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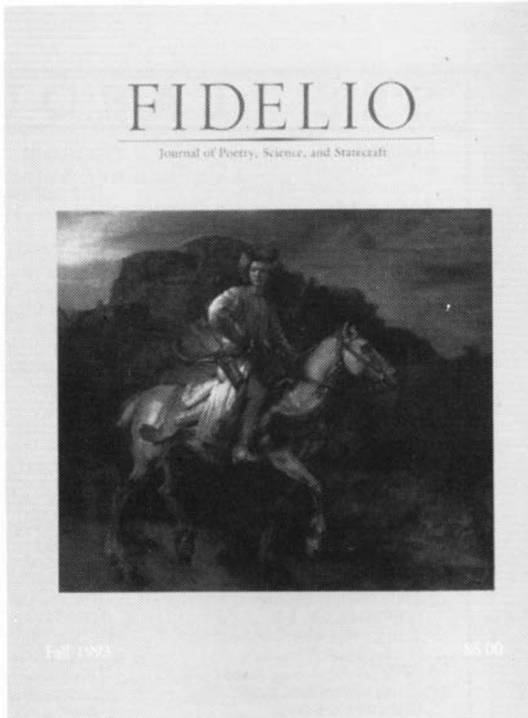
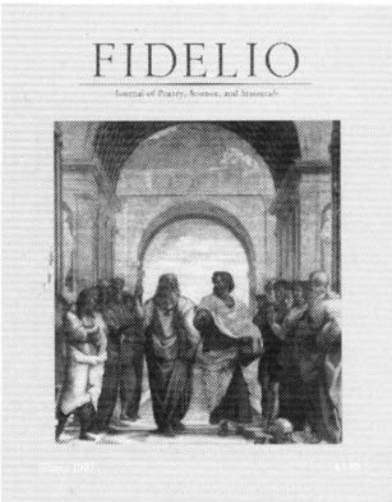
N.Y. State announces bold maglev program
Free traders push drug legalization
Mexican farmers challenge NAFTA swindle

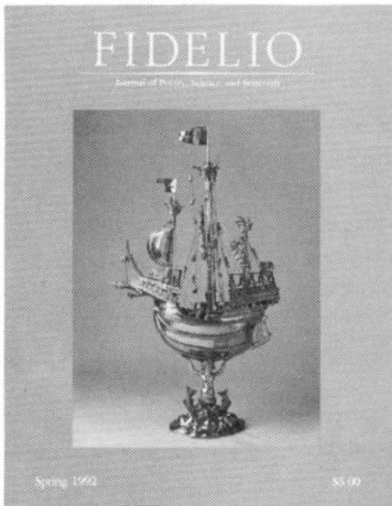
Globalization: plot to wreck industry and labor

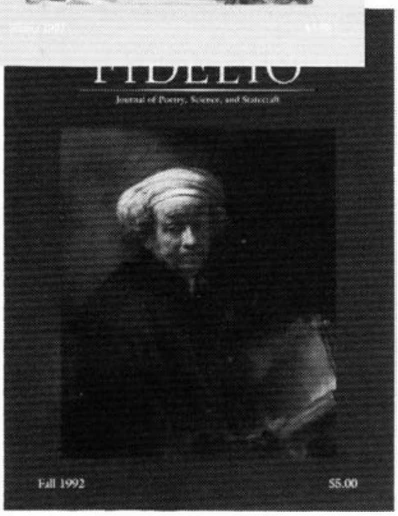
"I hope to convince you that, in order to solve the political problem in experience, one must take the path through the aesthetical, because it is through Beauty that one proceeds to Freedom."

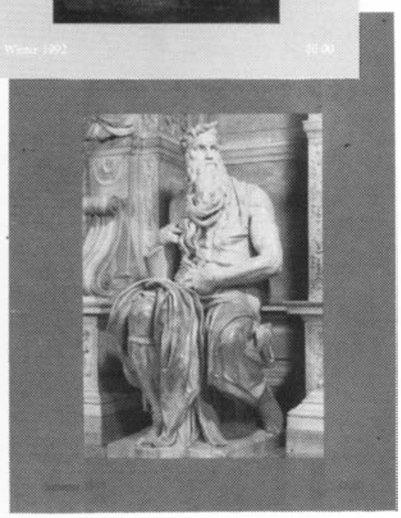
—Friedrich Schiller











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EIR

From the Managing Editor

On May 1, 1991, long before Ross Perot or Pat Buchanan began campaigning against the North American Free Trade Agreement (NAFTA), *EIR* released a Special Report titled "Auschwitz Below the Border: Free Trade Pact Is George 'Hitler' Bush's Mexican Holocaust." Some people thought we were exaggerating, and Congress has now voted the agreement into law; but this week's issue shows that we were absolutely right.

William Engdahl at our European headquarters in Wiesbaden, Germany has produced a study of the "globalization" of what remains of the industry of the so-called advanced-sector countries. Under the banner of free trade, an enormous shift is under way, moving domestic industrial production to the *maquiladoras* of the Third World. As in the case of NAFTA in 1991, nobody else is warning of what a disaster this portends. So we made the unusual decision of devoting nearly half of this week's issue to the story. Read it, and help us organize a fight to stop this.

The globalization agenda is being pushed by an astonishing array of political forces. President Clinton has adopted the Bush program, and was promoting an Asia-Pacific version of NAFTA at the Seattle summit (see *International*). Mexican "leftist" presidential candidate Cuauhtémoc Cárdenas's program is indistinguishable from that of Carlos Salinas de Gortari. And naturally, the free traders from the drug legalization lobby are on the bandwagon (see *National* and *Andean Report*), since what could be more "global" than the production and sale of narcotics?

Although the free trade strategy for mass suicide is moving forward rapidly, there is significant opposition to it. Malaysia's representative to the Asian-Pacific Economic Cooperation forum in Seattle made it clear that nobody "is going to be able to use APEC as leverage against anybody"—and hinted that he was not only speaking for his own government. In France, Nobel Prize winner Maurice Allais is publishing attacks on the incompetence of the OECD's free trade economists (see *Feature*). In Mexico, farmers continue to mobilize against NAFTA and the bankers' usury, and we bring you a first report from a conference on this theme in Ciudad Obregón. We'll have more from this important event next week.

Susan Welsh

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Feature

A former residential area in Duisburg, Germany, near the now-closed Duisburger Kupferhütte metals plant. European industry is shutting down domestic operations and moving to Third World countries where labor is cheap.

International

National

New York State announces a bold maglev program

by Richard Freeman

New York Gov. Mario Cuomo on Nov. 9, announced bold and innovative plans to build the nation's first intercity magnetically levitated (maglev) rail service of greater than 50 miles in length, which would connect New York City and Albany, New York, a distance of 156 miles.

Maglev is a revolutionary technology, in which trains operate like low-flying planes, traveling upon a "magnetic cushion," which they have generated, at speeds of up to 300 miles per hour. Traditional steel wheels on steel rails are abandoned.

The perspective that motivates the New York program displays a greater degree of seriousness and planning than hitherto exhibited in discussion of maglev train building in the United States.

The New York initiative pursues a two-stage plan:

1) To build a high-speed rail system, comparable in design to the French TGV, capable of going 125 miles per hour, along the entirety of the New York State railroad grid, which extends north to Rouses Point, just across the New York border into Canada; west to the Buffalo-Niagara Falls region; and south to New York City. This system will be complete by 1999, if things go as scheduled. Under this plan, the travel time between Buffalo and New York City would be six hours, a 25% reduction from the current eight hours required to make the trip.

2) In parallel, New York State would erect a maglev system from New York City to Albany, which, if completed according to schedule, would be functioning within 11 years, by the year 2004. The trains would travel at speeds of 300 miles per hour, mostly along the rights of way of the New York State Thruway, which would do away with the biggest cost of having to purchase new land corridors. The power source for the system would be electricity.

Acquiring federal government funding may be the biggest challenge that this system faces.

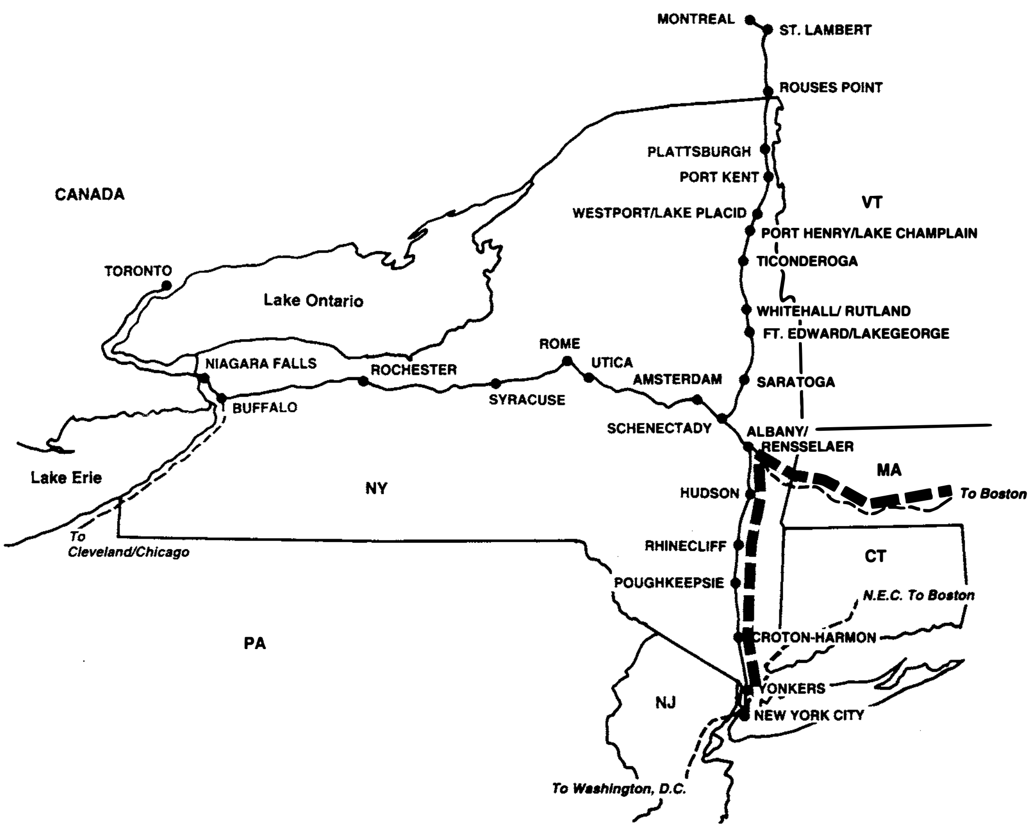
A historic mission

The government document announcing the maglev project, entitled "Moving Towards the 21st Century," is quite clear about the benefits of the system and its place in history. Prepared by the New York State Transportation Department in coordination with other New York agencies, it states, "It was ingenuity—not nature—that transformed New York from a colony on the coast into the state that became, in George Washington's words, 'the seat of Empire.' The steamboat was born on the banks of the Hudson. The Erie Canal, dug with picks and shovels, raised 30-ton barges 565 feet from the Hudson to the Niagara River and changed the course of history. New York's great river valleys were ideal for building the nation's first railroads, but it was New Yorkers who built them.

"In the 20th century, New York pioneered in aviation, subways, and interstate highways. . . . Today a new opportunity presents itself. New York can once again lead the nation . . . by making a quantum leap in transportation technology."

The document reports that automobile and truck transportation congestion in New York State's urban areas increased by 1.5% per year in the recent period, and that some experts expect a transportation crisis by the year 2000. By the year 2010, to accommodate increased traffic flow, New York State would have to handle 50-100 additional airplane flights per day. The document estimates that by building maglev, New York would create 74,000 direct temporary jobs in construction, and 1,400 jobs in operation and maintenance of the line. A further 12,000 temporary construction jobs

New York State's proposed maglev route



Solid lines show New York State's existing commuter line-Amtrak system. Dashed lines show the route of the proposed maglev system.

would be created in building the high-speed rail line. While the document does not say it, 30-50,000 jobs will be created in the industries that supply both the maglev and high-speed rail construction, from cement to the pylon supports that hold up the elevated maglev guideways, to the magnets and train bodies for the system. Total jobs: 117-137,000.

The document also addresses the critical question of the reconversion of the defense industry, which is, perhaps, the most technologically advanced and capital-intensive sector in the U.S. economy, representing "free energy" for the economy. The report states that New York would deliberately "take the opportunity to redeploy some of the highly skilled work force" from the defense industry, which is being "downsized," mentioning, in particular, Grumman Aerospace of Bethpage, New York. As *EIR* has emphasized, the crucial question of repairing and upgrading infrastructure by building a national maglev network can be met by converting idle defense capacity. The skilled manpower is there: Since 1987, the defense sector has been forced to cut back 450,000 manufacturing jobs alone, and more than 30,000 engineering jobs.

The New York plan conceives of the system going from New York City to Albany, but also extending the system from Albany eastward to Boston, thus making a New York City to Boston trip only three hours. However, Albany is centrally placed for adding on to this initial maglev grid, in a most useful fashion. Were maglev to go north from Albany it would reach Montreal. Were it to go west, it would reach Buffalo-Niagara Falls, passing through Schenectady, Syracuse, and Rochester, thus linking up the most populous urban areas in New York State. If the system were to proceed westward from Buffalo, it would reach Cleveland and then Chicago, following the path of the Erie Canal of 175 years ago (see map). Going southward from New York City, it could head toward Washington, D.C., and eventually continue to Florida. Thus, the plan fits in very well as the cornerstone of a national grid.

However, the critical question is whether there will be funding for the project.

During September, the long-awaited "National Maglev Initiative" report was issued by the Federal Railway Administration of the U.S. Department of Transportation, the U.S. Army Corps of Engineers, and the Department of Energy. The report recommends that the United States build a maglev independently of the Japanese and German systems.

However, on a most important question, the "National Maglev Initiative" report said nothing. Four different approaches to maglev are being explored in the United States by four different research teams. The design teams are known by the lead company in each team: Grumman, Magna-plane, Bechtel, and Foster-Miller. The designs differ by the methods used for propulsion, levitation, and guidance of the maglev vehicle, called a consist. In maglev, electromagnets on the vehicle interact with the "track" or wired guideway, employing either magnetic attraction or repulsion to propel the vehicle.

After years of research and development, the best three design systems were to be selected by September 1993, and then next March, the best two design systems were to be selected. Then tracks were to be built to test out the best two systems. But the report doesn't narrow down the choice of design systems. Why?

The Congress is not forthcoming with the money. On Oct. 21, the House Appropriations Committee Subcommittee on Transportation voted only $20 million for maglev in the 1994 fiscal year budget, and restricted the funds to "research and analysis." It refused to appropriate one penny toward constructing a test track. As one of the chief engineers at one of the four design teams told *EIR* on Nov. 18, "We've done research for years; we're ready for a test facility. Unless Congress votes money for a test facility, we cannot work out the problems that must exist in our engineering design. Without that, we will never have maglev." This source confided that the chairman of the Transportation Subcommittee, Rep. Robert Carr (D-Mich.) from Detroit, represents the auto industry, and that industry, along with the trucking, petroleum, and airline industries, are short-sightedly against maglev. Representative Carr actually deleted Sen. Barbara Mikulski's (D-Md.) recommendation of $23 million for construction of a maglev test track, which was contained in an earlier version of a Senate transportation funding bill.

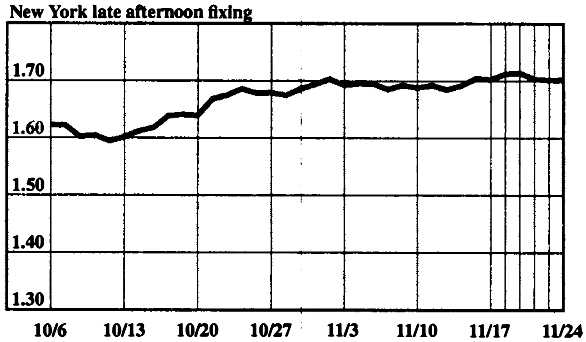
If Congress refuses to fund test tracks, which cost tens of millions of dollars, what will that mean when it comes time to fund part of the far costlier bill of actual construction of an operating maglev system? The expensive initial capital costs of maglev, such as building the guideways, paying for the vehicles, etc., cannot be recaptured by the system itself, strictly out of fare revenues. (See "The Case for Maglev: Paying More Is Cheaper," *EIR*, Nov. 6, 1992.) The above-mentioned "Final Report of the National Maglev Initiative," released by the federal government in September, reviewed 16 corridor-routes for potential maglev construction, which group into six basic regions: the Northwest; California; a Texas-Louisiana belt; a Florida belt; a Northeast corridor, extending as far south as Atlanta, Georgia; and a belt that runs from the East Coast to the Midwest. Of the 16 corridors, the report concluded, only one, the Washington, D.C. to Boston portion of the Northeast corridor, would initially generate enough revenue both to pay back its capital construction costs, and to cover operations and maintenance.

On Nov. 8, a coalition of businessmen proposed that a maglev line be constructed between Baltimore, Maryland and Washington, D.C., reducing traveling time between those cities from 45-60 minutes to 15 minutes. This, and the promise of the New York State maglev proposal, show that a positive, rational approach to our nation's pressing infrastructure may be emerging. America must now manifest the national will to fund these programs.

Currency Rates

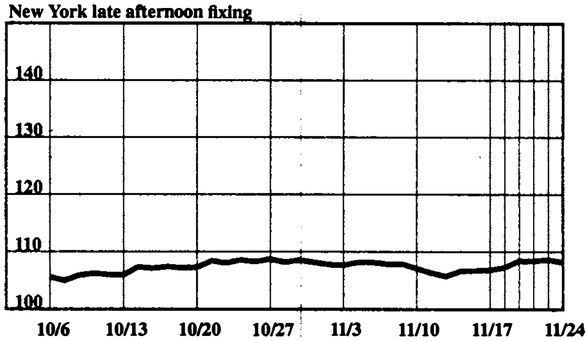
The dollar in deutschemarks

New York late afternoon fixing



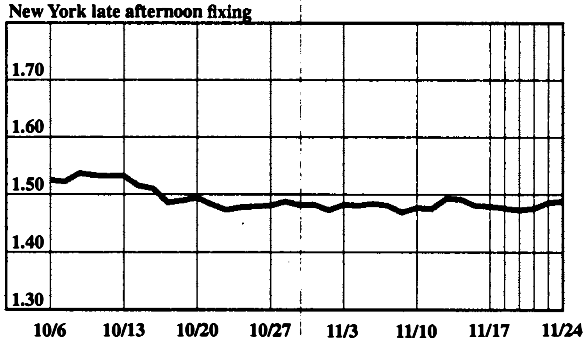
The dollar in yen

New York late afternoon fixing



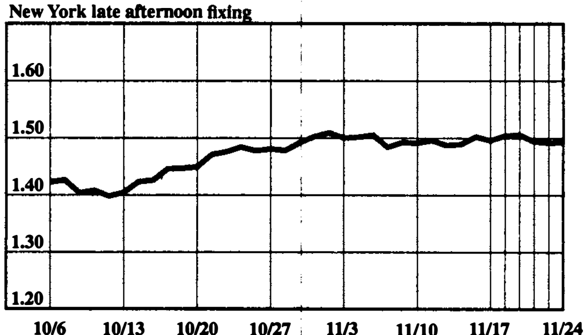
The British pound in dollars

New York late afternoon fixing



The dollar in Swiss francs

New York late afternoon fixing



Beijing, local leaders fight over taxes

by Cho Wen-pin

Over Nov. 11-14, the Communist Party of China held its third Central Committee plenum, a meeting hailed by its propaganda machine as kicking off the second phase of economic reforms. Prior to the plenum, Beijing had announced that dramatic policies would be implemented to restore to itself some control over the nation's credit, but intensive resistance from the provinces, where free trade, slave labor, and speculation dominate, led to a series of compromises at the plenum. The fight is expected to continue over the measures the committee adopted, which include:

Banking: To make the People's Bank of China more independent in monetary policy, it will establish a reserve ratio on deposits and lending rates to protect the value of the yuan; create a floating exchange rate based on market forces, and transform the yuan into a convertible currency; and encourage the development of commercial banks with floating interest rates on loans and deposits. The reformed central bank is said to be modeled on the German Bundesbank, as are the new policy banks on construction, trade, and agriculture set up under the guidance of executive committees modeled on Japan's Ministry of International Trade and Industry.

Taxation: The systems of local and government taxation will be separated (the central government takes in the revenues and then redistributes them to the provinces, taking into account underdeveloped economic regions), and will create an indirect taxation system based primarily on a valued-added tax.

A two-tier tax system

The tax overhaul envisions introducing a two-tier tax system at the central and local levels. It envisions a change from the current system of fiscal contractual responsibility, to a tax assignment system on the basis of a rational division of powers of taxation between central and local authorities.

Since the policy banks, especially the construction bank, don't generate Hamiltonian-type credits, government funds to invest in infrastructure come only out of tax revenues. Beijing's arguments for tax reform, which gives the central government stronger financial authority, are to gain "macro control" over the economy, to cut the government's soaring deficit. Twelve days prior to the meeting, it was reported by *Wen Wei Po,* Beijing's mouthpiece in Hong Kong, that from Jan. 1, this new package will accelerate taxation restructuring. To stop news leaks on the policy fights, some reporters were arrested before the meeting on national security grounds.

After the meeting, on Nov. 17, Finance Minister Liu Zhongli told the press that the new tax system will be introduced gradually, so that regional interests will not be immediately affected. He assured everyone that in working out the reform plan, the central government has taken fully into account the realities of businesses and the interests of localities, according to the official news agency Xinhua. The next day, Jin Xin, the commissioner of the State Tax Administration, admitted that China will have trouble implementing the new regulations. "Public awareness of the need to pay taxes is poor compared to that in developed countries," he said. "In the past, we did not have the custom [of paying taxes], or the appropriate income level in China. . . . We must raise the awareness of our people."

These statements from top officials suggest that the tax reform proposal has been sharply challenged by the coastal provinces, such as Guangdong, Deng's best mousetrap, which is run by corrupt officials who often sell out their constituents' interests to speculators and investors in slave labor. As the November issue of the Hong Kong magazine *Tangtai* pointed out, "The local government questions the wisdom of the central authorities' judgment." Vice Prime Minister Zhu Rongji, who started to consolidate the central government's power with the 16-point program announced four months ago, has seen his effort weakened by Beijing's concessions on the tax issue to the southern provincial leaders.

In a sense, the southern China provincial leaders are embracing ideas like those of the American Confederacy in the last century—ideas that caused a catastrophe. (This is not to suggest that northern China today is analagous to the pro-Union states in the U.S. Civil War.)

Americans and "economists" like free enterprise madman Milton Friedman support the idea. He was in China before the plenum and was received by President Jiang Zemin, who also met Lawrence Klein. Friedman told the *Far East Economic Review* that he endorses a "bottom-up" approach to reforming the economy; he believes that China's central government has given too much support to industry. To Friedman, it seems that only Beijing's control of economic policies—not its lack of moral commitment to raise people's standard of living, to develop the nation-state, to develop each sovereign individual's creativity, and to safeguard human rights—causes corruption, financial chaos, and inefficiency.

Many economists in China who think like Friedman are advising decisionmakers to push "deepening reform"—a Chinese version of "shock therapy." Just as during Mao Zedong's "Great Leap Forward" in the late 1950s, which cost China over 30 million lives, this descent into a warlord economy, if not soon reversed, is a prelude to the disintegration of China and civil war.

Mexican farmers ask their Congress to investigate secret NAFTA accords

by Hugo López Ochoa

Two hundred and fifty agricultural producers from the four northern Mexican states of Sonora, Sinaloa, Chihuahua, and Baja California, who met on Nov. 11 in Ciudad Obregón, Sonora, approved a resolution calling upon the Congress of Mexico to "immediately launch an in-depth investigation into probable financial accords of a secret character concluded by Mexican officials with the Federal Reserve of the United States" in the framework of the negotiations for the North American Free Trade Agreement.

The resolution states that such accords "not only flagrantly violate national sovereignty but constitute a new phase in the looting of our economy, especially in the farm sector, to guarantee payment on the foreign debt. . . . This is a coldly calculated strategy," the resolution concludes, "to cause 60% or more of the producers to vanish from the countryside and to set up a corporatist scheme for dismantling the structure of small owners and the social sector of rural Mexico."

Held six days before the U.S. House of Representatives voted up the free trade agreement, this resolution provides the guidelines for what will have to become the content of the next phase of the mobilization of Mexican farmers, and of the entire country, where discontent has increased explosively because there has been no answer to their demands.

Entitled "The Secret NAFTA Accords Will Wipe Out the Farm Sector and the National Economy," the conference in Ciudad Obregón was organized by the Permanent Forum of Rural Producers (FPPR) and included presentations by activists in the farm movement and experts from both sides of the Mexico-U.S. border, as well as from Australia. The speakers reported on the perverse policy of secret financial accords and introduced a discussion in depth of the proposals of U.S. economist Lyndon H. LaRouche, Jr. in favor of a return to the system of national economy and sovereignty.

'Partners, not competitors'

North Dakota farmer Ron Wieczorek, a leader of the Food for Peace movement, told the audience, "I have come to speak to you not as your competitor, as the usurious international speculator faction would have you believe, but as a partner in the process of feeding and housing the people of the world. . . . I have come to help promote and support an economic policy to save the Mexican farm and economy, because if we don't save your farms, my farm will not survive either, since the same policies are destroying producers in both of our countries."

Wieczorek also said that in the United States, farmers are disappearing at a rapid rate. "The abuses suffered by farmers remind us of the abuse and denial of the right to life, liberty, and the pursuit of production suffered by African-Americans in the United States prior to the Civil War. One of the issues of that Civil War was the independent family farm versus the plantation system and free trade." Wieczorek called on the Mexican farm movement to stand firm on the issues of debt moratorium, a just credit policy, parity prices, and an end to NAFTA.

Next spoke Australian farmer Andrew Bailey, a representative of the Australian Citizens Electoral Council, who evoked an emotional response when he reported how the Australian government's implementation of an International Monetary Fund-dictated free trade policy since the 1980s has driven farmers to the brink of extinction and today threatens the nation's very food supply. He described problems familiar to the Mexicans, such as lack of credit, dumping of cheap imports, depressed commodity prices, and an unpayable debt burden—policies which have led more than 700 Australian farmers to commit suicide in 1992.

An international crisis

Dennis Small, co-editor of *EIR*'s Ibero-American desk, opened his remarks by telling the audience that if they want to understand the voracity with which the Mexican banks are foreclosing on their farms, they must first look at the international strategic situation, and especially the exploding international debt crisis, which has driven the creditors to desperation. He explained that the entire world financial system—East and West—has been collapsing from the late 1980s until today. It has been corroded by drug money and speculation such as the derivatives market, which have spread like a cancer and are destroying useful production.

Small explained that the illegitimacy of the Mexican farm debt is a microcosm of the strangling foreign debt which the international creditor banks have imposed on Ibero-America as a whole.

The NAFTA secret financial accords between the Mexican Central Bank and the private U.S. banks and Federal Reserve, Small said, contain three components: the dollarization of the Mexican economy; total financial deregulation; and, finally, "securitization"—the selling of farm mortgages and other bank notes on stock markets and other secondary financial markets. Small warned that congressional approval of the NAFTA accord spells the end of the sovereignty of the United States and Mexico, *enforceable by treaty*.

Small insisted that Mexico can and must break with this model, adopting instead LaRouche's 1982 "Operation Juárez" proposal, which urges the economic integration of the Ibero-American continent as the only means to protect national sovereignty and foster genuine economic growth.

Small also gave a report on the political persecution of LaRouche and his movement. Commenting that he himself had been a political prisoner, Small described the recent savage prison sentences—from 25 to 39 years—imposed on four LaRouche associates in Virginia on trumped-up fraud charges. In Mexico, a country where the maximum sentence for any crime, including homicide, is 30 years, this report had an especially dramatic impact.

EIR banking specialist John Hoefle reviewed elements of his recent testimony before the U.S. House Banking Committee, chaired by Rep. Henry Gonzalez (D-Tex.). He discussed the folly of U.S. banking deregulation, which has led to the de facto bankruptcy of such financial institutions as Citibank—and yet Citibank and co. have perversely insisted on the same policy for Mexico. He described how the financial instruments called "derivatives" were created to keep afloat speculative bubbles which must be, as it were, continuously fed, and how the NAFTA secret accords are a part of that.

Morality at issue

There followed an intense discussion period on the pros and cons of NAFTA, as well as efforts to grapple with how it is possible that Lyndon LaRouche can be a political prisoner in the United States. Why, asked one Mexican farmer, is there not a public outcry against this injustice? Small said that a key problem in the United States is the erosion of morality, as exemplified by the fact that Americans spend up to 40 hours a week or more in front of their television sets. They allow their intelligence to be degraded by the media, and are being turned into pleasure-seekers, hedonists. Thus, the concept of *imago Dei*—man created in the image of God—is being lost.

When several farmers suggested that the term "speculator" was overused by the speakers, Wieczorek jabbed his finger at a U.S. newspaper article on the richest men in America; the article listed two of the country's billionaires—Warren Buffett and George Soros—as being *by profession* "speculators." This is the model of "success" being offered to my grandchildren, said Wieczorek, and yet there isn't a single person in this auditorium who hasn't produced more real wealth in one month than Buffett and Soros combined in their entire lives. The audience roared approval.

FPPR coordinator Jaime Miranda Peláez's opening words to the conference summed up the sentiment of everyone there: The time for merely protesting or making demands is past. What we are facing is a policy of genocide, pure and simple. Our moral capacity to survive as producers is at stake. Therefore, our task is to grow as a national movement and to challenge and defeat those who would destroy our economy, our nation. "The enemy is not invincible," concluded Miranda Peláez. "We will be victorious because we are obedient to the commandment of God and to natural law."

Tractorcades to resume

Fernando de la Rosa, representing Combat District Number One in Ciudad Juárez, Chihuahua, and Manuel Hernández Villa, representing the United Front of Rural Producers (FUPC) and the Democratic Peasant Front (FDC), of southern Chihuahua, urged the Sonoran farmers to join in a new tractorcade, starting on Nov. 20, to the "El Barzón" National Confederation of Agricultural and Forestry Producers. An El Barzón document announcing that this time, they will march toward Mexico City, at the same time that feeder demonstrations will be gathering in the border cities between Mexico and the United States, picks up some points from the Declaration of Ciudad Juárez, which was signed on Oct. 3 by farmers from Sonora and Chihuahua and later by leaders of the Agricultural Association of Guanajuato, including José Aizcorbe, president of the latter organization, and Jaime Villanueva Nieto, secretary general of El Barzón.

The El Barzón document charges that the restructuring plan for debt arrears offered by the government does not solve the problem and instead "gives absolute powers to the banks," and for the first time takes up the original concept of the Permanent Forum of Rural Producers: that if there is no satisfactory response from the government to the farmers' demands, "we will declare a debt moratorium" until the terms are defined for a "joint strategy of financial reorganization among the government, central bank, commercial banks, development banks, and producers."

No sooner had the Chihuahuan leaders returned to their state than they fulfilled their promise: On Nov. 16, on the eve of the U.S. NAFTA vote, a group of 300 farmers blocked the Santa Fe international bridge in Ciudad Juárez, supported by an organization of farmers from El Paso, Texas. Thirty police in riot gear violently broke up the demonstration, but the next day, the farmers set up another vigil in the main plaza of Ciudad Juárez. In Ciudad Guzmán, Jalisco, José Rámirez Yánez, a leader of the Permanent Forum in that state, held a rally attended by 1,000 farmers and shopowners from the south of Jalisco on Nov. 14, in preparation for the tractorcade to Mexico City. The region's farmers were barely able to plant and they know that they will be further in debt by the fall-winter cycle. Most of them are ready to give up sowing and join the new march on the federal capital.

If and when it occurs, this new march will catalyze even more productive sectors, which is just what the government fears. One sign of things to come is the statement put out on Oct. 28 by the National Association of Transformation Industrialists (ANIT), where it is stated that the proposals of the "Ciudad Juárez Declaration of Oct. 3 . . . essentially coincide with what our association has been doing and hence we want to make known our solidarity with them," at the same time they appeal to the micro, small, and medium industrialists to develop "joint measures" for "all business sectors."

Jaime Miranda Peláez

'Natural law will break the enemy'

Greetings to the Permanent Forum of Rural Producers conference, delivered in Ciudad Obregón, Sonora on Nov. 11, 1993.

In the name of the coordinators of the Permanent Forum of Rural Producers of the state of Sonora, I welcome you all and am certain that the information received from this conference will give all of us a better means of understanding the dimension of the problem and the intentions of the enemy, who clearly seeks to steal our patrimony and destroy our national sovereignty.

The mobilization of the agricultural producers throughout the year, but especially that held in various states since early August, has had a very important outcome. We have been able to create ties between the producers of Sonora and Chihuahua, Baja California and Sinaloa, from Jalisco and Guanajuato and other states of the republic. We have also learned that the main concerns of the agricultural sector are profit, debt, and arrears. But we believe that what we have best learned from this entire process of mobilization and negotiation is confirmation that the federal government's economic strategy is to use the restructuring of the debts in the first phase to do away with 60% of the nation's producers. There is no doubt that what is at stake is our moral capacity to survive as producers, and thereby to guarantee the survival of the entire nation.

Throughout the entire process of negotiations and discussions with the finance and agriculture secretaries, we have repeatedly come up against the argument that the legitimate demands of the producers cannot be fulfilled because the so-called macroeconomic schemes defined by current policy do not allow for the recapitalization of the agricultural sector.

The government's main argument is that we must adapt to the irrevocable world tendency toward economic globalization and to the dynamic imposed by the international markets; and that if this implies the disappearance of agriculture and of other sectors of the economy, so be it, as long as we meet the mandate of joining this globalization process.

The great problem with this, of course, is that if entire areas of the economy disappear, important sections of our population will also disappear. That is to say, genocide. This is the fate of millions of Mexicans who will be displaced from the rural sector, above all those who suffer extreme poverty, the same ones who will supposedly benefit from the so-called "Procampo" program—more properly dubbed by us "Pro-Cemetery."

The question we all must face is: If this idea of globalization demands the ritual of collective human sacrifice, are we going to continue to believe that we cannot do without this theory? I believe it is important for us to discuss this, because this forces us to look more closely into what NAFTA and free trade are based on, to demonstrate how they are essentially genocidal.

If we keep all of this in mind, we will be able to understand the seriousness of accepting globalization and free trade as the natural tendency of civilization. To accept this is to agree that genocide is inevitable. Then we would lose the moral capacity to survive, and we would subject ourselves to the ritual of collective human sacrifice.

That is why the national agrarian movement must transcend protests and demands, and instead come up with a government program for rescuing the national economy. Our movement cannot allow itself to be trapped by demands because these will weaken it, and it will be defeated. Our movement must grow nationally around a proposal for national economy and on the basis of denunciations of those who are planning this destruction of our economy.

I am confident that this conference and discussion process will also contribute to helping us understand that the enemy is not invincible; that despite his power, he must take on an ally of ours, which is natural law. The implacable force of natural law will break the enemy and his corrupt institutions. We will win because we obey the mandate of God and of natural law.

Thank you.

Ten trillion dollars, and counting

New estimates of the swaps and derivatives markets are coming in at almost double previous ones.

Two recently released studies, on the size of the swaps market and on how deeply involved the major U.S. commercial banks are in the financial derivatives markets, indicate that the derivatives markets are even larger than previously believed.

On Nov. 16, the London *Financial Times* reported that a New York City publication named *Swaps Monitor* had conducted a survey of the swaps market, and concluded that the notional principal amount of swaps outstanding is more than $7 trillion, not $4.5 trillion, as reported by the International Swap Dealers Association (ISDA).

The Comptroller of the Currency now estimates the exposure of the 10 largest U.S. banks at nearly $10 trillion.

Swaps are financial transactions in which two "counterparties" agree to exchange two different financial obligations or financial assets that are based on two like-sized but differently denominated and/or differently capitalized principal amounts. For example, company A might give a stream of floating-rate interest payments to company B, receiving in exchange a stream of fixed-rate interest payments from a debtor of B. Or, A might give payments denominated in German marks to B, in return getting payments in U.S. dollars from a debtor of B.

The major commercial banks that arrange these swaps between A and B are the "swap dealers." These transactions are some of the "off-balance-sheet liabilities" that large commercial banks have rushed into since the market meltdown of October 1987, and even before. They are "off-balance-sheet" because they are not loans, and therefore are not carried on the banks' balance sheets as assets.

These transactions are "liabilities" because the swap dealers usually don't find two counterparties to a swap. What the dealers (read, banks) usually do is pocket the up-front fee for writing the swap, assume the obligation of the second counterparty, and "inventory" the swap; that is, maintain the obligation until a second counterparty *is* found. In the June 15 *Wall Street Journal*, Martin Mayer revealed that the dealers/banks have been paying "incentives" to financially pressed companies to become the second counterparty in many swaps.

