

Business Briefs

Europe

Maastricht straitjacket too tight, some say

A faction inside the European Union (EU) is pushing to change the Maastricht Treaty parameters to allow government investments. This faction, which otherwise is not opposing the Group of Seven reflation scheme, has found a spokesman in EU Commissioner Mario Monti, who sent a letter to his colleagues on the eve of the Austria EU summit, various financial press reported on Nov. 5.

In the letter, which was discussed in the EU Commission on Oct. 21, Monti calls for ending the practice of counting investment expenses as part of the deficit. "It is not the public deficit that takes resources away from capital formation in an economy, but that part of the deficit which finances public consumption or current expenses." Without making a formal proposal, Monti calls on his colleagues to focus their analyses more on "the role of public investments."

According to the Italian financial daily *Il Sole-24 Ore*, Monti's call found much support inside the European Commission, even if Monetary Affairs Commissioner De Silguy "was cold" to the idea. But, nowhere in economic history were investments counted as deficit expenses. Such criticism was expressed last year by Nobel Prize economics laureate Franco Modigliani (Massachusetts Institute of Technology) and Italian economist Giorgio La Malfa.

Middle East

Palestinian Authority to develop industry

The Palestinian Authority is seeking to develop industry as well as agriculture, PA Finance Minister Muhammed Nashashibi said, in an interview with the *OPEC Fund Newsletter*. "It is an economy in transition; an economy that has to be built up from *ground zero*. We are concentrating on five major areas: infrastructure, the financial system, markets, the welfare state, and job creation." Although the economy, such as it is,

now is based on agricultural exports, he said, "We are currently developing our industrial sector. . . . What we seek is an export-oriented agriculture with an export-oriented industry."

Meanwhile, the PA is finally getting some financial help. On Oct. 25, the European Investment Bank agreed to make ECU 62 million (roughly \$72.7 million) available for Palestinian investment in water, hotel, and transport infrastructure on the West Bank. Financing agreements are for \$58.6 million. The money earmarked for water (ECU 30 million), is to increase the supply of potable water, cut waste, and improve supply especially around Bethlehem-Hebron. By 2002, the project should provide drinking water for 350,000 people. ECU 20 million is allocated for road rehabilitation, and ECU 12 million for hotels. One hotel in Bethlehem is to be the first Palestinian privately owned and operated hotel in the Holy Land. The financing is part of an agreement made in October 1995 in Gaza.

The OPEC Fund is providing a loan of \$10 million, earmarked for creation of jobs for unskilled and semi-skilled workers, through various labor-intensive and small to medium-sized projects in the West Bank and Gaza. It is a 17-year loan, at 2%, with a five-year grace period.

Speculation

Dow Jones Index part of investment 'cult'

The fixation on the movements of the Dow Jones Index is part of an investment "cult" which ignores the vast majority of American firms that generate jobs, pay taxes, and produce new wealth, Joel Kotkin, from the Reason Foundation, and David Friedman, a financial writer, said in a commentary in the Nov. 8 *Washington Post*.

As *EIR* has previously emphasized, Kotkin and Friedman note that the majority of money in the "high-tech" NASDAQ listing is concentrated in just a couple of stock offerings. For example, Wall Street values Amazon.com, Yahoo, and Broadcast.com at nearly \$20 billion, about half the value of General Motors. But GM employs 700,000 tax-paying workers, and produced annual

earnings of \$5 billion through July of this year, while the three Internet stock companies lost \$90 million and employ a total of 1,200 people.

The commentary points out that the non-publicly-traded sector of the U.S. manufacturing economy, the small and medium-sized companies that create the majority of jobs and productive innovation, is being devastated by the distorted investment priorities of Wall Street and the globalizers.

Thornton Parker, a former senior executive at General Electric, is quoted complaining that Wall Street is a "parasitic" investment market which has to be reined in, not pumped up. He says that Wall Street is strangling the necessary investment in new tools and other capital formation crucial to reviving the economy, and proposes that there must be changes which redirect investment back into local and regional banks, credit unions, and private industry investment pools.

Economic Policy

Throw out those who made financial mess

Those responsible for the current financial mess should be thrown out and people with new ideas should be brought in, Italian economist and former minister Paolo Savona says in a commentary in the Nov. 5 *Corriere della Sera*. The Oct. 30 Group of Seven document, Savona writes, "contains a detailed list of instruments to be activated, except one: the extension of internal monetary controls on derivatives activities and the formation of monetary activity for international use." Unfortunately, Savona writes, the main G-7 countries are against such controls because they have the wrong idea of freedom. "Experience teaches us that economic freedom is curbed if the amount of money is not fixed by authorities but by the market."

