

in annual U.S. sales. Last year, Schering lobbied the Senate for an amendment to omnibus patent reform legislation granting outright five-year patent term extensions for a number of drugs, including Claritin. In 1996, Schering tried unsuccessfully to attach Claritin patent extensions to the omnibus appropriations bill, the continuing resolution and the agriculture appropriations bill. In the first half of that year alone, Schering spent over \$1 million in lobbying the Congress.

Schering's proposal is a terrible deal for consumers. It would require the Patent Office to adjudicate patent extensions for drug companies who have experienced regulatory delays at FDA. In reality, it is a backdoor opportunity for companies to undercut the scientific judgment of the FDA and its expert advisory committees.

What Schering calls "regulatory delay" is the time needed by our public health agencies to ensure drug safety and efficacy. Often, a company will cause its own delays through miscalculations, complications in its research and new questions about its products. Schering claims that the approval of Claritin was subject to regulatory delay. The company never mentions that its delay resulted from the unexpected discovery that Claritin might cause cancer.

Mr. Speaker, putting the Patent Office in the position of trying to second guess the FDA and its expert advisors on Claritin's possible carcinogenicity would be like having the IRS deciding which research proposals should be funded by NIH.

This proposal would also burden the Patent Office with meritless cases like Claritin. The Patent Office has limited resources and crucial responsibilities. It does not have time to coddle companies like Schering when patents for breakthrough technology are awaiting approval.

Even worse, this proposal would cost taxpayers millions of dollars in additional health care spending for Medicaid, Veterans health programs, the Defense Department and Public and Indian Health Services. Private insurers and HMOs will have to pay higher prices for drugs like Claritin. And ordinary consumers, especially older Americans, will have to pay much more out of pocket for their medicines.

Let me make a final point about this proposal. I am the coauthor of the 1984 Waxman-Hatch Act. The Act grants patent extensions to drug companies for the patent time expended obtaining FDA approval. One of the points of the 1984 Act was to stop companies like Schering from lobbying Congress for patent extensions. It has been very successful, with the exception of rogue companies like Schering.

In fact, I seriously doubt that Schering has told anyone that it already received a 2-year patent extension under this law. The company just wants another pass at the trough.

Lobbying efforts like Schering's are bad for the consumer. They also do harm to the 1984 Act, which strikes a balance between promoting innovation and ensuring that consumers have timely access to affordable medicines. Senator HATCH and I have publicly emphasized that revisions to the 1984 Act be made in a careful, deliberative process to preserve that balance. Dropping the Schering proposal onto the CR without notice, without committee proceedings, and without publicity is the exact opposite of what we meant.

For these reasons, I urge my colleagues to oppose Schering-Plough's proposal, wherever it should appear in these final days of the session. It would cost taxpayers millions, hurt consumer choice, distract the Patent Office, undercut the FDA and do violence to the need for committees of jurisdiction to deliberate carefully over these important issues.

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TRIBUTE TO THE LIFE OF JAMES  
FLETCHER

**HON. DANNY K. DAVIS**

OF ILLINOIS

IN THE HOUSE OF REPRESENTATIVES

*Tuesday, October 13, 1998*

Mr. DAVIS of Illinois. Mr. Speaker, it is with exceeding regret that I advise my colleagues of the death of a great American and one of the most socially conscious bankers in Chicago.

A former Chicago public schools teacher and a 1960's city planner with a focus on urban renewal, James Fletcher with three other extraordinary individuals established America's first community development bank—in 1973. Soon after, Mr. Fletcher became president and chief executive officer of South Shore Bank in 1983. He served on that post until 1994 and was elected chairman of the bank in 1996.

With the logic of a philosopher, the passion of a preacher, and the precision of a banker he helped redevelop communities who have long been forgotten by all of the major banks in Chicago. Indeed, in the hands of James Fletcher, community development was a creative act. With his foresight, community development is an encounter between socially conscious bankers and private investment. Slowly, step by step, they proved that a strong, independent banking presence in the neighborhood could help get a community back on its feet again.