Swaps Monitor took the $4.5 trillion ISDA figure as a base, and added the swaps done by non-ISDA members. The new figures come to $6 trillion of interest rate swaps, and $1.1 trillion of currency swaps.

According to the *Swaps Monitor* survey, the largest swaps dealer in the world is J.P. Morgan, with over $450 billion in swaps outstanding, followed by Paribas and Chemical Bank. Of the top ten dealers, seven are U.S.-based, and three are French. The largest British dealer is Barclays, which was number eight in the interest rate swap market, with $247 billion.

In fact, the *Swaps Monitor* data is probably understated. In hearings before the House Banking Committee, chaired by Rep. Henry B. Gonzalez (D-Tex.), on Oct. 28, the Office of the Comptroller of the Currency (OCC) released figures showing that Morgan had $592.063 billion of swaps outstanding as of June 30, 1993. Morgan's total portfolio of all derivatives (financial futures contracts, options, warrants, and other sundry instruments, in addition to swaps) had grown from $1.014 trillion on June 30, 1992, to $1.537 trillion on June 30, 1993. That is an increase of 51.6% in just one year.

According to OCC data, Morgan's derivatives were only the fourth largest of U.S. commercial banks. Chemical's was the largest, $2.114 trillion, up 63.1% from a year ago. Bankers Trust was second, with $1.802 trillion, nearly double the $958 billion of a year ago. In third place was Citibank, whose derivatives had grown 25.5% in a year, to $1.789 trillion. Following Morgan, were Chase Manhattan, with $1.026 trillion; Bank of America, with $894 billion; First National of Chicago, with $457 billion, and Continental Bank, with $170 billion.

Altogether, the derivatives activities of the eight largest U.S. commercial banks have grown 42.9% in a year, to $9.788 trillion.

The banks argue that the notional principal amount is misleading, because only the payment streams are subject to risk, not the underlying principal. The OCC figured what the banks' "worst-case total credit equivalent exposure" (Wctcee) was from their derivatives activities, which was about 1.5% of the notional principal amount. But even these numbers overwhelm banks' balance sheets. Chemical's exposure of $31.9 billion, for example, is 268% of its total capital. Bankers Trust has an exposure of $29.5 billion, 571% of its capital base. Citibank's exposure of $38.2 billion is 230% of its capital; Morgan's exposure of $37.9 billion is 458% of its capital; and Chase's exposure of $23.0 billion is 269% of its capital.

Business Briefs

Italy

Government rejects steel cuts ordered by the EC

Negotiations broke down on Nov. 18 at the European Community Industry Commission after the Italian delegation, led by Industry Minister Savona, refused to accept cuts in steel production capacity of 2 million tons as demanded by EC Commissioner Martin Bangemann. The cuts, if enforced, would end any possibility for the state-owned steel company ILVA to stay in business.

The cuts would be concentrated in the city of Taranto, and would involve closing three steel mills. A last-minute compromise offered by the EC, of "allowing" Italy to purchase 500,000 tons on the international market, was also rejected by the Italian government. One EC bureaucrat said it was "the darkest day in the history of the European Community." Italy is the second largest steel producer in Europe after Germany.

Meanwhile, industrial production in Italy fell 3.8% in the first 10 months of 1993, compared to 1992.

Infrastructure

La Malfa repents, calls for new investment

Giorgio La Malfa, the son of Ugo La Malfa, both supporters of International Monetary Fund austerity policies in Italy, repudiated his previous insistence on cutting the federal budget deficit and called instead for investment in big infrastructure development projects, in a commentary in the Nov. 18 issue of the Milan daily *Corriere della Sera.*

Headlined "I Repent, Employment Is Worth Some Debts," La Malfa wrote: "Without a radical turn in the country's economic policy, industrial crises and unemployment are fatally destined to rapidly worsen and can become the trigger for a serious social crisis. . . . The main difficulty in defining this policy is due to the disastrous conditions of the state budget. . . . If one stops at that, there is no way out. Instead, one must have the extreme courage of identifying and applying immediate therapies. The main way is to support employment through supporting companies that generate employment in market conditions. . . .

"One could regulate interest rates, not only through their general reduction, but also through studying ways to benefit banks that offer medium- to long-term loans for financing new investments at moderate interest rates. . . . We should use the leverage of investments in big infrastructure projects, especially those at the highest technological level. One can avoid using only direct state investments, for example, by . . . giving firms or groups of firms the task of building certain classes of public works able to produce, through tariffs or tolls, an income flow in sectors like electricity production, telecommunications, transportation. . . .

"I realize that all this cannot be done without increasing the state budget, and that in doing so, one will sacrifice, for a certain period, the moderate targets of deficit containment which have been pursued in the recent period. But . . . my opinion is that all this should be at the center of an extraordinary national effort . . . to get out of the crisis."

La Malfa, who resigned last year as secretary general of the Republican Party because of investigations by the Milan "anti-corruption" prosecutors, is close to Armando Corona, the head of the anti-British masonic faction in the Italian Grand Orient, and to Industry Minister Savona.

Health

WHO calls for funding increase to combat TB

A vast funding increase is needed to combat tuberculosis, the World Health Organization said, Reuters reported on Nov. 15. Curing TB is highly cost effective, WHO noted.

"Tuberculosis is the world's most neglected health crisis. How can we ignore a germ that already infects one in every three people on the planet?" asked Dr. Arata Kotchi, head of the WHO TB program. An estimated 3 million people die each year from TB.

"In some parts of the world, the cost of curing TB is as little as 90¢ for every year added to the patient's life," according to a WHO report on the TB pandemic. But, despite this, TB control received only one-tenth of 1% of all aid given to developing countries last year. WHO warned that TB may become incurable, if efforts to control it are not stepped up to meet the challenge of new drug-resistant strains.

Labor

European strike wave continues to grow

A wave of national labor strikes in Belgium, which began on Nov. 15 and is expected to continue until the European summit on Dec. 10-11, is the more spectacular side of a European-wide pattern of labor protests.

In Germany, mine workers in both eastern and western parts of the country are continuing road blockades on a daily basis, and steel workers are expected to react to announcements of another 50,000 layoffs by the end of 1994. In northern Germany, farmers are protesting a European Community ruling that up to 1 million pigs must be slaughtered because of an epidemic among the animals. Farmers feel the EC decision is based on a bureaucratic approach.

In Spain, national unions have joined in protests against the planned closing of the SEAT plant with 10,500 auto workers, and a "day of action" was staged in Barcelona on Nov. 17. A week earlier, 30,000 took part in a protest rally there.

In France, public sector workers held a "day of action" on Nov. 18.

Barge-owners from several European countries are continuing blockades of the Rhine and Main rivers in Germany, protesting plans for further deregulation of continental waterway transport.

Miners in Ukraine are demanding drastic wage increases or the deregulation of coal prices, and the resignation of President Leonid Kravchuk. They are also calling for greater self-rule for the Donbass coal region.

In Italy, steel workers demonstrated in Taranto on Nov. 16 to protest the EC ruling that Italy must cut steel production by 1.7 million tons. In Rome, 50,000 construction workers demonstrated on the same day, bringing city traffic to a halt for a second day. Some 120,000 construction jobs have already been lost in Italy in 1993. Traffic wardens also went on strike in Rome, and there was a 24-hour strike of train conductors.

In Denmark, airline pilots struck all airports, with support of ground crews. They are protesting the merger of Scandinavian Airlines with the Swiss and other national airlines, which will mean layoffs.

Agriculture

Hunger will increase until 2000, says FAO

Hunger and malnutrition will increase, especially in Africa, until the year 2000, according to a study by the U.N. Food and Agriculture Organization entitled "Agriculture Until the Year 2000."

"The problem of undernourishment will move from South Asia toward Africa south of the Sahara," the study says. Between now and the year 2010, the number of people not getting enough food in Africa will increase from 180 million currently to 300 million, which, it is estimated, will be 32% of the population.

Ironically, as the study points out, the biggest reserves of fertile land exist in Africa south of the Sahara and in Ibero-America.

Russia

Outcry grows against 'shock therapy'

St. Petersburg Mayor Anatoly Sobchak and Russian Deputy Prime Minister Aleksandr Shokhin attacked International Monetary Fund (IMF) "reforms" and shock therapy in recent remarks.

Shokhin, also leader of the Party of Russian Unity and Harmony, warned on Nov. 18 that the government's economic policies are leading to soaring unemployment and social unrest, and might pave the way for a communist return to power, UPI reported. Shokhin said latent unemployment in Russia had now reached 6-7 million, and warned that "whole regions of Russia could turn into zones of social catastrophe." The government's obsession with fighting inflation and reducing the budget deficit is hastening industrial decline and creating social tensions which could erupt into mass unrest, he said. He added that the government should "move ahead with economic reform more carefully, more scrupulously so that people don't get disillusioned and give their votes to communists and left-wing radicals."

Sobchak, in an interview with the German weekly *Stern,* warned that a continuation of shock therapy policies will ruin Russia. If it is to recover, it must turn to policies "different from that of the Chernomyrdin government which just liberalized the bread prices," he said. "Any attempt to repeat the shock therapy of the former Prime Minister Yegor Gaidar will cause the death of the patient."

Raw Materials

Deep sea vents are rich in minerals

Huge hot rock chimneys in deep sea vents have been found to concentrate the minerals dissolved in sea water, and provide an excellent source of iron, copper, zinc, gold, and silver, according to the *New York Times* on Nov. 16.

Thus far, the vents have not been commercially mined because of the expense of working under very high pressure along the ocean floor, where very hot deep sea vents mix with very cold ocean water. Nonetheless, the discovery of this phenomenon has tranformed geologists' understanding of how polymetallic sulfides form, enabling them to predict more readily where mineral deposits can be found.

Deep sea vent bacteria, called hyperthermophiles because of their ability to withstand temperatures of 220°F and, in some cases, even 700°F, have become a major source of profit for biotechnology companies. High-temperature enzymes, cloned and extracted from such bacteria, may replace many current industrial catalysts in the future.

Briefly

● **RUSSIA** postponed a flight to change the crew on the Mir space station until January, to save money, *Aviation Week* reported Nov. 15. It also reported that a European think-tank, Euroconsult, projects that the Russian aerospace industry will cut as many as 95,000 jobs by the end of the 1990s. Employment is already down 71% from the late 1980s, and is 295,000 jobs.

● **VENEREAL DISEASES** are undergoing a dramatic increase, doctors at Johns Hopkins University in Baltimore warn. More than 250 million people every year worldwide are afflicted with syphilis, gonorrhea, and another 20 diseases which are transmitted by sexual intercourse. Their risk of becoming HIV-infected, is said to be nine times higher.

● **THE ISRAELI** state-owned agricultural company Agridev Agricultural Development Co. has signed an agreement with an American-Arab group in Washington to be involved in planning, training, operating, and managing projects in Bahrain, Kuwait, Jordan, Lebanon, Morocco, Oman, Qatar, Saudi Arabia, Syria, the U.A.E., and Yemen, *Israel Business* reported on Nov. 18.

● **BRAZIL** launched its first domestically built submarine on Nov. 18, only one of 16 nations to do so. The *Tamoio,* built by the Navy for $75 million, will go into service in January.

● **CHINA** and Germany signed 20 business contracts and government agreements worth $2.8 billion Nov. 16, Xinhua News Agency reported. Among them are China's purchase of six Airbus planes and a contract for Siemens Co. to build a subway in Canton. On Nov. 17, the value of the deals was estimated to be $4.15 billion.

● **ULTRAVIOLET LIGHT** reaching the earth in Canada over 1989-93 increased, two scientists have found. But both cautioned against concluding that the increase was created predominantly by CFCs.

Globalization wrecks industry and labor force

by William Engdahl

This report is part of a larger study on the economic crisis in Europe, which is soon to be published in German by EIR Nachrichtenagentur.

Introduction: trade war and the globalization process

The process of collapse which has cut across European industry in recent months, from the German automobile branch, to French aerospace, to the Italian machine tool sector, is unlike any economic dynamic faced in Europe in the past century and a half. Not only is Europe entering into a crisis unlike any other in the post-1945 period; the unfolding crisis today is in no way comparable even with the Great Depression of the 1930s in Europe and the United States. Lack of recognition of the fundamentally different nature of the current crisis, makes the situation especially dangerous for the future stability and social well-being of all Europe, to say nothing of the rest of the world.

The entire European productive base is now threatened in a new global trade war, under way for some seven to eight years, since approximately the mid-1980s. Unlike the trade wars of the 1930s, today's trade war pits huge multinational corporations against the economic sovereignty of nations and entire groups of nations, both in the industrialized nations of the Organization of Economic Cooperation and Development (OECD) and in the developing economies.

The weapons of this new trade war are debased national currencies, devalued on orders usually of the International Monetary Fund (IMF), and cheap labor "dumping," to produce rival goods for the OECD markets at prices drastically below their cost of production in the OECD economies.

This new trade war is a direct consequence of a wrong economic development policy of the major industrial countries, most especially the United States and

A trade union demonstration in Dortmund, September 1991. Dortmund is in the Ruhr region, formerly the heartland of German steel production. The workers' signs demand that the Hoesch steel plant and VEW electricity works remain in Dortmund. Hoesch is building steel plants in Shanghai, China, while closing its domestic production facilities.

Great Britain, toward the Third World debt crisis of the early 1980s. The net effect of that wrong policy has been to blacklist the most promising economic development potentials for capital goods export from the OECD to the developing countries, while the advanced industrial nations' industry has been forced into a cutthroat competition for one another's markets as a substitute. Perhaps the most extreme form of this distortion of the natural development process has been the redirection of Japanese industry after 1982, away from development in Mexico, Brazil, and certain African economies, toward massive penetration of the U.S. consumer market for autos and electronics.

Advised by economic institutes steeped in postwar monetarist methodology, governments in Bonn, Paris, Washington, and Tokyo, if they act at all, blindly apply the remedies appropriate to typical postwar recessions, in effect throwing gasoline onto a fire. The policy recommendations of every major economic institute within the industrial advanced nations—from the Hamburg Institute for Economic Research (HWWA) and the Institute for Economic Research (IFO) in Germany, to the Royal Institute for International Affairs in London, the OECD Secretariat in Paris, to the IMF and World Bank—all are distinguished by their manifest incompetence to deal with the dimensions of the current global crisis, or in many cases, even to admit that there exists any unusual problem.

Europe and the other industrial nations are experiencing a second generation of academically trained economists, steeped in the postwar ideologies of a monetarism detached from real technological and productive reality. What appeared to "work" in economic policy in the 1970s or 1980s, worked, not because of these economists, but because of the efforts of an earlier generation in applying principles of productive industrial and technological investment after 1945, to rebuild western Europe into one of the most productive regions on earth.

Governments today have all but abandoned any concept of the informed guiding role of state industrial policy. In countries such as Germany—not to speak of Britain and the United States—advocacy of "industrial policy" is regarded as virtually a capital crime. Ironically, in effect by promoting the General Agreement on Tariffs and Trade (GATT) and other free market measures, current Bonn policy has been the most radical version of "industrial policy," but a wholly wrong one, of encouraging globalization by default.

The speculation fever

The rush of European governments and corporations into the globalization process in the past months is symptomatic of a deeper problem which has become epidemic since the first oil shocks of the mid-1970s. More and more capital flows into projects which promise the most rapid and highest short-term return. Large pension funds or global banks pour billions into the German or French stock market in order to make a huge profit, resell and get out, all in a matter of weeks or even days. Since the mid-1970s, long-term infrastructure investment by governments has dropped precipitously in the OECD. Corporations which previously viewed their strategy in terms of a 10-year or even 20-year long-term perspective, today are fixated on winning maximum profit in the next three months. Governments for the most part have steadfastly refused to intervene with any meaningful counter-policy, finding it easier to leave developments to the "free market."

All OECD governments have buried themselves in a mountain of public debt, created since the great inflation of the 1970s oil shocks, and the accompanying asset inflation in real estate and financial securities. In Europe, this problem of public debt has been further compounded, as politicians have stubbornly refused to rethink the absurd requirements of their Maastricht Treaty for the monetary and social union of Europe. The demands of Maastricht, recently affirmed by the German Constitutional Court, will impose the most severe budget austerity in history onto Europe, just as its national economies are going into an economic free fall, with no bottom in sight.

The 'globalization' process

To a significant degree, final approval of the disputed GATT Uruguay Round trade talks, and the North American Free Trade Agreement among Canada, the United States, and Mexico, are of secondary importance to the dynamic now shaping the ongoing economic collapse within the OECD economies. Using the background of the GATT and NAFTA trade liberalization pressure, multinational companies have *already* begun acting as if those global trade agreements were reality.

A process of industrial "globalization" by multinational giant companies of the OECD, under pressure to maintain profit levels under conditions of collapsing world markets, has been under way over the past decade, starting in the Anglo-Saxon economies of North America and Britain. The largest companies, and various economic studies they have financed, have made the argument that "free trade" inevitably increases the wealth of a country or group of countries, thereby raising the standard of living for all. Armed with this argument, these giant corporations have convinced most of the governments of the OECD today that "what is good for Daimler-Benz, or General Motors, is good for the country," to paraphrase former U.S. Defense Secretary Charles Wilson. This is not at all the case, as this report will argue.

This global shift in manufacturing investment has taken place with little appreciation by the corporations' home governments, as to what scale of domestic unemployment crisis was to follow from this industrial globalization process.

Unlike the relatively small moves by certain large companies during the 1970s and early 1980s to establish occasional local production in a Third World country to service a local market, for example, the license with a Mexican automaker to assemble the discontinued Volkswagen "beetle" in Mexico or Brazil, the phenomenon of globalization is qualitatively different. Manufacturing is being shifted south to cheap-labor, low-overhead regions for re-export, ultimately back to the industrial country markets previously served by production in Germany, France, the United States, or Japan.

To indicate how the major London and New York financiers view this globalization process, it is instructive to cite a recent client investment paper of the leading Anglo-American investment house Morgan Stanley and Co.: "The world is awash with workers. Germany and Japan have increased manufacturing employment during the past [business] cycle. Germany did it by producing perfectly engineered products, such as cars and trucks and engineering goods, which even Mercedes says it cannot now sell, because its labor costs too much ($24 per hour). So it is going to make down-market cars with help of some nice, reasonably cheap Koreans. Moreover, the trains to Shanghai are full of peasants looking for jobs at 2-5¢ an hour, and they matter in a globally integrating economy. China received foreign direct investment commitments worth $15 billion in the first half of last year."

The Morgan Stanley review continues: "Unemployment is 15% and rising in eastern Europe, where labor costs $1-2 per hour, and is highly educated to boot. Hidden unemployment in the former U.S.S.R. is probably 20% and labor costs 20¢ an hour. There is massive overcapacity in manufacturing in which Japan and Europe invested during the last cycle. This is leading to another crescendo of labor shakeouts in global manufacturing. All this must lower the share of wages in national income."

Not surprisingly, Morgan Stanley and other leading financial firms seeking the mega-profits from guiding capital investment in such labor flight to cheap-manufacture regions, praise the globalization process. Why? It will be "good for inflation." But Morgan Stanley neglects to add that industrial depressions usually do bring low inflation!

In Germany to date, despite all the clear warning signs of what is under way, including the decision by Daimler-Benz to cut the work force by some 40,000 and begin to base manufacturing of cars for the first time outside highly skilled Germany, not one prominent political figure or economic institute has pointed to the long-term implications of this globalization trend.

The globalization process was first launched in the English-speaking economies during the early 1980s, during the period of financial and trade deregulation of the Thatcher and Reagan governments. As the deliberate mishandling by Washington and London of the Third World debt crisis after 1982 destroyed region after region in the developing world for traditional capital goods export from OECD industry, the world of long-term trade began to shrink dramatically, and the largest industrial powers turned their energies to fierce competition within each other's markets, rather than building new healthy industrial markets abroad.

Over the past three years, as continental European economies have also entered deep economic crises, the globalization process has begun to affect the industrial base of the traditionally more conservative continental economies as well, with breathtaking speed. "Cost-reduction" and "competitiveness" have become all-dominating goals of company after company in continental Europe, following their American counterparts down the path to economic upheaval and destruction of the national economic fiber in the process.

The "solution" of the large multinational companies to their suddenly huge corporate losses is more radical than anything during the earlier crises of 1981-83 or even during the 1974-75 oil shock. The crisis in European industry is *not,* for these companies, one of lacking advanced technology for production, but one of collapsing profitability. Today, European big industry has already invested in the most advanced state-of-the-art technology to enhance production profitability. French, German, and Italian auto production today already operates with the most advanced robotization, laser welding, computer-aided manufacture technologies. European steel production, especially German, is already converted to the most efficient continuous-casting technology. As these large multinational industry groups view it, their only recourse to increase profits now, is to slash variable costs dramatically through a process of globalization. Governments sit paralyzed, watching the destruction of entire national economies, in this cost-cutting frenzy.

This has become symbolized by the controversy around J. Ignacio Lopez at VW in Germany, and what he terms the "Third Industrial Revolution." This has now become the mode in every major French and German firm: "down-sizing," i.e., huge cost reduction, massive personnel cuts, forced wage give-backs, and foreign cheap-labor "out-sourcing" or relocation of the multinational's manufacturing base to low-wage regions in the United States, Taiwan, Malaysia, or the free zone coastal provinces of China such as Guandong province.

The effect of this can only be compared to a supersonic boom or shock wave in aerodynamics, whose existence is all but invisible, until the velocity is reached at which the wave front produces a sonic boom, or what physicists term a nonlinear effect.

Similarly, the first cautious moves by industrial companies developing foreign production bases, a process led by American companies in the 1970s and 1980s, appeared initially to produce beneficial effects. So long as smaller industrial economies such as Sweden or Switzerland were the only ones pursuing some form of global strategy, the scale of the process was somewhat contained, and even appeared beneficial. But over the past five to seven years, every major OECD industrial economy has plunged headlong into the globalizing process, altering the scale of the phenomenon entirely, and making apparent problems that were never hitherto appreciated.

The world is already now in the deepest economic downturn since the 1930s, and precisely those nations which have led the push to deregulation and financial liberalization, which have most encouraged globalization of their national industry, are the ones in the deepest crisis. There is a direct relation between the two processes.

Most big companies, especially in continental Europe, had embarked on the globalization path with caution, until the past two years. But the process had been gradually advanced by an intensifying series of external "shocks," from the U.S. dollar shock of August 1971, to the 1973-75 oil shock, to the 1979-82 oil and interest rate shock of Federal Reserve Chairman Paul Volcker. In the 1980s, the globalization process was halted significantly during the early years of the Third World debt crisis. But by 1989-92, the process had resumed with a vengeance, taking advantage of the unprecedented forced-market liberalization in many desperate Third World countries starved for foreign capital.

A January 1993 OECD research study, "Global Industries and National Policies," notes that the scale of industrial corporate globalization by U.S. and European Community (EC) multinational companies has grown so large that now, "much of what passes for 'foreign' trade consists of movements of goods and services 'within' globally organized industrial companies. The development of global production and 'sourcing' is transforming industry, and changing the foundations of many national policies and their effects on domestic industries."

The OECD Secretariat has created a special task force to advance the process of globalization, called the OECD Forum for the Future, which generates numerous "scientific" studies used to convince governments and national economists to back the revolutionary change. On the board of directors of the OECD Forum for the Future are top figures from Swiss Sulzer AG, General Motors, IRI's Romano Prodi, IBM Germany, and Britain's Unilever, among others. In short, the companies most committed to globalization.

Already by 1985, the combined sales of the world's 200 largest multinational global corporations, almost every one in the United States, EC, or Japan, were above $3 trillion. By 1992, the U.N. Conference on Trade and Development, in a study of global companies and trade, estimated that multinational corporations had foreign sales worth $5.5 trillion. Fully one-third of all world trade in 1992 according to the UNCTAD study, was "intra-firm" trade within a multinational and its foreign affiliates.

The lack of capital investment

This is the ultimate reason that during the current crisis in Europe, unlike any in recent memory, there has not been any significant capital investment, always the normal precursor to ultimate industrial recovery, and the reason also that companies have been cutting domestic European work forces, closing production plants at record rates, and all this permanently.

The same pertains far more to the American economy,

Allais blasts OECD's free trade fraud

The following are excerpts from a two-part article by French Nobel Prize economist Maurice Allais, published in Le Figaro *Nov. 15-16. The article is a critique of an influential World/Bank OECD study, "Trade Liberalization: Global Economic Implications."*

I want to warn against the conclusions of this study, which are based on a highly controversial model of world trade, above all on an incorrect estimation of the gains possible from global free trade. . . .

How do we correctly evaluate the order of magnitude of real costs of agricultural subsidies? We must distinguish between the volume of subsidies and the *real cost* to the economy because the subsidies go to create real physical income to the economy. The proper evaluation of this real cost of subsidies is one of the most difficult questions of economic analysis. . . .

I use the illustration of the case of agricultural subsidies for France in 1990. The calculation leads us to conclude that in this case the real cost is approximately 24 times *less* than the total amount of the cost of subsidies, and about 170 times less than the total agricultural production of France. This cost is extremely small. It represents only 3 ten thousandths of 1% of the GDP of France!

This evaluation may at first amaze people, because current opinion has identified cost of subsidies with the total amount of subsidies to agriculture, that is, the total amount of revenue transfers to farmers. But these are totally incomparable quantities. . . .

One can conclude that the method of the World Bank/OECD study is totally erroneous, and this holds also for all evaluations the study makes of gains in world trade. Given the uncertainty of which I spoke in my first article regarding the basis data used by the World Bank, I must conclude that all evaluations presented in the World Bank study are exaggerated by a factor of between 100% and 1,000%. . . .

The World Bank and OECD bear much of the responsibility for the drive for trade liberalization. The World Bank prediction of enormous "gains" to the world economy is intended to influence political policy, using the mask of pseudo-science, which can only fool the naive. To make decisions which have great consquences for many tens of millions of people in the world based on such conclusions, would be ludicrous. The World Bank report is a gigantic mystification on behalf of a simplistic ideology, the ideology of dogmatic and uncontrolled free trade.

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where the globalization process has been under way since the early 1980s. The process is even given a euphemistic name, "down-sizing," and inevitably produces a rise in the stock market each time a huge company such as General Motors or IBM announces draconian austerity steps. It also dramatically increases the burden to taxpayers of supporting a growing army of unemployed, and replacing their lost tax revenues.

Most of what investment has taken place in the world over the past two or more years, has gone to the cheap-labor havens of Southeast Asia, Guandong province in China, or special free trade zones such as Mexico's *maquiladoras,* at levels in excess of $40 billion annually, expected to reach $80 billion in several years.

But there is a qualitatively new feature to this investment. It is entirely different in character from the kind of investment large German or French or American companies made abroad in the 1960s or 1970s, where sources of needed raw materials were secured for domestic manufacture, or foreign market presence established in developing markets for advanced capital goods made in Europe.

Unlike the development of so-called multinational corporations over the past 30 years or so, the new "global corporation" has a view of both production and markets, entirely independent from any ties to a single country. The moment a particular location becomes unprofitable, it is either closed or forced to meet the profit levels of the most profitable low-wage production center. Skilled German machinists now must compete with Malaysian or Mexican workers who are willing to work with little or no health or pension benefits, no job security, at wages well below the equivalent of DM 19 ($11) per day, that is, DM 380 ($223) monthly. The traditional German excellence of small, highly skilled *Mittelstand* machine parts manufacturers, which supply large industry, is threatened existentially, with this new "out-sourcing" trend of industrial globalization.

The cumulative result of these pressures is that the industrial manufacturing base of the world economy is moving, wholesale, out of Europe, Japan, and North America, to relocate in these cheap-labor areas of the underdeveloped world. It is not only former East Germany which is facing deindustrialization; today it is western Germany, France, and the advanced industrial economies of the entire European Community, which are at the edge of a cataclysmic change whose end result will be deindustrialization. The recent decision of VW to close its modern auto production in America and to ship the parts to Shanghai, China to build new production facilities, is paradigmatic of this.

The economic liberalization of the past decade in less developed economies, the elimination of earlier national restrictions to investment, have opened the floodgates to this process. That liberalization, as we shall discuss below, has been forced on Third World countries by the IMF, World Bank, and GATT. Liberalization of world financial markets has paved the way for this industrial globalization over the past decade.

GATT, the IMF, and the World Bank

Like many unfortunate innovations in the postwar economy of Europe, the recent push toward globalization of industry comes from American and British free trade advocates, led by the international banks and large "globalized" financial houses such as Citicorp, Morgan Stanley, Merrill Lynch, Chase Manhattan, Goldman Sachs, Barclays, Barings, S.G. Warburg, and Hong Kong-Midland banks. Since the momentous decision by Parliament in 1846 to repeal domestic "Corn Laws" protection of English farmers, British trade policy has almost consistently backed a mythical goal of "absolute free trade," putting forth the claim that each country was essentially equal to every other.

As Britain and her empire dominated the world terms of trade up until about 1914, this policy greatly benefitted British banking and large trading and shipping interests. In the decades after 1846, Britain was able by reason of her economic dominance to impose its agenda of "free trade" on other European nations one by one, starting with France, and including Germany. Only with the Great Depression of the 1870s, a depression caused by the dependence on British terms of "free trade," did Germany decisively break with the British trade model, and turn to national economic protectionism on the earlier model outlined by Friedrich List. The ensuing flourishing of the German industrial economy after 1879 is testimony to the efficacy of List's national economic development strategy.

After World War II, with the British and American shaping of the so-called Bretton Woods system in 1944-45, the rules of the game were carefully drafted to benefit the dominant economic postwar power, the United States, and to an almost equal extent, Britain. Bankrupt England with her Commonwealth of Nations cleverly insinuated herself underneath the American coattails at Bretton Woods, to forge what could then be called an "Anglo-American order" in the postwar era.

Following a September 1986 meeting of government ministers from the 96 nations of GATT in Punte del Este, Uruguay, the current Uruguay Round of trade liberalization talks began. The initial framework of the Uruguay Round was drafted by a special GATT commission set up in 1983, under the chairmanship of Fritz Leutwiler, then head of the Swiss National Bank and the Bank for International Settlements. The Leutwiler recommendations were the basis of the new round, and the central theme was radical market liberalization in all areas, and elimination of any and all state subsidies, whether to agriculture or industry. It was the eighth major negotiation since GATT began, and the most ambitious. The deadline for completion of the trade talks was originally set for Dec. 31, 1990, since extended several times, the latest being a "final" date of Dec. 15, 1993.

Unlike earlier GATT rounds, such as the Kennedy Round during the 1960s, or the Tokyo Round during the late 1970s, for the first time, the issue of agriculture trade was included, along with a call for elimination of trade "barriers" in related services, including financial services, intellectual property rights (patents and copyrights), and textiles.

GATT, as an instrument for forcing open protected national markets, was seen especially by the United States after the debt crisis of the early 1980s, as the vehicle for the stronger industrial nations to press their relative economic and trade advantage onto less developed economies, in order to gain increased markets, and profits. Bush administration Trade Representative Carla Hills, a strong backer of the Uruguay Round, told a Senate Committee, "I would like you to think of me as the U.S. Trade Representative with a crowbar, where we are prying open markets, keeping them open, so that our private sector can take advantage of them." It is not without justification that GATT has been termed by developing countries, "The Rich Man's Club."

Should the Uruguay Round agenda be accepted as law by the now more than 100 member-nations of GATT, it would change the trade relations in the world economy. But not in the way the citizens of Germany, France, and the rest of the industrialized nations are being told.

The GATT agenda has been designed to further a cartelization of the entire world economy and trade, into the handful of giant multinational global industrial, banking, and service companies, unlike anything before experienced.

As a case in point, by eliminating the EC agricultural subsidy, the only significant export rival to the United States, the EC countries, especially France, disappear as global market competitors, as EC subsidy cuts demanded by GATT force acreage reduction and crop reduction. This leaves world food trade firmly in the hands of three or four American grain and agriculture trade multinationals—Cargill, Continental Grain, ADM-Töpfer, and ConAgra—which already dominate global agricultural trade to a large degree. The French government has rightly protested over destroying the economic basis of European agriculture, the backdrop of political stability and food self-sufficiency for hundreds of millions of people, merely in order to strengthen the grip of giant global American grain companies on the world market.

The decision to place agricultural trade at the center of the Uruguay Round grew out of the work of a little-publicized Task Force on Agricultural Policy and Trade, of the Trilateral Commission, a secretive but influential private lobby created by Chase Manhattan Bank's David Rockefeller. The European chairman of this American Trilateral group is Count Otto Wolff von Lambsdorff, past head of Germany's pro-free

The Bush administration's U.S. Trade Representative, Carla Hills: "I would like you to think of me as the U.S. Trade Representative with a crowbar, where we are prying open markets, keeping them open."

trade, liberal Free Democratic Party. Most of the members of the Trilateral Commission are heads of the giant multinationals of North America and Europe and Japan, who back the globalization process.

The fact that GATT adopted this Trilateral task force agenda is not surprising. On the Trilateral task force were top executives of American grain companies, including Central Soya (Ferruzzi); Quaker Oats Co.; Clayton Yeutter, then president of the Chicago Mercantile Exchange; Albert Simantov, agriculture director of the OECD; and Art de Zeeuw, chairman of the GATT Committee on Trade in Agriculture. In addition, heads of Cargill and ADM-Töpfer were on the Trilateral Commission itself. Reagan trade official William Brock framed the initial U.S. agenda for the GATT talks in 1983-85. Brock was also a member of the Trilateral Commission.

The Trilateral task force laid out a program of action for elimination of all agricultural subsidies by the United States, EC, and Japan. Its September 1985 report, "Agricultural Policy and Trade," declared that "the internal cost of farm programs in the Trilateral countries have become more politically salient . . . domestic programs must become more market oriented . . . over time, the levels of protection should be significantly reduced, and domestic producers faced with some degree of competition from the international markets."

The fallacy of 'global market price'

The Trilateral "market-oriented" demand for world agricultural trade was based on a clever fraud. There exists no such thing as a "world market price" for grains or any other commodity. There are literally hundreds of thousands of local, or regional "market prices" around the world, depending on complex relations between buyer and seller. But, as with the Anglo-American monopoly cartelization of world oil since the late 1920s, the same powerful interests seek to establish a global monopoly on food supply for the first time in history.

The concept of a "global market price" was insinuated into economic analysis during the decade of the 1980s, not only in agriculture but in auto production, steel, and every branch of industry. Such a concept flowed out of the creation of "globalized" financial speculative markets during the 1980s. The net effect of this global market price fraud is the destruction of entire national industries across the world. We shall investigate this effect more below on a country-by-country basis.

The world's largest grain trader, Cargill, has long controlled U.S. government agriculture policy. In 1985, when Washington was preparing its agenda for the Uruguay GATT Round, the agriculture demands modelled on the Trilateral task force's "market-oriented" free market proposal, were drafted by Assistant Secretary of Agriculture for International Trade Daniel Amstutz. Amstutz spent 25 years as a senior executive for Cargill, before running U.S. government policy on international agricultural trade. At that time, the U.S. Special Trade Representative was Trilateral task force member Clayton Yeutter, later George Bush's agriculture secretary.

The model being advocated in agricultural globalization is similar to that for other industries and services: It enormously benefits the monopoly formations or cartels internationally, furthering the concentration of financial and industrial power, beyond any semblance of national government regulation.

The argument is used by advocates of the GATT liberal trade process, that a GATT "failure" would trigger trade war and retaliatory tariff blocs, and a world economic depression similar to the 1930s after the U.S. Smoot-Hawley Tariff. There are two flaws in this argument. First, the Smoot-Hawley Tariff, signed into law in early 1930 by President Herbert Hoover, had little impact on world trade. It has become a convenient scapegoat for advocates of today's GATT process of free trade and open markets. The international depression of the 1930s and the collapse of world trade and industry had their origins in the collapse of the short-term credit pyramid, constructed on the foolish Anglo-American Versailles system, under the Dawes Plan and related actions. The liquidity crisis caused by the October 1929 Wall Street crash collapsed these international debt structures, and the American and European industry that depended on it.

What the Uruguay Round really means

The actual terms of the Uruguay Round agenda are such that, were it signed into international treaty law, it would greatly accelerate the globalization of manufacturing. Huge

Japanese farmers at an international demonstration in Brussels against GATT, December 1990. Agricultural trade is at the center of the Uruguay Round's demand for cutting subsidies to national production.

multinationals would secure global "intellectual property rights" or patent control on many items, even including God-given genetic structures in biogenetics, and would be able to prevent a less developed economy from prohibiting takeover of its financial and banking markets by large U.S. or European banks. The ability of developing countries to advance their national economies, "by hook or by crook," would be ended. They would be subject to new trade embargoes or severe sanctions to be administered by a new world trade policing body, the Multilateral Trade Organization (MTO), established as an independent, supranational, non-parliamentary body under GATT.

