ENTERPRISE AND DOUBLE CROSS

At the heart of America's industrial decline is a culture of mistrust

by Robert B. Reich

In 1985, soon after the Reagan administration arranged quotas on the importation of foreign steel, the U.S. Steel Corporation dropped plans for new investment in a Utah facility. Instead, it opted to import semi-finished slabs from South Korea to feed its West Coast finishing mills. Soon thereafter it spent $3.6 billion to purchase Texas Oil and Gas Corporation, on top of the $6 billion it spent a few years before to buy Marathon Oil. In mid-1986 it dropped "steel" out of its name and became USX, the last letter serving as an indelible reminder that what the corporation now stood for was unknown and unknowable. By that time energy accounted for two-thirds of its revenues and all of its profits, and thousands of workers had lost their jobs.

The ensuing political debate centered, predictably, on the benefits and the pains of economic change. Unionized workers, and not a few liberals, complained that U.S. Steel was abandoning steel, and so it was. They lamented the resulting unemployment of steel workers and the decline of traditional steel towns. On the other hand, conservatives pointed out correctly, there was no future in making basic steel. South Korea's Pohang Iron and Steel Company, for instance, operated one of the most modern mills in the world; it generated over nine million tons of steel a year. Pohang's workers earned an average of $2.50 per hour, or about a tenth of U.S. Steel's pay scale.

On the opposite end of the industrial spectrum, the Zenith Corporation invested several hundred million dollars in the 1970s trying to implement a potentially revolutionary idea: using lasers to play sounds recorded on a plastic disk. The lasers would "read" information encoded and compactly stored on the disk and reproduce sounds far more faithfully than conventional tapes or records. By the end of the decade, Zenith had abandoned the effort: production was simply too risky and expensive. Zenith opted instead to import videocassette recorders—a comparable but simpler technology—to sell under its own brand name. Sony, meanwhile, introduced the first successful mini-sized, laser-operated compact disk player, which swept the American market.

Both U.S. Steel and Zenith made rational calculations of the cost of pursuing a market and, following the logic of standardized mass production, opted out. In principle, however, each had other options. U.S. Steel could have eased out of steel and into new alloys and plastics that combine high strength with light weight. Or it could have moved into advanced ceramics that resist corrosion and heat, or into any number of other new materials that do what steel does, but better or cheaper. In most of these areas, no foreign producer was yet ready to compete. U.S. Steel could then have maintained its marketing links to its customers who made cars, buildings, and appliances. American auto makers, for example, were beginning to turn to Japan for ceramic

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Like jilted lovers, workers and managers become more cautious after they've been burned once. No one wants to be a sucker.

engines and carbon-fiber chassis. Had U.S. Steel moved in this direction, it could have retrained many of its workers, already skilled in making one kind of durable material, to meet the same needs with new products. It could have become U.S. Advanced Materials—a robust descendant of its former self. Zenith, likewise, could have regarded the laser disk not just as one potential product but as the wellspring of a stream of products flowing out of the collective experience gained by making the first—items like optical computer memories, disks containing information services, video disks that could be erased and revised. In this way, Zenith too could have evolved as its work force, and its surrounding network of suppliers and customers, also evolved.

Pursuing these options, however, would have required a fundamentally different approach to capitalism: collective entrepreneurialism. Traditional capitalism relies on a lone inventor or entrepreneur to dream up a big idea, investors to provide the capital, managers to translate the idea into rigid production systems, and "drone workers" to man that system. In collective entrepreneurialism, the distinctions between innovator, manager, and worker become blurred and investment becomes a mutual affair. Owners continuously invest in workers by giving them training and experience in new technologies. Workers invest in one another by sharing ideas and insights. Workers invest in the overall enterprise by moderating their wage demands. Such mutual investment extends outside the company as well. Suppliers of materials and parts invest by committing to produce specialized components. Creditors supply capital without requiring a rigid projection of how the funds will be used. This vision of collective entrepreneurialism should not seem unfamiliar. These are just the sort of feel-good management ideas that fill the bookstores and business schools.

