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Globalization and Resistance

World Social Forum

A GREAT LEAP FORWARD

Argentina

BIRTH OF OUR POWER

ENRON AND THE NOT-SO-NEW ECONOMY

Palestine at war



The Commune lives



EVERY day Argentina slides further into crisis. Industrial production fell by 20% in December. Tens of thousands of people are falling into poverty every day; official bodies believe that more than 15 million can now be classified as poor, five million of them in extreme poverty. Layoffs multiply across the industrial sector. Economic paralysis is spreading little by little across a country that seems to be disintegrating.

On February 4-5, 2002 the banks were closed again as a direct consequence of a new phase of the political crisis in the country: on February 1, the Supreme Court of Justice had declared the 'corralito' plan (which imposes a limit on bank withdrawals) unconstitutional. Composed of corrupt judges and politicians linked to the ultra neoliberal faction of former president Carlos Menem and threatened with dissolution by the government, it sought thus to revive the political crisis. These divisions at the highest level of the state are one of the manifestations of the acute crisis Argentina is experiencing. The institutions have not collapsed, the state is still there and if the army cannot intervene at this stage it remains intact. However, the dominant classes are worried: the gangrene of corruption is such that after the fall of two governments and faced with a probable dissolution of the Supreme Court of Justice, the whole edifice seems rotten through and through.

Their worries are reinforced by the combined crisis of the big two traditional parties (the Peronist *Justicialist Party* and the *Radical Party*) and the emergence of a vast movement of mass self-organization throughout society against politicians, government and state.

The emergence of popular assemblies in the capital, Buenos Aires and now the whole country is the major phenomenon of recent weeks. This process is only at its beginning, but since the insurrectional days of December 19-20, 2001 the social mobilization has incessantly broadened. The entire society is on the move, all social and political questions have become questions of everyday life.

Today, there are more than a hundred popular assemblies across the country. In these assemblies people refer to themselves as *vecinos*, 'neighbors'. Some sociol-

ogists or informed observers point to the resemblances with the experience of the Paris Commune of 1871.

However, very quickly, urgent questions are posed: how to help the hardest hit, the children, the unemployed the poorest? How to settle the emergency food problems? How to oblige the pharmaceutical firms to provide medicines to the hospitals?

One of the weaknesses of this movement resides in the fact that it is not yet present in the workplaces: the Argentine working class — once one of the most powerful in Latin America — has crumbled under the blows of neoliberalism (more than 30% unemployment). Still, a number of workers (employed or not) participate in the assemblies as *vecinos* besides middle class sectors and already contacts are being built with the trade unions in the front line against layoffs (notably in the rail sector) and with the *piqueteros*. The coordination of these structures of self-organization will be decisive.

The movement is spreading already to the most popular neighborhoods of greater Buenos Aires and to the provinces. The assemblies consist of about 100-200 people per neighborhood; in the best-mobilized areas, they break up into smaller groups when they reach several hundred. Beyond the vital questions, they structure themselves in groups or commissions (organization, relations with the media, preparation of the next *cacerolazos*).

A real social vanguard of tens of thousands of people is coming into being, involving new generations but also the remobilization of thousands of revolutionary militants or ex-militants. This socio-political vanguard is also beginning more generalized discussions on emergency measures to meet the crisis: nationalization of the banks, reintegration of the privatized enterprises in the public sector, cancellation of the debt, payment of wages and pensions and so on. Finally, these assemblies have often demonstrated their support for the World Social Forum at Porto Alegre. ★

Olivier Besancenot and François Ollivier

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international viewpoint

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Birth of our power

Some images recall the Paris Commune of 1871. Not because they are comparable events, of course, but because they bring to mind Marx's phrase, 'the political form at last discovered'.¹ Pre-revolutionary crisis, dual power, revolutionary days, insurrectionary situation. Crisis of bourgeois hegemony and complete loss of the legitimacy of its state mechanisms of domination. Categories abound, multiply and repeat. Although it is difficult to contextualize them in a landscape where daily life is broken (as Trotsky would say) and the 'civil society', the 'multitude', the 'nation', the 'people', are in a state of insubordination, and self-management, exerting forms of direct participatory democracy (without any political-institutional mediation).

Nobody sleeps anymore, the Neighborhood, Village or Popular Assemblies — however they are described — take place at night and have become generalized. Thousands of people communicate, listen, deliberate and propose, in hundreds and hundreds of meetings. They organize the protests and demonstrations of the week.

Coordination

Every Sunday, in the Centenario Park of the Federal Capital, the coordination of the Assemblies of Buenos Aires takes place. Here the young, the unemployed, the working, the swindled savers, pensioners, women, children come together, as well as the militants of the left organizations who must hang up their party flags and handle the questions wisely. Although the political weight of its presence does not go unnoticed, in particular the diverse Trotskyist organizations (PO, MST, MAS, PTS), the Communist Party and the *Corriente Clasista Combativa* (in which the Maoists of the PCR predominate).

The assemblies are built in opposition to the 'multi-sectoral dialogue' proposed by the government and the Catholic Church, with the support of the trade union bureaucracies of the two CGTs. What is at stake, however, is not only the rejection of this maneuver from above for 'discussing the problems of the country'. It is true that there is an instinctive feeling of opposition to 'politics' (mainly against the disguised corruption of politics), but



the deputy Luis Zamora (*Autonomia y Libertad*) can take part in meetings, marches and *cacerolazos*,² without being insulted or regarded with distrust. Moreover, this power from below is developing a consciousness 'for itself' and a movement where anti-neoliberal and anti-capitalist demands are advanced.

What began as a movement of indignation at the 'financial *corralito*' ('little ranch' or 'playpen' — ed.) and the dismissal of the infamous Supreme Court of Justice, advances in the direction of a true transitional program.

Non-payment of the foreign debt; breaking with the IMF; rejection of the Free Trade Area of the Americas; against dollarization and for a South American currency; nationalization of the banks; renationalization of privatized public companies; taxes on speculative financial capital; suspension of all dismissals; immediate food and medical assistance to the unemployed; creation of a million jobs; unemployment benefit of 380 dollars a month; derogation of the law of labor flexibility; elimination of the tax of 13% on wages and pensions; suspension of the cuts for nonpayment of public service charges; one to one weighting of all debts and credits; immediate return of the money of the small savers; distribution of the indebted companies to the people; increased budgets in education and health; free and public education at all levels; cuts in military and police expenditure; judgment and punishment of those responsible for repression; reduction of the pay and privileges of politicians.

To the general demand "that they should all go, that not a single one is left" (referring to the political leaders and governing Peronists, radicals and *Frepaso*), is now added the slogan of a 'Free and Sovereign Constituent Assembly' and above all 'five representatives of the

Popular Assemblies in the Congress' (for the discussion of the national budget). Cuba and Plan Colombia are not absent from the Assemblies: the demand to end the imperialist blockade is expressed and solidarity demonstrations are held.

Obviously, there is a link that connects the struggle of the masses in Argentina with the revolts of Seattle and Genoa, the movement against capitalist globalization and the World Social Forum, the insurgencies in Colombia, Ecuador and Bolivia and the formidable radicalization of ever wider layers of youth.

Polyclass

How should the 'social composition' of the Assembly be defined? In a provisional fashion: it is not 'working class', nor is it an amorphous partnership of the middle class. The Assembly is 'polyclass'. It expresses the deep mutations of the social framework and the devastating effects of an imposed neoliberal model. But, first of all, the Assembly is 'popular' (a term preferable to that of the 'multitude', used by the Italians Antonio Negri and Paolo Virno), somewhere the small saver, the housewife, the worker or the unemployed are no longer humiliated and find a common identity.

On Monday, January 28, this common 'popular' identity was finally able to express itself on a broader scale: a march of 20 thousand *piqueteros*³ started from the locality of La Matanza (Province of Buenos Aires) and ended in the historic Plaza de Mayo. This immense column of the working class met with the enthusiastic support of the *vecinos*⁴ and retailers, facilitating the insurgent union between *piqueteros* and *cacerolas*.

The stores did not lower their shutters for fear of being looted, but offered coffee and refreshments to the demonstrators. In any case, as the self-organization movement is constructed and the social laboratory develops new experiences, the dilemma becomes more urgent: how to translate this democratic political radicalism into a real socialist alternative of power. ★

* Ernest Herrera is a member of the United Secretariat of the Fourth International.

1. Karl Marx, 'The Civil War in France', p. 290 in Marx and Engels, Selected Works, Lawrence and Wishart, London, 1977.

2. Popular demonstrations in the course of which people march in the street striking saucepans.

3. Movements of unemployed workers.

4. Participants in the popular assemblies are known as *vecinos* or 'neighbours'.

Enron in Argentina

DO a quick search of the Web on the terms Enron and Argentina and you mostly get either references comparing the two, or a recent satire in which Kenneth Lay claims immunity by claiming Enron IS Argentina. You might even stumble on the *Mother Jones* article detailing Dubya's lobbying of the Argentine government on behalf of Enron when he was governor of Texas.

It turns out (not surprisingly given the extent of Enron's global interests) that Enron is very deeply involved in Argentina. Its holdings there are in Transportadora de Gas del Sur (TGS), whose website describes the company as "the leading gas transportation company in Argentina, operating the most extensive gas pipeline system in the country and in Latin America." Enron's own website says "The company serves 4.3 million customers, 3.1 million of which reside in the greater Buenos Aires area."

To understand the significance of these figures it's worth noting that in 1998, 48% of energy use in Argentina came from natural gas (as quoted in a report posted by the Brazilian Embassy in Washington DC, which tracks such things because of the international pipelines being laid across countries in the region.)

And here's one from MSN's 'Moneycentral' site: 'Don't cry for Transportadora de Gas del Sur (TGS), Argentina. The company delivers more than 60% of natural gas used in Argentina through the nation's largest pipeline system (4,300 miles). Formerly state-run, TGS holds exclusive license (until 2027) to transport gas from southern and western Argentine sources to distributors nearby and in the Buenos Aires metro area. TGS's gas services include treatment, processing, and liquefied petroleum gas (LPG) marketing; the company plans to export energy to neighboring countries. It is also building a fiber-optic network in Argentina. The firm is 70%-owned by Compañía de Inversiones de Energía, which is jointly controlled by Perez Companc and US energy giant Enron.'

That's right, Enron. TGS's own website spells this out in more detail, where it says its controlling shareholder is Compañía de Inversiones de Energía S.A. (CIESA), "which together with Pecom Energía group and Enron Corp, hold approximately 70% of the Company's common stock. The remaining 30% ownership in the Company is currently held by local and foreign investors."

And who is CIESA? Again, from TGS:

"CIESA is owned 50% by Pecom Energía (whose controlling shareholder is the above-mentioned Perez Companc) and 50% by subsidiaries of Enron. CIESA has the ability to direct the management of the Company, to control the election of the majority of the Board of Directors, to determine the dividend policy and other policies of the Company and to determine the outcome of any matter put to a vote of the shareholders of the Company.'

TGS arose through a privatization process of the kind which Enron has pushed around the globe. (See 'Enron: The Global Gospel of Gas', www.moles.org/ProjectUnderground/motherlode/enron.html). 'We started our operations in late 1992, as a result of the privatization of Gas del Estado S.E. ("GdE"), the former state-owned company.'

And TGS has a significant investment in telecommunications through its Telcosur subsidiary, through which it is 'positioning ourselves as an independent carrier of carriers and also offering services to large companies within our area of influence.'

'Telcosur,' says TGS, 'was born at the end of 1998 in order to take advantage of TGS's existing telecommunications assets and infrastructure, as well as the upcoming deregulation of the telecommunications market, and the experience of power companies from other countries that were successful in the telecommunications business.' The 'experienced' power companies, of course, means Enron. And their success in that business

was, as the *Wall Street Journal* recently documented, a bust — and not just because of fraud, but because of the glut in fiber-optic capacity (that is, a mismatch in supply and demand which tends under capitalism to lead to precisely the kind of fraud Enron specialized in.)

But despite Enron's failures in the telecom field elsewhere, Telcosur is following its 'experience' in avoiding direct sales in favor of trading access to commodities, services, and financial instruments: 'An important difference in connection with other telecommunication operators is its independence, since it serves the wholesaling market and therefore does not compete with its customers in retail operations: switching, frame-relay, telephone services, among others.' It provides 'value added services; in other words, [it is] a carrier of telephone carriers and of large corporate users.'

Telcosur is also 'installing a high-capacity fiber optic network that will link Buenos Aires, Bahía Blanca and Neuquén, the most active routes in its service area.'

Enron is currently in the process of divesting various subsidiaries around the globe to raise cash, and at least one potential buyer for its Argentina subsidiary has been mentioned. That buyer is Sempra Energy International, which owns a 43-percent interest in two Argentine natural gas utility holding companies, Sodigas Pampeana, S.A., and Sodigas Sur, S.A., and which 'serve 1.3 million customers in central and southern Argentina, delivering approximately one-third of all the natural gas distributed in the country.' Sempra, a big operator in Chile and elsewhere in Latin America, also owns Southern California Gas and San Diego Gas & Electric, and has just bought Enron's London energy trading operations. It's not clear if the deal will go through.

In the meantime workers in Argentina are demanding the renationalization of firms in a variety of sectors. On February 5th Argentines marched on the offices of Repsol to demand jobs. Repsol, according to the *Partido Obrero*, 'is the 7th largest [oil company] in the world, which has reaped fabulous profits from privatization, and which is responsible for widespread layoffs, pay cuts and refinery closings.'

If the mobilizations in Argentina continue to deepen we can expect that calls for renationalization — this time under workers control — of the entire energy sector will deepen. And if Enron's Argentine subsidiaries are targeted that might even encourage some in the US to think about similar solutions here. ★
Andrew Pollack



A great leap forward

A GREAT leap forward was made between the first World Social Forum (WSF) last year and the second, which took place in Brazil from January 31 to February 5, 2002. A new international solidarity was developed at Porto Alegre at a time when the Argentine crisis shows the bankruptcy of the neoliberal model and Washington is engaging in a policy of 'permanent war'.

With 700 workshops, dozens of meetings, two major demonstrations, youth and peasant rallies and a multitude of initiatives, the numerical success of the Forum was patent. The mobilization proved to be four times larger than last year's, with a big increase in the Brazilian and international participation. The biggest foreign delegations came from Argentina and Italy, followed by France (more than 800), the USA (420), the Spanish state, Chile, Uruguay and Canada.

