

REMARKS OF SENATOR JOHN HEINZ (R.PA)  
THE UNION LEAGUE OF PHILADELPHIA  
'A Strategy for the Post Cold War Era'  
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Thank you, Don. It's good to join all of you this afternoon.

The Union League is a Philadelphia landmark -- not just this magnificent building but the ongoing legacy of an association of citizens who care deeply about our Republic and its future.

The League's formation in the early years of the Civil War, and the resources it marshalled in our nation's most trying hour, helped preserve the nation and ideals that were founded here. And the dedication to those founding ideals passed down from Jefferson to Lincoln to today, remains the basis of your association.

Passed down from your original members is a shared sense of urgency about the future of our country, and a keen appreciation of the strength needed to sustain our ideals. Your renowned library, and the work of the Committee on Boys' Work, and your scholarship fund reflect a commitment to nurturing our nation's history and precepts.

But the focal point of your association remains your daily discourse about events and decisions that affect America and our future. I am honored to be a part of a speaker's program that has included Presidents, Cabinet Secretaries, and other leaders. And I will try to do justice to this forum today by talking about some of the challenges I see for our country in the years ahead.

As we meet today, dramatic changes are taking place across the Atlantic, in Eastern Europe and the Soviet Union, that signal the end of nearly 50 years of cold war.

What began as glasnost and perestroika short months ago has become a tidal wave sweeping from the Berlin Wall to Urals. This tide is sweeping away the grip of tyranny and leaving in its place the promise of freedom: replacing slavery with liberty, socialism and central planning with free market capitalism, oppression with human right, communism with democracy.

It's thrilling, its satisfying. But at the same time I also find it difficult to enjoy it, not because the triumph of our hopes and dreams isn't real -- I believe it is -- but because another set of equally profound changes is taking place that will deeply affect us.

About 10 days ago there was a news item on the front page of the Wall Street Journal which noted that, for the first time last year -- a year which was thought to be a good year for U.S. manufacturers -- Japanese business invested more in new plant equipment than we did, even though our GNP is nearly twice Japan's.

Maybe you missed this article, if so you're not alone. Many of my colleagues and the Bush Administration seem to have been steadfast in ignoring it. Why? Because it means the economic power our most successful trading competitor, Japan, has scarcely just begun to assert itself. And others -- a resurgent Europe and EC92 -- the aggressive Asian tigers such as Korea and Singapore -- the economically hungry Eastern European countries -- to name only a few, are also getting warmed up.

What I'd like to do today, is take stock, to focus on certain important trends here at home and abroad, to suggest steps we can and should take, and identify what is required to take action where the choice between action or inaction may mean success or failure, and where failure means altering the political and economic shape of the world, and our place in it.

In this new order of things, more than before, our leadership, our very security, will depend on economic strength. To understand where we are headed, a critical appraisal of where we are is essential. And frankly, for all the heady news from Europe, a series of self inflicted wounds to our economy and our society demand attention.

\*\*Six years ago, the United States was the world's largest net creditor. Today we are the largest net debtor not only in the world, but in the history of the world. And the speed of this reversal has been breathtaking. In just six years, we have slid from \$125 billion in the black to \$533 billion in the red.

\*\*Our national savings rate is the lowest among developed nations, and our consumer debt is the highest.

\*\*As the LBO's, MBO's, etc. continue, the market value of publicly held equity is disappearing at the rate of 5% per year. At that rate, the last share of publicly traded common stock owned by an individual will be sold in 2003.

\*\*This year revenue to the general fund, will total \$628 million, and gross interest on the national debt will amount to \$240 million. That's nearly 40 cents of every general revenue tax dollar spent on interest on the national debt.

\*\*And consider the shambles that is our public education system. A Math test recently administered to American and Korean 8th graders showed the Koreans 4 times better than our youngsters at solving complex math problems. Our children may not even be able to figure out how much they owe!

What is alarming is that we know that we know that our strength and security will be determined not by our capacity to consume, but by our ability to produce.

Is the problem as simple as some people say: we have become consumers, not producers? That is certainly, if superficially, correct. There are areas where we are the world's champions in over consuming and over spending, such as in our profligate a waste of

energy, a health care system that costs too much but delivers too little, and a defense budget based on outdated assumptions and an obsolete conception of force structure... one somewhat facetious example is the reference to the 600 target Navy.

Yet, imprudent and wasteful as some of these practices may be, the standard of living and lifestyle of the average American family, with a few exceptions, as I have suggested, is not excessive. The far greater shortcoming is getting an adequate return on what we do invest.

I suggest that at the heart of our economic problem is our diminishing ability to add value through the workings of our economic system.

Adding value depends above all on our manufacturing sector. Even the most high technology service industry, from financial services to computer software, will only survive and prosper if it has customers who make tangible products to sell.

Three years ago, I asked the Office of Technology Assessment to analyze our manufacturing capabilities.

