

BAKER INSTITUTE REPORT


NOTES FROM THE JAMES A. BAKER III INSTITUTE FOR PUBLIC POLICY AT RICE UNIVERSITY

BAKER INSTITUTE'S ANNUAL CONFERENCE ADDRESSES DOMESTIC CHALLENGES

November 12–13, 1996, the James A. Baker III Institute for Public Policy held its second annual conference, "Domestic Policy Challenges at the End of the Century." Convened on the campus of Rice University, the conference featured three panels, one on urban crime and violence, another on devolution of governance, and a third on tax reform. The conference's theme signaled the institute's commitment to a full domestic research agenda. Baker Institute director Edward P. Djerejian opened the conference, and Rice University president Dr. Malcolm Gillis made welcoming remarks.

Panel participants included an array of distinguished scholars and experienced policy-makers. Attorney General Janet Reno, recent Republican vice presidential nominee Jack Kemp, and James A. Baker, III, served as keynote speakers. The conference proceedings drew large audiences to the Rice campus and attracted considerable interest from the national media.



 Jack Kemp, former secretary of Housing and Urban Development and recent Republican nominee for vice president, opened the morning session on Tuesday, November 12. Kemp began his remarks by praising the Baker Institute's commitment to building a bridge between the worlds of action and ideas. "I consider this to be one of the most exciting times in the history of the world," Kemp said, adding, "I can't imagine a better time for the Baker Institute to be discussing domestic policy."

Kemp's remarks focused on the idea with which he is most closely associated in American politics: supply-side economics. Taking President Kennedy's across-the-board tax cut

as a starting point, Kemp stressed that lower marginal tax rates would not just encourage growth and investment but also increase government revenues. "It should be demonstrably self-evident," he declared, "that you can get more revenue from a bigger economy than from a relatively smaller one." Above all, he said, tax policies should not be used to redistribute wealth, but to increase it.

Kemp put particular emphasis on the importance of access to capital for disadvantaged Americans, especially those belonging to minority communities. He said that the current tax code was hurting the poor far more than the rich by denying them access to the jobs and capital that lower taxes and higher growth could provide. "I don't mean to turn civil rights into just an economic agenda," Kemp declared, "but without ownership, without access to jobs and education and capital and credit, we will never have a full agenda for . . . equal rights in America."

During a question-and-answer period following his remarks, Kemp fielded a number of queries on issues as diverse as tax rates, budget deficits, campaign finance reform, and affirmative action. At one point during the question-and-answer period, James Baker interjected that he—one of the individuals who helped coin the term "voodoo economics" to deride supply-side economics in the late 1970s—was now a convert to the cause. Asked whether he would run for the Republican nomination for president in 2000, Kemp replied, "Stay tuned."

After Kemp's remarks, he and Baker met

HANAN ASHRAWI INAUGURATES ARAB LECTURE SERIES

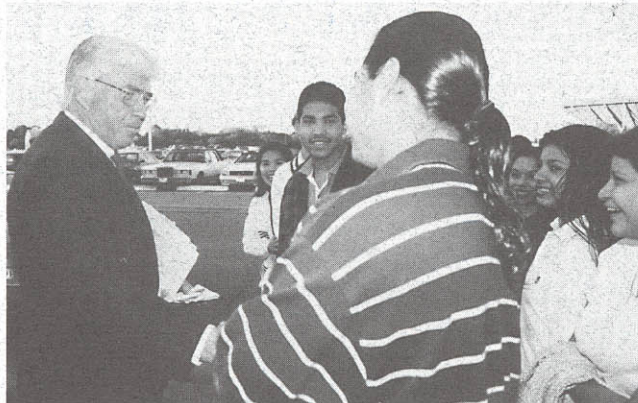
Palestinian Minister of Education Hanan Mikhail Ashrawi inaugurated Rice University's Arab Lecture Series, cosponsored by the Humanities Division and the Baker Institute, October 18, 1996. An increasingly influential figure in the Palestinian political dialogue, Ashrawi first gained international recognition at the Madrid Peace Conference of 1991, where she skillfully articulated the cause of the Palestinian people. Ashrawi's lecture at Rice was titled "Challenges Facing Palestinians: The Peace Process and Nation Building."

