Business Briefs

Labor

Pay higher wages, engineer tells industry

"Today's managers have apparently forgotten the lesson taught by Henry Ford, dean of American capitalism. He discovered that by paying his auto workers the princely sum of $5 a day (to the dismay of the rest of the industry), it became possible for them to buy Ford cars. High wages, in the end, produce high profits," wrote William F. Schreiber, a former professor of electrical engineering at the Massachusetts Institute of Technology, in a letter to the July 2 *New York Times*.

The policy of "reducing the number of employees and their wages has become a widespread and socially acceptable practice," he said. "As a result, demand drops, inventories build up, cutbacks increase, and we head into the classic spiral toward depression."

"This problem cannot and will not be solved by the free market," Schreiber concluded. "On the contrary, it has been produced by a form of free market in which each enterprise takes actions that produce the highest profits in the short term. Since that is what managers are now paid to do, we ought not be surprised at the results. If we want some other result, we shall have to open our eyes to other possibilities."

Debt

Bankruptcy proceedings urged for Third World

Die Furche, the weekly newspaper of the Austrian Catholic Church, called for the bankruptcy reorganization of Third World debt, in its June 29 issue in an editorial by Franz Hinkelammert, an economist from Costa Rica. The editorial was written in preparation for a conference by "Missio Austria" that took place in early July on the theme "Third World in the Debt Trap."

Hinkelammert wrote that from the mid-1970s on, it was obvious to the International Monetary Fund (IMF) and bankers that Third World nations would never be able to pay back their debt, even if they were to sell all their assets. One of the prime reasons for this "dramatic catastrophe of international relationships," was the refusal to allow bankruptcy reorganization of the debt, which guarantees at least minimum protection of the debtor. Instead, the debtor today is put into slavery, he loses any rights, and his basis for survival is being destroyed. "There is no end of this process; there is the impossibility of bankruptcy," he said. It was the IMF which forced developing countries to turn their private debt into public debt in order to prevent bankruptcies, where the investor would have lost his money, he charged.

However, there are ways to get rid of unpayable mountains of debt, he said. After World War II, western European nations such as England, France, and Germany were heavily indebted, comparable to the situation today in some Ibero-American countries. This problem was overcome, not by the Marshall Plan, but by the unlimited debt moratorium, first in 1948, and then finally with the 1952 London debt conference. Hinkelammert states that today such a debt moratorium combined with a new economic world order is needed, and history has proven that this can work.

Eurasia

China reschedules Russian debt, improves ties

China will reschedule $306 million in debt incurred by the former Soviet Union, a spokesman for Russian President Boris Yeltsin announced as Yeltsin met with Chinese Prime Minister Li Peng in the Kremlin, Itar-Tass reported on June 28. Yeltsin has accepted an invitation to visit China in the autumn.

Eight bilateral agreements were signed, including on nuclear energy cooperation; the expansion of trade, economic cooperation, and military cooperation; and to build a bridge over the Amur River, between the Russian city of Blagoveshchensk and the Chinese city of Aihui. In the 1960s, Russia and China fought several border skirmishes over sections of the Amur.

The Russians will build a nuclear power plant and a hydroelectric plant in China. The two countries also agreed to conduct trade in a convertible currency rather than barter, because so much trade is now conducted outside the control of border authorities. Both nations will cooperate to strengthen the border police, and at the same time open more border crossings and put better controls on workers crossing the border.

On June 27, Russian Prime Minister Viktor Chernomyrdin said that Russian-Chinese relations are in a "qualitatively new phase."

South Africa

Labor leader attacks privatization policy

John Gomomo, president of the Congress of South African Trade Unions, which brought 100,000 to 500,000 workers into strike action on June 19, castigated the African National Congress government for extolling the virtues of privatization, in a commentary in the June 13 South African *Star*. "Public assets are not the private property of a particular party or government, but a heritage of the whole society. They should be protected from unilateral action taken by ruling parties," he said.

Accepting "the blueprints of outside agencies wanting to impose their dogma onto our situation" is leading to the rationalization of the public sector, the rapid lifting of trade barriers, the establishment of cheap-labor Export Processing Zones, and the advent of "Thatcherite monetarism," he charged. "Apart from the social problem created by privatization, it also has a poor record of creating jobs." The funds generated would amount to only one year's servicing of the national debt, he said.

Meanwhile, Ockie Stuart, the director of the Stellenbosch Bureau for Economic Research, warned that unemployment will rise for the next five years or more because the economy cannot be restructured overnight. His comment followed a warning from the former vice president of the Human Science Research Council, Lawrence Schlemmer, that black unemployment would continue to rise unless annual growth in Gross Domestic Product averaged at least 4-5%.

