

INCIDENTAL PAPER

**Seminar on Command, Control,
Communications, and Intelligence**

**Intelligence Techniques for the
American Business Community
Lionel Olmer**

Guest Presentations, Spring 1986

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February 1987

Program on Information Resources Policy



Center for Information Policy Research



Harvard University

The Program on Information Resources Policy is jointly sponsored by
Harvard University and the Center for Information Policy Research.

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I-87-1

Intelligence and the American Business Community

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From 1981 to 1985, Mr. Olmer served as Under Secretary for International Trade, U.S. Department of Commerce, where he headed the International Trade Administration, an organization of more than 2,000 persons located in 48 U.S. cities and 124 posts overseas. In this position, he managed the trade promotion, export control regulations, and trade laws of the U.S. government. From 1977 to 1981, he was Director of International Programs for Motorola, Incorporated, where he developed international trade strategies, with emphasis on the opportunities created by the Multilateral Trade Negotiation Agreements. Currently, Mr. Olmer is a member of Paul, Weiss, Rifkind, Wharton & Garrison, an international law firm.

My career in the intelligence and analysis world covers nearly 25 years, dating from about 1958; I will break it into several distinct parts. I began at the age of 24 as a technical intelligence specialist in the field of cryptology, and was responsible for accumulating information, analyzing it, and providing it to military commanders. There was at that time, among the military operational commanders whom I knew in the Pacific, an absolute faith in the ability of intelligence to serve their needs. There was no challenge to the judgment that the intelligence officer provided. There was not more than a shred of doubt that it was valid and on target, therefore useful, and to be highly valued by the user. The user had relatively little to do with shaping the intelligence process, except of course in revealing his objectives.

The whole area of intelligence was conducted in the back room — in black boxes — and the operational people were discouraged from learning anything about it. But they accepted the product and said, "Thanks very much, you've saved my life. You've made it possible for me to do something that I'm supposed to do and couldn't have done without your contribution."

Student: Just as a matter of curiosity, you said that you started at age 24 in cryptology; in your formal

education, did you have anything that gave you some background for this kind of problem?

Olmer: I was selected for the cryptology program after having been commissioned an ensign in the Navy. I was an English literature student and had almost no background in science or mathematics. I was sent to a school for about half a year. The remainder of the time was in the best tradition of much of our military service — on-the-job training.

In fact, what has emerged over the course of the last 25 years is that there are relatively few secrets; far more is known today about the field of cryptology and what it entails, by a wider spectrum of both the domestic and foreign public, than possibly existed 25 years ago. I can remember having been so thoroughly indoctrinated in the need for secrecy that, when I was first married in 1962, my wife did not know anything about what I did; I just would not talk at all. Then I was shocked to find a book published by Sanche de Gramont, called *The Secret War*,* that described in what to me was almost stomach-turning insight and detail the workings of

* Sanche de Gramont, pseud. (transl. Ted Morgan), *The Secret War: The Story of International Espionage Since World War II*. New York: Putnam, 1962.

the National Security Agency. It mentioned abbreviations that were used only in secured areas and would have had no meaning to anyone outside.

The short answer to your question is no. At the age of 24, I was thrust into some dramatic and unique situations. By dint of great good fortune, and by dint of having a group of very supportive people around, I stumbled through and made some small success of it and was selected to go on into some other areas of it.

While that initial period, from 1961, had truly been marked by a sense of confidence in the intelligence system, the later 1960s were different. In 1968 I went to Vietnam and was put in charge of a reconnaissance organization that was providing what we called "early warning" to Navy and Air Force pilots flying over Hanoi.

We did a number of different things, one of which was to alert them to surface-to-air missiles (SAMs) launched in their direction. It was a very complicated affair, technically speaking, in terms of both the equipment and the training that were required. We felt we worked very hard at it, and we were occasionally quite proud of what we were able to achieve. I can remember being utterly deflated when I talked to a fighter pilot who said, "Oh yeah, I turn that box off. I don't listen to what you say." I said, "Why"? He said, "What good is it to know from you that a missile has been launched in our direction? What the hell do you think is happening over Hanoi when we fly there? Missiles are everywhere"! We were just a distraction.

It reminds me of the joke about the lost hot air balloonists. They come down over a university campus and yell down to some fellow walking along the path, "Where are we"? He looks up and he looks down, and he scratches his beard and he says, "You're in a balloon." One of them gets very angry and says, "You're an economist"! His friend says, "How did you know that"? "Because he's exactly correct and of no help whatsoever"! We were not economists, but we were exactly correct and of no help whatsoever.

That was an instructive part of my career as an intelligence officer, to discover that it isn't enough merely to be accurate and sometimes it's not even enough to be timely. There are several other characteristics that have to go along with accuracy and timeliness, the most important of which is relevance. In this increasingly complicated world in which we live, it's harder and harder to be relevant, because in

order to be relevant you really have to know what it's like to be a fighter pilot in the midst of a combat situation. An intelligence specialist providing support to a group of foreign policy negotiators or economic negotiators has got to be more than just an academic. You've really got to be part of the process. There's no other alternative.

I'm getting a little ahead of myself. So after a period of some euphoria in the intelligence world because of the confidence and esteem with which intelligence was regarded, in 1968 I had this sort of awakening, this realization that it wasn't all sweetness and light. There were some lacunae, to put it mildly, in the ability of intelligence to support decision-making. In 1973, I think there was a major watershed with the Arab-Israeli War and the failure of American and Israeli intelligence to predict its occurrence.

