



THE HOOVER INSTITUTION

NEWSLETTER

Summer 1992

Mikhail Gorbachev Visits the Hoover Institution

Mikhail Gorbachev and his wife, Raisa, who returned to the Stanford University campus on May 9, were the guests of honor at the Hoover Institution during a special archival tour, luncheon, and afternoon of meetings.

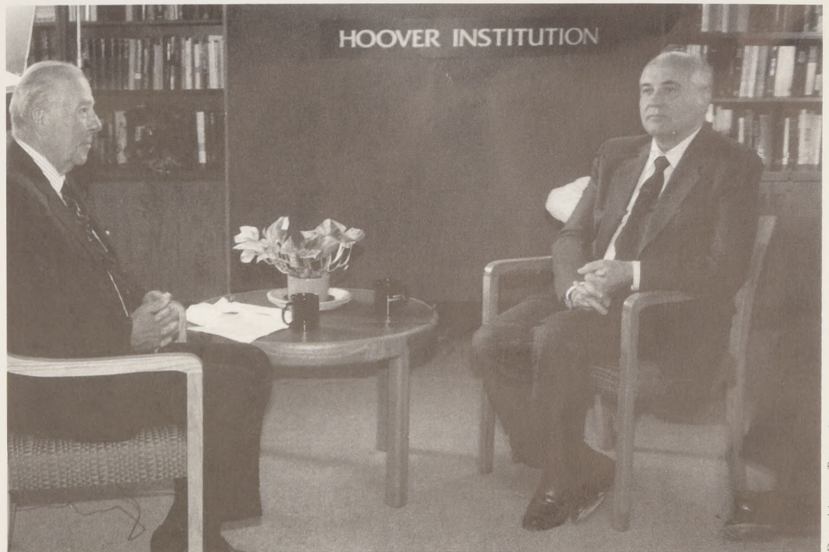
Gorbachev began the day with a breakfast reception at the campus home of Hoover distinguished fellow George P. Shultz, who sponsored Gorbachev's Stanford visit.

He then went to Stanford's Frost Amphitheater, where he was appointed the Herman Phleger Visiting Professor of Law for the day and delivered the 1992 Herman Phleger Lecture. His talk, titled "The Rule of Law," focused on the historical obstacles to establishing the rule of law in the former Soviet Union.

"Our road ahead to the rule of law is burdened by our dark heritage, [by] the distorted attitude of our society to law. . . the historically conditioned disrespect for law and our hostility toward those who are professionally responsible for the preservation of order," he said.

Following the speech, the Gorbachevs toured the special Hoover

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Doug Nemez/Reportage

Hoover distinguished fellow George Shultz and Mikhail Gorbachev engaged in a conversation on a wide range of political issues during Gorbachev's visit to the Hoover Institution. The discussion was videotaped.

Hoover to Open Exhibit in Moscow on U.S.-Russian Economic Relations, 1900-1930

A New York banker negotiates a \$50 million loan in Saint Petersburg to facilitate trade relations between Russia and the United States. Ford establishes a car manufacturing plant as a joint venture in Nizhni Novgorod. Congress deliberates over sending foreign aid to Russia despite serious misgivings.

Although these items sound like today's news, they are among the documented stories in a joint exhibit of the Hoover Institution and the Committee for Archival Affairs of the Russian Federation (Roskomarkhiv).

The exhibit, featuring a wide range of historic documents on U.S.-Russian economic relations from 1900 to 1930, is sched-

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Visions of America Conference Offers Forum on Reforming American Institutions

Scholars, national policymakers, and community leaders met on May 8 at the Hoover Institution for the conference Visions of America: Reforming American Institutions.

Participants engaged in wide-ranging discussions of political institutions, policy priorities and leadership, with a focus on the American educational system, executive and legislative branches of government, and economic and financial institutions.

"Americans from all walks of life have expressed concerns about how well their national institutions are working," said Senior Fellow John Cogan, organizer of the

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Shultz, Gorbachev Discuss Change, the Future, and the New World Order

During his visit to the Hoover Institution, Mikhail Gorbachev engaged in an oral history interview conducted by George P. Shultz.

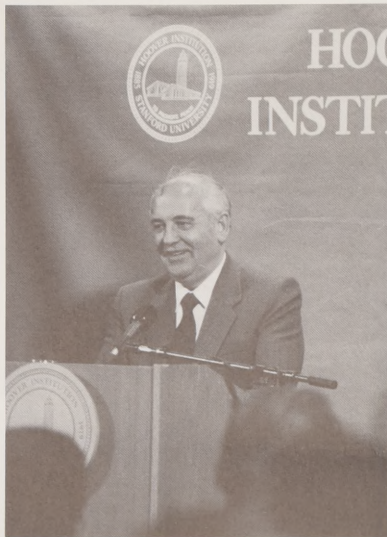
The discussion was videotaped by Stanford Instructional Television Network. A verbatim excerpt follows:

George Shultz: After a truly remarkable address on the rule of law, you came over here to the Hoover Institution and we saw an exhibition from the archives . . . illustrating periods of history in your country. Let me ask you for any impressions you have of aspects that particularly impressed you or surprised you.

Mikhail Gorbachev: First of all, I was pleased to see the tremendous work that this institution has done. I am very happy to say that of the almost 50 million documents in the institution archives, about 20 million reflect our history.

I saw an amazing document, the abdication letter of the tsar. It brings us back to that unique period in history, a time of opportunity, but also a time of danger. In a way, he was taking a step toward the realities of Russia. I was also impressed by the exhibits that show how America would then have the framework of a campaign coordinated by the U.S. government, which reached out to our country at a time of famine in the 1920s.

Shultz: When I took office as secretary of state, there was a cold war going on and a very antagonistic situation between your country and mine. The same was true in March 1985 when you became the head man in the Soviet Union. By the time of January 1989, when President Reagan and I left office, I felt, and many said, that the cold war was over. It took a while for people to realize it. So as you examine that period of history, 1985 to 1989, what would you identify as the turning point where the things that happened enabled us to rearrange our relationship?