OTA found that in industry after industry critical to a successful economy in the 21st Century -- semi-conductors, computers, advanced electronics, aerospace, machine tools -- we -- in all of them -- we have fallen behind in all of them or are in imminent danger of doing so.

Take computer memory chips, the building blocks of everything from telephones to smart manufacturing to airplanes. We invented them. We perfected them. But today 19 of every 20 computer chips that go into products made in the U.S. come from Japan.

Take high definition television. HDTV is not important because we all want better TV sets in our homes. It is important because the semiconductors and other components that go into it are critical for most other advanced electronic applications -- in defense, in telecommunications, in computers.

HDVT is the retail end of the electronics "food chain." Whoever dominates HDVT will control the whole chain -- the chips, the flat display screens, the fiber optics, and so on -- and will reap a commanding competitive and technological advantage in all industries that depend on advanced electronics, thanks to economies of scale, low costs, and access to unlimited cheap capital to exploit yet another generation of technology.

Right now, we're not even in the HDVT game. The Japanese are winning by default. If we lose HDVT, the Economic Policy Institute estimates by the year 2010 a loss of 2 million jobs annually, and a trade deficit in electronics alone of \$225 billion. That number -- for a single sector -- one of which we dominated a decade ago -- is larger than our entire current trade deficit. It is also an augury of what will happen to the entire structure of our economy unless we change course soon.

The loss of high value jobs, our failure to keep up in crucial industries where the leading edge of technology moves forward by the hour, point towards an America that is less prosperous, less secure, and less able to control its destiny at home and abroad.

A clear appreciation of where we are is only the first step in dealing with our problems. We need new thinking to break the paralysis that grips us, or we will lose the political and economic capacity to fulfill our leadership role in the world.

Let me give you a real time example of new thinking, or if you will, attitude adjustment, and how it has worked and worked well in an area that is just as critical and urgent --- the environment.

For the past 20 years our approach to pollution and environmental issues has been based on a regulatory philosophy of command and control. What that means is you identify the major sources of pollution, and Washington imposes the means and methods to clean them up. This approach emphasizes regulatory certainty at the expense of flexibility. It costs lots of jobs and money.

In spite of the command and the control approach, Environmental problems have gotten steadily worse for the past 10 years (air quality in Philadelphia is a symptom). And because of the unreasonable cost imposed by this methodology, Congress hasn't passed a major initiative since 1977.

That's why, one and one half years ago, Senator Tim Wirth and I decided to sponsor a public policy study to explain and advocate a totally different approach to environmental regulation -- harnessing market forces to reduce pollution. Our report, Project 88, produced recommendations aimed at 13 environmental problems, from global warming to solid waste to clean air. Some in the environmental community have been skeptical or hostile - others, like the Environmental Defense Fund, have been positive and even enthusiastic.

President Bush has already adopted some of these recommendations in his clean air proposals, and legislation based on Project 88 has been introduced to reduce solid waste and other kinds of pollution.

We need comparable new thinking to address our economic problems. Just as the threat of global climate change has impelled us towards new thinking and action, so I am convinced we need a new sense of perspective and far greater urgency in securing our economic future.

Every budget statistic, every trade statistic, every measure of productivity, every comparison of educational achievement, every analysis of our national savings rate -- not to mention measures of the intergenerational persistence of poverty, drug abuse and crime demonstrates the dangers of going about business as usual.

But the power of inertia -- and the reasons for it -- remains strong. Let me relate one recent incident in the Senate. The Social Security Trust Fund is each year accumulating surpluses needed to pay benefits when the baby boomers retire in the next century. Congress, however, has been counting those surpluses against the annual general fund deficits.

In 1989 the federal deficit showed up on books as \$161 billion, but it included a \$54 billion surplus in Social Security; the real deficit was \$215 billion. By 1993, when we are supposed to reach a zero deficit under Gramm Rudman, we will be borrowing \$113 million a year from Social Security to balance the books.

All year I've tried to work with my colleagues to bring this issue to a vote. A majority of the Senate Budget Committee, among others, agreed with the principle, but my efforts were blocked at the end of last summer. I served notice then to all I would force the issue when we took up the permanent debt ceiling extension in the fall.

When I made good on my promise and brought up the issue just a few hours before the debt limit expired, not one Senator would stand up. No one wanted to confront the issue, no one wanted to debate it, no one wanted to vote on it. No one wanted to offend the Majority Leader, who was determined to have a clean debt limit bill at all costs.

And maybe most of all, no one was willing -- at least on that occasion -- to say it was time we faced up to the truth, even if Congress did muster up the courage to act last month on other vital matters -- like renaming a dam on the Arkansas River, improving the operational efficiency of the James Madison Memorial Fellowship Foundation, and approving the U.S.-Palau Compact of Free Association.

As with Social Security, most of us, if not all, know what we needs to be done to staunch the bleeding from our self-inflicted wounds, if we can only summon the will to act.