Discussing the current status of Palestinian-Israeli affairs through the perspective of the peace process and nation building, Ashrawi highlighted what she considers "a state of flux." Conventional wisdom suggests that threats of war lead to cataclysmic changes. For the Palestinians, however, peace and the prospect of peace have produced cataclysmic changes and have challenged the status quo. Ashrawi said that serious qualitative changes in perceptions and dialogue need to supersede political rhetoric and military action. Stimulated by the birth of the peace process in 1991, many tenets have been challenged and forces of change unleashed.

With the recent change in Israeli government and election of Prime Minister Benjamin Netanyahu, Ashrawi suggested that the peace process has been "deprived of momentum and, more dangerously, integrity." She cited a new attitude in the Israeli government that attempts to use the peace process as a means to consolidate power. Ashrawi said she fears negotiators who start with negative formulas (primarily no Palestinian state) and preemptive measures to predict the outcome of negotiations. For her, the peace process loses meaning as it becomes an object of peace rather than a

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Jack Kemp meets high school students as he arrives at Rice for the Baker Institute's annual conference.

for thirty minutes with representatives of Leadership Rice, a student organization.



Janet Reno, U.S. attorney general and former district attorney of Dade County, Florida, spoke at the midday session on Tuesday, November 12. She addressed urban crime and violence and, in particular, the core elements of an effective anticrime strategy—what she referred to as “the pieces of the puzzle.”

The first element, Reno said, is punishment. “Too many youngsters, too many adult offenders, think they can get away with it after they’re brought into the criminal justice system,” she declared. But she also stressed that there are important differences among offenders, both in terms of age and seriousness of offense. It is particularly important, Reno said, to revamp our juvenile justice system in ways that keep dangerous young people off the streets without creating a new class of career criminals.

“Aftercare,” Reno said, is the second core element of any effective anticrime strategy. Throwing criminals—especially young ones—back onto the streets without adequate support or supervision is counterproductive. She stressed the importance of preparing criminals with the employment and parenting skills they will need to succeed outside prison.

The third core anticrime element, according to Reno, is community intervention. She stressed the importance of closer cooperation between federal, state, and local law enforcement, and, most importantly, between police and the local communities they serve. Reno added that the idea of community policing should be widened to include community probation officers, community prosecutors, and community courts for high-crime areas.

Reno concluded with a discussion of what she called the fourth piece of her “puzzle”: prevention. She described strong families

and good education as preconditions to effective crime prevention and urged creative, community-based approaches to improving both. Reno did not downplay the difficulties in combating crime but, in conclusion, declared her confidence that “this nation can do it. All we have to do is . . . take it step by step, child by child, family by family, school by school, block by block, city by city, and we can take back

America for our children and make it safe for them again.”

After her formal remarks, Reno took audience questions on mandatory sentences, civil rights, and the special prosecutor law. She was especially emphatic when it came to drug legalization. Asked whether we should consider decriminalizing marijuana, Reno replied, simply, “No.”



James A. Baker, III, sixty-first secretary of state and sixty-seventh secretary of the treasury, spoke at a dinner honoring conference participants Tuesday, November 12. During his remarks, Baker put the conference’s three themes—tax reform, devolution of governance, and urban crime and violence—into a broader context of key domestic challenges.

According to Baker, the first challenge is economic revitalization. He said that tax reform is crucial to increasing growth but stressed that “we should not let the perfect drive out the possible” when it comes to streamlining the tax code, reducing taxation of capital, and reducing marginal rates. Baker added that tax reform should be only part of a broader pro-growth agenda that must also include government deregulation and free trade.

Baker then turned to a second key domestic challenge: reforming government and politics. He declared himself a strong supporter of devolving governance to states and municipalities, most of all because it encourages what he called “the bold experimentation that lies at the heart of successful public policy.” But Baker

also urged additional reform in the areas of government and politics, specifically term limits, a balanced budget amendment, and campaign finance reform.

Rehabilitation of our society, according to Baker, is the third key domestic challenge facing us today. He described urban crime and violence as only one particularly harrowing example of the erosion of values in American society. Here, as elsewhere, Baker declared, government can only do so much. In the final analysis, he said, it is up to communities and individuals to accept responsibility for their own futures. According to Baker, this makes it imperative that our leaders—from city council members to the president—set high personal standards of behavior.

