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YEN AT WORK

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FROM THE EXPLOSIVE NEW BOOK 'SELLING OUT: HOW JAPAN IS BUYING FRIENDS AND INFLUENCING AMERICA' • BY DOUGLAS FRANTZ AND CATHERINE COLLINS

AT 9:30 A.M. ON MONDAY, OCTOBER 19, 1987 THE BELL ON THE FLOOR of the New York Stock Exchange signaled the start of the most tumultuous day in the history of U.S. financial markets. A wave of sell orders that had built up over the weekend cascaded into the stock market, pushing its computerized trading system beyond the limits and driving the Dow-Jones Industrial Average down at an unstoppable pace. ¶ In Chicago the chaos was repeated at the futures exchanges, where harried traders couldn't keep track of orders, let alone keep up with them. In New York the Federal Reserve Board was forced to demand that the nation's biggest banks provide billions of dollars in credit to keep the brokerage houses open. In Washington the nation's financial regulators conducted frantic telephone conferences in a fruitless attempt to stanch the hemorrhage. ¶ As news of the crash spread, investors across the nation telephoned Merrill Lynch, Prudential-Bache, and other brokerage houses to dump their shares at any price before they were wiped out. The sell orders came in such volume that phone lines jammed, and thousands of people were unable even to get through. ¶ By the end of what quickly became known as Black Monday, John Phelan, the chairman of the New York Stock Exchange, said that the nation's markets had nearly suffered "a meltdown." Indeed, the exchange had dropped 508 points, losing 22 percent of its total value and wiping out $1 trillion worth of wealth.

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nations demand of Americans when they invest abroad. A more significant section of Bryant's proposed legislation demanded reciprocity; it would have prohibited foreigners from investing in the United States unless Americans were permitted to invest in the investor's home country on the same terms.

The Reagan administration, which had built its deficit on foreign investment, steadfastly opposed the legislation from the start. Officials from various government agencies argued that Bryant's proposal was at best redundant and that current government efforts to monitor foreign investment were adequate. They objected to the reciprocity section on the grounds that enforcing it would create a bureaucratic morass and place American businesses abroad at risk of reprisals.

So in January 1987 Bryant dropped the reciprocity section, lined up 31 cosponsors, and submitted the Foreign Ownership Disclosure Act—a stripped-down version of his earlier legislation—to the House. Two months later it was attached as an amendment to the omnibus trade legislation that was then under consideration by the Energy and Commerce Committee. The bill was adopted by the narrow margin of 21 to 20, after fierce opposition from every Republican on the committee.

Once the trade bill had passed the committee and was sent to the full House, however, Bryant's amendment ran into vigorous opposition from a variety of sources linked to or dependent upon foreign investment. Among those fighting the measure were First Boston, the investment bank owned in part by Credit Suisse; Shell Oil, a wholly owned subsidiary of Royal Dutch Shell; and the White House.

J. D. Williams, a high-powered Washington lobbyist who represented First Boston, called on Bryant to express his client's concerns. He cautioned Bryant in good-old-boy fashion. "I've been around a lot longer than you, son," Williams told Bryant. "If we have to, we can stop you. Too bad, son."

In Washington there's no better measure of a proposal's importance than the amount of money that its opponents are willing to spend to defeat it. Critics of Bryant's proposal spent plenty, though there's no way to determine precisely how much. The list of domestic and foreign corporate interests that lined up in opposition to it read like a who's who of business in the United States: the American subsidiaries of Honda, Toyota, and Nissan, the Big Three Japanese automakers; British-owned Standard Oil; Nestlé, the Swiss multinational; American Express, the biggest U.S. financial services company; Fujitsu, the giant Japanese electronics manufacturer; and even the U.S. Chamber of Commerce.

In one six-week period George Slover, Bryant's legislative counsel, fielded more than 100 telephone calls from representatives of foreign investors and governments. Most of the callers were lawyers who refused to say which foreign investors or corporations they represented.

