

## **The Global Economic Outlook & the Impact of President Bush's Economic Stimulus Package\***

**Phil Gramm**

Today is the 227<sup>th</sup> birthday of the United States of America. So to begin my speech this morning, instead of talking about the history of our country, I would like to talk very briefly about the history of one of the little strands of fabric—one of the little threads—that is part of the mosaic that is America.

America, more than any other country, understands that it is people that are important; it is families that are important. The American story is not a story of “the people”. It is the story of individual people and individual families. So to celebrate the birthday of my great country, I want to tell the story of my wife.

My wife's grandfather and his two brothers made enough money for him, as the oldest son, to go to America. The Japanese occupation had started. Times were hard in Korea. So Wendy's grandfather came to America on a contract, where he signed a contract to work for two and a half years at a sugar plantation to pay for his passage.

When he had worked off that contract, he looked into a picture book to find a bride. He picked the picture of a young girl sitting in front of a thatch-roofed hut. He was so concerned that someone else might pick her picture that he tore the picture out of the picture book.

When we gave that picture to the Institute for Texas Culture and to the Smithsonian Institute, I noted that that picture was our most valuable possession because it was proof that America is the greatest country in the history of the world. This young woman went to a strange land where she didn't know anybody. She knew not one word of English. She went there to marry a man she had never met. She did that in search of opportunity and freedom. She found both.

When Wendy was sworn in as chairman of the Commodities Futures Trading Commission, President Reagan told this story, and made the point that as chairman of the Commodities Futures Trading Commission she would be overseeing the trading of all commodities and all commodity futures, including cane sugar futures, the same product that her grandfather had come to America to cut by hand.

That is not the story of an extraordinary family. That's the story of a very ordinary family in an extraordinary country. That country is America.

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I would also like to say that I started out loving a very small part of Korea. And then, as I came here so many times as a senator, I ended up loving the rest of the country. But Wendy was the part I loved first.

I am very happy to be here this morning. I am most excited about getting a chance to answer your questions. But what I would like to do is talk about the recession. I would like to talk about the recovery in America. I would like to say a little bit about the president's stimulus package. I would like to say a little bit about deflation. Then I would like to deviate from my background as a schoolteacher and be brief, so that I can try to spend the rest of the time we have until we all have to go to work answering questions on things you are interested in.

I don't believe you can over-emphasize the importance of recognizing that the recession that we are trying to recover from is very different from any other recession that we have experienced in the post-war period.

In the post-war period, in America and throughout the world we have had a series of inventory cycles. Inventory cycles have become like a common cold. You don't know when you're going to get one. You don't know how severe it's going to be at the outset. But once you have it, you have an experience and you know what to expect.

We had seven major inventory cycles in post-war America. They were all virtually identical. Economists could never predict when one was going to occur. But economists were not totally useless. Once the inventory cycle was triggered we knew an awful lot about its behavior. As a result, we knew what to expect.

Unfortunately, nothing we know about the inventory cycle has anything to do with this recession. This recession was triggered by a speculation bubble in equity markets that broke. Its macroeconomic consequences were so large that they sent the US economy and the world economy into a recession.

If you look at the Wilshire 5000, which is the index that is covering US equity value, when the speculative bubble broke it literally destroyed US\$ 6.7 trillion of equity wealth. Granted, it was all paper wealth, as Wendy reminded me during those wonderful years—the 1980s and 1990s—when our teacher retirement benefits package was just going up like a rocket every quarter. I would say to Wendy, “We're getting rich.” Wendy would always wisely say, “There are only two days when it matters: the day you buy and the day you sell.” Forty percent lower later, she was right.

That destruction of equity value sent the US economy, and the world economy, into a recession. To show you how different this recession is from the inventory cycle, we never had an inventory cycle in the US or anywhere in the world that was not triggered by a decline in consumption.

Yet in the US and pretty much world wide, consumption remains relatively strong. Housing starts in the US have been a critical factor in every downturn and every upswing. Yet we are in the midst of a housing boom in the US. This recession was

triggered almost exclusively by a collapse in investment. If we are going to rebuild the US and world economy, we are going to have to rebuild investment.