Baker noted an apparent growing domestic consensus on the need to address the three domestic challenges he described. But, he added, “It is not enough to talk the talk. You also have to walk the walk.” Baker said that only time will tell whether or not the president and congress will forge an effective common purpose.

Baker concluded with a reference to Abraham Lincoln, who, during another period of dramatic change, said we must think anew and act anew. “We must indeed act anew,” Baker said, “but, as Lincoln reminds us, we must also think anew. If this conference helps us to do so . . . then I, for one, will count it as a great success.”

Note: The full text of all three keynote speeches is available on the World Wide Web at <<http://riceinfo.rice.edu/projects/baker>> or by writing or telephoning the Baker Institute.



Urban Crime and Violence

Lee P. Brown, Ph.D., senior scholar at the Baker Institute, former “drug czar” for the Clinton administration, and



Janet Reno and James A. Baker, III, enjoy a private moment before she addresses the annual conference.

Domestic Policy Challenges at the End of the Century

PANEL I: URBAN CRIME AND VIOLENCE

Dr. Elliott Currie,
University of California at Berkeley,
Visiting Scholar

Mr. John B. Holmes,
District Attorney, Harris County, Texas

Dr. Charles Moose,
Portland Police Department,
Chief of Police

Mr. Matt L. Rodriguez,
Chicago Police Department,
Superintendent of Police

Chukwudi Onwuachi-Saunders, M.D.,
M.P.H., Centers for Disease Control,
Deputy Health Commissioner

PANEL II: DEVOLUTION OF GOVERNANCE

Dr. Andrew Reschovsky,
University of Wisconsin,
Department of Agricultural Economics

Dr. Paul E. Peterson, Harvard University,
Government Department

Dr. Kenneth N. Bickers, Indiana University,
Department of Political Science

The Honorable John O. Norquist,
Mayor of Milwaukee

Dr. Peter K. Eisinger,
University of Wisconsin,
LaFollett Institute for Public Affairs

The Honorable John M. Engler,
Governor of the State of Michigan

The Honorable William P. Hobby,
Former Lieutenant Governor
of the State of Texas

PANEL III: TAX POLICY ISSUES

Dr. Laurence J. Kotlikoff, Boston University,
Department of Economics

Dr. Eric J. Toder,
U.S. Department of the Treasury,
Deputy Assistant Secretary for Tax Analysis

Dr. Charles E. McLure, Jr.,
Stanford University,
Hoover Institution on War, Revolution and
Peace, Senior Fellow

Dr. Rudolph G. Penner,
KPMG Peat Marwick,
Barents Group, LLC, Managing Director

one of the nation's most distinguished law enforcement officials, moderated the urban crime and violence panel. Brown opened the discussion by pointing out that, although crime has gone down in many American cities, "there is still too much crime—far too much for the health of the nation." He also reported that youth violence has decreased, but that young people are committing more violent crimes and doing so at younger ages. "The fear of crime and violence is still a major problem throughout America," Brown declared, "and the public's demand that something be done can only be met if new ways are explored to address the problem."

After an extended panel discussion, a number of clear themes with public policy implications and practical applications emerged.

Elliott Currie, Ph.D., visiting scholar at the Center for the Study of Law and Society at the University of California at Berkeley, forcefully argued that there are indeed alternatives to the current way we address crime and violence. He said we should do more with our children: invest resources in programs to combat child abuse and neglect, expand programs for intervention in the lives of at-risk children, strengthen our middle and high schools, and build on successful programs that help young people who are already in trouble. He also argued that the police should adopt successful police efforts, such as community policing. Currie stressed that we must look at crime in the context of overall socioeconomic policies in America. To be successful, we must link anticrime policies with policies that support the family and invest in job creation.

Chukwudi Onwuachi-Saunders, M.D., epidemiologist with the Centers for Disease Control and currently on loan to Philadelphia as deputy health commissioner, argued that crime and violence are also public health problems. Based on the "Operation Peace" program she directs in Philadelphia, Onwuachi-Saunders argued that violence is preventable behavior and all segments of the community must be involved in declaring it unacceptable. Violence prevention must be approached in a holistic health model, she concluded.

