

BILL'S EDITORIAL

September 27, 1993.

Berlin to Istanbul

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These countries have witnessed much of the turmoil of Europe over the past twenty centuries, from the onslaught of the pagan tribes, through the Roman, Ottoman, Austro-Hungarian Empires, the Third Reich to Soviet Communism. But today they are free.

All are attempting to convert from socialism to capitalism and from Communism to democracy. But results are sporadic and uneven. Poland has had the fastest economic growth rate in Europe (it started from one of the lowest levels), but elections last week emphasized the displeasure of those voters who have not seen specific benefits to themselves. Hungary and Czechoslovakia had the most liberal economies under the yoke of the former Soviet Union and have had the most recent experience with free market operations. As a result, they should be the first significant beneficiaries of free market economics.

In Polish, there is a saying, "Its easier to turn an aquarium into fish soup, than the other way around," and the Poles are discovering this in shedding Communism. Romania had the highest level of central planning, and this makes entrepreneurship difficult.

Budapest and Prague are the most beautiful capitals. Romania has beautiful countryside, and Bulgaria features beautiful Byzantine churches, but retains the cyrilic alphabet. Most East Europeans appear to like Americans and to look to the U.S. for guidance, although some hold us responsible "for getting us into this mess."

Paul and I

Paul Wythes, Founding General Partner of Sutter Hill Ventures, is on this Stanford study of Eastern Europe with us. Sutter Hill was an original investor in Cipher Data Products, bringing me in as president. Paul and his partner, Bill Draper, served on Cipher's Board of Directors for the first few years. Of course, I hold them in high regard, as does much of the VC community. As this is an International Relations and Economics tour, Paul and I have already started discussions on what Germany and the East needs for economic recovery. (That's why I find these Stanford tours so

stimulating.) We have two Stanford faculty with us, and they lecture each day. Then we sit around and discuss the lecture. Everyone gives his/her advice (particularly me). And we also sight-see.

Regarding the U.S. and the development of high-tech companies, we have had some interesting discussions. Paul is quick to point out that that not ALL of Silicon Valley supports President Clinton's economic policies, but he certainly applauds the relatively favorable tax treatment accorded capital gains. He points out that much of the investment in venture capital comes from tax exempt institutions and is therefore unaffected by tax poolicy, but agrees that the entrepreneurs themselves are very much affected. Also, since many companies are launched with private money rather than venture investment, this important source of money is also stimulated by preferential treatment for long term capital gains. Other important issues include continuation of R&D Tax Credits and favorable FASB treatment for stock options (used as incentives in recruiting entrepreneurs.

Although not much has been heard from the high-tech community regarding the desirability of NAFTA, Latin American markets are certainly becoming important markets for wireless communications and other industrial products produced by high-tech companies. In the health care reform arena, Paul and I lament the lack of focus on trial lawyers and the resultant costs of defensive medicine, like the use of MRI scans "just in case". (One medical doctor on the tour observes that defensive MRI scans are frequently prescribed in operations on the fistula, because there is a one in five thousand chance that a patient might also have an acoustic tumor, which could bring a later law suit if it went undetected. At a cost of \$1200 per MRI, that might result in \$5 million worth of MRI scans to prevent just one law suit!)

Paul and I are thinking about what we have learned about starting high-tech companies that might be of benefit to the nation. Through Sutter Hill, Paul has been involved in some three hundred start-ups (including Cipher). Certainly no one in the Administration or in Congress has a similar depth of experience. So, how can we make our collective wisdom available to others? Would a round table of our VC sponsors, like Sam Colella, Brook Byers, Pitch Johnson, Don Valentine, etc. plus entrepreneurial CEO's, like Ted Greene, Irwin Jacobs, David Hale, Howard Birndorf, Mel Gafner, etc be of value? The subject could be, "What Does the Country Need To Do to Stimulate Entrepreneurism?" To make the information useable, we would need to publish the results and then market them nationally, to Congress, the national press, etc..

"Many a slip"

"There's many a slip 'twix the cup and the lip", may be the old

adage, but proponents of the Ward Valley disposal site for the detritus of low-level radioactive medical materials advanced their runner to third base with the acceptance by Interior Secretary Babbitt of the supplemental Environmental Impact Report on Ward Valley last week. But "getting to third base, ain't getting home", Yogi Berrab might have said, and the fight is far from over.

The good thing about the definition of the hearings that Governor Pete Wilson set up (described herein last week) is the requirement that only new information will be accepted. This recognizes that some 14,000 pages of proposals, responses, comments, opinions, etc. have already been provided by the contractor, U.S. Ecology. The issue has been studied for eight years. Babbitt appears to be saying, "Enough is enough" to project opponents. He is seeking only new information. This precludes arguments on a great number of issues, and since one of the opponents' main debating techniques when confronted with logical rebuttals is to change the subject and raise other issues, this restriction could be very instrumental in moving the hearings to a conclusion. But it will also be necessary to keep the hearings restricted to qualified experts, for example published experts in peer reviewed technical journals, as the opponents tend to produce "experts" in name only, who are willing to comment on issues well outside their specific areas of expertise.

But many impediments should be expected. For example, Senator Barbara Boxer appeared to object to the manner of the hearings, sending Secretary Babbitt a letter questioning his approval of the new EIR. One or more law suits can be expected from the opposition, and finally, when Babbitt finally gives his approval, project opponents, like Greenpeace, can be expected to lie down in front of the bull dozers, when construction begins. It could be perilous to assume that the opposition will simply quit.

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Electoral Power

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To cement our progress at City Council, we must organize a force around Mayor Susan Golding to insure that our agenda continues to be heard. Out of the nine votes on the Council, six have been

determined, with **Judy McCarty's** and **Juan Vargas's** wins in the primary. Up for the November finals are Districts 1, 3 and 5. District 5, which includes *Rancho Bernardo*, is a must win, as the present office holder, **Tom Behr**, has been one of the most supportive members for business. The District 1 incumbent, **Abby Wolfsheimer**, has always been an enigma, speaking in support of biotech one day and voting against the widening of the I5-I805 interchange the next. This will be a very tight race, pitting **PLAN** activist **Peter Navarro** against **Harry Mathis**. Both support a resolution for low-level radioactive waste. Mathis supports **NAFTA**. Navarro opposes it.

Finally, District 3 Councilman **John Hartley** has not been supportive of business in general, but the Mayor has not yet indicated her preference. Although there are few if any companies located in this district (*Hilcrest*, etc.) there may well be numerous company employees living there. The finalists are **Christine Kehoe** (31%) and **Evonne Schulze** (23%). No preference in this seat, yet.

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