At that time, I was serving on the White House staff as an assistant to the President's Foreign Intelligence Advisory Board (PFIAB), and we were asked to perform a postmortem of the failure, to find out why it had occurred. I think the whole episode had an extraordinary effect in causing self doubt within the American intelligence community and certainly among the policymakers, many of whom would say, "Why the hell are we spending all these billions of dollars to develop these sexy satellite systems with instantaneous telecommunications"? They didn't consider the problem that telecommunications may move with the speed of light but in sometimes unpredictable directions, never reaching the intended destination.

Student: It struck me, when you said that 1958 was a period of euphoria, that it was also the period of the missile gap and just after the bomber gap — a period when, in fact, we seem to have known very little about what was relevant.

Olmer: Good point. In 1958 I was 24 years old and I was looking at tactical military support intelligence, not strategic intelligence. My recollection is that the missile gap was really a political thing generated initially by Mr. Kennedy, who was striving for the presidency. Later, when I did go to work in the White House on the PFIAB, one of the things that was held up as the reason for the creation of the board in 1959 was the necessity to pursue with great vigor and commitment new capabilities in technical intelligence, much as we did several years later when we went to the moon. Major resource decisions were

taken in 1960 to push for the development of technical intelligence.

My recollection of this history was that there was no lack of confidence in the basic ability of intelligence to produce supportive, useful information. I know that in my area there was no doubt whatsoever that we knew what we were doing, that we were right, and that we should be relied on for what we were saying, but we were several levels down and not encumbered by politics at all. We didn't even know politics existed! And the tactical commanders we supported shared our confident appraisal.

McLaughlin: I think that in 1950, most of your operational commanders didn't have two cents' worth of military intelligence capabilities, judging from the history of what followed, with the Chinese coming in and some of the other things that were happening. The assets had been terribly depleted after World War II. If I go back to somebody like S.L.A. Marshall in *The River and the Gauntlet*,* he talks about the fact that not a single photo interpreter was left over after World War II and that there was an absolute paucity of those assets in Korea. It seems to me that somebody made an awful lot of progress if the state of the world was perceived to be so good in 1958, coming from January 1951.

Olmer: Although I cannot believe it was all inspired by me personally, much as I would like to hold out that possibility in my rusticated years, I can tell you that the Pacific Fleet Command held intelligence capabilities in such high regard that they would not allow operational commanders to leave on various kinds of missions without their tactical intelligence support team. They just wouldn't go out on operations. They said these people were absolutely essential.

Student: I began in intelligence in 1960 in the Air Force. When I really got into it deeply in 1962, I had the same impression that tactical intelligence was excellent and that people relied on it a great deal, but our attitude toward national intelligence was that it was sick; they couldn't bring it all together. If you read the history of the period of the bomber gap, you know that national intelligence didn't have national systems. We had tactical systems fly overs by aircraft and things like that, which could

do the job and do it very well, but we didn't yet have, in 1958, the satellite systems that really made national intelligence what it is today. We had the U-2, but what was that? A strip of intelligence across one part of the Soviet Union at a time.

Oettinger: But wait a minute — what a funny bit of revisionism! That's like taking Louis Daguerre to task for the fact that Margaret Bourke-White wasn't photographing everywhere when the first camera was made. I'm old enough to remember that Edwin H. Land was, in those days, regarded as completely nuts for having suggested that cameras would do this kind of thing. We're only now beginning a bit of revisionist history that portrays President Eisenhower not as a bumbling old creep who couldn't pronounce "nuclear," but as a man who built up national intelligence, tactical intelligence, etc., etc., with considerably greater depth and wisdom than was realized at the time. So you're looking at the beginnings of things, in that sort of contemporary sense. You can sneer at U-2s taking only one strip at a time and so on, but somebody had to begin.

Olmer: Even when, in the late 1960s and very early 1970s, I was allowed, as a relatively junior naval officer, not only to attend, but in some instances actually to participate in, discussions with some very senior military commanders, I found them utterly unaware of and, in a sense, disinterested in the strategic picture. For example, the concept of economic intelligence having any relevance whatsoever to the national security interest of the United States would have been farcical to suggest.

Oettinger: Even five years ago that would have been true.

Olmer: It's still true today. Economics is seen as of tertiary relevance to strategic interest. When you look at the limited amount of money that the Defense Intelligence Agency spends in the development of its own internal economic analysis capabilities, it's about the same as it was 15 years ago.

Based on my exposure to intelligence and command and control in that 1973 period, I sensed the change in mood in the intelligence world as an outgrowth of a failure that became both public knowledge and notorious within government. It did trigger not only a standard postmortem but a number of recriminations and accusations and, ultimately, a sense that the system was sick. I think there are examples today where that question of relevance and utility continues to challenge us.

*S.L.A. Marshall, *The River and the Gauntlet: The Defeat of the Eighth Army by the Chinese Communist Forces*, November 1950. Westport, CT: Greenwood Press, 1984.

The question is certainly applicable to the commercial world. In 1977, I found myself in a large, multinational corporation with roughly 70,000 workers in manufacturing, sales, and service all over the world. In the main, the company paid attention to the "bottom line," i.e., sales and profits, and was unconcerned with the political, economic, or technological impact of events in the outside world.

Businessmen in the mid-1970s didn't understand the utility or relevance of information gathering and assessment. I think this situation underwent dramatic change, certainly among the major corporations dependent on international trade, in the latter half of the decade.

I was thrust into the middle of this in the corporation and perhaps got a little too ambitious because of my own background. I did want to establish an analysis and information center. What I found was that people in the company were so busy, so over their heads in activity directly related to company profitability, that anything not directly related was looked at as extraneous. That's the situation that prevails today in much of the higher echelons of policymaking.