Matt Rodriguez, Chicago's superintendent of police, told the audience that we cannot expect the police alone to be successful in addressing crime and violence. We must also look to the family and school for answers. Rodriguez argued that we should invest in programs for youth, focus police resources on crime prevention, and adopt community policing as the most effective way to use police resources. He agreed with Onwuachi-Saunders that crime and violence must be seen from a public health perspective.

Charles Moose, chief of police for Port-

land, Oregon, reminded the audience that at one point in our history we were afraid of the Russians attacking us and schoolchildren took refuge under their desks in nuclear bomb attack drills. Today, in contrast, Americans are worried about crime and violence and our children have to be concerned about being attacked, even in the schools themselves. To address this problem, he said, we must bring fundamental changes to all elements of the criminal justice system. He argued for a holistic approach that should include human and community development efforts such as health care, education, jobs, drug treatment, and housing. Moose also advocated community policing with an emphasis on crime prevention and problem solving.

John B. Holmes, district attorney for Harris County, Texas, argued that law enforcement, prosecution, and punishment are the most effective means of addressing the crime problem. He said that an increase in imprisonment in the state of Texas resulted in a decrease in crime. Holmes also declared that the visible presence of the police does serve as an effective deterrent to crime. He forcefully argued for the role of the criminal justice system in controlling crime, stating that swift and sure punishment is an important crime control ingredient: "If you commit the crime, you must serve the time."

Despite disagreement on detail, the panel reflected a strong consensus when it came to the vital importance of a broad-based, community-focused approach to crime—a sentiment seconded by Attorney General Reno in her keynote remarks.



Devolution of Governance

Robert Stein, Ph.D., Rice

University dean of social sciences and a distinguished political scientist, chaired the devolution of governance panel. Leading scholars in the field of federal policy and its devolution to state and local governments presented four papers, and responding to these papers were three leading practitioners of public policy, producing a lively exchange between practitioners and academics. As Stein noted in his wrap-up comments, the exchange showed that the worlds of ideas and action do not always meet or depart on common ground but can produce an important dialogue that informs us about the issues and consequences of policy change.

Papers by Paul Peterson, Ph.D., and Andrew Reschovsky, Ph.D., focused on the response of states to the new federal welfare reform law. Kenneth Bickers, Ph.D., and Peter Eisinger, Ph.D., examined how state

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politics would be affected by devolution and how local governments might contribute to coping with the demands of welfare devolution. Peterson concluded that the competition among states for the most productive capital labor would inevitably push states to reduce their welfare benefit packages so as not to attract less productive citizens to their states. Reschovsky questioned whether the states have the available resources and political will to assume responsibility for welfare programs. He concluded that work requirements and five-year welfare eligibility limits will force many states to consider cutting their current allocations for welfare recipients.

Bickers asked how the devolution of federal responsibility for welfare to the states would affect the politics of welfare. He concluded that devolution may produce a new and invigorated lobby for welfare at the state and local level. Bickers claimed this lobby would extend well beyond aid recipients to include nonprofit organizations that service the poor and a host of other constituencies that benefit indirectly from providing welfare assistance. Moreover, he suggested that these lobbies may receive a significant boost from devolution, which results in the formation of new and more powerful efforts to lobby Washington for additional monies. Eisinger argued that devolution of federal authority to the states may be misplaced. He claimed that innovative strategies for coping with fewer fiscal resources are most likely to be found in cities. Cities have more experience coping with scarce resources and have developed better and more innovative management tools to address these conditions.

Peterson and Reschovsky's papers brought a negative response from Michigan governor John Engler and Milwaukee mayor John Norquist. Both voiced skepticism that states would rush to reduce their welfare payments in order to avoid becoming welfare magnets for needy recipients in adjacent states. As Engler noted, Vermont's payments for Aid to Families with Dependent Children are considerably higher than most states in New England, yet there is no evidence of poor people moving to Vermont.