Many Brazilians had feared the effects of the events of September 11, but the evidence is that resistance to capitalist globalization continues to grow. Even in the US, the holding of the World Economic Forum in New York was met with street demonstrations called by the AFL-CIO trade union federation and other bodies.

The call of the social organizations (see following pages) reflects this advance. As last year, this denounces the terrible social and ecological effects of neoliberal globalization and reaffirms some traditional demands (like the cancellation of the Third World debt). But it also affirms its opposition to the war and its solidarity with the Argentine and Palestinian people. It ends with an international calendar of 'collective mobilizations' for 2002 and 2003.

Bush's warlike discourse is unpopular in Brazil, where in recent months seven prominent trade union and political leaders have been assassinated, two of them Workers' Party mayors. In São Paulo, a branch office of the CUT trade union



federation was attacked by a group of armed men during the WSF. That did not stop the new US Secretary of State for Latin America from denouncing three 'major risks'; Colombia, Argentina and a possible victory for Lula (the Workers' Party candidate) at the next presidential election. It amounts to a green light for the Brazilian death squads!

In this context, the work of the World Parliamentary Forum, meeting inside the WSF, was dominated by the question of war. A great part of the Italian delegation in particular demanded a condemnation of war in general accompanied by an explicit disavowal of the Afghanistan war. Social democracy (the French in particular) rejected any such allusion. Finally, two resolutions were adopted on this subject, of which one mentions Afghanistan. Other declarations related to Argentina, the lifting of the blockade of Cuba, rejection of Plan Colombia and the Free Trade Area of the Americas that Washington wants to impose on the continent. This second Forum initiated the structuring of the International Parliamentary Network which had been accepted in principle in 2001.

The second international youth camp was a great success, with more than 15,000 participants from around 40 countries. The quality of the discussions in the workshops reflected a real convergence of themes in the movement of youth against capitalist globalization: forms of action, the struggle against insecure employment, renewal of a trade unionism of direct action and so on.

The massive participation of Latin Americans (Brazil, Argentina) and the presence of diverse sectors (students, NGOs, movements for another globalization or political organizations) are also promising signs of the unification of the

struggles of youth on an international scale. The challenge for the next camp in 2003 will be to build a real international representation including Africa and Asia. The holding of regional forums at the end of 2002 will help here.

Women's demands were a theme throughout the Forum. The Brazilians involved with the World March of Women have done remarkable work to popularize demands against violence and poverty. Thus the World March organized a seminar, 'A feminist alternative for another world' and a conference on violence against women.

A debate on the place of women in the struggle in Argentina was presented by activists in the *Mujeres argentinas en lucha* network while a representative of the *Revolutionary Afghan Women's Association* was invited to the WSF to report on the situation in Afghanistan. The participation of the feminist movements in the Forum and their presence during the demonstrations the day it opened and against the FTAA was very significant. The World March participated in drafting the final declaration of the social movements, and ensured that demands for women's rights like equal wages and the denunciation of sexual exploitation were included in the text.

While the third WSF will be held once again in Porto Alegre, the following one will meet in India and in 2005 the venue will be Africa. From next autumn regional forums will begin to be held, in Italy in the case of Europe.

Porto Alegre is a crucible where a new internationalism is taking shape. The World Social Forum is becoming a genuine process. ★ **Emile Jourdin, Anne Leclerc, Pierre Rousset**

The next issue of *IV* will feature further coverage of the WSF. The documents of the WSF can be found on www.attac.org. The appeal of the social movements can be signed by writing to the CUT: sri-cut@uol.com.br.

Resistance to neoliberalism, war and militarism: for peace and social justice

Call of social movements Porto Alegre 2002

IN the face of continuing deterioration in the living conditions of people, we, social movements from all around the world, have come together in the tens of thousands at the second World Social Forum in Porto Alegre. We are here in spite of the attempts to break our solidarity. We come together again to continue our struggles against neoliberalism and war, to confirm the agreements of the last Forum and to reaffirm that another world is possible.

2. We are diverse — women and men, adults and youth, indigenous peoples, rural and urban, workers and unemployed, homeless, the elderly, students, migrants, professionals, peoples of every creed, colour and sexual orientation. The expression of this diversity is our strength and the basis of our unity. We are a global solidarity movement, united in our determination to fight against the concentration of wealth, the proliferation of poverty and inequalities, and the destruction of our earth. We are living and constructing alternative systems, and using creative ways to promote them. We are building a large alliance from our struggles and resistance against a system based on sexism, racism and violence, which privileges the interests of capital and patriarchy over the needs and aspirations of people.

3. This system produces a daily drama of women, children, and the elderly dying because of hunger, lack of health care and preventable diseases. Families are forced to leave their homes because of wars, the impact of “big development,” landlessness and environmental disasters, unemployment, attacks on public services and the destruction of social solidarity. Both in the South and in the North, vibrant struggles and resistance to uphold the dignity of life are flourishing.

4. September 11 marked a dramatic change. After the terrorist attacks, which we absolutely condemn, as we condemn all other attacks on civilians in other parts

of the world, the government of the United States and its allies have launched a massive military operation. In the name of the “war against terrorism,” civil and political rights are being attacked all over the world. The war against Afghanistan, in which terrorists methods are being used, is now being extended to other fronts. Thus there is the beginning of a permanent global war to cement the domination of the US government and its allies. This war reveals another face of neoliberalism, a face which is brutal and unacceptable. Islam is being demonized, while racism and xenophobia are deliberately propagated. The mass media is actively taking part in this belligerent campaign which divides the world into “good” and “evil.” The opposition to the war is at the heart of our movement.

5. The situation of war has further destabilised the Middle East, providing a pretext for further repression of the Palestinian people. An urgent task of our movement is to mobilise solidarity for the Palestinian people and their struggle for self-determination as they face brutal occupation by the Israeli state. This is vital to collective security of all peoples in the region.

6. Further events also confirm the urgency of our struggles. In Argentina the financial crisis caused by the failure of IMF structural adjustment and mounting debt precipitated a social and political crisis. This crisis generated spontaneous protests of the middle and working classes, repression which caused deaths, failure of governments, and new alliances between different social groups. With the force of “cacerolazos” and “piquetes,” popular mobilisations have demanded their basic rights of food, jobs and housing. We reject the criminalisation of social movements in Argentina and the attacks against democratic rights and freedom. We also condemn the greed and the blackmail of the multinational corporation supported by the governments of the rich countries.

7. The collapse of the multinational Enron exemplifies the bankruptcy of the casino economy and the corruption of businessmen and politicians, leaving workers without jobs and pensions. In developing countries this multinational engaged in fraudulent activities and its projects pushed people off their land and led to sharp increases in the price of water and electricity.

8. The United States government, in its efforts to protect the interests of big corporations, arrogantly walked away from negotiations on global warming, the antiballistic missile treaty, the Convention on Biodiversity, the UN conference on racism and intolerance, and the talks to reduce the supply of small arms, proving once again that US unilateralism undermines attempts to find multilateral solutions to global problems.

9. In Genoa the G8 failed completely in its self-assumed task of global government. In the face of massive mobilisation and resistance, they responded with violence and repression, denouncing as criminals those who dared to protest. But they failed to intimidate our movement.

10. All this is happening in the context of a global recession. The neoliberal economic model is destroying the rights, living conditions and livelihoods of people. Using every means to protect their “share value,” multinational companies lay off workers, slash wages and close factories, squeezing the last dollar from the workers. Governments faced with this economic crisis respond by privatising, cutting social sector expenditures and permanently reducing workers’ rights. This recession exposes the fact that the neoliberal promise of growth and prosperity is a lie.

11. The global movement for social justice and solidarity faces enormous challenges: its fight for peace and collective security implies confronting poverty, discriminations, dominations and the creation of an alternative sustainable society. Social movements energetically condemn violence and militarism as a means of conflict resolution; the promotion of low intensity conflicts and military operations in the Colombia Plan as part of the Andes regional initiative, the Puebla Panama plan, the arms trade and higher military budgets, economic blockades against people and nations especially against Cuba and Iraq, and the growing repression against

trade unions, social movements, and activists.

We support the trade unions and informal sector worker struggles as essential to maintain working and living conditions, the genuine right to organise, to go on strike, to negotiate collective agreements, and to achieve equality in wages and working conditions between women and men. We reject slavery and the exploitation of children. We support workers struggles and the trade union fights against casualisation, subcontracting of labour and lay offs, and demand new international rights for the employees of the multinational companies and their affiliates, in particular the right to unionise and space for collective bargaining. Equally we support the struggles of farmers and peoples organisations for their rights to a livelihood, and to land, forests and water.

12. Neoliberal policies create tremendous misery and insecurity. They have dramatically increased the trafficking and sexual exploitation of women and children. Poverty and insecurity creates millions of migrants who are denied their dignity, freedom, and rights. We therefore demand the right of free movement; the right to physical integrity and legal status of all migrants. We support the rights of indigenous peoples and the fulfillment of ILO article 169 in national legal frameworks.

13. The external debt of the countries of the South has been repaid several times over. Illegitimate, unjust and fraudulent, debt functions as an instrument of domination, depriving people of their fundamental human rights with the sole aim of increasing international usury. We demand unconditional cancellation of debt and the reparation of historical, social, and ecological debts. The countries demanding repayment of debt have engaged in exploitation of the natural resources and the traditional knowledge of the South.

14. Water, land, food, forests, seeds, culture and people's identities are common assets of humanity for present and future generations. It is essential to preserve biodiversity. People have the right to safe and permanent food free from genetically modified organisms. Food sovereignty at the local, national, regional level is a basic human right; in this regard, democratic



land reforms and peasants' access to land are fundamental requirements.

15. The meeting in Doha confirmed the illegitimacy of the WTO. The adoption of the "development agenda" only defends corporate interests. By launching a new round, the WTO is moving closer to its goal of converting everything into a commodity. For us, food, public services, agriculture, health and education are not for sale. Patenting must not be used a weapon against the poor countries and peoples. We reject the patenting and trading of life forms. The WTO agenda is perpetuated at the continental level by regional free trade and investment agreements. By organizing protests such as the huge demonstrations and plebiscites against FTAA, people have rejected these agreements as representing a recolonisation and the destruction of fundamental social, economical, cultural and environmental rights and values.

16. We will strengthen our movement through common actions and mobilizations for social justice, for the respect of rights and liberties, for quality of life, equality, dignity and peace. We are fighting for;

- democracy: people have the right to know about and criticize the decisions of their own governments, especially with respect to dealings with international institutions. Governments are ultimately accountable to their people. While we support the establishment of electoral and participative democracy across the world, we emphasise the need for the democratisation of states and societies and the struggles against dictatorship.
- the abolition of external debt and reparations.
- against speculative activities: we demand the creation of specific taxes such as the Tobin Tax, and the abolition of tax havens.
- the right to information
- women's rights, freedom from violence, poverty and exploitation.
- against war and militarism, against for-

eign military bases and interventions, and the systematic escalation of violence. We choose to privilege negotiation and non violent conflict resolution. We affirm the right for all the people to ask international mediation, with the participation independent actors from the civil society.

- the rights of youth, their access to free public education and social autonomy, and the abolition of compulsory military service.
- the self determination of all peoples, especially the rights of indigenous peoples.

In the years to come, we will organise collective mobilisations including, in 2002:

- 8 March** International women's day
 - 17 April** International day of peasants' struggle
 - 1 May** Labour day
 - 7 October** World day for the homeless
 - 12 October** Cry of the excluded
 - 16 October** World food day
- Other global mobilisations will take place:
- 15-16 March** Barcelona (Spain), summit of the EU
 - 18-22 March** Monterrey (Mexico), United Nations Conference on Financing for Development
 - 17-18 May** Madrid (Spain), summit of Latin America, Caribbean and Europe.
 - May** Asia Development Bank Annual Meeting, Shanghai, China
 - 1 May** International day of action against militarism and for peace
 - End of May** 4th preparatory meeting for the World Summit on Sustainable Development, Indonesia
 - June** Rome, Italy, World Food Summit
 - 22-23 June** Seville EU summit
 - July** Toronto and Calgary (Canada), G8 summit
 - 22 July** USA campaign against Coca Cola
 - September** Johannesburg (South Africa), Rio+10
 - September** Asia Europe Meeting (ASEM), Copenhagen
 - October** Quito (Ecuador), Social continental forum "A new integration is possible"
 - November** Cuba, 2nd Hemispheric meeting against FTAA
 - December** Copenhagen (Denmark), summit of EU.
- In 2003:
- April** Buenos Aires (Argentina), summit of the FTAA.
 - June** Thessaloniki EU Summit
 - June** France, G8
 - WTO, IMF and World Bank** will meet somewhere, sometime. And we will be there! ★

EnronOnline and the Not-So-New Economy

ENRON had pushed hard for and profited mightily from deregulation of energy markets; it was a leading player in the blackouts and price hikes facing Californians last summer, and played a similar role in other markets in the US and abroad.¹ But Enron is far more than an energy company. By building online trading markets for thousands of goods and services, it hoped to achieve the status prematurely announced on the banner in front of its headquarters: "The World's Leading Company."

This gap between aim and achievement is characteristic of Enron's strategy, and in fact explains its propensity for accounting lies and financial swindles. Its crimes flowed primarily not from a desire to cover losses in its energy trading business, but rather from a desire to become as rapidly as possible the dominant middleman in virtually every market for commodities, both real and financial.

The problem is that Enron CEOs Kenneth Lay and Jeff Skilling can't compare to John D. Rockefeller or J. P. Morgan when it comes to empire-building skills. Their aims were every bit as grandiose, and certainly the latter pair was every bit as ruthless and dishonest as the former. But the period in which Rockefeller and Morgan operated was one made for a robber baron to build and maintain an empire, and that is not — at least not yet — the kind of period in which the capitalist system is functioning today.

Origins

Enron started as a small Texas gas pipeline outfit, grew to become a leading energy wholesaler, and then seized on the opportunities of deregulation — opportunities it pushed with the help of its friends in both political parties — to fashion a huge online energy trading exchange. But very quickly it set its sights on, in its own words, "the commoditisation of everything". Previous corporate titans sought to extend their reach by monopolizing production in their own industry, or extending their empires vertically into related industries, or more recently to become multi-industry conglomerates in unrelated but profitable fields. Lay and Skilling pursued none of these goals.