When I came back into government in 1981 with the Reagan Administration, I believed that the government could do more to support its economic interests. That is, the intelligence community could, in an open way, support certain business activities of American companies by seeing to the production of a greater volume of unclassified information and to the analysis, not of a particular competitive endeavor on a micro level, but of significant trends, such as Japan's drive to technological preeminence, or the less developed country (LDC) debt situation, or the analysis of why the ASEAN* nations consistently produced higher rates of productivity growth than the Western European nations and the United States.

I did encourage this kind of effort in the intelligence system, and because of my lineage, I think that I was given a more receptive audience than would ordinarily have been the case. I have to say that the economic analysis produced by the intelligence community, at least in the period of 1982 to 1985, was simply superb. I read almost all of it, and I could not fault it, except for its volume, which was awesome. But when you start to rely on staff to tell you what's most important to know, it means you'd

better have some good people who understand what is relevant to you, not only to your interests, but to the things on which you are required to vote in, say, a policy development gathering of other senior officials.

My areas of interest were divided into three parts. One was the support to trade policy. The second was in the nature of gaining a better understanding of the competitiveness of foreign manufacturers and producers of technology, relative to U.S. competence in equivalent or similar areas. The third area, which we haven't talked about at all, is the subject of technology transfer.

On the one hand, we must learn more about the competence of the Soviets in areas where we're attempting to control the transfer of technology, because it's not relevant to restrain the flow of technology to areas in which the Soviets have already got a demonstrable capability — and it's harmful to companies that might otherwise create jobs and pay more taxes through legitimate trade with the USSR. On the other hand, we need to know better where the gaps are in our system of export controls. We need to understand more about the areas in which diversion of technology does occur so as to be more able to stop it. We may have to confront our allies and say, "We know there are certain companies in your domain that are not adhering to the generally agreed upon principles on restraining the flow of technology in these areas to the Soviet Union, and we need your assistance." We also have to try to build a consensus in the community by pointing to areas where the Soviets have developed a strong capacity simply because of their access to Western sources of products and technology.

Those are some of the areas in which I felt that the Commerce Department, in the first Reagan Administration and at the beginning of the second, encouraged the intelligence community to get more relevant, reviewed to a great degree what the intelligence community did, and provided feedback to the intelligence community in ways intended to shape their future response. I have nothing but praise for the product that was the result of those ensuing efforts.

It's very easy to say the intelligence community didn't predict the default of a given country, or the declaration of a moratorium on debt, or that oil prices would drop to \$12 a barrel and go to \$10. I travel a lot and talk to a lot of different people all over the world. I was in Tokyo at the end of October, and a

*Association of Southeast Asian Nations.

good friend of mine, who is Japanese and has had a lot of experience in the Middle East, said to me, "The price of oil is going to go to \$17 a barrel." The price of oil was then up at \$30. I said, "Come on." He said, "I have just talked to some people in the Middle East and Yamani has made that decision; he has the support of his government, and he's going to pursue it. His purpose is to drive the price down to a level that will cause the British and the Nigerians to cry 'uncle,' and then to form an effective OPEC."

I came back with this "hot" intelligence and I told some people. What happened? Even my friend's estimate didn't go far enough. He now says it will go to \$10 and stay at \$10 for awhile. He believes, as others have suggested, that it will rise again to around \$24 in a short period of time. Most analysts I know think it will stay low for several years. Does the intelligence system have access to the same kinds of people? Absolutely! Do they believe them? You know, you get to be too expert and you dismiss alternative sources of information that don't support your own cherished beliefs. If you are an energy expert, and your career has been based on a steady stream of analysis that says the Soviets are going to be net importers of energy in the late 1970s, and it turns out that they're not, maybe your career ought to be at an end.

In general, however, I have not found intelligence analysts to be so wedded to a position that they're not movable, based on new information. I really have found a flexibility that is not common in the business community.

Oettinger: In your Commerce incarnation, when you were reading all of that stuff, was it out of nostalgia or out of professional interest, and how much of it was germane and indeed useful to what was then your responsibility?

Olmer: I don't know the backgrounds of all you folks here today, and I don't mean to be patronizing. But I averaged 75 to 80 hours a week for four and a half years, and life every day was a constant fire drill. I began at 7 o'clock in the morning and I raced almost nonstop till evening. I didn't have a lot of extra time in which to read simply because of nostalgia, although I might have wanted to do that. I did it first of all because I believed that, certainly in the technology transfer area, I had a potential for making a contribution. Second, it was a responsibility of mine to oversee the export control system, and intelligence was a major and unique source. In the begin-

ning I'll bet I probably spent more than five hours a week reading intelligence reports. That's over and above anything else that I read.

I don't read all that now; I have less time to do it, and it isn't relevant. If I need specific information, I go to Lexis/Nexis and check out a given issue and become informed. When I was in the Commerce Department, I felt it was absolutely essential to know "everything" that was happening in the world. And the best way for me to do it was both to read newspapers and a few magazines and to rely on the intelligence process.

Oettinger: This is an interesting contrast you're making between reading for background understanding of a situation, which is what I hear you saying about your Under Secretary of Commerce period, and pinpointing an issue and going to the source, which is what you're describing as your approach now; in this case the source happens to be a computerized information service, but you might also be picking up the phone and calling a staff guy and saying, "I need to know about such and such." Can you contrast the two modes? What is it about a situation that calls for pinpointing on demand versus reading for background?

Olmer: Everybody here knows that lawyers in America make an obscene amount of money, that we have too many of them, that if we only could export lawyers instead of our automobiles we might restructure the trade balance, etc. But until that great day arrives, the fact remains that lawyers are making lots of money, and time is money. I still put in a long day; I'm usually at the office by 7:15 a.m. and I don't leave until 7:30 in the evening. But I don't have the responsibility.