Former Texas lieutenant governor William Hobby suggested that states might actually be motivated to raise welfare spending levels under devolution. Citing his own experience as lieutenant governor, Hobby recalled that he and his colleagues in the Texas state legislature raised minimum state spending on federally supported welfare programs during the mid-1980s. He noted that support for this increase in state spending was in part motivated by the fact that



William P. Hobby (left), John Engler (center), and John Norquist discuss devolution of governance.

the state had received greater flexibility and control over some federal welfare programs.

Norquist echoed Eisinger's sentiments and questioned the wisdom of assigning responsibility for welfare to the states. He noted that cities have a longer and more successful history of dealing with scarce resources for social services. Engler and Norquist argued that the success of welfare reform depends on the flexibility state and local governments would have in devising their own strategies for fighting poverty. Disagreeing with Reschovsky's paper, both said that states and local governments could cope with less money from Washington—but only if they were given a substantial amount of control in the management and implementation of welfare programs in their communities.

Norquist argued strongly that it would be a mistake to replace federal control over welfare with state control. The logic of devolution, Norquist argued, should be extended to its obvious conclusion: greater local autonomy for cities in managing welfare programs.



Tax Policy

George Zodrow, Ph.D., chair of the Rice University Department of Economics and an acknowledged expert on taxation, chaired the tax policy panel, which addressed what is often referred to as fundamental tax reform. The "fundamental" nature of such reform arises because it would not simply make incremental changes to the existing income tax system. Rather, the reform would, in the words of Texas representative and House Ways and Means Committee chair Bill Archer, "rip the income tax out by its roots" and replace it with a consumption-based tax system. Proposals for fundamental tax reform include the national retail sales tax promoted by Congressman Archer and Senator Dick Lugar, the Arme-y-Shelby Flat Tax proposal, the Unlimited Savings Allowance (USA) Tax pro-

posed by Senators Sam Nunn and Pete Domenici, and the national value-added tax supported by Representative Gibbons. The current interest in consumption tax reforms arises primarily because many observers believe that taxation on the basis of consumption is inherently superior to taxation on the basis of income. This basic contention was the focus of the tax policy session.

For example, Professor Laurence J. Kotlikoff, Ph.D., of Boston University argued that the economic impact of implementing a consumption tax would be very positive, increasing saving, investment, employment, output, and real wages. His simulation model of the U.S. economy predicts that replacing the income tax with a consumption tax would produce long-run increases in living standards of 10 to 20 percent. He stressed that much of these effects come from tax-induced increases in saving, which arise in large part because a consumption tax redistributes wealth from older generations with high propensities to consume to younger and future generations with low or zero propensities to consume. Kotlikoff also noted that this effect of a consumption tax implies that it is more progressive than commonly believed, and that this redistribution would offset to a small degree the enormous past and ongoing redistribution from young and future generations to the elderly that has resulted from the expansion of pay-as-you-go entitlement programs in the United States.

A different perspective on consumption taxation was offered by Eric J. Toder, Ph.D., deputy assistant secretary for tax analysis in the U.S. Department of Treasury. Toder argued that the extent to which a consumption tax would increase private saving and domestic capital formation and thus result in higher living standards is controversial. He also presented Treasury calculations of the distributional effects of implementing the Arme-y-Shelby Flat Tax, which is estimated to lower tax burdens substantially on upper-income families and increase tax burdens on average for lower- and middle-income families. Overall, Toder argued that the flat tax would reduce taxes by about one-third for families in the top 1 percent of the income distribution and raise taxes on average for families in every quintile except the top.

The final paper at the session was presented by Charles E. McLure, Jr., Ph.D., senior fellow at the Stanford University Hoover Institution and former deputy assistant secretary for tax analysis in the U.S. Department of Treasury. McLure focused on the flat tax and argued that it would be much simpler than the current income tax, if it could be enacted as proposed. If, however, the flat tax were enacted with "bells and whistles," such as itemized deductions

and graduated rates, the gains in simplification would not be nearly as great. McLure also noted that many of the simplicity benefits of the flat tax could be achieved with reforms of the current income tax rather than the complete overhaul of the tax base implied by adoption of the flat tax. However, the simplifications inherent in the way the flat tax would tax income from business and capital, especially the elimination of various timing issues and the need for inflation adjustment in the measurement of income, could not be obtained under an income tax.