Yet neither Zenith nor U.S. Steel followed any such path. What are we to conclude from this? One possibility is that the notions of collective entrepreneurialism are pipedreams, and that the only realistic options for most American workers are protection, idleness, or wages as low as their competition abroad. Another possibility is that the managements of U.S. Steel and Zenith were simply too dim to spot the sources of future profits. Neither of these explanations holds, however, either for Zenith and U.S. Steel or for the many other American companies who cling to the logic of standardized mass production and balk at a strategy of collective entrepreneurialism. The problem is rooted in a deeper dilemma: a simple lack of trust within American business culture.

Workers who bolt

Trust is by no means foreign to American enterprise, of course. There is evidence, for example, that employers commonly maintain wages and employment during downturns in the business cycle at higher levels than a strict reading of supply and demand would warrant. The reason for this defection from economic theory is due to employers' eagerness to maintain workers' loyalty, lest employees depart during upturns in the cycle. It is simply too expensive for employers to find and train good employees with every up and down in the economy. Similarly, sellers often allocate scarce goods to steady customers when supplies are tight—rather than charge the customers higher prices—to reward and reinforce customer loyalty during downturns.

These "hidden handshakes," as the economist Arthur M. Okun has called them, help explain why wages and prices do not move smoothly up and down with the overall economy. Loyalty has its own economic value.

Trust is a brittle organizational adhesive, however. Even if each member of a common endeavor stands to gain from a policy of trust, the perception that any one member can do even better by exploiting the others' trust tends to undermine the policy. Imagine, for example, that the chief executive of an American firm buys the idea of collective entrepreneurialism. He decides to invest in the production experience of the firm's workers. Instead of relying upon a Japanese supplier for a complex component, this executive decides to produce it inside the firm. Since the Japanese supplier has already learned to produce the item cheaply while the firm's workforce has not, internal procurement will cost about $1,000 more per worker than buying it outside. But our enlightened executive looks upon this added expense as an investment in his firm's workers. He figures that once his workers master the challenge of making this one component, they will be better equipped for further innovations. The firm's capacity to innovate, adapt, and improve will be expanded. The manager estimates that the total present value of this learning will come to about $1,500 per worker. So the initial $1,000 investment—with a 50 percent return—is well worth it, and the company opts for internal production of the component.

A year later, the executive is delighted to discover that his prediction was dead right. After figuring out how to make the component themselves, the firm's workers are far more knowledgeable about this area of technology. They can see all sorts of ways to apply their hard-won expertise to new products and to improvements of existing product lines.

But there is a problem. The workers *know* that they are now more valuable to the firm than they were before—about $1,500 per employee more valuable. When it comes time for the salary talks, each worker demands a raise worth, say, $1,499. If the company won't deliver, the workers announce they will simply go to work for a competitor who *will* pay what the workers are now undeniably worth. Individuals are not bound by ties of loyalty; they strike out on their own. Our enlightened executive has no choice but to accede to their demands, even though it wipes out the gain from his investment. But he sadly vows that from now on he'll buy advanced components from Japan.

Investments in knowledge cannot be protected like investments in real estate or machinery. Investors can assert and defend their stakes in tangible assets, but not in value that resides in peoples' minds. This dilemma explains, in part, why American companies have so often entered joint ventures with their Japanese counterparts. For many American firms, buying complex parts from the Japanese was more economical than training their own employees to make them precisely because firms could not guarantee themselves any harvest from investing in experience. Why go to the expense of giving your design and production engineers such valuable experience if, as studies show, almost half of them will leave the firm within two years?

In Japan such an investment was worth its price because engineers could be expected to spend their lifetimes with the firm. There, the myth of the individual entrepreneur is less rooted than that of the loyal teammate. Thus when the Sperry Corporation announced in 1985 that it would stop making its own small computers and begin to rely on Hitachi for the computers it sold under the Sperry name, investment analysts welcomed the news. They noted that Sperry would save tens of millions of dollars that it otherwise would have to spend on developing technologies for its next generation of machines—an investment that it could not be sure it would ever recoup. The decision was irrational only from the standpoint of the American economy as a whole, which otherwise would have benefited from more scientists, engineers, technicians, and production workers trained in the next generation of small-computer technology.