The job that I had in the Commerce Department touched on a number of areas. It was different from a number of other under secretaryships in the government. I was responsible for trade remedies, that is, anti-dumping and countervailing duties, determining where governments subsidized their exports, and so on. I did the technology transfer thing which required a large staff that issued (or didn't issue) licenses to U.S. exporters. There was always somebody complaining, "You didn't give me a license," or, "Your people are still considering it" — 80,000 of those a year. And we did play a role in the trade policy process. So I felt that gathering all that information was relevant. Now, it's not so relevant.

Oettinger: You couch it in terms of substantive relevance. Let me come at it from a slightly different approach. Lexis/Nexis is unique; it has the longest history of a private sector, publicly available, rather intensive data base, designed originally to be geared to the particular needs of the legal profession and then, in its latter Nexis evolution, going more heavily toward open literature of various kinds, magazines, newspapers, and so on. What I'm trying to sort out is, had such a tool been available in your earlier incarnation, would you have used it? Because, in a sense, it's so much more economical to pinpoint.

Olmer: It's so much easier to pick up a phone and call a staff person.

Oettinger: Yet, you read.

Olmer: And yet, I read.

Oettinger: So there's an element of personal style involved.

Olmer: Yes, but I did have a lot of personal contact with people responsible for these various areas. Much of what we were doing was decision-making. A decision would have to be made on a recommendation going to the President as to whether or not we should accelerate the transfer of technology to the People's Republic of China: Where am I going to get information on that subject? Not in Lexis and Nexis.

Oettinger: I understand. You got it from the intelligence community.

Olmer: Generally, and from the business community.

Oettinger: Yes. But what I'm trying to say is, suppose I've got all these budgets and I am charged during one of your incarnations to design a government intelligence support system that meets your needs. On the basis of what you just told me, I don't know how much to invest in hotlines that will enable you to reach analysts (or whatever one calls them in a particular business or government agency), how much to provide by way of what the intelligence community calls finished intelligence, such as the background reports you said you read, and how much to provide by way of computer-accessible data bases a la Lexis/Nexis. You've described a very broad set of tools that you use as a consumer of intelligence products; you're running your business on a lot of those. Now put yourself back in your producer's shoes. He's saying, "I've got to support this guy,

but I don't have the money to do everything." How does he decide what to invest where?

Olmer: It is impossible, at the present state of the art, to design a system that will satisfy all decision-makers. They're different. The Under Secretary of State for Economic Affairs may be a very different person from his Commerce counterpart. It would not be appropriate to design a system for the government that would make Commerce happy if it wouldn't be useful to State, and vice versa. The same could be said of others in the policy process. Of what use is this judgment? Well, maybe it tells you not to invest a lot in something that is not easily adapted to individual personalities.

I've had the experience of briefing three Presidents. I can tell you that they're all very, very different. It would do no good whatsoever to deliver to President Reagan a big, fat, briefing book every day with just two pages on the 154 countries of the world, or to pick six subjects that you're going to cover, because that just doesn't suit his style. Well, I don't actually know what the procedure is now; but there was a time when you had to fit all that you needed to say on the entire world every 24 hours into four pages. It didn't matter if it was the holocaust in Cambodia, or a Soviet missile test. You had to fit everything in four pages. That requirement helps you design your system: You develop printing presses that produce four pages more rapidly and at a greater cost efficiency than anything else could. But don't confuse the ability to prepare intelligence in an efficient way with getting through to the persons you're trying to reach.

Student: When you were Under Secretary of Commerce, to what extent were you able to influence the type of business intelligence that was coming to you through the intelligence community, and what kind of mechanisms were available for you to influence these inputs?

Olmer: First, I want to be clear about what I mean by business intelligence. There is an enormous apprehension in the intelligence community about producing information that would be useful to a particular business community. That isn't done. What is done is to provide sort of a macro-economic analysis to the business community in the United States at large. It isn't done as much as we would like, primarily because business has become so internationalized that it gets more and more difficult to determine what is a U.S. corporation.

I perceived a great opportunity for shaping the directions that analysts would take by calling up the senior managers in the intelligence community, or sometimes just by talking to analysts themselves. In our system, at the end of many intelligence reports, the name of the principal drafter appears. On occasion, I would call to express appreciation and ask for more depth on particular matters. I once asked how often these people get called by other than their fellow analysts in their own immediate intelligence families. The answer was something like a big zero. I thought I could really make them feel good and maybe make them more responsive to my needs if they felt that the Under Secretary was really interested in what they were doing. I did it a dozen times; not a lot, but relatively way ahead of the pack, I think.

Student: How much can the consumer shape the kind of information flowing in? Is there an institutional way of doing that?

Olmer: There is an institutional way. I think it tends to be too slow; but it can be accelerated. There is an institutional committee structure that addresses the next year's requirements and several years out. Consumers are solicited on their views, and they in fact largely determine resource investment. Telecommunications and computer competitiveness, U.S. industrial competitiveness in general in the manufacturing area — those are issues that are going to be with us for some period of time to come, and I've given those as areas where I've felt the intelligence system should gear itself up to do better than it has. When I say "better than it has," I mean it's a new subject that has just appeared in the last couple of years.

Student: I have a question on the utility of economic intelligence to the private sector. It seems to me that economic policy of the U.S. government, as presently constituted, operates in such a way that economic intelligence can only provide a narrow supporting role in well-defined functions like the conduct of trade negotiations and the administration of technology transfer controls; while in the broader question of shaping competitiveness, since the government lacks the tools of industrial policy, intelligence really isn't of much use at all.

Oettinger: Defense procurement shapes a great deal.