Rudolph G. Penner, Ph.D., managing director of the Barents Group of KPMG Peat Marwick in Washington and one of the primary architects of the Nunn-Domenici USA Tax, provided commentary on the papers. Penner agreed with Kotlikoff that the economic benefits of implementing a consumption tax would be substantial and noted several areas in which the Kotlikoff model might even understate these gains. He also said that a strong pragmatic case for consumption taxation could be made on the basis of the simplicity gains described by McLure. Moreover, Penner argued that so many questionable assumptions were required to construct tax distribution tables of the type presented by Toder that they were unreliable and should not play a major role in tax policy debates. Finally, Penner stressed that the three papers presented at the tax policy session did not pay enough attention to the severe transition problems that would arise with the implementation of a consumption tax, and that these problems would inevitably be mitigated with complex transition provisions that would to some extent limit the efficiency and simplicity gains that could be obtained with a consumption tax reform.

In summarizing the session, Zodrow argued that the papers presented at the session suggested that the case for fundamental tax reform is compelling, but there is enough disagreement among professional economists and the public at large that a consumption tax proposal must be designed very carefully if it is to have any chance of being viable. In particular, he observed that any successful proposal will have to take into account both the equity concerns raised by Toder and the transitional issues raised by Penner. Nevertheless, Zodrow concluded that the fact that so many of the current reform proposals are consumption based clearly indicates increased interest in and awareness of the potential advantages of consumption taxation, and that the relative advantages and disadvantages of fundamental tax reform are likely to be the topic of a great deal of debate over the next few years.



Left to right: Rudolph Penner, Charles McClure, Eric Toder, and Laurence Kotlikoff discuss consumption-based taxation during the tax reform panel.

Focus on Social, Cultural, and Religious Factors that Affect the Supply of Oil from the Middle East

CIPE ENERGY STUDY

On September 28, 1996, the James A. Baker III Institute for Public Policy sponsored a working group seminar of scholars of Middle East societies and cultures to address the social, cultural, and religious factors that affect the supply of oil from the Middle East. The seminar was one of several working conferences planned under a major grant from the Center for International Political Economy to study the Middle East region's impact on energy supply, security, and oil markets.

The meeting was hosted by George Marcus, Ph.D., chairman of Rice University's Department of Anthropology, and papers were delivered by Michael F. J. Fischer, Ph.D., Department of Science, Technology, and Society, MIT; Kenan Makiya, Ph.D., author and authority on the regime of Saddam Hussein and adjunct professor to the Department of Middle East Studies, Brandeis University; Karim Pakravan, Ph.D., First National Bank of Chicago; Daniel Brumberg, Ph.D., Department of Political Science, Georgetown University; Joseph Kechichian, Ph.D., president of K2 Associates and former Middle East analyst with Rand Corp.; and Mehdi Abedi, Ph.D., Rice Department of Anthropology. Attending for the Baker Institute was Amy Myers Jaffe, research coordinator for the energy study and former senior editor of *Petroleum Intelligence Weekly*. Other Rice faculty and students also attended the meeting.

A number of issues that have the potential to affect the flow of oil were identified and debated during the full-day session. Fischer began the session by introducing a theoretical framework to provide an organizing intellectual structure to the trends and anecdotes discussed by the scholarly presenters. He defined culture as "the set of strategies people use to implement value orientations." In the arena of oil and the Middle East, Fischer noted that the cultural strategies utilized can either be supported by or give resistance to institutional pressures, and he suggested three models that could be applied to thinking about oil and culture together. These models include (1) the "great resource game," where sociopolitical and cultural actions are judged in terms of political economy; (2) revolutionary politics and alternative economics, which manifests itself in the Middle East through the aura of Islamic revivalism; and (3) alternative modernities, where a new sociocultural image is utilized to constitute a reinvention of regional identity.

Among the factors that the group discussed were questions of the succession of leadership in the region, attitudes toward the West and toward the United States in particular, and advances in information technology and how such developments affect Middle East culture and politics. Attention was also paid to the process of wealth formation in the region and the growing tendency toward privatization and an expanding role for the middle classes, the call for government accountability, and the role of and reaction to opposition groups. The scholars also discussed religious issues, with attention to the role of Islam and Islamic revivalism in determining the future ideologies of the region.