We need to get the federal budget down, and we can do it by either holding the line on spending and making choices that we should make but don't make among programs, or face up to enacting taxes -- they ought to be consumption taxes -- to pay the bills that will otherwise continue to pile up for our children.

In order to encourage long term equity investment, the kind of investment that underwrites research and development and productivity, we need to end the discriminatory taxation of equity investment, in other words, we should end the double taxation on dividends -- even if it means increasing marginal tax rates.

We must recognize the importance and necessity of dealing with predatory trading practices of foreign governments, that seek to create comparative advantage. And I believe we should do so by adopting, on a case by case basis and only when it is warranted, a results oriented trade strategy.

We not only need to adjust our tax system so it rewards savings instead of inviting consumption, we also need a national strategy and a national example by the federal government that produces such savings.

This is why I am determined to do everything in my power to ensure that the growing surpluses in the Social Security Trust Fund are not, as they are today, spent as if they were current income, but are treated as they ought to be as savings to help pay for the benefits of the baby boomers when they retire.

The US political system has in the past responded to challenges like these. When the Soviet Union launched Sputnik in 1957, our reaction was galvanic. Our political system -- government, business, voters -- responded to the challenge, and we put a man on the moon.

We seem today to have forgotten what we knew then: technological and economic leadership translates into political power and security. We are already suffering the consequences of the Japanese having learned that lesson from us, and with EC92 just around the corner, we are about to be treated to a second painful demonstration.

Our abysmally low personal saving rate; ours and our children's future mortgaged to staggering debts at home and abroad; declining literacy and increasing school drop out rates; energy and environmental profligacy and a national infrastructure characterized by bankrupt mass transit systems, crumbling streets, and dangerous bridges are all signs of an attitude of national neglect.

The challenge for the 90's is making our political system respond. The triumph of freedom in Eastern Europe shows what we are capable of, what vision and resolve can accomplish.

The first step is acknowledging changed reality. The world has changed. Others have different agendas, and we need to respond. We can't take for granted that our position in the world is ordained; it's not.

Our greatest strengths have been our diversity and energy, our willingness to tackle problems and solve them, our confidence in the future and refusal to be bound by the present. If we rely on these strengths and move ahead aggressively, we will not just weather the sea change around us, we will lead and profit from it.

Its easy to blame Congress or the President or both for not seeing further, for not being bolder, and that criticism is valid. But it is also incomplete, because representative government simply does not ignore the will of the people.

I believe that the current gridlock is in part attributable -at every level of our society - to what you might call a national epidemic of "Looking out for number one," or to coin a phrase, our addiction to "me-me-ism." What is me-me-ism? You can see spectacular me-me-ism in news reports of golden parachutes and seven-figure baseball salaries. At the other end, you can see it in parents who don't take the time to be involved with their children - whether its working with a teacher at school or saying "no" to television.

You can see it in drug and alcohol abuse.

Me-me-ism is at its most pernicious when Charles Keating

perpetrates a two billion dollar swindle of the taxpayers and says his millions in political contributions was to buy access and influence... and he's proud of it.

It's a cliché to talk about people who want government to provide more benefits but not raise taxes. Yet too many of my constituents want me and my colleagues to do exactly that. They want us to choose what is -- for them and often for us -- the easy answer, and not think or care about the consequences to the country, their kids or the planet.

When the person may be a seventy five year old senior citizen barely hanging on a fixed income or a struggling single parent barely surviving to stay above the poverty line and who is bombarded on television by stories about multi-million dollar golden parachutes for inept executives, Michael Millken's billion dollar bonuses, or the one hundred billion dollar saving and loan bailout, who can totally blame them? This is classic, everyday, garden-variety me-me-ism with mitigating circumstances. And it is also me-me-ism when the President, my colleagues and I allow the flagrant excesses and abuses they hear about to continue..

At this point I'm tempted to claim that time does not permit me to give you all the answers to these problems. But the truth is I don't have all the answers, and some of them have little to do with Congressional legislation or Presidential policies.

Some answers involve the values of our society and others the failure of our intellectual community to focus and objectively analyze new realities and rid itself of outdated dogma.

Some answers require bold leadership willing to break with conventional wisdom. And it raises the question of whether new developments, such as those in communication and technology have somehow combined with the traditional instincts of politicians to create structural flaws in our political system by unleashing new forces that have diminished the capacity of our system to hold our elected officials accountable to the public good. Has our system somehow changed, changed to the point where it now invites reward and entrenches a contest in the accumulation of power whether in the White House or the Committee Rooms of Congress, to the point of where the contest of ideas has become nearly irrelevant? This is a question I leave to you, at least for now. but there is no doubt in my mind that the challenge for the 90's is making our political system respond. The triumph of freedom in Eastern Europe shows what we are capable of, what vision and resolve can accomplish. And as those in the East seeking freedom and a better life look over the crumbling wall of Eastern Europe, we need to refocus on what is they are going to see.