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Dynamic Model U.S. Economy Shows Foreign Nations Ways To Grow Much Faster

Denver May Offer Europe, Japan Lesson in the Value Of Flexible Capital. Labor

A City Born on a Golden Bet

By JACOB M. SCHLESINGER

Staff Reporter

DENVER—When U.S. President Bill Clinton talks economics over lunch with fellow leaders of the world's rich nations here Saturday, they will compare America's success with the laggard performance in Europe and Japan.

"There is a deep, interconnected relationship between economic growth and economic change," lectures a briefing paper that Clinton aides will give to the top officials of Britain, Canada, France, Germany, Italy and Japan—countries that, by and large, are averse to turbulence—and to Russia's president, who is trying to decide which Group of Seven economy to emulate. "The process of economic change inevitably involves a certain amount of creative destruction," the paper adds.

How does America's flexibility spur America's prosperity? Can other developed nations replicate it?

Probably. "It's not genetic," says Mancur Olson Jr., a University of Maryland economist who studies international economic patterns. But to match America's dynamism, they must overcome significant differences in culture, history and geography. While Americans tend to embrace change for its own sake, Europeans and Japanese tend to mistrust it.

"We have a private sector... where there's a very strong entrepreneurial, risk-oriented spirit," Mr. Clinton said in an interview with The Wall Street Journal Wednesday. "It's indefinable and intangible, but I think it has a lot to do with why we are who we are... We're sort of constantly in the act of becoming."

European leaders attending the three-day annual summit, which opens in Denver on Friday, will bring with them their long-running battle between French-style interventionism and British-style pragmatism. In fact, Britain is expected to join the U.S. in calling for more deregulation as the way to tackle joblessness (see article on page 2). But the summit's setting itself offers valuable clues about how to create a dynamic economic. For the booming capital of the Rocky Mountains is a perfect example of American-style creative destruction and relentless reinvention.

Born on a Bet

Denver was born on a bet. In the mid-19th century, thousands of people scrambled here on the long-shot hope of finding gold.

What's News—

Business and Finance

THE EU IS EXPECTED to launch an in-depth probe of the Guinness-Grand Metropolitan merger to gauge its impact on competition. LVMH said it bought two million more shares in Grand Met, adding to speculation that the firm hopes to disrupt the deal.

(Article on page 3.)

Italian and Dutch shares set records. The rally followed the European Union summit in Amsterdam. Analysts said investors are cheering any sign of the French and Germans cooperating.

(Article on page 13.)

Stet confirmed it is in talks with AT&T over a cross-border alliance. Stet didn't provide details, but some believe that AT&T would likely take a stake in Stet in its share offering this fall.

(Article on page 3.)

Germany's central bank agreed to revalue its currency reserves and transfer the surplus to the federal government, which is struggling to close its budget deficit ahead of economic and monetary union in 1999.

(Article on page 13.)

Embraer and AIR may ally in the 70-seat regional jet sector. Although no negotiations have been launched, both plane makers said such a linkup might be attractive given the market dynamics.

(Article on page 6.)

Switzerland will fight the strengthening of the Swiss franc caused by anxious investors seeking a safe haven outside of the planned EMU, central bankers said.

(Article on page 13.)

The U.K. government signaled approval of plans to stage a Millennium Exhibition in Greenwich, but ordered a review of several aspects of the \$950 million project.

(Article on page 3.)

Russia launched a \$2 billion 10-year Eurobond, the biggest ever offered by an East European borrower, amid heavy demand.

(Article on page 9.)

U.K. Prime Minister Tony Blair will likely use this weekend's Den-

World-Wide

THE U.K. CONSERVATIVE PAI elected William Hague as its new leader. Hague's victory over 56-year-old Kenneth Clarke, a liberal senior Tory member, by 92 votes to 70, represents a generational change in the wake of the party's disastrous election defeat to the Labour Party on May 1. Although Hague, who comes from the party's Euroskeptic wing which opposes a common currency and objects to further integration in Europe—he is part of the "pragmatic" right. Supporters expressed hope that will enable him to bridge the deep divisions between the hard right and the moderate, pro-Europeans, something for prime minister and party leader Major failed to do. (Article on page 2.)

