, in today's democratic age, the pieces on the board sometimes move on their own; their values and capabilities change as countries and systems wax and wane; the board itself alters with an election here, a domestic division there. That is to say, foreign policy is not like a chess board -- because it is much more complex.

Henry Kissinger -- no sentimentalist -- writes that it is wrong-headed to think of diplomacy in mechanical, tit-for-tat negotiating terms, in which each side slices a salami and tries to end up in the middle. It may descend to that, but that is not its essence. A true agreement is one in which the statesman locates a mutual interest between the negotiating parties. Anything else is unlikely to be honored, because countries and men will find a way around the agreement, or simply abrogate it, after a time.

It takes creative intelligence to craft a deal that countries want to keep. It's somewhat similar to the entrepreneurial insight of intuiting the latent demand for a product that people will want in the future, but that isn't yet supplied. Or the investment insight to combine the homework, the analysis, and the experience and foresee that the Italian lira won't be able to hold -- and then have the guts and the money to bet that it won't.

This act of vision is only part of the statesman's burden. Having imagined the possibility of a mutual interest, he must get the parties involved -- often hostile -- to see and agree their mutual interest where it already exists. Sometimes, as in Mr. Holbrooke's case, when the parties fail to achieve that vision, their eyesight can be improved by a timely use of the stick, actual or threatened.

Treaties, like political regimes and business deals, do not always succeed. It would be hard to think of a less promising environment for success than in the Balkans. There was honor in taking up that challenge. There was skill in bringing the parties together and producing a deal. According to participants, Mr. Holbrooke adds new meaning to the phrase, "hammer out an agreement."

We are all lucky that Mr. Holbrooke took up that audacious challenge last year and we are here tonight in that spirit to say 'thank you.'

Ladies and gentlemen, on behalf of Alexis de Tocqueville, I rise to toast Richard Holbrooke.

About AdTI's "Opportunity Africa"

I have great confidence in Jim Courter, Cliff Sobel, Gregory Fossedal, and the others associated with this challenging and important project.

Congressman Donald Payne, Co-Chairman

Opportunity African is a pilot program of AdTI's ongoing interest in democratic development, and its achievements in promoting greater transparency by Western aid institutions, principally the IMF. It will:

- *Report* on vital economic policy developments on the continent, and help promote policies focused on economic growth;
- *Inform* Western policy makers, investors, businesses, and reporters regarding financial policies adopted towards Africa by the Fund and World Bank;
- *Encourage* creative U.S. and Western initiatives towards Africa, including free trade, currency stabilization, facilities for military downsizing and conversion, and incentive-based fiscal and ownership policies.

ALEXIS



de TOCQUEVILLE
INSTITUTION

Co-Chairmen

Jack Kemp
Joseph Lieberman

Board of Overseers

Clifford Sobel
Chairman

Chairman

Gregory Fossedal

President

Merrick Carey

Center on Regulation and Economic Growth

Robert Kasten
Chairman

National Security Program

James Courter
Chairman

IMF Assessment Project

Bill Bradley
Manuel Johnson
William Simon
Cyrus Vance
Senior Advisors

Opportunity Africa

Donald Payne
Chairman

• • • •

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To: Secretary Kemp

Fr: Gregory Fossedal *GF*

On: 28 November 1996

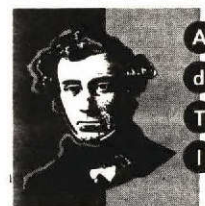
RE: AFRICA POLICY OVERVIEW

Per your request, here is a summary for most Sub-Saharan countries of:

- Exchange rate regime
- Civil and democratic freedoms
- Tax rates
- Overall spending
- Military spending

I will send a copy of this to participants at the December 3 dinner.

ALEXIS



de TOCQUEVILLE
INSTITUTION

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Joseph Lieberman

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Cyrus Vance
Senior Advisors

Opportunity Africa

Donald Payne
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• • • •

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Africa

A continental policy overview

POLITICS:

TAXES:

SPENDING:

MONEY:

COUNTRY	civil frdm (1)	democ frdm (2)	top tax rate (3)	corp tax rate (4)	cap gains rate (5)	govt % of GDP (6)	mil % (7)	Exchg rate regime	Signf AdTI info on IMF Art IV?
Algeria	7	7	50%#	50%	n.a.	n.a.	n.a.	float	
Angola	7	7	20%	40%	n.a.	n.a.	n.a.	float	
Benin	3	2	n.a.	38%	n.a.	n.a.	n.a.	pg: FFR	
Botswana	3	2	30%	25%	30%	40.2%	11.9%	pg: bsk	yes
Burkina Faso	4	5	35%#	n.a.	n.a.	signf	17.0%	pg: FFR	
Burundi	7	6	n.a.	n.a.	n.a.	21.7%	n.a.	pg: FFR	
Cameron	5	6	60%	38.5%	38.5%	18.3%	9.4%	pg: FFR	
Central African Republic	4	3	n.a.	n.a.	n.a.	21.9%	9.7%	pg: FFR	
Chad	5	6	n.a.	n.a.	n.a.	32%	signf	pg: FFR	
Congo	4	4	50%#	49%	49%	54.6%	9.7%	pg: FFR	
Egypt	6	6	68%	43 %	48%	46.6%	8.2%		
Equatorial Guinea	7	7	n.a.	n.a.	n.a.	n.a.	n.a.	pg: FFR	
Ethiopia	5	6	50%#	50%	50%	27%	40%	float	
Gabon	4	5	65% est	40%	40%	31%		pg: FFR	
The Gambia	6	7	*	*	*	33.7%	signf	float	
Ghana	4	5	35%	35%	5%	21%	4.9%	float	yes
Guinea	5	6	60% est	35%	35%	21.9%	*	float	
Guinea-Bissau	4	3	*	*	*	*	*	float	
Ivory Coast	5	6	25% est.	35%	*	33.3%	3.9%	pg: FFR	
Kenya	6	6	35%	35%	No	32%	6.2%	float	yes
Lesotho	4	4	40%#	40%	40%	>50%	6.5%	pg: Rd	yes