ENRON, America's seventh largest company, has collapsed. The firm had lied about its profits and stands accused of a range of shady dealings.

ANDREW POLLACK*

Instead they aimed to ride the Internet wave to become the premier middleman for any and all industries, setting up business-to-business (B2B) electronic exchanges for virtually every major sector of the economy.

They did so at the height of the dot.com hype, and thus found a credulous audience among investors. Adam Lashinsky told in the *New York Times* how "analysts were particularly receptive when Jeffrey Skilling, then Enron's president, suggested that the company's money-losing broadband network business alone was worth \$29 billion, or an extra \$37 a share. Unsurprisingly, Enron's shares skyrocketed by more than 50 percent in the first half of that year. Enron, it seems, had become an Internet company, and decidedly old-economy energy-industry analysts were loath to be left behind. Many openly acknowledged their lack of understanding of Enron's new lines of business — but hey, the company told such a good story. Why quibble over a few murky details?" ("Bankrupt Analysis," *New York Times*, November 30, 2001)

Lashinsky blames "the Enron debacle" on the conniving and/or naivete of investors. Wall Street's "loss of objectivity" has meant that "investment banks make far more money from underwriting or merger deals than they do from broker fees. Analysts at these firms often face conflicting loyalties. They can be put in the position of having to worry as much about whether a chief executive might find a report offensive as whether an investor might find it helpful." But this begs the question of what it is about our economy today that breeds such dishonesty. And the reforms being promoted in response to the role of Arthur Andersen in facilitating Enron's lies will likely result in some very modest changes in accounting standards that won't begin to get at the fundamental sources of the problem. But we

can be sure that, as after Watergate, we will be assured once again that "the system worked".

Broadband

The broadband example cited by Lashinsky is a good example of the technological opportunity Enron astutely sniffed out, as well as the barriers in its way to consolidating that opportunity. It wanted to become the dominant trader of broadband capacity (i.e. cable, DSL and other faster-than-modem Internet connections). Again, it didn't seek to be a player in the laying of broadband wires or even in charging for their use, but rather wanted to be the middleman in trading access to such wires, as well as in marketing derivatives betting on the availability of such capacity over various time frames.

After a decade in which billions were spent in laying the physical connections for broadband, this sector is suffering from a glut of capacity and a shortage of both consumers willing to pay the high price for such service and of available content, despite the flourishing of Internet-ready music and video.

Thus Enron's move into broadband, not surprisingly, fell flat on its face. The *Wall Street Journal* on January 17 dissected its efforts to link with Blockbuster Inc. to provide videos at home over such high-speed connections — certainly a guaranteed money-maker in the content-provision field if ever there was one. But the timing was way off, because of the obstacles cited above. So Enron resorted to making "false claims to investors about how far along the business was," and even set up, on behalf of the venture, one of its many shady financing subsidiaries without telling Blockbuster.

To justify such moves, Enron CFO and later head of all Enron's bogus subsidiaries, Andrew Fastow, described the need for a "private equity strategy" in order to be able to fund "significant capital investments by the company, some of which would not generate cash flow or earnings for a number of years." His description of the need for such a strategy specifically mentioned plans to expand the trading of broadband access.

When the strategy didn't pay off as quickly as expected, Enron's solution was

just to lie about how far along its ventures were. It claimed a \$53 million profit two weeks into the pilot program, while it wasn't yet generating any profit! A former employee told the *Journal*: "How can they monetize the asset when we're still putting it together? It didn't make any sense to me ... I was just floored. I mean, I couldn't believe it."

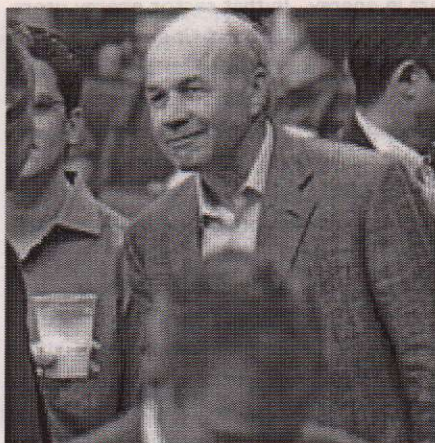
Roots of the EnronOnline Strategy

Broadband, of course, was just one of many, many sectors Enron sought to master. On December 6, the *Economist* analyzed the evolution of what it called "the amazing disintegrating firm," noting that it had only been a year since "Enron unveiled its master plan for domination of the universe. Not content with changing from an obscure gas-pipeline concern into the world's biggest energy trader, Enron's bosses set their sights higher. Jeffrey Skilling, then president, vowed to skyrocket past ExxonMobil to become the world's leading energy firm — quite an ambition, given that Exxon had just posted a quarterly profit of over \$4 billion. But even that was not enough for Mr Skilling. He had a business insight so powerful that it would transform Enron into the world's leading company, period: the 'disintegration' of the traditional corporation."

"Mr. Skilling believed that deregulation and market forces would force traditional, asset-heavy companies to break up into thousands of niche players. Rather than being vertically integrated, companies would be "virtually integrated"— by enterprises such as Enron that would "wire those thousands of firms back together cheaply and temporarily."

This strategy was announced during the height of predictions that B2B would remake the economy. And at the time, Enron was touted — by the *Economist* itself, as well as by business strategy gurus such as Donald Tapscott — as being a case study in just how technology should be used in such a transformation.

Said the *Economist*: "There is a very reasonable chance that we will become the biggest corporation in the world,' Mr. Lay's handpicked successor as Enron's chief executive, Jeffrey K. Skilling, told the authors of a book, just published, about business on the Internet. Even the book's title, *Radical E: From GE to Enron — Lessons on How to Rule the Web*, showed the cachet the company had attained. Enron, the authors wrote, was 'creating a culture in which radical and creative thinking is encouraged and rewarded.'"



Enron CEO Kenneth Lay

But the dream never materialized. In its December 6 article, while noting the damage from "a \$1.2 billion reduction in equity capital, stemming from a hedging deal with a related private-equity fund" (i.e. the first of many revelations of hidden cash in bogus subsidiaries), the *Economist* also noted "third-quarter results in mid-October that showed a \$1 billion write-off on broadband, water and other bad investments." Note that the big losses by this point weren't from its original base in energy trading. This fits with my main contention: that the company's accounting tricks were designed to finance, and later to hide its difficulties in, expansion into any and all markets. And the fact that UBS is now poised to take over Enron's online energy trading apparatus shows the problems weren't rooted primarily in that base.

Some of its problems did flow from bad investments in actual physical plant. *Business Week*, for instance, described losses from bad investments in England's water sector, power distribution and generation in India and Brazil, etc. But Skilling pointed out that when Enron bought physical assets it was mostly to get a foothold in trading in that sector — and after that foothold was secured, the assets themselves could and should be dumped. Unfortunately for Enron (and of course even more so for its employees), it was saddled with these assets before its broader strategy could bear fruit. What's more, to the extent that there were problems in its energy trading base, these too reflect the current social and economic barriers to the broader Enron strategy.

In fact, the *Economist* traces Enron's desire to expand beyond the energy sector to inadequate profits in that sector. Enron had difficulties with its earnings per share (EPS) figures: "It now seems clear that growth in EPS became ever harder for Enron to deliver. So its laser focus

switched to looking for accounting fiddles that would make it look as if EPS was going up, and also hive debt off its books. To that end, several off-balance-sheet entities were set up. These were not wholly independent of Enron, but were judged sufficiently separate that their profit or loss did not have to be consolidated into the company's results. Assets, or portfolios of assets, were then 'sold' to these entities."

Crucial issue

Then the author raises the crucial issue: "The thorniest question of all is why Enron ever had to resort to these financial shenanigans. Perhaps evidence of simple, criminal activity will be found. Yet greed was surely not the only factor."

A rival in the energy field is quoted as conceding that "Enron had the biggest and strongest energy-trading business in North America," and an economist is reported as saying "the internal risk management of the trading business was basically sound."

"But did high volumes really add up to big profits? At first, yes. However, partly as a result of Enron's success in expanding competitive markets, dozens of rivals flocked into trading. There proved to be few barriers to entry in energy trading; and Enron's skilled employees were snapped up in droves by rivals." As a result, "although revenues mushroomed — growing by \$10 billion from 1998 to 1999, and then by another \$60 billion to \$100 billion in 2000 — profits before tax rose by only \$1 billion in 1998, and by less than \$500 million in both 1999 and 2000. Enron's return on capital was only 6.6% in 2000, less than rivals such as Williams and Dynegey."

What's worse, "the firm's trading margins collapsed, from 5.3% in early 1998 to less than 1.7% in the third quarter of this year [2001]." And even these margins were suspected of being artificially "pumped up."

This is a not surprising experience for a pioneer in a new field — as was certainly the case earlier with rail, auto and other industries. But rather than focus on consolidating its early lead in energy trading and/or pushing aside its challengers, Enron chose to build on its online trading experience by expanding it to other industries and thus seeking ever-new sources of revenue outside energy.

The declining revenues, continues the *Economist*, "encouraged [Skilling] to bet the company on his radical, risky view that

★ USA

Enron could create markets in just about anything. With margins shrinking, Mr. Skilling tried to stretch the brand into new areas. Enron grew to have contracts with some 8,000 counterparties, in hundreds of business lines ranging from credit insurance to metals trading. In practice, this meant taking ever bigger bets, such as trading telecoms' bandwidth."

"As these bets started to go horribly wrong all at once, Enron may have felt compelled to pump up its revenues and profits using ever more ingenious tactics. Dynergy's Mr Watson puts it this way: 'Enron tried to be a worldwide commodities broker and market maker to the world, open 24 hours a day, with just a BBB rating, unlike banks, which have a much stronger balance sheet — and the market fell for it.'"²

Of course Enron wasn't a bank. But the ease of setting up online markets made it think it could perform many of the functions of a bank. And in this they were only taking the next logical step in a period when banking functions have been assumed by companies from a wide variety of economic sectors. Enron's unique contribution was to be the first to try it almost entirely online. The fact that they didn't succeed doesn't mean, however, that it can't or won't be done.

What exactly was it trading?

Even in its glory days as the dominant energy trader, Enron was not "just" trading energy. Rather, it helped develop what business journalists call the "spot-and-derivatives markets" in that sector. In this it followed the lead of pioneers in the financial sector who saw how new information technology made more practical and profitable the expansion of old, or creation of new, financial derivatives. And as in the financial world, these derivatives are usually several steps removed from any physical commodity and its price; they are often ways of betting on those prices or even betting on how a bet will turn out.

Thus, for instance, Enron would sell what was in essence "weather insurance," whereby a customer could place a bet on how thunderstorms would impact the need for and thus the price of energy. And as in any gambling, of course, the house always wins no matter how the bet goes down. (Again, Enron's problem was that new online casinos kept opening up.)

Enron took the lead in providing online trading of derivatives in many markets because it had earlier mastered that

art in energy. In that sector energy users, such as utilities and industrial power users, have a real need to protect themselves against fluctuations in power prices. Similarly the earliest derivatives — for instance, futures contracts on agricultural commodities — played, in part, a similarly concrete economic function in moderating price fluctuations arising from lag times between production, delivery and payment for grain and similar products.

But as Doug Henwood shows in his book *Wall Street*, most trading in derivatives has much less to do with evening out the uncertainties and volatilities of commodity prices and much more to do with financial speculation. And, of course, those fickle prices are in any case themselves largely a product of the normal functioning of a capitalist economy and have little relationship to the physical requirements posed by use of any given commodity. But online trading exacerbates the tendency always inherent in capital to produce more and more abstract manifestations of itself in the search for new forms of profit as old ones stagnate.

In "Market That Deals in Risks Faces a Novel One" (*New York Times*, November 29, 2001), Diana Henriques describes how such markets work: "Enron had helped create the global market for energy-based derivatives — customized risk-swapping contracts that enable companies to hedge their exposure to changing energy prices and supply fluctuations. In a typical energy swap, a company will enter into a contract to lock in a fixed price of a certain commodity, like natural gas or electricity. The other company, the counterparty, in the deal assumes the risk of future price changes and quotes a fixed price that includes its own profit."

Online trading of such derivatives guaranteed a new speed and volume to such swaps. Said *Internet Week* (May 11, 2000): "If there is ever a place where Internet trading makes a lot of sense, it's with energy commodities... because electronic trading can match the speed with which commodity pricing changes. On the telephone, a buyer previously would call to ask about gas prices for each of the next six months, but by the time the trader finished reciting the prices, some prices could have changed. The Internet system allows everyone to see all the prices all the time and make more careful decisions. "Everyone can clearly see the bid and offer prices on the screen for 800 products."

In Skilling's own words, Enron profited because "the prices of electricity and gas vary wildly by geographical market and

can fluctuate every few seconds. Online trading has helped to reduce the time between the placement of an order and its execution (from as much as two hours before the online operation's launch to a split-second today); this greatly reduces the exposure of the firm to price fluctuations that might occur 'twixt the ordered cup and the transacted lip."

Obviously the need for energy fluctuates tremendously based on changes in weather, time of day, construction (or destruction) of homes and institutions using energy, etc. And certainly the computers running local or regional (or even international) electrical and other power grids have to be able to make split-second adjustments in energy flows. This is several steps removed, however, from Enron's ability to profit from split-second placement of trades on derivatives based on energy prices. And such distance from physical reality is even more glaring in the case of derivatives based on such commodities as steel, one of the many sectors Enron moved into next.

Description

Here's the description on EnronOnline's website of how its computers could benefit investors in that arena: "Volatile pricing for steel products and raw materials is creating challenges for companies that produce, process, distribute and consume steel products. Companies can mitigate their exposure to fluctuating prices by using risk management products recently introduced to this market. Enron offers financial swap contracts to help companies mitigate price risks without altering their physical operations.³ In addition, Enron is developing a transparent spot market and a liquid forward market for base, commodity grades of steel."