Beyond his many professional accomplishments, James Fletcher was one of those rare and wonderful individuals who relished being a mentor, role model and always a generous father. We cherish his memory as his work touched the lives of whole communities: men, women and youth alike. Mr. Speaker, I commend to the United States House of Representatives and to the American people the life and service of James Fletcher.

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CHINA: A POTEMKIN ECONOMY

**HON. GERALD B. H. SOLOMON**

OF NEW YORK

IN THE HOUSE OF REPRESENTATIVES

*Tuesday, October 13, 1998*

Mr. SOLOMON. Mr. Speaker, in 1787, Prince Grigory Potemkin, Catherine the Great's longtime prime minister and occasional lover, decided that the recently-annexed Crimea needed a little fixing up in preparation for an official visit by the empress. He is said to have erected a number of false-front buildings along Catherine's travel route so as to create the appearance of a happy and thriving peasant society. Thus was born the legend of the "Potemkin village."

Today, autocratic regimes have more resources at their disposal than Potemkin ever

dreamed of. In fact, it can fairly be said that the Chinese communists have managed to build a "Potemkin economy"—an entire national economy that has the surface appearance of being dynamic and prosperous when, in truth, the real situation is something very different. The present-day equivalent of Potemkin's false-front villages are the empty skyscrapers that loom over every large Chinese city.

The September 30 edition of the Washington Post contains a compelling article by Michael Kelly that looks behind China's imposing economic facade and finds an altogether different story than is usually reported. "The central question of the most consequential of all American foreign policy issues is whether the People's Republic of China is evolving, under the munificent influence of capitalism, away from communist totalitarianism and toward democracy." If the answer given to that question is yes, then that "answer, it is now authoritatively revealed, is dead wrong—and so is America's China policy."

Mr. Kelly based his article on a new book China's Pitfall, that was published in Hong Kong last year. This book, which has not yet been translated into English, is the subject of an extensive review by two China scholars in the current edition of The New York Review of Books. That review concludes with these words: "What happened in China in the 1990's is thus becoming clear. Reform was aborted when Deng Xiaoping strangled China's democratic forces in 1989 and when . . . he decided in 1992 to buy stability for his regime by pursuing rapid economic growth whose price was sharply increased corruption, financial deception, and the erosion of the moral basis of society."

Corruption. Deception. Erosion. Hardly the foundation on which a stable economy, to say nothing of a decent society, can be built. Indeed, the author of China's Pitfall, He Qinglian, identifies five negative trends that are tearing at the fabric of Chinese life: "population size, agricultural stagnation, inequality, corruption, and low standards in education." Ironically, the author reports, each of these problems is as bad or worse today as it was a century ago, when the Qing Dynasty was disintegrating and the entire country was plunging headlong toward revolution.

How then to explain China's "rapid economic growth" in recent years? This is, after all, an economy that expanded at an annual rate of 10 to 12% in the years from 1981 through 1996.

According to He Qinglian, economic growth in the 1980's was largely based in rural China. As the communist command system in the agricultural sector was dismantled and rural communes were abandoned, the productivity of farms shot up and many farmers and villagers also established light industries and other entrepreneurial ventures. Agriculture and rural industry account for about three-fifths of China's gross domestic product, and so progress in these areas was bound to be reflected in the country's overall performance.

By the end of the 1980's, however, the rural economy was stumbling: "the immediate gains from freeing agriculture could not be continued" and "extortion, overtaxation, and embezzlement by local officials" were taking their toll. Moreover, the effects of "decades of environmental devastation and neglect" began to be felt. China has lost one-third of its topsoil

and arable land in the last 40 years. When floods come, as they did this year, rural areas bear the brunt because the government deliberately blows up small dams and dikes, inundating farmlands, so as to spare the cities.