The MTO would explicitly *not* regulate monopoly abuses by giant cartel groups, but rather, police the "crowbar" opening of developing markets to large banking, mining, manufacturing, and food cartel companies. The text of the GATT Uruguay Round states that the MTO "will cooperate with the IMF and World Bank" in their mission of forcing open local economies to the large multinationals. Self-sufficient food-producing countries will find their local markets for the first time flooded with cheap U.S. food imports, designed to destroy local production, and create permanent new markets for Cargill, Continental, etc.

OECD's 'RUNS' study is a fraud

The advocates of the Uruguay Round argue that, because of the more "efficient" allocation of resources worldwide under their expanded free trade regime, taking their assumptions of a mythical "Theory of Comparative Advantage," world trade will benefit by "approximately $213 billion." But a closer look at that impressive figure reveals it to be built on a statistician's castle of wet sand.

The benefits study was published in May 1993, by the OECD Development Center in Paris and the World Bank in Washington, under the direction of Dominique von der Mensbrugghe. The study is based on a global econometric computer simulation, the "RUNS" model, developed by the World Bank.

The study admits that it assumed "perfect competition" among all countries of the world; it also assumed the premises of the wholly fallacious "Theory of Comparative Advantage," developed first by the British economist Adam Smith, and refined by David Ricardo in 1817. Ricardo assumed completely autonomous independent national economies, and a national monetary control of each nation under a fixed gold standard. He also assumed full employment in every country, something which, needless to say, does not exist anywhere on this planet today.

Even had Ricardo's original theory been accurate in the trading world of 1817, on its own terms it would not apply today. First, the creation of today's globalized financial markets, with some $1 trillion foreign exchange dealings each day—some 20-30 times greater than the value of trade in goods (**Figure 1**)—and the simultaneous removal of national exchange controls in country after country under IMF pressure, have created an entirely different world from that of 1817. Now, billions of dollars can, and do, flood into a country such as Mexico or Thailand, as easily as into France or Britain, for short-term speculative gains, only to leave that country with the touch of a computer key in the trading room

LaRouche hits 'travesty' of OECD's economists

Lyndon LaRouche, in a radio interview with "EIR *Talks" on Nov. 17, commented on the attack on free trade published in the Paris daily* Le Figaro *Nov. 15-16 by Nobel Prize economist Maurice Allais:*

The French are concerned, because they recognize that unless this policy of free trade in this form is stopped, the world economy is going to collapse. Allais is saying, that's not surprising. Governments are being advised by this OECD/World Bank RUNS report, and the people who are behind this are completely incompetent. . . .

Essentially, the problem is, that back in the 1930s, a famous Austro-Hungarian mathematician, who was very clever at arithmetic but not necessarily always good at science, was chased, in a sense, out of his field in mathematics, as a result of a report by Prof. Kurt Goedel, another famous Austrian scientist, who pointed out implicitly that the entire basis of John von Neumann's theory in mathematics was destroyed by Goedel's discovery, which is called "On the Question of Certain Undecidable Propositions in Mathematics."

So von Neumann then went into what was called his theory of games, the mathematical modeling of certain kinds of games. In the late 1930s, he presented an argument stating that he could reduce any economy to analysis in terms of simultaneous linear equations, inequality forms of equations.

Now this is absolutely absurd!

During the war, he and another Austrian economist, Oscar Morgenstern, published a book which was published in a second edition after the war, *The Theory of Games and Economic Behavior*. It's closely related to Norbert Wiener's work in information theory—another opponent of mine in academic matters. And because of von Neumann's involvement in computers, and because of his attempt to develop a digital computer, a linear theory of the brain function, this became very influential in economics; and *practically all modern mathematical economics of the computer design*, has been influenced by this absurd doctrine of John von Neumann.

What Allais picks up on, is the obvious fact, that all of the assumptions in the von Neumann model, but more radically in this OECD model, are incompetent.

For example, the absolute cost, the natural cost of producing things, of producing skilled labor, of developing infrastructure to create workplaces—all of these kinds of things are completely ignored in this model. This is a result of carrying to a radical extreme, the absurdities of von Neumann's influence. . . .

These economists and others who support this stuff, have *absolutely no competence* in the most elementary aspects of economic science. They are simply textbook or computer PC mathematicians, given computers too large for their brains to handle, who get these vast series of tens of thousands of simultaneous linear inequalities, plug 'em in based on percentiles of 100% of the economy; and on the basis of this garbage, they crank out something, and they come out, as Allais points out, with a precise $213 billion in marginal increase in world income, as a result of dropping so-called subsidies or subventions.

This is an absolute fraud! It's the kind of thing which we put people Michael Milken and Ivan Boesky in prison for—or perhaps even worse. And this is being pushed by the OECD and World Bank, and being used by the U.S. government to shape its GATT and its NAFTA policies, which are also totally incompetent policies based entirely upon this garbage. It's a travesty.

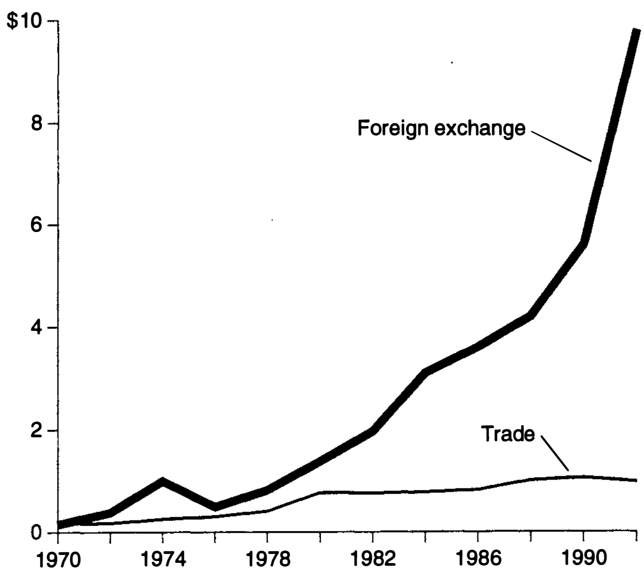
of a New York or London bank. Few economists today bother to address seriously this fundamental difference. The Theory of Comparative Advantage is enshrined as sacred gospel, in the holy temple of liberal free trade economics.

But the advocates of free trade theory are not concerned with theoretical fine points. They are merely providing a political rationale for the huge multinational companies which largely finance the research studies of OECD country universities and the OECD itself. The Mensbrugghe study was financed by the New York Rockefeller Foundation.

In the Mensbrugghe study, the authors admit, for example, that their global model ignores the impact of the free trade Uruguay Round agenda in creating mass unemployment. They say simply, "In keeping with the tradition of other general equilibrium modelling exercises, unemployment was not incorporated into the base version of the model." But in Germany alone in 1993, the increased burden of almost 1 million new unemployed, will mean a net difference to the state budget of DM 60 billion ($35 billion).

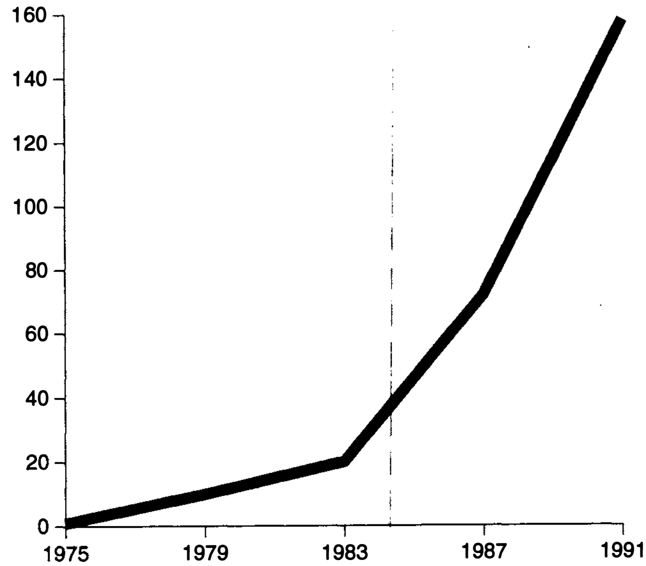
Despite all this, the OECD and World Bank calculate that the total gain for liberalization of trade in agriculture, industry, and services for all 103 countries of GATT combined, "might reach $213 billion" per year. But this figure would not be reached, according to OECD projections, until 2002—if then! The OECD economists admit that the immediate effect of removing subsidies in European and certain other agricultural producers will be a sharp *rise* in basic world market food prices. The giant cartel trading companies would

FIGURE 1
Foreign exchange volumes zoom while world trade remains stagnant
(100 billions $)



Sources: *EIR*, New York Federal Reserve Bank.

FIGURE 2
Privatizations in Third World countries
(number of state-owned enterprises sold)



Sources: *EIR*, UNCTAD.

maintain their monopoly situation, amid lessened supply. The OECD then argues that the attraction of higher prices will lead certain Third World countries to invest in the high-technology production of foodstuffs by the turn of the century, which, all according to this flawed model, will lead to a fall in prices and the expected $213 billion benefit.

Even were the computer model of the OECD and World Bank able to predict accurately, this is a drop on a hot rock, compared with the total world trade today of some $4 trillion per annum. Or, in comparison with the combined Gross Domestic Products of the EC, North America, and Japan, of some $16 trillion in 1992, of which $213 billion represents barely 1%. That magnitude is so tiny as to be statistically insignificant within margins of error of any such global economic calculation. It is hardly worth risking the economic stability and structure of European industry and agricultural production for such a hoped-for result.

But the OECD and World Bank computer model is not even endowed with scientific accuracy in prediction. An economic adviser to GATT's director general, Prof. Jagdish Bhagwati, stated, "Nobody really knows. The $200 billion figure you keep hearing, relates to the extent of incremental trade which, according to some models, we expect to get. But I have been in this game long enough to know that it is almost astrology to forecast specific numbers."

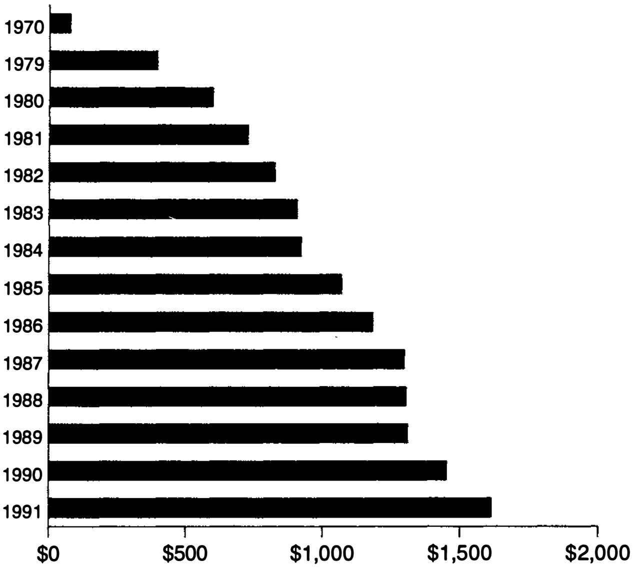
In short, the nations of Europe are being told to sacrifice self-sufficiency in food and domestic industrial capacities for a goal which even the GATT Secretariat admits is not at all certain. But, as this report should make clear, it is worse than uncertain. The effect of GATT's Uruguay Round will be an acceleration in capital flight out of Europe into cheap-labor Third World production, soaring EC unemployment, and a shift in the world's manufacturing base out of the industrial countries. No single elected political figure in Europe today has had the courage to warn the citizenry of this impending cataclysm.

A new role for the IMF, World Bank

While the Anglo-Saxon vogue of financial deregulation during the 1980s helped remove national barriers within Europe to the free flow of capital, the IMF and World Bank played a parallel role to the GATT Uruguay Round process, in breaking open traditional national protectionist barriers in developing sector countries, most especially, the debtor countries, after the 1982 explosion of the Third World debt crisis.

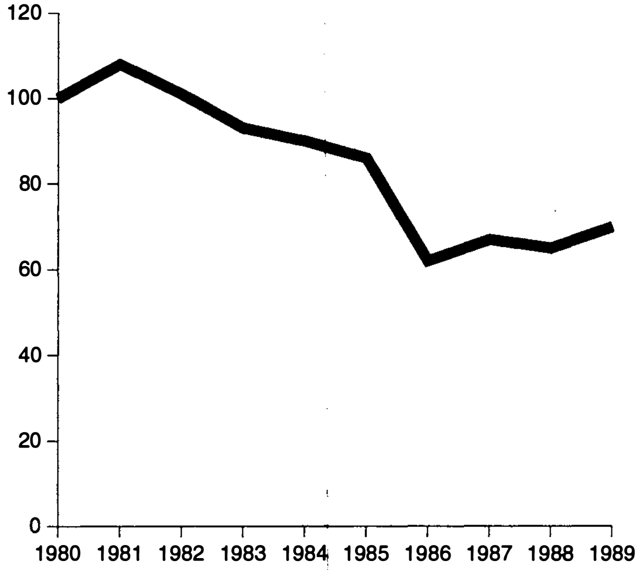
The shift in the role of the IMF and World Bank emerged in October 1985, as then-U.S. Treasury Secretary James Baker called a meeting in Washington of the heads of Chase Manhattan, Citicorp, and other top banks, together with Federal Reserve Chairman Volcker. They laid out a strategy of using the funds and the powerful institutional pressure of the IMF and World Bank, in a coordinated manner, to impose the new regimen of market liberalization, privatization of state industry, and other measures, on Third World economies (**Figure 2**).

FIGURE 3
Growth of Third World foreign debt
(billions $)



Sources: *EIR*, Swiss Re.

FIGURE 4
Raw materials prices, including oil
(index 1980=100)



Sources: *EIR*, GATT.

Under two World Bank presidents, Barber Conable and Lewis Preston, the World Bank has been entirely transformed since the late 1980s, into an arm of the U.S.-led globalization process. Many Third World governments and their civil servants at the World Bank feebly protested at the time, that the multilateral bank was being turned into a crass tool of U.S. multinational expansion into developing markets. They were correct, but the process has continued unabated.

In his Sept. 27, 1993 address to the annual IMF and World Bank meeting, IMF Managing Director Michel Camdessus praised the process of globalization and urged world leaders to adopt the GATT Uruguay Round as top priority. Camdessus stated, "The most significant development of the closing decades of this century, is the phenomenon of globalization which is transforming our economic life."

At the same gathering, World Bank President Preston, past chairman of the influential New York J.P. Morgan Bank, stated, "A successful NAFTA and a successful Uruguay Round are absolutely essential if we are to take full advantage of these changing trade relationships. . . . The private sector must be allowed to play its role as the primary engine of growth."

World Bank loans in the past had provided a certain modicum of assistance to developing lands to build needed infrastructure, such as hydroelectric dams or power plants. But in the past several years, this policy has shifted; loans are used as incentive grants to push globalization and force the opening of developing economies to large multinationals. But the liberal new capital rules imposed by the IMF and World Bank mean the multinationals are able to withdraw profits out of the country, with no restriction. It is worth noting that the man chosen to run the important post of deputy U.S. treasury secretary for international monetary affairs, Lawrence Summers, was brought in from his post as chief economist for the World Bank, where he had been a critical force for the process of globalization under Lewis Preston's reign.

With OECD nations preoccupied with fears of a global banking crisis from Third World debt defaults (**Figures 3** and **4**), a new role was given to the IMF and World Bank after the Baker strategy talks in late 1985. Under American initiative from the pro-free trade Reagan and Bush administrations, the IMF was given the task of imposing savage economic conditionalities on Third World debtor countries, as the precondition for a debtor country being certified "creditworthy." Before 1982, the IMF was never imagined for any role at all in the Third World. It had been created to coordinate balance of payments problems in postwar Europe and the OECD industrial nations.

Most people in western Europe or North America were pitifully ignorant of the sinister new role the IMF and World Bank were playing during the 1980s. The institutions were not acting to enhance stability in a troubled world economy, but were sowing the seeds for the deepest depression in the industrial nations, and the dismemberment of any vestiges of national economic potentials in the developing sector.

The IMF in every case applied the same "shock therapy." A debtor nation was ordered to devalue its currency, often repeatedly, on the argument that this would make exports competitive. Then the government of the debtor country was told that it must liberalize its domestic laws to permit foreign ownership, and it must eliminate the state sector, so important in industrialization of a developing economy. With the newly liberalized trade and investment laws, and privatization of state companies under the IMF and World Bank pressures, the large multinational foreign firms were in a position to come in and take over assets on a scale never before dreamed of, even during the rampages of nineteenth-century colonialism. Currency devaluations against the dollar made the price for American multinationals ridiculously cheap, to buy up choice industrial assets.

In this regard, the IMF and World Bank have worked in conjunction with GATT, as the institutional "crowbar" for industrial globalization. No IMF seal of approval would be given a debtor country in the past decade unless it had agreed to impose the agenda drawn up by multinational U.S. and European banks and industry, namely, massive local currency devaluation against the dollar, opening of domestic market protection, and wholesale privatization of state industries, allegedly to reduce the state budget. This has created what one British commentator, James Morgan of BBC, terms a "neo-colonialism," only today it is occupation by stateless global companies, under the protection of the IMF, GATT, and the World Bank, not by national powers like Britain or France, as in the last century.

As a consequence of the past decade or so of credit cutoff and enormous economic pressure from the governments of the Group of Seven, most especially Washington and London, the developing countries have been forced into the desperate position of demanding participation in the GATT Uruguay talks. They have been forced to accept an agenda which means "free trade" and globalization of their economies, and loss of national economic sovereignty. By the end of 1986, the Mexican government of President Miguel de la Madrid had capitulated to American pressure, and agreed for the first time to join GATT, with its rules and demands. How this liberalization has worked since in Mexico we take up below.

Brazil's chief negotiator to the Uruguay Round, Ambassador Rubens Ricupero, declared in July 1991, on behalf of the developing countries group in GATT, "Without awaiting the conclusions of the Round, we have opened our markets, we have given away our non-tariff measures, our exceptions for balance-of-payments protection. Having put aside our weapons, having placed our faith in the system, we cannot afford to wait any longer." Ricupero did not mention the principal reason they had made such concessions: It had less to do with blind faith in a just outcome from GATT's global free trade talks, than with the crude blackmail pressures placed by the IMF and the bank creditors of the industrial countries since 1982.

A program to defeat 'economic nationalism'

The text of the Uruguay Round Preamble specifies that GATT signatory countries are "determined to halt and reverse protectionism and to remove distortions to trade . . . convinced that such action would promote growth." As "Objectives," the Uruguay Round specifies: "Negotiations shall aim to bring about further liberalization and expansion of world trade . . . facilitating necessary structural adjustment, enhancing the relationship of the GATT with the relevant international organizations" such as the IMF or World Bank.

The GATT document stresses the "importance of an improved trading environment providing, *inter alia,* for the ability of indebted countries to meet their financial obligations." In other words, the stated intent of Washington policymakers shaping the Uruguay Round in 1986 was influenced by intent to collect the foreign debt, with accrued interest, of the some $1,600 billion owed by developing countries to the banks and governments of the OECD, notably the United States and Britain, the two largest creditors. Using this debt threat, entire countries are being ordered, under IMF rules, to give up their national industries in a "debt-for-equity" exchange, to global giant companies.

In 1985 a study was commissioned by the Rockefeller Foundation and conducted by Gilbert R. Winham of Harvard University. Winham candidly reveals how American establishment circles promoting the GATT agenda, viewed efforts of developing economies to protect themselves. Winham, a proponent of Anglo-Saxon free trade liberalism, states that the major problem maintaining a "liberal consensus will be to contain economic nationalism. This is indeed not a novel problem. In theory, the link has been established by Friedrich List, and especially, the comparison List himself drew between his writings and those of the classical school of Adam Smith, or Jean-Baptiste Say."

Winham contrasts the dominant postwar free trade ideology of GATT, with the model of List: "List's argument has considerable appeal, for it was not simply jingoism, but was rather rooted in an analysis of how human civilization could achieve its greatest potential. Thus, two important philosophic strands form the intellectual roots of contending approaches to trade policy: the internationalism and concern for economic efficiency of the Classical School [Adam Smith] versus the nationalism of List's Historical School." Winham adds: "List's prescription for industrial development and protectionism, was directed to his native Germany, and it was eagerly received in the United States, both of which were underdeveloped economies of that era. *The developing countries today largely pursue policies that are consistent with List's philosophy*. In an effort to promote national economic development, they have extended heavy protection to import-competing manufactures, and have used a range of commercial and investment policies to stimulate manufactured exports" (emphasis added). This was written at the beginning of the Uruguay Round, expressing the task of GATT to elimi-

List's attack on British 'shopkeeper' trade system

Friedrich List (1789-1846) was a leading German-born economist who lived in the United States for several years, working with Henry and Mathew Carey, Henry Clay, and John Quincy Adams to fight for protective tariffs for industry. In 1841, he wrote a bitter attack on the British free trade system, titled The National System of Political Economy, *which we quote here:*

Adam Smith's doctrine is in respect to national and international conditions merely a continuation of the physiocratic system. Like the latter it ignores the very nature of nationalities, seeks almost entirely to exclude politics and the power of the state, presupposes the existence of a state of perpetual peace and of universal union, underrates the value of a national manufacturing power, and the means of obtaining it, and demands *absolute freedom of trade*.. . .

The mistake has been simply, that this system at bottom is nothing else than a system of the *private economy of all the individual persons in a country or of the individuals of the whole human race as that economy would shape itself under a state of things in which there were no distinct nations, nationalities or national interests,* no distinctive political constitutions or degrees of civilization, no wars or national animosities; that it is nothing more than a theory of values; a mere shopkeeper's or individual merchant's theory—not a scientific doctrine showing how the productive powers of an entire nation can be called into existence, created, maintained, and preserved. . . . [Smith's] system regards everything from the shopkeeper's point of view. . . . The establishment of powers of production it leaves to chance, to nature, to the providence of God . . . only the state must have nothing at all to do with it. . . . It is resolved to buy where ever it can find the cheapest articles—that the home manufacturers are ruined by their importation matters not to it. . . . What may become of entire nations in the future is to it a matter of indifference, so long as private individuals can gain wealth.

nate these barriers.

The initial impact of this shift of industrial jobs away from Europe can be graphically demonstrated by the collapse of investment in capital equipment over the past two or more years throughout the European Community. During June 1993, the European Commission in Brussels, headed by Jacques Delors, admitted that Europe was in the middle of its worst "recession" in 40 years, and, as one Brussels official put it, with the French and German economies in such a crisis, it would take a "miracle growth" to keep the goals of the Maastricht Treaty for European Union on schedule. EC Commissioner for Economics and Finance Henning Christophersen noted at that time, "EC employment is forecast to fall by 1.75% in 1993, the worst performance in the history of the EC."

Policy paralysis

Indicative of the policy paralysis and utter lack of comprehension of the nature of the globalization crisis was the announcement in October 1993 by the German government of Chancellor Helmut Kohl that he is leading a strategic offensive to assist German industry. The "offensive" will promote greater involvement in China and the emerging Asian economies. As part of this Asia strategy, the Kohl cabinet reaffirmed its call for an immediate successful conclusion of the GATT Uruguay Round!

The large German industries applaud as the government unwittingly assists Germany's own economic deindustrialization. Like the blind man who grabs the elephant's tail, thinking he has caught a snake, the governments of Europe follow the demands of the multinationals. Already beginning 1991-92, German industry's direct investment abroad, typically in new production facilities in cheap-labor regions, grew to the significant level of DM 65 billion annually, three times the level of 1981.

EC Commissioner Christophersen estimates that by January 1994 there could be 20 million jobless in the 12 nations of the European Community, up from some 17 million in the spring of 1993. But when pressed about the loss of jobs from Europe to the cheap-labor regions of East Asia and Ibero-America, Christophersen defends the effects of the globalization which has created this unemployment crisis in Europe, saying, "We do not want to do anything to prevent others from being richer, and I don't think we should do anything."

EC government heads of state and ministers who met at the end of June 1993 in Copenhagen, to discuss a possible DM 82 billion coordinated emergency action to revive European-wide infrastructure and and employment, did nothing. Due to the resistance especially of Britain's Prime Minister John Major, they rejected any proposals for European infrastructure investment. Foolishly, Germany sided with Major in opposing any action to reverse the crisis.

A recent study by the New York-based consulting firm Drake, Beam and Morin, found that at least 52% of the 400 largest European industrial companies have plans to significantly "down-size" over the next 18 months. Three-quarters of all German industrial companies surveyed have such plans. The head of the consulting firm conducting the survey commented, "The hit of globalization is taking place." This globalization of Europe's industry is cutting jobs, permanently, in automobile, steel, machine tools, equipment manufacturing, aerospace, chemicals, and computer manufacturing.

A brief review of the major industrial economies of Europe underscores the alarming point that, unlike any economic contraction in this century outside of wartime, the current crisis finds permanent loss of invaluable *Mittelstand* production firms, machine tool makers, and equipment suppliers to the large multinational industries such as VW, Daimler-Benz, Krupp, Höchst, Thomson-CSF, or Rhône-Poulenc.

The case of Germany

The German engineering sector and the machine tool industry are the very heart of the OECD capital goods-producing economy. The role of German machine tool exports to the world's productive capabilities is essential in volume and variety, as no other single country's is. Machine tools are the core of every production branch from the chemical industry, to electric power generation, to construction, and are thus an excellent indicator of industry plans for investment and production expansion.

Automobile production

By far the largest consumer of machine tools and advanced laser robots and other machinery in Germany is the automobile and transportation sector. In the past 18 months, demand from this area has collapsed like nothing seen since 1948. At the same time, the two-year consumer "mini-boom," led by the ability of east Germans to buy west German autos for the first time, has also come to a screeching halt.

The overall investment in plant and new manufacturing equipment in Germany has contracted sharply in the past 24 months. According to the association of German engineering and machinery producers, VDMA, a cumulative contraction of 18% in levels of domestic new orders has taken place in the German metalworking and electrical equipment industry since the onset of the crisis in late 1991. Alone over January-August 1993 compared with the same period a year earlier, contraction in capital goods orders in west German industry was 13%. And, contrary to optimistic statements from the embattled government, industry sources say there is no bottom in sight. An October 1993 survey of German industry plans for capital goods investment for 1994 showed that new investment plans have been further cut back by 7% from the depressed level of 1993. In the deep recession of 1981-83, the fall was 7%.

But this is merely the beginning. German industry has also commenced globalization with a ferocious intensity, as if to catch up with their American, British, and Japanese rivals, and fed by the collapse of exports worldwide in the past two years. Replacing traditional German emphasis on long-term strategy and high-quality engineering excellence, German managers are becoming obsessed by the cancerous Anglo-Saxon focus on "accounting results" and short-term profits. The signal event in this unfortunate direction is the recent decision by Germany's largest industrial group, Daimler-Benz, to adopt American accounting standards and to list Daimler-Benz stock on the New York Stock Exchange, the first time ever for a German company. The extent of manipulation of that market by three or four giant Wall Street firms, such as Merrill Lynch, Goldman Sachs, or Salomon Brothers, means that Daimler will find itself hostage to the most destructive short-term financial pressures imaginable.

A study conducted for the German Automobile Association, VDA, has estimated that the German automobile industry must eliminate another 100,000 jobs, and cut costs by up to 30% over the next two years, if it is to "survive." Already in the 24 months through June 1993, the industry had eliminated 95,000 jobs. A collapse in German new car sales began in 1992. In 1993, the industry expects a further drop from 1992 production by 18% or more, twice what was projected only six months earlier. Sales to the French and Italian markets, traditionally the two most important export markets for German autos, have plunged by 24% to Italy and 17% to France. And domestic sales are down 25%.

Following the model of Japanese and American car makers, the German industry has begun a significant process of globalization of its production, for the first time. Incredibly, McKinsey and Co., the same American consulting firm which has been consultant to the troubled GM over the past years in its worldwide restructuring and globalization (making enormous miscalculations which led to record GM losses in the past three years), is now advising German automakers, rivals to GM, on the need for globalization.

In the first six months of 1993, according to the VDA, German car and truck makers produced 2.1 million vehicles in Germany, but another 1 million were produced in foreign countries by the German makers. This growth of foreign operations is just the beginning.

BMW has begun construction of an entirely new auto production facility in South Carolina, the choice being dictated by the low wage costs, and the absence of trade unions in that low-income southern American state. The American-made BMW cars will be partly made for re-export.

Mercedes-Benz has just announced plans to build its first large-scale auto plant outside Germany, a $300 million new plant in rural Alabama, one of the most depressed states in the United States, to produce four-wheel-drive sports vehicles. Most of the American-made vehicles are to be re-exported, back to the European market.

Daimler-Benz eliminated 14,000 German jobs in 1992, and the company now plans a further 43,000 permanent job reductions. The company is shifting both car and truck production out of Germany. Furthermore, Daimler-Benz's high-technology aerospace subsidiary, Deutsche Aerospace (DASA), has announced plans to permanently close seven

A trade union demonstration in Erfurt, in the eastern German state of Thuringia, March 1991. The sign reads, "Mr. Kohl, are you going to turn Thuringia into a poorhouse?" The workers are protesting the government's radical privatization policy, which is actually being used to shut companies down.

German production facilities and to eliminate up to 6,000 of its total 11,000 jobs.

China is a major growth area for future Daimler-Benz production facilities, as well as East Asia, and Mercedes-Benz will also invest DM 300 million in construction of a new heavy truck assembly plant in Uzbekistan. Commenting on the shift under way in the Mercedes-Benz group, Gerhard Liener, company finance director, recently stated, "We are on the way to becoming a global company." Announcing plans to cut DM 8 billion from company costs, Daimler-Benz Chairman Edzard Reuter said, "If we are to remain competitive with a German base, there can and will not be any taboos or sacred cows." He added, "Globalization also means internationalizing our management." McKinsey and Co. has provided consultants to Daimler-Benz in the restructuring process.

Europe's largest car maker, the Volkswagen Group of Wolfsburg in Lower Saxony, has begun a "revolution" as well, one with far more publicity than Daimler's, owing to the role of the eccentric new VW director of purchasing, J. Ignacio Lopez de Arriortua, former purchasing and cost-reduction head for General Motors, who led the process of global "out-sourcing" and cost reduction several years ago at GM's Germany Opel subsidiary.

Earlier this year, the new chairman of the Supervisory Board at VW, Ferdinand Piech, within hours of a boardroom coup against former chairman Carl Hahn, announced that he had a drastic restructuring program. He demanded that 36,000 jobs in the VW group be eliminated, and the company's thousands of *Mittelstand* (medium-sized industry) parts suppliers and engineering subcontractors, the lifeblood of the industry of the Lower Saxony region around Hanover, have been told they no longer will enjoy a secure, permanent supplier market with VW. In October 1993, VW made its boldest cost-cutting move, giving employees the ultimatum to agree to a 20% wage and work time cut to a four-day week, or face another 30% cut in personnel in Germany.

Not generally known about Piech's radical "shock therapy" restructuring plan for VW is the fact that it, also, was drafted by the American consulting group McKinsey and Co. McKinsey is perhaps the single most influential management consultant worldwide, and a foremost advocate of "global sourcing" and globalization. The company developed its approach to globalizing industry, through McKinsey and Co. Japan, and Japan's Managing Director Kenichi Ohmae, who played an instrumental role during the 1980s in globalizing the production of Japanese automakers into East Asia and U.S. cheap-labor regions.

This structural shift at the heart of German manufacturing, automobile production, is only beginning. But already it is creating a widespread second wave of unemployment throughout the traditional supplier *Mittelstand* firms in Baden-Württemburg, Lower Saxony, Bavaria, and the rest of Germany.

A study published in October 1993 by the European Commission estimates that European automobile industry supplier companies—firms like Bosch and Mannesmann—must eliminate another 400,000 to 500,000 jobs permanently, just to reach the level of "competitiveness" of Japanese parts supplier firms, a contraction of 40-50% of the present industry branch size. The very fact that the life and death of European companies supplying parts for German or French cars is being made dependent on the productivity, however measured, of Japanese auto parts suppliers, is a reflection of the viciousness of the globalization process, even though Japanese parts suppliers now hold an infinitesimal share of component production for German autos.

Half of the entire EC automobile parts supplier industry is based in Germany, so anywhere between 200,000 to 250,000 of the permanent job cuts are expected to be made in Germany over the next several years, to meet the EC's global goals. This, on top of the cuts directly in the car makers' operations themselves. Most German automakers are expected to cut the number of supplier *Mittelstand* firms they deal with by two-thirds. Lopez and Piech, in calling for immediate price cuts by suppliers of 30%, are merely making the first step in this savage process of auto industry globalization.

This is the backdrop for the dramatic move by the German heavy-industry employers' association, Arbeitgeberverband Gesamtmetall, to cancel its labor agreement with the 3.25 million-strong IG Metall union for the first time in history, creating a tense climate across the country, and potential for the worst industrial conflict in the postwar period. Gesamtmetall, which based its move on what it calls the worst situation faced by the industry in the postwar period, represents automobile, steel, electrical, and machinery sectors nationwide.

Machine tools

Reflecting the qualitative disappearance of capital investment across Europe and the OECD, most especially within Germany, the vital machine tool sector is in the midst of its deepest crisis since World War II. In the months following German reunification, the German machine tool industry had a record backlog in orders of more than nine months, and optimism was greater than any time since the oil shock of 1973-74. But by December 1993, according to the Association of German Machine Tool Producers, VDW, new orders will have fallen by 45% from the peak level of late 1990. Production volume will be down by 30%. Jobs are being cut everywhere.

More than any other economic branch, machine tool producers are the nerve center of any future industrial growth. The German machine tool industry's role as the most diversified producer of advanced machine tool exports in the world (Japan concentrates on tools for the auto industry), makes the branch perhaps the world's most strategically vital single industry, despite its smaller size in relation to giant companies like Daimler-Benz or General Motors. Machine tools are the "technological driver" of any industrial productivity advance, regardless of what the industry is. They are the tools by means of which all other branches of industry are able to produce their goods. The German machine tool sector, unlike the Japanese, which consists mostly of daughter companies of the large auto companies, is also the heart of German *Mittelstand* medium-sized, family-owned industry. This is the case for Gildemeister, MAHO, Trumpf, Pittler, and Deckel. "The German machine tool sector is arguably the most diverse in the world in the fact that it is the market leader in production of every major tool type from laser machine tools to numerically controlled tools to industrial robots," an industry spokesman stated.

Notable in this crisis, then, is the publication of a new strategy study commissioned for its member companies by the Association of German Machine Tool Producers. The study, taking note of the depth of the crisis and the fact that many German mid-size machine tool makers are threatened with bankruptcy, had a clear policy proposal: "In order to meet the Japanese competition, German producers must drastically cut costs by some 25%. To accomplish this we must move assembly to countries with lower labor costs and lower taxes." The study suggested Brazil, the Czech Republic, Poland, Taiwan, Singapore, and Thailand.

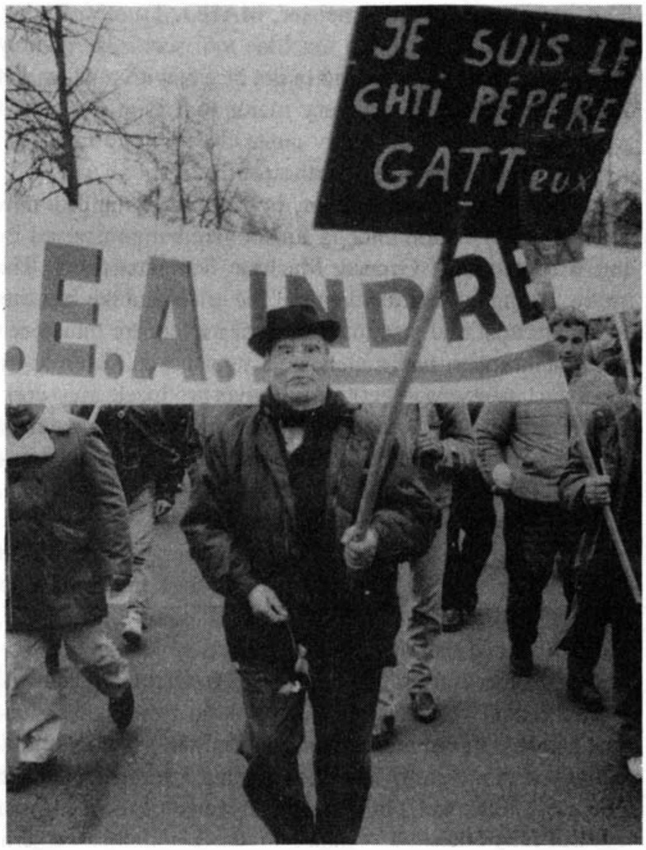
The study was an unabashed call for globalization of this industry as well: "Volume machine tool producers must develop into 'global players,' " it concluded. In doing so, they calculated that another 30,000 skilled jobs in the German machine tool branch must be permanently eliminated over the next several years, and shifted to such locations as Thailand. There are currently slightly more than 82,000 employed in the entire branch, meaning a further reduction of almost 30%, and a drop in employed since the peak year 1991 of fully 50%.