Mikhail Gorbachev addresses guests at a special luncheon in his honor on May 9.

Doug Memenz/Reportage

Gorbachev: I would say Reykjavik.

Shultz: I agree with you. I think that is the most important summit ever held, and people don't realize it.

Gorbachev: It was so important that even we, the participants, were not able immediately to understand the magnitude of the breakthrough. We were there as partners. We were able to begin thinking about a common destiny and not about outsmarting or outplaying each other or how to dictate to each other. We wanted to find keys to open the future.

Shultz: It was not realized by people that at Reykjavik, we had a formal agreement written down and agreed to, between you and President Reagan, that human rights would be a legitimate, recognized part of our agenda to be discussed openly. That's the first time that happened. So I think with you that Reykjavik was a very important meeting, though when it ended, we were disappointed. I suppose we both felt we were close to something of great magnitude and we didn't quite make it. But in perspective, the INF Treaty was settled there, the Strategic Arms Treaty elements were laid out there, along with the human rights settlement.

Gorbachev: We discussed a nonproliferation of missile technology.

Shultz: So it was an important moment without a doubt.

Gorbachev: And the basis for all that was the understanding that both of us cannot go the way of confrontation. We really must begin to move toward each other and cooperate on a really large scale. So, indeed, that was an event of great magnitude, an event that really laid the groundwork for very intensive work that followed.

Shultz: Here at the Hoover Institution, we will take a great deal of pleasure in your reaction to the archival exhibit ["A Century of Revolutions: Lenin to Gorbachev" which the Gorbachevs viewed earlier in the day], and we are encouraged to continue our effort to archive things that are going on, as a basis for true scholarship and understanding of what causes war, revolution, and how we can find our way to peace. Thank you very much for being with us.

Gorbachev: And I would like to thank you for this day, for this eventful day, for a day which is very rich in its atmosphere, a day of very good contacts and very interesting folks. I feel that in doing so, we are creating additional prerequisites for good cooperation . . . cooperation, and as the person after whom this institution is named, said in order to combat war, to fight war, one must learn the reasons for war, the causes of war. Until recently, I did not even know the full name of this institution. The Hoover Institution was the name that I knew, but the full name as I know now is the Hoover Institution for War, Revolution and Peace, and this, I think, once again, shows that that man saw very far ahead, that that man really was a profound thinker. I think that now more than before, we need to enlighten the intellectual forces of the world and of our two countries. In looking for answers to the challenges of our times, I think without that, policymakers may lose their way and become confused. Let me once again thank you for the honors that you have given to me today, making me professor and honorary doctor.

Latvia's President Offers Views of Reform and Change during Visit to Hoover

A wide-ranging view of reform and change in Latvia was presented by Latvian president Anatolijs Gorbunovs during a talk at Hoover on May 12.

Gorbunovs, focusing on the potential of his country, called for recognition that Latvia's location and infrastructure are ideal for East-West trade and relationships.

"The Latvian territory is one of the most favorable gateways for East-West trade contacts," he said. "Our goal is to make less painful the transition from single-channel orientation in our trade to intensification with the West. Thus, fundamental structural changes in the country's policy of national economy are unavoidable. For this purpose, the attraction and national involvement of foreign investment and credits are attributed great significance. That which the West expects from Russia in terms of economic reform is already happening in Latvia."

Regarding the issue of foreign aid, Gorbunovs said that Latvian officials were hoping to conclude agreements with the World Bank and the International Monetary Fund that would help stabilize Latvia's currency and guarantee an open trade door to exchange with the West.

During his visit to the Hoover Institution, Gorbunovs met with Director John



Hoover director John Raisian, right, meets Latvia's president, Anatolijs Gorbunovs, during a visit to the Hoover Institution by the Baltic republic's leader.

Raisian, Deputy Director Charles Palm, and participants in the institution's Diplomat Training Program. Before the luncheon, Gorbunovs toured the exhibit rooms at the Hoover Tower and viewed collections from the archives related to Latvia.

Gorbunovs also met with Stanford students from the Center for Russian and East European Studies, the Graduate School of Business, Stanford in Government-International, and Students for Eastern European Democracy.

Russian Parliament Honors Fellows

The Russian Parliament has recognized three Hoover fellows for their work on reform plans for the Russian economy.

In early July, Hoover fellows Edward P. Lazear, Charles E. McLure, Jr., and Michael S. Bernstam were promoted to Foreign Members of the Supreme Economic Council of Russia by decree of the chairman (speaker) of the Russian Parliament, Ruslan I. Khasbulatov. This honor was bestowed in appreciation of their services for preparing a position paper titled "How to Save the Reform," which is being treated as an alternative program endorsed by the leadership of the Parliament.

Russian deputy prime minister Georgii S. Khizha wrote to Bernstam in early July: "I

have studied your position paper on the improvement of the reform in Russia with great attention and interest. Many of its propositions correspond with my understanding of the ways to overcome the current economic difficulties in the country and, as a whole, the position paper deserves high evaluation."

"How to Save the Reform" recommends immediate separation of the financial system of the state from enterprise finances, according to Senior Research Fellow Bernstam.

This same proposal was offered by Russian first deputy prime minister Vladimir F. Shumeiko, who discussed the separation of finances in an interview in the Russian weekly *Arguments and Facts*, a publication with 25 million circulation.



Herbert Hoover Square is again officially recognized in Old Town in Warsaw, Poland. The Society for the Preservation of Historic Monuments will erect in the square a large sandstone block bearing an inscription honoring Herbert Hoover. The marker replaces a 1922 monument (pictured above) to Hoover's humanitarian relief work that was destroyed during World War II. Herbert Hoover was also the focus of a recent conference in Warsaw, sponsored by the American Studies Center of Warsaw University, titled *Poland in Herbert Hoover's Life*.

Bernstam and McLure will meet with members of the cabinet for a joint conference in Moscow in late July and early August.

National Fellows for 1992-93 Announced

Twelve scholars have won the Hoover Institution's annual postdoctoral National and Peace Fellowships for the 1992-93 academic year.