Note that this new market for steel derivatives comes at a time when the production of steel worldwide is supposedly suffering from overcapacity. Yet even in the most developed countries more steel is needed to build new houses, schools, hospitals, and so forth. The need for steel in underdeveloped countries is obviously far, far greater.⁴ Nonetheless, the leaders of the major steel-producing countries recently met in Europe to argue over which of them should cut production the most and to threaten each other with import barriers. And of course, the discussion there was not over split-second or even daily changes in steel production by individual firms, but over annual targets

for entire countries.

But Enron's online steel trading has another face even further removed from the physical reality of production (and of course, even further removed from any conceivable standard of morality). Again, from its website:

"The emission allowances market was created following the Clean Air Act of 1990, which set limits on emissions of SO₂ and NO_x in the United States. The government allocated transferable rights to emit predetermined levels of emissions. This program created the foundation for the development of a commodity market in emission allowances." Investors were thus encouraged to use EnronOnline to profit from that market.

Other markets listed on the website include natural gas, power, emission allowances, bandwidth, weather derivatives, natural gas, petrochemicals and plastics, coals, crude oil, pulp and paper, credit derivatives, shipping, and metals. Through EnronOnline, Enron was thus no longer just an energy trader, but in fact a conglomerate of business-to-business exchanges (B2Bs). *Internet Week* (May 11, 2000) reported that Enron had "executed a staggering \$35 billion worth of transactions on the Web since launching a site six months ago."

Whereas companies since the 1960's have often diversified by becoming conglomerates that manufacture products in multiple industries, and more recently by combining manufacturing, services and retailing, Enron's "asset-light" strategy had as its goal transforming the company into the electronic intermediary between firms anywhere in the economy.

Online trading meant the public exposure of what had been business secrets. "There are also intangible costs, though, such as the impact on corporate culture and the upheaval in the firm's business model. After all, since the days of the spice trade, information about prices and spreads has always been jealously guarded, as a potential competitive advantage, by any commodity trader. Now, thanks to EnronOnline, Enron is posting that information on the Web for all and sundry to see. That must come at a price."

The price, of course, was not just the discomfort of old fogies, but the right of Enron to profit by virtue of being the provider of that information:

"The EnronOnline model that Ms. Kitchen and her colleagues came up with was not based on an open platform, however. Rather, it is what is called a 'principal-intermediated' model in which Enron

acts as the principal. In other words, rather than striking deals among themselves willy-nilly through an Enron website, every buyer and seller participating in EnronOnline has to accept Enron as its direct counterpart — i.e., as the seller or the buyer." In this respect, there are some interesting parallels with the role played by J. P. Morgan as an intermediary between transportation and manufacturing firms at a time when capital markets were just developing and information about companies was closely guarded. (See Ron Chernow's *The Death of the Banker*.)

The problem for Enron was that the economy as currently structured is not ready for such a global intermediary, and thus Enron's deals, rather than consolidating and stabilizing industries, as did Morgan's, had more of the ephemeral, speculative character of those engineered by railroad speculators. But as with rail, this doesn't mean that online trading won't find its Morgan — or, one would hope, a more progressive equivalent in the form of unions and other progressive organizations who take over the B2B exchanges for their own uses.

Before the Fall

Enron's move into multi-industry online trading came as the dot.com hype was cresting. So, not surprisingly, the media — including the normally more sober *Economist* — was full of praise for Enron's new strategy. In a special report on "e-strategy" profiling companies from seven different industries that were leading the way in remaking their markets with new technology, the magazine analyzed Enron's "spectacularly successful Internet effort," and claimed that "Enron has created what may be the most successful Internet venture of any company in any industry anywhere." (Although, given its generally more level-headed reporting, the *Economist* characteristically added a crucial caveat: "EnronOnline is one of the Internet's few success stories, assuming its huge trading volumes do indeed generate big profits, as the firm claims.") ("A Matter of Principals," June 30, 2001.)

EnronOnline was said to represent a new business model for the company: "With each new trade, it has less and less to do with energy, and more and more to do with making markets. One manager says that the firm's goal is "the commoditisation of everything".

According to the magazine, EnronOnline offers more than 1,500 different products. "Online trades now

make up nearly two-thirds of the company's trading business ... Management consultants and Internet gurus cannot stop singing its praises: Harvard Business School has already put together a glowing case study." And, of course, New Economy gurus such as Donald Tapscott et al. in their *Digital Capital* cited Enron as a model to follow.

Was Enron's online trading model really that new? Listen to Skilling: "We were doing business-to-business trading long before there was such a thing as B2B, only we were using telephones." His interviewer concluded "EnronOnline, its 'killer app', is really just a better telephone."

It would be more accurate historically to say that such B2B exchanges, and business Internet use in general, are, as currently used, just better telegraphs. As several authors have pointed out, the telegraph qualitatively changed the extent and speed of interfirm and interindustry communication (and the simultaneous development of rail enabled an equivalently dramatic increase in the speed of shipment of goods that were the topic of that communication).⁵ The changes wrought by the Internet to such communication has, to this point, been a matter of degrees rather than of qualitative type. Despite all the claims for the impact of lower transaction costs on firm functioning and relationship, the basic structures and functions of corporations have not been substantively altered by the Internet, in the way that they were altered by the telegraph and rail in the 19th century.

Enron, the Banks, and the Broader Economy

Enron's online trading did, however, expand far and fast enough to wreak havoc in other industries and potentially the economy as a whole. In this it again threatens to reproduce earlier developments in rail, specifically the way speculation in that field helped spark the Panic of 1893.

Enron's fall is expected to impact other utilities trading energy, as well as the commodity and derivative operations of large commercial and investment banks. Floyd Norris noted in the *New York Times* ("A Big Fall Evoking Nasty Old Memories of a Run on a Bank", November 29, 2001) that J. P. Morgan is on the hook not only for credit provided to Enron, but "also has the largest derivative operation of any bank, as well as a large business trading commodities." Big declines in the fourth-quarter 2001

results for Morgan and Citibank already indicate trouble brewing.

Were Enron to fail, analysts quoted by Norris think "it has the potential to cause a major financial crisis," worse, in some ways, than what occurred after the fall of Long-Term Capital Management. "That merely froze the debt markets temporarily, whereas Enron deals in the building-blocks of the American economy. Imagine gridlock in the markets for gas, timber, coal, metals, fertilizer, bandwidth or indeed any of the products Enron deals in."

Despite the emphasis I've laid on Enron's extra-energy operations, I'm not sure their weight in those sectors was yet great enough to negatively impact all those markets. The point, however, is that they tried to expand to a point where such dangers would have been a reality.

Norris also draws an interesting parallel between Enron's operations and the normal role played by banks: "The final collapse of Enron amounted to something that few living Americans have ever seen: a bank run like those in the days before deposit insurance."

"Enron," said Norris, "became something like a bank, which takes depositors' money and promises to pay it back later. But unlike banks in the current era, this institution had no federal deposit insurance to reassure customers when rumors began to spread that it was in trouble. That proved to be its Achilles' heel. Enron's collapse is a reminder for big players in unregulated markets that their financial health must be beyond doubt."

Begging the question

But Norris' analysis, like most mainstream commentary on Enron, begs the larger question: what is it about the evolution of our economy that has encouraged nonfinancial firms to enter the financial sector (and vice versa)? Why have manufacturing and extracting (i.e. energy) firms entered the world of finance rather than expanding in their original bases? Why have financial firms created more and more abstract investment tools and devised ways of trading them faster and in higher volumes? The answer, of course, which mainstream analysts shy away from, is the difficulty in finding outlets for productive investment because of the global crisis of accumulation and overproduction.

Listen to Norris' policy recommendation: "The markets Enron helped to create will endure, but probably without Enron. It will be interesting to see



whether participants in them continue to resist regulation as much as they have in the past. Unregulated markets, especially when they are relatively new, can be very profitable for those with superior market knowledge, as Enron seemed to have. But when prices are visible to all, the value of that knowledge plummets. Regulation could bring more openness, but it could also bring structures, like clearing systems, that reassure traders they need not worry about the credit of those with whom they trade. If the markets continue to be unregulated, Enron's collapse makes it more likely that the big players in those markets will be companies that are already regulated enough to assure customers that they are secure — companies like major banks and brokerage houses."

I'll leave aside for now the fact that banks such as Citibank and J. P. Morgan actively abetted Enron's criminal behavior. (Morgan actually initiated a scheme whereby Enron set up a fraudulent trading subsidiary on the Isle of Jersey. See the *Wall Street Journal*, January 24, 2002).

Norris is on to something, though: banks — and more generally firms whose operations can impact the economy as a whole — are regulated because in periods of crisis capital develops just enough self-awareness to realize that it needs a greater degree of order and discipline for its own survival. But such self-awareness fades rapidly when the system goes through a period such as the one we've been in for the last few decades — a period encouraging deregulation and other mechanisms to try to reinvigorate falling profit levels. The history of capitalism shows a correlation between the degree and type of regulation, and the system's

expansions and contractions. So any re-regulation sparked by Enron's fall is likely to be timid, given the period we're in; and even if, after the onset of a depression in the coming years, more dramatic re-regulation occurs, that too will be swept away if the system pulls itself out of that depression.

The irony is that the multi-industry online trading pioneered by Enron (and attempted on single-industry bases by auto and other manufacturers) provides the objective possibility for the socialization of not just production but its distribution and circulation functions. That is, a socialized conglomerate of B2B exchanges could do away with these cycles, both of speculation and of inability to rationally organize production. That assumes, of course, that such a conglomerate be run by the workers of the industries whose data would flow into the exchanges as part of a general reorganization of society — in other words, socialism.

How New is the New Economy?

The mainstream debate on the impact of information technology (i.e., computers and communications) on the economy tends to revolve around two issues: first, its impact on productivity, and second, how decreases in transaction costs (i.e. the price of doing business with other firms) impact the size and character of corporations.

Not long before the scandal broke, Enron was used as a positive example in an article focused directly on this debate.

In the August 2001 issue of *Business*

2.0, Jerry Useem described a debate at that year's World Economic Forum in Davos between Michael Porter of the Harvard Business School and Donald Tapscott ("And Then, Just When You Thought the 'New Economy' Was Dead ..."). The former, described as the "god-father of business strategy" advised, as he has for decades, says Useem, "a return to fundamentals." The latter, co-author of *Digital Capital*, is one of the most shameless promoters of claims for the qualitatively new nature of the New Economy.

In a follow-up article on the debate, "Porter published a 12,000-word treatise in *Harvard Business Review* called 'Strategy and the Internet,' in which he ... argued that the Internet 'does not require a radically new approach to business.'" Tapscott's reply claimed that the Internet "is becoming a ubiquitous medium of human communications that will be at the foundation of all economic activity and will change every institution in this society."

Useem then quotes some other prominent critics of New Economy theories who analyze away the reputed productivity gains (including Robert Solow's famous quip, "You can see the computer age everywhere but in the productivity statistics"), and who attribute the inflated stock valuations to a decade-long "speculative bubble."

Speculation

But Useem then goes on to cite those who argue that the greatest leaps in productivity tend to come decades after the introduction of a new technology — and that before this happens, speculation is the norm: "Speculative bubbles, it's worth remembering, have accompanied everything truly 'new' in U. S. economic history, from canal mania in the 1830s to the radio craze of the 1920s. Investors invariably got burned for letting their exuberance get ahead of reality (who knew that 500 automobile startups would be too many?). But when the smoke cleared, the basis of a new economy was left standing: railroad tracks that would help create a national mass market; telegraph lines that would facilitate the rise of modern big business; electricity grids that would revolutionize manufacturing and extend the working day. In other words, the Internet is like these Victorian technologies: a general-purpose infrastructure that can make all economic activities more efficient, as well as wholly new ones possible."

Then Useem raises an issue that gets to the heart of why the Internet has not

yet qualitatively transformed the economy or even, in general, individual firms:

"Under this broader definition of 'new economy,' the usual question — Will anyone ever make any money on the Internet? — misses the point. Few companies managed to make money on the railroad; many early operators went bankrupt in the panics of 1857 and 1893. Yet by slashing transportation costs, railroads had what economists call 'spillover effects' on the economy at large. A young John D. Rockefeller would have seen no point in consolidating Ohio's small oil refineries, for example, had the Great Atlantic & Western Railroad not recently linked Cleveland to the vast consumer demand of the East Coast."

And as Alfred Chandler pointed out, once Rockefeller decided to do so, he needed a new organizational form for his corporation adapted to meet the larger "scale and scope" of his business (the latter phrase being the title of another Chandler work documenting this phenomenon). He borrowed this organizational form, the multi-division, manager-run corporation, from the railroads themselves.

To the extent that the Internet serves as yet another communication device, like the telegraph, facilitating business interaction, it will have similar spillover effects. But as mentioned above, these will only be marginal improvements. The real question is whether it will also call forth qualitatively different organizational forms of its own. I would argue that it won't do so on the level of the individual firm. I would further argue that the Internet provides the objective possibility for new cross-firm and cross-industry organizational forms on a scale eclipsing even the

multi-division corporation. The barriers, of course, to this happening under capitalism are obvious, and the failure of EnronOnline — which was a twisted, embryonic version of such a potential form — are due to those barriers.

Lag

Useem notes that "research by Paul David, an economic historian at Oxford, shows there was a 40-year lag between the introduction of electric power in the 1880s and its effect on productivity. It wasn't until they began to redesign the tasks themselves — spreading small electric motors throughout the factory floor, for instance, instead of using a centralized belt-drive system — that serious efficiency gains kicked in. And here's the kicker: These changes began in earnest when electricity reached a 50 percent penetration rate, slightly less than the portion of Americans now connected to the Internet."

The result, of course, was developments such as Ford's assembly line. The question is whether the Internet can lead to the equivalent of cross-firm or cross-industry assembly lines. That in essence is what a B2B, and even more so a cross-industry B2B, could be. And that is what Enron tried, and failed, to build.

In an economy where there's "too much" steel capacity, where there's "too much" auto production (witness recent layoffs at Ford), within-firm impact of savings from using the Internet will be mostly wasted. What good is it to save on time and cost in moving goods around on the shop floor, or even from suppliers or to customers, when the market won't support the production and sale of more



goods?

Let's look at the case Useem cites to prove the significance of the within-firm impact of IT. Guess who he cites as an exemplar of such a new organization? That's right, Enron.

Says Useem: "Approaching that question [of what a new organization would look like] requires diving beneath the surface of aggregate statistics and into firms themselves — in this case, the Houston headquarters of Enron, where glimmers of a possible future are emerging.