Olmer: In fact, I would argue that defense procurement has recently been harmful to the process of industrial competitiveness. Not helpful. On the one

hand it has spoiled a lot of suppliers, and on the other hand it has masked what I believe is a chronic condition, a chronic illness, in the American industrial base. If one is taking a political, partisan point of view, one can say the value of U.S. exports from 1979 to 1983 in the manufacturing sector grew by 8 percent. That's not great, but it is growth. The troublesome part of that is that nearly half of that growth has come from defense procurement. When you wash that out, the growth has been nonexistent. Non-existent, in a two-and-a-half trillion dollar economy, over a period of some five years.

So I think the government does have some policy tools, and I think that the private sector would be responsive to intelligence. Maybe that's the wrong word, because it doesn't have to be classified. Insightful analysis: "Look out"!

Semiconductors shouldn't be looked at merely because they represent an industry in Silicon Valley, California, or Route 128, Massachusetts. Semiconductors are the stepping stone to dominance in telecommunications and computers. You'd better be strong in semiconductors because if your lunch gets eaten in that field, you will not be an international competitive force in the others. If more U.S. policymakers understood and adopted that point of view, and didn't try to stop imports to the United States of foreign-produced semiconductors but instead went about targeting for improving the innovative and competitive processes in the United States, we'd be much better off. The Young Commission, or really, the President's Commission on Industrial Competitiveness, by the way, was a marvelous prescription for how to get well, touching on things like encouraging technological developments through tax policies, education policies and, to an extent, trade policies. That sort of thing, I think, is to be encouraged and would be very useful. Sorry I gave you a convoluted answer to a very straightforward and simple question.

It would help the government if the intelligence community were more declarative. The machine tool industry in the United States three years ago petitioned the federal government, indeed the President of the United States, for trade relief on the grounds that imports of machine tools threatened the national security, and that unless something was done in trade terms, Japan and Taiwan would take over pockets of the machine tool industry, and maybe the entire industry. There's no one in America who would doubt the relevance of machine tools to defense

production, to mobilization, to national security. The Commerce Department was responsible for a year-long analytic effort, and the White House has not made a decision yet. Not yet! Industry keeps getting worse, and worse, and worse, but for political reasons the White House won't make up its mind.

Oettinger: For the purposes of this discussion, I interpret intelligence to be what any organization does to scan its environment, whether classified, unclassified, or whatever.

Olmer: I was looking at it that way as well. In the machine tool instance it was a melding of intelligence analysis and analysis by competent people both within the industry and on Wall Street; there are investment bankers who have just superb analytic capabilities.

Oettinger: I'll underscore that at this point because I want to pick up on the remark you made about a more declarative stance on the part of the intelligence community, here meaning the government. Put on your private sector hat for a moment. There are outfits, whether it's the Business Round Table, or the Committee for Economic Development, or the Conference Board, or the trade association for this or the association of those folks, or the labor union, or whatever, who are in the declarative business.

Olmer: Their bona fides are suspect, because what they produce is often seen as self-serving.

Oettinger: We have, then, a need for something that is declarative but unbiased?

Olmer: Believable and objective, and the intelligence community has that reputation even today. There are people in the intelligence business who worry constantly about the influence of the political process on their effort. They really do, and bend over backwards to avoid this possibility.

Oettinger: You described yourself over lunch as refusing, in a younger incarnation, to give that son of a gun a declarative anything.

Olmer: That's because I couldn't. The example I gave was when I was 24 and serving a military commander in the tactical environment who demanded that I tell him whether X was going to happen or not. I said, "I can't do it and no one can." He said, "That's what you are here for. You will tell me yes or no." I said, "I can't do that. That's just not possible. I can tell you all of the signs that we have

and we read, and I can give you a judgment, but I have to qualify even the judgment by saying that it has a 50 percent chance of being wrong. It really is a coin-flipping situation." He said, "That's not good enough, damn it! Give me a judgment."

Oettinger: So now, having matured into his role, you ask for intelligence organizations to be declarative!

Olmer: One can be declarative without saying "yes" or "no." What I could have said was, "I'll give you options. And sort of structure it so that you select Option B." I handled it badly. With time, I could have been far more skillful in packaging something that would have looked somewhat more declarative or assertive but, when examined in its piece parts, would have provided me with an insurance policy, a neat out, which is I guess what I'm saying we should expect less of from the intelligence community. I do find some risk takers. One of the things intelligence both benefits from and suffers from is a lot of smart people quibbling over language. There is a belief that language makes an enormous difference in the interpretation given to judgments that are likely to be made on the basis of written communication.

I've got a few clients in the new profession that I've entered who are not in large companies, and maybe are not terribly experienced in negotiating, and I will need to train them to accept the need for both — more time in the drafting of documents and more care in the selection of language. Some of them don't have that appreciation.

When I say the intelligence community benefits, I absolutely think it does benefit from having smart people say, "Wait a minute. That could mean X and I don't agree with that, so change it." That takes time. Some would argue that it takes too much time, and that it obfuscates and brings everybody to the middle.

McLaughlin: How would you have the intelligence community be more declarative in terms of machine tool imports?

Olmer: I wouldn't ask them to address that question so much as I would have required a judgment from the intelligence community as to the necessity for machine tools to support national security interests. I don't want to ascribe to the intelligence community functions that are not fitting and proper, and this could, if not vetted properly, overstep that line. I certainly would have asked the intelligence community

to assess the competence of the major competitors, the foreign machine tool providers. I certainly would ask the intelligence community to comment on the reliability of foreign sources of supply in various kinds of anticipated scenarios, such as whether we can rely on machine tool production in Switzerland, Germany, Taiwan, and Japan if any one of a dozen different wartime scenarios develops, or how many wartime scenarios would have to occur simultaneously before the reliability of foreign sources, in the analysts' judgment, would evaporate.