COUNTRY	civil frdm (1)	democ frdm (2)	top tax rate (3)	corp tax rate (4)	cap gains rate (5)	govt % of GDP (6)	mil % (7)	Exchg rate regime (8)	Signf AdTI info on IMF Art IV? (9)
Liberia	6	7	65%	50%	n.a.	signf	signf	pg: \$	
Libya	7	7	35%	60%	No	signf	signf	pg: sdr	
Madagascar	4	2	35%#	45%	35%	19%	7.5%	n.a.	
Malawi	3	2	38%	38%	n.a.	37.6%	12.8%	float	
Mali	4	2	50%#	>50%	n.a.	21.6%	11.0%	pg: FFR	
Mauritania	7	7	n.a.	n.a.	n.a.	38% est.	signf	float	
Morocco	5	5	46%#	36%	36%	29%	17.9%	pg: bsk	
Mozambique	5	3	35% =est.	45%	45%	20%	*	float	
Namibia	3	2	45% est.	35%	No	40.2%	6.6%	pg: Rand	
Niger	5	4	60%	50%	n.a.	18.7%	3.8%	pg: FFR	
Nigeria (96 tax cut)	6	7	30%	35%	20%	n.a.	signf	pg: \$	in prog
Rwanda	7	7	n.a.	n.a.	n.a.	31%	n.a.	float	
Sao Tome and Principe	2	1	n.a.	n.a.	n.a.	n.a.	n.a.	float	
Senegal	5	4	50%#	35%	n.a.	23.9%	16.8%	pg: FFR	
Sierra Leone	6	7	n.a.	n.a.	n.a.	23%	4.1%	pg: FFR	
Somalia	7	7	n.a.	n.a.	n.a.	sign	sign	float	
South Africa	3	2	47%*	45%	No	34%	*	float	yes
Sudan	7	7	45%*	35%	n.a.	n.a.	signf	float	
Swaziland	5	6	39%#	37.5%	n.a.	>22%	>8%	pg: Rnd	
Tanzania	6	6	38%	35%	30%	>25%	>10%	float	
Togo	5	6	38%#	38%	38%	n.a.	n.a.	pg: FFR	
Tunisia	5	6	35%#	35%	35%	33%	5.4%	float	
Uganda	5	5	38%	30%	n.a.	6%	25%	float	in prog
Zaire	6	7	60%	50%	60%	33%		float	yes
Zambia	4	3	36.5%	35%	n.a.	20%est		float	
Zimbabwe	5	5	43%	10%- 30%	37.5%	>40%		float	

Notes to preceeding table:

1. Ranking of civil rights by country, 1 = most free, 7 = least free. "Freedom in the World," Freedom House, 1995 survey, New York.
2. Ranking of democratic rights by country, 1 = most free, 7 = least free. "Freedom in the World," Freedom House, 1995 survey.
3. Personal income tax rate. Highest rate encountered even if this is not the rate paid at the highest income. (This frequently happens due to ceiling on payments to Social Security employed by many countries, which drives down the effective marginal rate at higher earnings levels.) Social security rates included whether "paid by employer" or "paid by employee," but counted differently — discounted against either the profits tax or personal income tax if deductible, and halved on the assumption that workers perceive some (but not necessarily all) funds paid into these programs will be received by them at retirement. Source: Emerging Markets Division, Lerhman Bell Mueller Cannon, Arlington, Virg., calculations from country data and Coopers and Lybrand.
4. Ibid.
5. Ibid.
6. From World Bank, *Annual Development Report*, Table 10. 1994 data.
7. Ibid.

To: December 3 participants
Fr: Gregory Fossedal
On: November 26, 1996
Re: Africa project

The Africa project is an important initiative. We are delighted to have not only one, but two distinguished Americans - Jack Kemp and Donald Payne - lead this effort.

Our preliminary research indicates there are two key background realities:

1. There is unlikely to be any increase in official assistance from the U.S. or Europe or the multinationals.

2. The most important institution with an impact is the International Monetary Fund. The *Financial Times* calls it "the West's most powerful financial institution."

This is more true for Africa than for almost any other region, given the nascent stage of development, and the relatively small levels of assistance.

The IMF's key role is in negotiating key economic policies on which assistance is then "conditional." This can include tax rates and provisions, monetary and exchange rate policies, banking reform, privatization, and spending.

In the case of Africa, our general survey in 1992 had several interesting features:

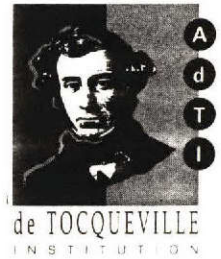
■ Africa enjoys a relatively low continental inflation rate. This is a vestige of the old CFA franc system. Other countries link to the dollar and DM.

■ Africa, however - unlike Latin America - retained the colonial tax systems of Britain, Germany, and France from the post-war decolonization. The Europeans cut these rates in the 1980s. Africa did not. That may be one reason why economic growth suffered. (See chart that follows.)

■ Africans spend much more per capita on arms than Europe or the United States. This is truly perverse. The IMF claims to be encouraging military downsizing, but has applied only token emphasis: Basically, most letters of intent state an intention to cut the military, but there is no "sanctioned conditionality."

(*IMF Conditionality, 1980-1991*, pages 15-28, 29, 40, 129-151, and especially the two charts on page 190 and table on page 104.)