"It's no secret that Enron has found the Internet a friendly place; the company's online markets for trading electricity, natural gas, telecommunications bandwidth, and other commodities now generate 60 percent of the company's revenue. What's truly striking, however, is the extent to which the company has rearranged itself to take advantage of falling information costs."

"Jeff Skilling, Enron's CEO, points specifically to what he calls 'interaction costs,' [what the academics call transactions costs] or the expense of finding, contracting with, and communicating with outside suppliers and partners. Ten years ago, he says, those costs were high enough that it made sense to do most activities under one corporate roof. Gas was drilled by an Enron exploration team, flowed from an Enron wellhead, traveled through an Enron pipeline, was cleaned in an Enron processing plant, and so forth. No longer. 'There's only been a couple of times in history when those costs of interaction have radically changed,' Skilling says. 'One was the railroads, and then the telephone and the telegraph. And I think we're going through another one right now. The costs of interaction are collapsing because of the Internet.'"

Then Skilling gets to the heart of the matter. In contrast to those Internet gurus who babble about the coming triumph of smaller, more flexible firms, he emphasizes that "the goal isn't to shrink. 'Someone like Enron, we are going to be gigantic,' Skilling says. 'What you'll find instead is that companies will take some horizontal sliver of the business process' — in Enron's case, making markets — and become outstanding at it and do that across many industries. Rather than a world of smaller companies, I think we'll see a world of a lot more specialized companies.'"

But it's precisely because the Internet allows firms to "make markets," i.e. to internalize functions that were previously handled as exchanges across firms, that this potential can't be realized in a market

economy.

Instead, as we saw with Enron's energy trading operations, advantages accruing initially to firms creating B2B exchanges encourage entry into the field by competitors, soon leading to lower profits for all. Says Useem: "Indeed, many companies will be forced to spend heavily on infotech just to maintain their position vis-a-vis competitors — the corporate equivalent of 'keeping up with the Joneses.'" Useem then quotes Porter on this trend: "Consider, for instance, the twin beliefs that the Internet will increase corporate profits and, at the same time, increase competition by lowering barriers to entry. What Porter notes is that the two claims, by definition, cancel each other. Greater competition has to squeeze profits, suggesting that the Internet's biggest beneficiary won't be firms at all. (Even Enron made a relatively meager \$400 million profit on its \$50 billion in second-quarter revenue.) Rather, it will be consumers who continue to reap a windfall."

Echoing this claim that consumers will reap this windfall is Robert Reich, who says that declining profits from faster, high-tech exchanges "doesn't mean the new economy doesn't exist. In fact, it's proof that the new economy *does* exist."

But in our system, corporations certainly aren't going to continue to build B2B exchanges if the only one profiting is the consumer!

Firm Size and Transaction Costs

Useem notes that "In his study of industrial capitalism from 1880 to 1920, business historian Alfred Chandler estimated that organizational, not technological, innovations accounted for half of economic growth during the period." And in the same vein: "Thus, theorizes MIT professor Tom Malone, 'the golden age of organizational experimentation has just begun.' I've already discussed the type of organizational innovation which the Internet makes possible. Let's look in a little more detail at the question of firm structure to see why capital has trouble utilizing this innovation.

As the Enron scandal deepened, Hal Varian of the Berkeley Business School published an article in the *New York Times* drawing on economic theories of the firm to explain why the Internet could have an impact directly contrary to that predicted by its boosters, who predicted smaller, more flexible firms. ("A New Economy With No New Economics," January 17, 2002.) He notes that no new economic

theory has been devised to explain or predict the Internet's potential, and instead refers us back to the classic 1937 paper, *The Nature of the Firm*, by Nobel laureate Ronald Coase.

Let me add some background. Coase, who went from being a socialist to an advocate of the free market at the notorious University of Chicago economics department, was inspired by his early beliefs to ask how and why firms decide in a capitalist economy to draw their boundaries. Why isn't the economy, he asked, "one big firm" (a phrase borrowed from Lenin by which the latter described a socialist economy).

As Varian explains, "The Coase paper asked a deceptively simple question: If the market is such a great tool for allocating resources, why isn't it used inside the firm or company? Why doesn't one worker on the assembly line negotiate with the worker next to him about the price at which he will supply the partly assembled product?"

"That sort of negotiation rarely happens. Instead of using markets, companies tend to be organized as hierarchies, using a chain of command and control rather than negotiation, markets and explicit contracts. Paradoxically, the primary unit of capitalism, on close inspection, looks a lot like central planning.⁶

"Mr. Coase's answer: it all hinges on the costs of making transactions. What economists call firms, he said, are essentially groups of activities for which it is more effective and less costly to use command-and-control than markets to have things done."

The flip side of this is that firms draw their boundaries at the point where command-and-control ceases to be effective, where the cost of internalizing decisions begins to exceed the cost of letting markets make that decision.

"New-Economy advocates found this a compelling idea. One consequence of the Internet has surely been to make it cheaper to communicate. This should, in turn, lower transaction costs and change company boundaries. Their conclusion was that companies would inevitably downsize and outsource, spin off unnecessary functions, and carry out more and more transactions using the Internet instead of internal memos."

But, continues Varian: "Not so fast. The Internet lowers communication costs, that's for sure. But that means it lowers transaction costs within organizations as well as across organizations. The internal memo might disappear, but only because it is replaced by the internal e-

mail message. It just doesn't follow that lower communication costs lead to smaller companies. In fact, Mr. Coase himself said that 'changes like the telephone and telegraphy, which tend to reduce the cost of organizing spatially, will tend to increase the size of the firm.'

Backing up Coase, says Varian, is Alfred Chandler, who documented how the deployment of the telegraph and railroad led to the creation of the giant corporation. If Chandler was right, says Varian, "Maybe the Internet's role is to provide the inexpensive communications that can support megacorporations. This thought is enough to make a New-Economy guru shudder." (emphasis added) That of course was exactly the outcome desired by Skilling and his co-conspirators.

Varian then discusses firms' fears of "opportunistic behavior" — that is, the desire of a competitor to get a better price from you or even to cheat — as incentive to expand firms' boundaries. Firms have an incentive to minimize transaction costs, i.e. to spin off units if one can do deals with them as external partners rather than as internal divisions.

But they have an even stronger incentive to try to dominate or monopolize their own industries, and to vertically integrate backwards and forwards, to overcome competition from outsiders, no matter how cheaply one can transact business with them.

Evolution

Again, it's important to look at the evolution of the system as the tendencies toward and away from concentration and centralization of capital have in turn prevailed. Thus, on the one hand, there are periods of industrial consolidation — such as the one in which Morgan and other banks reorganized rail, steel and other industries. Thus also, on the other hand, a period in which new opportunities shatter old monopolies (through both market competition and government policy), encourages start-ups — and then after time leads to a new phase of stable reorganization.

And running through both periods are the inherent limits, in a capitalist economy, to concentration and centralization, manifested, among other ways, in the limits to the fullest use of technological and organizational innovations. Thus Ernest Mandel, in discussing barriers to a new technological revolution on the scale of the three experienced in the life of the capitalist system so far, described how in the second half of the 20th Century "...

further increases in the velocity of turnover of capital became more difficult. The revolution in telecommunications permitted the transfer of huge sums of money in only a few seconds from New York to Tokyo or from London to Johannesburg (which is still happening every day, all the cant about barbarous apartheid notwithstanding). But further progress in such areas as transportation, sales of goods, and turnover of liquid holdings has become increasingly scarce for more than a decade, partly for technical reasons but especially for socio-economic reasons, because they run contrary to institutional social barriers linked to the very nature of capitalism: private property, bourgeois (i.e., highly unequal and class-biased) norms of distribution, and the survival of the nation-state." (*Long Waves of Capitalist Development*, p. 69.)

Thus, as shown above, are the difficulties faced by an innovation on the scale of EnronOnline.

There certainly are firms that have used the Internet to dramatically cut costs and expand firm size — and have even done so relatively honestly. Wal-Mart is perhaps the best example, using the Internet to speed stock replenishment and turnover, to minimize warehousing requirements, etc. — and thus enabling it to drive out thousands of competing firms. But at the end of the day the Wal-Mart model represents nothing fundamentally different from equally ambitious reorganizations undertaken by monopolists at the end of the 19th and beginning of the 20th centuries.

It's not inconceivable that the Internet will find its Morgan — that is, someone who can push aside the speculators, reorganize and consolidate B2B exchanges and help them realize their full potential. This depends in part on the arrival of a new long wave upturn. But it's more likely, because of the barriers inherent in capitalism discussed above, that the Internet's full potential won't be realized until the birth of a new social system, of socialism.

The response of the rail unions, at least for a brief moment, to Morgan's version of industry reorganization was to put forward their own plan — the "Plumb Plan" — for socialization of the rails. The question is whether unions and allied organizations will come up with a similar plan for the Internet.⁷ And given what I've said above about the cross-firm and industry potential of the net, because of its importance to the spheres of circulation and distribution, that means developing a plan not just for one company or sector, but for the entire economy — that is, for

socialism.

In such a society, the advantages of flexibility and smallness boasted about by Internet gurus could be used not for profit, but to rationally combine centralized and decentralized decision-making, to decide what combination of each is most efficient, so that society can make decisions at the lowest level possible, while spreading costs and opportunities as broadly as possible across a global economy.

This would mean, to correct Skilling's slogan both ethically and grammatically, the decommodification of everything. ★

* Andrew Pollack is a computer instructor in Brooklyn and author of "Information Technology and Socialist Self-Management," in *Capitalism and the Information Age: The Political Economy of the Global Communication Revolution*, edited by Robert W. McChesney, Ellen Meiksins Wood, and John Bellamy Foster, Monthly Review, 1997.

1. Corporate Watch, for instance, reported on March 15, 2001: "During the crisis, global investment firm Credit Suisse First Boston sent a memo to its clients saying the California's rolling blackouts were not caused by shortage, but by the utilities themselves. According to the document, the blackouts were 'intended to soften up the legislature and the voters to the need for rate increases.' Shortly after the memo was leaked to the press, Morgan Stanley Dean Witter urged investors to buy the utilities' stock." Yet, "California's energy debacle has not thwarted the worldwide rush towards privatization prescribed by international lending agencies. The World Bank and the International Monetary Fund typically force countries receiving their loans to privatize their state-owned power companies as a condition of continued financial aid. And that's not likely to change any time soon. In a white paper released earlier this month the Director of the World Bank's energy and water program worried that 'California's power crisis is giving deregulation a bad name, both inside the U. S. and in developing countries that are reforming their power sectors.'"

2. Aside from the business press, the daily papers have generally ignored Enron's non-energy trading business or minimized its significance. An exception is Bill Keller's "Enron for Dummies," an op-ed in the *New York Times* on January 26: "So where did Enron go wrong? As often happens with buccaneering entrepreneurs, it got a case of hubris. It figured if it could trade energy, it could trade anything, anywhere, in the new virtual marketplace. Newsprint. Television advertising time. Insurance risk. High-speed data transmission. All of these were converted into contracts — called derivatives — that were sold to investors. Enron poured billions into these trading ventures, and some failed. It turned out Enron was good at inventing businesses, but terrible at the tedious work of running them, judging by some appalling internal management audits discovered by the *Times's* Kurt Eichenwald. For a time, Enron swept its failures into creative hiding places, but ultimately the truth came out, confidence in the company collapsed and you now have a feeding frenzy."

3. This is a good proof of Henwood's point that derivatives can actually make a market less stable — Enron is arguing here that rather than expand or contract physical plant to meet changing demand, investors should simply hedge away risk from such disturbing market uncertainty.

4. For instance, the construction of new, safer housing to replace the shacks which get swept away in floods, hurricanes and earthquakes around the globe would save thousands of lives every year and provide more jobs in an expanded steel industry — including new jobs to build plants which would produce far less pollution.

5. See Alfred Chandler, *The Visible Hand*; James Beniger, *The Control Revolution*; Tom Standage, *The Victorian Internet*.

6. Ernest Mandel used the same analogy in an article on the logic of socialist planning. *New Left Review*, 1992.

7. In today's political climate this may sound beyond the pale even for most of the left. But it's worth remembering that during the California energy crisis last summer ballot initiatives for municipal ownership and community control were raised and widely supported. And recent strikes in Nigeria against price hikes following deregulation and privatization of energy there are just the latest example of recent worker mobilization around these issues abroad.

Theses on Globalization and the Palestinian Resistance

Nassar Ibrahim and Dr.
Majed Nassar*

1.1 There can be little doubt that the anti-globalization movement has been garnering increasing public support over the last decade. This support has often erupted publicly and very explosively, most famously in Seattle in 1999 but also with remarkable ferocity in Washington, Genoa and Los Angeles and so on. Largely in response to this outpouring of frustration, the discourse of globalization is increasingly establishing itself as an important analytic concept within a broad range of economic and cultural dimensions as the social and political analysts attempt to play 'catch-up' with the popular movement against globalization.

1.2 Together, the popular support for anti-globalization and the development of an analytical framework to serve this movement represents the creation of an organisational framework challenging the dynamics of a world market controlled by multinational corporations. The anti-globalization movement is a principled struggle against worldwide policies of the multinational corporations that serve to increase the social contradictions within countries, between countries and between the north and the south.

Globalization policies threaten the environment and increase the rate of poverty and ignorance; they create conditions for the eruption of cultural and religious conflicts.

1.3 Globalization is a product of the information and communication revolution and impacts on the realms of economics, politics and culture. This process is exploited by capital in developed countries to promote the global rule of multinational corporations. At the same time, the material and ideological motivations of the western developed countries are still responding to imperialist practices which attempt to impose the western social and cultural model that is regarded by the Western powers to be the ultimate 'point of destination' for all cultures and nations.

1.4 The combined domination of the multinational corporations and Western imperialism entails the control of other



States as the western States seek to repress variety in the world populations and subsume other national, cultural and social characteristics to their own. At the same time, the politics of domination create within victim nations and cultures the conditions for destructive violence and conflict leading the world into a circle of war and self-destruction.

1.5 The framework of the globalization debate allows for an examination of the role of imperialism in relation to modern economic forces in general, and multinational corporations specifically. In this regard, while globalization is often portrayed as States acquiescing to the demands of multinational corporations, the framework of globalization/anti globalization provides the conceptual framework to posit the relationship between commercial interests and imperial ambitions that operate on a more mutually serving basis.