Clarke, however, rejected an offer of a senior job in Hague's "shadow cabinet," saying he wanted a break from the political front line after years of service.

France's new prime minister moved to complete campaign promises by pledging to raise France's minimum wage by 4% and declaring he would put an end to the previous government's efforts to reduce the public work force. (Article on page 13.)

A senior Cambodian government official backed away from claims that K Rouge leader Pol Pot had surrendered to former comrades, according to Prime Minister Prince Ranariddh.

Israel's two major political parties called lawmakers back from abroad to cancel all trips ahead of next week's parliamentary vote of confidence in Prime Minister Netanyahu's coalition government.

Turkey's President Demirel said he will become the nation's next prime minister as Tansu Ciller, head of the Path Party, and Mesut Yilmaz, head of the Motherland Party, jockeyed for position.

Multinational force soldiers in Albania killed an Albanian gunman and 11 international observers being threatened by two armed gangs. Separately, the Security Council authorized the Italian military force to remain in the country an additional 45 days.

The U.S. and Britain called for Iraqi officials traveling abroad to receive permission and suspension of permits for views of sanctions to punish Baghdad for refusing to let U.N. weapons inspectors enter sensitive sites.

Russia's President Yeltsin appointed the former commander of the army in Chechnya, Col. Gen. Vladimir Kvashnin, as chief of staff of the armed forces—also making him deputy defense minister.

U.S. Economy Offers a Model for E

Continued From First Page

round the clock by TeleTech Holdings Inc., which has nearly 400 people working at the site with computers and headsets in a business that didn't exist 15 years ago—taking toll-free phone calls for corporations that outsource the job.

Along U.S. Highway 36 toward Boulder, Colorado, new corporate headquarters are rising from once-empty fields. Standing out is the jagged glass roof of Corporate Express Inc., a supplier of office products and services that was founded a decade ago by a Czech immigrant who claims to have set a national record for acquisitions last year. Meanwhile, the downtown Petroleum Club atop the gleaming Anaconda Tower, once the exclusive preserve of rich executives, changed its name just before its 50th anniversary last year to "Top of the Rockies," reflecting the city's corporate changing of the guard.

Not all Coloradans embrace change, of course. Conservationists constantly battle development. And the old guard frets as its clout erodes. "All these newcomers came here and want to change the rules after they get here—they immediately want the mountain roads paved, and fiber-optic cables and sewers put out to their homes," gripes Greg Walcher, president of Club 20, which represents the mining, logging and agricultural interests in Colorado's 20 western counties. "The traditional businesspeople are finding themselves in a small minority all of a sudden."

Colorado Gov. Roy Romer notes, "I've tried to stay with traditional industries, but you know that's not where the new world is." Recently named chairman of the Democratic National Committee as a symbol of the party's attempt to appear more centrist and pragmatic, he explains his governing philosophy this way: "I have never been a person who tried to draw a line or build a fence around Colorado. The free market just doesn't work that way."

The Flexibility Factor

An essential force behind America's comparative dynamism is its flexibility—in labor markets, capital markets and corporate culture. "The real issue is whether the economy can take a fixed set of resources at any point in time and allocate them to their most productive uses," says Paul Romer, a Stanford University economist, an expert on growth—and the governor's son and sometime adviser. "If you lock in those resources where they are, when opportunities change you won't be able to respond."

One basic tactic for reallocating resources is the ruthless firing of workers, a common American practice that horrifies most Europeans and Japanese. Storage Technology Corp.'s record profits partly result from laying off about 1,700 employees—nearly 15% of its work force—in less than two years, says David E. Weiss, the chief executive of the Denver-area maker of mainframe tape and disk drives. "We looked in the mirror and saw we just weren't fit," he explains. "It took us too long to get products out, and it was too ex-

pensive to develop products."

Mr. Weiss says he tried to handle the layoffs "with a humanistic approach." But he shudders when contemplating how he might have revitalized the company if impeded by European-type labor rules. "Take France with their latest election—they want a 35-hour work week but don't want to change pay," he says incredulously. "Nobody knows how they're going to pay for it."