France: globalization, privatization, unemployment

The largest export market for Germany, consuming 13% of total exports, has traditionally been France. Exports of German equipment, engineering products, construction equipment and, above all, machine tools to France, account for the major portion of German industrial exports. German machine tool new orders for delivery to France are down in the first half of 1993 compared with the same period a year earlier by 50%, according to the German Machine Tool Producers Association.

In addition, fully 15% of German imports came from France, Germany's largest trading partner. The two economies are symbiotically bound at this point, a process which has developed over a period of three decades. Thus, it is not surprising that both Germany and France are plunging into their deepest industrial crisis ever, under the same escalating globalization pressures of the last several years. The degree of crisis within French industry had been partially masked by the export boom provided by the opening of German unification. That process came to a halt by 1992.

During October 1993, the conservative government of Premier Edouard Balladur began the first planned privatizations of 21 state-owned companies. Onto the auction



Fifty thousand farmers rallied against GATT in Strasbourg, France, in December 1992. The sign carried by "François Mitterrand," reads, "I am the dotty old Grandpa"—an untranslatable pun on the word "GATT."

block will come some of Europe's most respected high-technology industries. France, much as Italy, after 1945, developed a strong state sector industry base, a process enhanced under President Charles de Gaulle after 1958. This is now being unravelled over the coming months.

But far more than a sale of assets for needed budget capital is at stake. The 21 companies slated for privatization in France include the major automaker Renault, Air France, defense and advanced electronics firms Aérospatiale and Thomson, the computer firm Groupe Bull, Pechiney, the aerospace firm Snecma, the giant Phône-Poulenc chemicals group, the vital Elf-Aquitaine oil and gas conglomerate, and the huge steel group Usinor-Sacilor. The total employment in these state companies today is almost 2 million individuals.

Growing deficit, shrinking revenues

The French government is in a double bind: It has inherited a dramatic FF 317 billion (roughly $54 billion) state budget deficit for 1993, and the same is expected in 1994, a reflection of the sharp collapse of the French economy and tax revenues. The total French public debt has increased by 30% since 1989. Under these pressures, the Balladur government moved in July 1993 to impose a draconian five-year austerity program in order to reduce the deficit from the current 4.4% of GDP to 2.5% by 1997. A major part of the strategy for budget deficit reduction, itself part of the mandated requirements of the foolish Maastricht Treaty, is use of the cash revenue from the wholesale selloff of state assets in the privatization. The Economics Ministry calculates a net revenue of FF 360 billion from the privatization sales over the coming months. Its budget austerity plan is dependent on reaching this sum from the selloff of state companies.

Here is the rub. In order to make the state companies "attractive" for private buyers during a deep economic downturn, the state is forced to take drastic measures which will ensure a sharp increase in French unemployment. Already official unemployment is near the alarming 12% level, well over 3.1 million unemployed, almost one in eight in the work force. For example, Air France chairman Bernard Attali announced plans to cut the job level by 4,000, in order to make the airline "attractive" to private investors, on top of job reductions of 4,600 in the past two years, a 20% reduction since 1991. Air France will run an estimated loss of FF 5 billion in 1993. Groupe Bull has a new chairman, Jean-Marie Descarpentries, a former consultant at McKinsey and Co. His mandate is to cut jobs and reduce losses in a company which has lost FF 15 billion in three years. Profitability is his objective, not jobs. Rhône-Poulenc privately estimates that it is able to produce the same level of chemicals output with 30% fewer workers, given the current level of investment. This is the pattern across the board in the state companies being offered now for privatization.

Thus, the privatization process ironically is going to add momentum to the crisis, as tens and probably hundreds of thousands of state employees are suddenly without work, on top of the 3.1 million already jobless. On Sept. 15, 1993, a day described in the French press as "Black Wednesday," French state-owned companies announced plans to eliminate 13,000 jobs, leading Prime Minister Balladur to issue an impotent plea for industry to try to "minimize" future job cuts. The added burden of joblessness will have a dual impact on the already out-of-control budget deficit, in the form of unemployment support, and the loss of tax revenue from the productively employed.

Recently, Finance Minister Edmond Alphandéry stated that the crisis had "reached the bottom of the cycle," and that recovery was "just around the corner," as American President Herbert Hoover insisted all during 1930. Such statements are politically motivated "hopefulness" by a government that is keeping a very nervous eye on the 1995 presidential elections. In reality, nothing done by the government to date has addressed the fundamental nature of the crisis of globalization under way.

Opening to foreign 'investors'

In a major concession to the immense globalizing pressures, the Balladur government announced that its previous upper limit of 20% control by foreign investors of privatized state companies would be eliminated for all but a few companies, opening the door to large-scale takeovers. In the process of privatizing such a major portion of the state sector, France will surrender its capacity to direct the national economic resources toward the kind of dirigist national economic response so urgently needed both inside France and throughout Europe and the Francophone developing nations in North and Central Africa. According to reports from senior officers inside French industry, the prevailing discussion among French business leaders is how and where to globalize production in order to "compete" in the new international environment.

France has historically developed no indigenous machine tool production, but has rather relied on imports to satisfy requirements of domestic industrial production, most often from Germany. The qualitative aspect of the economic crisis in France is also indicated by the figures for machine tool imports from Germany. According to latest data from the German Machine Tool Association (VDW), German machine tool imports in France are down by 16% between the peak in 1990 and the beginning of 1993. More alarming, new orders placed by French industry for German machine tools are down by 54% for the period of January-August 1993 in comparison with the same period a year earlier. There has never been so steep a drop in recent memory.

The fall-off in machine tool imports corresponds to the equally steep drop in overall investment in machinery and equipment, which has fallen by 15% since the first quarter of 1990. French industry is not making the capital investment in state-of-the-art new technology required to get out of the crisis, which is very similar to Germany. Little wonder: Renault announced recently it sees "no sign of recovery in the European market for cars and commercial vehicles," as it announced profits for the first six months of 1993 were down by 90%, and European sales off by 17%. Peugeot saw a 39% drop in its profits in the same period, as European sales dropped 19% from a year before. Tensions are growing as Peugeot Chairman Jacques Calvet has accused Japanese automakers of violating their 1991 gentlemen's agreement to cut back auto exports to the European Community should European demand fall. Automobiles lead France's exports. Renault's exports to Germany after 1990 unification increased for the year 1991-92 by 110% before plunging in late 1992 as the new car-buying surge in eastern Germany ended.

Similarly, according to GIFAS, the French aerospace and aircraft manufacturers' association, exports of products ranging from high-technology weapons systems and jet fighters, to the French portion of Airbus, declined from a peak of FF 76 billion in 1989, to FF 41 billion by 1991, a drop of 46%. Overall orders for French aerospace products fell 8% for the period 1990-92. The worst impact came from the cancellation in 1992 of orders for 95 Airbus aircraft, and in the first half of 1993 a further fall of 10% in civilian aircraft orders. The number of jobs in the French aerospace sector fell by 9,000 in 1992, and significant further loss of jobs in 1993 is planned.

Thus, in sector after sector, the picture is one of a national industry base contracting on a hitherto unseen scale, while the political leadership appears paralyzed, with no strategy or national goal to bring French industry out of the crisis. And the Bank of France insists, under its new Governor Jean-Claude Trichet, on adhering to the politically motivated, self-destructive *"franc-fort"* monetarist rigidity of the past five years, holding French interest rates severely high. Even during the 1980s the government embarked on a harsh restructuring policy in the auto, electronics, aerospace, and other state industry sectors in a strained effort to regain profitability. Manufacturing jobs as a result had dropped in the seven years to January 1988 by 500,000 to a level of 3,618,000 work places. Now an entirely new wave of job elimination is sweeping across French industry under the combined pressures of globalization and collapsing world markets.

The rest of Europe

As Gen. Charles de Gaulle and Chancellor Konrad Adenauer understood so well, when France and Germany cooperate successfully in economic and political policy, all of Europe benefits and the continental economies prosper. This concept was at the heart of the formation by France and Germany in the late 1950s of the European Economic Community. But since the collapse of the communist eastern European regimes in 1989-90, French policy has been directed, not parallel with Germany in the joint infrastructure development of the new markets of eastern Europe, but in a bitter geopolitical battle to ensure that German economic reconstruction in the East fails. French support of British Balkans policy since 1991, in an obscene revival of the 1904-19 Entente Cordiale, is the most vivid expression of this unfortunate and economically costly French policy shift after the fall of the Berlin Wall.

Nowhere in Europe is the policy failure more visible than in Italy. Like France, but aggravated by the ongoing corruption scandals and destabilization of major political parties, Italy is now on the brink of forced privatization of its huge state industry sector. Because this privatization cannot be absorbed internally, the Italian government has made a pointed effort to enlist the collaboration of leading Wall Street and City of London banks and financial firms, to prepare the state companies for sale. This has ensured that as each company nears sale, the demands for layoffs and cost reduction programs will become enormous. This is only now in its initial stage.

Italy: for sale, cheap

A recent Bank of Italy report estimates that for 1993, Italian unemployment, which was near 12%, will increase by an added 500,000 jobless. Company after company is meeting the crisis by cutting jobs, "down-sizing." The industrial jobless total in Italy began to rise sharply in 1991, as companies such as Olivetti, Pirelli, and many others, especially in the industrial North of Italy, began to cut costs to meet the global crisis. Industrial utilization fell from 82% of capacity in mid-1990 to 76% by early 1993, a drop of 6%. In recent months, layoffs have also begun sweeping across state companies as the privatization pressures increase from international bankers and financial groups eager to buy up choice Italian industrial assets at bargain basement "cheap lira" prices. Thus, the largest state holding company in Italy, IRI, the Italian state railway Ferrovie al Stato, and Ilva steel, all have started to cut jobs. In late summer 1993, the government announced that to cut public budget deficits, 50,000 teachers would be laid off permanently.

The best indication of the globalization of Italian production into cheap-labor regions abroad is the decline of Italy's machine tool industry, which, after Germany's, is the most important in size and quality in Europe. While the 30% devaluation in the lira since September 1992 has helped exports, the domestic consumption of Italian machine tool production has been described by Flavio Radice, head of the Italian Machine Tool Producers Association, as in a state of "collapse," with domestic new orders in the third quarter of 1993 down by some 4% compared with a year before.

This lack of new machine tool modernization has ominous implications for the future competitiveness of Italian industry, as internal capital investment throughout industry has been kept low by record high corporate debt levels since the late 1980s. The most dramatic such case was the huge Ferruzzi agrobusiness, commodity, and chemicals conglomerate, which includes the Montedison group. In June 1993, Ferruzzi announced that it was unable to service its debts, and the company went into receivership of the Italian bank creditors, who are struggling with what is reported to be the largest corporate debt of any insolvent company in history, perhaps as much as $43 billion. But Fiat, with some $33 billion in debt, Olivetti with $6 billion (all at October 1993 lira-dollar exchange rates), or Pirelli with $4.5 billion, are facing the worst industry crisis of the postwar period.

Like France, Italy has one of the strongest state industrial sectors in the OECD. This is now being put onto the privatization auction block, and foreign firms like Goldman Sachs, Merrill Lynch, S.G. Warburg, and Barclays Bank are circling like vultures to pick over the choice pieces, advising the Italian Treasury on terms and sale prices while obtaining the most intimate inside picture of assets and finances of the state industries and banks. The approximate 30% fall in the lira against the dollar since September 1992, and the 47% decline since 1991, have made Italian assets one of the most outrageous "bargains" in the world for holders of dollars.

The government of Carlo Azeglio Ciampi has announced that it intends to privatize the major portion of valuable state-owned firms. The goal is to raise $20 billion (some 27,000 billion lira), in an effort to reduce the state debt (over $1 trillion) and budget deficit. Next to Belgium, Italy's debt is the worst of the 12 EC countries as a percentage of GDP, and in absolute amount, the third largest public debt in the world. The United States national debt is just over $4.4 trillion.

So under the relentless pressure from the international financial operatives who threaten to flee Italian government bonds, stocks, and the lira the moment they see signs of weakness in the government's resolve to force austerity, the government is preparing to sell off large state holdings to private investors. Priority for privatization has been given to IRI, the largest state industry group in Europe. IRI, with losses in 1992 of some $3 billion, has debts of more than $42 billion against annual gross sales of some $53 billion. IRI owns the state airlines Alitalia, the high-tech engineering group Iritecna, the power equipment and automation manufacturer Finmeccanica, the STET telecommunications group, Ilva steel, and numerous other companies. It controls the large Italian state bank Credito Italiano. IRI employs more than 400,000 people. The Ciampi government's new chairman of IRI, Romano Prodi, is a committed globalist, who recently proposed creation of a "NAFTA-type of free trade zone" between eastern and western Europe.

Similarly, the energy and technology group created by Italy's industrial genius Enrico Mattei in the 1950s, ENI, and its various subsidiaries are slated for auction as well. This includes the oil multinational AGIP, the major turbine maker, Nuovo Pignone, SNAM, and Saipem. The state-owned banks, including Banca Nazionale del Lavoro, are also being lined up for privatization. As the process unfolds, it will mean hundreds of thousands of newly unemployed, adding to state unemployment costs and significantly increasing the very budget deficit that privatization was supposed to reduce. Further, it robs the state of tools with which to develop a renewed national industrial strategy, along the lines Mattei had developed after the war, to lift Italy out of the rubble into one of the most modern industrial nations of the world.

Britain: the legacy of Thatcherism

But if the Italian problem appears grim, the situation in the British economy is perhaps past recovery. Britain's economy has been in the vanguard of the post-industrial globalization and deregulation process, and the current state of its economy should be sufficient warning to continental Europe as to the real consequences of the globalization process.

The John Major government, like its Thatcher predecessor, has adamantly refused to accept the Social Charter portion of the Maastricht Treaty. British politicians are convinced that the country's only role in the future Europe is as a kind of Hong Kong coolie labor outpost for Japanese manufacturing, at the door of the continental European economies.

In a very real sense, Britain embarked on the road to the present "post-industrial" economy after Parliament repealed the Corn Laws' domestic agricultural protectionism and a series of related trade changes in 1846, which was followed by the depression of 1873-96. But the modern embodiment of these policies of deindustrializing and privatizing has been undertaken since the May 1979 regime of Margaret Thatcher.

What has been taking place since 1992 in German industry began already in 1980-81 under Margaret Thatcher in British industry. The government's attacks on organized labor, its refusal to develop a real industrial policy for the state industry in its domain, all were covered with the militant media image of Thatcher as the "Iron Lady." Her stated goal for the 11 years of her government until November 1990 was to crush inflation and to unleash the "creative potentials of the British entrepreneur through unbridled competition." Britain under Thatcher began first to globalize its industrial base.

Starting with British Steel Corp. and British Leyland (manufacturer of the Land Rover and other vehicles), in the early 1980s the Thatcher government, most often following the advice of N.M. Rothschilds and Sons bank, auctioned off state industry in sector after sector to private interests. Thatcher's government during the 1980s slashed government spending for industry and public infrastructure, and pursued full deregulation of the banking and financial interests centered in the City of London. The government even privatized such traditional public services as water and electricity utilities, as well as prisons. In each case, private interests have been given deliberately attractive share prices to encourage sale, only later to raise water and electricity prices in some cases many-fold, and to reap windfall stock profits.

According to official data, in the ten-year period between 1979 and the beginning of 1989, British gross investment for "business" increased an apparently strong 37%. But virtually none of this investment went to manufacturing industry. Almost the entirety went into the financial services sector. Under Thatcher, banking and finance were elevated to the status of "industry" and were included for the first time as members of the Confederation of British Industry. But for the same period, investment in manufacturing and agriculture fell by 8%. Construction fell by 23%.

What manufacturing "investment" there was in this period went to pay the costs of *reducing* the labor force and *closing* production plants across the country. A confidential March 1993 study by the government's Department of Trade and Industry estimated that British manufacturing suffers from severe problems in weak management, inadequate investment in new technology, and little prospect of catching up with leading industrial economies for decades. A more recent private study of 202 U.K. manufacturing sites by IBM Consulting Group found that only 2% of British manufacturing factories were rated "world class," on the basis of degree of automated production, quality of product, and logistics. British free market policies have destroyed whatever may have been viable in British industry a decade ago. Thatcherism has been an utter failure—although she did make a close circle of her party contributors fabulously wealthy in the privatization process and the financial deregulation.

By 1989-90, as the Thatcher government increased base interest rates above 15% in a foolish monetarist effort to rival the deutschemark for capital inflows, industry was forced into bankruptcy at record rates. British official unemployment statistics, even under modified statistical methods employed under Thatcher to disguise the severity of permanent long-term unemployment, showed the official jobless soaring from 1.65 million in March 1990 to just under 3 million in January 1993. But in 1993, unlike 1983 when Thatcher's policies had also created 3 million unemployed, labor unions had been crushed through a series of anti-labor acts passed by Thatcher's Conservative Party during the 1980s, encouraging the rapid growth for the first time since the 1920s of non-union companies.

The share of manufacturing jobs in overall British employment has fallen sharply since the first oil shocks of the 1970s. In 1971, some 36% of all employment was in manufacturing, while by the beginning of 1993 this share was below 21%. What few high-technology companies remain in Britain have been forced to slash new investment and cut work forces. British Aerospace in early 1993 announced plans to reduce jobs by 10,000. Some 50,000 jobs had disappeared in the British automobile industry up to the mid-1993 period, bringing total job losses in the transport sector to 200,000 since 1990, according to the British Retail Motor Industry Federation. Domestic car sales in 1992 had plunged by 700,000 from a level of 2.3 million new cars in 1989. This year continues the free fall. The Jaguar luxury car producer, sold off to Ford Motor Co. in Michigan three years ago, continues to tally heavy losses in sales and profits, as the yuppie "City Revolution" in London finance ended with the October 1987 stock market crash, and tens of thousands of young stock brokers and bankers, potential buyers of luxury cars, lost their jobs.

Since the 1970s, the share of banking and financial service employment in Britain, fed by the deregulation mania of the Thatcher and Major governments, ballooned from 6% to more than 12% of total employment, while other service employment increased from 23% in 1971 to 31% of total employment by the early 1990s. As its manufacturing base contracts, Britain today is an untenable, post-industrial, bankrupt economy, whose large banks—Barclays, Midland, Standard and Chartered, National Westminster, Lloyds—are in their worst liquidity crisis since the end of the 1980s. Unbridled real estate speculation, which came crashing down in the beginning of the 1990s, has left in its wake the highest level of corporate bankruptcies, large and small, in nearly 50 years. In addition, personal bankruptcies since 1990 in Britain are the highest in history, four times the level of previous recessions.

This is the country which the IMF in its October 1993 *World Economic Outlook* report singled out for praise as the one "bright spot" in the Group of Seven economies!

But the government has a clear strategy. Britain is to become the global finance capital of the New Europe, with City of London banks and financial houses dominating capital flows across Europe. Domestic wages and social costs have been slashed over the past decade in order to make Britain "attractive" as a cheap-wage production outpost in the new European Single Market, allowing Japanese and other producers to base production inside the EC, for a further assault on continental auto and manufacturing markets. By 1995, Japanese car makers will produce an estimated 700,000 autos in Britain for the European market. For this reason, the British government has rejected the Social Charter minimum worker protection clauses of Maastricht.

This has helped to make Britain the center of the largest new foreign direct manufacturing investment in the European Community, as globalizing Japanese and American companies seek a base in Europe. Since 1989, when a record $28 billion was invested by foreign companies in British-based production, Britain has attracted twice the amount of foreign direct investment of its nearest competitor, France, and despite the depression, Britain continues to attract capital investment at a rate of $20 billion annually. The managing director of Bowater Plc, a large globalized packaging company which just closed down its plants in Italy and France to relocate in the U.K., stated, "Even before sterling devalued, the U.K. was a very good place to invest relative to continental Europe. It has a very cooperative and flexible work force. The social costs are significantly lower in the U.K. as well." In short, the U.K. is becoming a Third World economy. With unemployment at levels not seen since the Depression in the early 1930s, Britain indeed has a "flexible" work force.

The other side of the financial liberalization which was launched in October 1986 with the City of London's deregulation, known as the "Big Bang," is the role of Britain as the finance center for globalizing mergers and takeovers across Europe. By October 1993, Britain was the leading country in cross-border takeovers in Europe, with more than 160 company takeovers in the first nine months. Britain and British firms were the largest owners of U.S. assets, almost twice as high in dollar amount as Japan, as capital from the City of London and British industry flowed overseas. Companies like Hanson, Wellcome, GrandMet, Cable and Wireless, and Rolls Royce all owe a major part of their 1993 profits to overseas earnings.

Inadequate response from EC headquarters

The economic condition in the smaller "satellite" economies, which largely depend on the German and French economies for their own growth, is equally grim if not more so. From Denmark, to the trio of Belgium, the Netherlands, and Luxembourg, to Switzerland, to Greece, the smaller economies are undergoing the most substantial corporate and agricultural upheaval in the past 60 years. If the non-EC economies of Scandinavia, Sweden, Finland, and Norway are included, the situation is even more alarming. As of October 1993, average official unemployment across the 12 EC member countries was above 11%, and Belgium had unofficial unemployment above 18%. By mid-1994, projections are that EC total unemployment will exceed 20 million.

In this situation, EC Commission President Jacques Delors promoted an emergency plan for concerted action toward "Promoting Economic Recovery in Europe," first presented by the EC Commission to 12 member heads of state at the December 1992 Edinburgh Summit. This proposal might seem commendable, and a sign of some sanity and appreciation that the present crisis is not an ordinary one and warrants unusual measures. It appeared to focus on the right priorities. The Delors Edinburgh Growth Initiative as it was called, initially proposed emergency spending of some DM 125 billion ($73 billion) across the EC in a series of large public infrastructure projects, including highway and high-speed rail expansion, and coordinated waterway infrastructure to ease trade bottlenecks. Delors's proposal envisioned that the EC's European Investment Bank in Luxembourg would make "seed-capital" low-interest loans to combine with national government funds to catalyze such projects.

When the Delors infrastructure initiative was brought up six months later at the Copenhagen Summit in June 1993, it was flatly rejected by Britain's John Major, who instead called for repeal of the EC Social Charter labor regulations as the way to make Europe more "competitive." He explicitly included repeal of specific child labor restrictions as a priority. British Minister for European Affairs Heathcoat-Amory summarized the British position bluntly, "We cannot accept these proposals. We don't want to spend new money." The result was a decision to have Delors study further ways of promoting employment growth. Nothing has resulted one year later.

But the same EC Commission in Brussels has been busy issuing demands for massive reductions in steel, auto, and other industry production in the EC, a rather contradictory stance to the stated goal of the Delors proposal. Delors himself repeatedly stresses the urgency of an agreement on GATT's Uruguay Round. As noted earlier, the European Commission in Brussels has just released a private study which calls for elimination of at least 400,000 jobs in the European auto parts supply industry by the end of the decade. Brussels bureaucrats are demanding severe further permanent reductions in EC steel-producing capacity, cuts of at least 16% in tonnage capacity on top of the severe reductions a decade ago under the Davignon Plan. The plan envisions another possible 100,000 job eliminations in the steel industry throughout Europe.

In sum, Europe is flailing amid the deepest economic crisis since at least the 1930s with no coherent idea of the different nature of the current globalization crisis, and no philosophical resolve to abandon the pernicious mode of Thatcherite "free market" deregulation which so obviously has aggravated the situation to the point of breakdown.

United States: no upturn coming

We have dealt extensively with the parameters of the deterioration of the U.S. productive economy since the beginning of the 1970s in other locations, including "The Depression of the 1990s," a study produced last year by EIR Nachrichtenagentur. The conclusions of that study, if anything, were perhaps too understated. To date, one year later, there has been no single sign of resolute action on rebuilding the real economy from the Clinton administration, which came into office amid pledges to "restore America's competitiveness" and to rebuild national infrastructure. Within his first weeks in office in early 1993, on advice from Wall Street, Clinton dumped all pretense of calling for significant infrastructure spending, turning instead to an agenda of spending cuts and tax increases more pleasing to Wall Street bond traders. He appointed Robert Rubin, the former chairman of the Wall Street firm Goldman Sachs, to the new cabinet post of White House National Economic Adviser.

The economy of the United States entered into the early phase of this depression in approximately the fourth quarter of 1989, approximately the date when the Wild West "junk bond" speculative frenzy was hit by the default of Campeau Corp. Since that time, the Federal Reserve has repeatedly lowered interest rates in a frantic effort to prevent a collapse of the American banking system. Despite the fact that today, and for more than one year, mortgage rates on purchase of new homes are lower than they have been in 17 years, or that short-term interest rates are at a mere 3%, the U.S. economy has not rebounded.

The only reason that the extent of the depression is not more visible, is that the U.S. government, beginning in late 1991, engaged in a great Keynesian-style fiscal stimulus effort, directed at injecting enough growth into the economy through accelerated Defense Department or other government contracts to the private sector, to ensure the reelection of George Bush in November 1992. In the third quarter of 1992, the last weeks before the election, the Bush administration injected $44 billion alone to attempt the impossible.

The level of the annual official federal budget deficit had fully doubled from $153 billion in 1989 up to near $300 billion by 1992, and that figure grows, as total federal debt climbs above the $4.4 trillion level. The Clinton "deficit reduction" plan is a program to reduce only the *rate of increase* of the deficit by 1998, not the absolute amount. By 1998, under the most optimistic Clinton administration growth assumptions, there is supposed to be a total federal government debt of over $5.4 trillion. Already, interest payments on this debt constitute the second largest expenditure in today's federal budget, well over $200 billion annually to the private bondholders.

Further, domestic private capital investment faces the greatest problem since World War II, as the large U.S. companies face indebtedness at record levels, and make plans to move production south to Mexico under NAFTA, rather than invest in new plant and equipment at home. What investment has taken place in American manufacturing in the past five years has to a significant degree come from Japanese automobile makers, "transplants," establishing domestic American production to avert Washington trade protectionism against auto imports. The average U.S. manufacturing wage in 1993 was $11.71 per hour, net any benefits. In Canada, the figure was US$14.50 per hour. In Mexico, it averaged $5.77-12.83 per *day*. But Mexican law does not require large pension and health benefits to be paid in addition.

The real unemployment picture

Government economic data, according to private U.S. business economists, are utterly unreliable, subject to extraordinary manipulation, arbitrary "upward biases," and other tricks to hide the grim reality. A case in point: according to private economists' investigations into the U.S. Commerce Department and the Labor Department assumptions used to estimate employment payrolls in the United States, which figure in turn is used to calculate total wages and salaries of Gross Domestic Product, the U.S. government has used the same "upward bias correction" to inflate the number of assumed payroll jobs since the 1983 recession. Arguing that jobs in small business and industry were not being accurately estimated by the Commerce Department's sampling techniques, which survey mainly larger firms, the government has continued automatic computer model addition of this upward bias, with slight modification, since 1983, adding nonexistent jobs ever since. This, despite the manifest plunge of the economy and employment! The Labor Department is falsely adding at least 180,000 phantom jobs each month, or 2.2 million jobs annually to the U.S. economy, and then calculating an average wage or salary for each. The effect, naturally, has been to grossly inflate the GDP and the employment picture.

But the economic reality has been "down-sizing" and job elimination at an ever-growing pace. Calculating those unemployed who have despaired of finding new work, it has been estimated that actual U.S. unemployment is now between 17% and 18% of the working age population, and growing.

The largest companies, General Motors, IBM, Boeing, Sears Roebuck, United Airlines, Campbell Soup, and hundreds of other large multinationals, have been eliminating jobs permanently and moving production to cheap-labor regions, mostly in Ibero-America.

General Motors has eliminated close to 100,000 domestic jobs since 1991, and IBM is spending $15 billion in its plan to eliminate 100,000 of its 300,000 employees, closing one-quarter of its manufacturing plants in the United States. It is estimated that IBM will be forced to cut 100,000 more jobs

A White House public relations event to boost NAFTA on Nov. 2, 1993, two weeks before the congressional vote which passed the trade agreement. Assorted former officials join President Clinton (left to right): Carla Hills, Henry Kissinger, James Baker, Bill Clinton, Jimmy Carter. Under NAFTA, U.S. companies are moving production to Mexico, rather than invest in new plant and equipment at home.

if it is to survive against the emerging Asian competitors.

U.S. airlines are in the deepest crisis in the history of aviation, having combined losses since 1990 of over $10 billion, forcing the bankruptcy filings of TWA, Continental Airlines, Pan Am, and America West Air, with several more on the brink. This has led to large numbers of cancellations of orders for new aircraft, severely affecting employment at Boeing, the world's largest commercial aircraft maker, which has eliminated 28,000 jobs in the past months. Since 1987, a total of some 2,320,000 jobs have been permanently eliminated from large U.S. corporations, and the "down-sizing" process is only beginning.

Shift out of domestic manufacturing

What had been a growing but slow trend among larger American multinationals during the 1980s, assumed much bigger dimensions after 1989, as entire companies moved their manufacturing base out of the United States into the *maquiladoras* along the Mexican border, or to East Asia, especially the Philippines. In 1982, some 23% of all investment in plant and equipment for American multinational manufacturing industry was made in companies' foreign affiliates, according to U.S. Commerce Department data. By 1989, this had risen to 32%, or virtually one-third. And the percentage has reportedly risen significantly since, though data is not yet available.

This shift out of U.S.-based manufacture has been reflected in permanent layoffs by the largest U.S. companies, where the term "down-sizing" was first created to describe this process. Down-sizing is qualitatively different from typical recession layoffs, where personnel are rehired once the economy resumes expansion. Today's layoffs are permanent, as manufacturing facilities are being shut down.

U.S. direct foreign investment abroad, that is, purchase of companies or parts of companies or establishing a foreign production base, increased almost 40% between 1991 and 1992, the vast bulk of it going into Ibero-America, especially Mexico. Over the past two years, an estimated $18 billion has flowed out of the United States into Mexico alone, much of it to buy shares of ownership in newly privatized Mexican companies. Argentina and Brazil are also major investment targets.

By 1993, fully one-quarter of U.S. manufacturing exports were "intra-company transfers" of components and materials from U.S. operations to foreign affiliates, according to OECD studies. General Motors in 1992 was the second largest U.S. export company behind Boeing, with some $14 billion in exports. But almost all GM export was intra-company transfer abroad to GM plants in Mexico, Germany, Brazil, or Asia.

There is another side to the globalization of the American economy, namely foreign manufacturers based inside the United States, to lessen protectionist pressures from Congress, or to re-export from the United States back to their home market to appease Washington, which is alarmed over the trade deficit. Fully 20% of U.S. exports in 1992 were from U.S. affiliates of foreign companies. The largest such exporters were Toyota, Matsushita, Honda, and Siemens. Combining the intra-company trade of U.S.-based global firms and the activities of foreign-based multinationals manufacturing inside the United States, a total of 45% of U.S. exports of some $450 billion per year, is directly linked to globalized production.

Japan commits economic hara-kiri

Of the major industrial economies which might be expected to make a significant difference in world capital investment flows, we now look at the situation in Japan. Three years ago, much of the world trembled in awe at the Japanese "economic miracle." Books were written by German government officials warning of the "Japanese challenge." Today, the economy and the Japanese nation are going through what is seen as the most profound crisis since the Meiji era of industrialization, at the end of the last century.

Unlike the crisis of American industry over the past four years, the crisis of Japanese industry is not related to a deficit of technological investment or competitiveness. Indeed, during the last half of the 1980s, as capital was virtually without cost to Japanese industry, during the era of the Nikkei Dow stock market bubble and real estate price explosion, capital investment in the most advanced computerized production automation and other technology took place in Japanese firms to an amount estimated at more than $1 trillion.

The most concentrated capital investment program of perhaps any nation in history took place from 1986 through approximately 1991. To take merely the indicator of the absolute number of industrial robots in the manufacturing process, Japan at the beginning of 1991 had 274,210 industrial robots in use, a figure almost seven times greater than the industrial robots in the entire U.S. industrial economy, and nine times greater that the European leader in robotized production, Germany. Japan has a population slightly over 120 million, the United States 249 million, and Germany just under 80 million. On a basis of robots per capita, Japan has a density of 14 times that of the United States, and some 6.5 times that of the relatively advanced German industry.

Globalization, with a difference

The evolution of the Japanese economy over the past decade is complicated by what was, until quite recently, an extraordinarily high degree of political determination of key economic decisions, owing to Japan's special dependence for security, during the Cold War, on the U.S. nuclear umbrella. One consequence has been that, primarily for political reasons of appeasing Washington trade pressures during the mid-to-late 1980s, the Japanese government encouraged globalization of the Japanese automobile industry by investing in manufacture inside the United States, the so-called transplants.

When Washington pressured Japan, beginning in the early 1980s, to reduce its trade surplus with the United States, Japan's Ministry of International Trade and Industry (MITI) encouraged firms to build production inside the United States, and limit export growth from Japan. In 1981, MITI imposed a "voluntary restraint" on automobile exports to the United States. In 1982, Honda Motors opened the first Japanese auto production plant in the United States, in Ohio. By 1989, Japanese auto manufacturers were building 1 million cars in their U.S. production plants, and this rose to half of all "Japanese" cars bought in 1991 in the United States. These 3 million Japanese cars constituted fully 30% of all U.S. cars purchased in 1991.

In December 1989, responding to Washington trade pressures, MITI announced that Japan would finally open its markets to a massive increase in "imports." Japan had just been cited by the U.S. Trade Representative under Section 301 of the 1988 Omnibus Trade Act.

MITI then issued an "administrative guidance" directive, asking Japanese companies to boost imports quickly and aggressively, in order to reduce Japan's large external trade surplus. Since 70% of that surplus was with the United States, the point was clear. Japanese auto makers responded with plans to comply with the MITI directive.

Toyota Motor Corp., Japan's largest car manufacturer, announced plans to import into Japan more than $200 billion worth of products, mostly cars and auto parts, by fiscal year 1992, a 150% increase over the level of imports in 1988. Similarly, Nissan Motor Co. revealed plans to double its imports by fiscal 1992. Honda Motor Co. and Mazda Motor Corp. said they would improve their import of cars into Japan. The cars and parts will largely come from the newly built "transplant" manufacturing facilities of the same Japanese manufacturers inside the United States, re-exported back into Japan.

What the McKinsey consultants involved in designing this early Japanese auto industry globalization strategy do not tell their German clients at Daimler-Benz and VW, is that the profitability of the American auto manufacturing "transplants" was not the prime Japanese objective, but rather an easing of trade tensions with the United States. The economics of such global production was a lower priority for the Japanese than the political goal of being able to claim success in lowering the huge trade surplus.

The speculative bubble bursts

Then, beginning early 1990, the financial structures of Japan collapsed, in one of the most severe asset deflations in modern history. The Tokyo Nikkei Dow stock market had peaked the previous December at nearly 39,000 yen, a phenomenal rise of 100% in just two years, as the government continued its easy-credit, low-interest-rate policies, partly as a political commitment to the Washington administration in order to help stabilize U.S. financial markets after the Octo-

The first Honda automobile built in the United States, an Accord, rolls off line in November 1982, at the new manufacturing plant in Marysville, Ohio, as Kyoshi Kawashima, then president of Honda Motor Co., Ltd., looks on. Such "transplants" are part of a Japanese strategy to deal with U.S. pressures for Japan to reduce its trade surplus with the United States.

ber 1987 stock market crash.

Similarly, land, a very scarce commodity in Japan, had also begun to rise in value to astronomic heights during the late 1980s, to a point that by 1989, total Japanese land values were estimated at four times the entire real estate value of the United States. Land prices by 1987 were rising at a 61% annual rate, and reached the peak, according to figures of the Japanese Economic Planning Agency, of $16 trillion by end of 1990, when prices finally began falling. Companies and individuals were using this inflated land as collateral for borrowing.

Japanese corporations, their export profits hit by the rising yen in the years after the September 1985 "Plaza Hotel" Group of Seven agreement, increasingly turned to this financial speculation to compensate for lower traditional profit margins. The Japanese even coined the Americanized word *Zaitech* to describe the "financial engineering" of companies like Toyota, which began making huge profits speculating in currencies, using loans borrowed at virtually no interest cost, using their stock or land assets as collateral.

As the unique postwar Japanese financial system had been built on company cross-holdings of stock shares in other companies, when the stock market began its sharp decline, partly because official policy in late 1989 was to gradually force it down, this proved to be devastating. Nine months later, by August 1990, the Nikkei stock average had fallen by almost half, wiping out more than $2 trillion in Japanese asset values in the process. The Nikkei Dow has never to date recovered. The collapse of this "bubble economy," as the Bank of Japan refers to it, was deliberate, at the point the Japanese authorities in 1989 realized the extent to which things had gotten out of control. But a gradual deflation of speculative bubbles is almost without precedent. The markets went into uncontrolled collapse.