1.6 In this regard, we can see that the goals of one are inseparable from the other. The commercial interests of the multinationals and the imperialist ambitions of the western powers are coterminous and mutually supporting. This may be clearly witnessed through the daily application of unequal forces within the sphere of international relations. We can see it in the GATT agreements, or in the various wars led by the US. We see it in international conferences such as the conference against racism and the environment. We see it in the stalling and obstructive practices of the US at the United Nations.

1.7 There is an urgent necessity to socially, morally and culturally resist this process in order to protect the richness of humanity. Such resistance does not necessitate the rejection of scientific and technological developments. These can, and should, serve all nations, nationalities, social categories and classes. Such advances must not be allowed to belong to a specific nation, culture or group of corporations that are devoted to profits at the expense of the misery and poverty

of billions of people.

1.8 The Palestinian issue is one of the most tragic instances of the globalization process in its imperial manifestation.

The Palestinian tragedy and the Israeli role in global oppression

2.1 At the end of the First World War, Great Britain undertook, through the 1917 Balfour Declaration, to establish a national homeland in Palestine for the Jews. Throughout the British mandate, Great Britain sponsored the Zionist movement, an ethnocentric and racist colonial project. By imposing its mandate in Palestine in accordance with the 1916 Sykes-Picot Agreement, Great Britain protected the Zionist movement and supported it politically, economically and militarily. By the end of World War II, Great Britain had already prepared the ground for the Zionists to take over Palestine, after it had conspired to brutally suppress the Palestinian resistance for thirty years.

2.2 With the end of World War II and the rise of the United States as leader of the capitalist regimes, the sponsorship of the Zionist project passed into the hands of the US. Armed Zionist gangs started a war against unarmed Palestinians in 1947/1948, succeeding in establishing the state of Israel on 78% of the land of Palestine. 19 years later, in June 1967, Israel attacked the Arab countries and occupied the whole of Palestine, the Egyptian Sinai and the Syrian Golan Heights.

2.3 As a result of these wars, over one million Palestinians were forced out of their homes and lands and became refugees living in camps in neighbouring Arab countries (Jordan, Syria, Lebanon). The refugee population today numbers about 4 million people, to whom Israel denies the right to return to their homeland in violation of international law established by the United Nations Security Council.

2.4 Though these colonial acts were legitimised in terms of securing the well being of the Jewish people, the actions of the western powers were performed at a crucial stage in the formation of global power relationships and served to establish a bridge across which the western powers could protect the interests of global capitalism in the Middle East.

2.5 As such, Israel was established as part of an imperial project in the region, making use of the Jewish tragedy to legitimate its own goals. In this way, the majority of the Jewish people are also victims of the colonial project in the Middle East. The interests of the Jews do not lie in gaining the hostility of the Arab nations and expelling the Palestinians; the Jewish tragedy in Europe does not justify the making the Palestinian people victims of the western colonial ambitions.

2.6 In the global division of labour, the State of Israel became the Border Police of imperialism and as such, had three tasks to fulfil: to control Arab resources and especially oil, to act as a bulwark against any revolutionary rise from within the Arab nations and to face the Communist progression in the Middle East, represented at that time by the Soviet Union.

2.7 The Palestinian tragedy is the consequence of the imperial globalization policy that is based on oppression, occupation and unlimited support for Israel in its regional aggression. The Palestinians are the victims of this process, and Israel is the tool to control the region through the denial of human rights, through occupation and through unfettered military aggression.

2.8 The Zionist conception combines the view of Israel as an exclusive Jewish State and the vision of Israel as an expression of the western cultural and demographic model. As an exclusive State, Israel is the permanent negation of the existence of the Palestinians as a nation.

2.9 Consequently, the recognition of the rights of the Palestinian people represents a threat to the colonial existence of Israel. As an expression of the western model, Israel 'forces' the capitalist countries to recognize Israel's policies and practices as defensive and protective of western values and lifestyles which provide a line of resistance to the 'barbarian East' and 'Arab terrorism'. The unconditional political and material support that the United States, and other capitalist countries, provide to Israel supports a strategy based on strengthening their own global control.

2.10 The negative role of Israel is not



limited to the occupation of Palestine and the denial of the Palestinian rights, but also encompasses Israel's regional and even global role: Israel serves as the regional spearhead of imperial forces of globalization, reflecting through its practices and policies the nastiest and most violent faces of the globalization process. This can be evidenced by Israel's continuous aggression against the Arab nations and in its relations with the world's bloodiest dictatorial and racist regimes, such as the apartheid regime in South Africa, the fascist dictatorships in Latin America and the war lords in Africa.

2.11 In sum, the alliance between Israel and imperialism is not accidental, neither does it have emotional or religious motivations, nor is it a response to the tragedy of the Jews in Europe. On the contrary, the alliance between Israel and the West expresses the interests that Israel protects in respect to the political, economic, and military ambitions of US global policy. In this regard Israel reinforces the United States' continuous rejection of the rights of the Palestinian people and assists in keeping the nations of the Middle East under western military and political domination.

The Negation of the Palestinian People

3.1 The negation of Palestinian existence is achieved through Israel's colonial strategies of ethnic cleansing, systematic segregation, the denial of basic civil and human rights and the erasing of Palestinians from history. The Israeli story of the colonisation process is rooted in a religious mythology that justifies the invasion and occupation of Palestine and at the same time rejects historical facts such as the continuous ethnic cleansing of Palestine in the late 1940s and early 1950s.

3.2 Currently, all forms of Palestinian political or military resistance to the Israeli occupation are described as 'terror' that should be ended by any means, thereby negating the present validity of Palestinians as humans and who would therefore be entitled to the rights of humans.

3.3 For the western media, Israeli aggression, wars and massacres are described as 'the right to self defence' by 'democratic Israel'. In this representation, Israel confronts violent Arabs and Palestinians who do not understand democracy. Israel represents a symbol of civilisation and democracy with the right to set standards of justice and punishment and to have authority over those who do not conform to its will.

3.4 At the same time, the western media creates a distorted image of the Arabs and Palestinians in the western imagination. The media creates stereotypes that encourage hatred and rancour. This construction degrades Arab religious and cultural beliefs, and creates the conditions for a 'confrontation of cultures'.

3.5 In sum, the Israeli negation of the Palestinian people is packaged with the western distortion of the Arabs in the globalised media. Both aspects embody a racist dimension that denies the particularities of the 'other', denies their human rights, denies their cultural characteristics and denies their human experience. Israel appears as a superior entity with the right to bring other nations to justice.

The peace process and globalization

4.1 Based on its military power, the support of the USA and a perception of the Arab world as primitive, Israel's vision of attaining peace is to be realised through a process in which it has the sole right to dictate the conditions of that peace. This includes the scope, if any, of the realisation of the human rights of the Palestinian people.

4.2 This scope is based on a list of 'nos': no to the right of return, no to the admission of the historical and political rights to the Palestinians in Jerusalem, no to the removal of the settlements, no to a sovereign Palestinian State.

4.3 In order to dictate this version of peace, Israel is fully prepared to degrade the lives of Palestinians by limiting their movement and transportation, assassinations, detention, sieges, the destruction of homes and agricultural stock.

4.4 Israel is not seeking peace, but to

★ PALESTINE

impose surrender.

4.5 The peace process that began in the Madrid conference at the beginning of the 90s, was set in the framework of the US-Israel alliance, and moved on due to the collapse of the Soviet Union and the results of the Gulf war. In this process, the US vision of the post-soviet era as a 'New World Order', matched the Israeli wish for a 'New Middle East'.

4.6 The Madrid process was followed by a number of economic conferences: Casablanca, Doha, Amman and Cairo that attempted to restructure the Middle Eastern and North African economic makeup giving the region the last push from national regimes, already in crisis, into to liberalized economies in the global market. The goal of those conferences was to end the Arab-Israeli conflict, and the Palestinian-Israeli conflict, by dictating US and Israeli political and economic interests.

4.7 This was a double dictate: the political acceptance of the State of Israel without forcing Israel to accept any of the Palestinians' demands, while also imposing the socio-economical liberalisation of the Arab states.

4.8 The cancellation of the Arab direct and indirect boycotts on Israel is the major economic symbol of this process.

4.9 The culmination of the Oslo process, in which the defeated Palestinian leadership in exile accepted conditions rejected by the Palestinian people in Palestine, was coterminous with the opening of the markets of the Middle East, Central and South Asia and the Far East to Israel. This process also exposed the Palestinians to a future as cheap workers in Israel-US led free-trade-zones to be built in the Occupied Territories.

4.10 The second Palestinian *Intifada* reflects the will and spirit of resistance, and the rejection of this project.

4.11 The Palestinian people propose peace as a strategic choice based on the United Nations resolutions, which call for the complete withdrawal of Israel to the borders of June 4, 1967, establishing a real independent Palestinian State beside the State of Israel and the implementation of the rights of the Palestinians to repatriation.

The Palestinians and the movement against globalization

5.1 Along with the liberalisation of the national economies, the implementation of Structural Adjustment Programmes,

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and the dictates of peace with Israel as political surrender - all the internal contradictions of the globalization process are violently realised in the Middle East.

These realisations include the rise of radical Islam, the eruption of cultural and religious conflicts, the intervention of imperialist military forces and the growing popular discontentment in all Arab countries.

5.2 The heroic resistance of the Palestinian patriotic forces to the imperial project is at the core of the resistance to these processes.

However, the Palestinians find themselves tragically alone confronting the assassination of political leaders, the demolition of houses, the destruction of lands, and the destruction of the Palestinian infrastructure.

5.3 The pathetic efforts of the leaders of the Arab countries and the European mediators provide a bitter irony in their attempt to make the Palestinians accept a settlement that negates their sovereignty and independence.

5.4 The role of the anti-globalization movement is not a matter of wishing success to the Palestinian struggle, but to share in the struggle and to help it to victory. It is a duty for the anti-globalization movement all over the world to raise the flag of defence of Palestinian rights, freedom and independence. It is an expression of faithfulness and commitment to an alternative to neo-liberal globalization. ★

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Rhetoric and repression

WHILE THE war rhetoric from the Indian and Pakistan governments continues, it is important to note that, since 1947 when British rulers left the subcontinent transferring power to the local bourgeoisie and creating two nations on the basis of religion, India and Pakistan have fought three full-fledged wars and a mini-war in 1999. Each time the campaign of misinformation launched by the media has projected the Kashmir question as a property dispute between sub-continental neighbours, increasing the Hindu-Muslim divide, creating religious frenzies. Instead, it is a question of the right to self-determination of the Kashmiri people. Kashmiris consider that their subjugation began, not in 1947 when the last Dogra (Hindu) ruler acceded to India under pressure of circumstances, nor when the Dogra ruler Gulab Singh of Jammu first acquired Kashmir for Rupees 7.5 million and a token rent from the British in 1846, but way back in 1586 when the Moghul Emperor Akbar extended his domain to the Kashmir valley. The majority of people (93% in 1947) were Muslims but power and authority were held by the Dogra elite and the white collar jobs by the minuscule Hindu Pandits.

MAIA VALECHA*

THE agitation against discrimination of Muslims was earlier taken up by various conservative religious associations (*anjumans*), but the Jammu and Kashmir National Conference under the leadership of Sheikh Abdullah and others developed the struggle from the point of view of secular Kashmiri nationalism, calling for self-determination for Kashmir and opposing the Muslim League.

As late as 1946, the NC had launched a 'Quit Kashmir' movement intending to overthrow the tyrannical ruler. At the time of partition in 1947 during the massive exodus across the border of Hindus and Sikhs into India and Muslims into Pakistan, Muslims in Jammu were attacked and killed with the suspected collusion of the Hindu rulers. So, the Muslims of the Poonch region bordering Pakistan revolted and initially the tribal raiders from North-West and then the Pakistani Army entered Kashmir to aid the rebels, later themselves indulging in indiscriminate loot, pillage, rape, arson and murder.

The king signed the instrument of accession (October 26, 1947) with India at this juncture, conceding authority to the Indian Union only in matters of defense, external affairs and communication, and clearly stating in the agreement that the consent of the people of Jammu and Kashmir (J & K) was to be sought before the accession became final. That consent has not been obtained by India till now. The cease fire obtained at the Line of Control through UN interventions divided Kashmir into Pakistani Occupied Kashmir and J & K on the Indian side.

Power

The NC leader Sheikh Abdullah was appointed as Prime Minister, to share power with the king and was supposed to 'deliver goods', that is, help in making the accession final. But one of Sheikh Abdullah's early tasks was the abolition of *jagirdari* and *chakdari* rights (feudal land rights), leading to the resumption of 400,000 acres of land belonging to a mere 9,000 landlords. In order to break the Dogra monopoly over arms, a militia was raised in the Kashmir valley. A debt control law was promulgated to curb the powers of money lenders. Since the majority of landlords, military officers and

money lenders were Hindu and upper caste, they and right wing Indian leaders raised the cry of Hindus being in danger.

Meanwhile, the Indian Constituent Assembly drafted Article 370, to deal with India's relationship with J & K, where, while giving a special status to it, in fine print it reneged from the guarantee of ascertaining the will of the people of Kashmir, making it easier to bring it into the orbit of Indian Union. The right wing Hindu communalist organizations *Praja Parishad* and *Jana Sangh* had started vigorous agitation for 'integration' of Kashmir into India. Karan Singh of the hated ruling family (ab) used his position to refer the act of land reforms without compensation to the President of India, pressurizing Abdullah further. In this troubled situation, the entrance of the *Jana Sangh* president, Shyama Prasad Mukherjee, into the Kashmir valley, his arrest and subsequent death provided enough opportunity to get rid of Abdullah. He was arrested on August 9, 1953 and was kept imprisoned for a number of years.

Pliable

All these years having pliable governments with 'democracy' through terror and intimidation, the constitution of J & K was changed beyond recognition, reducing J & K statutorily and constitutionally to the status of other states in India. India's major concern in Kashmir then or later has never been either democracy or secularism but Indian nationalism and geo-strategic requirements. Thus, while Abdullah and his colleagues like Beg were kept imprisoned for years, and the *Plebiscite Front* repeatedly barred from contesting the elections, and secular and democratic parties like PSP were condemned for trying to operate in J & K, the communal forces were not resisted politically.