The fellowships provide scholars with an opportunity to spend one year at the Hoover Institution conducting independent research on historical and public policy issues of the century.

"The program serves as an annual injection of intellectual vitality to our ongoing scholarship," Director John Raisian said.

The program, recognized as one of the most distinguished fellowship programs in the United States, has awarded more than 280 fellowships to scholars from universities in the United States and Canada. Since the program's inception in 1971, about 10 percent of the awards have gone to Stanford University faculty members.

The 1992-93 fellows and their topics are *National Fellows*

■ **Debra J. Aron**, assistant professor, Kellogg Graduate School of Management, Northwestern University: "Diversification as a Strategic Preemptive Weapon"

■ **Peter J. Boettke**, assistant professor, economics, New York University: "The Soviet Experience: Interpreting an Era, 1917-91"

■ **Peter C. Cramton**, associate professor, Yale School of Management, Yale University: "Applying Strategic Bargaining Models to Union Contract Negotiations"

■ **Peter M. Demarzo**, associate professor, Kellogg Graduate School of Management, Northwestern University: "Non-Exclusive Financial Contracting"

■ **Avner Greif**, assistant professor, economics, Stanford University: "Institutions and Development: The European Experience"

■ **Joseph A. Grundfest**, associate professor, Stanford Law School: "Perestroika on Wall Street"

■ **Gillian K. Hadfield**, assistant professor,

Boalt School of Law, University of California at Berkeley: "The Economics of Gender: The Role of Gender in the Organization of Work"

■ **Bronwyn H. Hall**, assistant professor, economics, University of California at Berkeley: "Financial Incentives for Research and Development: The Stock Market, Liquidity Constraints and the Tax System"

■ **Constance S. Meaney**, assistant professor, government, Mills College: "State and Network in the Development of Taiwan's Semiconductor Industry"

■ **Sule Ozler**, assistant professor, economics, University of California at Los Angeles: "Politics and Economic Growth"

■ **George Tsebelis**, associate professor, political science, University of California at Los Angeles: "Parliaments in Comparative Perspective"
Peace Fellow

■ **Hilton L. Root**, assistant professor, history, University of Pennsylvania: "Designing Europe: English and French Perspectives on European Integration"

Moscow Exhibit *continued from page 1*



uled to open in Moscow at the Russian White House, when the Russian Parliament convenes in October.

The joint exhibit proposal originated in May 1991 when Dr. Rudolf G. Pikhov, chairman of Roskomarkhiv, visited the Hoover Institution Archives. The exhibit is one of a number of activities resulting from a growing relationship between Hoover and Roskomarkhiv. Another is a \$3 million project to microfilm the archives of the Communist party of the Soviet Union, announced in the spring *Newsletter*.

The theme of the exhibit will be the history of Russian-American cooperation between 1900 and 1930. Herbert Hoover played a key role throughout most of this

period, first as an investor in the tsarist period and then as a humanitarian during the era of Lenin's New Economy Policy.

A few months after Dr. Pikhov's visit to Hoover in May, events took a dramatic turn in the Soviet Union. With the unexpected rapid collapse of centralized Soviet authority, Pikhov, who was given responsibility for the endangered Soviet archives, did not forget his interest in the Hoover Institution.

Archivists at Hoover assembled copies of exhibit materials to send to Moscow. Included in the selection were excerpts from the diaries of engineers such as John F. Stevens, who developed the Russian railways after he completed the Panama Canal, and photographs and papers from the American

Relief Administration in Russia.

The Russian archivists assembled corresponding documents in their holdings, including notes by Tsar Nicolas II, Lenin, Trotsky, Stalin, Dzershinsky, Kamenev, and Krasin on how to cope with U.S. efforts to aid Russia. For the first time, the two sides of the story were put together.

In April 1992, Archivist Anne Van Camp and Associate Archivist Elena S. Danielson went to Moscow to examine the exhibit in the Russian Parliament, the famous White House where Boris Yeltsin faced down the tanks manned by those attempting a coup just a few months before.

After two weeks, the exhibit will move to the Russian Center for Preservation and Study of Contemporary History, which is housed in the former Institute for Marxism-Leninism. The building is open to the general public. The third stop will be the Herbert Hoover Memorial Exhibit Pavilion at the Hoover Institution.

The explanatory captions on the exhibit documents will be in Russian and English. The bilingual exhibit catalog will serve as a guide to the display and as a guide for scholars to original sources in this chapter of history.



Milton Friedman, a 1976 Nobel laureate in economics, is a senior research fellow at the Hoover Institution and professor of economics emeritus at the University of Chicago. In 1986, he was awarded the Grand Cordon of the Sacred Treasure by the Japanese government, and in 1988, the National Medal of Science and the Presidential Medal of Freedom by the U.S. government.

Q & A: **Competition and the Schools**

ers, will be discarded.

It's not because those opposing the idea are bad people. It is because, as Armen Alchian used to say, there is one thing you can depend on everybody to do and that is to put his interest above yours.

Q: What is stirring up so much fear?

A: The real issue here is competition, but it's not necessarily competition between the private and the public schools. I think we would find that a voucher system would in fact lead to the improvement of government schools. I don't think that the "cream" would be pulled off the top of the student body and sent to private schools.

Q: What could happen?

A: What we would see, really, is a return to a consumer-driven system. The deterioration of our school system goes back 75 years. What produced it was largely a reduction in the number of school districts and an accompanying centralization of control. The producer, rather than the consumer, has been in the saddle. The results are clear for all to see.

Q: Would parental choice solve this problem?

A: It would because it would introduce competition again. It would enable parents and children—the customers—to have alternatives among which they could choose. People in the middle- and upper-income groups have always had choice. Those groups can afford to pay twice for schooling—once through taxes and once through tuition. Poor people have had no alternatives.

Q: What has the response been from those representing minorities and the poor?