Hanan Ashrawi delivers a public lecture at Rice on the Middle East peace process and later speaks informally with Rice students.



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mechanism for peace. Emphasizing the legitimacy of internationally recognized agreements signed between governments or parties, Ashrawi attributed the current state of flux to Israel's attempt to transform "areas of agreement into areas of contention."

According to Ashrawi, interim agreements yet to be implemented create a state of isolation within the Palestinian territories of the West Bank, Gaza Strip, and Arab Jerusalem. Palestinians whose expectations were raised by the early promises of peace feel abandoned by Israel and the international community. An increased feeling of victimization is an outcome of serious economic deprivation and threatened health and educational institutions.

Ashrawi said that a new type of courage is needed to deal with the evolution of statehood in the midst of occupation. "Never before in the history of peoples have there been so many handicaps of nation building placed on one people," she declared. These challenges include rehabilitating a society of exile and occupation into "a healthy society with a democratic system." The first step toward this new system is free and fair elections that produce a genuinely representative government. The two legal systems of Gaza and the West Bank, separated and multitiered, do not facilitate a consistent judiciary. Ashrawi acknowledged the difficult task of simultaneously legislating a new legal system and protecting the independence of the judiciary.

Ashrawi, the founder of the Palestinian Independent Commission for Citizens' Rights, showed that an established rule of law must be respected, and basic human rights must be maintained. She advocated the establishment of more institutions to fulfill these purposes and encouraged a devolution of military institutions and attitudes so that the Palestinian people may proceed with civil society. "The nation-building process has been disrupted," Ashrawi noted. Palestinian universities and institutions

throughout the West Bank and Gaza have closed, and freedom of passage between the territories is not respected. Because Israel controls the borders, they control the economy, disrupting Palestinian plans for reconstruction and development. Recognizing the need for change in these areas, Ashrawi stressed that "in order for Palestinians to face external challenges, we must be strong inside."

Ashrawi said that the objectives of the peace process have changed. Incremental developments are not being pursued, and permanent status negotiations have not taken place to produce substantive agreement on issues such as Jerusalem, refugees, border, and settlements. She bluntly asserted that the region is facing a "new threat of hostility."

To avert this threat, Ashrawi emphasized the need for third-party involvement. The United States, caught up in its presidential election at the time of her lecture, had left the peace process with "a disequilibrium of power," she said. She noted that Europe must become an important player, especially in economic reconstruction. Another third-party is the Arab world. While Israel has taken advantage of Arab divisions, Ashrawi said she does not believe the Arab world will allow conflict to escalate in the region. The minister also acknowledged that the Israeli public is divided over the peace process; yet those who support the process and disagree with the actions of the Netanyahu government have a responsibility to speak out. For the peace process to succeed, it is important to see changes in attitudes and an acceptance of commitment.

Ashrawi concluded her lecture by asserting that the Palestinians should be understood as "a people who are not defeated by twenty-eight years of occupation and will not be defeated by peace." Palestinians have an active and unbroken will. Should the peace process fail, she said, "Israel will be single-handedly responsible for unraveling what many of us have put a great deal of work into."

SUMMIT BEGINS BRIDGE-BUILDING PROCESS

The Baker Institute hosted a timely conference that brought together leaders from the African American community and police chiefs from several cities throughout the nation to develop strategies for addressing the growing polarization between the police and the black community.

Lee P. Brown, Ph.D., senior scholar at the Baker Institute, conceived the September 26, 1996, meeting because of his concern about the relationship between the African American community and police agencies. The Rodney King incident, O. J. Simpson trial, Mark Furhman tapes, and other well-publicized cases in various cities throughout the nation have resulted in a deterioration in police relationships with the black community. Brown feels that such a situation does not have to exist, and, with corporate sponsorship from AT&T, the Baker Institute issued "A Call to Action Summit."

Sharing Brown's concern, police executives representing the major police organizations responded to the call. Those organizations included the International Association of Chiefs of Police, National Organization of Black Law Enforcement Executives, Police Executive Research Forum, and the Police Foundation. African Ameri-

can participants represented the National Urban League, National Association of Blacks in Criminal Justice, National Coalition of 100 Black Women, National Bar Association, Congress of Black Churches, and the National Urban Coalition.