ALEXIS



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Figure 6-5

Inflation by Region, 1980-1992

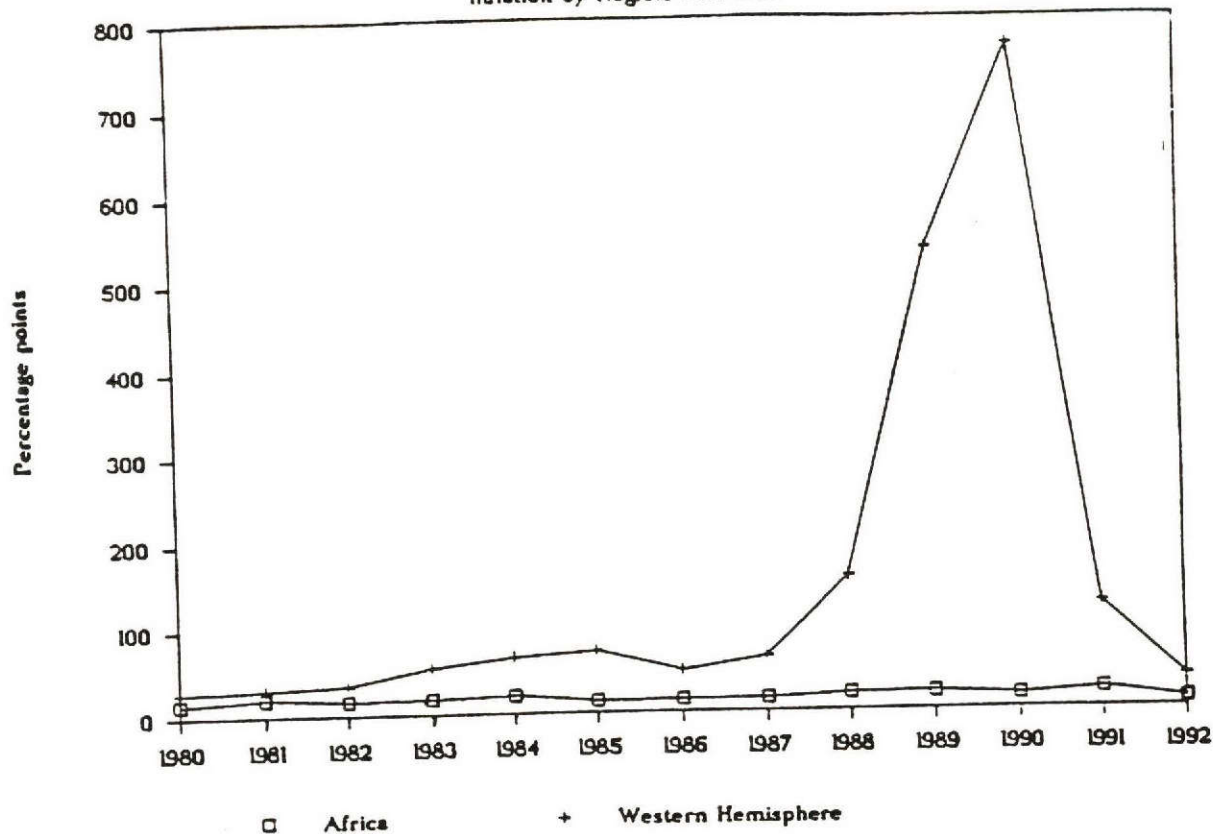


Figure 6-6

Real GDP per Capita, 1980-1992

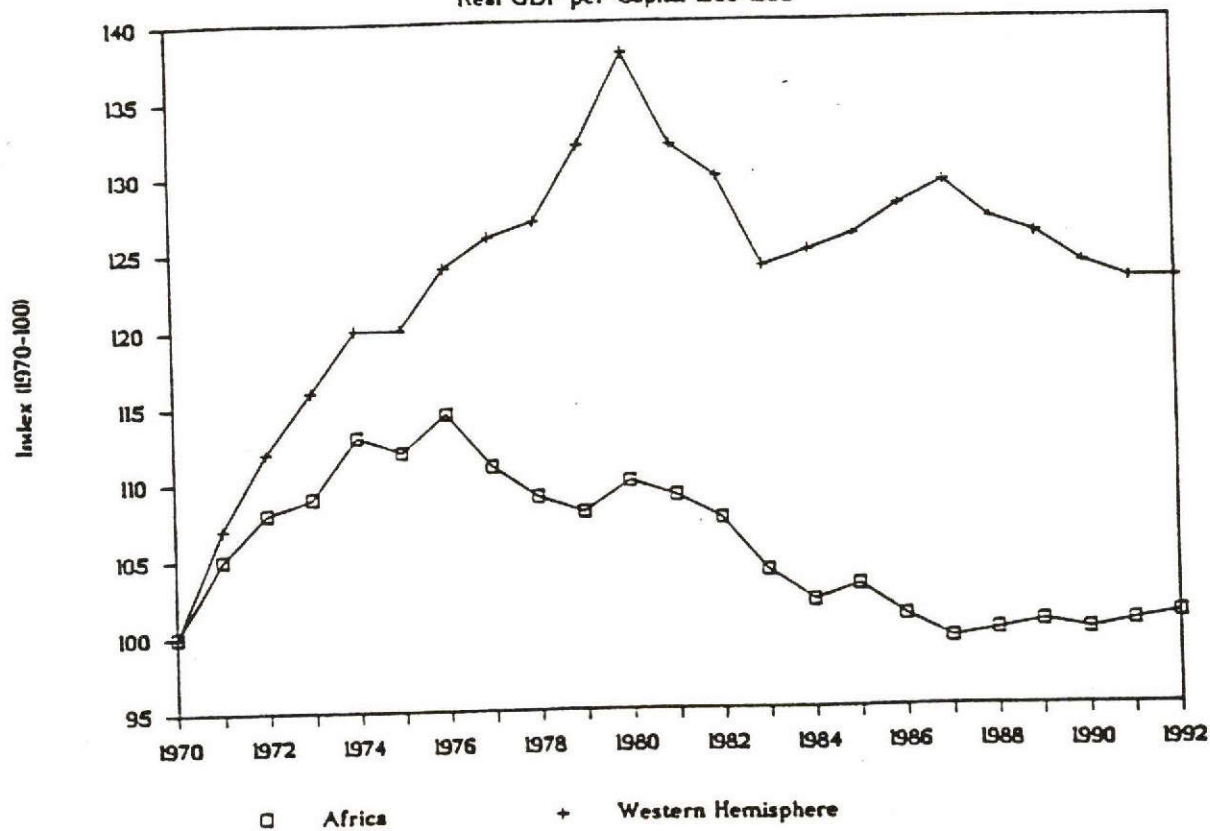


Figure 3-3:
Military Spending as a Share
of Social Welfare Spending, 1982-1988

	1982	1985	1988
Low-income economies (a)	78.6 %	100.5 %	55.8 %
Lower-middle income economies	58.7 %	53.6 %	46.2 %
Middle-income economies (b)	35.6 %	34.2 %	36.6 %
Industrial market economies	24.4 %	33.1 %	24.9 %
20 countries with extensive conditionality, 1980 to 1990:			
	59.1 %	63.2 %	64.8 %
Argentina	30.0 %	17.8 %	16.8 %
Bolivia	44.6 %	28.3 %	31.6 %
Brazil	9.0 %	9.2 %	10.4 %
Chile	14.9 %	18.2 %	18.0 %
Costa Rica	4.2 %	5.0 %	3.5 %
Cote d'Ivoire	15.9 %	14.8 %	n.a.
Ecuador	30.4 %	30.6 %	42.3 %
El Salvador	41.0 %	85.3 %	89.9 %
Ghana	19.8 %	21.5 %	6.9 %
Haiti	n.a.	62.7 %	n.a.
Kenya	47.1 %	47.6 %	29.6 %
Mali	46.2 %	47.9 %	53.5 %
Mexico	5.9 %	10.5 %	7.9 %
Morocco	63.7 %	50.9 %	55.3 %
Pakistan	331.6 %	227.5 %	241.8 %
Philippines	53.3 %	39.5 %	51.6 %
Togo	17.8 %	28.1 %	33.0 %
Uganda	74.4 %	98.2 %	129.6 %
Yugoslavia	186.6 %	207.8 %	249.3 %
Zaire	42.7 %	162.5 %	93.3 %

Notes: Social welfare spending defined as the combined expenditures for health, education, housing, amenities, and social security/welfare. (a) Excludes China, India. (b) Some social welfare figures are for 1987. Source: World Bank, *World Development Report* annual, for the years 1981-1991, and IMF annual reports. Italicized figures include components taken from closest year available other than listed year.

Mandela's burden

Executive Summary

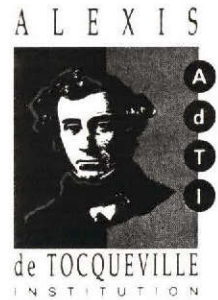
South Africa's constitutional assembly nears its endgame with ownership rights given only thin, hedged protection. Chairman Cyril Ramaphosa may yet devise a formula that respects the legitimate interests of owners and non-owners. For now, the "all mine" radicals rule — both among Afrikaaner farmers and at the African National Congress.

The draft has three property rights options. Option one is, no property rights at all. Options two and three permit land reform "expropriation." And compensation varies not just with value, but the "ability of the state to pay," and an "equitable balance" of ownership versus a dozen competing "economic rights." Disputes will be litigated.

Some Afrikaaners despair of paper rights and now demand a separate homeland. White-on-black violence is up as farmers try to herd share-workers off their land to block potential claims. The Zulus have reached a similar conclusion about dealing with the ANC. Since October, political violence in Zulu-Natal has quadrupled.

Constitution drafters have until May 9 to get approval from two-thirds of parliament. If they fail, the interim governing agreement mandates fresh elections for parliament and president, or a plebiscite, or both.

Such a stalemate would be good if it drew in President Mandela, the one man who seems clearly to have a positive-sum vision of South Africa. Indeed, if South Africa can untie the black-white land knot, Mandela will prove liberator not only of a country, but a continent. ■



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Committee for the Common Defense

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African Development Project

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By Gregory A. Fossedal

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"IT'S CRITICAL," President Nelson Mandela told a group of Afrikaaner farmers last month. By "it," Mandela meant for "you *South Africans*," and others like them, to remain.