A: Interestingly, there's a great deal of support for such a plan among blacks overall. They can see that putting money in their hands to spend in schools they choose would have enormous benefits. But most black political leaders oppose choice because they would lose political power

and patronage. Polly Williams, the Assembly representative from Wisconsin, is almost the only black leader who has been willing to stand up for what is good for her constituents rather than simply try to get more political power.

Q: What would happen to the cost of schooling if a voucher system were adopted?

A: People would be surprised to see that the cost would actually fall, and that would be due to competitiveness. For years we've seen the quality of education that parochial schools can deliver—for less money.

Q: Critics of choice fear that alternative schools will deliver a substandard education. What are your thoughts?

A: Currently, they deliver a higher-quality education than public schools. I expect that, under vouchers, the quality of education would improve sharply at both public and private schools under the lash of competition.

Q: In California there is a movement to put the Parental Choice Initiative on the ballot in November. What is your view of this development?

A: There's probably never been a better chance to institute this kind of change. There's increasing concern about the quality of schools, an anti-incumbent attitude on the part of the public, and a recognition by the business community that their future employees won't be prepared for the future. But such a move is threatening to those in the educational establishment. They fear that if California breaks through on this, the tide will roll across the country. They will pull out all stops to try to defeat the initiative countrywide, especially the teachers' unions.

If it passes, a whole rash of new schools will come into existence, public and private, provided that a voucher would be used for either public or private schooling. Restricting it to only government schools would be the kiss of death for both choice and school improvement.

Q: You are known as a strong proponent of school choice. At what point do you start examining the issue?

A: I think it must have been about 1955, when I wrote an article on education that was later incorporated as a chapter in my *Capitalism and Freedom*, published in 1962. In that book, I examined the delivery of services and the role of government. I made a distinction among three levels of government involvement in schooling: compulsory schooling, financing of schooling, and administration of schools. I noted at that time that in many cases the government finances programs without administering them. I think this issue is still valid and certainly applies to schools.

Q: In what way?

A: It's my belief that the government can fund education without having a hand in it at every turn, at every level. In the same way that the government issues food stamps without requiring that the stamps be used at government stores, the government could issue education vouchers or tax refunds and allow the money to be used at any of a number of schools, both private and public.

We were able to do the same thing with the GI Bill at the end of World War II, and it was a great success.

Q: Such a concept applied to the elementary and secondary school has created quite a bit of controversy.

A: Yes, and most of it has been among the educational establishment and politicians. There is fear that the status quo will be dismantled. There is fear that the patronage system, which benefits politicians and bureaucrats and union lead-



Russia: Growth First, Balanced Budgets Later

Judy Shelton

As Russia slides deeper into the abyss with every passing day, it must be disheartening for President Yeltsin to realize that he has pinned his hopes for economic salvation on a group of bureaucrats at the International Monetary Fund. The Bush administration is just now recognizing that IMF prescriptions are not the right medicine for Russia at this crucial time. They should have seen it coming; bureaucratic institutions breed rigid, unimaginative policies.

While members of the IMF delegation fret over the Russian government's inability to meet arbitrary money-supply targets and balanced-budget constraints, it appears they have lost sight of Mr. Yeltsin's fundamental objective in moving to a market economy: To preserve and strengthen Russia and her people. If lack of discernible economic progress under current reforms causes Russia to succumb to disillusionment and opt to reinstate dictatorial measures for allocating resources, all is lost. It won't then matter much whether or not IMF-specified quarterly deficit targets were reached.

The situation brings to mind the joke about the team of doctors, all eminent specialists, who announced after a complicated surgical procedure: "The operation was a brilliant success. Unfortunately, the patient died."

The aspirations of the New Russia must not die. The world should not entrust that vulnerable nation's fate to IMF analysts who are more prepared to raise tax revenues to match government expenditures than to devise innovative ways to stimulate private sector growth and attract foreign investment. Wealth must be created before it can be collected and redistributed.

What Russia needs is an economic reform program that recognizes the primacy of entrepreneurial activity, one that elevates the businessman over the bureaucrat. In-

stead of making further supplications for an IMF-administered aid package, Mr. Yeltsin should begin seeking Western government and private support for an alternative economic program that would designate growth as a more urgent priority than unreasonable budgetary and monetary restrictions.

Take the matter of Russia's need for a sound convertible currency. Under pressure from the IMF to drive down the exchange rate of the ruble against hard currencies earlier this year, Russian officials moved to shut down the printing presses and restrict credit. The use of administrative brute force caused a temporary strengthening of the ruble, but the policy quickly spawned deep resentment from other sovereign republics who found themselves intolerably squeezed. As rubles became increasingly scarce, workers were forced to go without wages for weeks on end. Agricultural collectives could not proceed with spring planting. Industrial enterprises began issuing IOUs to one another in lieu of payment for supplies, running up a gargantuan level of intraenterprise debt that now approaches nearly 2 trillion rubles.

A reversal in policy was urgently launched this month to stave off threatened worker strikes and widespread industrial collapse. Russians were informed on television that 142 billion new rubles would be printed in July; that is more than the amount issued during all of 1991.

By following IMF recommendations, Russia can look forward to continuing new rounds of inflation, followed by demands for compensatory wage increases, which in turn will set off successively higher levels of inflation as each new effort to "skim" some percentage off the population's real wages is neutralized by the anticipatory wage demands of increasingly skeptical Russian workers.

Was it good advice to demand that the Central Bank of Russia attempt to control the outstanding supply of rubles, a feat that the U.S. Federal Reserve Board — with all its relative finesse at utilizing regulatory and market mechanisms to influence the supply of dollars — can hardly perform with predictable results? Instead of trying to salvage the remnants of the old Soviet ruble system, Western advisers should be working with Russian reformers to pursue alternative solutions.

For example, a new Russian currency could be introduced. The plan announced last week to coin 25,000- and 50,000-ruble gold pieces is a step in the right direction, but if it is to work, the new gold coinage must not be connected to the moribund old ruble monetary system. Sound money, so critical for attracting foreign investment and supporting free market reform, could be offered by establishing a new Russian currency bank presided over by a distinguished board of Russian, American, European, and Japanese members — Margaret Thatcher, Karl-Otto Poehl and Milton Friedman come to mind.