Let me now say a little bit about the president's stimulus package. The president's stimulus package was aimed directly at trying to provide incentives for people to invest. There were many different features to the proposal. But the two most important were dramatically reducing the double taxation on dividends so that the net after-tax rate-of-return on investment in public companies in the US would be higher. The president proposed the total elimination of the dual taxation on dividends. Congress only reduced the rate, from 38.6% to 15%. In fact, it cut the capital gains tax rate—the tax you pay on a capital gain when you sell something for more than you buy it for—it cut that rate from 10% for moderate income people and 20% for higher income people, to 5% and 15% respectively. Then it taxed dividends at that rate. That was a dramatic reduction both in the capital gains tax rate and in the dividend rate, reducing it from 38.6% to 15%.

The second and, in my opinion, the most important part of the president's proposal was reducing the highest income rate. Normally in Congress when this is being debated, members of Congress who disagree with the president's policy would say, "This is the richest 1% of people who make the most money in the US."

The plain truth is, however, that 85% of the taxes paid at the highest tax bracket are paid by proprietorships, partnerships and subchapter 'S' corporations. Those are small companies that are incorporated but which take advantage of a feature of US tax law that allows them to be taxed as an individual. By reducing that rate from 38.6% to 35%, we provided incentive for every small business in the US to grow, and small business represents 70% of US job creation.

I believe the president's stimulus package will benefit the economy. The economy was going to recover anyway. The question was, "Could we speed up the process?" There was the inevitable debate about the deficit impact of the stimulus package. But the president decided to have a stimulus program based on cutting taxes for really two reasons. One, we were dealing with a new kind of recession. We were in uncharted waters and being more proactive made sense. Secondly, the president decided since we were losing five times as much revenues from the recession as we would lose in a static sense from the tax cut, it was worth doing.

In my opinion, by instituting a policy that clearly made sense economically—reducing tax rates—the president's stimulus proposal made sense. If it had been a proposal to simply spend more money in government, I do not believe it would have been worth it. But since it was a policy that made good sense for long-term growth anyway, in my opinion it was the right policy.

I want to now say a little about the recovery. I am often asked by people, "When do things get back to normal?" I always ask them in return, "What do you mean by normal?" If by normal people mean 1983-2001 in the US, it may be a while before we see such times again. That was a far from "normal" period.

When we were going through that period, I thought it was pretty extraordinary. The further we have gotten away from it, the more I see it as a golden age economically. I believe that with any adjustment for price changes, prices are lower today in the US than they were in 1982.

We have seen very slight deflation in the US for the last 20 years. We experienced during that whole period a very rapid rate of economic growth for a developed country, over 4% average economic growth for that period. But if you adjust for the fact that we really did not have inflation, economic growth was even higher.

What triggered that growth? It seems to me there were a lot of factors. One was a dramatic change in public policy in Great Britain that occurred at the end of the 1970s. There was a dramatic change in public policy in the US that occurred in 1981 when we reduced the marginal tax rate from 70% to 28%. We had an explosion in world trade. We won the Cold War. That freed up hundreds of billions of dollars of resources to go into private use and economic activity.

It discredited not only Communism, but also temporarily Socialism and caused a blossoming of market-related economic systems around the world. It brought economic freedom to hundreds of millions of people who had never had any economic freedom before. With that came a wave of human energy. On top of that, we had the absorption of technology from computer science and information technology that caused labor productivity to rise very rapidly.

I submit that you will have a hard time finding another twenty years in recent history that has had that confluence of positive forces. My point is that it is going to be hard to get back to the level of economic performance we had in that period. Not that it is impossible. Not that we won't ever get back there. I am confident we will. But it is not going to be something we are going to go back to simply by the natural occurrence of things. We are going to have to work very hard to open world trade and expand economic freedom if we are going to achieve those kinds of growth rates again.

Let me say a little about deflation. I am concerned that governments are using deflation as an excuse to not do the things they need to do. Politicians love deflation. It gives you an excuse to do what you want to do, namely, spend money.

When I go to bed at night and start thinking about the things about which I am worried, I am always asleep before I get to deflation. Let me explain why. First of all, I do not think you need a new explanation to understand why growth is lagging in Japan. Growth is lagging in Japan because, like all of the developed world, they have an ageing population. It is happening in Japan earlier than it is going to happen in the US. They are in a situation where their pay roll tax to pay for the equivalent of their social security, Medicare and retirement benefits, is roughly twice what it is in the US. That is a huge disadvantage. The same thing is going to happen in the US in about 20 years, but it is happening in Japan now.

Japan has a world-beater, chrome plated export industry. But they have not done everything that they could have or should have done, in my opinion, as a developed nation, to develop their retail and wholesale distribution systems. I think Japan has suffered from protectionism which has prevented them from developing industries in which they might have been competitive. Like many economies, they do not have a small business sector that is as vibrant as the small business sector in countries that have grown more consistently, like the US and the UK.