The meeting started by focusing on the nature and extent of the problem. "This problem manifests itself in a variety of ways, the most critical being the relationship between the police and African American youth," Brown said. "As a result, an increasingly large number of cities are dangerously tense, described by some observers as tinderboxes."

Next, the meeting focused on developing strategies to bridge the gap by improving the relationship between the police and minority communities. The participants all agreed that the problem was complex and cuts across multiple aspects of life in America. Therefore, without dynamic economic growth, job creation, and expanded educational opportunities, the race and class disparities will not be narrowed significantly.

It was in that context that the participants focused their discussions on what could be done to make a difference. The following recommendations came out of the summit:

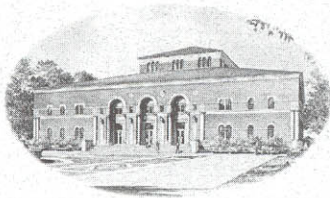
- The president of the United States should establish a national commission to address the issue of race in America.
- The nation should develop short- and long-term agendas that reflect the history of racial conflict in America. That should include revisiting the reports of the Kerner, Eisenhower, and Katzenbach commissions.
- African American leadership should form an alliance with police leadership to work toward an accurate portrayal of the image of both in the media.
- Police chiefs should serve as leaders in their communities, engaging others and serving as advocates for justice.
- All law enforcement agencies in America should adopt community policing as their style of policing and work with the youth.
- Police agencies should revise their recruitment procedures and hire in the spirit of service and not adventure, train in the adult education model, and stress cultural awareness.
- Police agencies must monitor officer performance and develop systems to identify and weed out bad officers.



A light moment during the roundtable on police and the African American community. Left to right: Malcolm Gillis, president of Rice University, John D. Cohen, senior project manager at AT&T, Hugh Price, president and CEO of the National Urban League, Lee Brown, sociology professor at Rice and senior scholar at the Baker Institute, and David Walchak, president of the International Association of Chiefs of Police.

CIPE ENERGY RESEARCH CONTINUES

The Baker Institute held a working meeting October 22, 1996, to discuss preliminary research being conducted under a major grant from the Center for International Political Economy (CIPE) for the study of political, economic, cultural, and religious trends in the Middle East and their impact on energy supplies, security, and international oil markets and prices. The session followed a three-week trip to the Persian Gulf and the Middle East by Secretary James A. Baker, III, and institute director Ambassador Edward Djerejian. During the Middle East tour, which was part of the CIPE grant research effort, the secretary and the ambassador held policy discussions with the top leaders and individuals in the private sector in each country.



Progress on New Institute Building Continues

Work continues on the construction of the new Baker Institute building, with completion in spring 1997.

For more information

If you would like more information about the Baker Institute or if you would like to be added to our mailing list, please call 713-527-4683 or fax 713-285-5993; e-mail address is <bipp@ruf.rice.edu>.

Baker Institute Hosts Roundtable

“INTERNATIONAL INVESTMENT TOWARD THE YEAR 2000”

September 16, 1996, Rice University hosted a roundtable on “International Investment Toward the Year 2000.” Fabrice Hatem of the French Ministry of Economic Affairs presented an analysis of recent trends in foreign direct investment. The survey was carried out jointly by the ministry and Arthur Andersen & Company. It projects world investments for the next five years, focusing on Europe’s role in future foreign direct investment. The meeting provided useful insights on the European perspective on the investment trends and a taste of the American reaction to the same.

The overriding conclusion of the study is continued globalization. The share of foreign sales in companies’ activities is projected to increase dramatically, but internationalization is shifting from exports to investments. The resulting flows are increasingly going to Asia and North America. The sectoral split of projected foreign investments is also shifting. The ’80s boom of the financial and real estate sectors has now given way to investments in industry, telecommunications, and information technologies.

The dominant factor behind investment trends is market access: investments are no longer driven by relocation to low-labor-cost zones. Instead, companies seek access to large markets with high growth potential. However, companies are looking for a flexible and educated labor force and high levels of infrastructure as well. Europe, as Hatem pointed out, is able to provide both in addition to a large market. The same can be said for North America. Asia offers investors a high growth market with a risk of political and social instability.



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