By the 1980s, this disjuncture between the private and social returns of investment in people was widespread. When Guardian Industries wanted to get into the fiberglass insulation business, it simply hired away six Manville Corporation employees who knew all about how to produce the material. Manville had spent $9 million over seven years to gain that expertise; Guardian was selling its own brand in just 18 months. Next time, Manville (and others like it) would be more reluctant to make such large investments.

American companies have energetically but seldom successfully sued former workers for walking off with hard-won expertise. In the mid-1980s, even California's famed Silicon Valley was embroiled in such litigation. It was not uncommon to throw a goodbye dinner for a key employee one night, and then serve legal papers on him the next morning. When Steven Jobs, cofounder of Apple Computer, left the firm to start another—taking with him his cumulative experience and that of several other engineers he brought along—the action reverberated throughout Santa Clara County. What would become of Apple's shareholders and other employees who had relied on the expertise of Jobs and the defecting engineers? All over the Valley, the entrepreneurs who had founded the major high-technology companies were being succeeded by second and third generations of entrepreneurs who wanted to found their own. But as each successive group peeled off from the former—carrying away the experience necessary for devising future products—it became ever more difficult to justify the initial investments. And as fewer investments were made, Silicon Valley began to falter.

Managers who sell out

The risk of exploitation runs the other way as well. Consider a company that makes dye castings for automobiles, appliances, and factory machines. The market for standard castings is shrinking, as ever more of these end products are produced abroad. The future lies in doing precision casts for computer parts and missile components, a process requiring substantial collective investment.

Suppose the firm's chief executive asks his material supplier to develop an unusual blend of aluminum and silicon, which will be easier to cast into small sizes and intricate shapes. He asks his employees to forgo wage increases for the next two years, so that the firm has enough cash to pay for the new molds and computers it will need. He asks the towns and cities in which the firm's factories are located to reduce the firm's tax bill to free up funds for retooling. His reputation for solid investments earns the firm's bonds a good rating, and creditors put up a new issue despite its unspectacular interest rate. The implicit promise made to all these parties is that, once the transition is complete, the firm will survive and prosper, and all who depend on it will be better off. Supplier, workers, creditors, and city officials go along.

Two years later, the new precision die casting operation earns gratifying returns, and is relatively safe from foreign competition. The future looks so bright, in fact, that the firm is acquired by a group of investors who offer the firm's shareholders a hefty premium over the current market price of their shares. The new group of investors pays for these shares with money borrowed from pension funds and savings and loan companies at relatively high interest rates. These loans are secured by the value of the firm's assets.

The chief executive who orchestrated the retooling promptly resigns, and the new group takes over the management of the firm. They inform the firm's employees that they are expected to continue working at the low wages to which they agreed two years before. They announce that because the firm is now so much more efficient, some of the employees will be let go. The new management demands a price cut for the hybrid material its supplier developed; otherwise, it will contract with another supplier at the same price. The city gets a similar message: more tax abatements, or the firm decamps to another city. The company's creditors get the news via the bond market: the firm's additional indebtedness has substantially increased the risk of eventual default and reduced the value of the bonds.

No party reaps the return it anticipated when it made its investment; none has any certain recourse in contract law. All would have done better by cutting their losses in the first place and refusing to cooperate in the firm's renewal. The new owners have, in effect, expropriated the benefits that were to go to these parties under the tacit agreements made with the former chief executive.