"The word on the street was that more money was spent on defeating the Bryant amendment than on both sides combined of any other provision to the trade bill," Slover said. "But it was all very quiet. The foreign lobby didn't want to arouse any public sentiment. It would be virtually impossible to stir up any grass-roots support for keeping foreign investment secret."

Ultimately, the concerns of First Boston, Shell Oil, and the other big foreign investors were satisfied in another round of modifications. But the Reagan administration wasn't satisfied. It kicked its lobbying efforts into high gear and called up such heavy hitters as Paul Volcker, the chairman of the Federal Reserve, and James Baker, the secretary of the treasury, to lead the charge.

"As soon as the amendment hit the full committee, Baker started working the House and Senate hard," Bryant said. "For someone who usually just calls on chairmen of the various committees, Baker walked the halls of Congress, calling on members like a common lobbyist."

The threats by foreign companies to abandon the United States, coupled with fears that investments would be withdrawn, carried the day in the Senate. The opposition won a clear victory, sending Bryant's proposal down to defeat by a vote of 83 to 11.

But Bryant's provision on foreign disclosure was resuscitated in conference committee, and from February through April 1988, as the House and Senate conferees hashed out their disputes on the trade bill, it emerged as one of the most hotly contested issues.

House Democratic leaders wanted Bryant's provision included in the bill. "I think Americans should be allowed to know who is investing in this country," Speaker Jim Wright told reporters. "I don't see any justification for secrecy."

Yet President Reagan had vowed to veto the trade bill if it contained any of several amendments, including Bryant's. Democratic leaders in Congress, who wanted to turn up the heat under the Republican administration in an election year, put "veto bait" in the bill, but it had nothing to do with foreign investment in the United States. In deciding to narrow the focus to a single issue, the leadership decided to make the big fight hinge on an amendment that would require companies to notify their workers at least 60 days in advance of a plant closing.

IT SHOULD COME AS NO SURPRISE THAT Japan and other foreign nations try to safeguard their interests by shaping U.S. policy and influencing debate on issues that are critical to their well-being. Quite surprising, however, is the fact that so many former high-ranking U.S. government officials are willing to serve as their hired guns.

Elliot Richardson, who's held three cabinet posts and more than a dozen other high-level positions, represents foreign interests, including an umbrella organization known as the Association of Foreign Investors in America.

James Lake, who was a key unpaid adviser in George Bush's presidential campaign, has been one of the most effective lobbyists for Japanese and European interests because of his close ties to the U.S. Trade Representative's office. During a six-month period in 1987 he met or spoke with U.S. Trade Representative Clayton Yeutter or his assistants 12 times on behalf of Mitsubishi Electric Company, which is just one of his firm's Japanese clients. Mitsubishi paid Lake's firm $129,000 during that time.

Richard Allen, President Reagan's first national security adviser, was forced to recuse himself from trade decisions involving the Japanese automobile industry because of his contacts with former clients and others associated with Japanese automakers. Immediately after he left the government, he opened a firm that represented Japanese interests.

Retired admiral Daniel Murphy, George Bush's former chief of staff, was hired to run the international division of Hill & Knowlton, which counts some of Japan's largest companies and trade associations among its clients, including Hitachi and the Electronic Industries Association of Japan.

Peter Peterson, a former secretary of commerce and the chairman of the Council on Foreign Relations and the Institute for International Economics, is the chairman of the Blackstone Group, a Wall Street firm with major Japanese clients. While Peterson isn't a registered lobbyist for the Japanese, he frequently defends Japanese interests.

William Eberle, a former U.S. trade representative, and superlobbyist Robert Strauss, a onetime special trade envoy with the title of trade representative, represent or advise Japanese and other foreign interests. So do Roderick Hills, a former chairman of the Securities and Exchange Commission, Clark Clifford, a former secretary of defense, and William Colby, a former director of the Central Intelligence Agency.