In conjunction with a comprehensive debt forgiveness plan initiated by Western governments, this new Russian Currency Bank could look to three major sources for its initial capitalization: (1) The central banks of the Group of Seven (G-7) industrial nations, (2) the Russian government, and (3) Western commercial banks with outstanding loans to the former Soviet Union. As part of the plan, gold accepted as collateral by G-7 central banks engaged in swap arrangements with the former Soviet government would be returned. Commercial banks relieved through government insurance programs on defaulted Soviet debt would be required to purchase a predetermined amount of the new Russian currency (as a percentage of the debt relief provided) by paying in the necessary sums of hard currency.

Viewpoint *continued from page 6*

The Russian currency bank would effectively function as a currency board; new units of Russian money would be issued on the basis of held reserves of gold and foreign currencies. Every new deposit of hard currency or gold would justify creation of additional Russian money. This base of convertible Russian currency would provide a new solid monetary foundation for economic growth and investment based on accurate price signals. It would also help speed Russia's integration with the global economy.

Such a plan would constitute a bold move toward the rebirth of Russia, enabling Mr. Yeltsin to co-opt the growing nationalist movement. At the same time, it would build strong financial links with leading Western nations. Indeed, G-7 support in setting up a Russian currency bank would provide an invaluable signal of confidence in Mr. Yeltsin's leadership and Russia's economic future.

Putting up \$6 billion to create a new Russian money would seem a much more prudent use of Western funds than setting up a "ruble stabilization fund" to back a discredited and uncontrollable currency. Moreover, the additional \$12 billion the IMF intends to spend on "balance of payments support" for Russia will do little to foster small business development but will instead reassert the influence of government control over the distribution of economic resources.

The funds are earmarked now to finance the import of Western consumer goods and industrial products, which are then to be redirected in accordance with the calculated preferences and priorities of government officials in Moscow. "Essential" industries will be the lucky recipients of technologically advanced Western equipment while the government expects to rake in massive profits by selling Western consumer goods through its network of state-owned stores.

How much more appealing, how much more enterprising, to focus such large sums on bolstering the fledging private sector in Russia. What if Mr. Yeltsin were to announce the issue of a 10-year Russian government bond, guaranteed by sellable commodities and denominated in dollars, the funds from which would be made available to would-be entrepreneurs who came up with promising business proposals? Call it

the Free Enterprise Fund and tap the expertise of U.S. venture capital investment firms to market it.

Americans understand that Russia needs help to make it toward democracy and free markets, and they are sympathetic. They don't begrudge Mr. Yeltsin the *amount* of money he is seeking; they just don't want to see it wasted by institutional bureaucrats who seem more comfortable working with governments than private individuals. The world can hardly afford to have Russia become yet another per-

manent ward of the IMF.

As for Mr. Yeltsin, all he can seek is what has been offered. If the so-called Freedom Support Act is not passed by Congress, Russian officials will have wasted precious time trying to appease IMF analysis. If it does pass, the New Russia will soon find itself back on the old treadmill of inflation and central government control of the economy. Mr. Yeltsin and the Russian people deserve better.

This article was originally published on June 22, 1992, in the Wall Street Journal.



Doug Menuez/Reportage

Mikhail and Raisa Gorbachev listen to Hoover archivist Anne Van Camp on a tour of the special exhibit "A Century of Revolutions: Lenin to Gorbachev" during the former Soviet leader's May visit.

Gorbachev *continued from page 1*

Institution exhibit "A Century of Revolutions: Lenin to Gorbachev." The exhibit was installed in 1990, when Gorbachev first visited Stanford University. Since he was unable to tour Hoover at that time, the entire exhibit was reconstructed for this second visit.

The tour was led by Hoover archivist Anne Van Camp, along with Shultz, Director John Raisian, and Deputy Director Charles Palm.

Among the many items viewed during the tour were

- A handwritten letter dated 1912 from Lenin
- The final draft of the abdication document of Tsar Nicolas II
- The first issue of the newspaper *Pravda*, dated March 5, 1917

- The original manuscript of *The History of the Revolution*, by Leon Trotsky, with handwritten corrections

The luncheon that followed featured entertainment by George Alexander and Paul Shebalyn, who sang Russian folk songs.

The Gorbachevs were presented with remembrances of their visit: a clock for Gorbachev and for Mrs. Gorbachev a rare edition of an historical account of the first commercial contact between Russia and California.

During the afternoon, they visited the observation deck of the Hoover Tower. Shultz conducted a private oral history interview with Gorbachev on videotape. Gorbachev was also taped by Ostankino Television, a company that broadcasts throughout the former Soviet Union.



Senior Research Fellow John Bunzel, right, leads a panel discussion on educational reform during the Visions of America conference. Also on the panel, from left, are Senior Research Fellow Milton Friedman and Michael Kirst of the Stanford University School of Education.

Visions of America *continued from page 1*

conference. "This symposium grew out of those concerns."

Cogan noted that the conference encouraged dialogue and debate regarding national priorities for the 1990s and beyond: "In this conference, we discussed proposals ranging from specific institutional reforms to those dealing with substantive policy changes."

In a panel discussion on Congress and the executive branch of government, the focus was on the conflict between the legislative branch of government, which is controlled by one party, and the executive branch, controlled by the other party.

Panelists agreed that divided government is inefficient but disagreed over methods for solving the problems associated with it. Recommended solutions included congressional term limits, a streamlined congressional committee system, increased compensation to members of Congress, changes in campaign financing rules, and limitations on special privileges and exemptions.

Panel members included Hoover senior fellow Martin Anderson, U.S.

congressman Bill Lowery (R.-Calif.), Hoover senior fellow and Stanford professor John Ferejohn, and Thomas Mann from the Brookings Institution. The moderator of the panel was Edwin Meese III, a distinguished fellow at the Hoover Institution and former U.S. attorney general.