Having said all that, I am confident you cannot have the quality of worker that Japan has, and you cannot have the savers that Japan has, and ultimately not find a solution to this problem. But I do not think you need some new mysterious theory to explain the problem.

The second reason I am always asleep before I get to deflation at night, besides being tired, is that in the US from 1867-1900 we had the most prolonged period of economic growth in world history. From 1867-1900 the industrial revolution took hold in the US. We became during that very short period the richest nation in the world, and the most powerful nation, though we did not discover it for another 50 years.

During that period we absorbed 20 million new immigrants who came to the US looking for opportunity and freedom, and found it. During that period we averaged over 4% real growth, and yet from 1867-1900 prices in the US fell by, on average, 1.5% per year. This idea that gradually falling prices is identified with stagnation is alien to the US, where we had our most prolonged period of rapid economic growth when prices were actually falling.

Finally, often people hold out the Great Depression as an example of this natural pressure of downward prices and the failing of the basic system. But when we go back and look at the Great Depression, we find that at least in the US, because of perverse monetary policy by the Federal Reserve Bank, our money supply was falling faster than prices were.

The deflation was imposed by bad monetary policy. It was not a natural occurrence. In my opinion, deflation is not a problem in and of itself. As we see in Japan, and as we may see in other places, it is an outward and visible sign of a structural problem. Rather than simply spending billions of dollars trying to stimulate price increases, we need to deal with structural problems in terms of rebuilding the foundations of our economies.

There are a lot of other issues I could talk about here, many of them Korean-related. But I figure I will be asked those questions. So let me stop now.

**Questions & Answers**

**Q** Since you touched on Japan's problems, I would like to start with a question about Japan. I agree with you that Japan has all kinds of issues. But one of the problems is that, because of their strengths, I believe they have glossed over a lot of weaknesses, particularly in the distribution sector.

The problem is that their financial situation is very severe. By some estimates, Japan is not only the highest debit government in the OECD, but by the time they add all the hidden indebtedness—such as un-funded pension obligations—estimates run over 300% of GDP. Is this not a very serious threat, even if, as a society, Japan has many economic strengths?

**A** I did not go too deeply into the Japanese problem. Another problem is that the government has been far too involved in financial markets there. They misallocated a lot of resources. They have run up a big debt trying to “stimulate” the economy by spending money. Now, they are going to have to raise taxes to pay for it. If they had simply cut taxes to begin with, instead of spending money, I wonder if they would be in a better position today.

I do think there are problems in Japan. I do think there are structural problems. I think they can be fixed. The sooner they are fixed, the better off we will all be. One of the things that could really help the world recovery is if Japan could grow at about 4% per year for the next decade. I believe they could if they did the right things. Unfortunately, as dealing with deflation is politically popular because you can spend money, dealing with structural problems is politically unpopular because you have to do tough things. Having been in the “Reagan Revolution” as we called it, it is very hard to change things. That is where Japan is today.

**Q** As you have probably discovered during your week here, the Korean administration and the Korean people are aspiring to become a financial “hub” of Northeast Asia. Those of us in the foreign business community here are very supportive of those goals. It is good for Korea. It is good for our businesses here in Korea.

One of the major issues that we are all debating as it relates to those objectives, is what the appropriate regulatory structure should be for financial institutions in Korea. The debate always boils down to the US regulatory model versus the European regulatory model versus regulatory models elsewhere in the world. This is a fairly broad question, but given your role in the US regulatory context, what are the primary merits of the US model and to what extent could it be pursued as a model in Korea?

**A** The goal of becoming a regional financial center is a good goal. It is one we at UBS support. We have made a major commitment in Korea. We believe Korea is going to become a financial hub. We believe that when Korea is unified in freedom, there will be great opportunities in the North in providing financial services and in funding growth in North Korea as it catches up with the rest of Korea.

I am very loath to come to somebody else's country and start telling them how to run it. Let me just respond on the relative merits of two approaches to regulation. I believe

very strongly that you need a set of rules that is clearly understandable, and which is enforced equally and fairly. The worst thing you could have is a set of rules that nobody can comply with, and so, if you look hard enough, everybody is technically in violation. With selective enforcement, you can find that anybody is violating the law. So simple understandable rules that are strictly enforced are needed. Basically, transparency is key. If you got transparency, the market becomes your principal regulator. If you have transparency, the market is a brutal disciplinarian. The key to good regulation is good transparency and honest book keeping.