Mandela's sincere when he urges his former jailers to stay and "build a new country." His visits to hostile territory testify to his good will.

For days before the speech, Afrikaaner press railed at Mandela, warning whites not to be cajoled by his "admittedly persuasive" style. Moderate papers encouraged a boycott, others disruption.

Mandela prevailed. The listeners, most of whom fear that either Mandela or the radical wing of his party will take away their life savings, listened politely. Some applauded. Most went away feeling Mandela had defused a tense situation, and has a vision of South Africa not dominated "by whites or blacks," with its Lincolnian echoes: "As I would not be a slave, so I would not be a master...."

MANDELA thus has the *sine qua non* to a happy ending in South Africa: The *desire* to mediate fairly between the most extreme claims of whites ("it's all ours") and of blacks ("now it's all ours.") This includes things like free speech, which limits the government's power, and federalism, which divides and apportions it. Where the rubber meets the road, though, is land.

For one thing, for South Africa as for many developing countries, farming is still the site of much employment and a great deal of capital. For another, land is a tangible not readily shared. You keep what you own or you don't. And farmers themselves are not easily finessed, no matter what continent they inhabit.

In fact, what's needed to keep the social peace over land is nothing less than a formula or standard. One that takes

account of both of the key facts in South Africa's situation: Many blacks had their land taken, or to be more precise, their ancestors did; and many whites, currently owners, have owned the land they now occupy for years, and in some cases generations. Not all the land, it should be noted, was taken *from* someone: Some whites in the 19th and 20th centuries simply started tilling uninhabited areas.

To prevent white flight and black anger, such a standard must also be embedded in some institution that whites and blacks, owners and non-owners, trust will endure. Ideally, that means a clear constitutional provision.

Nelson Mandela is capable of promulgating such a standard. If he does, he'll not only have put a nation on the path to prosperity, but shown the way for an entire continent. The stakes are that high.

UNHAPPILY for Mandela, South Africa, and the continent, the current correlation of forces isn't likely to produce that outcome. The present draft of the constitution shows how powerful the forces of disunion are.

The draft isn't final. In fact, it's littered with "optional" sections and clauses, and is being amended to account for public comments that came in from November through early January.

As all three "options" for a property clause now read, however, there would be no secure protection of ownership, and, if anything, an invitation to a generation of litigation. If the small minority of white farmers should succeed in persuading others of its fervency on this issue, and get a draft respectful of their right to ownership or compensation, it's hard to see how this draft would pass muster with the committed regulars who dominate the ANC and parliament, absent strong persuasion

from Ramaphosa or the president.

ALL THIS must happen by May 9, 1996 — two years after the country's first open elections. If it fails, then the majority in parliament has the option of submitting its draft constitution to the electorate, where it would need 60 percent approval to ratify. The ANC could almost certainly get this, if it wanted, but it would be a party-line vote opposed by most of society outside the ANC. This might delegitimize the outcome.