The interest of the State Department in such a debate is to provide 100 percent confidence that foreign sources, meaning from our allies, will always be assured no matter what the contingency. Whom else might I ask for something like that?

McLaughlin: I guess, in terms of need, I would assume it's the Defense Mobilization Board who would say ...

Olmer: There isn't one.

McLaughlin: ...or whatever the label is these days. Is it the Deputy Under Secretary of Defense for Policy?

Olmer: Well, there's the Federal Emergency Management Agency (FEMA), but if you look to FEMA for the production of something that is going to be believable by policymakers, forget it.

McLaughlin: I guess I'm simply saying that all this presupposes a scenario other than a "come as you are" war, for example. I'm old enough to remember the petitions of the Waltham watchmakers about the fact that they were getting wiped out by foreign imports, and we would not have that precision machinery skill for wartime mobilization; now that everything is digital we've lost all that.

Olmer: In the case of the machine tools, I'll give you what arose as one of the counter arguments to trade restrictions. We were trying to get our automobile industry to be more competitive, and they had an absolute need for modern machine tools. If we restrained imports of machine tools, where would the automobile industry get those from? If they were to use only domestic sources, they'd either not be readily available or they'd pay a high premium. A tariff on foreign machine tools would require them to pay far more than they had planned on paying, and that wouldn't be helpful to their effort to become more competitive. So there was a contrary argument;

I'm not asserting that it was just so clear and plain that trade actions should be taken. But I think there was, and still remains, a lack of comprehension as to what noncompetitiveness means in machine tools relative to national security. To this day, I don't think that's been answered.

Student: I'd like to ask a question in the same area. In terms of believable information that the business community would trust, how does the intelligence community produce something that is believable by industry or business and is separate and distinct from what the Under Secretary of Commerce or the President says, or should it be distinct, or can it be?

Olmer: No, I would not have the U.S. intelligence community supporting U.S. business directly. I think that's going too far. There are ways in which information can get out and be publicly available to everybody.

Student: I guess that's what I'm wondering. What's believable? If you look at exhortations to farmers in the 1970s to plant to the fence rows, because that would be good for them and good for the world and would feed people — this was not an intelligence product but an Agriculture Department exhortation — a lot of those people who listened to the Agriculture Department are now committing suicide or going bankrupt.

Olmer: For a lot of different reasons, they are.

Student: Well, if you are running X, Y, or Z company, what kind of information are you going to act on for your own company's money and profits?

Olmer: If I were running my own company, I sure would like to know a lot more about the markets I was trying to sell into than the intelligence community did. But I might want to have an insight based on some unclassified analysis provided by the intelligence community as to macroeconomic projections for the ASEAN region or Latin America. For example, will Latin America survive the current debt crisis? Moreover, the phenomenon of energy prices is going to produce a ripple effect throughout every analytic community in America — intelligence not the least of them — and it should. What does that mean for business?

McLaughlin: Outfits like the Economist Intelligence Unit, or EIU, will sell you, for \$200, the outlook for an industry in 1986.

Olmer: They do some pretty good work. But I don't think I'm naive in suggesting the U.S. intelligence product has a greater degree of credibility.

Student: In the debate over the military budget, the President says \$500 billion; but when a statement is based on analysis from the CIA or other data from the DIA (Defense Intelligence Agency), and you get back into those kind of figures, then you have something believable. The President's assertions are without any real background or backup, and I would take an assertion backed up by the CIA before I'd take what the President said on television. The question is, where do you get your CIA information if you're John Q. Public or a company trying to make an intelligent decision?

Olmer: The Agency was producing and making publicly available a great deal of information. I don't know what the trend in most recent years has been, but there was a time when the CIA was encouraging that and PFIAB was certainly encouraging it. And I think it was all for the good — not necessarily because we're going to be absolutely right about projections of Soviet GNP growth, but because it's useful to get out the data so the academic community can pick it apart. The Agency, I think, is mature enough to accommodate divergent opinions, change their minds, and make another search.

Oettinger: I think we're getting a little bit too much into the question of the formal apparatus of government. You said a moment ago that XYZ business knows a lot more about its markets, etc., etc., than it might find out from someone else. That doesn't happen by some kind of occult process; they've got their own sources and mechanisms. I wonder if you could comment on methods and so on — is it a lot different in terms of formal or informal sources, for example?

Olmer: Tony, some business executives, Americans in particular, are so terribly naive and unsophisticated about how the world works and about the nature of foreign cultures, as to make them almost unarmed in a foreign market environment. There are a number of exceptions. Not that many, perhaps, in every given industrial sector, but exceptions exist. They are not the rule.

Oettinger: In a sense, you were creating a geographic desk.

Olmer: Yes. Creating a sector of people who would not look upon the Japanese market as one that was foreclosed without even feeling the need to try; people who would look upon Japan with some affection rather than mere hostility; people who would believe that the Japanese market was where one had to go if one wanted to be an international competitor in high technology, in order to make the Japanese think about Japan as something other than just a protected home market from which to launch their own export drive. I think some companies have that capability now. More companies need it. A lot of companies would see it as the first thing to cut out in any period in which there's a strain on the budget. I've seen that happen in a variety of corporations.

In the Commerce Department, I sponsored a number of colloquia where we brought in the biotechnology industry, the machine tool industry, the petrochemical industry, the semiconductor industry, or the telecommunications industry. We'd have 20, 30, 40 executives in a room with about 10 to a dozen government officials. I would sponsor a half-day meeting with people from the Treasury Department, the State Department, the Defense Department on occasion, and the Justice Department. Those were very useful sessions, judging from the comments of industrial participants.

