

VITAL SPEECHES

— OF THE DAY —

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THE BEST THOUGHTS OF THE BEST MINDS ON CURRENT NATIONAL QUESTIONS

IMPARTIAL · CONSTRUCTIVE · AUTHENTIC

that's many of us.

All companies are welcome to join PACI. You need not be a member of the World Economic Forum. So I urge you to consider what your organization is doing to combat corruption and to encourage a strong commitment and involvement. Check the World Economic Forum and Partnership Against Corruption Initiative websites or call those of us intimately involved with the process. Make this a priority.

At the heart of this endeavor is a very simple question, namely can we really stop or markedly slow global corruption? Cynics would say no, lumping corruption with death and taxes as crosses we will always have to bear. Based upon progress over the past four years, however, I say yes. I am con-

fidant and enthusiastic. And when reflecting upon barriers to change, I often recall a statement by the late Christopher Reeve, who was a Superman in real life as well as in the movies. "So many of our dreams at first seem impossible," Reeve once said. "Then they seem improbable. And then, when we summon the will, they soon become inevitable"

The world will benefit in many ways if the dream of eliminating corruption in global business becomes inevitable. And who knows? In his song "You Don't Mess Around With Jim," Jim Croce advised us not to "tug on Superman's cape." That sounds to me like good advice.

Thank you for your attention and, once again, for welcoming Fluor so warmly to Dallas. ♦

Governmental Relations Program

EFFECTIVELY INFLUENCING POWER

Address by JOHN L. NAPIER, former United States Congressman, former Federal Judge on the United States Court of Federal Claims,

Delivered to the Executive Officers Council of the National Association of Home Builders, Washington, D.C., June 8, 2007

Thank you for the opportunity to be with such a distinguished group this afternoon to discuss the importance of governmental relations (lobbying). Your allotment of time is more than generous. Please be assured the length of my remarks is less my ego than the attempt to fill the time you have assigned.

You do me great a great honor, but also test me, because you have asked me to speak on a subject on which you have expertise. Nevertheless, as the old saying goes, "Fools rush in where angels fear to tread."

My remarks will be divided into two distinct parts. I will first discuss the underlying historical justification for a governmental relations (lobbying), and the "why" for such a program. Then, I will discuss twelve broad principles for effectively carrying your message (lobbying) to decision-makers, i.e. the "how" of lobbying in day to day meetings with decision-makers. We will then engage in a question and answer session.

► Why Have a Government Relations Program

By definition, government is that part of the social system under which the right to make laws, and the right to enforce them, is vested. Our society is thus distinguished by who holds power—one, few, or a majority.

How government is organized and where power is concentrated translates into how we live, how we spend our money, how we occupy our leisure time, what freedoms we enjoy, how we build up and secure our holdings, and how we are able to pass on those holdings to our children. Or to be put another way, our dealings with the government determine, to a major extent, how the pie is divided and how much we get, how much we give, and how we live

our everyday lives. After Watergate, President Ford defined the role of government in simple terms: "Government," he said, "is the glue that holds society together."

We live in a pluralistic society. Pluralism is the belief that politics and decision-making are located for the most part in the governmental framework, but many non-governmental groups also have a say. The exercise of power in a pluralistic society often shifts, depending upon the temper of the times in which we live, the issues at hand, and how different segments of society, both individually and collectively, mobilize their resources.

Many different interest groups determine how we live and organize as a society.

- Church, which is further divided into different faiths and denominations.
- Financial interests, which can be subdivided into categories such as banks, savings and loans, [and] credit unions.
- The press, which includes the print media, television, radio, [and] the Internet.
- Public Interests
- Private Interests
- Lawyers.
- Doctors.
- Civil Rights Groups
- Civil Servants.
- Business.
- Labor.
- Environmentalists.
- Developers. Realtors
- Home builders

If one of these groups does not exercise its rights and privileges, then the other groups will fill the void.

Government relations, or lobbying, represents the individual's and interest groups' lifelines to the political process.

So, I would suggest, considered together, the increasingly dominant role of government (especially with the accelerated activity of government in our generation) and the pluralistic nature of society suggest at least three reasons for a strong governmental relations (lobbying) component for any business or public interest group.