For this reason, Savona says, it is "very dangerous to refinance the IMF [International Monetary Fund] with \$90 billion . . . because such resources [incite] speculation. . . . The problem of reforms consists in setting aside old ideas. The probability that this will happen is less if those who negotiate entertaining new ideas are those who bear responsibility for current conditions. What can

we expect from the job given to [German Bundesbank head Hans] Tietmeyer from the G-7 or from the ideal contribution from [European Central Bank head Wim] Duisenberg and the other members of the system? Once we used to choose those who had ideas for the job; now we choose those who have power. When will we ever come out of it?"

Electric Power

Deregulation may cut revenue, Moody's fears

Moody's Investors Service is considering downgrading nine of Japan's huge electric utility companies, including Tokyo Electric, Chubu Electric, and Kansai Electric, because of the possibility that the government may begin deregulating the industry, the rating agency said in a Nov. 2 statement.

According to Moody's, the Electric Utility Council of the Japanese Ministry of International Trade and Industry will release a report by the end of this year recommending "liberalization" measures which include partial deregulation, opening up the utility transmission system to outside interests. Moody's projects that such a move could "lead to potential revenue losses," and weaken the ability of the giant firms to fully recover their capital investments in the industry. Such revenue loss would be compounded by the slowdown in demand for power, as Japan's economy grinds down.

Currency Controls

Mahathir says no more 'cosmetic adjustments'

"If we are going to manage the Asian financial crisis with any possibility of success, we have to deal with currency speculation," Malaysian Prime Minister Dr. Mahathir bin Mohamad told the International Conference on Managing the Asian Financial Crisis, in Kuala Lumpur, the Nov. 3 Singapore *Straits Times* reported.

Among the specific restrictions Mahathir proposed, were to "regularize" ex-

change rates by imposing a band within which trading may be conducted—any trading outside the band would result in an immediate halt in trading, and with sellers required to deliver the money sold within a specified period; currency trading must be linked to trade in goods and services, not to exceed a certain fixed *per diem* maximum percentage of the total trade of the country concerned; currency traders must be "registered and licensed" in the countries in which they operate; and "banks must be made to reduce the money they lend to these funds to reasonable multiples."

Mahathir warned that "cosmetic adjustments will not do any good at all. Unless currency trading is recognized as the root cause of the present problem, corrective actions cannot be made." He urged the businessmen, academics, and policymakers not to indulge in another "academic exercise." "Pussyfooting around will get us nowhere. You will have to face the problems squarely and be willing to accept the condemnation of the rich and powerful if your conference is to contribute anything at all to the solution of the world's financial crisis. . . . The world acted in concert to prevent money laundering. There is no reason why the world cannot act in concert to regulate currency trading."

Central Asia

Road connections advance along old Silk Road

On Nov. 1, Tajikistan President Emomali Rakhmonov inaugurated the first section, 34 kilometers long, of a road between Murghab and the Kulma mountain pass, on the Chinese border. The highway, connecting Dushanbe to China, which the Tajik authorities see as a revival of the ancient Silk Road, will give Tajikistan access to the Karakorum highways and ports on the Indian Ocean, said. The road from Dushanbe to the Kulma mountain pass, is 1,000 km. The eastern Pamir Mountains through which it passes, are 4,000 m above sea level. The remaining stretch of the highway, the southern section, connects Kulyab to Kalai-Humb.

In a parallel development, Iran and Armenia have finalized plans to build a highway to link both countries, as well as Georgia, to Europe.

LIQUEFIED GAS can be supplied to China from Russia's Sakhalin resources, Yegor Farkhutdinov, the governor of the region, told Itar-Tass on Nov. 2. He said that construction of a plant for production of liquefied gas is planned in Sakhalin, and the first gas terminal would be built in China in 2000-2005, with a transit capacity of 3 million cubic meters of liquefied gas per annum.

JAPAN is providing \$8 billion to Thailand for productive projects, purchase of capital goods from Japan, and support to state-owned banks, *The Nation* reported on Oct. 21. The loans will be at 1-2%. Japan also plans to expand its aid to the Mekong River development projects, such as the second Thai-Laos bridge across the Mekong.

THE U.S. MANUFACTURING conditions index in fell to 48.3 in October, down from 49.4 in September, and the new orders index fell to 45.7, from a September rate of 50.1, Norbert Ore, chairman of the National Association of Purchasing Management, said on Nov. 2.

AIR SAFETY regulators in New South Wales, Australia have begun a trial of new air traffic procedures in rural areas that use radio instead of radar. Most airports are in the process of being privatized, and this is seen as a cost-cutting measure. Unions representing pilots and air traffic controllers, the Royal Australian Air Force, and the Air Transport Association have all called the trial unsafe, and requested that it be terminated.

FRENCH Defense Minister Alain Richard said that "all conditions" had been met for a three-way merger in the "next two trimesters" of Aérospatiale with the German DASA and the British BAE, in a statement to Europe 1 radio station. Since DASA and BAE have refused to merge while Aérospatiale remains public, it appears that the French state has finally capitulated to privatizing the firm.