Three years later, when the South Koreans begin producing precision castings, the firm's new owners realize that to stay competitive they must offer customers still greater value. They prepare a plan to incorporate customized services into the product—milling, drilling, plating, trimming, and finishing the precision casts according to the customer's special needs. But the employees, suppliers, and other constituents will not be fooled again. They balk at participating in new investment without elaborate formal contracts that complicate and constrain retooling efforts. Covenants on the new debt limit investment options. Each participant insists that every obligation be spelled out in advance, every contingency be clearly described. It should come as no surprise that the contract-bound organization proves incapable of the sort of quick, creative responses to customer needs that would keep it competitive.

This story, too, has been replayed across America. The Chrysler Corporation, for example, received concessions from employees, suppliers, bank creditors, and the government during its near collapse in 1979 and 1980. Everyone contributed out of fear that the company would lapse into bankruptcy if they did not. But Chrysler continued to close plants and lay off workers. By the end, the firm employed one-third fewer people than it had at the start, and many of the cars it sold were being made in Japan. Thus the largest beneficiaries of the sacrifices were Chrysler's managers, who enjoyed magnificent bonuses, and its investors, whose shareholdings increased substantially in value as the firm recovered. Those Chrysler workers who survived until the austerity campaign paid off with spectacular gains in profit received only moderate pay increases. It seems doubtful that Chrysler workers would willingly sacrifice again.

Other enterprises now experiencing competitive strains followed a similar route. Eastern Airlines

American companies have taken to suing former workers for walking off with expertise. In Silicon Valley, it was not uncommon to throw a goodbye dinner for a key employee one night and then serve legal papers on him the next morning.

faced bankruptcy in 1984. Its workers, challenged to help save the company, agreed to reduce wages and benefits in exchange for a seat on the board of directors and a chunk of common stock. But two years later, Eastern's board accepted a takeover offer from the Texas Air Corporation. Texas Air's chairman was notorious with labor for a ploy he pulled off with an earlier acquisition: after buying Continental Airlines he had filed for bankruptcy, which let him repudiate union contracts, lay off two-thirds of the labor force, and cut wages by half.

Tacit understandings in many companies were breached when they became inconvenient. Employees assumed they would receive any surpluses that might accumulate in their pension fund investment portfolios, over and above minimum sums required to be paid out to them as pensions. But this assumption was based upon informal agreements; the pension plans did not stipulate precisely what would be done with any surpluses. So firms with surpluses in their funds cashed them in, converted the minimum sums to annuities, and kept the surpluses for their shareholders. By the mid-1980s corporate raiders were on the prowl for firms that had not yet exploited this easy source of cash. When they found one, they offered shareholders a premium over the market price of the shares.

Nor were shareholders immune from exploitation by the stewards of their wealth, corporate managers. The erosion of good faith was amply illustrated, for example, by the device of the "golden parachute," which became routine during the merger wave of the early 1980s. This was a generous severance payment, often totaling a large multiple of the executive's annual salary and bonus, which was awarded—the parachute automatically opened, as it were—when a takeover became successful. The telling point is the justification invoked: the protected executives suggested such insurance was essential to preserve their impartial judgment about unfriendly takeover bids. Without the parachute, so the argument went, the executive would be tempted to fight the takeover even if it was in the best interests of the shareholders. This logic suggested that the only way shareholders could trust corporate executives not to feather their nests at the shareholders' expense was to provide them a pre-feathered nest at the shareholders' expense.

When is it economically rational to violate a trust? Those who renege on informal promises and understandings surely bear a burden: they must live with a sullied reputation. Notoriety has its costs; parties who once repudiated obligations will find it harder to gain trust in the future. Employees who abandon a firm after gaining valuable experience, managers who abandon suppliers and employees after gaining concessions, managers who feather their nests at shareholders' expense—all must live with the long-term consequences of their one-time gains. But these consequences may be more than balanced by the one-time gains of exploitation. This is especially likely in a highly mobile, anonymous society. Reputations, like unpaid bills, often cannot keep up with those who move quickly.