Student: It seems to me that the circulation and use of intelligence in the national security field are well articulated and organized as far as going from the Executive Branch to the Legislative Branch. Is it a different case in the field of economics?

Olmer: Yes. It's partly because the economic policy-making process in government is somewhat obscure in spite of periodic decisions that are taken to put Mr. X or Secretary Y or Committee Z in charge. It doesn't tend to work that way. There are secularists and there are those who guard their turf with a passion that would well serve any competitive drive in the private sector, if it could be converted from one form of energy into another. Right now it would appear that, for most things, the Secretary of the Treasury is first among equals. But the Secretary of the Treasury is not interested in questions dealing with the details of technology transfer.

In any event, I'm just using that as an example of the disaggregation of responsibility for things that I would term "economic" and would impact on the central issue of America's economic interests and the

competitiveness of American industry. It is not structured. It is unlikely to become structured. We will nibble at the margin and make minor improvements, but it will never reach the state of organization that has been achieved in the military strategic field. That's not without its flaws, too, as I'm sure you've heard from a number of others, but it's better.

Student: Is there some way of distinguishing between strategic and tactical in this area with respect to economic intelligence? It seems to me that most of the things you referred to are really at a strategic level, and I'm not sure, for instance, that for a shoe company in Maine to know that there's a need for shoes in Brazil is necessarily helpful.

Olmer: Exactly. I guess the distinction would be between macro and micro. I would not use the intelligence service to advise the shoe company or the textile company. You're right. A small company is going to get all it ever needs to know about market trends around the world from reading a weekly magazine, *The Economist*, or something of that character.

Are you questioning the need for an industrialist in the United States to have a sense of the big picture?

Student: Not at all. I guess what I'm asking is, can we have more finely tuned categories? It seems basically as we talk about this there's an overview category which I think few people would doubt is relevant, in some sense; but after that, what is relevant, at what level, and to whom?

Olmer: I don't think that's been done. That's a good point.

Oettinger: That's why I was trying to elicit from Lionel some insights into whether this matter of Lexis versus reading has something to do with the position, the availability of technology, or whatever. In a sense, the puzzle that I'm trying to work out is how one decides, whether one is the Director of Central Intelligence or the budgeteer or on the joint committee in Congress, where to invest in government intelligence; or, if one is in the private sector, how one makes a decision that one is going to create an entity like Lexis/Nexis. (The history of that service as a venture, by the way, is a fascinating one.)

There are guys out there trying to invent companies or markets — the McGraw-Hills, the Dow-Jones', the Dun & Bradstreets, this or that newspaper, and consulting groups like the one headed up by William

Colby,* the ex-Director of Central Intelligence, which is into a variety of services from risk analysis to lobbying — who are all trying to figure out what the export officer or the chief executive officer might want to buy in terms of a mix of inputs into deciding whether they should sell shoes in Brazil. Other than saying it varies by personality, or that it depends, and so on, it's awfully hard to define. What fascinates me is that, while you have some very cogent observations about standing where you stand because that's where you sit, you are, I think, no more able to make connections across those requirements because you have worn those various hats than is any theorist or anybody else. It remains kind of mysterious.

On the private market side, some of these guys live and some die, and they never quite understand why a Lexis/Nexis takes off and makes ends meet while some other information services get no response and die. At least the taxpayer isn't paying for it; it's a much more poignant set of decisions when you've got to place the bets because you're the only U.S. government and, therefore, you have to decide which of these various tactics to follow.

Olmer: Let me try another tack. A major series of trade negotiations is on the horizon. One is the overarching question of this new round of GATT (General Agreement on Tariffs and Trade) discussions. That's supposed to begin this year. For the last five years, the United States has been arguing consistently and, I happen to believe, without great effect — although some would take a contrary point of view — that it is essential for these negotiations to provide new rules to govern trade in the services, as well as in high technology.

Another negotiation is already under way dealing with a worldwide regime of rules and regulations for textiles and apparel. It has enormous implications for the American textile and apparel industry. It has even greater implications for foreigners, and not merely those in the developing world.

U.S. industry believes that it has a stranglehold on American policymakers because of the threat of Congressional protectionism that will override what the President has done, which was to veto a bill passed by both the Senate and the House in November; the override on that veto has been scheduled for this coming summer to coincide with the return of the

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American negotiators, when they present the done deal to the Congress. That timing is obviously intended to heighten the pressure on the administration to be tougher against the developing world. It has immense foreign policy implications.

China is more bold about it than anyone else and says, "You want us to buy your grain? You buy our textiles. Period. If you impose a quota on textiles and apparel, we will not buy your grain. We view economic growth as essential to political independence. By political independence we don't necessarily mean Communist ideology, but we do mean being independent of you. We don't want to be economic slaves to the industrialized West."

Theirs is not an illegitimate objective; it's not an objective with which the Reagan Administration would disagree. Of course! But translate that for an industry in the United States that is peopled by minorities and single heads of households, an industry that in the last three or four years has experienced turmoil, to put it mildly, if not chaos. Some 300,000 jobs have been lost.

It is important for those companies to know what's happening. This gets back to your comment about the absence of a mechanism for creating industrial policy, to read the tea leaves, to take strategic planning decisions in the corporations that will gradually move them out of declining industries, and to provide mechanisms for adjusting the workers to new occupations. I believe it is essential for corporate America to recognize the inevitability of shifting comparative advantage, and it can use as many bits of analytic support to reach those sorts of judgments as are available. They're not going to read the *Economist* and accept it — I can guarantee you that.