The consequence for the Japanese economy has been equally profound for the world economy. The rate of Japanese capital investment into the U.S. stock and bond and real estate markets plunged, from the record levels of the late 1980s, aggravating the asset depression in the United States as well. The Bank of Tokyo in March 1993 estimated the total value of non-performing loans on the books of Japanese banks to exceed 60 trillion yen, or some $500 billion, a figure five times the conservative official figure. The very existence of the entire financial system behind the Japanese industrial machine was under real threat, and Japanese government "administrative guidance" was turned from the postwar nurturing of industrial R&D, to the massaging and manipulating of Nikkei stock market stability in a frantic effort to prevent further collapse.

The consequence of this deflation in asset values has been a change in the character of Japanese industrial investment. The first sector to feel the collapse was machine tool and robotics manufacture, where new orders began falling in 1991, and by 1992 were down a staggering 40%, year-on-year, a downward trend which continued into 1993. The continuing collapse of machine tool domestic orders in Japan has added enormous pressure for Japanese manufacturers to accelerate their penetration of European machine tool markets, adding to the crisis there as well. Furthermore, consumer markets in Japan began shrinking as domestic consumers were hit by lower earnings, or for the first time in postwar history, with threat of loss of what had been lifetime employment security. This in turn led to increased export pressure on Japanese consumer electronics makers.

Export markets in trouble

All major Japanese export markets, notably North America and then western Europe, were in deep depression or the onset of severe recession by 1991-92, further pressuring Japanese corporate profits. By August 1993, the Japanese Labor Ministry estimated that 40% of Japanese companies were retaining "in-house unemployed," estimated to be some 1.7 million jobs, for whom there was no real work in the depressed economic environment. Until now the government has paid a subsidy to companies to retain, rather than lay off, such workers, in anticipation of the next upswing, in order to control unemployment. But now, for the first time since 1945, Japanese companies are beginning to force large-scale layoffs of personnel to cut costs, as company capital reserves have been wiped out by the collapse of the asset bubble and falling sales profits. Japanese management is beginning to adopt a new priority of "down-sizing," rather than preserving jobs.

Company after company is in the midst of deep losses, and profits have been falling for four years since the bubble economy began to collapse in late 1989. Mitsubishi Corp., the largest of the huge Japanese Keiretsu, or closely held industrial and trading groups, has announced that it is reviewing its entire corporate holdings, and plans to sell or close any which are not making a profit. It has just dismantled its *Zaitech* capital markets speculation division altogether. Toyota, the largest car manufacturer, expects its first worldwide sales decline in seven years. Japan Airlines is in deep loss, and so it goes, across the board. By the end of 1993, despite the existence of historically low Bank of Japan interest rates of 1.75%, there was no sign of any real resumption of industrial expansion. New capital investment in plant and equipment inside Japan continued to be absent, after more than three depressed years.

Globalization enters new phase

What is now taking place within major Japanese industrial companies is what might be termed "Globalization, Phase II." Unlike the politically led moves during the second half of the 1980s to base a portion of auto production in the United States, or in Britain so as not to be excluded from benefits of the European Single Market, today a drastic new form of globalization is under way in Japan. The manufacturing base is being relocated to the cheap-labor, low-overhead economies of Asia at a rate never before seen.

Already by 1988-89, Japanese direct investment in establishing a manufacturing base in the emerging economies of East Asia had significantly overtaken American investment, previously the dominant foreign presence. By 1988, Japanese firms were pouring $5 billion annually into direct manufacturing investment in Taiwan, Indonesia, Malaysia, Thailand, and other regional economies.

The sum of Japanese direct investment in these East Asian economies had almost doubled in 1989 to more than $8 billion, and by 1992 the sum exceeded $21 billion. Already by 1992, a significant share of Japanese current account income was derived from these direct investments in globalized production in the cheap-labor regions of East Asia. Far from the "miracle" spoken of by the World Bank, Thailand and Malaysia had been the benefactors of a relatively enormous foreign industrial investment by Japanese firms manufacturing for re-export.

Now, as the domestic economic crisis in Japan deepens, with no relief in sight for years ahead because of the enormous debt overhang from the collapsed asset bubble, Japanese firms are being urged to globalize on an even larger scale. Not surprising, the American management consultants McKinsey and Co., whose advice is creating the deindustrialization of German industry, is in the center of Japan's globalization process.

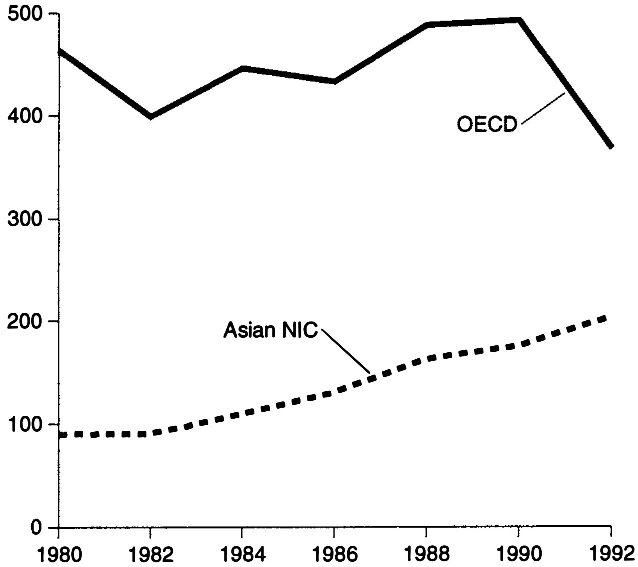
Kenichi Ohmae, chairman of McKinsey Japan, in a recent article in the London *Financial Times,* attacked what he termed the "rigidities of an inflexible employment system," insisting that so long as Japanese companies retain unnecessary workers on their payroll they will never return to "profitability." With unabashed American-style fixation on the financial "bottom line," Ohmae demands, "Japan must shift to a genuine free market economy. Initially this would certainly lead to a plunge in property values and the stock markets. These 'real' prices may also bankrupt overextended financial institutions."

Ohmae, perhaps more than any other person, has advanced the vogue of industrial globalization, since the 1985 publication of his book *Triad Power,* which the *Financial Times* at the time praised as "one of the most succinct and elegant description of the forces behind the growing globalization of industries and products." In 1989, Ohmae was asked to submit a series of articles on his experiences with globalization for the influential *Harvard Business Review,* which had a major influence on the debate in the American corporate society amid the severe crisis then hitting. Ohmae's words would in former times have been dismissed as laughable, as every Japanese industrialist knows the history of the close cooperation between government—MITI especially—and private industry in building Japan into the premier world industrial giant. But in today's crisis, such Anglo-Saxon calls as Ohmae's are taken seriously also in Japan, despite the fact that it was precisely the Anglo-Saxon "free market" policies of speculation and deregulation during the 1980s which caused Japan's present crisis.

Targeting Asia

The new phase of globalization of Japanese manufacturing has targeted the ultra-low-cost production potentials of

FIGURE 5
Steel output in emerging Asia versus OECD countries
(millions of tons of crude steel)



Sources: *EIR*, IISI.

Asian economies, centered on development of the untapped potentials of mainland China, as well as smaller countries such as Vietnam and Malaysia (see **Figure 5**). Despite the financial crisis, Japanese banks are now making large lending commitments to Asia, to the exclusion of Ibero-America and eastern Europe. In 1992, some $10 billion of Japanese private bank loans were extended by Japanese banks to the region, fully 95% of all new Japanese foreign bank loans, according to the Japanese Finance Ministry.

Japan is making a coordinated shift in industrial investment priority. MITI is sending specialists all across Southeast Asia as long-term instructors on manufacturing standards (Japanese-oriented), through the Japan International Cooperation Agency. Malaysia and Indonesia are the first two locations.

MITI, under the Japan Overseas Development Assistance (ODA) program, has begun to accelerate technology transfer to select developing countries in Asia—China, Malaysia, Indonesia, and others. MITI engages in joint R&D development in the developing partner country, often including costly research programs out of the reach of the developing country alone, and transfers ownership of the joint R&D facility to the partner country, as well as patent rights. MITI will do this through Japan's New Energy and Industrial Technology Development Organization (NEDO), a non-profit semi-government R&D body. Japan, unlike western European governments, has few qualms about deploying a strategic industrial policy. The R&D technology transfer projects initially range from joint development of laser radar applications with Indonesia, to bacterial oxidation for waste treatment in Chinese mining.

The deputy director of MITI, Yuji Hosoya, commenting on the importance of China for Japanese investment, recently stated that Japanese companies regard this as "a survival investment for Japanese industries. Japan's main target must be Asia." Asia by 1992 had replaced Europe as Japan's second largest region for direct overseas manufacturing investment by a significant margin. But the shift is only in its initial stages. Its impact will be felt on world manufacturing over the coming three to five years.

Thus, as the European Commission, using a study done by an American consulting firm, calls for elimination of 400,000 jobs in European automobile parts supply industry, in order to make Europe "competitive" with Japanese auto parts makers today, so those same Japanese companies themselves are in the process of a global shift to cheap-labor outposts in China, Vietnam, Malaysia, and elsewhere, which will make the gap between European and Japanese productivity an order of magnitude wider than it is today! The impact of this new Japanese-led industrial globalization into Asia will be felt as a shock wave across Europe and North America, if the current globalization trend is allowed to continue.

Mexico: the maquiladora model

Finally, we must examine the other side of the globalization process, the recipient countries which are attracting record sums of investment from OECD multinational companies and banks. The countries most often cited as models, Mexico and China, will be examined. They illustrate the more general nature of the process and the problem of globalization.

Since 1990, when Mexico finally agreed to sign with the U.S. Treasury, the creditor banks, and the IMF, under the so-called Brady Plan, placing some $7 billion of 30-year U.S. Treasury bonds in collateral against any future debt default, Mexico has suddenly gone from a "black sheep" debt-defaulting Third World country, to the darling of the international investment community. In 1992, more than $20 billion in capital flowed into Mexico from abroad, most from the United States, dwarfing by far anything going into the reforming countries of eastern Europe or Russia. As of mid-1993, the capital inflows into Mexico from the United States were continuing unabated. The major factor in this is the array of political concessions given by Mexican President Carlos Salinas de Gortari in the context of the Brady Plan, and subsequently under the secret negotiations around the North American Free Trade Agreement (NAFTA).

The centerpiece of Washington's strategy of global trade revival is NAFTA, whose stated goal is to link the markets of labor, tariffs, and regulation of Canada, the United States, and Mexico into one single North American Common Market.

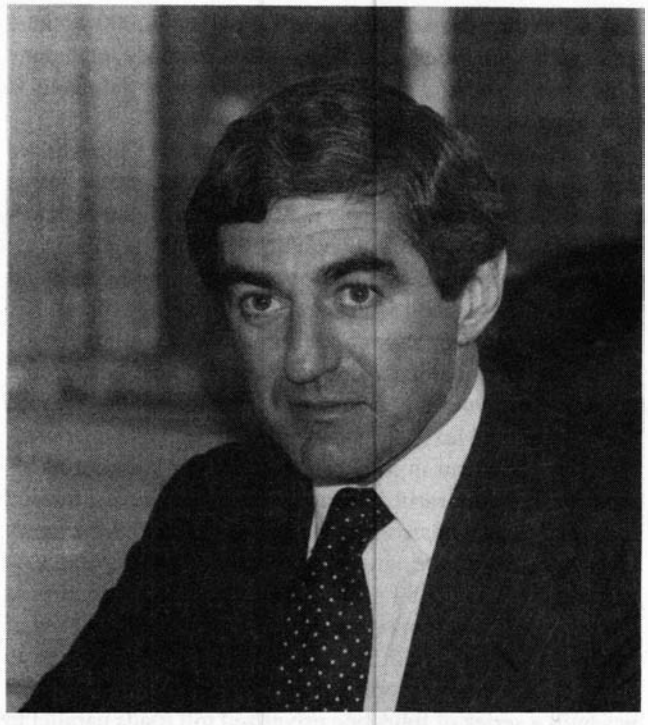
Speaking to a private audience during a recent international economics meeting in Switzerland, former senior Reagan Treasury official R. Tim McNamar boasted, "Latin America will be the way America gets out of its current economic slump. It's ours, Latin America. We own it." This, in brief, is the philosophy informing Washington's negotiations with the government of Mexico. Part of the agreement includes secret Federal Reserve guarantees for future American bank takeovers inside the totally unregulated Mexican banking market, as a process of "dollarization" of Mexico escalates with NAFTA, making Mexico, as one banker put it, "the unofficial 13th District of the U.S. Federal Reserve."

The decision to include a country with Third World levels of wages and social conditions into Washington's continental free trade zone scheme is the followup to the 1988 U.S.A.-Canada Free Trade Agreement. The Bush administration became increasingly alarmed about the potential of a single European market, greatly exceeding that of the United States in size and influence, as America's industrial base was eroding under the debt and other pressures of the 1980s. The NAFTA agreement was drafted to include intricate "rules of origin" requirements which are designed to minimize foreign investment in Mexico by countries other than the United States or Canada.

Under their 1988 pact, the United States and Canada agreed that they would eliminate most tariffs on goods and services by 1993, that Canada would remove restrictions on foreign investment which require local product input, and that Canada would end restrictions on energy trade between the two countries, even were this to mean shortages in Canadian energy. In the two years since the government of Prime Minister Brian Mulroney narrowly won voter approval of the free trade pact, Canada lost an estimated 290,000 manufacturing jobs. Hundreds of Canadian companies have closed or relocated to the south. The Canadian Labor Congress estimated that as of November 1990, already 226,000 of the lost jobs were attributable to the trade pact with Washington.

By March 1991, the Bush administration persuaded a skeptical Congress to open the doors to inclusion of Mexico along with Canada. NAFTA will allow free flow of goods, labor, and capital between Mexico and its two neighbors to the north. The pact will be made with the strict provisions that have been established by the International Monetary Fund for repayment of Mexico's more than $112 billion in foreign debt. This provision ensures the most intense pressures on any Mexican government to keep wage levels and social costs to subsistence levels, to encourage foreign capital investment and increased export earnings to service the debt.

The model of what NAFTA will mean for U.S. wage and job conditions has been clearly established. For some years, American multinationals have enjoyed the benefits of cheap Mexican labor for their assembly plants located along the U.S.-Mexican border. These runaway plants, the *maquiladoras,* have been, in effect, untaxed free trade zones. Only the value added by the far cheaper Mexican labor is taxed, when the goods re-enter the United States. This has been part of the cost-reduction effort for large American companies such as General Motors, part of McKinsey's restructuring of the American automaker.



Former Reagan administration Treasury official R. Tim McNamar: "Latin America will be the way America gets out of its current economic slump. It's ours, Latin America. We own it."

By 1990, *maquiladora* exports to the United States comprised some 50% of all Mexican legal exports to its major trade partner (this does not include an estimated $16 billion annual illegal exports of cocaine and other drugs). Most of the remainder of its exports was oil and gas, as part of the servicing of Mexico's debt to U.S. banks.

Slave-labor conditions

The essence of these *maquiladora* or "in-bond" cheap-labor assembly plants, is abominable Third World cheap-labor working conditions. According to documented evidence assembled by a member of Mexico's Congress, American multinationals require workers to sign a contract on entering the job, which gives the employer the uncontested right to fire them after a certain period. There exist no social security or minimal sanitary provisions from the company.

Average hourly wages are typically $0.98/hour, compared with the U.S. wage of $11.00/hour. In the Mexican city Ciudad Juárez along the Texas border, *maquiladora* wages average $3.60/day. Wage levels in these *maquiladoras* are even below the average prevailing in Mexican industry, which pays $1.56/hour for manufacturing labor, more than

50% more than the *maquiladoras*. Of some 500,000 workers today in the *maquiladoras,* two-thirds are female, and many of these are young girls. Use of child labor in the plants is pervasive, according to eyewitness accounts.

The factories which relocate south from the United States and Canada will have no added expense in anti-pollution devices, as pollution controls in Mexico are all but nonexistent. Toxic wastes are dumped untreated into rivers or onto the ground. In some *maquiladora* areas, air pollution is already so intense that it affects cities in the United States.

The overall economic conditions in Mexico following ten years of IMF conditionalities have created a desperate pool of unemployed willing to work under such conditions. Since the onset of the Mexican debt crisis in August 1982, manufacturing employment in Mexican industry has been cut by almost 50%, from nearly 4 million jobs to just above 2 million today. Living standards for the majority have also declined. Over the past decade, grain consumption has dropped 30% per capita, from 295 kg to 211 kg. Meat consumption is down by the same proportion, as more than 1 million head of cattle are annually sold from Mexico at dirt cheap prices to large U.S. food conglomerates. The Mexican government has built a series of four-lane privatized toll roads parallel to the old dilapidated highway infrastructure. Tolls on the new roads are prohibitive: A typical fare for a 100 km toll road costs some $7.

NAFTA's global impact

Under NAFTA, the domain of *maquiladora* production allowed inside Mexico will expand nationwide. Harvard-trained President Carlos Salinas de Gortari boasted in a March 1991 speech promoting the benefits of joining NAFTA, "It is necessary to establish new schemes for future sources of jobs. The *maquiladoras* are an excellent alternative for the country to root Mexicans in their places of origin and to strengthen the national economy."

The AFL-CIO, in opposing NAFTA, warned that the plan is a license for creation of "runaway plants" in which American companies will either relocate production into Mexico for dirt cheap wage levels, or use the threat of such to force domestic employees to make huge cost of living and wage givebacks. That is already taking place.

Needless to say, the implications of this NAFTA scheme on the European Community will be felt severely, as European companies are increasingly forced to resort to cost-reduction measures in order to compete with the cheap-labor NAFTA products.

With Mexico's size—its population is well over 80 million—the inauguration of a nationwide *maquiladora* system under NAFTA, will be devastating not only to whatever wage security still exists inside ordinary Mexican industry, but throughout North America and the OECD, as the depression forces more companies into desperate wage-cutting measures. The global implications of the NAFTA scheme have been largely ignored in western Europe, where attention has been concentrated on the process of integrating eastern Europe into a common economic space.

In effect, NAFTA represents Washington's desperate bid to undercut the economies of Europe and Japan through a devious form of "dumping," in which American companies dump cheap-labor products on the world market and cry, "Unfair trade!" when European countries protest at the destruction of their once-stable markets. The globalization process is no respecter of national accomplishment.

But cheap labor in a globalized world economy is no guarantee of security even for Mexico. After 1986, when the Mexican government agreed to become a member of GATT and open its borders to foreign investment, Mexico was the source of a *maquiladora* boom in textile factories employing cheap labor, often child labor, to make clothing for domestic and export markets. But in 1992, more than 150 textile manufacturers in the north of Mexico were forced to close their doors. Since 1990, the number of such factories has fallen from an original 850 to fewer than 550. The reason? Cheaper Asian textile imports, required of Mexico under terms of GATT membership, have forced 300 of them out of business!

In the past two years, in anticipation that NAFTA would be approved by the U.S. Congress, large New York investment houses such as Salomon Brothers, Goldman Sachs, along with Citicorp and Chase Manhattan and others, have poured more than $18 billion into the Mexico City Bolsa de Valores, the stock exchange, though only some 30 companies are listed. This has helped to inflate the stock index by 300% in the past three years.

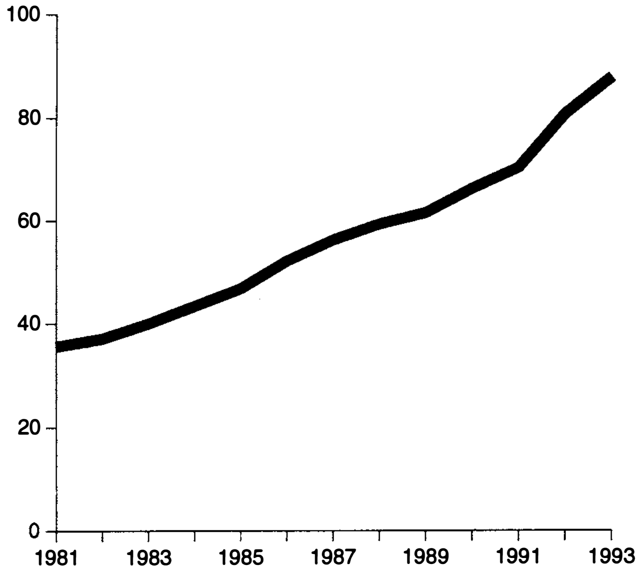
Any illusion that Mexico's foreign debt default could never recur should be tempered by the realization that despite the 1989 Brady Plan agreement with the U.S. Treasury and the IMF, Mexico's total foreign indebtedness has grown. Mexico's total foreign debt—public, private, and bank debt—reached $111 billion at end of July 1993, and if the $20 billion foreign holdings of Mexican peso Treasury bonds, the Cetes, are added, the sum exceeds $130 billion.

China's free enterprise zones: high-tech coolie labor

In January 1992, the aging Chinese leader Deng Xiaoping visited Shenzhen, the major free trade zone of the coastal Guandong province, where he extended his approval for continuation of China's "capitalist" experiment in luring western investment into building industrial production in China. Within hours of the news of Deng's approval, western investment began to flood into Guandong, an estimated $11 billion in 1992 alone. Those investments had been on hold since the June 1989 Tiananmen Square massacre, awaiting signs of the future direction of Chinese policy toward economic liberalization.

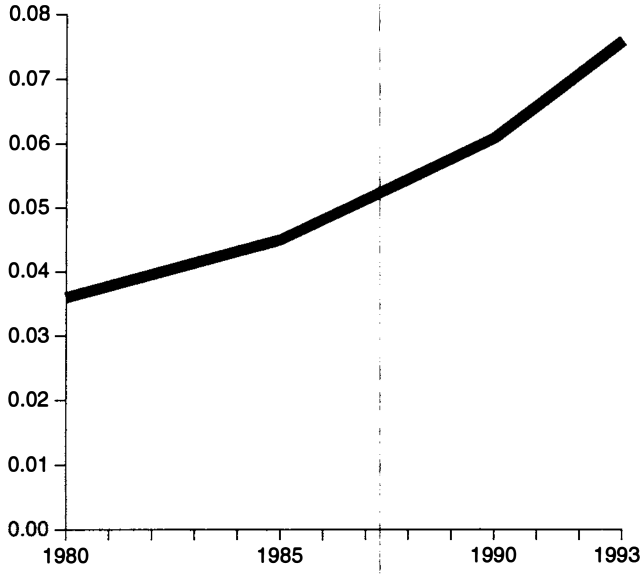
Today, western investment is coming into coastal Chinese

FIGURE 6
Chinese crude steel production
(millions metric tons per year)



Sources: *EIR*, IISI.

FIGURE 7
China's steel output per capita
(tons per capita)



Sources: *EIR*, IISI, UNCTAD.

provinces as never before. Beginning already in 1980, the Chinese government initiated creation of "capitalist enclaves" or Special Economic Zones, in the southern coastal provinces of Guandong and Fujian. The largest such zone, Shenzhen, is a few kilometers inland from Hong Kong, which itself in 1997 will again become part of China, when the British leave. The Special Economic Zones are tariff-free zones which invite western manufacturing. The Chinese aim is to obtain some of the most modern western industrial technology without cost. As an economist with the Chinese Economic Research Center described it, "China's Special Enterprise Zones are different. A major purpose is to introduce technology-intensive, knowledge-intensive, and capital-intensive enterprises for China's own benefit." The population of Guandong province alone is 65 million, larger than France.

Since Deng's approval in January 1992, the importance of these zones for desperate western industry has become enormous. First, Chinese expatriates in Hong Kong began to rebase their manufacturing some kilometers away, in preparation for 1997. Since then, Taiwanese, often with family links to the mainland, began shifting investment toward mainland China. By the middle of 1992, a virtual explosion of western investment into China took place. In November 1993, Chancellor Helmut Kohl led a delegation of German companies to China, and Japan has already indicated the importance it attaches to investment in China by sending Japanese Emperor Akihito there. Recent public statements from U.S. Secretary of State Warren Christopher and President Clinton also indicate that the rapidly expanding Asian region is emerging in American establishment thinking for the first time as the alternative to America's 50-year Atlantic Alliance with western Europe. China is intended to play a giant role in such American planning.

China, for its part, has applied for membership in GATT, hopeful of gaining more advantageous trade relations abroad for its enormous economy. China today has an estimated population of more than 1.2 billion. Of these, approximately 400 million live in the urban coastal areas such as Guandong province, providing an enormous and incredibly inexpensive labor pool for western industry.

But the explicit design of the coastal enterprise zones, which has been the subject of intense fights among the Chinese leadership since the mid-1980s, is the creation of ultra-modern, high-technology bases for Chinese industrial export to the western market, in order to gain hard currency earnings to finance the country's huge infrastructure deficit. OECD globalizing corporations are only too happy to oblige, which threatens to destroy the living standards and industrial base of the entire OECD itself (see **Figures 6** and **7**).

What has been under way inside China since early 1992 is a sea-change in that country's potential impact on the OECD economies. China's exports until recently had been restricted to low-technology, labor-intensive goods, much like those of Japan in the late 1950s—goods such as textile products, toys, or light consumer electronics. Much of the manufacture was labor-intensive "screw driver assembly" of simple electronics products from pre-manufactured imported components from the West, for tariff-free re-export.

Since 1992, there has begun a qualitative shift in the kinds of manufacturing investment in China's enterprise zones from western industry. This is arguably the most profound global shift in manufacturing capacity in the world today.

According to GATT, between 1991 and 1992, China moved from the 15th largest trading nation in the world to become the 11th, with a total foreign trade of $166 billion, ahead of Taiwan, South Korea, Spain, and the former Soviet Union.

China has become a significant importer. But it is importing capital goods to build entire new industries for manufacture and re-export. Machinery, transportation equipment, and steel were among the largest items in China's 1992 import bill of $81 billion. In 1992 and early 1993, China increased its total exports by fully 18% to $85 billion, and the share of electrical and mechanical engineering products in total exports increased from 19% in 1991 to over 23% a year later. And export of machinery and transportation equipment increased alone by 85%, compared with the low level of 1991.

This shift in the kind of exports is only beginning, as new manufacturing capacities from Japanese, American, and European multinational companies are only beginning to come on line in China. Much of the initial export rise is due to the move in the past two years of manufacturing from Taiwan and Hong Kong onto mainland China for cost-effective re-export, instead of the higher-cost production in Taiwan and elsewhere. But the wage structure of Hong Kong and Taiwan itself is already orders of magnitude lower than that in Germany, France, or the United States. One-half of Chinese footwear exports to the United States in 1992 came from Taiwanese-owned manufacturing companies inside China.

In this regard, the amount of direct foreign investment to build manufacturing in China increased an impressive 160% in 1992 over 1991 to more than $11 billion, with agreements for an additional $58 billion of future investment already signed with western partners. To date, 70% of this foreign direct investment has come from Asian investors. But OECD industry is rapidly moving in as well.

Japan is currently the third largest foreign investor in China, behind Hong Kong and Taiwan, followed by the United States and Germany. But a brief look at the change in this OECD manufacturing investment into China has undergone is revealing. In the past six months or so, the Japanese automobile industry has begun a full-scale shift into production in China. Nissan Diesel Motor Co. has just begun a joint venture in Guangzhou in southern Guandong province which will begin producing large trucks and buses by 1994. Daihatsu Motor Co. has agreed to a joint venture with Tianjin Minibus Works of China to allow an existing plant to increase its production of passenger cars by 50% to 53,000 vehicles. These first ventures are being made somewhat cautiously, but the pace of investment is increasing rapidly. Suzuki Motor Corp. is negotiating a joint venture with China Changan Machine Building Plant for the mid-1990s to ultimately produce 300,000 small passenger cars annually. Volkswagen moved equipment from its recently closed American production facility to set up production at the Shanghai VW Automotive Co. France's Peugeot is producing cars in China. China is expected to lift restrictions soon on the number of foreign auto production joint ventures allowed, opening the floodgates to western production relocation. Positioning themselves for this event are the largest Japanese automakers, including Toyota, Mazda, and Fuji Heavy Industries.

In short, since the Chinese National People's Congress reaffirmed the commitment to encourage western industrial investment in China, and the naming of Zhu Rongji, former mayor of Shanghai, to be vice premier responsible for economic policy and head of the Bank of China, western investment in China has increased significantly, according to anecdotal reports. Global financial firms like Barclays, Barings, Merrill Lynch, and Morgan Stanley are advising clients to invest in the new Chinese stock markets. Most draw a stark contrast between the investment potential of China and that of Russia.

In a October 1993 client advisory, Morgan Stanley noted salient comparisons between China and Russia since 1989: Russia had annual GDP growth of *−17%* per year, while China has +13%. Foreign direct investment into China has averaged $15-20 billion per year since late 1991, whereas perhaps $1 billion has gone into Russia. Russia has had a net outflow of flight capital of perhaps $20 billion annually, while direct capital inflows to China are running at $12 billion and growing rapidly. Morgan Stanley is promoting investment into China. As its chairman, Barton Biggs, stated following a recent visit there, it is "the biggest investment story in the world." His comments are typical of the growing OECD financial consensus, as globalization accelerates the search for new cheap-production outposts for industry. How China deals with this challenge will be one of the major determinants of the course of the coming century.

German policy toward China

Until recently, Germany has seen China as a potential new market for its engineering exports. In 1992, Germany increased exports to China by 50%, much of it in heavy industrial machinery and scientific instruments. Germany is the largest EC exporter to China. Now, however, with the November high-level German government trip to China to promote expanded trade, for the first time direct investment by companies such as Daimler-Benz and Siemens in manufacturing inside China for export, is going to be at the top of the agenda. This will have devastating consequences for social stability and economic growth in Germany and the rest of the OECD if it comes to fruition.

In announcing the Bonn cabinet's Oct. 20, 1993 decision to make the German presence in the rapidly growing Asian economies a priority, Foreign Minister Klaus Kinkel stated, "The conditions for trade must be kept free. Therefore the

Bonn government will seek with all its power to get a rapid conclusion to the GATT Uruguay Round talks." In short, to ensure the potentials for globalization of production out of Europe and the OECD into the cheap-labor regions of Asia and Ibero-America.

This is certainly not to argue that all German or OECD investment into Asia and other less developed economies is wrong—far from it. But the globalization type of investment, seeking absolute free trade, free flows of capital and cheap-labor, low-overhead countries, is destructive to a degree not imagined, both for the emerging economies and for the OECD economies, but far more for the OECD, as it spells industrial depression and collapse of living standards unlike anything experienced in this century.

Already, after three years production in Shanghai, VW is producing 100,000 Santana cars per year. To provide materials for the VW production, the Düsseldorf firm Henkel has built Henkel Shanghai Chemical Ltd. Hoesch-Krupp is also planning a plant to produce plate steel in Shanghai for the growing VW China production, at the same time that it is closing steel capacity in Germany. And the Krupp machine tool division is planning a joint venture to manufacture machine tools in China for re-export to the European market.

With strong centralized government, and labor costs of significantly less than $1.70 per hour for Chinese industrial skilled labor, the attraction of a deregulated Chinese economy for such European manufacturing relocation is enormous. This is the real challenge which European political and industrial leaders are refusing to date to address seriously. Demanding German wage and benefit reductions in this relative domain is absurd. The entire structure of the GATT free trade agenda is at fault.

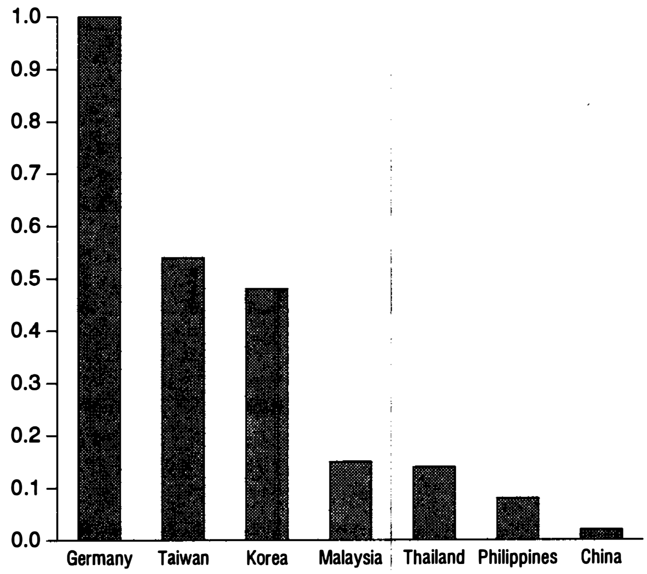
By comparison to China, eastern Europe labor costs are three times higher, at roughly $5-7 per hour. Eastern German wage costs are significantly higher still than those in Poland, the Czecho Republic, Slovakia, and Hungary. German manufacturing wage costs, including benefits and pensions, are currently some DM 40 per hour, approximately the level of Japan. By contrast, according to a recent study by Barclays' de Zoete Wedd, labor costs in Taiwan and South Korea are about half that; in Malaysia and Thailand, manufacturing wage costs are about 10% of Germany or Japan; in China, wage costs are approximately 2% of Germany or Japan (**Figure 8**).

Global economic thinking has focused on this simplistic wage differential to the exclusion of almost everything else, ignoring the fundamental policy mistakes in the OECD since especially 1982, which created the current crisis in the first place. This is the reason for the recent pullback of German and other west European industry from planned investment in eastern Europe in favor of Asian investment. Under globalization, production had started to relocate to eastern Europe after 1989, only now to again relocate to Asia and most especially China.

FIGURE 8

Relative manufacturing wages in Asia compared to Germany

(German 1991 wage level = 1)



Sources: *EIR*, Barclays BZW.

Where will it end?

By the very nature of this global phenomenon, there is no end to the process of "down-sizing" and relocation of the world's manufacturing base. The moment "costs" of a firm are significantly reduced in one region, another emerging market producer appears with even lower costs. Japan today is seen by many European politicians and industry leaders as the world challenger for production of micro-chips, high-capacity precision electronics which have revolutionized the world computer industry. But today Malaysia is one of the world's largest exporters of precision computer chips, and Taiwan, with an eye toward joint ventures with mainland China, is supporting construction of perhaps the world's most advanced high-density chip production facilities, said to be more advanced than anything in Japan.

What modern corporate accountants do not calculate, are the "external costs" of the educational and economic infrastructure which have made Germany and Japan the world's most productive per capita industrial economies over the past 30 years, despite their higher wage levels. This infrastructure and cultural investment is now threatened, and nothing exists in China or other cheap-labor economies of the developing world to even approximate it. In this sense, the price of labor ought to be the *least* relevant factor in deciding where to base manufacturing. Global deregulation and liberalized financial flows have all but obscured this fundamental economic reality.

World leaders are cool to Clinton's Pacific strategy

by William Jones

The Seattle summit of the leaders of the Asian-Pacific Economic Cooperation (APEC) forum gave President Bill Clinton an excellent photo-opportunity among the 14 world leaders who gathered on the chilly Blake Island retreat in Puget Sound on Nov. 20. But the five days of discussions in Seattle among heads of state, economic and foreign ministers, and trade representatives were otherwise short on public results. Although administration spokesmen remained upbeat when reporting on the summit, the more frank among them admitted that not much concrete was accomplished.

However, the meeting, taking place as it did during the same week in which the North American Free Trade Agreement (NAFTA) passed the U.S. House and Senate, did underline the Clinton administration's commitment to the hideous agenda of globalization, free trade, and blackmail run under cover of "democratization." This broader purpose was not lost on anybody.

The Clinton trade advisers clearly wanted to use APEC as leverage in their attempt to force France to eliminate subsidies to agriculture and to conclude a General Agreement on Tariffs and Trade (GATT) agreement by Dec. 15, which the United States set as a deadline.

But the meeting also served notice on the two leading Third World recalcitrants, India and Brazil, that they are now in the cross-hairs of the financial crowd's targeting system.

Bergsten targets Europe

The targeting of Europe was most clearly expressed in a report which was meant to provide a "vision" for the APEC meeting by the so-called "Eminent Persons Group," comprised of representatives from a number of the APEC countries and headed up by C. Fred Bergsten, assistant secretary of the treasury for international affairs during the not-so-eminent Carter administration, and director of the Institute for International Economics in Washington.

The report circulated confidentially to APEC delegates before the meeting, but was leaked extensively in the press, and created a controversy. It proposed using regional agreements within APEC to "ratchet up" the liberalization of world trade through GATT. Included in the drafting here is the idea that what cannot necessarily be achieved through multilateral forums like GATT, can be pursued nonetheless through bilateral and regional agreements concluded with the United States.