A second panel examined the economy and financial institutions. The panel agreed that deregulation, in principle, provides incentives and increases efficiency. But it concluded that deregulation without accountability—as evidenced by the savings and loan debacle—can lead to failure. The panel agreed that the U.S. economy remains strong, although not expanding at the rate experienced in the 1980s.

The financial experts on the panel included Hoover senior fellow and Stanford professor Robert Hall, Stanford professor John Taylor, and Preston Martin, former vice-chairman of the Federal Reserve Board of Governors. The panel's moderator was Hoover senior fellow and Stanford professor Henry Rowen.

National educational reform was the focus of the third panel. There was agreement that the U.S. educational system is successful at the college and university level. Serious problems, however, exist at the elementary and secondary levels, where there is evidence that U.S. education continues to fall behind educational systems in other developed countries.

The panel, made up of Hoover senior research fellow Milton Friedman, Wisconsin state assembly representative A. Polly Williams, and Stanford professors Michael Kirst and Terry Moe, agreed that providing incentives to students, teachers, and parents is essential to increase quality in education. Empowering parents of schoolchildren, expanding the opportunity for school choice by implementing a voucher system and enhanced academic requirements were solutions examined and vigorously debated by the panel. Hoover senior research fellow John Bunzel, former president of San Jose State University, moderated the discussion.

A model voucher program instituted by the city of Milwaukee was the subject of Assemblywoman Williams's keynote address during the dinner that concluded the conference.

The final panel examined the federal budget and Congress. There was agreement that mandated expenditures and indexed entitlements have led to a substantial budget deficit. In a period when Congress has been unwilling to either cut spending or increase taxes, concluded the panel, budget deficits have been the result. By reviewing the total budget, limiting entitlements, and restricting Congress's ability to make changes in the budget and in taxes, a balanced budget is feasible, said participants.

Members of the panel included U.S. congressman Christopher Cox (R.-Calif.), James Jones, president of the American Stock Exchange, James Miller, former director of the U.S. Office of Management and Budget and Professor Allen Schick of the University of Maryland. Hoover senior fellow (by courtesy) and Stanford professor David Brady was the moderator.

Proceedings of the conference were filmed by Stanford Instructional Television Network and were available to network broadcast outlets.

Essays in Public Policy Address Eastern Europe, Russia, Chinese Reunification

Economic reform in Eastern Europe and the former Soviet Union and the unification of Taiwan with the People's Republic of China are the topics addressed in new Hoover Institution Essays in Public Policy.

■ *The Ruble Problem: A Competitive Solution*, by Senior Research Fellow Annelise Anderson, recommends that the countries of the former Soviet Union adopt a banking system that permits banks to issue their own bank notes backed by foreign hard currencies, gold, or other commodities. In the West, the industrialization and rapid economic growth of the late 18th and 19th centuries took place not under today's standard two-tiered banking system, with a central bank and a network of commercial banks, but under free banking with minimal regulation and freedom of entry. Free banking in the former Communist world would promote economic growth, trade, currency convertibility, and the transition to a market economy.

■ *Eastern Europe: The Great Transformation, 1985-1991*, by Senior Fellows Peter Duignan and Lewis H. Gann, recounts with insight and candor the vast political and economic revolution that so recently en-

gulfed and reshaped Eastern Europe. A lively introductory chapter summarizes the rise of communism after 1945. The authors map the "domino" action that occurred as the relatively peaceful revolution rolled across Eastern Europe in the late 1980s. Current commentary on the status of former bloc states is offered; Duignan and Gann recommend widespread and rapid privatization.

■ *Prices and Wages in Transition Economies*, by Senior Fellow Edward P. Lazear also examines change in Central and Eastern Europe. Without rapid wage liberalization, progress toward economic prosperity in transition economies will be significantly impeded, he writes. Lazear's work describes the current situation of wages and price liberalization in Central and Eastern Europe and discusses why wage and product prices have been treated differently. A country-specific discussion of Poland, Czechoslovakia, Hungary, Bulgaria, and Romania is presented. A major portion of the essay concerns the examination of relative prices and their possible distortion using a comprehensive analysis of data from the former Soviet Union and the

United States in May 1991. He found that despite substantial deviations that could imply significant distortion, there was a rough correspondence between world prices and Soviet prices of retail goods.

■ *The Unification of China and the Problems of Public Opinion in the Republic of China in Taiwan*, by Senior Fellow Thomas A. Metzger, analyzes the disagreement between the People's Republic of China (PRC) and the Republic of China in Taiwan (ROC) about how China can be unified. The PRC, he writes, wants Taiwan, a "rebellious" province, promptly to recognize its sovereign authority over the island. The ROC, however, recognizes itself as a sovereign nation and holds that unification must be contingent on the democratization of the PRC. Should the United States policy tilt toward either side in this dispute? Part of the answer, he writes, lies in understanding the current policy of the ROC, the historical background of the policy, and the extent to which the policy is supported by ROC citizens.

Copies of the Essays in Public Policy are available for \$5 each from the Hoover Institution Press, 415/723-3373.

First Hoover Donors' Retreat Held in Napa Valley

During June 7-10, a small group of major Hoover Institution donors, Hoover Overseers, and guests assembled for the first Hoover Donors' Retreat at Meadowood Resort in Napa Valley, California.

Attendees were treated to seminars with Hoover fellows' analyzing critical public policy issues and proposing solutions during panel discussions. More than a dozen Hoover fellows, including Senior Research Fellow Milton Friedman and Distinguished Fellow George P. Shultz, participated in the event.

In addition, Deputy Director Charles Palm, Archivist Anne Van Camp, and Associate Archivist Elena Danielson gave



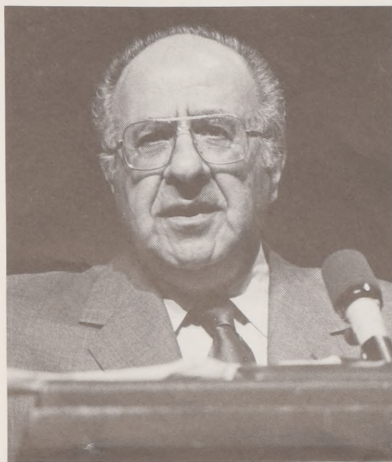
Keith Rosenthal Photography

presentations on Hoover's efforts to document the collapse of communism in Eastern Europe and the former USSR. Guests also were briefed on details of Hoover's historic project to microfilm the Soviet Communist party archives.