The first is that the definitions of "government" and "pluralism" compel pro-active participation in the political and governmental process. Government does not exist in a vacuum. If a particular interest group does not exercise its prerogatives and rights other groups—often groups with opposing agendas—will rush in to fill the void.

Second, if you do not push your own agenda, no one else will. It may be that you have allies or friends in a particular debate, but if you are not fully and affirmatively engaged in directing your message to government, it is highly improbable that another group can play an effective surrogate part in shaping the debate in your stead so as to fully fit your needs. And third, the corollary is that if a group does not play a part in shaping the debate, there is an obvious risk that the debate may turn against the group that is not at the table. You have no control of your agenda. That is not to say that you should have a dog in every fight, but it is to say that once you determine to engage on an issue in the governmental process, it should be a determined, well-reasoned, and calculated engagement.

History teaches us that at the local, state, and federal levels, there are defining times for engaging in government relations activity ... times when individual and, especially, group participation can make a critical difference in the outcome of a debate. But issues have to be ripe and ready for governmental action. They can possibly be forced through an active public relations campaign. Ideally the temper of the times should be consistent with the issue. Traditionally and historically, roughly for the first 150 years of this country's existence, government only provided internal and external security, basic order, and a justice system.

Beginning with the income tax in 1916 and especially since the Depression of the 1930s, there has been a marked increased emphasis for government to provide more economic regulation, welfare assistance, enhancement of entitlements, and more emphasis on national involvement in education and environmental matters. Government is a dominating influence in our everyday affairs, more so today than yesterday. It is not my point today to debate the relative merits of more or less government activity. It is my intent to argue that your government relations (lobby) involvement affects how government is organized and how power is concentrated. That translates into how you live your lives, have flexibility to spend your money, and what freedoms you enjoy. I am here today to talk about process, not policy. It is not my purpose here today to advocate a

political agenda, but to stress, in the words of President Eisenhower, that "Politics should be the part time profession of every citizen." So, to underscore how critical process is, it is important to recall that effective assertion of anyone's political agenda, or any group's political agenda, has been one of the key factors in determining the course of our country's history.

Our politics have been historically defined by a combination of three factors:

1. The temper of the times and the over-arching political and social issues and how those issues are confronted by the powers that be—conservatives or liberals (the politics of the macro political system);
2. The issue at hand (the micro political issue); and
3. The involvement, effectiveness, and marketing capability of the extra-political forces which make up our pluralistic society (lobbying to fit the micro issue within the confines of the broader macro issue).

Professor Arthur M. Schlesinger, the noted liberal historian who just died, wrote an engaging book in 1986 entitled *The Cycles of American History*. It is a book I heartily recommend. Two references in the book from his essay "The Cycles of American Politics" are relevant to our discussion today.

In defining how the temper of the times and the political cycle control political issues of the day, he writes: "Each swing of the cycle [has] produced Presidents responsive to the national mood, sometimes against their own inclination. The conservative William Howard Taft in 1908 provided an interlude between two belligerently progressive Presidents; but he was carried forward by the flow of times and actually launched more antitrust prosecutions than Theodore Roosevelt, his flamboyant predecessor. Richard Nixon in 1968 may seem another anomaly. But Nixon received only 43% of the popular vote, and the liberal tide of the sixties, still running strong, shaped his early domestic legislation. The Environmental Protection Act, The Occupational Safety and Health Act, the Comprehensive Employment and Training Act and its federal employment program were all enacted during the Nixon Administration. Nixon even proposed a guaranteed minimum income in his Family Assistance Program, indexed social security benefits, imposed price and wage controls and presided over the fastest increase in social payments since the New Deal."

Second, Dr. Schlesinger has made a strong case for recurring themes in American history—innovation, then conservation; conservation, then innovation; and vice versa.

In 1946, Dr. Schlesinger's father, a more conservative and quite an eminent historian, identified 11 such cycles, each lasting roughly 12 years: the Declaration of Independence, followed 12 years later by the Constitution; then the election of Thomas Jefferson as a reaction against the government that had been created under Washington and Adams; then retreat after the War of 1812; the Age of Jackson; domination of the national government by the slaveholders;

the abolition of slavery; then the Gilded Age; the Progressive Era; Republican Restoration; the New Deal.