France's new government also proposed on Thursday to raise the minimum

COMMON language.
Currency and customs allow companies and workers to move easily among states.

wage—despite the fact that it may hurt job creation and add to the country's 12.8% unemployment rate. And it was the French government—joined by the new Labour government in the U.K.—which prompted its European Union allies at this week's Amsterdam summit to include an employment chapter in the EU's constitutional treaty. The new chapter commits the EU's 15 member states to stepping up their economic policy coordination with job-creation as goal No. 1.

But officials downplayed the deal, acknowledging that the EU's new employment promises aren't likely to do much for Europe's 18 million unemployed people and won't deregulate the Continent's highly regulated labor market. "We don't want to create expectations that we cannot fulfill," says Luxembourg Prime Minister Jean-Claude Juncker.

American-style volatility can impose severe side effects, such as job insecurity, wage stagnation and increased inequality of income. "The U.S. has done a better job of creating employment, but Europe has done a better job of maintaining wages for those staying employed," says Lawrence Katz, a Harvard University labor expert. The Denver Metro Chamber of Commerce concedes that regional wages rose more slowly than inflation as thousands of jobs were created between 1993 and 1996.

Wealth in the Long Run

But the American model assumes that, in the long run, an economy usually produces new wealth by not trying too hard to preserve old wealth. "Our firms can fire; so they hire," says C. Fred Bergsten, director of the Institute for International Economics in Washington. "Japanese and German firms can't fire; so they don't hire." The American model, he argues, "is definitely better for everybody. In a world where all companies have to compete globally, you have to get with it in terms of market-oriented approaches, or you will suffer."

In a vibrant economy, labor flexibility also lets workers job-hop for higher wages, an option not available to, say, the many Japanese workers still tethered to a life-

time employment system. These days, Storage Technology worries less about shedding inefficient employees than about losing its best ones to Sun Microsystems Inc.'s research-and-development campus opening this autumn just across the road.

Moreover, job-market flexibility helps foster the new companies that many economists say can spur job growth. Storage Technology was founded in 1969 by defectors from International Business Machines Corp.'s Boulder facility. Then, in 1985, three Storage Technology engineers moved on to create Exabyte Corp., a maker of tape drives and automated-tape libraries that now has more than 1,000 employees in the area.

American creativity also flows from a huge, free-wheeling capital market. In the late 1980s, analysts hailed the stable, centralized financial sectors of Japan and Germany, which supposedly permitted wise planning by freeing corporate managers from quarterly profit worries. But now experts say those systems didn't force needed restructuring and shunned innovative outsiders seeking seed money.

"Anybody can raise money in this country," says David Hale, chief economist of Zurich Kemper Investments Inc. in Chicago. "Our venture-capital market is unchallenged. Our banking system is highly decentralized. In America, there are all kinds of second and third chances to raise money."

Rapid Success

Denver's main telecommunications company, U S West Inc., recently cut a seven-figure check for 21-year-old Yale University senior Stewart Ugelow for a 35% stake in his Internet Web site, which publishes news-feature stories and data such as TV and concert listings for college students. Student.Net Publishing LLC is less than two years old, and none of its six founders has any prior business experience. "We don't have anybody on staff yet old enough to rent a car. That's one of our goals for our next hire," Mr. Ugelow says.

"You bet there's a risk" in this investment, says Tony Pantuso, director of business development for U S West's interactive-services group. But Mr. Ugelow's very greenness makes him appealing. "In the multimedia world, a lot of good things are being done by people under 25," Mr. Pantuso, 34, explains. "It's not polluted by people such as myself that kill these things because they can't see the business."

Government also plays an important role in fostering Denver's, and America's, boom, more by providing the foundations for growth than by managing a lot of things in the European or Japanese mode. Gov. Romer supports new transportation projects, such as the Denver International Airport. The federal government is a large, stable employer in Denver. Colorado has a highly educated work force, thanks to heavy public spending on universities. The University of Colorado's biology and chemistry departments have generated a thriving biotechnology industry.

To be sure, traits considered American assets could again become liabilities, as

Offers a Model for Europe

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they were not long ago. Flexibility works "in an era of rapid change," such as the current period of technological advances and globalization, says Yale School of Management Dean Jeffrey E. Garten, a former Clinton adviser. "If we get to another plateau where it's possible to anticipate long-term trends, I think we'll see a dramatic resurgence of Japanese and European companies." The idea "that we have the superior model for all time is a very dangerous mindset." And Mr. Bergsten concedes that America's sometimes-excessive market brutality "could trigger a backlash against our model."