Small wonder then that an estimated 120 million people—twice the population of France—have migrated from rural China into the cities since the late-1980's. And small wonder that Deng Xiaoping decided that he needed a new strategy, especially in the wake of the 1989 Tiananmen Square massacre and unrest in the interior provinces.

China's economic growth in the 1990's has been essentially an urban phenomenon, with many city-dwellers registering visible gains in personal income. Urban free enterprise employs only three percent of the Chinese people but accounts for about one-tenth of China's gross domestic product. Predictably, enterprises that employ cheap labor to make consumer products for export have proved to be the most profitable.

But the real story of Deng Xiaoping's post-1989 "reforms" has been missed by the Western media. He Qinglian puts the truth in stark terms: Deng's so-called reforms are really a "marketization of power"—"a process in which power-holders and their hangers-on plundered public wealth. The primary target of their plunder was state property that had been accumulated for forty years of the people's sweat, and their primary means of plunder was political power."

China's Pitfall describes in detail how China's economy in the 1990's has been fueled by plunder, a process in which wealth hasn't so much been created as it has been transferred. The plunder has taken place two ways.

First, party and government officials manipulate the state-controlled sector of the Chinese economy, which represents about one-third of gross domestic product and includes all of the important industries, commodities, and essential services. A two-track pricing system has been put in place by which unscrupulous officials buy raw materials and industrial products at a government-controlled price and then turn around and sell them on the open market for a much higher market-dictated price.

The "huge illicit profits" that result from this maneuver get plowed into speculation in securities and real estate; they also provide the grease whereby officials allow foreign investors to evade having to deal with market costs when they set up joint ventures and other enterprises in China. Many of the more powerful officials in China also use these profits to establish so-called "tertiary industries" in which favored friends and relatives "take control of the most productive section of a state enterprise . . . in order to run it as a semi-independent company." In other words, for a minimal investment they get the benefit of state protection while cashing in at market prices.

The second means of plunder is even more brazen. All banks in China are state-controlled, and they serve as veritable cash cows for state-controlled industries. He Qinglian estimates that \$240 billion—nearly half of all personal savings that have accumulated in China since the 1950's—have been transferred, as emergency loans, from banks to state-controlled industries.

There is little or not hope of recovering these "loans." China's banking sector is verging on bankruptcy by any objective measures, with a huge burden of nonperforming

loans that is overwhelming a shrinking capital base—a base that is shrinking all the more now that the equity value of most state enterprises (one-third of the economy, remember) has been reduced to zero and corrupt officials have discovered how to circumvent the restrictions against sending hard currency overseas.

The net result of all this is a society in which *zai*, the Chinese equivalent for "rip off" has become pervasive, in both attitude and practice. According to *The New York Review of Books*, "Probably in no other society today has economic good faith been compromised to the extent it has in China. Contracts are not kept; debts are ignored, whether between individuals or between state enterprises; individuals, families, and sometimes whole towns have gotten rich on deceitful schemes."

"He Qinglian sees the overall situation as unprecedented. 'The championing of money,' she writes, 'has never before reached the point of holding all moral rules in such contempt.' She finds the collapse of ethics—not growth of the economy—to be the most dramatic change in China during the Deng Xiaoping era. The challenge facing China is not just 'survival' . . . but 'how to avoid living in an utterly valueless condition.' She does not hold out much hope."

Nor do I. The danger signs are already appearing. The growth in average personal income has fallen sharply since 1996, and for millions of Chinese—in both urban and rural areas—personal income has actually declined. By the end of 1998, an estimated 22 million employees will have been laid off from the state-run sector of the economy, and millions more are subject to late payment, partial payment, or even nonpayment of their wages.

The outflow of capital, which during the 1980's amounted to a level of about half of what was coming into China as foreign investment, has equaled or exceeded net foreign investment since 1992. Meanwhile, an estimated inventory of \$360 billion worth of consumer goods has piled up—unsold and, for increasing numbers of people, unaffordable. China's much-congratulated decision not to devalue the yuan is not as impressive, upon close examination, as it first appeared to be to distant observers. For the Chinese communist regime, currency control is an instrument of political control. But even that may have to change now that China's export performance is slowing down.