We have since, in our lifetimes, experienced the Eisenhower years; the Civil Rights Revolution and the liberal tide of the Sixties; the Reagan Revolution; the Clinton Reaction; and the Contract with America. Today, as a society, we are now trying to determine where we are and where we are headed. The pendulum has shifted throughout our history from one side of the political spectrum to the other.

A central question, then, is: Where are we today and where are we headed? How does the direction impact governmental relations and lobbying in the micro sense? A tilt toward business and tax relief seems to dominate when conservatives are in power; labor and consumer issues dominate a liberal agenda. Since 2001, war and anti-terrorism preparedness consumed federal resources that would otherwise be available for domestic purposes. That must be factored into any equation for how best to structure an argument for an issue that requires federal expenditures. It is the old guns and butter argument. Do we have one, or the other, or both?

Which, then, when all has been said, argues strongly for your activism, i.e., if you do not want to passively sit by while the pendulum of history carries you and your industry along for the ride. The key is to define the issue within the larger confines of the times, and, then, to mobilize your assets to secure the issue. But Dr. Schlesinger observed, "... [T]he cycle is not automatic, neither is it self-enforcing. It takes people to make the cycle work."

Your active and effective involvement can positively affect the natural forces of history, but only if you participate and lobby your issues aggressively. Let me re-phrase the earlier proposition:

1. The government does not exist in a vacuum apart from the other institutions of society.

2. No group is going to make your case if you don't, and it is highly improbable that another allied group, even when it has converging interests, can make the case as effectively as you can. And more likely there will come a time when your interests may diverge from your ally to one extent or another.

3. So if you don't effectively make your case, there will be dis-equilibrium in the distribution of power and the benefits derived from government.

These are compelling reasons to be actively involved in shaping your industry's message and to be intimately involved in its delivery to policy makers and decision makers.

There have been defining years in American politics ... 1776 ... 1789 ... 1800 ... 1812 ... 1828 ... 1860 ... 1900 ... 1912 ... 1932 ... 1945 ... 1960 ... 1968 ... 1980 ... 1994. I believe we are near, or possibly in the midst of, another stage of definition. The gridlock of the past 12 to 15 years leads us to consider that. There is clear equal division in the current political landscape. We have always been a

Nation of innovation ... conservation ... innovation ... and conservation. Never, until recently, has gridlock been the rule. Inevitably, something will give ... the process will require it. There is no more crucial time to be involved in the process.

So, let us move from the philosophical and historical to the practical application of government relations, or lobbying. In other words, from "why" to "how." How can you, individually, in your contacts with governmental decision-makers, make a difference in shaping the agenda of government on issues that are important to you and your industry?

► Twelve Basic Principles of Effective Lobbying

After a many years in public service and private law practice, I recommend a dozen basic principles, some which may seem to be platitudes, but all of which are, nevertheless, very important. I recommend them to you as you lobby decision-makers, whether at the national, state, or local level. They are:

1. You should be aware of and accept the lobbyist's motto: BE PREPARED, BE PRECISE, BE PROFESSIONAL, BE PATIENT, AND PERSEVERE.

2. You must develop and fine tune your message before making contact, and you must always keep the message as simple as possible. Focus on one issue in any meeting. Do not overload the agenda or talk about superfluous issues. Both complicate effective message delivery. Have one spokesperson (the presenter) who thoroughly understands the issue and who knows the decision-maker, if that is possible. That spokesman should lead the discussion, having studied all aspects of the issue, and at all times the presenter should convey an attempt to be forthright and candid. If there are opposing arguments, they should be dealt with by confronting them head on.

3. You must work from objective data, so as not to delude yourself and not to have unreasonable expectations. Preparation is essential. Anecdotal information and experiences are helpful, but objective data is essential to win the day. No matter what your problem, you should vet it thoroughly and develop a strategy before going into any meeting with a decision maker. Everyone in the group should know the issue inside and out. It is important to try to know as much as the staff member, if possible, so you won't get tripped up. It is clearly fair to shape the presentation of the facts to make your case, but you should take care not to overstate your case. Over-stating your case is as damaging as understating your case and goes to the heart of your credibility. Staff will recognize spurious arguments and will have the final argument by meeting with the decision-maker again at some time after your departure.