Student: Another way to approach this is perhaps to compare government sources versus private sources in terms of the attributes you hope to get in your economic intelligence. What do you see as the better points, besides credibility, in the power of analysis? I'm trying to look at this margin between politics and economics — are analyses better done by the intelligence community rather than the commercial sector? What other attributes do you look for when you say, "I can depend more or better on the intelligence community"?

Olmer: There are two factors that come quickly to mind. One is access — wider access to a broader spectrum of international businessmen. Second would be the assurance that no information would be

revealed of a competitive or proprietary nature. Many companies feel free to talk to government that would probably not want to talk to the print media. I would hope they'd talk to Harvard University.

Student: I had an interesting experience last year when I first got here at Harvard, and that was a corporate seminar on Soviet agriculture. The theme was the prospects for grain markets in the Soviet Union. Speakers included members of the stock market, bankers, exporters/importers, and Department of Agriculture and Department of Commerce representatives. There were also CIA officers there, as well as representatives from the governments of Argentina and Canada, people who had gotten into the market as we dropped back. It was a one-day, very intensive discussion. I thought I was at an intelligence briefing seminar. Everybody had been to the Soviet Union within the last year. It was an impressive exchange of information, and highly credible.

Harvard Business School started it off with a discussion of the economics. The front runners were the Department of Agriculture and the bankers who were discussing the outlook, and they came to some conclusions that there was a long-term market in the Soviet Union because of various specific conditions that they spelled out. A consensus developed among this diverse group of people sharing this information. Just as an example, they said the Soviet Union must modernize its agriculture or it would be in deeper trouble than it is now. And to do that, it has to get into the biotech fields. All of a sudden eyes lit up and people started thinking, "But wait awhile, if we start exporting biotechnology to the Soviet Union, what does that do for the banker and the grain guy if the Soviets can solve their problems"? You saw people sort of backing off and smiling.

In any case, as an intelligence officer, I thought that was a more appropriate arena for discussing such issues than if the intelligence community were to sponsor a similar event. It was the academic community in this case, the Russian Research Center, that sponsored a corporate seminar.

Olmer: That happens a lot.

McLaughlin: In terms of credibility, though, is that the same Agriculture Department that's telling the farmers to plant from fence post to fence post and the same bankers who say that sovereign nations can't go broke, so therefore we will give Mexico another billion dollars and — we're having loans called in in Oklahoma?

I'm intrigued by the other side of that issue. A few years ago, a couple of our students in this seminar did some papers on corporate intelligence scanning, international risk assessment, etc., looking at different firms using these things. The interesting thing was that both of those papers, based on a number of cases, concluded that the companies they looked at simply didn't use or integrate that stuff. In a number of banks with Latin American loans there were all these people reporting back, "You don't want to keep going down that road," and yet people kept going down that road.

The other study showed that in a number of companies that supposedly had this function, it turned out eventually to lead up the chain to the president's or CEO's speech writing department, so he could make pithy observations about what was happening around the world when he talked to the Chamber of Commerce. It didn't seem to fit into any decision-making processes in the firm.

Do you have any observations, from having seen the inside and outside, on how common that situation is, or how smart companies are becoming in using this stuff?

Olmer: I don't know all that many companies in terms of their approach to information and analysis, but my impression from the few that I am aware of, the larger ones in telecommunications, semiconductors, and computers, is that they do use it. They don't have time to waste, but they sure are willing to participate in the kinds of seminars where you get to talk with a variety of people. They give a lot of support for those sorts of thing. It's hard to get a ticket to them.

To return to my example of the increasing necessity for what would almost appear to be microanalysis that will help industries at large, this long-term process of negotiating a new set of rules for the conduct of international business is going to have a major impact on how businesses structure themselves. It will affect medium tech, no tech, and agriculture. It is important, and it's so bloody complicated. I don't mean it's as hard to understand as the inside of a computer. I just mean that it is difficult to jump in and immediately feel at home with the issues. Given that businessmen are extremely busy, it's going to take time. Thus, I think that there is a role for both the intelligence process and the process of govern-

ment. We have pockets in the Executive Branch that do a pretty fair job.

How many people read congressional reports? Not many. In all my years in the private sector, I don't recall seeing a single, green-covered, congressional hearing volume in the library of any businessman I can think of, foreign or domestic. I saw one in the office of the man in charge of Brazil's informatics program, and he had so botched up his interpretation of it that I thought it was an argument for the destruction of the Government Printing Office. He concluded, on the basis of his reading of that congressional report, that the Microelectronics and Computer Technology Corporation in Austin, Texas, was created by the United States government, when, in fact, it was created over and above the objections of the Justice Department. He concluded that the very high speed integrated circuit (VHSIC) program was a Defense Department effort to give a competitive edge to the American business community, overlooking what the co-inventor of the integrated circuit, Robert Noyce, had said in that report, which was that it was a waste of time, money, and effort. The guy pointed that document at me and said, "Don't you tell me to do away with my informatics program. Look at what you're doing"! This example is not relevant to the point I started to make, but it is an interesting discussion, at least. Back to the point, I think there's a need for intelligent people to provide credible analysis, and most important, to go back to my opening line, it really does need to be relevant.

Now is the time for relevance in these areas that I've talked about in terms of both high technology and the approach to this new round of international negotiations. Now is the time when it could be relevant to American manufacturing. As I wrote in my final report to the Secretary of Commerce, I do believe that American manufacturing is at a crossroads; it has been going downhill, and it is going downhill even faster. I think that the intelligence system can be more responsive to help better inform American business activity what is happening in the world. They're not going to find it out by relying exclusively on even credible, sometimes very timely, and often uniquely insightful journals such as *The Far East Economic Review*, or *The Economist*, or the *Financial Times*; so a government source is necessary, in my view.