I greatly prefer the US system of setting out rules and then letting private entities make decisions. The European system of requiring private entities to get approval for every action they take, even though the action is perfectly legal, hampers economic growth, creates uncertainty and creates the potential of uneven enforcement.

Those are my views on regulation. Get the market working on behalf of good regulation with very strong transparency rules. Have simple regulations. Enforce them fairly. Come down hard on willful violators. Don't play favorites. Those are the keys to good regulation. Don't get carried away with government telling private business how to do its job.

**Q** I have a question about President Bush's stimulus package. The federal government is trying to accelerate the economy with a tax cut. The problem is that state governments face a great budget problem, especially California. What will be the net effect of the federal government's spending stimulus package? Many states are already increasing their taxes in response. Those countervailing actions could reduce the effectiveness of President Bush's package. What will be the net effect?

**A** State governments in the US, by and large, have a balanced budget requirement in their constitutions. When they have an economic downturn, like today, they are required to either cut spending or raise taxes in order to comply with their constitutional obligations. Some point has been made that the states are doing the opposite of the federal government. That is true. But the aggregate size of the state deficit is very small compared to the overall federal stimulus.

Many states have had double-digit growth in state spending during this period, where we've had very rapid economic growth. Even my own state, Texas, has seen spending grow at 10% or 12%. That needed to be stopped. I'm proud to say that Texas will be the only state in the union where there will be no tax increase. We accomplished that by asking, "What are we doing now that we wouldn't raise taxes to pay for?" A lot of things are on that list. We go down the list and try to reduce the lowest yield programs. I am not saying you could do this ten years in a row without causing some damage. But in our case in Texas, it is probably good for us for a couple of years. In terms of overall expenses, we do have a fiscal drag coming from the states. But the stimulus at the federal level greatly overwhelms it.

**Q** In Davos this January you were very worried about the North Korean nuclear issues. Could you tell me how you look at it today? What are the ramifications on the economy vis-à-vis the North Korean nuclear issues?

**A** I was hoping that I would wake up this morning and find that the Dear Leader was no longer with us. I was disappointed yet another day. But God, in His good time, will solve this problem.

Let me start with the nuclear threat. We are very concerned with the nuclear threat in the North. It is fair to say that the US is determined not to pay any more blackmail. Having said that, though, the US understands that 60% of the population of South Korea is within artillery range of the North. We very much want to find a peaceful solution to this problem. We have many options to deal with it. We are going to look at every option. In the end, I believe we will be successful.

You tend to hear discussion about what unification is going to mean. I have even heard some people say that South Korea doesn't want unification soon because of the cost. To that, I always respond, "Baloney!" Blood is thicker than water. Money is not everything. I intend to live to see the day Korea is reunited in freedom.

It will bring problems. Of course it will bring problems. You are going to have people that are going to be poor. They are going to have lived in an oppressive regime. But the human spirit can overcome anything. For every problem, there are going to be three opportunities. Think of all the mobile telephones that could be sold. Think of the cotton underwear. Think of the numerous things people will want and will demand.

Koreans who live in North Korea today will come to resemble their rich southern brethren. When they get freedom, they are going to have waited a long time for it. They are going to work hard. They will probably, on average, work harder than the people in the South, at least for a generation or two. Then they'll be like everybody else. That's been our pattern in the US.

The world wants to participate in this. Our bank will be committed to being involved in economic development in the North. I think the world will see it as a great opportunity. It can't happen soon enough to suit me.

There is a nuclear threat. We believe it is real. We believe it is potentially growing. We want to stop it. Now, how are we going to stop it? I better let the president make those statements. But I believe it will be stopped.

**Q** I am interested in your thoughts on the war against terrorism and the circling of wagons that seems to be occurring in North America. How do you think that will impact economic growth?

**A** The war on terrorism will obviously impose expenses. I think just gearing up the initial wave of setting up the department, and funding everything from airport security to individual security at individual companies in the US will probably cost us



one year of economic growth, probably equivalent to about 3% of GDP. That is a one-time expense. I do not think it will be cheap.

We have to be careful. Free societies are subject to terrorism because they are free societies. There are things we can do with intelligence. There are things we can do to protect ourselves. But no free society can protect itself completely and remain free. You can't guard every salad bowl, every Sunday, at every Holiday Inn. It just can't be done. You have to set priorities. You have to be reasonable. We have to be guarded that we do this in a rational way.