4. You should never presume relationships when you initiate a contact with a decision-maker ... on personalities, friendships, or positions on any issue. For example, there are many people in politics who share common friends,

background, history, philosophy, and every outward sign of friendship, but there is intense jealousy. I can tell you for a fact that two senior members of the same delegation, both in high leadership positions (and not from my home state), have both expressed to me their disdain and distrust for one another. While publicly they endure and tolerate each other, you should never, ever go into one office and lean on your successes in the other office.

In fact, you should never presume anything. Getting your best case across to the decision-maker should be your goal. Intelligence and background information are both important, but presumptions can be fatal.

Remember that you have an agenda, but the decision maker, more than likely, has an agenda also. It is his or her re-election. He or she is not supposed to be impartial like a judge in a judicial proceeding. The burden is on you to convince the decision-maker of the efficacy of your agenda. Presumptions, extraneous comments, undue small talk complicate the process and wastes the time allotted for you to make your case.

5. Decision-makers do not receive your entrees and visits in a vacuum. Often, decision-makers do not wish to make commitments when their constituents want them to commit. Just as you have a technique for dealing with decision-makers, they, too, have techniques for dealing with constituents and lobbyists.

Jonathan Alter, in his excellent book on the first 100 days of The New Deal (*The Defining Moment*), explores the technique which President Roosevelt used so successfully with congressmen who came to visit and wanted special favors. FDR simply ran out the clock. Alter relates that Senator Claude Pepper enjoyed telling a story about Roosevelt meeting with him on a matter FDR preferred not to discuss. Roosevelt took up all the designated time talking about a man named Livingston, and Pepper never had the opportunity to bring up his difficult topic. Other political decision-makers are similarly circumspect. Running out the clock is a favorite when there is a big group. Diversion, re-direction of the conversation, and turning away from specific conversation into generalities are techniques many politicians use to avoid commitment. Comments like "I'll certainly do all I can to help" ... "I am always trying to help you" ... "We've always been friends and I'll certainly do what I can" ... "I'll certainly give it most careful consideration and as always want to help you" ... are not commitments.

For a decision-maker to position a staff member between himself or herself and the problem is an old and useful technique. The staff member can only speak in generalities, and the decision-maker can retain deniability and vagueness where he or she desires it. I had a former General in Army JAG tell me that in his view putting someone between himself and the problem was a key to successful leadership. It is important to remember that staff serves the purpose to protect the principal.

6. Instant gratification is extremely dangerous in politics, and expectation of instant gratification leads only to trouble. Never discuss quid pro quo. Never tie a campaign contribution to an official act. Never talk fund-raising in a government office. The consequences are devastating, even among friends, which will include embarrassment, probable rejection and criminal penalties.

There are settled and legally acceptable fund-raising methods. You should familiarize yourselves with them and readily seek counsel if you have any questions. The fact that you made a political contribution does not give you or anyone else a lock on the position the decision-maker may take. If you feel that way, then you have already admitted to your complicity in a criminal act. You must rely on logic and well-constructed argument to win the day.

7. I cannot overstate the importance of staff. Do not try to sidestep the staff. Be thorough with the staff and avoid surprises. You will get to surprise the staff once, and, thereafter, there is a break of trust. Staff will set the tone for a meeting with the principal and will be responsible for follow-up. So never underestimate the influence of the staff.

8. Ideology may be important, but should not be all consuming on most issues. Ideology only matters on the "macro" issues. Politics can, indeed, make strange bed fellows. While you may agree today, you may disagree tomorrow. While you disagree today, you may agree tomorrow. Those in power today may not be in power tomorrow. Those out of power today may be in power tomorrow. President Kennedy summed it up ... by observing that in politics there are no lasting friends, only allies for the moment.

9. You must never burn bridges, and never be patronizing. Someone who may be unable to help on one particular issue may be the key on another issue or even on a different aspect of the same issue. Politicians recognize bullies and weaklings alike, and will quickly take advantage of both, then discount their influence, and treat them for what they are. You should always remember that civility and courtesy are crucial. What comes around goes around. Never threaten. You should posture every request, if possible, so everybody is a winner.

10. You must recognize your inherent value to the public policy process and factor that element into your presentation. You bring an additional source of information and resources to the table, a unique perspective, and in most instances, a constituent's or industry's viewpoint. You should never forget that you are an integral part of the decision-making process. If your analysis and perspective are missing, the solution will be skewed and good public policy will suffer.

