

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 globaliza-

tion 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 Guangdong 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 non-linear 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 consequences 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.

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 post-war era.

Following a September 1986 meeting of government ministers from the 96 nations of GATT in Punta 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-Töpfel, 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 Mensbrugge. 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 Mensbrugge study was financed by the New York Rockefeller Foundation.

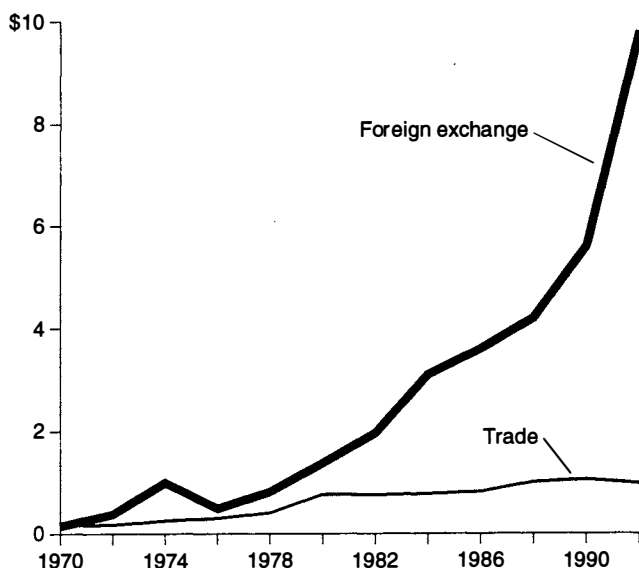
In the Mensbrugge study, the authors admit, for example, that their global model ignores the impact of the free trade Uruguay Round agenda in creating mass unemployment. They say simply, "In keeping with the tradition of

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.

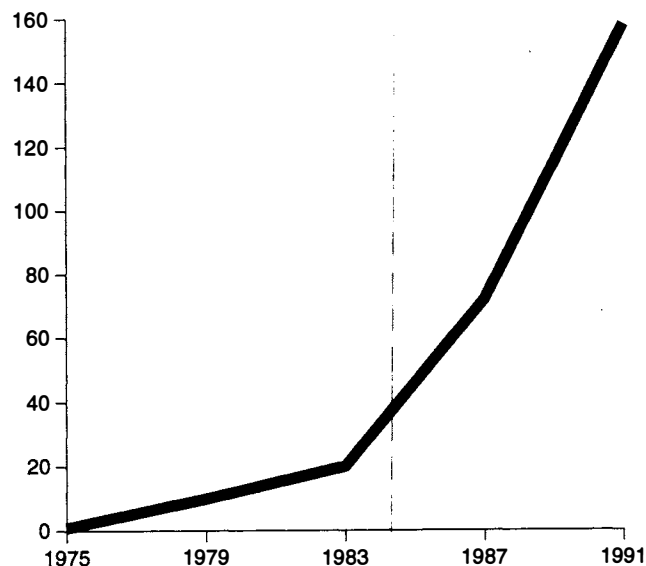
maintain their monopoly situation, amid lessened supply. The OECD then argues that the attraction of higher prices will lead certain Third World countries to invest in the high-technology production of foodstuffs by the turn of the century, which, all according to this flawed model, will lead to a fall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

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



Sources: *EIR*, UNCTAD.

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

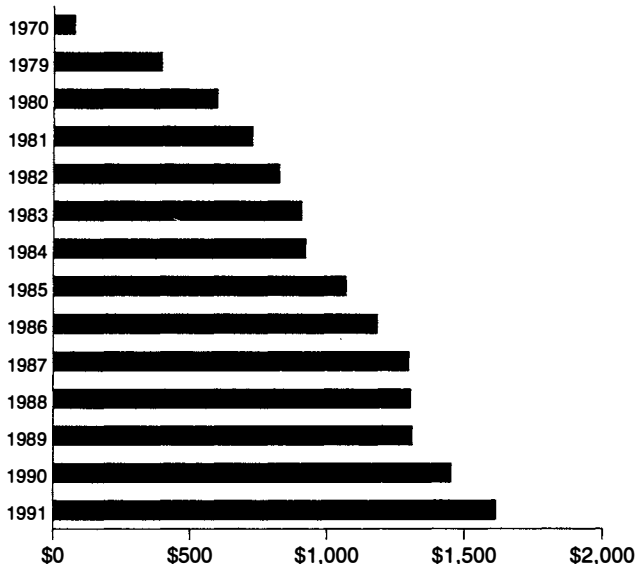
While the Anglo-Saxon vogue of financial deregulation during the 1980s helped remove national barriers within Europe to the free flow of capital, the IMF and World Bank played a parallel role to the GATT Uruguay Round process, in breaking open traditional national protectionist barriers in developing 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 \$)