From the point of view of economic growth, I would say it is clearly a negative. Those are resources that could be put to productive uses. But it is a reality. It is there. It's not going away. It is something we will learn to cope with.

**Q** You stated that there are structural problems underlying the current deflation, and that those have to be addressed. What do you think are some of the structural problems affecting the US economy? What is being done about them?

Also, one contributing factor to the current deflationary trend around the world is an excess supply of goods from China. In that context, there have been calls for a re-valuation of the Chinese yuan. How would you assess the urgency or need for this action on the part of the Chinese authorities?

**A** The US went through major restructuring in the 1980s. One of the great advantages we have had since that period is that we reduced government regulations, we reduced taxes, and US industry went through a very tough restructuring. I will never forget when General Motors came to Ronald Reagan and said, "We're not sure we can stay in the automobile industry. We may be driven out."

Obviously, President Reagan showed some surprise, and he showed concern. But at the end of the day he made it clear that they must compete or die. We had all these pot-bellied guys standing around on the assembly line not paying attention to their business. You didn't want to buy a car made on Monday because they weren't back into routine. You didn't want to buy one made on Friday because they were thinking about the weekend. Then, you had all these white-collar executives on golf courses. When Reagan said, "Compete or die," they went back to Detroit. They got rid of all the pot-bellied guys. They fired all the executives on the golf courses. And now, I'm proud to say, we make among the best cars and trucks in the world. That's the kind of restructuring you need.

Ronald Reagan could have changed his answer. "Oh my God! Poor GM! What's good for General Motors is good for the US." I know you've all heard that statement. "We can't let General Motors go bankrupt. What shall we do?" In that case, General Motors would have asked Reagan to impose a big protective tariff, and then subsidize it. If that had been the case, we would be making cars today that wouldn't even start.

That's the kind of restructuring you need. China is not going away. China is there. They are a reality. The most important economic event in the world over the last fifteen years has been the rise of China. It is a great benefit. It has raised living standards worldwide. We are going to have to come to grips with the most competitive economy in the world.

In terms of the revaluation of the Chinese currency, the Chinese have built up a vast reserve. My view is that they have done that because they know that China is going to have a retrenchment. They know they are going to be required to restructure their financial sector. If you go to China, you see all these see-through buildings, and they're building more of them. You know a restructuring is coming. My belief is they're building up this reserve so that when it does come, they'll have a cushion. That's when they're going to let those dollars go.

When you earn money, you have the right to do what you want with it. Maybe in the short-run we would like them to spend it. I would have some good choices for things they could spend their money on that I care about, like American products. But the point is, it's their money.

People often ask me if we have a "strong dollar policy" or a "weak dollar policy". The plain truth is, in the 24 years I've been in the public life, we have never had a dollar policy. We don't have one today. The value of the dollar is set on the world's most perfect market, every day. The Treasury is a bit player in that process. If the US Treasury took resources and tried to make the dollar a value the market did not dictate, we would squander hundreds of billions of dollars. Intervening in currency markets, in my opinion, is a waste of money.

You can deal with underlying problems. I think the reason the dollar has declined in value is that wealth was moving out of the equity market. It started to move out of the bond market, and started to move back to the equity market, but is not coming back to the equity market as fast as it is moving out of the bond market. I think that is self-correcting.

If equity values continue to rise a little bit longer in the US, we will have far more international capital coming into US equities. If US equities are not a good, long-term investment then there is not a good, long-term investment in the world.

If you look at the strength of Europe, and the strength of the US, it is hard to imagine that the US does not have better prospects for the next 20 years.

These new countries coming into the EU from central and eastern Europe are really going to help the EU. First of all, the Germans may only want to work 35 hours a week, but the Czechs and the Poles have been waiting a long time to get to work. They are going to want to work 65 hours per week. That tends to change the way things work. I think it will be a very good thing.

**Q** I think Bush's economic stimulus package is closely related to his election campaign policy. If the stimulus package does not work by next year, what other measures do you think he might have up his sleeve?

**A** If you believe in democracy, you must believe that if politicians do things to get elected, it's not all that bad. If you assume people know what they want, and want good things, you would have to conclude that it's not a bad thing.

I think the stimulus package was aimed at trying to buy a little insurance, to ensure that things are going to get better. I believe they are getting better. We had a 1.4% real growth rate in the first quarter, and we were disappointed with that. We've had a backup of economic activity because of the war. We're going to see that activity come forward in the second half of the year. We'll probably achieve a pretty good growth rate. Such activity from the first two quarters will be felt in the third and fourth quarters.