Indeed, *Jamaat-I-Islami* was encouraged to contest elections and was 'allowed' to win a few seats. In 1995, a report by eight human rights organizations from various parts of India entitled '*Blood in the Valley*' confirmed the continuation of the same policy. The report argues that while the *Jammu and Kashmir Liberation Front* and its leaders are disliked on both the sides of the frontier for their stand in favour of an independent, secular

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Kashmir, not only the government of Pakistan (openly) but the government of India also (covertly) encouraged the Hizbul Mujahideen "by targeting the JKLF in its crack down and allowing HM to attack and decimate its rival".

India has been successful in showing that the enemy is fundamentalist and pro-Pakistani and not Kashmiri Nationalist. Obviously, Pakistan is interested in such a scenario. In 1990 Jagmohan, then the governor of J & K, played a role in organizing the flight of the hapless Pandits from the valley. He clearly told Balraj Puri that Hindu-Muslim unity in Kashmir would demoralize the army. In other words, the army was being told that Kashmiri Muslims were the enemy. The military response to militancy has been terribly violent, with estimates of deaths going over 40,000 and of custodial deaths crossing 700 by September 1994 in a report by *Amnesty International*. *Amnesty* recorded 70 deaths in custody and extra judicial killings in the period January to August 2000 alone.

Equally horrific are the figures of killings by militants. Between 1988 and 1998 29,151 civilians and 5,101 security men were killed. And for those who say that Hindus are in danger, more Muslims are among civilians killed (2,092 Muslims out of 2,488 civilians killed between 1990 and 1994). The richer Muslims have made alternative arrangements elsewhere in India. But ordinary people are suffering the brunt of both militants and military forces. A majority still want freedom but are disillusioned with the militants' violence. People in Pakistani occupied Kashmir are equally devoid of democratic rights.

Political Economy of Kashmir

For the pan-Indian bourgeoisie it is as a captive market for its manufactures that Kashmir is important and not as an area of investment. That is the reason why custom barriers which existed until the arrest of Abdullah in 1953, were the first to be lifted by the puppet government while restrictions on non-Kashmiri ownership of property in Kashmir were left in place, diluting them as and when needed by big capitalists. Medium-scale capitalists resent these restrictions and demand their removal as part of national integration. Also, like all other Special Category Hill States, J & K does receive a high per capita 'assistance' from Delhi, but in the case of JK alone it is 70% loan and 30% grant, as against 90% grant and 10% loan



for other states. And thus the bulk of the annually increasing budget deficit is accounted for by the burden of interest payments to the Central Government. Further, J & K government expenditure is determined by security considerations. One of the major expenditures, building a highway linking Jammu and Shrinagar primarily for military purposes is also the avenue for selling manufactures and for taking Kashmir's timber and other primary products out at a cheap rate, in the classic colonial manner. The power generated in the state was being supplied to meet the needs of Delhi while Shrinagar was without power three days in a week because of a failure to upgrade of transmission lines.

Dismal

At the same time as having dismal records in human development, both India and Pakistan increase their military budgets for their Kashmir adventure. The per day expenditure to protect the 140 km long Line of Control in an ice-laden area is Rs.10 crores (Rs.4.87 crores = US\$1 million). To protect the Siachin glacier India spends Rs. 3.2 crores per day, apart from the regular human loss because of adverse climatic conditions in spite of all possible precautions. Pakistan's defense expenditure for 1998-99 was Rs.145 billion, 4.8% of its GDP. While India's defense expenditure in the same year was Rs. 456.94 crores or 2.31% of its GDP, the amount required to make primary education free and universal in India.

After a mini-war at Kargil in 1999 the defense budget of India for 2000-2001 had a hike of Rs. 15000 crores, though an additional grant of Rs. 8000 crores was already given in November 1999. The sharp hike in allocation was attributed to

revamping and giving fresh impetus to the high-altitude warfare, mountain warfare and low intensity warfare, mainly to acquire hi-tech weaponry. The reports of corruption in all these purchases keep coming.

Human cost

The human cost of the Kargil war was much higher than the earlier admitted 410 dead and 594 injured. Apart from the actual war, war mongering takes its toll on human lives, expenditure on movement of forces and displacement of border villagers. The US president's 'War on Terrorism' has given legitimacy to Indian Government rhetoric, but Indian citizens should call on the Indian state to get out of Kashmir. Though the majority of the public under the effect of a regional media full of notions of 'National glory, honour' are for war without understanding its actual implications, a small but growing section is becoming aware of the need to question the positions taken by successive Indian governments.

The Stalinist parties are happy extending unqualified support to the government's stand, considering Kashmir as integral part of India. Only the far left clearly supports the cause of the people of Kashmir.

And though knowing fully well that national boundaries divide the unity of working class, also there are some areas dominated by Hindus and some by Buddhists, which needs to be taken into consideration while solving the problem, it is not the governments of India and Pakistan who have the right to decide, it is the right to self determination of the people of Kashmir. ★

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Will China shake the world?

PRIVATE business is rapidly replacing the public sector in China. Rapid economic growth and corruption is leading to huge social tensions. Will China present a challenge to US economic and political domination in the coming decades? LIU YUFAN investigates.

In the decade following the 1989 uprising of the democratic movement and its subsequent repression, the Chinese government — led by the Chinese Communist Party (CCP) — has remained stable. Many commentators agree that it will remain so for the foreseeable future, and that the one party state will not face serious challenges. However, despite conjecture about stability, the social base of the CCP has already undergone profound change. These changes to a great extent contribute to China's current stability. In 1989 the CCP faced enormous challenges not only from tens of thousands of students, but from a mass of workers and farmers. Prior to 1989, 10 years of market reform were enough to enrich the bureaucracy and at the same time move enormous burdens onto workers and common citizens. A gulf, deeper than ever, was laid between the rulers and the ruled, which later led to the eruption of the democratic movement in Tiananmen Square.

After the crackdown, the CCP could no longer rely on the passive support of workers for reform, as had previously been the case. Instead, under Deng Xiaoping, the CCP leadership decided to further encourage the growth of a new class of entrepreneurs and professionals through the provision of increasing market opportunities. In the process, professionals, entrepreneurs and Party officials not only further enriched themselves, but also shifted China's social base from workers to a new elite. According to the latest official statistics, the private sector now accounts for 26.1 per cent of industrial production while in 1990 the figure was only 4.4 per cent. At the end of 2000, China had 1.76 million privately owned enterprises, employing 20.11 million workers. In addition, the private sector contributes one-third of China's GDP.

The government and the private sector have, therefore, developed and maintained a de-facto social partnership.

Furthermore, a substantial number of intellectuals and students, who had already harboured suspicions towards workers in 1989, are now no longer keen to promote democracy in the aftermath of the crackdown. Instead they engage themselves in the pursuit of commercial success or personal career advancement. Most of them turn a deaf ear towards the growing numbers of unemployed state-owned enterprise (SOE) workers, viewing them as obstacles to modernisation or as simply those who fail to adjust to a new and better system. The free market and neo-liberal theory and practice dominate their intellectual thinking and outlook. Those who have better *guanxi* (personal connections by which to conduct business, attain more status or better jobs) can be easily absorbed into this new class of entrepreneurs. Even those whose *guanxi* is not so good can at least join the seemingly ever growing new middle class.

Apolitical era

The 1990s were the most apolitical era that 'new' China has ever experienced. The CCP succeeds in winning the active support of entrepreneurs and the passive support, if not passive tolerance, of considerable number of intellectuals. The liberals who may regret the fact that the CCP maintains its grip over the state, nevertheless appreciate its determined efforts in dismantling the last trace of the command economy and its consequent harmonisation with the global market. This line of development culminated in the recent pronouncement by Jiang Zemin that the CCP should allow entrepreneurs to join the Communist Party, praising their contribution to 'the development of productive forces in a socialist society'.

At the same time, the further opening of the market since the early 1990s has boosted investment confidence both at home and abroad. Beijing has won the

friendship of the west and transnational corporations (TNCs) despite its continued poor record in human rights. This is demonstrated by the huge amounts of foreign investment which have poured into China over the past decade. In the first half of the 90s, China experienced very high growth rates. In the later half of the decade economic growth began to slow down but still maintains an average of 7 per cent, which seems to help promote confidence and stability within the ruling party and discourage or dispel criticism from both inside and outside the country. Dissidents who have defected overseas admit that since China's economy is still growing and providing benefits to some sectors of the population, the one party state is still far from crisis. Or to put it another way, conditions in Chinese society are not ideal for the growth of any form of democratic movement.

The metamorphosis of the CCP has, however, not gone totally unchallenged. Between 1994 and 1998, high ranking 'orthodox leftists' issued a series of five documents attacking Jiang's pro-entrepreneur and pro-western policy. Currently it is widely reported that a counter attack launched against Jiang prompted him to close down two organs of the 'left'. His opponents have vowed to stop Jiang's attempt to officially revise the constitution of the CCP. Whether they will succeed remains to be seen, but it will not be easy given that their influence within the Party is small. The overwhelming majority of technocrats and bureaucrats — the backbone of the CCP — have benefited handsomely from the restoration of a capitalist market economy, and they certainly see no reason to reverse its course.

The support within the party for the 'leftists' comes mainly from old cadres and those who are responsible for overseeing 'ideological and political work', and as such reap little or no benefit from the reform. In some instances reform has led to the sackings of such cadres, and hence they nurse a grudge against Jiang's faction. However, within the Party this group's influence is shrinking. These disgruntled Party members will only pose a threat to Jiang if they forge coalitions with the disenchanted under and unemployed.

The restructuring of the economy has led to the bankruptcy of thousands of SOEs, and the loss of 30 million jobs. According to official figures, the number of protests and demonstrations by workers in 1998 was nine times that of 1993. The reasons for protests are varied, but it seems that in most of the cases they are

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not so much over being laid-off as such, but rather against non-payment of wages, pensions or unemployment benefits. Or they are over corruption and the rock-bottom price of privatisation. For instance, last year in Liaoning province, 30,000 miners fought the police against unscrupulous privatisation. However, partly because dissent carries a high price, and partly as a result of inexperience in forming linkages with other groups, workers' protests remain fragmented. It is perhaps only when protesting workers have a conscious political outlook that discontent will play a role on the political stage. For the time being the social crisis resulting from economic restructuring continues to develop, but at a constrained and slow pace.

However, this does not mean that challenges to the present leadership can only come from without. Powerful centrifugal forces have always been at work within the CCP. The pro-market reform has been so successful that today not only the SOEs, but also many government departments and public social services, are being subjected to profit incentives. For a long time even the army was involved in commercial undertakings (this was prohibited after Jiang instituted serious measures, but the ban has not been extended to all other government departments).

Fierce competition

When all levels of officials involve themselves in profit making, it follows that fierce competition among the ruling bureaucracy for attracting investment, for market share and for the commercialisation of resources will result. Major and minor conflicts among officials in different regions and at different levels are reported from time to time. It is common for provincial governments using administrative measures to stop the inflow of goods from other provinces. Conflicts over economic interests among different departments have been reported.

Prior to the reforms, the disparity between the countryside and cities, and between coastal and inland regions, was narrowing; since the implementation of reform the situation has reversed. The reforms have had a deep impact too on the internal cohesion of the CCP. In rural areas, a central concern for county and village officials is over the discrepancy between urban wealth and rural poverty, and what has become a race for economic development. They also believe that since it is they rather than provincial and

central governments who shoulder the burden of providing rural education, they thus should not be blamed by their superiors for being too harsh in taxing the rural population.¹ As to the western and central regional officials, they believe that the central government has favoured the coastal regions since reforms began. In 1997, five big western provinces expressed serious discontent towards the central government for preventing them from setting up the third stock market in China.

Widespread corruption and ruthless privatisation also contributes to the growing centrifugal forces within the CCP. Before the reforms, corruption was mainly confined to the theft of public property in the form of consumer goods. Then in the mid-1980s, officials began to profit by speculating in the market. Since the early 1990s, however, officials have been able to set up their own companies or prompt



their friends and relatives to set up private companies to make money. One of the easiest methods to make money is to effect the transfer of public properties into their own companies. Prior to the reforms, a low ranking official could be bribed by the offer of a pack of cigarette. In recent years one may need millions of dollars to effect such a bribe. Such a degree of corruption greatly weakens the administrative capacity of the state. Even when a policy is good in itself, its implementation is often obstructed or twisted by the profit making incentives of the bureaucracy, resulting in chaos, mistakes and damage to people's lives. The lower level bureaucracy covers up all problems which arise by all means possible. It is common knowledge that all statistics in China are unreliable. For instance, trade balance figures for August 1998 recorded a US\$ 20 billion surplus. Strangely, the foreign currency reserve recorded an increase of less than US\$1 billion.

This anomaly not only reflects the seriousness of unreliable statistics but also illegal capital flight (unreliable statistics

masking theft). Hence, it is common for problems to accumulate to a point of crisis and only then coming to the attention of the central government; by which time it is often too late. Moreover, corruption is the single most important issue that antagonises common people, and which has resulted in countless incidents of protests, strikes, and even riots. Faith in the CCP that it could resolve such problems is rapidly fading across many sectors of society. In March 1998, a rare scenario occurred: in the first session of the Ninth National People's Congress, 25.4 per cent of the deputies either abstained or voted against the report of the Supreme People's Court, and 44.7 per cent either abstained or voted against the report of the Supreme People's Procuratorate as a protest against their official record in fighting corruption.

Another factor that may affect the stability of the one party state is the economy. Since the latter half of the 90s, the economy is losing steam. The government reacted with a typically Keynesian policy of increasing government spending to stimulate demand. Increasing the fiscal debt may result in some positive effects on the economy, but in the long run more problems arise than are solved. Most importantly, market reforms have greatly decreased the percentage of government revenue in the economy. In 1978, government revenue accounted for 29.5 per cent of GDP. In 1999 the figure dropped by more than half to 13.3 per cent; a figure much lower than many other countries. This indicates that the regulatory power of the government has been shrinking rapidly. For its Keynesian policy to succeed, the government has to rely on borrowing, which in turn creates a mountain of debt. In the long term this may have disastrous implications.