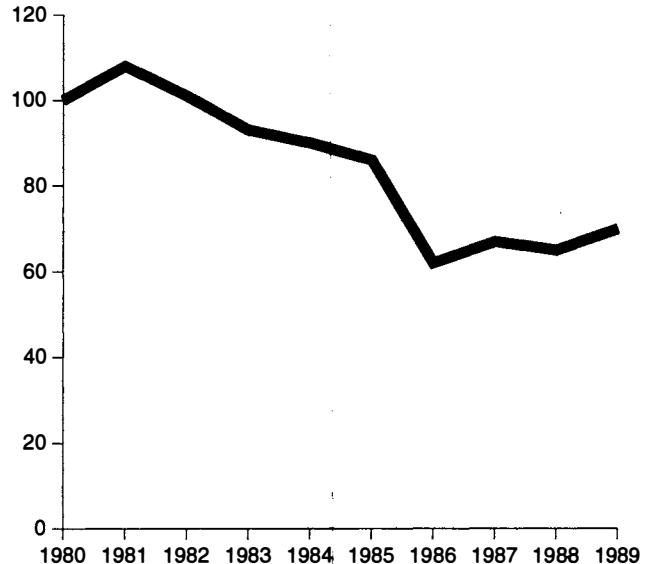


Sources: *EIR*, Swiss Re.

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 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-Württemberg, 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 dooty 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 Rhône-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 than 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 in-

vesting 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 manu-

facturing 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.

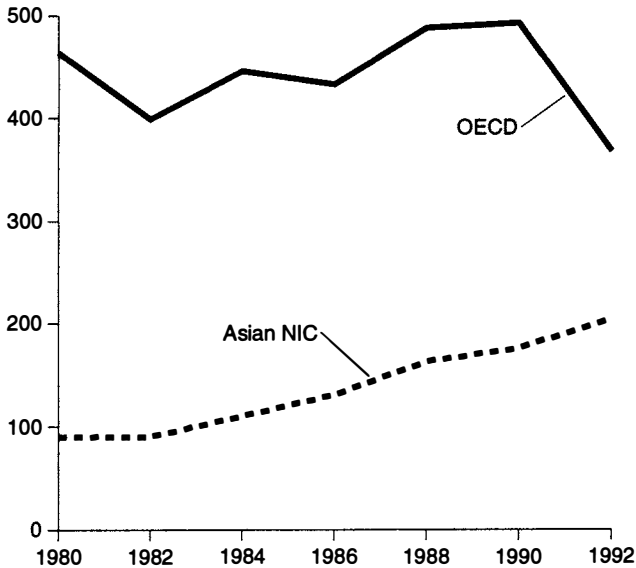
Targeting Asia

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.

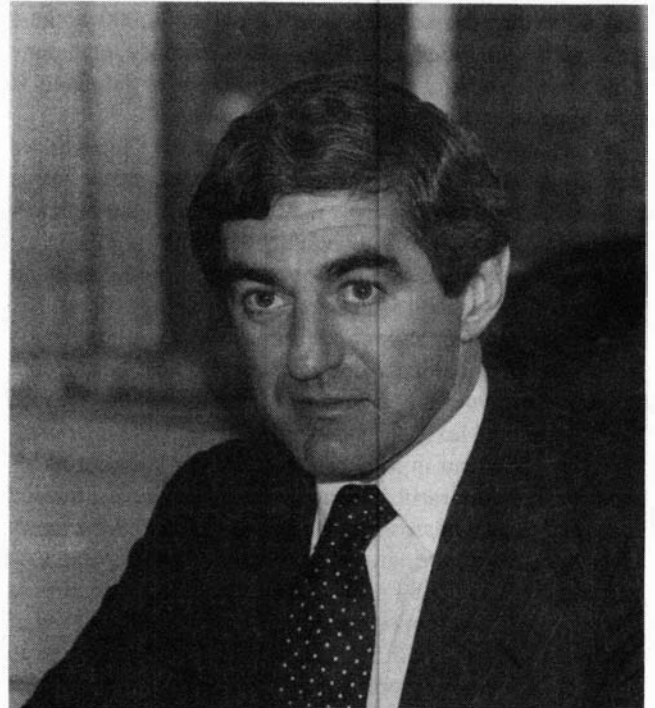
Speaking to a private audience during a recent international economics meeting in Switzerland, former senior Reagan Treasury official R. Tim McNamar boasted, "Latin America will be the way America gets out of its current economic slump. It's ours, Latin America. We own it." This, in brief, is the philosophy 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 *maquila-*



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."

doras, 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.