Organized crime, a substantial problem in the Chinese economy for decades, is getting much worse, and He Qinglian's book traces the emergence of a de facto "government-underworld alliance" that is serving to merge the legitimate economy with the underground economy controlled by the mafioso "triads." Progress toward the development of a civil society, to say nothing of the rule of law, is being severely retarded, and the country is increasingly plagued by "drug trafficking, smuggling, sale of human beings, counterfeiting, prostitution, and pornography."

The true nature of the Chinese economy was brought home to me with startling clarity this past August when I had occasion to visit the Shanghai Stock Exchange. Far from being some kind of citadel of capitalism, it was actually a good example of so-called "virtual reality." Red-vested operatives were essentially there to sit around at the desks, because all the action is done through electronic transactions. When I was there, I saw various

"traders" sleeping, reading newspapers, and wandering around talking to friends. But the real scorcher was to learn that the building which houses the stock exchange is owned by Wang Jun and Polytechnologies. Wang Jun is a notorious, internationally-known arms merchant whose military-backed conglomerate, Polytechnologies, supplies weapons of mass destruction to terrorist states and was caught red-handed smuggling AK-47 machine guns into California in the spring of 1996, barely three months after Wang had been feted at a White House tea party. Months later, with the 1996 election out of the way, a Washington Post reporter asked about Wang's White House visit and was given what would come to be an oft-repeated, one-size-fits-all response: "clearly inappropriate."

Mr. Speaker, I began these remarks by suggesting that China has become a "Potemkin economy," a national economy whose growth and stability under its present management will be no more sustainable in the long run than Prince Potemkin's false-front villages were a lasting solution to economic problems in the Crimea. Potemkin's villages may have fooled some people 200 years ago, but there is no excuse for our being fooled today about what is really happening in China.

In my considered judgment, U.S. policy toward China for the past twenty years has been one long exercise in wishful thinking. I have never ceased to marvel at how many otherwise reasonable people, from both parties and all points on the philosophical spectrum, manage to suspend their critical faculties whenever China is the focus of debate or decision-making. The notion that China is emerging as some kind of 21st century economic colossus is just plain bunk.

A more apt analysis might be to draw a comparison with Argentina in the early decades of this century or Iran in the 1960's and '70's. One hundred years ago, more than a few commentators were predicting the "Argentine Century." Well, it never happened. And the principal architects of U.S. policy toward China, Richard Nixon and Henry Kissinger thought Iran was a safe bet, too.

China has built what appears to be an imposing economic edifice, but it stands on a foundation of sand. Sustained economic growth and stability in the modern age require a foundation of comprehensive institutional modernity, legitimacy, and transparency—and even these come with no guarantees. But China has none of it. And as the bills come due for China's peculiar brand of crony—and phony—"capitalism," the price will be very steep.

Mr. Speaker, I salute Michael Kelly for bringing the insightful review from *The New York Review of Books* to wider public attention. Liu Binyan and Perry Link, who translated He Qinglian's book, *China's Pitfall*, and whose review in the *New York Review of Books* provided the source, unless otherwise noted, for the facts and quotations in my remarks, are also to be thanked. I ask that Michael Kelly's article from the September 30 edition of *The Washington Post* appear at this point in the RECORD.

[From the *Washington Post*, Sept. 30, 1998]

CHINA'S ROBBER BARONS

(By Michael Kelly)

The central question of the most consequential of all American foreign policy issues is whether the People's Republic of

China is evolving, under the munificent influence of capitalism, away from communist totalitarianism and toward democracy. Since reversing its China policy in 1993, the Clinton administration has bet the future that the answer to this question is yes—that Beijing is “reforming,” and that, therefore, Beijing must be befriended, its virtues made much of and its flaws overlooked.