The question is, "What if this doesn't work? What do you do?" Well, I guess you would have to say that the situation is akin to a gunfight. The president's bullets are already in the air. They are either going to hit the target or they're not. If there is another round in the chamber, I don't know what it is. You can always reload. But the advantage of being in the president's position is that he got the shots off.

I think the policy is going to work. It is a good policy. As for the next phase, I'm not sure there's enough for it in this context. So either these bullets are going to hit the target, or they're not. I think they're going to.

**Q** Your presentation was a very strong endorsement of bringing down the barriers to global trade and investment. I'm just wondering about the next trade round and how the US might enhance its leadership role in moving toward that objective.

**A** If you're looking for things we could do that could lift up economic growth for the whole world, more world trade is right at the top of the list. We are kind of stalled at the moment. We're trying to get through the current WTO rounds. The hold-up is agriculture.

Everybody in the world knows our farm policies are shameful. America's farm policy would make an old Soviet commissar choke. To have a great nation, like our nation, with a policy that pays people to grow things we don't need, is shameful. The excuse always given is that, "Everybody else is doing stupid things. So we should do stupid things."

If we could be successful at WTO and all agree to stop this subsidization of agriculture, every farmer in the world would be better off. The people that are efficient would stay in farming. Those who are not would get out over time. We would be much, much better off.

That is the hold-up now. The US needs to get out front and lead. We desperately want this agreement. We are expanding trade. We've negotiated a free trade agreement with

Chile. The president's set a goal of having a free trade agreement from the Arctic to the Antarctic by 2005. The ambassadors from Canada and Mexico can agree NAFTA has been a blessing. We need more free trade. In fact, I would like to see an Asian nation challenge the US to have a free trade agreement with it. We will probably have a free trade agreement with Iraq. I would like to include Turkey. It is something we need to get in front of and lead.

**Q** Thank you for that lovely story about your wife's family's move to America. In fact, I find it hard to think of anyone more interested in ensuring healthy US-Korea relations than you. From that perspective, how would you assess the health of the current US-Korea relationships? Are there any specific concerns, or any specific initiatives you think either the US or Korean government could undertake to improve that relationship?

**A** Well, first of all, with regard to my wife, to paraphrase Abraham Lincoln, "All I am or ever hope to be, I owe to my sainted wife."

Obviously I care about the relationship. I think it is fundamentally strong because Americans and Koreans love each other. Inevitably our relationship had to change. It couldn't stay as it was when Korea was a small country that desperately needed America's help and feared for its existence if we weren't there. South Korea has become a world power, both militarily and economically.

Just as your relationship with your children has to change as they get older, the Korea-US relationship has to change. My relationship with my children now when they are 30 and 27 is very different from what it was when they were 10 and 7. Very different. Do they love me less? No. Do I love them less? No. But are things different? Is our love different? Yes. We have to understand that, whether you're a Korean, an American, or even a Korean-American, our relationship could never have stayed the way it was.

Americans were used to Korea being the one place in the world where we were loved. One of the problems we learned from the British, so we shouldn't have been surprised, is that in many instances we are hated. The British never went anywhere in the world they didn't make better than they found it. If there's ever been a great nation, a public benefactor nation, it's the British. And yet, people hated them for it. When you are the world power, people tend not to love you. We in America are used to that.

People get confused when they see protests on television with a, "Yankee Go Home," message. It hurts. People don't realize, however, that the TV lens is a very narrowing lens. The other day, I was visiting some businesses on the island in the Han River. It used to be a military emergency airfield when I first started coming here. Now it's full of magnificent buildings.

There was a labor protest over there. On television, the protest looked huge. But actually, when you saw it without the constraint of the camera, it was a fairly small group of people, who showed up after the time you should have been there to go to work. They went home before the time you should have left work. If you saw it in the

flesh, it was far less menacing than when you saw it on television. But these labor strikes, and what is perceived to be labor violence, concerns people.

Our relationship is fundamentally good. You don't have to know a lot about human nature or international relations to understand that the Korean people are concerned about the threat of the North because they're here. They get concerned, as I can understand, because America, which is far away, can forget the immediacy of this threat.

We are not going to forget. We have come all this way since 1950. We don't want to leave it all on the goal line. We want to punch it over. We want freedom in the North. We want unification. Anything we can do to hasten that day, without starting a war, we want to do. I do believe it is coming. I think it is important not to be pessimistic. The threat of the North is something we have lived with for a long time, though this nuclear angle is a bit new. It's there. There's nothing you can do about it.