For many Americans a lifetime of work entails relatively few repeat dealings. The typical American curriculum vitae records an unattached self who advances from job to job, organization to organization, place to place—as horizontally mobile as upwardly. By 1985, the average corporate manager stayed put for 4.5 years; the average chief executive, 4 years; the average employee even less. Corporations themselves changed hands at a rapid pace—often altering their names, locations, and images in the process. Mergers and acquisitions remained a favorite sport, and nearly half of all senior executives left their jobs within a year after their companies were taken over. When Esmark absorbed Norton Simon, Inc., in 1983, for example, many key Norton Simon executives departed. A year later Esmark itself was acquired by Beatrice Companies, which proceeded to slash Esmark's staff. Two years after that, Beatrice, in turn, was taken over by a group of investors that included several former Esmark executives, who promptly dismissed the latest regime. In these games of corporate musical chairs, the underlying production process typically remains unaltered.

Trust-breakers thus stand a good chance of dodging the full consequences of their behavior in part because they outrun them, and in part because the damage is inherently cumulative and systemic. Rather than attaching solely to the offending person or firm, the effects are likely to be diffused—resulting in general reduction of trust in all commercial dealings. Managers who feel exploited by departing employees are less forthcoming with subsequent employees. Suppliers or workers who are mistreated by one set of managers do not make the same mistake again when they deal with a different set. Shareholders are more meticulous in their choice of firm. Like jilted lovers, these parties are far more cautious next time. Their caution is shared by others who, although they have had no direct experience of being exploited, learn by observation to keep their guard up. No one wants to be a sucker.

This systemic erosion of trust precipitates all manner of precautions. Commercial dealings are hedged about by ever more elaborate contracts. There is a proliferation of work rules, codes, and standards to be followed. Requirements and expectations are well-documented in advance; enforcement procedures are minutely delineated. Laws are spelled out in greater detail, so that next time no party will be surprised by the opportunistic move of another. Rules governing bankruptcies, pension plans, the fiduciary responsibilities of corporate officers, and corporate takeovers, among other transactions, are rendered even more specific. Reciprocal rights and obligations are codified in ever more voluminous detail.

In this way, the opportunistic behavior of a relative few reduces the flexibility of the entire system. Collective entrepreneurialism becomes impossible. Because no one can be sure that someone else might not violate a trust, everyone takes precautions. Like a university honor code that, once transgressed, is replaced by a book of detailed stipulations, the exploitation of tacit commercial understandings results in a stifling profusion of contractual particulars.

Trusting employee ownership

The principle is understood by every practicing lawyer, accountant, and investment banker in America: red tape multiplies in parallel with the profusion of finagles it seeks to contain, and vice versa. As contractual refinements progress, litigation over them also escalates, for each party feels compelled to contest adverse interpretations of the ever more convoluted contracts and rules. Employees sue managers, shareholders sue directors, creditors sue those who audited the corporate books, everyone sues the companies that insure everyone against liability.

Those who get paid for rearranging economic assets, rather than enhancing their value, have a not inconsiderable pecuniary interest in the continued deterioration of commercial trust. The business pages of the morning paper offer continuous news of novel ploys and counter-ploys of paper entreprenuers seeking to outmaneuver one another. Every new thrust invites a more sophisticated parry, requiring an ever larger number of lawyers, accountants, and financial advisers to execute it. Between 1970 and 1985, the yearly total of private contractual disputes brought before federal courts tripled to 35,400. And the number and remuneration of lawyers and financial specialists steadily rose through the ups and downs of the real economy.

The party that refuses to take part in the game is at a distinct disadvantage. Self-righteousness is a poor substitute for strategy. The probability that others may try to exploit a relationship inspires a widespread resolve to be the exploiter rather than the exploitee. Taking immediate advantage of ambiguities in contracts and rules, for example, makes eminent sense when the other party, given a chance, can be expected to twist them to serve its own purposes. Similarly, in a context of suspicion and opportunism, information is transformed from a tool to a weapon. Withholding technical and economic data that, if shared, could boost joint productivity can be the only logical strategy for individuals who have learned to distrust their co-workers and managers.