Copying Some Ideas

But for now, the Europeans and Japanese are trying to emulate some elements of the American model. On Monday, European leaders endorsed creation of a European Investment Bank credit line to help small high-tech companies on a continent short of venture capital. When meeting with President Clinton, Japanese Prime Minister Ryutaro Hashimoto is expected to offer a progress report on plans to deregulate Tokyo's rigid financial markets.

However, some differences between the U.S. and its main allies transcend labor, capital and regulation policies. America is blessed with a large, integrated market—something Europeans are struggling to create—that facilitates great changes within national borders. Common language, currency and customs allow companies and workers to move easily among states. "Imagine if IBM was in one country, and Microsoft and Intel were in another country," says Mr. Romer, the economist. "Nationalism would have led to a very strong attempt to protect IBM. We're very fortunate to have a big-enough marketplace to allow this process of entry and exit to take place without invoking the kind of nationalistic fervor that makes people want to stop this process."

American innovation is spurred as well by an acceptance of business failure that other countries find unnerving, plus an embrace of rapid success that others consider crass. Failure in the Old World can permanently stain a business reputation. But to Bank of Boulder President Steven K. Bosley, "bankruptcy doesn't have a stigma" if it isn't because of poor ethics or poor management. "We'll lend money to such a person in another venture. There are examples of people here who haven't made it, but come back on their second, third or even fourth try to be successful."

And entrepreneurs can get very rich very quickly. Bill Phillips used \$155 of savings a decade ago to found Experimental & Applied Sciences Inc., a maker of nutritional supplements for athletes. He now estimates his net worth at \$40 million. Last week, when the 31-year-old was honored as a "Rocky Mountain Entrepreneur of the Year," his acceptance speech was an unabashed defense of American-style success. "I'm sorry," he told a cheering crowd, "but winning does not suck!"

Brian Coleman contributed to this article

McDonald's By 2 in U.K

By RALPH T. KING JR.

Staff Reporter

LONDON — A British judge ruled that two vegetarian activists libeled McDonald's Corp. and awarded it 160,000 (\$98.2 million) in damages, concluding the U.K.'s long court case.

The libel action, which has generated a flood of bad publicity for the fast-food chain despite the legal victory, centered attacks on McDonald's in leaflets published by the defendants in the late 1980s. High Court Justice Rodger Bell found that most — but, significantly, not all — of anti-McDonald's statements were defamatory and untrue after testimony from witnesses over nearly three years.

Among the charges deemed false was that the company caused starvation in Third World and destruction of rain forests, and knowingly sold unhealthy to Paul Preston, chairman and chief executive of the U.K. unit of McDonald's, based in Oak Brook, Illinois, said he was satisfied with the majority of the judgment.

Ads Lured Children

However, the judge said McDonald's was responsible as alleged for cruel treatment to some animals and for advertising that exploits the susceptibilities of children. He also noted that the company's low-paying jobs tended to depress wages in the U.K. McDonald's pays an average of £4 (\$6.50) per hour, said a company spokesman, who declined to respond to judge's specific findings.

Though McDonald's prevailed, legal experts say the company made a colossal miscalculation in taking on the tenacious defendants, Dave Morris, 43 years old, and Helen Steel, 31, who became heroes of the environmental movement while defending themselves on a shoestring budget. The case has attracted extensive media coverage, spawning a book, British television miniseries, and "McSpotlight" site on the Internet. The case has also cost the company an estimated 16,000 per day.

As the "McLibel Two" emerged from the courthouse, a crowd of support waved red anti-McDonald's banners and cheered loudly. "Our campaign is unstoppable and will continue to grow," shouted Mr. Morris, an unemployed postal worker.

Cigar-Chomping Image

Meanwhile, Ms. Steel, a part-time employee, gleefully passed out a revised version of the offending leaflet, labeled "What's Wrong with McDonald's?" It pictures a fat, cigar-chomping businessman behind a Ronald McDonald mask. The judge didn't grant an injunction banning the leaflet's distribution but noted would rule on related matters, including the issue of legal costs, at a later date.

McDonald's indicated it won't attempt to collect the damages or recoup its costs. The defendants say they can't afford pay in any event.