That answer, it is now authoritatively revealed, is dead wrong—and so is America’s China policy. This news arrives in “China’s Pitfall,” a book by the Chinese economist He Qinglian that is not yet available in English but is reviewed in the current issue of the New York Review of Books by China scholars Liu Binyan and Perry Link, perhaps the most important article published in recent years on the China issue.

The reviewers begin by fairly stating the terms of the debate over the meaning of what took place in China during the Deng Xiaoping era of capitalist “reform” in the 1980s and 1990s: “In the U.S., many business leaders, followed by the Clinton administration, argued that Western commercial engagement with China creates not only more wealth but progress toward democracy as well. Skeptics countered that more wealth, by itself, does not necessarily cure social problems or lead to democracy.”

Who was right? Binyan and Link write: “‘China’s Pitfall,’ the first systematic study of the social consequences of China’s economic boom, vindicates the skeptics so resoundingly as to force us to reconceive what ‘reform’ has meant.” China’s reform, argues He Qinglian, was nothing more than “the marketization of power,” and it has resulted not in anything approaching a democracy “or even a market economy in the normal sense,” but instead has created an immensely rich and immensely corrupt kleptocracy.

What the American business community and the White House chose to see as reform was, He Qinglian writes, actually one of the great robberies of history, “a process in which power-holders and their hangers-on plundered public wealth. The primary target of their plunder was state property that had been accumulated from 40 years of the people’s sweat, and their primary means of plunder was political power.” The butchers of Beijing were also the looters of Beijing, and it was to save their power to loot that they butchered.

The plunderers were nothing if not bold, nothing if not creative. He Qinglian chronicles quite an array of techniques by which Beijing’s evil old despots—sorry, reformers—exercised the levers of the state on behalf of helping themselves to everyone else’s money. One breathtakingly simple way was to periodically tap into private savings accounts. Other equally straightforward approaches included “borrowing” public funds for speculation in real estate and stocks, and reselling commodities purchased by the state at fixed prices at much higher prices on the private market.

The pro-Beijing camp points to Deng’s 1992 call for everyone in China to go into business and get rich “even more boldly \* \* \* even faster” as a milestone in China’s evolution. Indeed it was He Qinglian reports: Deng’s message was correctly interpreted by the power elite as a signal that the government and the party would look with a benign eye on even the most outrageous acts of the theft. In the words of Binyan and Link, this message “led virtually every official, government office, and social group or organization in China to ‘jump into the sea’, and try to make money.”

“Reform” simply served as cover for crooked schemes by which these power-holders made money by transferring the wealth

of the state to themselves. Consider the denationalization of state industries, and the creation in their places of for-profit companies called “tertiary industries.” This was hailed as clear progress toward a free, open-market society. In fact, the state officials who oversaw the denationalization process established their children and friends as the owners of the new industries.

Perhaps all of this is true, China apologists will argue, but it is also true that China, in the process of making money, is necessarily moving away from Communist Party totalitarianism.

Yes, but not toward capitalism and not toward democracy. As Binyan and Link put it: “The party indeed has lost some of its political power, but has lost it not to the citizens but to a new robber-baron class that now allies itself with the party in opposing the rule of law.”

This is the reality of China: a country where the primary function of the state is to preserve power so that it might preserve plunder. This is what the Clinton administration praises, and supports, and defends against all efforts to admit the truth.

#### HAROLD HOLT: A LIFETIME OF PUBLIC SERVICE AND CONTRIBUTIONS TO HIS COMMUNITY

#### HON. JOHN S. TANNER

OF TENNESSEE

IN THE HOUSE OF REPRESENTATIVES

Tuesday, October 13, 1998

Mr. TANNER. Mr. Speaker, for 50 years Harold Holt has been active in public service. For many more years than that, Harold Holt has positively contributed to the quality of life of his fellow citizens, not only in Dyersburg and Dyer County, but throughout West Tennessee.

Today, I want to salute a good friend and former colleague, who I served together with in the Tennessee General Assembly. An aggressive leader for his community, Harold Holt never lost a race for public office and built a respected career in banking.