The same section of the interim governing agreement appears to mandate new elections for president and parliament if there's no constitution by May 9. Or, parliament could amend the interim constitution to change the deadline and buy more time for work — and for political stalemate. It's also possible the opposition parties could unite to block an extension, forcing elections.

All this sounds like a recipe for a mess. A creative, determined effort by Nelson Mandela — the promulgation of a standard — could yet set things aright. It's instructive, though, to review the current draft of the constitution. It reflects, after all, how these forces, including any interventions by Mandela (sparing so far), have played out to date.

Rhodesia vu?

Option one is to simply have no property rights section. On its face, this would appear the most brazen treatment of land-owners. But this isn't the radical ANC alternative. It's part of a Democratic Party proposal for constitutional minimalism.

Option one isn't likely to go anywhere. ANC radicals would like it in the abstract, but want to load the constitution with a long laundry list of "social rights," and figure a property rights clause is the

price they have to pay for the right to human fulfillment in the place of employment, the right to "appropriate social assistance," and the right to health care, "including reproductive health care."

Interestingly, this "zero option" is supported by a small minority of Afrikaaner strategists, Freedom Front and National Party. They figure common law tradition is likely to provide a better shield than a constitution riddled with holes and qualifiers, and chocked full of all sorts of potentially troublesome fictive "rights."

Some of the more hardcore also figure that constitutional guarantees aren't likely to be worth anything anyway, especially by the time they are litigated and land-reformed away by a new generation of South African judges.

Either cynically or realistically, many white extremists want property rights out of the constitution, because this erodes the middle ground of a workable federalism. It thus fuels support for their preferred solution, a separate Afrikaaner homeland.

OPTION two reads:

"(1) No one may be deprived of property except in accordance with a law of general application.

"(2) Property may be expropriated only in terms of a law of general application —

"(a) for a public purpose or in the public interest; and

"(b) may be subject to the payment of compensation, within a period and in a manner as agreed or decided by a court.

"(3) When any court decides either the

amount of compensation, or the period within or the manner by which payment must be made, the court must determine an equitable balance between the public interest and the interests of those affected... including —

- "(a) the current use of the property;
- "(b) the history and value of its acquisition;
- "(c) its market value; and
- "(d) the ability of the state to pay.

"(4) This section does not apply to or invalidate measures aimed at bringing about land reform.

"(5) Every person and community dispossessed of land after 19 June 1913 as a result of discriminatory laws or practices has the right to restitution of that land, or equitable redress....

"(6) Every person and community whose tenure is legally insecure as a result of discriminatory laws or practices [e.g. work-for-rent tenants] has the right to obtain legally enforceable security of tenure or, where appropriate, alternative redress....

Option two is the preference of ANC radicals. Mandela may yet propose something different, but so far he hasn't spoken out. Instead he's assented by silence.

Option to fly

Option three, pushed by the National Party and some ANC moderates, isn't greatly different from option two — except in one key respect. Note above that option two, section two says that land may be expropriated (a) only in the public interest, and that it then (b) *may* mandate

compensation. (Emphasis added.) Option three, section three says that property may be expropriated only "(a) for public purposes... *and* (b) subject to the payment of a just and equitable compensation."

Option three also omits option two's reference to the government's fiscal condition (section 3-d) as a factor in compensation. Like option two, though, it explicitly allows expropriation for "the public interest," including "land reform," suggesting a door through which large and uncompensated takings might be justified.

Option three also establishes the courts as the venue for deciding on compensation formulae. This might allow parliament to give guidance, but it doesn't require it. And it doesn't suggest that a whole law might be invalid for want of a fair formula.

The courts themselves have become the object of an important dispute in the evolution of South Africa's polity. According to President Mandela and other ANC leaders, new justices to the federal courts are nominated by a multi-partisan review board and sent to the president, who then picks the judges he wants. Former President De Klerk and the National Party say justices must subsequently be confirmed by parliament, and arguably by a two-thirds majority. It's likely Mandela could get that for many of his present nominees anyway, but he wouldn't get them all, and he'd have some extra work to do.

The frictions over justice selection take on added significance given the demonstrated tendency of the constitution drafters to pass hot potatoes somewhere else, such as the courts.

Constitutionomics

This litigious propensity will be abetted if the ANC succeeds in getting even a fraction of its preferred socioeco-

conomic rights into the final draft. The right to compensation for takings is subject not only to the myriad qualifiers of section 24, but would have to be defended as against other rights, such as "the right to an environment that is not harmful" and to "prevent pollution" (section 23), the right to "adequate housing" (25), the right to "a social security system" (26), the right (of children) to "family care... or appropriate alternative care" (27), the right of "access to any information held by the state" (31), and section 34's right (for convicted criminals) to a "chosen medical practitioner."

Legal scholar Albert Blaustein, a member of AdTI's academic advisory board and editor of the encyclopedia of world constitutions — not to mention the author of several of them — once commented that "as a rule of thumb, the shorter a constitution, the better." The U.S. constitution, which generally runs less than 10 pages in most books, sets a high standard. Brazil has 250 pages, and more than 100 separately enumerated "rights." A Sao Paulo judge once found for a plaintiff who sued the government for violating his right to enjoy a balanced budget. South Africa falls in the middle, but is making progress. The interim governing agreement runs to more than 200 pages, and draft one of the South African constitution nearly did. By contrast, the new draft takes up less than 75 pages, and includes three options for many sections which will not all survive.

Even so, as written, it would provide plenty of material for South African judges, whoever approves them, to sift through in deciding who gets each contested tract of land, and at what price.

The coming months promise a delicate and in some ways subterranean struggle. That's because the ANC is so close to having a two-thirds lock on parliament — needing only a handful of defectors from other parties — that ANC

activists could, in the abstract, impose a constitution. They could also, probably, get 60 percent in a plebiscite, having gotten more votes than that in both 1994 (federal) and 1995. (nationwide local) elections.