The Hoover Donors' Retreats, intended to combine intellectual stimulation with re-

Hoover senior fellow Edward Lazear, far left, offers his view on economic growth and trade issues during a panel at a recent retreat of scholars and donors at the Meadowood Resort. From left are Hoover fellows Lazear, Milton Friedman, Robert Hall, and Gary Becker. The retreat featured presentations on America's future, legislative and executive reform, presidential politics, the emerging Europe, and Hoover's archival holdings.

laxation, offer attendees thought-provoking discussions on public policy issues as well as opportunities to become better acquainted with the distinguished fellows and supporters of the institution. For more information, contact Associate Director for Development Catherine Smith at 415/725-6715.



Ambassador Philip Habib Dies at Age 72 in France

Ambassador Philip Habib, a senior research fellow at the Hoover Institution since 1980 and a distinguished American diplomat, died May 25 in France.

During his years with Hoover, he focused his work on foreign affairs with an emphasis on Central America, East Asia, and the Middle East.

Hoover Institution director John Raisian said, "Phil Habib made an immense contribution to America. As a colleague, he brought many valuable assets to the Hoover Institution — his knowledge of international affairs, his wise counsel, and his enthusiastic participation in our work. He will be sorely missed."

"Philip Habib was far more than our

country's top diplomat," said Hoover distinguished fellow George P. Shultz. "He talked tough, talked fast, and acted with a deft touch. He used his exuberant sense of humor and his capacity for grand theatrics as persuasive accompaniment to his argument. He was the guardian of the Foreign Service, and I salute him for his extraordinary contributions to our country. He had a great capacity for friendship, and, as a close friend, I will miss him deeply. His inspiring example will stay with me."

Habib was a retired Foreign Service officer and had a long and distinguished career in international affairs.

During 1986–87, he was the president's special envoy for Central America and throughout the 1980s served as personal representative of the president to the Middle East (1981–83) and the Philippines (1986). Between 1974 and 1976, he was assistant secretary of state for East Asian and Pacific affairs with the U.S. Department of State. He was ambassador to the Republic of Korea in 1971–74 and from 1968 to 1971 was a member of the U.S. delegation to the Vietnam peace talks with the rank of ambassador.

Born February 25, 1920, in Brooklyn, New York, he received a B.S. degree from the University of Idaho and a Ph.D. from the University of California at Berkeley.

Habib received a number of awards and decorations including the Presidential Medal of Freedom in 1982.

Hoover Gets Socialist Workers Party Archives

The Hoover Institution has acquired major holdings from the Socialist Workers party of the United States, founded by American followers of the Russian revolutionary Leon Trotsky in 1928. The party has given Hoover a collection of original manuscripts and letters by Trotsky as well as many of its own records documenting its international activities and relations with Trotskyist parties around the world.

These materials, together with those it already holds, make the Hoover Institution one of the world's premier repositories of holdings on the history of the international Trotskyist movement.

Correction

The winter issue of the *Hoover Institution Newsletter* carried an inaccurate description of the Hoover Institution Press publication *How the Peace Was Lost: The 1935 Memorandum, Developments Affecting American Policy in the Far East, Prepared for the State Department by Ambassador John Van Antwerp MacMurray*. The volume was edited and introduced by Arthur Waldron (\$16.95 paper, \$29.95 cloth). The description should have read:

The well-known 1935 memorandum, which addressed the crisis between Japan and China during the 1930s, is published for the first time with an explanatory introduction and notes by Waldron. The memorandum challenged the view that Japan was an unprovoked aggressor and that the United States should support Nationalist China. MacMurray proposed a two-track policy of moderation toward Japan with restraint toward China, designed to achieve a new balance of power in the region. Unless such a new policy was adopted, MacMurray believed, war between Japan and the United States was unavoidable. Furthermore, he believed that were the United States to win such a war, there would be future tension with the USSR, Japan's logical successor as Asia's power broker. The book also includes a comprehensive chronology and bibliography of both Western- and Asian-language materials. Arthur Waldron is a professor at the U.S. Naval War College in Rhode Island.



Senior Research Fellows Larry Diamond, far left, and Annelise Anderson, to his left, lead a discussion on the economics and politics of federalism during a June visit by members of the constitutional committee of the African National Congress. The group's tour was sponsored by the U.S. Information Service.

Hoover Conference in Washington Examines Economic and Social Relationship to Democracy

The relationship between the economic and social structures of developing countries and the countries' prospects for evolving and maintaining democratic governments were the topics of a three-day Hoover Institution conference in May in Washington, D.C.

Organized by Senior Research Fellow Larry Diamond, the conference had two purposes. One was to examine how the relationship between the state and the economy, and the extent of market competition, private entrepreneurship, and autonomous economic organization, stimulate or retard economic growth and thereby affect prospects for democracy. The other aim was to examine how the degree of autonomy, organization, and pluralism of the civil society—particularly as reflected in the development of producer, labor, student, women's, and other interest groups and civic associations—affects the development of democracy.

These issues were studied in depth, with a common theoretical agenda, in 10

countries: Pakistan, Thailand, Taiwan, the Philippines, Peru, Chile, Egypt, Nigeria, Poland, and Bulgaria. For each country, parallel case studies were solicited: one on economic structure and democracy, the other on civil society and democracy.

"This conference yielded a number of conclusions," Diamond said. "First, democracy is served by a strong and pluralistic organizational life, able to advance citizen interest and check the power of the state. However, such strong civil societies do not always make for 'governability' during crisis-ridden transitions.

"Thus, secondly, political and economic reform do not necessarily go together in the short term. People might protest against economic reform because it increases short-term costs. Therefore, countries need to find political mechanisms that can professionalize the management of economic reform and liberalization. Bodies such as a Federal Reserve Board can insulate policy makers from short-term political pressures. This is a continual challenge for democracy.