Such stratagems, while rational from the standpoint of the parties involved, absorb time and effort and undermine joint endeavors. They make it far more difficult for enterprises to shift and evolve in response to the new commercial opportunities. They reduce the system's capacity to generate wealth.

A culture of opportunistic individualism aborts collective entrepreneurialism. It induces collective gridlock. When drivers going north and south opportunistically crowd into an intersection as the light turns red, they block the drivers moving east and west from going through on the green light. The maneuver is perfectly understandable from the viewpoint of the first motorists, who thus ensure they will not be the ones trapped by other drivers using the same ploy. Gridlock violators seldom suffer directly from their opportunism; city driving is a sufficiently anonymous activity that they are likely to get through with their reputations intact. But the cumulative effect of such behavior is to ensnarl traffic, and the greater the pressure on the traffic system, the more tightly gridlock takes hold.

Collective entrepreneurialism depends on commercial trust. Collective gridlock ensues when trust breaks down. The American economy in transition generates countless opportunities for mutual endeavor and joint gains, but at the same time countless invitations to opportunism. Each participant, knowing this and wary of being victimized, forswears trusting collaboration. Thus the system's evolution is stymied.

To the extent our place in the world economy is determined by our success at collective endeavors, the central problem of economic policy is how to create the kinds of organizations in which people can pool their efforts, insights, and enthusiasm without fear of exploitation.

One possible approach to this problem is to encourage versions of worker ownership. This may be seen as an old answer to a new question. Employee ownership has been widely advocated on largely ideological grounds. It has been just as widely condemned as inefficient. Different groups of employees—like younger and older workers—will often have different interests in immediate wages and dividends versus long-term growth, for example. Potential outside investors may suspect the motives and doubt the accountability of worker-owners and refuse to invest in their funds. Talented and diligent workers risk being exploited by the incompetent and lazy. And all worker-owners, if most of their wealth is tied up in the firm, bear more risk than if each owned a diversified portfolio of investments. If there were nothing to the notion of collective entrepreneurialism, if productive organizations were simply the sum of their fungible parts, it may well be that worker ownership would be a bad idea. But if our future prosperity does depend on ongoing learning and collective efforts, then some kind of worker ownership may be an important device for cementing common aims and building trust. It may be sufficiently promising as such a device to warrant considerable efforts to overcome its inherent problems. Indeed, when its purpose is framed this way, it may itself help to overcome some of these problems.

A direct ownership stake can go a long way toward generating a sense of collective responsibility. Employees would themselves reap the benefits of effort and innovation. Honing their firm-specific skills instead of basic skills that could be peddled anywhere would be a less risky strategy. Each worker would have a direct interest in training his colleagues, rather than jealously guarding expertise lest his own position become less secure. Workers would monitor each other as well as their managers, to guard against lapses of judgment or diligence.

The virtues of employee ownership would not be solely motivational. It would also allow the enterprise more flexibility. When sacrifices were needed to make it through lean times or develop new products or processes, worker-owners would be more ready to accept austerity, knowing they would reap the eventual rewards and not be shouldered aside once they had made their contributions. Secure in their place in the organization, they would not need to fear new technologies or endeavors.

The point is that some form of employee ownership and control could provide a superior context for forging joint commitment and fostering trust. Reciprocal dependencies would be clearer. Relationships would be longer-term, and reputations correspondingly more important; the slacker and exploiter would bear the burden of their actions. Such arrangements could go far to reduce the appeal of opportunism and increase the perceived advantages of collaboration, and thus lessen the dilemmas that give rise to economic gridlock. ■

WHO'S WHO in the Administration

One of the things we were right about—that this national security staff was the worst in history—may have caused something else we said—that **Pat Buchanan** would leave the White House in November—to be wrong. The resignations made necessary by Irangate tend to eliminate pressure for others to depart for fear that it will produce a rats-deserting-the-sinking-ship appearance. Another factor is that Buchanan was demanding the NATO ambassadorship as his exit-price. Irangate may also have saved **Otis Bowen**, the secretary of Health and Human Services, at whom the White House was angry for his sponsorship of a government insurance program against catastrophic illness....