Yet ANC members also know, or at any rate Mandela does, that such a victory might be politically Pyrrhic. They want the National Party, as the strongest white party, to acquiesce lest white flight accelerate and rob the country of critical human capital. They want the Inkhatha Freedom Party's assent, to avoid a civil war with Kwazulu-Natal.

Accordingly, all those parties are important players in the unfolding drama.

NP: Centrist...

... or just stuck in the middle?

When a party considers changing its name, you know several things. One, it's fading badly. Two, it knows it's fading badly. And three, it's still convinced that cosmetic gestures can fix the "failure to communicate."

This actually happened to Mr. De Klerk's National Party a few weeks ago, as an internal memorandum on the need for a new name and new beginning for the party was leaked to the press — first to a background of false denials and then, profound embarrassment.

Historically, the National Party is the majority party of Afrikaans and English-speaking whites, the party, indeed, that created apartheid. In more recent years, however, it's come more to represent white, urban elites, leaving the concerns of rural and blue-collar whites — South African "rednecks" — to others. The NP has some industrial workers, but its support is concentrated among government bureaucrats, media and investment managers, corporate and university officers.

Many NP voters needn't be especially worried about the land situation. In fact, they harbor a certain disdain for the farmers, clinging to their illiquid wealth and cultural mores (such as language) in the countryside and lacking the skills and sophistication to achieve mobility.

Some National Party voters may be displaced by tight budgets or affirmative action. But at least they have significant liquid, portable assets. They can easily take most of their capital — which in their case consists largely of knowledge and credentials — and leave if matters get difficult. Not so for the Afrikaaners.

Farmers and other less affluent whites have gravitated towards the Freedom Front and the Conservative Party, parties more attuned to their concerns about the new order. The NP, author of the agreement to dismantle apartheid, has stopped trying to compete for these votes. "It would be a doomed effort anyway," as one NP member of parliament put it recently. Many NP members don't have any enthusiasm for land ownership rights, much less for uncomfortable "social issues" like protecting the Afrikaans language, or asserting strong local control of schools. This is a bad political misstep by the NP, but appears irrevocable.

Bottom line: Thus the ANC can count on the second largest party in parliament, and the largest white one, not to get too tenacious over land rights. The "biggest economic issue," according to De Klerk, is the bill of rights clause that guarantees the right of economic initiative — a matter obviously of more concern to a party representing voters with lots of human and metaphysical capital, and less land and personal machinery.

De Klerk has made some positive noises about "Christian values" in recent weeks, suggesting some ear for the electorate. At the same time, his chief negotiator

at the constitutional convention, Roelf Meyer, has made his top priority winning an extension of the government of national unity past its automatic 1999 expiration. The NP, with Meyer as its new chairman, thus seems committed chiefly to shielding its own status in the government without having to win elections. This alone might spell doom for the Afrikaaner farmers, and then, through the ineluctable process of emigration and capital flight, for South Africa. But it's worth considering the other major political factions.

Afri-kaan't-ers

From 1994 through late in 1995, the Freedom Front and Conservative Party fought hard for land ownership rights in the constitution, with clear compensation for takings. What's ominous and telling about recent events is this: There's no such clause, but there's no great hue and cry for it from the Afrikaans leadership.

Instead, most South African farmers, or at least their leadership, have concluded that only a separate homeland is likely truly to respect their rights. Thus, it's the only thing worth fighting for. And, ineluctably: If necessary, it's worth fighting for.

The leadership recognizes this may be a political dead end, since even Mandela opposes a separate homeland. Or, it may lead to a very bloody struggle. Still, as one Afrikaaner farmer put it: "At least we're fighting for something real, for actual freedom. If we win, we *win*...."

BY CONTRAST, continued struggle over the constitutional draft places the Afrikaaners in a position of fighting in parliament with a handful of votes, with NP allies of doubtful commitment, "for a bunch of words on a piece of paper."

The rage shows up in the increasingly shrill columns of *Rapport*, *Die Afrikaaner*,

and other publications. Columnist Hannes Ferguson referred to an ANC bill on tenant farm laborers as the equivalent of "ethnic cleansing."

Frustration breeds violence, and so it has begun to in the Western Cape, in the countryside, and other Afrikaaner strongholds. In December, whites attacked a camera crew for the state television station, which recently downgraded its emphasis on the Afrikaans language. There have been isolated attacks on black students attempting to enter traditionally all-white schools. Macro statistics don't clearly show it yet, masked by a reduction in black-on-black violence in some of the same areas. The trend seems clear.

South African whites have been cautious in the extreme about any sort of violence, other than by the police forces, in the past. They know they're outnumbered more than four to one. Now, Afrikaaners seem to be getting less cautious, more desperate. They are very well armed. And they know it would be geographically easier to fight for a particular patch of land than for an abstract commercial principle like "compensation for takings."

Bottom line: White farmers aren't numerous enough (about 60,000) or powerful enough (farming is 5 percent of GDP, 10 percent of employment) to defend their interests politically. This, in a sense, is the problem. And not all of their leaders will realize that a total what's-ours-is-ours defense is not only impractical, but unjust. They're likely either to buckle under the pressure and leave the country, or to fight hard for what they have. There will probably be some of each, meaning unrecognized rights and rising emigration mixed with pockets of violent resistance.

Zulus and Inkhatha

Nelson Mandela has gone the extra

mile trying to incorporate Chief Buthelezi, the Inkhatha Freedom Party, and Zulu King Goodwill into the federal fold. Ironically, at the same time Buthelezi's IFP is boycotting the constitutional assembly, Buthelezi is serving in the cabinet of the government of national unity, and Zulu-Natal's government is asking for more assistance for police. (ANC forces in parliament complain much federal money has been diverted to beefing up IFP security forces, just in case.)

With vintage politesse, Mandela recently suggested a meeting of the Zulu nation with the King — a traditional device neglected in recent years. The king is proceeding, with the added political advantage for Mandela that it tends to increase the king's contact with his subjects, and edge Buthelezi out of the picture a bit.

As with the Afrikaaner land, however, there's a rock-bottom issue, which is sovereignty. Either the Zulus in Kwazulu-Natal are a nation unto themselves, part of a confederation, or they're a district within South Africa. Either laws passed by the latter are supreme, or they are not supreme within certain districts.