In addition, the Bergsten report also mooted the possibility of transforming APEC, a "consultative forum" involving most of the nations of the Pacific Rim, into an Asia Pacific Economic Community. The members of APEC include Canada, the United States, Japan, China, Singapore, Brunei, Malaysia, Thailand, Indonesia, Hong Kong, Taiwan, the Philippines, Australia, New Zealand, and South Korea. The notion of an economic "community" among these nations set off some fireworks.

Extending NAFTA into Asia

The unstated intent here is shown in the decision to admit NAFTA member Mexico to APEC in the next year, and Chile shortly thereafter. Since Chile and Argentina have been identified as first and second on the list to join an expanded NAFTA, it was abundantly clear that what the U.S. crowd is pursuing is to transform financial and economic relations with the countries of Asia into the same hideous basis as those which are in the process of being imposed on Mexico.

Hence the targeting of Brazil and India. Brazil has mounted a rear-guard resistance against the dollarization and privatization imposed on Mexico and Argentina. Brazil, and India have both attempted to defend their independant scientific and technical capabilities, whether that be their space programs, their commitment to nuclear research and development, or their other high-technology commitments.

The last few years of rapid economic development in Southeast Asia have involved a variety of attempts at economic cooperation among the countries in the area. Within the Association of Southeast Asian Nations (ASEAN), a group comprising Malaysia, Indonesia, Singapore, Thailand, Brunei, and the Philippines, Malaysia's Prime Minister Dr. Mahathir Mohamed had proposed the formation of an East Asian Economic Group, which would comprise only the Asian countries in the area. The formation of APEC in 1989 was largely a reaction by Australia and the United States to try to assure a veto over the direction of any future economic cooperation.

The Mahathir proposal, although garnering strong support from many of the other Asian nations, was treated with scorn by the western countries. Mahathir, in turn, decided to boycott the meeting in Seattle in the face of U.S. attempts to dictate the direction of economic policy in the area.

The broader aims might have been low-key, but they weren't missing. Secretary of State Warren Christopher was careful to play down the nature of the "community." "But let me be clear," he told a by-invitation-only group at the University of Washington on Nov. 17. "APEC is a building block, not a trading bloc." Yet even President Clinton, in his remarks to the Seattle APEC Host Committee on Nov. 19, referred to the Asia Pacific fall-back option, were GATT agreements to fail. "If our efforts to secure global trade agreements falter, then APEC still offers us a way to expand markets within this, the fastest-growing region of the globe." U.S. Trade Representative Mickey Kantor was even more straightforward. "If Europe blocks efforts to expand trade, it will be hurting itself most. U.S. trade will continue to expand with Asia and Latin America, and Europe will be left out."

But these concerns were by no means shared by all. As Dato Seri Rifadah Aziz, the Malaysian minister of international trade and industry, and the highest-ranking Malaysian at the APEC forum, responded to a question from this writer at a press conference on Nov. 19: "I made it very clear in my meeting with Ambassador Kantor that in no way were they [the United States] going to be able to use APEC as leverage against anybody in particular. And I'm sure I speak on behalf of some others who share the same views, but don't want to express them in public. And we say this because we do not want the last few weeks of the Uruguay [GATT] negotiations to continue with the recommendations that it's offering now."

A public relations boost for China

Undoubtedly, the highlight of the week was to be the first encounter between President Bill Clinton and China's President Jiang Zemin, the first U.S.-Chinese summit since the Tiananmen Square massacre in June 1989. For President Jiang the meeting was undoubtedly an unexpected boon. Basking in the limelight provided by most of Asia's heads of state as well as the American President and Canadian prime minister, the Chinese leader was able to put behind him the image which had been burned into the minds of the general public by the terrible massacre of Chinese students at Tiananmen.

Publicly, President Clinton has made a point of linking the continuance of Most Favored Nation trade status for China to its performance in improving human rights. Prior to the meeting with President Jiang, there was much speculation that Jiang would at least make some token concession on human rights in order to give Clinton the leverage he needed to push for continued MFN. Already at his first presentation before Boeing workers on Nov. 18, Jiang spoke scornfully of the "negative factors" and the "artificially imposed barriers" restricting trade with China. At his meeting with Clinton, characterized by White House spokesmen as "vivid," Jiang lectured Clinton on the principle of non-involvement in a country's internal affairs.

Clinton did indeed bring up the question of human rights at the meeting, but Jiang responded that the people who were imprisoned after Tiananmen Square had violated Chinese laws, and that every country must look after its own security.

With regard to the possible threat of a revocation of MFN for China, Jiang simply responded that such a measure would also hurt the United States because of the tremendous amount of trade it had with China, an argument which he considered a strong card. Although Jiang offered no "token" of good will, the Clinton administration on Nov. 17 allowed the sale of an $8 billion Cray supercomputer to China for use in meteorology, a sale which Secretary Christopher said had a "humanitarian purpose."

More pressure on North Korea

The United States also wanted help from the Chinese on the issue of the alleged North Korean nuclear weapons production. The United States had threatened to ask the U.N. Security Council to impose economic sanctions against North Korea unless it allowed full inspections by the International Atomic Energy Agency of the suspect facilities. The threat of sanctions caused an outcry in South Korea and in Japan as North Korea responded by beefing up its military forces on the border with South Korea. The Clinton administration wanted the Chinese to exert their influence on their North Korean compatriots. Foreign Minister Qian Qichen reported that President Jiang, in his meeting with President Clinton, had expressed his support for the "denuclearization of the Korean Peninsula," and said he would encourage the North Koreans to go back to the negotiating table to allow inspections of their nuclear facilities.

As has been the case in Europe too, the threat of escalating military, even nuclear, tensions can be wielded to keep recalcitrant nations in line with the broader agenda.

Civil war looms in Algeria

by Christine Bierre

On Nov. 10, French Interior Minister Charles Pasqua ordered the arrests of more than 80 persons suspected of being members of Algeria's Islamic Salvation Front (FIS), and of using French territory to conduct FIS support operations. The trigger for Pasqua's actions was the worsening civil war in Algeria, in which French citizens have increasingly become the targets of violent attacks, presumably from Islamic radicals. Two weeks earlier, on Oct. 24, three French consular agents were kidnapped in Algiers by a group calling itself the Islamic Armed Group (GIA). Some French citizens have also been murdered.

Why would the Algerian civil war extend into France? This is the question that the kidnapping of the three consular agents, who were eventualy released, has helped to clarify. Informed sources report that there are strong faction fights ongoing within the French administration to determine what France's attitude should be toward the FIS. Up to last March's election, which brought the right-wing opposition into power, President François Mitterrand, while not wholeheartedly favoring an "Islamic solution" for Algeria, had been favorable to opening up negotiations with the Muslims. An old political fox, Mitterrand knows that he cannot go on forever avoiding talks with an opponent which represents, like it or not, the majority of the Algerian electorate. The government of Prime Minister Edouard Balladur, however, has mixed feelings on this issue. Totally opposing any negotiations is Charles Pasqua, while Alain Juppé, the foreign minister, is leaning toward an opening to the FIS.

Tug-of-war in Algiers

Some sources suspect heavy-handed interventions from Paris to tilt the factional lineup in Algiers in favor of a hard-line anti-Islamic appproach. Until this summer, the situation was evolving toward a dialogue between the main political parties and the FIS. A "national conference" which was to bring together the main political parties of Algeria would have been the best occasion for opening up the dialogue. The majority of the elites, including the National Liberation Front (FLN), were looking forward to the opening of negotiations as a last-ditch attempt to stop the country from descending into civil war.

These hopes were then shattered by a putsch against President Belaïd Abdesselem on Aug. 23, on the heels of the Aug. 22 murder of Kasdi Merbah, a former head of the Algerian military and an extremely powerful behind-the-scenes operator. Redha Malek, the new President, represents the hard-line anti-FIS faction, centered around the chief of staff and the gendarmerie.

Informed sources report that under Belaïd Abdesselem's government, the defense minister had secretly appointed Kasdi Merbah to conduct negotiations with moderate FIS figures exiled in Europe. Merbah was murdered just one day after his return from Geneva, where he had been maintaining such back-channels.

Indeed, there is even much doubt as to whether the kidnapping of the French consular agents was carried out by Muslims at all. Commentators in the daily papers *Libération* and *Le Canard Enchaîné* have picked up on rumors that from the very start, the kidnapping had been a setup by Algerian hard-line anti-Islamic factions who are seeking to consolidate their power and to show the world—in particular, international banks—that they are indeed able to handle the situation. This ploy is said to have been designed to justify the adoption of a "Pinochet model" for Algeria: an austerity plan, dictated by the International Monetary Fund (IMF), that has also been called the "Turkish model," and that has found some support among Charles Pasqua and his friends in Paris.

By December, the Algerian elites will have to take a decision on those issues, given that the body currently ruling Algeria, the High Security Council, was only named by the military to rule until the term of former President Chadli Benjedid ended on Dec. 31.

The FIS's electoral gains are in fact a protest vote against the economic crisis which is growing worse by the day, and against selling out Algerian sovereignty to the IMF and other foreign financiers. Meddling from Paris in the internal Algerian situation to support this or that faction will not change anything, and at worst will aggravate the crisis. If France is so worried about Islamic fundamentalism, the only sensible policy for weakening obscurantist factions among Muslims in Algeria, would be a major increase economic aid in the form of technology transfers.

The threats against French citizens living in Algeria has already forced two-thirds of the 8,000 living there to return to France. France, a melting pot society with long-standing ties to the North African Maghreb region, has been a traditional meeting point between those two cultures bridging the Mediterranean. Those conspiring internationally to divide the world into the rich North, and the poor South, are the only ones who will benefit from a total break between France and the Maghreb region. The hysteria unleashed against Muslims in Paris, however, even though there are violent factions which must be fought and brought under control, fits too well with the international attack on Islam being run out of England and the United States, in collaboration with extremist Israeli factions, not to examine the deployments of the French Interior Ministry in that light.

Ukraine, ignored by West, is under the gun of economic disaster

by EIR Staff

Ukraine, a nation of 53 million people that has some of Europe's richest soil, formidable industrial potential, and the world's third largest nuclear arsenal, is in the throes of economic disaster. Like Russia, Ukraine during the past two years implemented an economic reform based on the decontrol of prices, without a perspective for rebuilding the national economy. Ukraine has felt the additional crush of Russia's hiking of prices to world levels, and demanding convertible currency payments, on its oil and gas exports to Ukraine, which were previously subsidized within the Soviet system. While Moscow has demanded political concessions—affecting territory, economic independence, and military forces—for any slightest alleviation of these terms, western countries press Ukraine to give up its nuclear forces, for the sake of arrangements worked out between the West and Moscow.

Upon hearing a report from a Schiller Institute delegation that visited the Ukrainian capital of Kiev in early November, Schiller Institute founder Helga Zepp-LaRouche commented on Nov. 13:

"If you take a look at the Ukrainian tragedy, it is very clear that either our policy [for economic development as the basis for peace] will be implemented very quickly, or it is going to unfold in an unbelievable catastrophe. Ukraine, which the West completely ignores, is right now undergoing a gigantic economic collapse. I will compare the economic figures to Russia's so that you get a picture, knowing the catastrophic situation in Russia.

"In the last seven months, the budget deficit in Russia increased, 5%; in Ukraine, 12%. The amount of paper money increased 2.3 times in Russia, 3.6 times in Ukraine. Inflation in Russia is 21% per month, 50% in Ukraine. Income in Russia averages $49.20; in Ukraine $16.20 [per month]. Ukraine therefore is now experiencing hyperinflation.

"Nothing is moving, because the Parliament is controlled by the old communists. The government is naturally also the old bureaucracy, riddled with corruption.

"There is a gigantic dependency of Ukraine on Russia, for oil and gas. The retail trade is also dependent. The shops are completely empty, as in Albania.

"Right now, the government is saying there will be elections in March. It is probable that it will come to an explosion long before that. Various scenarios are being discussed: One is that the democratic opposition wins, and then Russia will take that as a pretext to start ethnic conflicts and civil war. Then Russia would take that as a pretext to say the nuclear weapons are in danger, and they will move in, and that will be a catastrophe.

"Or, they prevent the democratic opposition from winning, and put in an even weaker leader than [President] Kravchuk, and then just absorb and swallow Ukraine back into some form of a new Soviet Union.

"This will not be accepted by the Ukrainians. They have not forgotten the genocide committed by the NKVD [Stalinist secret police], where 50,000 people were killed, a thing which was, for a long time, blamed on the Nazis, but it was actually done by the NKVD. That was on top of the 8 million people starved by Stalin, as a means to wipe out the Ukrainian population. And at that time, in the 1930s, Great Britain said no, we can't make that public, because this would ruin our relationship with Moscow. And [Franklin] Roosevelt, in 1934, recognized the Soviet Union *after* all of this was known.

"It is quite understandable that the Ukrainians are completely desperate. They're especially *sick and tired* of hearing that the only subject being discussed from the Russians and the West, all the time, is the nuclear weapons. Their attitude is that this is the only thing they have left, and if they give this up, they will be finished. Thus we are sitting on a powderkeg. This can go out of control. Civil war can erupt.

"It would be *so easy* for the West to remedy the situation. For example, the United States could relieve the dependency of Ukraine from Russia in terms of oil, by giving them oil from Texas or the Middle East. But obviously, this is not the case, and therefore, we need a global change."

Ukrainian political leader Vyecheslav Chornovil and economist Volodymyr Chernyak both spoke for publication in *EIR* about the consequences of the ill-conceived economic measures adopted so far, and the disillusionment in Ukraine with "liberal capitalist" prescriptions from the West.

Interview: Volodymyr Chernyak

'Wild liberalism is making us paupers'

Professor Chernyak is a department head at the Institute of Economics of the Ukrainian Academy of Sciences. He was interviewed Nov. 8 by Karl-Michael Vitt. Victor Petrenko translated the interview from Ukrainian.

Chernyak: On the territory of the former U.S.S.R., primarily in Ukraine and in Russia, there has been an ugly implementation—and hence discrediting—of the ideas of liberalism and capitalism. It is becoming more and more obvious, that we need not unconditionally accept all the western values—specifically, radical liberalism.

Radical liberalism, under the conditions of Ukraine and Russia, turns out to be wild liberalism and liberal capitalism becomes wild capitalism. Current practice shows that, instead of a free market, a speculative market of commodities, credits, and securities is being created.

The outcome of all this is the division, polarization, and pauperization of society. Nostalgia for times past, for communism, is rising among wider and wider strata of the population. The pauperized strata could be easily aroused by extremists of different kinds.

The policy of radical liberalization is destabilizing the situation in Ukraine and Russia, and this raises our anxiety. It is widely known, that it was the terrible destabilization of the country, which pushed the war in former Yugoslavia. We don't want the development of Ukrainian events to follow Yugoslavia's scenario.

EIR: You have read the interview with the pope, which was published in the *Guardian,* where the pope touched upon the same problems. What is your opinion?

Chernyak: I think the pope has evaluated the situation impartially. Above all, I mean that he managed to avoid a black-and-white approach to the assessment of the situation and avoided primitivism in his assessment. And that capitalism—especially in central and eastern Europe—does not exhibit its best sides, although it cannot be an ideal society or political structure.

This bears upon the specific practice of how the ideas of liberalism were realized in these countries. On the other hand, there is no basis to judge socialism only in its negative aspect. And the pope draws attention precisely to this fact. Although there was no strict hint [in the interview], one should discuss the problem of convergence. I think the convergence theory has very good prospects.

The return of "leftists" in Poland reflects the inability of the current political structures to implement required changes, in a way excluding pauperization of broad strata of the population, and a high unemployment level. From this point of view, the pope's interview looks like a balanced assessment of the situation.

Interview: Vyecheslav Chornovil

'Destructive forces threaten Ukraine'

Vyecheslav Chornovil is founder and leader of the Rukh, the independence movement in Ukraine. He was imprisoned many times in the Soviet Union for his political beliefs and activities, first in 1967, then during 1967-69, 1972-79, and 1980-85. He is a member of Parliament of Ukraine. Mr. Chornovil was interviewed for EIR *by Karl-Michael Vitt on Nov. 7 in Kiev. The answers were translated from Ukrainian by Victor Petrenko.*

EIR: How do you see the future of Ukraine, in connection with the new parliamentary election?
Chornovil: How should I put it, to be frank? My mood is not so optimistic. Under conditions of such acute economic depression, with such a high rate of inflation, and mass pauperization of the population, great opportunities are being opened for our "leftists." They are trying to arouse among the population's nostalgia for the communist times of the past, and a negative attitude to reforms, above all economic reforms.

And it is very difficult to forecast the results of the upcoming elections: There are still five months ahead, and the destructive processes in our society, in our economy, are going at an accelerating rate. If the elections took place today, we—all anti-communist forces—would have the possibility to get half, or even more, of the seats in the Parliament. But it is difficult to say what will happen in five months. All the more so, as the communists have preserved organizational unity, and our parties and organizations are nearly "newborns."

EIR: Do you consider Rukh to be a social democratic party?
Chornovil: I respect social democrats very much, but I am not a social democrat. We are an organization of the center, which is close to Christian democratic principles. Concerning economic development, we still stand for a liberal economy, though we realize that under our conditions of mass pauperization of the people—which were reached due to the communists—we would be forced to take something from programs of the social democrats in the beginning of our work, because a regulatory role of the state will still be needed, until the average level of living standards rises. But in the ideal case, we believe that such interference should be minimal.

EIR: This is the position of the pope: to help the weak. And the state should only create the parameters, such that every individual could develop himself. In connection with the hard economic situation in eastern Europe, the pope has given an interview [to Jas Gawronski, published in *La Stampa* in Italy, and quoted in the London *Guardian* Nov. 2], bearing on drawbacks of modern liberal capitalism and the "shock therapy" policy in the countries of eastern Europe. What is your opinion of this policy?
Chornovil: Unfortunately, I have not gotten acquainted with the interview of Pope John Paul II. Concerning the shock therapy policy: It is impossible here, because our people are too poor and they could not stand such a policy today. It seems to me that this policy has been working in Estonia, and given positive results. There is no universal approach.

EIR: From the standpoint of international policy, Ukraine became a "forgotten" country. The West turned all its attention to Russia, only encouraging Ukraine to abandon its nuclear weapons. Have you any advice for western politicians?
Chornovil: I was saying these things all the time I was in America, and met congressmen and other officials, and when I met members of Parliament in Great Britain, and during meetings with German or French colleagues. It seems to me that Europe realizes our situation better than the United States does.

But this situation depends on ourselves as well. If we have the old *nomenklatura* still in power in Ukraine, if the reforms don't proceed, then the attitude [toward us] is not the best.

Concerning nuclear capabilities, it's true that we are more involved in discussion of this, due to our possession of nuclear weapons. Were it not for these arms, we would be forgotten the next day. I do not champion leaving them here for a long time, but I am against our being talked to in the language of ultimata. This problem is a problem of time, and an issue of national security.

EIR: In view of the increasing threat of international conflicts in the former U.S.S.R., do you see any prospects for eastern Europe, which can be drawn from the Peres-Arafat agreement, especially from its economical issues?
Chornovil: It is not so topical for Ukraine, because we do not have such tense national relations. Even the situation in the Crimea is not too acute. What we have there is not a nationalist, but a *nomenklatura* attempt to break the Crimea away from Ukraine, to create some kind of a preserve of old communist system.

But, in general, I consider this agreement a positive one. It is another question, to what extent it is real. But the step was very important.

Cárdenas: the Aristide of Mexico?

Cuauhtémoc Cárdenas upholds the IMF's murderous conditionalities, like Haitian Satanist Jean-Bertrand Aristide, whom he defends.

The following is a statement issued by the Ibero-American Solidarity Movement (MSIA) of Mexico, on Nov. 23, 1993, signed by Marivilia Carrasco de López, Carlos Cota Meza, Rubén Cota Meza, Hugo López Ochoa, Ignacio Mondaca Romero, Angel Palacios Zea, and Alberto Vizcarra Osuna. The statement is slightly edited.

In the midst of the economic, political, and social chaos caused by President Carlos Salinas de Gortari's free trade economic policies, the idea has been spreading that Cuauhtémoc Cárdenas could win the Aug. 21, 1994 presidential elections and that this could put things right in the country. However, anyone who thinks this, understands absolutely nothing about what is really going on in Mexico. Cárdenas is the standard-bearer of the most noxious policies of the supranational financial oligarchy which seeks to complete the total destruction of the sovereignty of Mexico, and of all the other nations of the Western Hemisphere, in order to complete the "globalization" of the economies.

As the majority of citizens are already aware, the situation in the country is highly dangerous, given that the political class (that is, those political organizations recognized by the Federal Code of Political Institutes and Electoral Processes, along with some others which still remain outside it) is incapable of ruling, and that the country is crumbling in its hands. In this situation, a Cuauhtémoc Cárdenas government, with the policies he proposes, would submerge the country into even greater chaos, ending up in civil war.

A 'State Department socialist'

Cárdenas and his Party of the Democratic Revolution (PRD) belong to the narco-terrorist São Paulo Forum, and, like all the other Ibero-American members of this group of parties controlled by the Cuban Communist Party, accepts the prescriptions of the International Monetary Fund (IMF); supports the "economic globalism" of the new world order inherited from George Bush; is committed to paying the foreign debt and destroying the Armed Forces; and backs the legalization of drugs and legalized abortion as a means of birth control. But beyond all of this, in the economic arena, the PRD represents the perverse conspiracy of the Anglo-American usurious Calvinist oligarchy to eradicate the values of western Christian civilization from Ibero-America.

Cuauhtémoc Cárdenas is a founding member of the São Paulo Forum, spawned by Fidel Castro and the Cuban Communist Party. The Forum held its first meeting in 1990, in São Paulo, Brazil, from whence it took its name. Its later meetings have been held in Mexico City, in Lima, Peru, and most recently, on July 21-24, in Havana, Cuba.

Members of the Forum include the Workers Party (PT) of Brazil; the Lavalas movement of Haiti's Jean-Bertrand Aristide; the Sandinista National Liberation Front (FSLN) of Nicaragua; the Farabundo Martí National Liberation Front (FMLN) of El Salvador; the M-19 and National Guerrilla Coordinator of Colombia; the National Revolutionary Union of Guatemala (URNG); Alfaro Vive, Carajo of Ecuador; the Radical Cause Party of Venezuela, the All for the Fatherland Movement (MTP) of Argentina; the Broad Front of Uruguay; United Left of Peru; the new Socialist Party of Chile; the Free Bolivia Movement; the Party of the Democratic Revolution (PRD) of Mexico, and the Cuban Communist Party, with several dozen more leftist organizations as well.

Among the "personalities" who are promoted by the Forum or are members are Nobel Peace Prize winner Rigoberta Menchú (also a URNG activist), and the fundamentalist liberation theologists of Brazil Frei Betto and Cardinal Leonardo Boff, in addition to Fidel Castro himself.

As can be expected, these organizations focus their rhetoric against economic free trade neo-liberalism, but it doesn't take much to realize that it is all talk. The Sandinistas made a deal with the IMF which caused more destruction to the Nicaraguan economy than their war against Somoza. Jean-Bertrand Aristide, the assassin of Haiti, made a deal with the IMF and accepted its "conditionalities"—in violation of his own campaign promises—just before being overthrown by the military.

Cárdenas has systematically defended Aristide, joining the chorus of those who seek his restoration to the Haitian presidency by means of a military invasion. This, despite the overwhelming evidence that Aristide is mentally ill and enjoys manipulating the voodoo superstitions of his fol-

Cuauhtémoc Cárdenas speaks at an election rally during the 1988 presidential campaign. At that time he attacked the International Monetary Fund and spoke of problems caused by payment of the usurious foreign debt; today, these themes have been abandoned, as he falls into step with the Anglo-Americans' new world order.

lowers to cultivate a self-image as a "demi-god," and despite the fact that his seven months in office proved him to be an authoritarian who encouraged the use of terrorism against his political opponents. One of the terrorist methods promoted by Aristide is the so-called "Père Lebrun," or "necklacing"—that is, chopping the arms of the victim off, hanging a gasoline-filled tire around his neck, and setting it aflame.

One of the things that distinguishes Aristide, who was expelled from the Salesian Order in 1988, is his comment that "God doesn't exist for me."

The communists of the São Paulo Forum are not bothered by the genocide caused by IMF dictates; they do not hesitate to condemn neo-liberal policies from a distance, while at the same time, committing themselves, with Washington, to guaranteeing payment at all cost of the usurious debts that are strangling the region. Forum members have not made a pact with the Devil; rather, they are his living representatives. That is why the São Paulo Forum is also backed by the U.S. State Department and by other leading lights of the establishment, such as the Inter-American Dialogue, a quasi-private operation which receives funds from the U.S. government and even from the Mexican Finance Ministry, according to the Dialogue's 1992 Annual Report.

On April 16-17, 1993, a conference was held at Princeton University under the title "Options for Latin America: Committee of Presidential Candidates for 1993-1994." The event was sponsored by the Woodrow Wilson School of Public and International Relations, an institute financed by the U.S. government. Addressing the conference were: Antonio Navarro Wolf, of Colombia's M-19; Luiz Inacio "Lula" da Silva, of the Brazilian PT; Rubén Zamora, from the FMLN of El Salvador; Pablo Medina, of Venezuela's Causa R; and Cuauhtémoc Cárdenas, of the PRD.

When the conference ended, the Inter-American Dialogue organized a meeting between the candidates and Clinton administration officials. These included Richard Feinberg, the current director of Latin American affairs for the National Security Council and former president of the Inter-American Dialogue; U.S. Ambassador to the Organization of American States (OAS) Harriet Babbitt; Tim Wirth of the State Department; and Luigi Einaudi, U.S. ambassador to the OAS for the Bush administration. In commenting upon the meeting, Inter-American Dialogue President Peter Hakim declared that the Forum members "recognize the importance of their relations with the United States. . . .

They don't intend to use democracy as a path to socialism."

In publicly promoting these leftist "presidential alternatives," the Inter-American Dialogue and State Department know that in upcoming elections, popular outrage against the IMF and its debt-collection policies will recur, in situations similar to those which have erupted in Venezuela and Brazil, where mass civic mobilizations—and, in the case of Venezuela, genuinely nationalist military uprisings—expelled corrupt Presidents. Given this reality, the Anglo-American ruling caste prefers a controllable left or, as they might better be dubbed, the "State Department left." Cuauhtémoc Cárdenas has been assigned the role of "President in reserve," in case Carlos Salinas and his Revolutionary Institutional Party (PRI) government are unable to control what is already expected to be an overwhelming "punishment vote" against them. After all, Cárdenas has the same program as his "enemy."

Terrorist arsenals found

But, is the São Paulo Forum really made up of "former" terrorists who are today fighting for "democracy" and against "corruption," as the State Department claims?

Last May 23, an enormous clandestine arsenal, containing tons of sophisticated weaponry, exploded in Managua, Nicaragua, revealing also 310 false passports from 21 countries, other false identity papers, and information about a continent-wide kidnapping network. The Colombian M-19 and FARC; the MRTA of Peru; Alfaro Vive, Carajo of Ecuador; the Argentine MPT; and the inter-American Americas Battalion, together with Spain's ETA, were just some of the groups identified as part of this continental network. Former Sandinista Minister of the Interior Tomás Borge is implicated—based on extensive proof—as the coordinator of this apparatus. Later, some 50 more arsenals were discovered in El Salvador, Honduras, Nicaragua, and Peru, all belonging to one or more terrorist or "former" terrorist members of the Forum, all of whom had participated in "peace dialogues" or in "democratization processes" in their respective countries.

It was in the first "weapons depot" discovered in Nicaragua that a list was found of multimillionaire Mexicans—together with recent photographs, general information, properties and recently purchased privatized companies, even their routines and security arrangements—all marked as kidnap targets.

If these are the colleagues of Cuauhtémoc Cárdenas, why not denounce them? The reason for this deliberate omission is that Cárdenas's colleagues are also those of Carlos Salinas de Gortari. As is known by all, Commander Tomás Borge is the official biographer of Salinas and his Solidarity Program, Pronasol. It was the Mexican presidency (under the supervision of the United Nations and Washington) which promoted the Chapultepec Accords for the supposed "pacification" of El Salvador, accords which in the words of FMLN spokesmen are designed to "corner and isolate the Army" of El Salvador. Rubén Zamora, FMLN chieftain and currently a presidential candidate in his country, even gave Salinas a combat rifle during an official ceremony at the Los Pinos presidential residence. It is also known that Rigoberta Menchú, of the URNG, lives at Los Pinos, to all intents and purposes.

"But how is it possible that the U.S. can support those who publicly present themselves as the enemies of its policies?" some will ask. Those who can ask such a question truly do not comprehend the situation that threatens us. In dealing with their "opposites" and cultivating and promoting them as ruling "options," the financial oligarchy is not doing this because it likes them, but because it knows that by placing them in positions of government, they are guaranteeing the destruction of nations and leaving them defenseless against invasion and usury.

The U.S. is supporting Cárdenas

As part of this conspiracy, the Cárdenas campaign is receiving foreign financing. The National Endowment for Democracy (a U.S. government-funded body better known as the Project Democracy of Lt. Col. Oliver North, who is famous for his weapons-for-drugs swaps to finance the Nicaraguan Contras) has approved "donations" of $420,000 to Mexican civic groups that supposedly promote democracy and human rights.

The Citizens Movement for Democracy (MCD), headed by Luis Nava Calvillo, will receive $95,000. The national leadership of the MCD includes Graco Ramírez of the PRD, who also serves as Cárdenas's secretary for inter-party relations. The Mexican Commission to Defend and Promote Human Rights, headed by Maricleare Acosta, will get $45,000. Acosta is a member of the PRD executive committee and a recent member of the Inter-American Dialogue. The Potosino Civic Front, headed by the Nava Calvillo family, will receive $65,000, and the Council for Democracy headed by Julio Feasler, will get $95,000. Also receiving donations are the Union of Civil Groups for Democracy, and possibly the National Accord for Democracy (ACUDE), run by the Social Democratic Party's Sánchez Aguilar. All of these entities back Cárdenas's candidacy, and are proposing the presence of international observers to supervise the presidential election process in 1994.

A Project Democracy newsletter, *The NED Backgrounder*, reported that, according to the recipients of its donations, the role of the NED "in Mexico has been conservative and sometimes irrelevant." The newsletter notes that the foundation's objective was to "promote free-market policies," but given that the PRI has adopted precisely such policies since Salinas came to power, "there is less need for it." Therefore, it says, the "donations" of the NED "will now be concentrated more on policies per se," and the organizations which have been receiving funds since 1992 are now using them "for activities related to the elections." This new financing, says the newsletter, occurs at a moment in which the role of "foreigners in the Mexican democratization process" is being analyzed. "Opposed to interventionism from the U.S. of any sort, the center-left in Mexico has not objected to the recent U.S. financing initiatives for democratization. In fact, such funds and the presence of foreign observers in the elections are welcomed." The dilemma posed by the newsletter itself is that, "pressured by democratic reforms in the country, the PRI will almost certainly be undermined and the power of the Mexican presidency eroded" (*The NED Backgrounder*, August 1993, Vol. 2, No. 1).

Does Washington really want to "democratize" Mexico by overthrowing the PRI? Perhaps the way Oliver North's Project Democracy "democratized" Nicaragua with its drugs-for-guns swaps, or "democratized" Panama by financing Guillermo "Porky" Endara?

'Salinismo' without Salinas

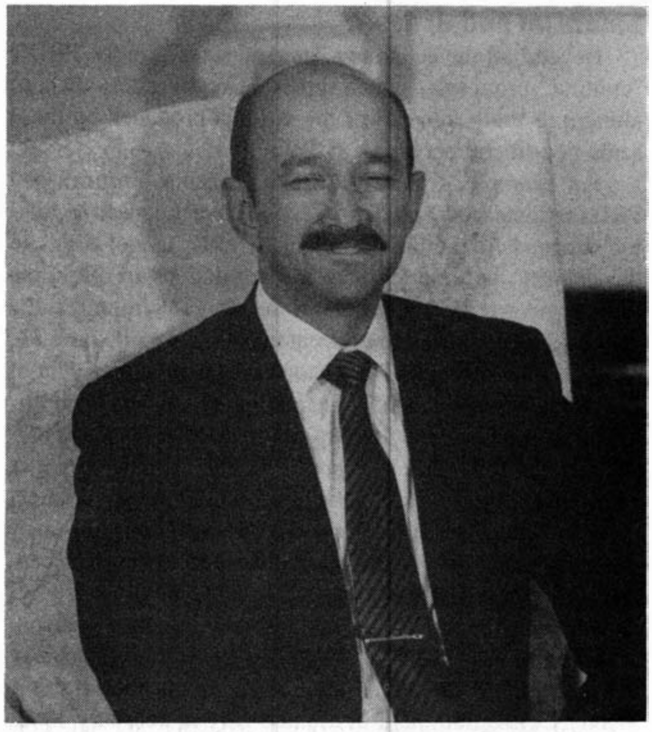
Cárdenas presents himself as the "democratic alternative" and as someone opposed to the free market policies of the current administration, but has never questioned the premises of that neo-liberal policy. Without hesitation, Cárdenas proposes the same policies as Salinas, with the sole difference that he says he will apply them "democratically," while combatting corruption.

Cárdenas says globalization is inevitable. "Those economies that are advancing, in any country on any continent, are moving toward globalization. Among the clearest signs of this are the various processes of multinational integration that are taking place, and the formation of great economic territorial blocs. . . . Given these realities, which are inescapable, we must seek to insert our country into the world economy under equitable conditions . . . and through sovereign negotiations." What he criticizes about the current government is that the insertion has been carried out with "subordination," "dependency," and "betrayal" (speech to the Autonomous Technological Institute of Mexico, September 1993).

While it is true that during his previous presidential campaign, Cárdenas attacked the IMF and spoke of problems caused by payment of the usurious foreign debt, in his current campaign these themes have been abandoned. Recently, with respect to the foreign debt, he said: "I think that . . . an effort must be made to renegotiate the foreign debt." In that renegotiation, he proposes to "win" two or three points of domestic product to "allot to productive activities" (interview with Renward García Medcrano, Televisión Azteca, Oct. 17, 1993).

Could it be that Cárdenas doesn't know that this is the same proposal that the Salinas government submitted to the overseers of the Brady Plan, which has cost the national economy more than $20 billion in four years?

Regarding the North American Free Trade Agreement



Mexican President Carlos Salinas de Gortari. The "fight" between him and Cárdenas is a fraud: Both uphold the same ruinous policies—with cosmetic differences of "leftist" or "rightist" coloration.

(NAFTA), Cárdenas has repeatedly stated that "we do not reject NAFTA. . . . In truth, we don't know exactly what it is. . . . It smells like it could be a bad agreement. . . . We want to see it improved, to see it made acceptable to the three countries. Mexico cannot isolate herself." But even more significant is the following statement: "We mustn't forget that our country joined GATT. . . . I feel that at this time we would have to maintain our membership in GATT and therefore maintain the tendency not to raise tariffs or put up barriers to international trade" (*Motivos* magazine, No. 117, Sept. 19, 1993).

Could it be that Cárdenas doesn't know that this is the policy that has destroyed national industry and agriculture, causing millions of unemployed and sinking millions of Mexicans in extreme poverty?

In his "Ten Theses against Poverty," presented at the University of Sinaloa in September, Cárdenas attacked Salinas's National Solidarity Program (Pronasol) as "an apparatus [designed to] lull the people by manipulating and controlling social demands," and as an apparatus neither capable nor intended "to effectively put an end to poverty." As an alternative, he proposes "encouraging investments that attract a strong component of labor" (an elegant way of proposing slave labor). Could it be that Cárdenas doesn't know that this is the same argument used by Pronasol to create its so-called Solidarity Companies?

Satanism and drugs

Beyond all the economic "coincidences" are the PRD's "cultural" proposals, which represent nothing less than an attempt to bring into power the effluvia produced by these same neo-liberal economic policies.

For example, former PRD Sen. Ifigenia Martínez and PRD factional leader Heberto Castillo have proposed legalizing drugs. It is preferable to "legalize the use of drugs in the country, as long as there are regulations to allow the federal government to register what drugs there are in the country," stated the former senator (*El Universal,* June 14, 1993). Castillo declared that should he become president of his party, he would fight to legalize drug consumption "by lowering the cost and thereby doing away with the trade" (*El Día,* June 25, 1993; *Impacto,* July 2, 1993). Cárdenas himself has proposed as a policy for his eventual government that "the Mexican authorities should stop doing the dirty work of its neighbors," without being more specific (acceptance speech as PRD candidate, Oct. 17, 1993).

But it is Adolfo Gilly, Trotskyist and Cárdenas's personal strategist, who has most clearly expressed the policies of the PRD and of the São Paulo Forum. In his speech to the Winter Colloquium held in Mexico City in February 1992, Gilly attacked those who "wasted" the 1980s with "improbable causes such as not paying the foreign debt." Like a good Trotskyist, Gilly urged surrender. According to him, "the international economic system . . . and its agencies like the International Monetary Fund and World Bank, have constructed among themselves inescapable guarantees, so that no government in its right mind would ever attempt or risk such measures without paying an intolerable cost."