11. Reaching closure and getting a commitment is the ultimate goal in any lobbying effort. Failing that, it is important to get a clear understanding about where the decision-maker stands. While getting a commitment is the ultimate goal, we must recognize that when he or she

commits, a decision-maker restricts his or her options. Thus, it is important not to push the decision-maker so hard for an instant commitment so as to destroy hopes for his or her cooperation in the future. This is where instinct and experience are so critical. This is important for follow through and subsequent dealings with the decision maker. Unlike a judicial proceeding or a congressional hearing, a lobbying meeting does not have set procedures. Unlike court, procedural safeguards or clear appeals guidelines do not attach to the proceeding. The landscape of politics and lobbying is, by its very nature, disorganized. The lobbyist's task is to help you to navigate this disorganized terrain with sound judgment. It is the lobbyist's task to help the client to understand the informal rules and practices that do exist.

12. Thus, it is only practical to approach any lobbying issue with realistic expectations and armed with objective information. If you proceed to convince a decision-maker, do so with cautious enthusiasm. To do otherwise is to be fool-hardy. You must remember that in politics you never say never—Politics is the art of the possible, the art of compromise, the art of understanding and effectively mobilizing

and directing power.

I conclude by reiterating that our society is defined by who holds power, i.e., by whom our pluralistic society allows to hold power. How government is organized and where power is concentrated translates into how we live, how we spend our money, how we occupy our leisure time, and what freedoms we enjoy. And how we deal with those who hold power matters as much as who they are.

Holders of the offices of power are trustees. Their decision-making is grounded in the larger governmental framework. We must remember that non-governmental groups—we taxpayers and voters and interest groups—are equally important to the equation of good government and sound public policy. But how we effectively influence power in a pluralistic society depends upon a convergence of three forces:

1. The temper of the times;
2. How we formulate the issue at hand, and;
3. The force, extent, and savvy with which we choose to exercise our influence in the political process.

Thank you for the opportunity to be with you. ♦

House Prices and Monetary Policy

DEVELOPMENTS IN THE U.S. ECONOMY

Address by CHARLES I. PLOSSER, President, Federal Reserve Bank of Philadelphia

Delivered at the European Economics and Financial Centre Distinguished Speakers Series, London, England, July 11, 2007

Thank you for inviting me to speak today. I am delighted to be here and to be back in London, which is one of my favorite cities. Though to be honest, at current exchange rates, this lovely city is becoming an expensive date.

My assignment today is to talk about developments in the U.S. economy. Yet it is difficult to discuss the state of the economy without addressing the housing market. House prices and housing activity have been important factors in recent developments in the U.S. economy. But the same could be said of a number of other countries, including Sweden, Norway, Spain, Italy, France, Ireland, Australia, New Zealand, and Canada, as well as here in the U.K. The rapid rise in house prices in so many countries in recent years has reinvigorated a debate about whether and how central banks should respond to rapid increases in asset prices. So I decided to broaden my discussion to share with you some thoughts on the role of house prices in the deliberation of monetary policy.

Housing is an asset, and thus thinking about the implications of house price movements for monetary policy naturally leads to a discussion of asset prices more generally. After all, at the beginning of this decade, the discussion of how central banks should respond to changes in asset prices focused on the behavior of the price of another

asset—stocks. The sharp increase in U.S. equity prices in the second half of the 1990s, particularly in the communications technology and dot.com sectors, led some to argue that the Federal Reserve should have tried to curtail the run-up in stock prices with more forceful actions than former Fed Chairman Greenspan's verbal warning about "irrational exuberance." Others argued that doing so would likely have been ineffective or even counter-productive, and the Fed should stick with its traditional objectives of price stability and maximum sustainable economic growth.

More recently this debate has focused on the movements of house prices rather than stock prices. Whether and how monetary policy should take into account rapid increases in house prices has been the subject of numerous conferences and meetings of both academics and central bankers in many countries, including the U.K. Indeed, in the spring of 2003 when I was a visiting scholar at the Bank of England, house price appreciation was a topic of considerable interest and debate.

Today I will discuss my views on the role of house prices and other asset prices in monetary policy and then summarize how the recent decline in housing activity has affected the outlook for the U.S. economy.