Bottom line: Violence in Kwazulu-Natal is back at all-time-high levels since the new constitution draft was released. (The number of persons who died there in politically motivated attacks: 41 in September, 54 in October, 37 in November — then, more than 200 each in December and January.) It's hard to picture peace there without the central government accepting quasi-autonomy. And that type of federalism can't be tolerated by the ANC, which is wary of the nation's own history of tribal violence, and of providing Afrikaaners a reason to hope for a homeland of their own.

The coming local elections (March

27) may exacerbate the tension by turning control from a divided bureaucracy with strong National Party remnants over to more unified IFP control. Those officials can be expected to begin testing just how far their power extends in areas of federal overlap.

The ANC

Time has passed since the exhilaration of apartheid's dismantling from 1992 on, and open elections in 1994. This doesn't mean blacks who supported the African National Congress are demanding immediate socialism. For example, while 6 percent of South African whites think tax rates are too high, 14 percent of blacks do, and more than 40 percent of black entrepreneurs. A portion of the recent violence in Zulu-Natal represents black farmers rebelling against federal regulatory, land reform, and other efforts.

Blacks do want to see progress and results, though. The country's economy grew by 1-2 percent in real terms in 1993 and 1994, and close to 3 percent in 1995. Still, this is barely growth in per capita terms, and followed a decade of negative growth. It was reasonable for blacks to expect healthy growth rates as South Africa emerged from pariah status, but they haven't arrived. As Mandela noted recently, 2-3 percent growth often isn't even enough to generate employment gains.

MANDELA'S response has been to urge growth, push for growth, probe for ways to promote it. He's brought in ranking officials from China, Korea, Malaysia, and other Asian tigers to comment on the economy. ("Your taxes are too high to be competitive," commented the Malaysian Prime Minister.) He's set up a commission, which reports directly to him, on the country's long-term development plan,

which starts with a commitment to tiger-like growth rates: "Six percent or better" would be right, as Mbecki put it recently.

But at the grass roots level, ANC officials have been chafing under the limits imposed from above — by the interim governing agreement and by Mandela himself. At the same time, they feel a new sense of power, and an eagerness to help the people who elected them. This problem has become acute in recent weeks after the ANC swept nationwide elections for local government (except in the Cape and Zulu-Natal.) From the ANC's second-ranking official on down, there's been much more emphasis on re-dividing the pie than on expanding it:

■ Land petitions have poured in since the passage of a limited land reform last summer. The bill covered only tenant farmers, yet generated more than 5,100 claims. These are a measure of the popular forces within the ANC demanding land, and of what can be expected from a broader land reform under a new constitution and (presumably) end of divided government in the executive. The leading jurisdiction for petitions is Kwazulu-Natal, suggesting again the ANC-IFP rift.

■ More than 65 percent of township residents are not paying for electrical, telephone, or other services, according to the *Financial Mail*. This problem began last year but has accelerated with the accession of most local governments to ANC control. Mortgage default rates doubled in 1995, according to the Mortgage Indemnity Fund. Utility and baking defaults loom if this is not corrected.

■ Taking a page from the Mainland Chinese, Joe Mbecki is investigating ownership of the press, with a thinly veiled threat to take corrective action if it isn't

racially balanced, which of course it isn't. It's not shooting the messenger, but it is an effort to bully the messenger.

THE TRAGEDY is, there's no reason empowering black farmers with land should have to come at expense of uncompensated or under-compensated white farmers. The government alone has enough land, and there are sufficient arable lands standing unused, to provide tracts at minimal cost. But taking some prime land from the Boer farmers lowers the tab.

And there are some — a minority to be sure, but an aggressive, active minority — who would like to take white lands just for the sake of taking them. Some are irritated by the sight of Afrikaaner farmers making their last-ditch defense of inherited privileges late in the 20th century. Others, simply, crave revenge.

Repeated press reports cite an ANC memorandum targeting 30 percent of white farmland under land reform. This clearly isn't Mandela's policy, but it's what

a number of zealots under him want. Indeed, considering Africa's unfortunate but dark history of envy economics, Afrikaners may be forgiven if they reflect that *even if* Mandela is able to stem those forces, there is a longer tide of history at work. Last December 15 in former Rhodesia, Zimbabwean President Robert Mugabe egged on a group of party officials to "reform" land ownership more aggressively:

"We want you at this conference to agree to resolve that government should take farms whether or not it has money. These farms should be taken from white commercial farmers."

PRESIDENT MANDELA points to Taiwan as his model, a hopeful comparison: 1950s Taiwan staged one of the few just and effective land reforms in history. The examples of Rhodesia, Rwanda, Ethiopia, and Zaire are the norm, and closer to home. ■

Gregory A. Fossedal is executive chairman of the Alexis de Tocqueville Institution, a tax-exempt charitable research foundation with offices in Arlington, Virg. Copyright © Alexis de Tocqueville Institution, 1996, all rights reserved.

Studies and reprints available through AdTI on African affairs:

Gregory Fossedal, "The Danger in Kwazulu-Natal," AdTI research paper, November 10, 1995, on the unfortunate potential for rising violence.

Gregory Fossedal, "How the Western nations and institutions can aid democratic development in Africa, in an environment of declining foreign aid dollars," pilot project memorandum, February 27, 1995.

Edmund Muskie, Cyrus Vance, William Simon, Manuel Johnson, et alii, *IMF conditionality, 1980-1991*, the report of the International Monetary Fund Assessment Project, May, 1992, a review of Fund economic policy conditions for developing country lending.

Drew Clark, "Should Washington lift its sanctions against South Africa?," *The San Diego Union*, October 22, 1989.

Drew Clark, "The Right Price for Removing Sanctions on South Africa," AdTI research paper, November, 1989.

Gregory Fossedal, "Growth as Diplomacy," book excerpt on how Western monetary shocks have exacerbated political instability in Africa, from *The Democratic Imperative*, New Republic Books, 1989 (pages 199-211).

Gregory Fossedal, "The case for sanctions," *New York Post*, April 9, 1987.

Jim Courter, "Sanctions and linkage," letter to President Ronald Reagan arguing for the case for articulating in advance standards for sanctions removal, August 6, 1986.