Buchanan is also likely to feel more comfortable in his job now that his nemesis, Chief of Staff **Donald Regan**, has lost so much power. Regan is almost sure to go, insiders say, because he has earned the opposition of **Stuart Spencer**, whose advice Ronald Reagan has habitually sought in the clutch. It is widely reported that Spencer is joined in his desire to get of Regan by **Michael Deaver**, **James Baker III**, and **Nancy Reagan**. The only way Regan will survive is if he has the goods on his boss—the president's recent blow-up at Nancy may mean that Regan does have the goods on him—and even then he might not. Remember, **Richard Nixon** fired **Bob Haldeman**, who was the only witness to the smoking gun conversation, presumably reasoning that because Haldeman was guilty too, he wouldn't talk....

Insiders tell us that one problem with **Lt. Col. Oliver North** is that he's just a tad wacko. Why else did he keep telling friends that terrorists had poisoned his dog, torn down his fence, and put sugar in his gas tank?...

One thing North is probably not is dishonest. He was one of two National Security Council (NSC) staffers to find out about the money in **Richard Allen**'s safe and blow the whistle on the former NSC chief....

Here's the smoking gun people are looking for concerning whether Regan knew about the diversion of money to the contras: **Robert McFarlane** was fired, in part, for not informing Regan of NSC doings. McFarlane's successor, **John Poindexter**, is not likely to have similarly erred....

Frank Carlucci's selection as National Security Adviser was hailed as bringing desperately needed competence that would restore confidence in the executive. Before we start sleeping well at night again, though, consider this: Carlucci has been chairman of Sears World Trade, which recently announced it was disbanding—and sending Carlucci on his way—because it had lost $60 million....

The case for giving National Security Council staffers a history test instead of a drug test upon hiring: none of the staffers involved in the shipments of arms to those Iranian moderates recalled that **Jimmy Carter** had tried something similar, nor that each time he had made overtures to moderates such as **Abolhassan Bani-Sadr** and **Sadegh Ghobtzadeh**, the plans were foiled by Iranian hardliners....

The hero of the arms affair is **Peter Wallison**, who replaced **Fred Fielding** as counsel to the president. It was he who orchestrated the public confession of **Reagan** and **Edwin Meese**. Wallison and the White House deserve a bit of credit (but just a bit) for breaking the news. Since no member of the press appears to have been onto the story, they might have been able to sit on it successfully. Wallison's one Achilles' heel may be his loyalty to his sponsor, Donald Regan, whom he might try to save....

Few have noted the interesting timing of **Alton Keel**'s appointment as deputy national security adviser. It was Keel who, as executive director of the Rogers Commission, helped guide the panel away from investigating the White House involvement in the Challenger explosion. The commission disbanded in July. Keel was appointed to the NSC job in August. The White House, of course, was grateful that the Rogers Commission didn't find wrongdoing in the White House. Some cynics note that the NSC job would have been a fine way to show their appreciation....

In case there is any doubt, it was Robert McFarlane's idea to sell arms to Iran. Incidentally, reports that on his secret mission to Iran McFarlane traveled on an Irish passport are probably true, though Irish officials say he didn't get one from them. Following the St. Patrick's Day rule that everyone is welcome to pretend they're Irish, the country has long given passports to anyone claiming to have an Irish granny....

In

WHITE HOUSE

National Security Advisor—**Frank C. Carlucci** has been president and chief operating officer of Sears World Trade Inc.

Out

WHITE HOUSE

Deputy Press Secretary—**Larry Speakes.**

Assistant to the President for National Security Affairs—**Admiral John M. Poindexter.**

Deputy Director of Policy Development and Political Military Affairs—**Lt. Colonel Oliver North.**

JUSTICE

Assistant Attorney General for Administration—**W. Lawrence Wallace.**

CIVIL RIGHTS COMMISSION

Staff Director—**J. Al Latham, Jr.**