Fully agreeing with the Colombian M-19's Navarro Wolf, Gilly stated that "the restructuring of Latin American capitalism . . . has forever put an end to . . . the lapsed nationalist/populist pacts. . . . Any proposal to revive those pacts would only serve as a diversion." Diversion from what? Gilly believes the new political parties (such as the PRD) should orient to the unification of "the new social movements" which seek "global rights," such as "the diversity of sexual options," abortion, feminism, homosexuality, environmentalism, "ethnic minorities." Democracy, says Gilly, should be based on the combination of "epochal changes" in sexuality and the "freedoms" won during the countercultural revolts of 1968. Curiously, this same "Generation of '68" also includes Salinas de Gortari and a large number of his collaborators as well. This is the "rock-drug-sex counterculture," known today simply as Satanism.

But this new union of supposed "opposites" is no accident. Gilly is only expressing the extreme position of Masonry (or of the "liberals," as they like to call themselves) within the Mexican political system. They have always been pro-imperialist; the title of "revolutionary" that they claim for themselves comes from their having persecuted the Catholic Church during various periods of Mexican history.

Cárdenas totally agrees with Gilly. Although he has recently appeared "neutral" with respect to abortion, Cárdenas had previously gone beyond this. In his acceptance speech as party candidate, he proposed the following: "It is indispensable . . . to win legislation that recognizes society's responsibility toward maternity, so that in practice, reproduction be collectively assumed by society as a whole. In sum it is necessary to *maternize* society." What does "collectivize" reproduction mean? What does "maternize" society mean?

The PRD is one of the leading political organizations that maintains, without any proof, the absurd lie pushed by the government that 2 million abortions are performed in Mexico a year (if this were true, the number of abortions would equal the number of births, at a growth rate of 2.2%). The PRD retails this lie in order to claim that abortion is a public health problem, and that therefore the laws must be reformed to permit this crime whenever a woman declares an unwanted pregnancy.

A crossroads: civilization or barbarism

Mexicans must abandon all illusion. The electoral process and the Aug. 21, 1994 elections will be a farce carried out between Cuauhtémoc Cárdenas and the PRI, PAN, and other candidates of Carlos Salinas de Gortari, to the benefit of the creditor oligarchy. The fight between Salinas and Cárdenas will be as real as the fight between Plutarco Elías Calles and Lázaro Cárdenas, from whose reconciliation emerged the totalitarian ruling party we know today.

The real challenge facing Mexico is not the 1994 presidential succession, but the survival of civilization in our country. The fight is that of the international financial oligarchy which seeks to impose a utopian "global empire" in which brown-, black-, and yellow-skinned people will be crushed, reduced to slavery. The program of the creditor oligarchy is economic destruction, ungovernability, starvation, disease, and military invasions. That is why they are promoting the communists of the São Paulo Forum as "options" for government. This is the role Cuauhtémoc Cárdenas has chosen to play.

Those of us who believe in *imago Dei,* that man was made in the image and likeness of God and whose life is therefore sacred, that man has inalienable rights, no matter his color; who believe in protecting and defending the family; who believe in economic justice and in the need for the scientific and technological development of the people—we are the enemies of the globalist utopia. Mexicans on this side of the battle must form ourselves into a political movement to bring about a sovereign republic that can put an end to the monstrous injustice that is the policy of the International Monetary Fund, World Bank, and similar supranational financial institutions. This is the only way to free our country from the satanic duo of Carlos Salinas de Gortari and Cuauhtémoc Cárdenas.

Workers Party under investigation

Revelations of the PT's illegal activities and terrorist ties may doom "Lula's" electoral bid.

The pro-communist Brazilian Workers Party (PT), a left-wing tentacle of the U.S. State Department, is now the object of a congressional investigation which threatens to reveal the truth about its foreign financing and ties to terrorism.

Many political groupings share the pragmatic belief that accusations against the PT are simply political opportunism related to the 1994 presidential election, in which PT leader Luiz Inacio "Lula" da Silva is a presidential candidate. Several polls report that Lula is ahead in the electoral race, with 31%. However, if the investigation is thorough, it can prove that the PT is maintained by the international oligarchy's supranational apparatus through non-governmental organizations (NGOs) whose goal is to destroy national sovereignty.

On Nov. 17, the Congress created a Congressional Commission of Inquiry (CPI) to investigate the sources of PT financing. Sen. Espiridião Amin charged that the PT receives clandestine funds from the CUT trade union confederation which constitute a type of parallel account. It is a well-known fact that the PT's leadership controls the CUT. At the same time, the CUT receives large amounts of money from abroad. Although such contributions are permitted by law, they cannot be legally channeled to sustain the activities of a political party.

The CUT's own president, Jair Menguelli, was forced to admit that 20% of the federation's annual budget comes from foreign trade unions in Italy, France, Spain, Belgium, Germany, Britain, as well as from NGOs. Over half of the foreign funds come from Dutch NGOs, which in turn work with the Marxist theology of liberation movement.

The PT, which is also dominated by the theology of liberation ideology, is a member of the São Paulo Forum, the coalition of Ibero-American left-wing parties created by the Cuban Communist Party after the fall of the Berlin Wall. Encouraged by the Anglo-American elites, including the Washington-based Inter-American Dialogue think-tank, the Forum's member parties have a common strategy to take power in several countries in the near future, if necessary through violent means.

In a recent interview published in Uruguay, Lula explained that the "democratic left," as the Forum's members call themselves, is growing rapidly on the continent and will enjoy big electoral victories. However, as soon as the congressional investigation began, PT leaders took off their pacifist masks. PT Deputy José Dirceu warned, "If you plan to use the Commission of Inquiry to defeat Lula, there will be civil war."

This is not just bravado on Dirceu's part. The other scandal in which the PT is embroiled involves its ties to the terrorist network backed by Fidel Castro, whose activities came to light with the May 1993 explosion of a huge weapons arsenal in Managua, Nicaragua.

Both the Canadian government and Parliament are pressuring Brazil to extradite two jailed Canadian citizens, David Spencer and Christine Lamont, members of a continental network which in December 1989 kidnapped Brazilian supermarket magnate Abilio Diniz. In the Managua bunker, Interpol discovered documents belonging to the Canadian couple indicating that the ransom money they received for the Diniz and other kidnappings went to finance terrorist activities in Ibero-America.

The Nov. 21 issue of *O Globo* reported on other documents found in the Managua bunker on Brazilian parties and security services; the report on the PT described it as a "political group made up of orthodox as well as modern Marxists and Trotskyists." This accurately reflects the various tendencies operating within the PT.

Two individuals who have been particularly active in seeking the extradition of the two Canadian terrorists are PT Sen. Eduardo Suplicy and Cardinal Evaristo Arns. If the two were to be extradited, the 28-year prison term they were given in Brazil would be reduced in Canada, and they would probably serve no more than three years. Eduardo Suplicy has lobbied Brazilian authorities on the Canadians' behalf, arguing that the two "were ignorant" of the scope of the terrorist operation in which they were involved.

Cardinal Arns has even sent written testimony to the Canadian Parliament affirming his "profound conviction of Christine and David's innocence." One of the most visible leaders of liberation theology, Cardinal Arns is well known for his friendship with Castro and his defense of continental terrorism. Together with "ex"-terrorist Frei Betto and liberation theologist Leonardo Boff, Arns controls the PT. This trio has placed at the PT's service the Ecclesiastical Base Communities, modeled on those set up by Nicaragua's Sandinistas. This is the apparatus which is preparing the PT's 1994 electoral victory.

Andean Report by Valerie Rush

Drug legalization scenario launched

A Colombian government official came to the United States to propose a common strategy for legalization.

Was it just coincidence that leading free-trade mouthpiece Jeffrey Sachs arrived in Colombia on almost the same day that that country's prosecutor general argued before an international conference outside of Washington that "the war on drugs is a lost battle. The only solution is legalization"? If one keeps in mind that the British Empire imposed the genocidal opium trade upon the Chinese people under the free trade banner, the timing of the Harvard-trained advocate of economic "shock therapy" policies appears less and less like a coincidence.

Sachs's arrival in Colombia, where he treated 400 members of the political and business elite to a diatribe on the virtues of austerity and the "open market," followed his visit to neighboring Bolivia, where he conferred with President Jorge Sánchez de Lozada. Sachs was a consultant to Sánchez de Lozada in the mid-1980s, and was instrumental in designing the austerity measures that ravaged an already-impoverished Bolivia and turned it into a full-fledged narco-economy.

Sánchez de Lozada, who is considered "on loan" to the Bolivian presidency by a quasi-private Washington-based think-tank, the Inter-American Dialogue, made a public statement in defense of drug legalization as one of his first official acts. During his Nov. 19 seminar in Bogotá, Sachs admitted—in private, of course—that he also "tended to lean in favor" of drug legalization.

It is predictable that the first major bid for a global legalization strategy should come from Colombia, which is not only headquarters to the world cocaine trade, but whose government has already taken major steps on the road to legalization, including striking amnesty deals with the narco-terrorists and, soon, with the cartels themselves.

The majority of Colombia's near-dozen presidential candidates are open advocates of drug legalization, including front-runners Ernesto Samper Pizano and Andrés Pastrana. And, although President César Gaviria has shown a certain "delicacy" in handling the question, prominent members of his own cabinet have gone public with endorsements for drug legalization.

On Oct. 2, a seminar on drug legalization was held in Bogotá, and addressed by U.S. lobbyists Milton Friedman and Ethan Nadelman of the Drug Policy Foundation. Also speaking were Gaviria's prosecutor general, Gustavo de Greiff, and his civilian defense minister, Rafael Pardo Rueda. De Greiff proposed that legalization was necessary for Colombia to produce "a clean product." He said Colombia should be producing the cocaine equivalent of "Chivas Regal," and not moonshine! Minister Pardo was a little more cautious, saying drug legalization should be undertaken multilaterally and not just by Colombia.

In his address to the two-day international drug conference in Baltimore, hosted by Baltimore Mayor and prominent legalization lobbyist Kurt Schmoke, De Greiff clearly felt that the time for proposing joint action had arrived (see p. 62). Presented to the Colombian people when appointed to Gaviria's cabinet as a hard-line anti-drug warrior, De Greiff was emphatic that waging a successful war on drugs was impossible. "It has been fought on the interdiction level, and it has failed. . . . The profits are so large that it is a delusion to think that jailing or killing major traffickers will result in [fewer] drugs on the market. . . . In the end, the only solution is legalization, with regulations to control the market."

De Greiff's remarks, the first time a high-level Colombian government official has publicly advocated drug legalization on U.S. soil, were buttressed by the comments of Colombian Sen. Enrique Gómez Hurtado. Gómez, the son of a former President and a long-standing drug legalization proponent, was present both in Baltimore and at a followup, three-day conference in Washington given by the Drug Policy Foundation, the premiere drug legalization lobby in the United States.

In his remarks, Gómez argued that neither repression nor interdiction has proven successful in stopping the illegal drug trade, given the power of the multinational companies and continent-wide guerrilla movements which stood behind it. He scoffed at the U.S. State Department's claims that drug money laundering could be brought under control, insisting that this was a phenomenon run by international banks, and not by the cartels.

While identifying the true nature of Dope, Inc., Gómez's "solution," legalization, constitutes nothing short of surrender. Indeed, Gómez's new book, *The Drug Tragedy*, was circulated at the two conferences, and is shot full of the same free-trade dogma behind which Dope, Inc.'s multinationals and banks imposed a narco-economy on Colombia in the first place.

Social Democrats offer no solutions

Their program was stolen from the Greens, and their chancellor candidate sounds just like Helmut Kohl.

The Social Democratic Party (SPD) convention, held Nov. 16-19 in Wiesbaden, gave voters little reason to hope that the biggest opposition party will have anything useful to offer the country in the October 1994 elections to the Bundestag, the national parliament.

The London *Times* aptly summed up the convention, and the SPD's chancellor candidate, Rudolf Scharping: "The policy positions marked out yesterday were not so very different from those of the Christian Democrats and more and more observers are noting the personal similarity between Mr. Kohl and his SPD rival. Mr. Scharping is prime minister of the state of Rhineland-Palatinate, the chancellor's old job. He sits in Kohl's former office, uses similar phrases, speaks with the same accent."

Indeed, Scharping gives the impression of styling himself as a younger version of Chancellor Helmut Kohl, ostensibly to appeal to the mainstream constituencies that are, in the deepening economic depression and political disarray, turning their backs on Kohl.

Does Scharping have the potential to become chancellor? And what program will he and his associates run on in the 17 different campaigns of the "mammoth election year of 1994"?

First, Scharping seems to have doubts that he is fit to run Germany. In his keynote address to the convention, he said there was no question about the SPD's being better than Kohl's governing Christian Democrats, but there was the question whether the SPD was "in the appropriate condition to deal with the big challenges of our time."

The SPD (and Scharping's remarks on the party's economic policy platform for 1994 made this strikingly clear) is not fit to deal with the economic depression. He called on Germany to become the number-one producer and exporter of environmental technologies, and his priority list of "future-oriented high-technology sectors" did not mention 1) nuclear power; 2) the Transrapid maglev train; or 3) new projects in aerospace. Not one big job-creating industrial or infrastructure project is listed in the SPD's program, and it is claimed that new jobs would not be created by the growth of industrial output, but rather, through a sharing of available work—what Scharping called "intelligent organization of the work."

The SPD platform for the campaigns next year will endorse a mix of tax breaks and state incentives for industrial firms that invest in "ecology-compatible" technologies and projects which, in the energy sector, would imply massive funding of "alternate energy sources" such as solar, geothermal, and wind, and modernizing coal power plants.

Special taxes against pollution and on the consumption (corporate and private) of energy, and budget-saving measures in the defense sector primarily, are to secure increased tax revenue for the state at a time when the tax base of productive industries is shrinking. This "taxation plus fiscal austerity" approach is, the SPD claims, to provide "maneuvering room" for a lowering of interest rates.

This is basically a radical ecologist program, and the Green party has repeatedly charged the SPD with stealing from their programs. But the SPD is a party quite different than it once was even in the late 1960s, when its Fabian-leftist policies were still labor oriented. The SPD of chancellor candidate Scharping looks like a clone from Green party "genetic" material not only to this author, but also to many other analysts.

This author was among those who, in the crisis after the oil shock of 1973, joined the LaRouche movement in Germany in the May 1974 election campaign in the state of Lower Saxony, which was run by Social Democrats. The LaRouche campaign for a new world economic order used the slogan "The SPD Needs a Head," attacking the lack of any concept to solve the deep, post-1973 recession.

The slogan was formulated in direct response to Chancellor Helmut Schmidt (SPD) who, when presented with the LaRouche programmatic proposals, admitted, "My head is too small for that!"

Almost 20 years later, the SPD needs more than just a head. What it needs most of all, is to keep in touch with the reality of a deepening world depression, and with the urgency of revitalizing productive industries and creating millions of new, productive industrial jobs. It needs a policy for dealing with the imminent danger of a banking crash.

At the convention, this author talked to the SPD's chief expert on monetary and budget policies, Mrs. Ingrid Matthäus-Maier. It turned out that she was not even aware that the financial derivatives issue is a topic of heated debated in the U.S. Congress; she would not even consider this a priority issue. It seems that her head was too small for that.

International Intelligence

Sweden worries about Russian military move

Swedish Prime Minister Carl Bildt, in a speech to the Swedish Foreign Policy Institute on Nov. 17, said that "we would support the Baltic countries if they were attacked" by Russia, as Russia attacked Finland in 1939. "Neutrality is not self-evident in the case of a conflict in the close vicinity of Sweden," he said. Sweden's support to Finland in 1939 was of a logistical nature, not military.

Bildt's statement triggered a retort by Social Democrat Pierre Schori, the foreign policy spokesman of the opposition party. Schori said that Bildt's statement must have been a very unclear message to the Baltic countries, drawing a historical parallel to America's unkept promise to help Hungary in 1956. He further said that it was "adventurous to compare the situation in the Baltic countries with the Finnish Winter War," adding that "it seems to me that the words of the prime minister are of a Carolingian nature," meaning that Bildt was a nationalist with imperial aspirations, like King Charles XII.

Radical parties gain in Italian elections

The first round of local elections in Italy on Nov. 21, involving more than 11 million voters, saw a radical left-right polarization of national politics. The front led by the Party of the Democratic Left (PDS, formerly the Communists) won in Rome, Naples, Genoa, Venice, and Trieste. In the runoff Dec. 5, they will face candidates in Rome and Naples from the pro-fascist Italian Social Movement (MSI), which is now the top party in both cities.

Everywhere, the moderate center, represented by the Christian Democracy (DC), has disintegrated, falling below 10%, due to corruption scandals and to its suicidal support of the austerity policy of the Ciampi government. Typical is the case of Rome and Naples, where local DC political machines, dumped by the "clean hands" policy of Secretary Martinazzoli, decided to go over to the MSI.

Alessandra Mussolini, granddaughter of Benito Mussolini, who came in second in the race for mayor of Naples, predicted victory over Antonio Bassolino of the PDS in the runoff. Mussolini, who keeps a bust of her grandfather in her bedroom, told reporters that the late dictator was her chief inspiration during the campaign.

The leftist front is represented by candidates whose policies are quite varied. In Genoa, the leftist candidate who won against the Northern League separatists is Adriano Sansa, a Catholic and former prosecutor, who is expected to follow a moderate policy. In Naples, winner Antonio Bassolino is tied to union interests, and is expected to oppose the dismantling of state-owned industry. In Rome, however, winner Francesco Rutelli is a radical ecologist who has been sponsored by Carlo De Benedetti's financial and media cartel.

South Africa approves new constitution

After several days of marathon negotiations, the ruling National Party and the South African Communist Party-dominated African National Congress (ANC) on Nov. 18 announced their approval of a new constitution providing for "one-man, one-vote" majority rule, under which the country will be governed at least through the planned April 27 elections. The prospects for a genuine political settlement, however, remain dubious, and the threat of civil war looms.

A number of thorny issues were left unsettled, including the precise division of power among the nine newly created "regions" and the central government. A great deal of power will reside in the new Constitutional Court, all of whose members will be appointed by whoever is elected President on April 27, which is almost certain to be the ANC's Nelson Mandela.

The country's near-term prospects are grim, despite the rosy coverage of the new agreement by the world's media. Barely mentioned is the fact that some of the country's major constituencies did not take part in the constitutional process, including the Inkatha Freedom Party (IFP) of Mangosuthu Buthelezi (the major organization of the nation's 9 million Zulus), and the Freedom Alliance, a black-white alliance representing most Afrikaners, many English-speaking whites, and several of the black homelands. These groups fear a dictatorial ANC government.

Freedom Alliance leader Constand Viljoen said that South Africa was "at the brink of war," that the situation was "disastrous," and that all Afrikaners should begin military training immediately. Buthelezi has also been quoted saying that civil war is imminent.

Kozyrev asserts Russia's imperial rule

Russian Foreign Minister Andrei Kozyrev lashed out against two former Soviet republics on Nov. 22, attacking Ukraine and Armenia for not adhering to Moscow's line.

Comparing Ukraine to North Korea, he said that the decision by the Ukrainian Parliament to attach conditions to ratification of the START-I Treaty could "delay for years" the destruction of nuclear weapons, and place the treaty in danger. After saying that Russia will press Ukraine to abandon its position, he added that Russia has also "begun difficult negotiations with North Korea," on achieving non-proliferation.

As for Armenia, Kozyrev addressed an incident that took place on Nov. 20, where Armenian forces fired on a convoy carrying a Russian mediator in the Armenia-Azerbaijan war. Kozyrev demanded from Armenia a "public apology" for the incident, and "security guarantees" for Russian peace mediators travelling in combat areas. He rejected the Armenian version of the incident, according to which the attack was a response to an Azerbaijani provocation.

The eruption of "Armenia bashing" is linked to Moscow's regional dealings with Turkey. A Russian military delegation arrived in Turkey in mid-November, asking

Turkey to agree to the transfer of three Russian divisions and several independent brigades from the Baltic coast to the Russian North Caucasus Military District.

Russia claims that this is not a violation of the CFE conventional force limitations treaty, because, since the dissolution of the U.S.S.R., Turkey is no longer bordered by Russia, but by independent republics. Therefore, the North Caucasus is no longer a "flank region," but a "rear area," and thus is no longer bound to the force limitations for "flank regions."

Russia, China sign defense agreement

Chinese Defense Minister Chi Haotian and Russian Defense Minister Pavel Grachev signed a five-year cooperation agreement in Beijing on Nov. 11. The accord is designed "to restore the close ties that united them before," Grachev told the press. This was the first visit of a Russian defense minister to Beijing since the collapse of the Soviet Union in August 1991.

According to Moscow Itar-Tass, the accord calls for consultations between the defense leaders, information exchange, and avoiding dangerous situations on land and sea. Grachev told the press, however, that "we are not going to conclude a union. We decided to strengthen bilateral and equal ties, not infringing upon the two states' interests. That is a perspective for further development of Russo-Chinese relations."

Regional security issues were discussed, said Grachev, and "we agreed that security in the Asian-Pacific region will be more durable if our bilateral relations are strong."

Grachev claimed that issues of military-technological cooperation were not on the agenda, since arms sales are beyond the sphere of the defense ministries. Last year, China bought $1 billion worth of arms from Russia. In addition, there are an estimated 1,000 Russian scientists in China. Japan's *Yomiuri Shimbun* has reported that China and Russia are cooperating on the development of a new jet fighter called Super 7, a program included in the Sino-Russian Agreement on Technical Cooperation in the Defense Sphere. The Chinese had originally planned to use U.S. technology for the jet fighter, but switched to Russia when the United States imposed a military ban on China.

Grachev's visit follows the visit in September of Chinese Defense Minister Chi to Russia, and also the visit of U.S. Assistant Secretary of Defense Charles Freeman to Beijing early in November, after which Freeman said that the United States was ready to resume military cooperation with Beijing.

Thai leader backs India on NPT

Thanat Khoman, Thailand's former foreign minister and deputy prime minister, announced in New Delhi in mid-November that he supports India's stand on the Nuclear Non-Proliferation Treaty. India did the right thing in not signing the NPT, because of its discriminatory character, Khoman said.

He said he deplored the use of terrorism as a political weapon and accused the West of using it at times to change situations not to its liking. He said the worst form of terrorism was being perpetuated in the former Yugoslavia, and that the West was doing absolutely nothing to stop this.

Khoman was chargé d'affaires at the Thai Embassy in Delhi between 1947 and 1949, and was personally known to Mahatma Gandhi and Jawaharlal Nehru and other Indian independence leaders. He is currently chairman of the Institute of Foreign Affairs and Institute of Technology in Bangkok.

Asked what he thought of U. S. security doctrine for the Asia-Pacific region, Khoman expressed puzzlement: "We don't know what the U.S. policy is. From the developments in Somalia and Yugoslavia, one could say that the United States has no definite or well-defined policy on anything, including the Asia-Pacific. . . . We do not understand what they want. I will be happy if anyone explains to me what the U.S. policy on the Asia-Pacific even is."

Briefly

● **THE IRAQI MAN** arrested as the chief of an alleged Saddam Hussein conspiracy to murder former President George Bush was a participant in the Anglo-American-backed Shiite rebellion seeking to overthrow Saddam following the Gulf war, according to the *Washington Post* of Nov. 22. Wali Ghazali claims that Iraqi intelligence forced him to plot against Bush.

● **FRENCH** Defense Minister François Léotard contradicted the prevailing western line on the new Russian military doctrine, pointing out that there is still plenty of reason to be concerned about Russia's military capabilities. "Within five or six years, any country with the appropriate industrial capacities could turn into a threat to its neighbors," he warned.

● **COLOMBIA'S** Constitutional Court ruled that hospitals should limit their care to those persons they believe can be cured. "It makes no sense to fill hospital wards and beds with people who have been provided all possible services, with no hope that their health will improve, since by doing so you are depriving others of receiving attention which could lead to acceptable results in their cases," said a court spokesman.

● **BOSNIAN PRESIDENT** Alija Izetbegovic said on Nov. 19, "We are not giving up on a unitary Bosnia and Hercegovina. We shall try to achieve this politically. If it's not possible, we have to do everything to achieve it militarily." Izetbegovic spoke after returning from a tour of government-held territory in central and north-central Bosnia.

● **THE VATICAN** announced on Nov. 17 that it was close to reaching an agreement with Israel that is expected to lead to diplomatic ties and clear the way for a historic papal visit to Israel. A brief statement said the work of a commission on bilateral problems set up in July 1992 had gone well and was "close to conclusion."

Free-traders plan phony debate on drug legalization

by Our Special Correspondent

From Nov. 15-20, an international assortment of city administrators, police officials, jurists, and health practitioners met in the Washington, D.C. area to map out a strategy to "just say no" to the Bush era war on drugs (admittedly one of the most limp-wristed wars in history), and to bring about a de facto drug legalization policy on the city and state level. The meeting was held in two parts: the first conference of the International Network of Cities on Drug Policy, hosted in Baltimore by Mayor Kurt Schmoke; and then the annual conference of the Drug Policy Foundation.

The conferences took place in the political shadow of the recently passed North American Free Trade Agreement (NAFTA); and it is "free trade"—especially the promise of a further disintegration of national financial regulation—which is offering the most hope to the partisans of legalization.

The spearhead of the campaign is a resolution calling for the creation of a national blue ribbon commission to be appointed by Congress and the President, which would examine all existing drug laws and would propose alternative strategies. Federal legislation based on the resolution has been introduced by California Democrat Don Edwards as H.R. 3100, the National Drug Control Policy Act of 1993.

It is no joke to say, "If you liked NAFTA, you'll love drug legalization," since the architect of this drug legalization campaign is none other than Milton Friedman, chief theoretician of the free trade movement. The proposal for the national commission was drawn up by Friedman and some associates who met at Stanford University's Hoover Institution; and while that organization disclaims association with drug legalization, the proposal is nevertheless popularly known as "the Hoover resolution."

The conference organizers' strategy is to overcome the immense popular resistance to legalization by gathering institutional support for a speciously benign proposal. City officials and other dignitaries who sign the resolution would be giving a vote of "no confidence" to the current anti-drug policies.

Two non-alternatives

The terms of the legalization debate would be limited to two alternatives: Keep the present course, or legalize. By thus limiting the debate to these two pre-selected "alternatives," the orchestraters of the debate hope to ensure that no one addresses the fundamental role being played by the international financial markets, the derivatives speculators, and other banking interests which have been the prime movers behind the systematic destruction of all national barriers to the flow of contraband. They seek to avoid at all costs a repeat, or continuation, of the debate which occurred during the first Reagan administration (1981-85), when Lyndon LaRouche and some international associates made money laundering by the international bankers (as well as the mere smugglers) the focus of the original "War on Drugs" campaign. At the time, George Bush and his allies among the gangsters represented by the Anti-Defamation League of B'nai B'rith fought LaRouche's proposal. Instead, they demanded that police-state legal procedures and violations of other nations' sovereignty be brought to bear in order to net the lowest level of the traffickers, while at the same time lifting restrictions on the flow of money generated by the drug trade.

The "alternative" of sticking with the present policy course, is therefore no alternative at all, since current policy has already been moving toward legalization. It is not a debate over *whether* to legalize, but only of how soon it should occur.

Colombia offers surrender to Dope, Inc.

A dramatic indication of the "success" of Bush's policies was provided by officials of the Colombian government, who attended the conferences flying the white flag of surrender. For the first time ever, Colombian Prosecutor General Gustavo de Greiff Restrepo told an audience including representatives of the U.S. State Department, "The war on drugs is a lost battle. In the end, the only solution is legalization, with regulations to control the market."

De Greiff complained that "the profits [from the drug trade] are so large that it is a delusion to think that jailing or killing major traffickers will result in [a shrinkage] in the market." His sentiments were echoed by Colombian economist Sen. Enrique Gómez Hurtado, who scoffed at U.S. State Department promises to eradicate drug money laundering. "Money is fungible, and you can't distinguish a drug note from a bank note," he argued.

This is certainly true under the current policy of international banking deregulation pushed by the Federal Reserve on behalf of Wall Street and London. Therefore, even though Clinton administration spokesmen solidly rejected the legalization approach—a policy which the conference organizers consider "locked in" at least until late in Clinton's second term—the presence of high-level administration officials, including from the Pentagon and the newly created Interagency Counter-Narcotics Task Force, indicates that the "dialogue" on this question has already begun.

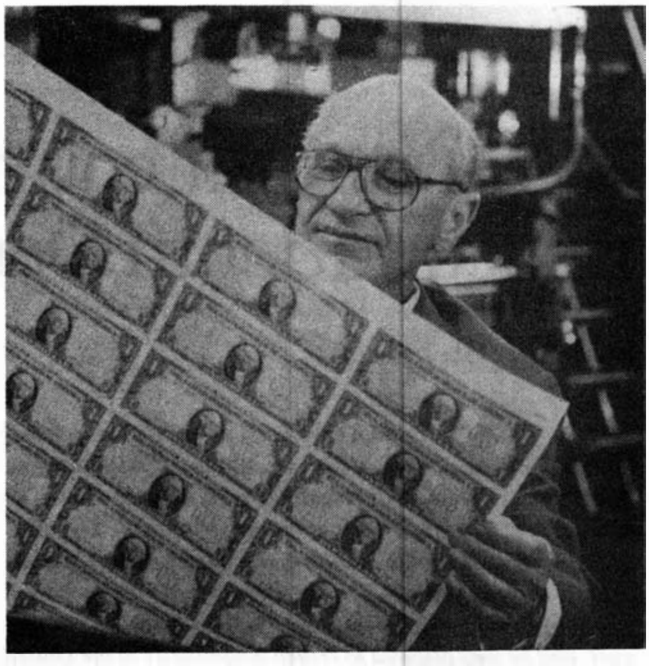
Speaking to the Baltimore conference, Assistant Secretary of State for International Narcotics Matters R. Grant Smith said, "I'm not here because this administration agrees with decriminalization or medicalization [legalizing drugs under color of medical or analgesic value]. We emphatically do not. I am here because, unlike previous administrations, the Clinton administration believes in open discussion and debate on social issues."

"Let me be frank," he continued. "We do not believe that legalizing drugs will move forward our common objectives. Even some supporters of legalization agree that drug use would rise if drugs were cheaper and more readily available."

The European legalization drive

Smith claimed that "this administration's stand against legalization . . . supports our international treaty obligations and the position of the United Nations International Narcotics Control Board." That remark should be evaluated in light of the report of a representative of the European Cities on Drug Policy. The ECDP has been circulating an international document, the "Frankfurt Resolution," which is identical to the Hoover resolution, except that it calls directly for steps toward decriminalization and legalization, and that its measures are found to be consistent with existing U.N. treaties.

The European initiative is being pushed by a network of city officials who champion drug legalization on the local level. Werner Schneider, drug policy coordinator for the city of Frankfurt, Germany, had just concluded a three-month working tour of U.S. cities, and reported that the European model could garner support in urban American political circles. His theme was echoed by Paul Vasseur, drug policy coordinator for Amsterdam; Üli Löcher, drug policy coordinator for Zürich; representatives of the cities of Hamburg and Bonn; and other Dutch and British officials, including a representative of the London Police Department.



Free trade guru Milton Friedman, the architect of the drug legalization campaign. For the Friedmanites, a dollar is a dollar—even if it comes from drugs.

The so-called "Dutch model" of decriminalization provides justification for the implementation of "harm reduction" measures such as needle exchanges, the organization of "junkie unions," and other meliorist schemes which assume the existence of a permanent addict population.

Backlash brewing

American police and city officials, who have been attending such conferences in greater numbers each year, presented a somewhat different picture in workshop sessions. Prince George's County police chief David B. Mitchell, who is closely allied with Mayor Schmoke, and who polices a large, mostly black Maryland suburb adjacent to Washington, told the conference "my constituents have no interest in legalization." And Lonnie Hancock, a pro-legalization mayor from the ultra-liberal city of Berkeley, California, told the conference, "I am the local level talking. . . . I am now realizing the extent to which the drug and crime problem have become compounded into one problem, how liberalization can be read as not caring. . . . People want police saturation."

Sixth Circuit court lambasts OSI misconduct in Demjanjuk ruling

by Jeffrey Steinberg

On Nov. 17, the U.S. Sixth Circuit Court of Appeals handed down a long-awaited ruling in the case of John Demjanjuk, the retired Cleveland auto worker who was extradited to Israel and tried as the Nazi war criminal "Ivan the Terrible" of the Treblinka, Poland death camp during World War II. After a 15-year ordeal, Demjanjuk was freed by the Israeli Supreme Court, which overturned his death sentence in August, and he was allowed to return temporarily to the United States pending the court review.

In its ruling, the Sixth Circuit said that the Department of Justice Office of Special Investigations (OSI) was guilty of serious prosecutorial misconduct and fraud upon the court. The decision has forced Attorney General Janet Reno to launch an internal review of the OSI. The decision also raises once again the issue of outside interference and criminal misconduct by the Anti-Defamation League of B'nai B'rith (ADL), which is cited by name in the Sixth Circuit ruling for its efforts to build up a witchhunt against Demjanjuk and for paying OSI head Alan Ryan to make a public relations trip to Israel in 1986 on the eve of the Demjanjuk prosecution there.

Because of the unprecedented blast at the OSI and the ADL contained in the Sixth Circuit ruling, and because of the critical issues of constitutional law raised in the 83-page decision, EIR *provides the following excerpts from the decision. Subheads have been added:*

The court decision

The question before the court is whether attorneys in the Office of Special Investigations (OSI), a unit within the Criminal Division of the Department of Justice, engaged in prosecutorial misconduct by failing to disclose to the courts and to the petitioner exculpatory information in their possession during litigation culminating in extradition proceedings, which led to the petitioner's forced departure from the United States and trial on capital charges in the State of Israel. For the reasons stated herein we conclude the OSI did so engage in prosecutorial misconduct that seriously misled the court. . . .

Demjanjuk's claims of misconduct consisted of the government's failure to disclose information that pointed to another Ukrainian guard at Treblinka, Ivan Marchenko, as "Ivan the Terrible." Demjanjuk's denaturalization and deportation orders were based on his alleged misrepresentations concerning his wartime whereabouts and activities at the time he applied for entry into the United States as a displaced person and in his application for citizenship. These orders were based primarily, although not exclusively, on Demjanjuk's failure to disclose his alleged wartime activities as "Ivan the Terrible" at Treblinka. The extradition order was based solely upon the district court's finding that Demjanjuk was Ivan the Terrible. This was the charge on which Israel sought his extradition, and on which he was ultimately tried and convicted by an Israeli trial court. . . .

The master [Special Master Judge Thomas A. Wiseman, appointed in 1992 by the court to hold hearings on the OSI's conduct—ed.] made findings of fact, largely based on credibility determinations, which absolved the government attorneys of deliberately and intentionally failing to disclose information that they considered exculpatory. Judge Wiseman also found that the various proceedings against Demjanjuk were not affected by political pressures from congressional sources and various Jewish groups in the United States.

Undisclosed materials from the former Soviet Union and Poland form the principal basis for Demjanjuk's contention that OSI attorneys engaged in misconduct that amounted to fraud. The Supreme Court of Israel reversed Demjanjuk's conviction as Ivan the Terrible and acquitted him based largely on statements of Ukrainian guards at Treblinka who clearly identified Ivan Marchenko as Ivan the Terrible. The Israeli Supreme Court found that these statements raised a reasonable doubt as to Demjanjuk's guilt. . . .

Demjanjuk maintains . . . that during its investigation prior to the denaturalization trial the government did obtain from official sources in the Soviet Union and Poland documents and statements that should have raised doubts about Demjanjuk's identity as Ivan the Terrible, and some of which named Marchenko as the wanted "Ivan." Because the OSI attorneys consistently followed an unjustifiedly narrow view of the scope of their duty to disclose, and compartmentalized their information in a way that resulted in no investigation of apparently contradictory evidence, Demjanjuk and the court were deprived of information and materials that were critical to building the defense. . . .

The Fedorenko file

The Fedorenko file, particularly the Leleko and Malagon statements, contain significant evidence tending to show that a person other than Demjanjuk was in fact "Ivan the Terrible of Treblinka." The record contains copies of a letter dated October 23, 1978, from the General Counsel to Martin Mendelsohn, chief of litigation in the "Special Litigation Unit" (SLU) of the Department of Justice, predecessor to OSI. The letter discusses the necessity of winning the Demjanjuk case, and has as attachments all of the SLU's memoranda on Demjanjuk. Among these memoranda is one from Parker and Moscowitz to the State Department requesting assistance in obtaining further information from the Soviet Union. The memorandum notes that the Soviets had sent materials in June 1978 relating to the investigation of Fedorenko (the Fedorenko Protocols), and continues: "Please thank the [Soviet] Ministry for sending these materials which have been very useful." Jt. App. 218. The October 23, 1978 letter shows that a copy was placed in the Demjanjuk file. . . .