"Also, we need to increase the general economic literacy of democratic publics and their understanding of the need for specific structural reforms. Thus, in addition to civic education in democratic values and practices, new democracies need to use the mass media and civic organizations to educate their publics in economics.

"If countries continue operating grossly inefficient systems, most people will lose in the end. Eventually, this will produce economic crisis. This leads to our fifth conclusion: Generally, major economic reform is achieved only in crisis situations, and when crises occur, we should take advantage of them.

"Also there needs to be more emphasis on economic training of bureaucrats and the whole intellectual infrastructure. One of the reasons we saw success in Chile during the 1970s and 1980s was because of the extraordinary investment by the University of Chicago, in particular, in economic training of market-oriented economists and market-oriented business managers who are now much better prepared to compete in a global economy."

NEWS BRIEFS

■ Distinguished Fellow **George P. Shultz** has been elected to the American Philosophical Association, the oldest learned society in the United States. Founded in 1743 by Benjamin Franklin, the society supports scholarship in all fields of knowledge through its research grants, publications, and library. Shultz's election brings the number of Hoover fellows associated with the society to eight.

■ Research Fellow **Joseph McNamara** will receive the 1992 H.B. Spear Award for Achievement in the Field of Law Enforcement and Control from the Drug Policy Foundation. The award, which carries a \$10,000 research stipend, will be presented in November in New York. McNamara will be honored for his outstanding contributions to the field of law enforcement and drug policy reform.

■ Ambassador **Henry Catto**, director of the United States Information Agency, discussed the function and changing role of USIA at a Hoover seminar on June 29. Catto was ambassador to Great Britain and Northern Ireland from 1989 to 1991. He was introduced by Associate Director Thomas Henriksen.

■ Senior Research Fellow **Robert Conquest** on July 7 was presented with the Alexis de Tocqueville Award for his contribution to the democratic revolution in the former Soviet bloc at a dinner given in his honor by the Independent Institute of Oakland, Calif. Speakers were Czeslaw Milosz, Nobel laureate, Aaron Wildavsky, professor of political science, University of California; John O'Sullivan, editor of the *National Review*; and Elena Bonner, widow of Andrei Sakharov. Honorary co-chairmen of the event were Presidents Gerald Ford, Richard Nixon, and Ronald Reagan and former British prime minister Margaret Thatcher. Messages of congratulation

were read from President Bush, Mrs. Thatcher, President Reagan, California governor Pete Wilson and others.

■ Deputy Director **Charles Palm** was appointed by President Bush for a second term as a commissioner on the National Historical Publications and Records Commission. The commission is a grant-making agency that assists archivists, documentary editors, and historians to preserve archival sources and to publish documents of exceptional historical importance.

■ On July 6, **Lin Yang-kang**, president of the Judicial Yuan in Taiwan, visited the Hoover Institution. Lin, who is head of the judicial branch of government, discussed the process of revising the Republic of China's constitution, which is now underway. He was introduced by Liao Cheng-hao, assistant director of the government information office in the Republic of China and a Hoover visiting scholar. Lin also met with Hoover director John Raisian and Deputy Director Charles Palm.

■ *Impostors in the Temple*, by **Martin Anderson** (\$22, Simon & Schuster), is scheduled to appear in mid-August. Anderson addresses the intellectual and moral state of American colleges and universities. He takes aim at arrogance, elitism, and intellectual fraud and explains how corruption springing from these defects endangers academia and the future of the nation. Anderson recommends strong reforms including the prohibition of student teaching, the abolition of tenure, the awarding of doctorates for mastery of subject rather than for so-called original research, and an end to financial and athletic corruption. Anderson is slated to appear on the "Today Show" on August 10 to discuss the book. Martin Anderson is a senior fellow.

■ *Race Relations on Campus: Stanford Students Speak*, by **John H. Bunzel** (\$12.95, Portable Stanford Book Series, Stanford University Alumni Association). Interviews with 54 students at Stanford University form the core of this report on racism, the "new racism," and today's university students. Bunzel examines the views and experiences of black and white students, specific incidents on campus, and the dilemmas of race

and racism. Also offered are profiles of three Stanford students and their attitudes toward race. Bunzel is a former university president and past member of the U.S. Commission on Civil Rights. He is a senior research fellow.

■ *The Democratic Revolution: Struggles for Freedom and Pluralism in the Developing World*, edited by **Larry Diamond** (\$12.95 paper, \$24.95 cloth, Freedom House). Compelling first-person accounts of the struggles waged for freedom and democracy by Third World activists and journalists in countries such as Chile, Argentina, the Philippines, Thailand, South Africa, and Nigeria are presented in this volume. Moving beyond conventional theories of democratic transition that focus on elite negotiations and long-term social changes, this book demonstrates, in one moving and absorbing account after another, that democracy comes into being because of the courageous and innovative mobilization of large numbers of citizens in civil society. Larry Diamond is a senior research fellow.

■ *Money Mischief: Episodes in Monetary History*, by **Milton Friedman** (\$19.95, Harcourt

Brace Jovanovich). Nobel Prize-winning economist Friedman demonstrates through historical events the mischief that can result from misunderstanding the monetary system. Other issues discussed include the central role of monetary theory, inflation, and the opposite results in Chile and Israel of seemingly identical policies. Friedman is a senior research fellow.

■ *Reversing California's Decline: An Overhaul of the California State Budget, 1992-1993*, by **Alvin Rabushka** (Howard Jarvis Taxpayers Foundation). This report's main thesis is that a healthy private sector is essential to individual livelihood and that the state's primary role is to ensure that California remains an attractive place to do business and work. Rabushka advocates the privatization of many activities now provided by the state, a hiring freeze, elimination of state mandates on local government, and greater reliance on private-sector provision of educational services. He believes that long-term savings could exceed \$10 billion. Rabushka, who has long advocated significant tax reform, is a senior fellow.



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