His solution-oriented, consensus building style helped pave the way for the widening of U.S. 412, now a four-lane highway connecting Dyersburg and Jackson. He was known for his strong support for the best education possible for Tennessee’s children and effective law enforcement in our communities.

He is rightfully proud, as we all are, of his wife, Bonnie, and their two sons, Jeff and Steve.

Printed below is a copy of a story published in the Dyersburg State Gazette titled “A Lifetime of Concern for Others.”

#### A LIFETIME OF CONCERN FOR OTHERS

When Harold Holt was growing up on a farm near Finley during the Depression, he saw neighbors pitching in to help those facing hardships such as serious illness of the family bread-winner.

He never has forgotten the spirit of cooperation and helpfulness.

“Each neighbor took care of their neighbor,” he said. “If a family couldn’t get a crop in, other neighbors would pitch in and put in the crop for them.”

“Everybody in the community was close; even though they weren’t related, they were very close.”

That closeness and concern for others has made Holt perhaps the premier politician in Dyer County. He has served as county trust-

ee, county commissioner and state representative and has never lost a political race. His son, Jeff, has followed in his public service footsteps and now is serving his second term as Dyer County sheriff.

“I’ve been involved in the political process since 1948,” Holt said. “That was my first presidential election, and I voted for Harry Truman.”

Former Dyer County Executive P.H. White said Holt is a person who can be trusted.

“Harold is a very trustworthy person in both word and deed,” White said. “He’s always done what he thought was right, and he’s very dedicated and devoted to his family.”

Longtime friend Dr. Douglas Haynes said he admires Holt’s integrity—and memory.

“He’s a person of absolute integrity, and he has the most fantastic memory,” Haynes said. “He knows a story about just about everyone in the county.”

Doug Williamson, another long-time friend, said Holt has gained respect through his honesty.

“He’s a real forthright, honest person,” Williamson said. He’s just a fine man, and many people respect him for his honesty.”

Holt said he has never been tempted to seek political office on a larger stage than representing the local population.

“Dyer County is one of the greatest communities anybody could ever have the privilege of living in,” he said. “The people here have been so kind to me and to my family.”

He said he has been approached several times to run for Congress but never really considered it.

“I was approached a few times, but I never gave it much thought because I would have had to run against Ed Jones,” Holt said. “I always supported Ed Jones, and he’s a good friend to this day.”

Holt’s devotion to his friends and his integrity are remarkable, said Jere Bradshaw.

“Harold Holt is a true gentleman,” Bradshaw said. “In my opinion, he’s absolutely honest, above board and considerate of other people. I’ve always been able to rely completely on what he says.”

“I’ve supported him in what he does because it’s always for the good of the community.”

Holt said Bradshaw’s race for county clerk was the first local political race he ever got involved in.

“I probably worked harder for Jere Bradshaw’s election than I ever worked for any of my own,” he said.

Holt served in the Tennessee General Assembly, representing Crockett and Dyer counties, from 1986-91, when he decided to retire from active involvement in politics.

In the legislature, he was known as hard-working and fair.

Though it is little known in Dyer County, Holt was one of the legislature’s most accomplished pranksters.

“Harold was a good representative,” said state Rep. Frank Buck (D-Dowelltown), one of Holt’s closest friends. “He took his job very seriously, and he did a good job for Dyer County.”

Holt often played his pranks in cahoots with Buck and former state Rep. Floyd Crain (D-Ripley).

“When the scandal about funeral directors was exposed several years ago—about one or two mistreating corpses and burying trash and that sort of thing—we sent a letter purporting to be from a woman who (state Rep.) Robb Robinson (D-Nashville) had mistreated at his funeral home,” Buck recalled. “Robinson took it seriously and, though he didn’t remember the case we made up, contacted the state funeral directors board to ask if anyone had filed a complaint against him.”

“When Robinson found out it was a joke, he got pretty testy with Crain and me, but Harold wasn’t there.”