There were clear signals that the Fedorenko documents were significant in the Demjanjuk investigation. As we have noted, the Fedorenko Protocols contained, *inter alia,* the statements of Soviet citizens Malagon and Leleko, both guards at Treblinka, who identified Marchenko as an operator of the gas chamber. Leleko's statement clearly said that there were two Ukrainian operators of the gas chambers, "Marchenko and Nikolay," and identified Marchenko as the "motorist" who committed some of the very atrocities with which Demjanjuk was charged. . . . Demjanjuk argues that this evidence provided the strongest possible support for their basic contention in all the proceedings that Demjanjuk was the victim of misidentification. . . . The Israeli Supreme Court considered more eyewitness survivor identifications than the American courts; yet, it found that statements made to Soviet authorities identifying Marchenko as "Ivan" raised sufficient doubt about the identification of Demjanjuk to require reversal of Demjanjuk's conviction and his release. It seems clear that the American courts considering Demjanjuk's fate should have had those documents that were in OSI's possession in 1981 that pointed to Ivan Marchenko as Ivan the Terrible. . . .

The Parker memorandum

After working on the Demjanjuk case for several years, OSI attorney George Parker became convinced that OSI lacked sufficient evidence that Demjanjuk was Ivan the Terrible of Treblinka. On February 28, 1980, Parker wrote a memorandum entitled "Demjanjuk—A Reappraisal," addressed to Walter Rockler, Director, and Alan Ryan, Deputy Director of OSI, setting forth his doubts. . . . Furthermore, Parker's memo pointed out, both the Polish and Soviet governments had compiled lists of guards at Treblinka, and Demjanjuk's name appeared on neither one, though "[t]he two Ukrainians who incessantly worked at the gas chambers were well known." This portion of the memorandum concludes: "Given these circumstances it is disturbing, as Norman Moscowitz has pointed out repeatedly, that Demjanjuk's name does not appear on either list."

After reviewing the available admissible evidence and the "flaws" with the Treblinka evidence, the memorandum sets forth Parker's views of "Strategic Options; Ethical Responsibilities" of OSI as he sees them. This section of the memorandum begins with these words:

"We have little admissible evidence that defendant was at Sobibor yet serious doubts as to whether he was at Treblinka. Even if we may be comforted that we may have the right man for the wrong act, the ethical cannons [sic] probably require us to alter our present position."

. . .While recognizing the significance of the Parker memorandum as a document which raised important questions about the handling of the Demjanjuk case, the Special Master concluded that it was not a "smoking gun" insofar as his inquiry was concerned. The master held that because OSI attorneys acted on the basis of good faith belief in Demjanjuk's guilt as Ivan the Terrible their disagreements with Parker's conclusions were irrelevant with respect to the issue of fraud on the court. While we agree that the Parker memo alone would not be a sufficient basis for a finding of fraud on the court, it raised a clear warning that there were ethical perils in continuing to prosecute Demjanjuk as Ivan the Terrible. When his superiors and colleagues at OSI refused to heed his warning, Parker resigned. . . .

The attitude of the OSI attorneys toward disclosing information to Demjanjuk's counsel was not consistent with the government's obligation to work for justice rather than for a result that favors its attorneys' preconceived ideas of what the outcome of legal proceedings should be. The master found that the OSI attorneys operated on the premise that Demjanjuk was Ivan the Terrible and that this belief caused them to be "inadequately skeptical" of their case when confronted with evidence pointing to Marchenko as Ivan Grozny [Ivan the Terrible]. We do not believe their personal conviction that they had the right man provided an excuse for recklessly disregarding their obligation to provide information specifically requested by Demjanjuk (as found by the master) the withholding of which almost certainly misled his counsel and endangered his ability to mount a defense (as found by the master).

OSI 'reckless disregard'

The OSI attorneys acted with reckless disregard for their duty to the court and their discovery obligations in failing to disclose at least three sets of documents in their possession before the proceedings against Demjanjuk ever reached trial.

1. The Fedorenko Protocols should have been disclosed. They consisted of information provided by a foreign government that supplied some support to Demjanjuk's basic claim from the beginning—that he was a victim of misidentifica-

tion. . . .

2. The list of Ukrainian guards at Treblinka furnished to OSI by the Polish government was certainly exculpatory. . . . The 1979 letter from the Polish Main Commission advised that the Commission had no data concerning Demjanjuk. Jt. App. 502. Among the documents forwarded with the director's letter was a list of known Ukrainian guards who had worked at Treblinka. Both Fedorenko and Marchenko's names appeared on the list. Demjanjuk's name did not appear.

3. Otto Horn's identification of Demjanjuk as Ivan Grozny from photo spreads was extremely important government evidence at the denaturalization trial. What neither Judge Battisti nor Demjanjuk's counsel knew was that the contemporaneous reports of the 1979 Horn interview by the OSI investigator and historian directly conflicted with Horn's testimony at the deposition that when he finally identified Demjanjuk's photograph in the second spread he could not see the first set of pictures. . . .

The record is replete with evidence that Alan Ryan was considering extradition of Nazi war criminals to Israel even before Demjanjuk's denaturalization became final. When that event occurred, the government did not deport Demjanjuk; instead, it sought his extradition for trial as Ivan the Terrible pursuant to Israel's request.

The consequences of denaturalization and extradition equal or exceed those of most criminal convictions. In this case, Demjanjuk was extradited for trial on a charge that carried the death penalty. OSI is part of the Criminal Division of the Department of Justice. The OSI attorneys team with local United States Attorneys in seeking denaturalization and extradition, and they approach these cases as prosecutions. . . . We believe the OSI attorneys had a constitutional duty to produce "all evidence favorable to an accused [Demjanjuk]," which the Special Master found he had requested and that was "material . . . to guilt or to punishment, irrespective of the good faith or bad faith of the prosecution." Brady, 373 U.S. at 87.

Thus, we hold that the OSI attorneys acted with reckless disregard for the truth and for the government's obligation to take no steps that prevent an adversary from presenting his case fully and fairly. This was fraud on the court in the circumstances of this case where, by recklessly assuming Demjanjuk's guilt, they failed to observe their obligation to produce exculpatory materials requested by Demjanjuk.

Political pressure

Although the Special Master found that pressures from outside OSI did not influence the respondents' failure to disclose required information, the presence of such pressure cannot be gainsaid. In August of 1978 Congressman [Joshua] Eilberg, the Chairman of an important committee, wrote then Attorney General [Griffin] Bell a letter insisting that Demjanjuk be prosecuted hard because "we cannot afford the risk of losing" the case. . . . The trial attorney then in charge of the case, Mr. Parker, wrote in his 1980 memorandum that the denaturalization case could not be dismissed because of factors "largely political and obviously considerable." Other lawyers in OSI wrote memos discussing this case as a political "hot potato" that if lost "will raise political problems for us all including the Attorney General." (Mendelsohn, then the Director of the office, to Crosland, September 26, 1978, Pet. Exh. 113.) Mr. Ryan, Director of the office, wrote the Assistant Attorney General of the Criminal Division in 1980 that OSI had "secured the support in Congress, Jewish community organizations, public at large for OSI—press coverage has been substantially favorable and support from Jewish organizations is now secure," but he went on to say that "this support can't be taken for granted and must be reinforced at every opportunity." (Ryan Tr. at 88.) Mr. Ryan also testified that "in 1986, which was the year before the [Israeli] trial [of Demjanjuk], I went to Israel for about 10 days on a lecture tour that was sponsored by the Antidefamation League. . . ." (Ryan Tr. at 90.) It is obvious from the record that the prevailing mindset at OSI was that the office must try to please and maintain very close relationships with various interest groups because their continued existence depended upon it.

Contrast with Israeli prosecutors

The "win at any cost" attitude displayed by some of these record documents and statements contrasts sharply with the attitude and actions of the Israeli prosecutors, who were under domestic political pressures themselves. But for the actions of the Israeli prosecutors, the death sentence against Demjanjuk probably would have been carried out by now. He would have been executed on a charge for which he has now been acquitted.

The Israeli prosecutors did not learn of the exculpatory evidence from Russia until after the accused was found guilty and sentenced to death in the Israel trial court. They had prosecuted the case over many months and obtained the conviction and death sentence. The Israeli prosecutors then learned that there was Russian information suggesting that the charges against the accused may be false. Instead of withholding the information, the prosecutors travelled to Russia to investigate the matter thoroughly. They marshalled the exculpatory evidence, brought it back to Israel; and in the face of extremely strong popular feelings against the accused, publicly turned it over to the Supreme Court of Israel. Basically, the Israeli prosecutors confessed error in the face of intense political pressure to get a conviction. Relying on this newly discovered exculpatory evidence developed by the prosecutors, the Supreme Court of Israel reversed the conviction which those same prosecutors had obtained five years earlier.

For the reasons set out herein we vacate the judgment of the district court and the judgment of this court in the extradition proceedings on the ground that the judgments were wrongly procured as a result of prosecutorial misconduct that constituted fraud on the court.

Book Reviews

Proof of Kennedy's 'no' to Vietnam

by Linda de Hoyos

JFK and Vietnam: Deception, Intrigue, and the Struggle for Power
by John M. Newman
Warner Books, New York, 1992
506 pages, hardbound, $22.95

A TV retrospective of President John F. Kennedy, on the occasion of the 30th anniversary of his murder, raised the question whether the United States would have engaged in the Vietnam War had JFK lived. "We might not have gone into the Vietnam the way we did," the shaky voice of William Bundy, Kennedy's assistant secretary of defense for international security affairs and defense's representative on the Southeast Asia task force, was heard to say.

John Newman's book *JFK and Vietnam* removes all conjecture from the matter: The United States would not have gone into Vietnam—as Bundy himself well knows. Newman proves the case conclusively, basing his book on newly declassified documents, memoranda, and minutes of meetings, from which he quotes liberally. Newman's book is a highly useful blow-by-blow account of the debates within the Kennedy administration on Vietnam. At each point that the debate reached a moment of critical decision, Kennedy did not budge from his position that American troops would not be sent to Vietnam to fight the Vietcong and North Vietnam directly. In this stance, the President was nearly alone within his cabinet and among his top advisers.

As early as May 11, 1961, Kennedy issued National Security Action Memorandum (NSAM) 52, which rejected an appeal of the Joint Chiefs of Staff for a total commitment to South Vietnam and a deployment of U.S. ground troops. The chiefs were clear that a total commitment would mean that the United States must be prepared to use the atomic bomb, if that meant the difference between victory and defeat.

National Security Adviser McGeorge Bundy and Secretary of State Dean Rusk argued for intervention. But, Kennedy maintained this position up to the point that he was murdered.

On July 28, 1961, Kennedy again rejected the plan of Walt Rostow of the National Security Council, to begin U.S. military operations against North Vietnam. In the meeting rejecting the plan, Kennedy "emphasized that the American people and many distinguished military leaders [Gen. Douglas MacArthur among them] were reluctant to see U.S. troops in that part of the world."

On Nov. 22, 1961, Kennedy issued NSAM 111, in opposition to his advisers and the Joint Chiefs. Although the memo approved a significant increase in U.S. advisers and equipment to South Vietnam, it would not approve deployment of U.S. ground troops, nor would it give absolute guarantees to save Vietnam from communism. Arguing against his defense secretary, Robert "Body Count" McNamara, according to the notes of the NSC meeting, Kennedy said he could make a "rather strong case against intervening in an area 10,000 miles away against 16,000 guerrillas with a native army of 200,000, where millions had been spent for years with no success." In fact, as Neil Sheehan's biography of John Paul Vann, *Bright Shining Lie,* showed, by the end of 1960, the U.S. military had already faced the fact that the South Vietnamese military could not win the war.

For the Joint Chiefs, this meant that the United States must itself make a total war-winning commitment to Vietnam. For many of Kennedy's civilian advisers, however, Vietnam was meant to be—and became—the arena for British-style cabinet warfare, in which American soldiers were to fight and die as pawns of a diplomatic game.

Kennedy rejected both options. In the strategic war against communism, he was committed to defeating the Soviet Union and the People's Republic of China on a policy of peace through strength, in which U.S. military strength and successes in technology, science, and space gave the United States total strategic superiority over communism. The same policy advisers who argued for cabinet warfare-style intervention into Vietnam opposed Kennedy's strategic designs also, favoring Yalta's "balance of power"—a term much used by Henry A. Kissinger.

By April 1962, Kennedy was already hinting to some of his advisers that he wanted to "seize upon any favorable moment to reduce our commitment" to Vietnam. On Nov. 21, 1963, the day before he was killed, he had drafted NSAM 273, which again rejected use of U.S. combat troops and direct U.S. military operations against North Vietnam. Kennedy never signed NSAM 273. When it was signed, on Nov. 26, 1963, by President Johnson, it had been revised to authorize U.S. military operations against North Vietnam. U.S. military intervention proceeded to escalate, largely based on memoranda written by William Bundy.

Fortunately, Newman's book does not draw the conclusion that the sole motivation for Kennedy's murder was to remove the major obstacle to U.S. direct intervention into Vietnam; but his book paints a stark picture of a President who, like Lincoln, stood at odds with his advisers.

And what happened to those advisers? McGeorge Bundy, for one, after contributing to architecting the war, moved over to head up the Ford Foundation, from where he deployed anti-war students such as Weatherman founder Mark Rudd.

Congressional Closeup by William Jones

Panel clears bill to open foreign markets

The House International Development and Finance subcommittee unanimously approved the Fair Trade and Financial Services Act by voice vote on Nov. 19. The bill is aimed at gaining greater access for U.S. banks, brokerages, and other financial institutions to foreign markets that restrict American operations.

The Clinton administration has touted the measure as a means of giving U.S. negotiators more leverage in the General Agreement on Tariffs and Trade talks, and has singled out Japan, Korea, Taiwan, Indonesia, the Philippines, and Brazil as nations toward which the bill is targeted. While allowing foreign financial institutions continued access to the U.S. market, some nations would be forced to hold up their banks and other financial institutions' expansion plans until they open up their own market. The bill would not affect current operations of foreign firms already in the United States.

"The purpose of this is not to exclude other nations from our financial markets," said Rep. Barney Frank (D-Mass.), chairman of the subcommittee. "The goal is openness." The measure now goes to the full Banking Committee, which is not expected to take action until next year.

Halperin nomination sent back to Clinton

The Senate on Nov. 20 sent the nomination of Morton Halperin to become assistant secretary of defense for democracy and peacekeeping, a new post, back to the White House without debate. Nominations are returned at the end of a session unless the Senate agrees, as it does routinely, to hold them. If President Clinton wants to proceed with the nomination, he must resubmit it when the Senate reconvenes in January.

Halperin's nomination has been bitterly opposed by conservative Republicans. At a hearing of the Senate Armed Services Committee on Nov. 19, Sen. Strom Thurmond (S.C.), the ranking Republican, called Halperin "unsuited for any position in the Pentagon. . . . He has a distorted view of the nature of conflict and international affairs, and has taken irresponsible positions well outside the mainstream of defense thinking."

Halperin, a former government official, policy analyst, and civil liberties activist, denied charges that he had undermined U.S. foreign and defense policy. Halperin is one of the foremost proponents within the administration for wider use of U.S. troops in U.N. peacekeeping operations.

The White House announced on Nov. 21 that Clinton will resubmit the nomination. But with pro-defense Democrats, such as Sen. Sam Nunn (Ga.), critical of the nomination, Clinton may decide to drop it.

China must do more for MFN status, says Mitchell

China must make progress on human rights, nuclear non-proliferation, and trade issues if it wants its Most Favored Nation trade status with the United States renewed, Senate Majority Leader George Mitchell (D-Me.) warned on the NBC News program "Meet the Press" on Nov. 21. Extension of MFN, which gives imported goods the lowest U.S. tariffs, comes up next year.

"I think the crucial period will be over the next six months whether the Chinese respond and actually make some progress in the area of trade, human rights, and non-proliferation," Mitchell said. "Right now I do not believe the President could extend Most Favored Nation status were the current events to exist late next spring or early summer. . . . There would have to be more done between now and next year for that decision to be affirmative."

Senate Minority Leader Bob Dole (R-Kan.) said that he supports increased trade with China, but added, "We have to keep an eye on their human rights record."

Statehood for D.C. rebuffed in vote

The House on Nov. 21 defeated by a vote of 277-153 a bill to make Washington, D.C. the 51st state of the Union. This is the first time that the issue has come up for a vote.

Despite the defeat, supporters of statehood for the capital city, which would have been renamed the state of New Columbia, said the level of support was higher than expected and vowed to continue fighting. "I'm ready to declare victory right now," D.C. Delegate Eleanor Holmes Norton said at a news conference with Mayor Sharon Pratt Kelly, "shadow senator" Jesse Jackson, and other officials. "This vote has surpassed my wildest expectations."

Lawmakers usually do not push for a vote on legislation they know is doomed to fail, but statehood supporters felt it was necessary to give the issue a higher profile. They laid out a list of complaints, chief among them the fact that the 600,000 District residents pay more federal taxes than some U.S. states, but have no voting members in the U.S. House or Senate. District residents have only been able to vote for President since 1964, under the 23rd Amendment to the United

States Constitution.

Opponents argue that the Constitution expressly made D.C. a special federal area in order to isolate it from the endemic sectional strife of the period and to prevent any one state from having an undue influence on the federal government.

The District has a large black population, which led some lawmakers to try to make an analogy between the quest for statehood and the civil rights marches of the 1960s that produced landmark voting rights and other laws to protect minority rights. The bill was supported by President Clinton and the House Democratic leadership.

Arab boycott of Israel condemned by House

The House on Nov. 21 passed by a vote of 425-1 a resolution condemning the long-standing Arab League boycott of Israel and calling it an impediment to Middle East peace. The non-binding resolution urges the Arab League and the United States to work to end both the direct boycott against Israel and a related boycott against firms with commercial ties to that nation.

The boycott "is an unnecessary obstacle to a comprehensive peace in the Middle East. It stands as a threat to the increased spirit of cooperation and tolerance emerging in the region," said Rep. Lee Hamilton (D-Ind.), chairman of the House Foreign Affairs Committee.

Since 1948, when Israel was founded, most countries in the Arab League have maintained an economic and diplomatic boycott of Israel. The boycott was expanded during the 1950s to include many companies that have commercial ties with Israel, including U.S. firms.

Lawmakers noted that some Arab nations are moving toward ending the boycott of firms since the signing of the recent Israel-PLO accord.

Gonzalez exposes NAFTA secret negotiations

In remarks on the floor of the House on Nov. 15, Banking Committee Chairman Henry B. Gonzalez (D-Tex.) joined Rep. Marcy Kaptur (D-Ohio) in attacking the pressure tactics of the Clinton administration in buying votes for the North American Free Trade Agreement.

"If a businessman were to do that," he said, "he would have been accused of bribery, and it is very disturbing. But the reason for it . . . is that the whole process over the course of 14 months that led to the formulation of these agreements was in total and absolute secrecy. You cannot get your hands on minutes or a record of the transcript, if they have one."

Gonzalez reported that the assistant secretary of the treasury who participated in the negotiations had two weeks earlier finally sent him a list of the other negotiators. "It has," he said, "all the leading, most powerful megabanks and their attorneys. These are the guys that wrote that section. Now, if anybody thinks that as a member of this House he or she can delegate to that class to protect the general interest, then they are very naive or willfully irresponsible."

North Korea targeted by Gilman resolution

Rep. Ben Gilman (R-N.Y.), the ranking member on the House Foreign Affairs Committee, introduced on Nov. 15 a joint resolution giving blank-check support for whatever action President Clinton may take with regard to production of nuclear weapons by North Korea.

"My resolution expresses Congress' approval and support for the steps that the administration has taken to date," said Gilman. "Further, it approves and encourages the use by the President of any additional means, necessary and appropriate, including diplomacy, economic sanctions, a blockade, and military force, to prevent the development, acquisition, or use by North Korea of a nuclear explosive device.

"My resolution defers to the President regarding which means are necessary and appropriate to prevent North Korea from obtaining a nuclear weapon. It is intended to make clear that he will have the support of Congress for any necessary and appropriate measures that he employs."

Death penalty favored over life without parole

An amendment to the crime bill offered by Sen. Carl Levin (D-Mich.), which would have substituted life without parole for the death penalty, was defeated 26-73 on Nov. 16.

Levin referred to a report by the House Judiciary Committee which cited 48 cases, since the death penalty was reinstituted in 1976, of individuals sentenced to death and ultimately cleared and released because they were innocent. Among the reasons cited for these wrongful convictions were prejudice, inadequate counsel, initial misconduct, and pressure to prosecute.

Sen. Orrin Hatch (R-Utah), however, claimed that society has the right of retribution against those who commit violent crimes, and that the deterrent value of the death penalty is unquestionable. "Murderers who are executed will clearly never kill again," he said.

National News

Tennessee black caucus: Remove Klan statues

The Black Caucus of the Tennessee State Legislature passed a resolution at their 19th Annual Legislative Retreat in Memphis Nov. 18-21, calling for the U.S. government to remove the statue of Ku Klux Klan founder Albert Pike from Judiciary Square in Washington, D.C. and the state government to remove a bust of Klan leader Nathan Bedford Forrest from the state capitol. The resolution will be presented to the full state legislature when it reconvenes in January.

The resolution read in part:

"Whereas both Albert Pike and Nathan Bedford Forrest were among a small group of Confederate generals who held several meetings in Nashville, at the Maxwell House Hotel, to form the Knights of the Ku Klux Klan; and

"Whereas Pike was the chief judiciary officer of the KKK, and the Grand Dragon of the KKK for Arkansas; and Forrest was the Imperial Wizard of the KKK; and

"Whereas these statues are an affront to the citizens of the state of Tennessee, the United States, and anyone who has ever looked to the United States as a bastion of freedom, and especially to those who risked or gave their lives for freedom:

"Therefore the Black Caucus of the Tennessee State Legislature hereby calls for the immediate removal of the Albert Pike statue from federal property, and the removal of the bust of Nathan Bedford Forrest from the Tennessee State Capitol Building."

Roanoke daily calls for sentencing reform

The Roanoke, Virginia *Times and World-News* of Nov. 17 ran an editorial on the sentences of 25 to 39 years meted out to four associates of Lyndon LaRouche, reflecting the political heat on Judge Clifford Weckstein, who upheld the sentences on Nov. 4. The paper, a virtually family-run outfit of Judge Weckstein, which never addressed the fact that the defendants were innocent, tried to let the judge off easy, by editorializing that legislators who wrote letters to Weckstein requesting sentence reduction should rather change the sentencing and jury rules they complained about. The editorial also points out that these legislators are responsible for Weckstein's reappointment, which comes up at the end of 1994.

The editorial read in part: "Did 12 Virginia legislators overstep the bounds of propriety recently when they asked Roanoke Circuit Judge Clifford Weckstein to further reduce long prison sentences for four followers of Lyndon LaRouche?"

"Yes.

"But did they raise good questions?

"Yes again. . . .

"Would the sentences have been any different, and by how much, if it had been a different judge? Another jury? A city other than Roanoke? A different year? Absolute consistency is doubtless impossible, but can sentencing be made fairer and more consistent than now is the case?

"Definitely.

"The 12 legislators weren't asking the wrong questions; they were simply asking them in the wrong forum. If they don't like the rules of Virginia's criminal-justice system, it is they—far more than ordinary citizens, judges or juries—who have the power to change those rules."

Bishops take stand against abortion

A pastoral statement mobilizing Catholics against abortion will be issued next year by the National Conference of Catholic Bishops, it was announced at the bishops' semiannual meeting held in Washington in late November. The statement will be timed to come out with a new encyclical from Pope John Paul II next year, and will also address such issues as euthanasia and the civil rights of immigrants, Cardinal Roger Mahony, chairman of the NCCB Committee on Pro-Life Activities, said on Nov. 16 according to AP. This will be the first such statement from the bishops in nearly 20 years, and is intended to mobilize all churchgoing Catholics for lobbying against abortion.

In addition, the Nov. 16 *Washington Post* reported on a "strongly worded statement" at the previous day's session "denouncing growing hostility toward immigrants": "As pastors, we are deeply concerned about the growing hostility toward immigrants evident now in some parts of society and even, sad to say, supported by some public officials," said the statement by the NCCB committee on migration. The *Post* article quoted recent statements from California Gov. Pete Wilson and state Treasurer Kathleen Brown to this effect. A "very virulent plague" of antagonism toward immigrants was denounced by committee chairman Archbishop Theodore E. McCarrick of Newark at the session.

Waco investigator criticizes FBI tactics

Harvard University psychiatrist Alan Stone refused to go along with the Justice Department's independent group of experts, whose report exonerated Attorney General Janet Reno and the Federal Bureau of Investigation for their handling of the confrontation with the Branch Davidians at Waco, which ended in the deaths of at least 80 members of the group. Stone insisted upon interviewing his own witnesses, and filed his own 46-page report in late November.

Although Stone's report goes along with the line that leader David Koresh led the Branch Davidians to "mass suicide," he is highly critical of the FBI's "noose-tightening tactics. . . . When the FBI thought they were at last taking control, they had in fact totally lost control of the standoff."

Stone asks how Attorney General Reno, if it were true that her main concern were for the Branch Davidian children, could have approved the "noose-tightening" and the use of CS gas. Stone attributed Reno's "ill-advised decision" to approve the final assault to FBI misinformation. Stone pointed to the FBI's choice of CS gas, which, he said, has been documented to produce "choking, chest pains, gagging, and nausea" even in a healthy, adult male. He added: "It is difficult to believe the U.S. government would deliberately plan to expose 25 children, most of them infants and toddlers, to CS gas for 48 hours."

Pro-life demonstrations under greater attack

The U.S. Senate voted 69-30 on Nov. 16 to outlaw peaceful protests at abortion clinics, thus mounting a more extreme attack on the right of free speech than even the racketeering laws have achieved against pro-life activists.

The bill was passed with "sweetener" amendments that ban protests at anti-abortion family counseling centers, and applies the same penalties to those who protest religious events. The measure was expected to pass the House, and be signed by the President before the legislative recess.

In a related development, the Bureau of Alcohol, Tobacco, and Firearms is surveilling the activity of anti-abortion protesters. ATF chief Magaw recently told the *Washington Times* that the bureau will continue to "monitor" religious groups, as it did the Branch Davidians, under color of controlling illegal weapons. The ATF has joined with two pro-abortion groups to offer a $100,000 reward to anyone providing information about acts of violence at abortion clinics.

Denver editor hails victory against OBE

The electoral victory of three Littleton, Colorado candidates for school board, campaigning against outcome-based education (OBE), "proves that with the proper candidates, the movement toward a vague, 'skill-oriented' curriculum can be stopped in its tracks," wrote Vincent Carroll, editorial page editor of the *Rocky Mountain News* in a Nov. 18 commentary in the *Wall Street Journal*.

Carroll calls the Nov. 2 election of the candidates the "most significant vote" involving education, more significant than the defeat of school vouchers in California. The new school board members of Littleton, a middle-class suburb of Denver, defeated the Littleton school establishment, which had tried to impose OBE in the city. All 15 elementary school principals had released an open letter to voters denouncing the anti-OBE slate. But the margin of victory was nearly 2 to 1.

Although the school board candidates were smeared as "stealth agents of the religious right," wrote Carroll, "It so happens . . . that OBE has critics from across the political spectrum." Carroll argued that the major problem with OBE is the assumption of a "supposed dichotomy between knowledge and skills" which is "most certainly false. . . . Good teaching was never a matter of merely dishing out facts."

Principal sacked for allowing school prayer

A Jackson, Mississippi high school principal was suspended by public school administrators for allowing students to recite morning prayers over the public address system, according to the Nov. 19 *New York Times*. Students, who had voted overwhelmingly for prayer recitation and were upset over the firing, countered by staging a sit-in and holding prayer meetings. Parents and citizens have called local officials to support the principal, and religious groups have issued statements of support, including a resolution by 1,100 Southern Baptists.

The "offending" prayer asks "Almighty God" to "bless our parents, teachers and country throughout the day. In your name, we pray. Amen." The prayer was read by the president of the student council at the beginning of each school day in hopes of calming tensions in the school, which has recently been plagued with unrest and violence.

Recent Supreme Court rulings allow only limited "nonsectarian, nonproselytizing" forms of prayer at graduation ceremonies, and even that is being contested by the American Civil Liberties Union.

Briefly

- **THE CIA** helped smuggle at least a ton of cocaine worth $20 million into the United States, allegedly in an effort to infiltrate Colombian drug cartels, former Drug Enforcement Administration head Robert Bonner revealed on the Nov. 21 CBS program "60 Minutes." Bonner said the DEA had refused to approve the operation, which the CIA ran in conjunction with the Venezuelan National Guard, making it illegal.

- **THE EXECUTION** of Lloyd Schlup on Nov. 18 was stayed by Missouri's governor, pending a hearing on the overwhelming evidence of his innocence. Schlup was convicted of killing a fellow prison inmate, although a prison videotape showed him in the food line when the stabbing took place. Altogether, 23 prisoners and guards have stepped forward to testify on his behalf.

- **JACK KEVORKIAN** killed his 20th victim, but was not arrested, on Nov. 23. At 8:23 a.m., Royal Oak, Michigan police received a call reporting that "there had been a medicide" at the residence of Kevorkian. "Medicide" is the euphemism for murder by a physician, under cover of medical treatment. This is the fourth murder he has committed since Michigan enacted its weak law against so-called assisted suicide.

- **THE CULT** Resource Center, the Portland, Oregon affiliate of the Cult Awareness Network, held a desultory conference on Nov. 19 at Portland Community College. Organizers expected 100, but only 50 of the most devoted showed up. The moderators were so fearful of discussion that only written questions were allowed. By the end of the day, attendance had dwindled to 20.

- **THE RAINBOW** Curriculum will continue to be taught in New York schools, said a spokesman for Schools Chancellor Ramon Cortines. "Children of the Rainbow" was created by former Chancellor Joseph Fernandez, who was ousted by parents opposing promotion of homosexuality.

Editorial

On crime and rage

Brutality is increasingly characterizing daily life. War, disease, hunger, but also the specter of unemployment, create the dreary prospect of bare survival for the endemically poor and the elderly—conditions which provoke rage and despair.

Under these circumstances, we see situations typified by the elections in Italy, where Mussolini's granddaughter has made considerable electoral gains by citing her Fascist heritage as reason to vote her into public office. Communism is also again attracting a large following. In the United States, the same rage is typified by approval of "tougher" legislation on crime, and proposals to throw ghetto youth into work camps as a "preventive" anti-crime measure.

But if republican government is to preserved and if crime is to be fought effectively, then the true causes for the economic and cultural erosion which we now face must be identified and remedied. In the United States, a necessary first step is to reestablish the kind of economic policies still prevailing when John F. Kennedy was President. The Federal Reserve System must be stripped of its independent status as an institution representing international financial interests, so that monetary and economic policy again become the prerogative of the national government—a move that Kennedy is rumored to have considered making before his death.

In Europe, this would include a return to the policies of Charles de Gaulle, Konrad Adenauer, and Enrico Mattei. The arguments by French economist Maurice Allais and other French political figures in this regard are directly to the point, as of course are the economic policies of Lyndon LaRouche. Free market ideology—most vigorously touted by Margaret Thatcher, but rampant throughout the West—must be exposed as a vicious cover story for a mammoth looting operation.

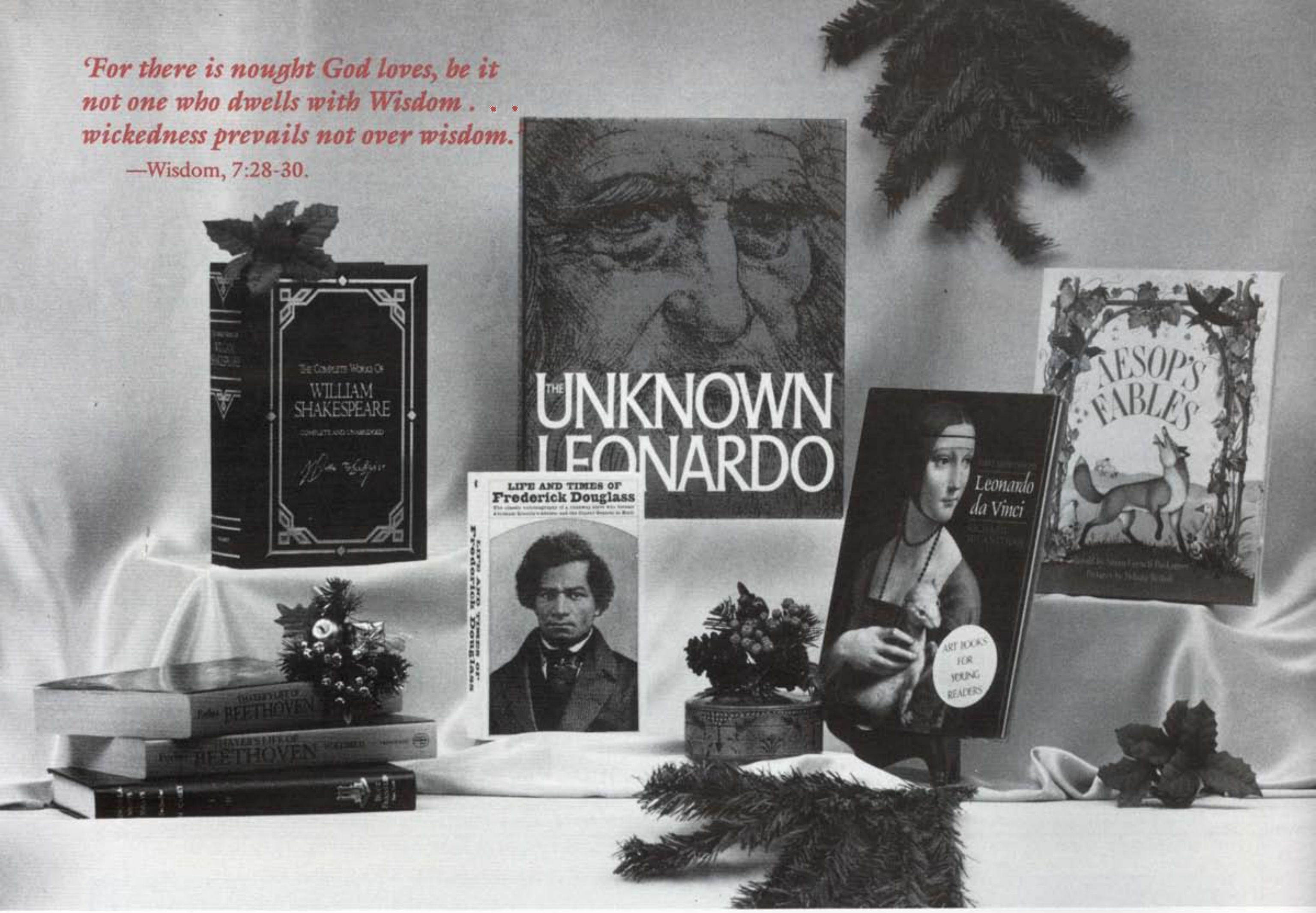
The real crime is usury, pure and simple, as practiced by speculators and certain international banking interests. Yes, the crazed guy on the street who mugs an old person must be stopped, and all drug trafficking is evil; but we should look at the dramatic escalation of the crime rate since Kennedy's assassination and reflect upon the changes which have taken place, perhaps most noticeably in the United States.

The murder of Kennedy not accidentally coincided with the rise of the rock-drug-sex counterculture, which is consolidated today under the rubric of the New Age shift in the cultural paradigm. Where Kennedy reflected the aspirations of the American people for scientific and technological progress, not only for themselves but also for their children and grandchildren, today despair characterizes a situation in which the institution of the family itself is being ripped to shreds. People are enraged because their children are being brainwashed by the schools, in defiance of their parents, to accept immorality as an alternate lifestyle.

It is easy to understand how the average American comes to endorse a policy of "getting tough" on criminals, as a way to vent his or her rage at an out-of-control situation. The result is the spectacle that the major drug-money launderers are either left alone entirely or given token sentences, while some poor slob who was set up by a sting agent, who might have bought drugs to sell to a police informant or potential informant, gets 15 to 30 years in prison for his crime.

People are enraged, whether they understand it or not, because insanity reigns in the top reaches of government; because government is submitting either to the powerful foundations which are associated with drug-money laundering, the banking and the financial community, and with the big agro-cartels which loot the farmers out of existence, and with the junk bond artists such as Michael Milken who rip off pension funds and are tearing what is left of the economy to shreds.

Any government rightly derives its power from its willingness and ability to defend natural law on behalf of the entire population, and not from its status as arbiter of one national grouping pitted against another on the basis of class war, national origin, skin color, or religion.



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