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

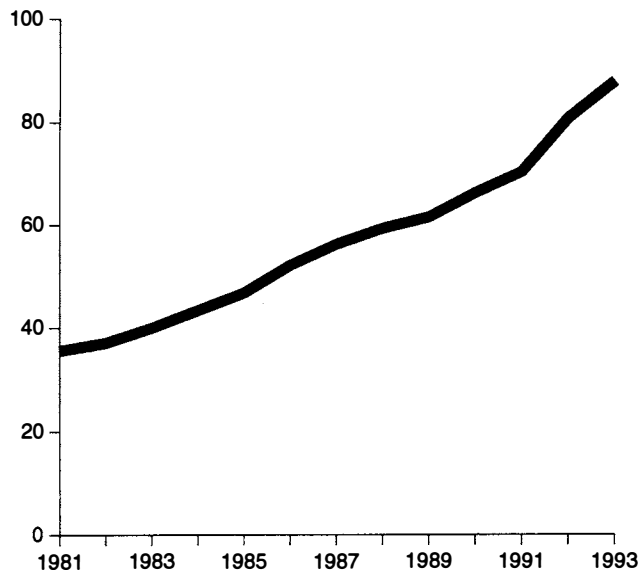
In January 1992, the aging Chinese leader Deng Xiaoping visited Shenzhen, the major free trade zone of the coastal Guangdong province, where he extended his approval for continuation of China's "capitalist" experiment in luring western investment into building industrial production in China. Within hours of the news of Deng's approval, western investment began to flood into Guangdong, 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.

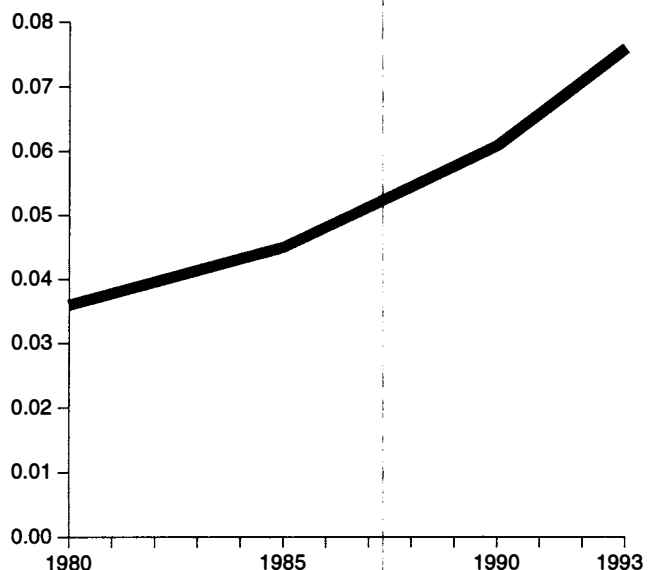
provinces as never before. Beginning already in 1980, the Chinese government initiated creation of “capitalist enclaves” or Special Economic Zones, in the southern coastal provinces of Guangdong and Fujian. The largest such zone, Shenzhen, is a few kilometers inland from Hong Kong, which itself in 1997 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 Guangdong 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

FIGURE 7

China’s steel output per capita

(tons per capita)

Sources: *EIR*, IISI, UNCTAD.

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 Guangdong 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 Guangdong 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 pro-

duce 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.

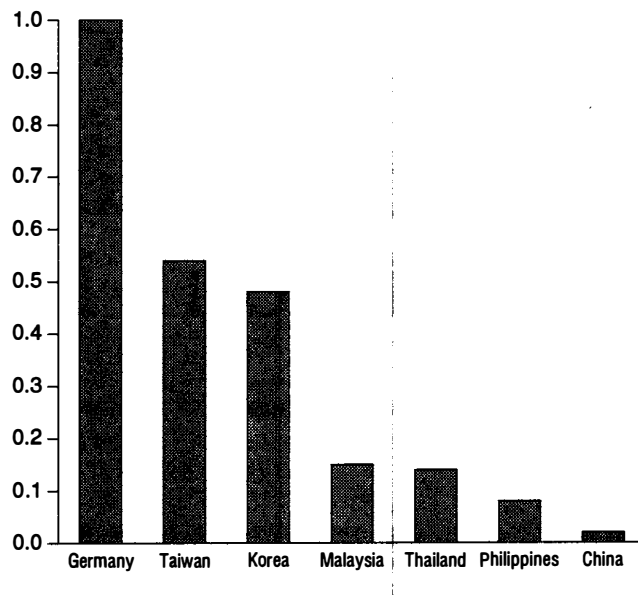
Already, after three years production in Shanghai, VW is producing 100,000 Santana cars per year. To provide materials for the VW production, the Düsseldorf firm Henkel has built Henkel Shanghai Chemical Ltd. Hoesch-Krupp is also planning a plant to produce plate steel in Shanghai for the growing VW 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 Czech 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.