Gregory Fossedal, "A Morality Test for South Africa's Opposition," *The New York Times*, February 4, 1986.

About the African Development Project...

I have great confidence in Jim Courter, Cliff Sobel, Gregory Fossedal, and the others associated with this... challenging and important project.
Congressman Donald Payne, Co-Chairman

The African Development Project is a pilot program of AdTI's ongoing interest in democratic development, and its achievements in promoting greater transparency by Western aid institutions, principally the IMF. It will:

- Report on vital economic policy developments on the continent, and help promote policies focused on economic growth;
- Inform Western policy makers, investors, businesses, and reporters regarding the financial policies adopted towards Africa by the Fund and World Bank;
- Encourage creative U.S. and Western initiatives towards Africa, including free trade, currency stabilization, facilities for military downsizing and conversion, and incentive-based fiscal and ownership policies.

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Meeting: FY97 "Committee of
Sponsoring Organizations of the
Treadway Commission" (COSO) Sign-Off

Friday, June 27, 1997
3:00 - 3:45 p.m.
MC 11-127 Conference Room

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A. CLASSIFICATION

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B. SUBJECT: MEETING: FY97 "COMMITTEE OF SPONSORING ORGANIZATIONS OF THE TREADWAY COMMISSION" (COSO) SIGN-OFF (B) (N) VENUE: MC-11-127 (CONF. RM.)
CONTACT: MYLA WILLIAM (J. MUIS) @ 36997
IN ATTENDANCE: JDW, EINHORN, MUIS, F. CHOUDHURY, C. MCDONOUGH, B. MARKE, HANY
(B) J. MUIS // DUE: MONDAY, JUNE 23
EXC: HA // ALI (6/3)
Brief Includes memo to Mr. Wolfensohn from Jules Muis, dated June 25, 1997, "Controller's COSO Initiative" and tabs:
- Management's Assertion
- External Auditor's Proposed Report
- Form & Content of "Long Form" COSO Report
- FY97 COSO Timetable
- Alexis de Tocqueville Institution (AdTI) Brochure Package from Jack Kemp.

DATE: 06/27/97

C. VPU

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☐ HRO

Affiliates

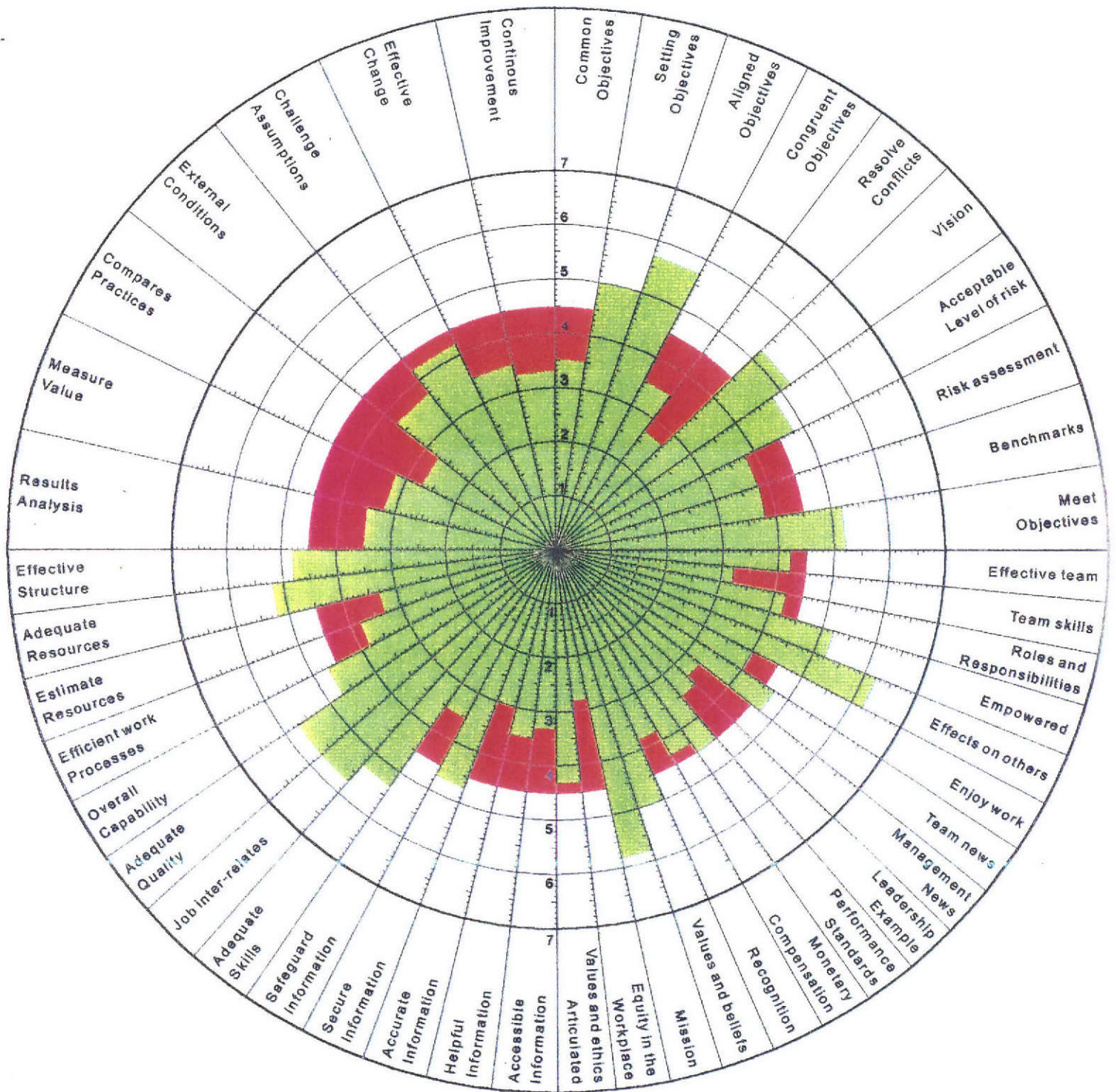
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D. EXTERNAL PARTNER

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PDB Management Team





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