The announcement in June that the official rate of unemployment is 32.6% (unofficially, it is put as high as 50%) sent shock waves throughout the country. According to the Central Statistics Service, 41.1% of all unemployed people are black. Some 48.6% of the unemployed are under 30 years of age; 67.7% of all jobless people have been without work for a year or more. The situation is becoming worse. From 1989 to the middle of last year, there was a decline of 510,000 jobs (9.2%) in the formal economy—to the level it was at in 1980.

Finance

Vatican attacks power of speculative markets

In a document prepared with the help of French Economic Ministry officials and released in early July, the Vatican's Pontifical Council on Peace and Justice denounced the fact that the world is living under the control of a "profoundly speculative" financial market, a power which runs counter to the decisions of political and democratic authorities worldwide, reducing them to "relative impotence" with regard to defining the destinies of their nations, in particular the poor ones, the Mexican daily *Excélsior* reported on July 3 and 4.

The council denounced as "corrupt" and "perverse" the effect of this speculative power and urged the imposition of "moral financial" guidelines. It said that world credit is dominated "in the most tyrannical way," such that creditors "administer, shall we say, the blood upon which the economy lives and have in their hands its very soul, such that one cannot even breathe without their say-so."

The profits of the speculator are socially illegitimate in the eyes of the church, because they are based on easy money achieved out of proportion to labor expended. Further, they represent an important destabilizing factor in the world economy: "The serious disturbances produced in the stock markets prove the instability and fragility of the system, which raises serious fears about the future evolution of economic and labor activity."

It is necessary to return to "the primacy of labor over capital," it said, and identified four serious threats to development: concentration of power, inequalities among nations, assignment of resources contrary to the universal destiny of assets, and the use of wealth without concern for social justice.

The document concluded that governments should submit their actions to a double imperative: international cooperation in the fight against drug-money laundering, and the channeling of resources into development.

Hungary

Pace of IMF 'reforms' unacceptable, says Horn

Hungary's Prime Minister Gyula Horn on July 5 criticized the International Monetary Fund (IMF) for setting unrealistic financial targets, in an interview with Reuters. Horn also called on European Union governments to provide more assistance for the economic transformation of Hungary and the whole central European region.

"We cannot accept the pace that is demanded by the IMF," Horn said, adding that the fund's insistence that Hungary's 1996 budget deficit be half the 1995 level was unrealistic. "We cannot implement a reduction of this size in a matter of one year. . . . We want to agree with the IMF, but not at any cost."

In a trip to the United States in June, Horn won praise from IMF Managing Director Michel Camdessus for the austerity package announced in March this year, which will slash social welfare benefits, reduce public sector employment, and cap public sector wages. But the IMF is now saying that the standby lending facility also depends on the 1996 budget targets.

Horn said the West failed to appreciate that the patience of Hungarians was wearing thin after years of steadily declining living standards. "Those solutions that exist in the West can only be applied partially in central Europe and in Hungary in particular," he said. "There are very serious social and political tensions and this has an impact on political stability."

Briefly

- **UKRAINE AND CHINA** agreed in Kiev on June 24 to at least double their annual volume of trade, from $1 billion last year, to $2 billion this year, the German daily *Süddeutsche Zeitung* reported. Trade could even triple compared to 1994.

- **MALAWI** President Muluzi on July 3 rejected World Bank suggestions that the nation save money by trimming government costs, Reuters reported. "We may be poor, we are beggars, yes," Muluzi said on his return from Tanzania and Zambia. "But Malawi is a sovereign country and I'm not just going to be dictated to by anybody."

- **THE STOCK MARKET** "is lunatic," the Paris daily *Libération* said on July 4. "Enough of all this talk about the internationalization of capital markets, the global stock market has gone wild, and has lost all sense," it said, referring to the New York Dow Jones skyrocketing at the same time that the Japanese Nikkei is collapsing and the French market is "sleeping."

- **IRAN** and Turkmenistan signed an agreement to transport natural gas by pipeline to Europe, during Turkmenistan President Saparmurat Niyazov's visit to Iran which began on July 4, Reuters reported. The first leg of the 1,562-mile, $6 billion pipeline will extend into northern Iran to hook up with Iran's existing network.

- **THE ASIAN** Infrastructure Development Co., a U.S. firm, has contracted with the Jinzhou Harbor Group of China to supply $350 million for power stations, petrochemical plants, storage facilities, and terminals, *China Daily* reported on July 1.

- **THE HONGKONG** and Shanghai Banking Corp., which plays a major role in the drug trade, said on July 5 it won approval to open a branch in Beijing, Reuters reported. This gives the bank an edge when foreign banks will be allowed to offer retail banking services in China, probably sometime after 1997.