The economic situation

In the midst of a global slowdown (and recent analysis suggests a deeper crisis in the form of a worldwide recession), the Chinese economy still grows at 7-8 per cent per annum. It is possible in the short and medium term that one consequence of a global slowdown or recession may be an increased foreign capital inflow into China which will further strengthen the economy. Since 1979, the Chinese economy has exhibited a six-fold increase. Beginning from the mid-1990s, however, the growth rate has slowed. The rapid rise in investment in the early 1990s resulted in serious over production. In 1999 idle production capacity still accounts

for 40 per cent of GDP, making competition and deflation more serious than ever. The government's response of implementing Keynesian policies has kept the economy growing at 8 per cent in 2000, nearly 1 per cent higher than in 1999. Although the state sector is shrinking quickly, it appears to a certain extent that it is being replaced by the growth of private enterprises. The CCP's current support of entrepreneurs, both domestic and foreign, strengthens business confidence and thus encourages more investment.

The problem, however, is that the growing economy is less a result of growing productivity and more the consequence of an increase in capital and labour input. In the period 1979-1990, the contribution of increased productivity to economic growth accounted for 42 per cent, while increases in capital and labour accounted for 37.7 per cent. However, between 1991 and 1995, the former figure dropped to 26 per cent, while the latter figure rose to 57 per cent. This figure alone should cast doubts on the sustainability of the current high growth rate.

What is more, China's enormous output is above all based on four things: debt, foreign capital, cheap labour and natural resources. Such dependence may be positive for the development of the economy in the short term, but in the long term it may work against sustained development.

Soaring debt

To a considerable extent, the high growth rates of the past 20 years were sustained by higher and higher debt — public and private, and domestic and foreign. Foreign debt was non-existent prior to the onset of reforms in the early 1980s. However, by 1999 it stood at US\$151.8 billion, more or less the same size as Chinese foreign reserves. The ratio between foreign debt and GDP grew from 5.2 per cent in 1985 to 15.3 per cent in 1999. That is the official figure. However, the collapse of the Guangdong International Trade & Investment Company in 1998 revealed the existence of a hitherto invisible foreign debt, the exact extent of which no one is certain. More certain, however, is the fact that debt has to be repaid, no matter whether it is hidden or not, and regardless of project failure or success (as a matter of interest, many projects for which money has been borrowed fail).

When it comes to domestic public debt, the story is no better. Over a twenty year period beginning in 1981, domestic public debt rose from RMB4,870 mil-

lion to more than RMB400 billion; that is, an 80-fold increase. The consequence of this is that China is now repaying foreign and domestic debt which is eating up an increasingly greater proportion of government revenue. The government is increasingly borrowing more money to repay old debt; a vicious cycle with potentially disastrous consequences. If we use international criteria for financial security rather than those of the Chinese government, which are as demonstrated problematic, then China's foreign debt may well have passed the point of crisis. With a budget deficit accounting for more than 3 per cent of GDP, the Chinese government is on track for a debt crisis in the long term.

The more a country borrows from abroad, the more it has to promote exports to earn foreign currency to pay back loans. This explains China's rapidly rising trade dependency, which now accounts for 35-40 per cent of GDP (a rare figure for a large country like China, and double the size of the United States' trade dependency figures). Chinese exports especially rely upon Western and Japanese markets.

China is also increasingly dependent on foreign direct investment (FDI). For the last seven years, China has attracted more FDI than any other country except the United States. In the early 1990s, 20 per cent of FDI to East Asia (excluding Japan) went to China. However, in recent years the situation has reversed, with China now accounting for 80 per cent of all FDI in East Asia. As a result, competition to attract FDI between Asian countries has become more fierce. Between 1980 and 1999, China's GDP grew at 9.7 per cent annually, and it is estimated that of this figure the contribution of FDI accounted for 2.7 per cent. This means that China's growth is now to a considerable extent dependent on the West. If the global economic slowdown develops into recession, it is questionable that China's exports can maintain previous growth rates. In fact, exports have declined over the past few months. The inflow of FDI remains strong, but if the tide turns then prospects for China's economic performance are not good.

Numerous factors account for the high rate of FDI flowing into China, but essentially they all revolve around the creation of a progressively more friendly business environment. This includes fiscal concessions (such as a tax rate half that of SOEs, and guaranteed profits for TNCs), low rent, cheap natural resources, low wages, the absence of genuine trade

unions, no-strike laws and so on. Even when laws exist that are favourable to workers, it is common for foreign and domestic private enterprises to simply ignore them, often in the full glare of official scrutiny.

In China's export processing zones, garment workers received wages less than their counterparts in Indonesia, and substantially lower than workers in similar jobs in Thailand. Furthermore, Chinese workers face perhaps greater odds if they want to organise so as to bargain for higher wages or better conditions. Low wages and the absence of independent trade unions greatly enhance China's attractiveness to foreign enterprises. Hence, in 1997, among the 845 export processing zones worldwide which employed 27 million workers, more than 60 per cent (that is, 18 million workers) were located in China. However, authoritarian labour management is the cause of an increasing number of disputes and riots. In the short term harsh measures will be effective in curbing social protests, but in the long run it is creating an atmosphere of grievance and unrest, if not outright social upheaval.

Poverty, food security and market reform

At the turn of the century, the Chinese government announced that they had all but alleviated poverty. In 1978, there were 220 million Chinese classified as being poor. By 2000 the figure had dropped to 30 million. The publication of this latter figure is a tacit admission that the promise made in the mid-90s to lift all citizens out of poverty has never been kept. Nevertheless, if one is to believe the official figures, the achievement is impressive. The problem, however, is that the figure is not indisputable. First, the government sets the poverty line at RMB 635 per year per person; a figure regarded as too low by some critics. Second, although claiming to be a national criterion, the figure is not really implemented nationally. In other words, different levels of government adjust the poverty line according to their own specific situations. This practice opens the door to all kinds of judgements which are not always justifiable. According to the World Bank's suggested poverty line — a daily income of less than US\$ 1 — up to 22 per cent of China's population may be living in poverty.

This is not to deny that absolute poverty may have been considerably decreased. Not only is starvation now rare, but the vast rural population can

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now enjoy higher quality food. In the pre-reform era, many rural inhabitants had to be content with a diet consisting of a limited variety of grains of low nutritional value (such as Chinese sorghum). Now, however, many can afford wheat or rice, both of which are more nutritionally rich. The rapid development of the textile industry means that formerly poorly clothed farmers have greater access to better quality garments.

Human poverty

However, it is not only absolute poverty that requires attention, but also human poverty (the lack of opportunity for education, leisure, cultural participation, and a fair and decent standard of living) and relative poverty (the unequal distribution of wealth). With regard to both these aspects the record is still poor and perhaps getting poorer. Today, even if a young, single peasant were able to provide basic financial support for an intended family, he will most likely be unable to find a wife. If he is not able to provide, in addition to food and clothing, a house, durable goods, and some savings for the education of his children, he will be passed over for richer farmers who possess a lot more.

If hardship drives peasants into the cities to find jobs, they once again face a limited pool of wealth. Inevitably finding their way into labouring jobs, they find there too that their share of the national income is shrinking. Before the reforms, China had one of the lowest Gini coefficients in the world, standing at 0.2 (the Gini coefficient measures income inequality). In 1998 the figure surpassed 0.46, suggesting that China now has a very unequal distribution of wealth. For instance, it is now estimated that less than 5 per cent of the population possess half of all savings; although some analysts suggest that as little as 1 per cent possesses half of all savings. On top of this unequal distribution, regional and urban-rural disparity has been growing steadily.

Most of China's poor are located in rural areas. The rural population accounts for 70 per cent of the total population, but consumes less than 40 per cent of all consumer goods. Moreover, among the poorest 500 counties, 90 per cent of them are located in central and western provinces. Eradicating poverty implies first and foremost solving the problems confronting peasants in these provinces, and especially modernising small-scale farming.

China possesses only 7 per cent of world's arable land, but has to feed 23 per

cent of its population. For the time being, Chinese farmers are still able to succeed in doing so, due mainly to effective methods of small-scale cultivation. However, tied to small pieces of land, using mainly hand-made tools and small machines, such small-scale agricultural production can hardly be expected to continually meet China's growing food needs. At the same time, the potential for raising agricultural productivity is probably exhausted. Currently, farmers sell only 35 per cent of what they produce, indicating that they consume the rest and hence possess little to exchange for industrial and consumer goods. Even though many of them no longer suffer from malnutrition, life in rural China is still harsh. For instance, the so called 'three worries' faced by peasants are falling ill, price fluctuations, and *tanpai* (taxation, especially arbitrary taxation or extortion). Falling sick is a grave risk, not so much from a health perspective — though that is important too — but due to high medical fees and the loss of working days condemning them to absolute poverty again.

Between 1986-98, the central and provincial government paid Rmb110 billion and Rmb40 billion respectively into the poverty eradication fund. In recent years a greater emphasis is put on 'work for relief', rather than simply handing out money. According to official statistics, between 1985-95 work-for-relief recipients built 211,000 miles of road and 20 thousand bridges, and provided supplies of clean water for 40 million people. The dark side, however, is that a considerable portion of the fund has been diverted to other purposes. One source in China puts the proportion of diverted funds as high as 50-70 per cent.

While market reform has freed peasants from the command economy, it has also led to insecurity. Small-scale produc-

tion is especially vulnerable in a fluctuating market. It is common to see that when prices go up, peasants will try to increase production. This of course leads to overproduction with a resultant fall in price with ruinous consequences. Peasants who rarely read newspapers or listen to the radio, can hardly be expected to be aware of global macro-economic trends.

Proactive role

It is at this point that the government could play a more proactive role, by providing material support to peasants so that they could modernise the rural economy. It is true that from the CCP down, officials at all levels have been keen on promoting modernisation projects; ranging from commercial farming to industrial plants and so on (the so called township and village enterprises). However, even the official mass media admits that most of these projects fail, because few officials bother to consider project feasibility, and even fewer ever think of asking the consent of peasants (although it is they who will eventually pay the debt incurred or the tax by which projects will be funded). One county government ordered the building of seven glass-making factories after its leadership heard of their success elsewhere. All failed, leaving the villages concerned deep in debt. Leadership positions, however, remained intact.

Projects aimed at eradicating poverty and instituting modernisation could be tailored to meet specific situations faced by peasants, and directed at relieving problems brought about by macro-economic conditions. As such, making officials accountable to their constituencies, via democratic elections, is of utmost importance. Several years ago the CCP instituted direct elections of village committees, yet so far the results seems unsatisfactory.

All in all, despite the goodwill and effort of leaders, peasants continue to be marginalised in a booming economy. Income growth continues to fall, and has done so over four consecutive years between 1997-2000. Most do not earn enough money, thus exacerbating problems of demand and overproduction. China, like many developing countries, has left behind vast numbers of peasants to survive the best they can outside reformed economic systems.

Food security is paramount for a developing country, and this is particularly the case for China. Having a population of 1.3 billion, self sufficiency is especially important, because even if China has



enough foreign currency to buy food, the world is incapable of supplying enough food for Chinese people. The world market is on average supplying 200 million tons of grain annually, an amount which can only satisfy the needs of less than 40 per cent of the Chinese population. An 80 per cent self-sufficiency rate may be considered enough for other countries, but not so for China. When China imported 25 million tons of grain — a figure larger than usual — in 1996, it immediately raised the world market price because its purchase accounted for more than 10 per cent of world market supply.

If China continues to increase grain imports, then it may mean disaster for smaller food importing countries. Indeed the aforementioned incident led to widespread discontent. Perhaps it is no accident that in that year the former Premier Li Peng announced that China would aim for a self sufficiency rate of 95 per cent, which meant its imports would remain at 5 per cent, or more or less 25 million tons. However, in recent years there has been mounting pressure for China to lower the 95 per cent level, from both within and without.

On one hand, scholars and officials are arguing for a 90 per cent or even lower rate, the rationale being that imported grain is cheaper. This view exhibits little regard for the livelihood of peasants. On the other hand, China's accession to the WTO implies that it needs to further open the grain market to western agribusiness. Since the productivity per working hour for grain production in the West is much higher than in China, it is hard to see how the small peasant household economy can compete with Western agribusiness.

Urban unemployment

While rural absolute poverty may have decreased, in urban areas the picture is just the reverse. Back in 1996, it was reported that the urban poverty rate was 4.2 per cent, or 117 million people. Again, the central and western provinces accounted for more than 80 per cent of urban poor. Towards the end of 1997, the official figure for urban poor rose to 150-180 million. Although there are no official figures for the period since 1997, the figure must have risen again due to the last three years witnessing a sharp increase in unemployment due to the partial collapse of SOEs. If so, then the problem of urban poverty may have spread to the eastern provinces since many former SOEs were concentrated in cities on the eastern



seaboard. Thus, in 1999 Premier Zhu announced the plan for a minimum living standard protection scheme for the urban poor. This is a three-tier social protection scheme, specifying that the minimum financial amount for urban residents ranges from Rmb100-200 per month, adjustable according to the specific situation in different areas.

Over the past 10 years, the active urban working population has grown to 200 million, but its composition has changed greatly. The number of workers in SOEs shrank from 190 million in 1995 to 83 million in 2000. The number of workers in collective enterprises has halved since 1995, or a net decrease of 14 million. At the same time, workers in private enterprises increased nearly 10 million, and self-employed by 8 million. The official unemployment figure is 3.1 per cent, or 5.6 million, but a more realistic appreciation may range from between 10 to 15 per cent, or 18 to 30 million workers. Some sources even put the figure as high as 40 million.

Exacerbating this problem is that from the later half of 2001, the category of *xiagang* (literally 'off-duty') will be abolished. *Xiagang* is different from being outright unemployed. The former term implies that workers are laid-off and thus no longer working, but still maintain some contractual relationship with the enterprise and thus could expect to be paid a small portion of their original wages. The abolition of this category implies that from now on all *xiagang* workers will be technically unemployed and receive no wages however meagre they may have been. The implication of this move is that an additional 30 million workers (perhaps more) will join the unemployed. With an inadequate social safety net, even more workers can expect their lives to get harder.

In the early 90s, when they first considered downsizing SOEs to save the country from bankruptcy, the CCP leadership still regarded the building of a social safety net a precondition to any downsizing. Moreover, the Party initially believed that downsizing should include manage-

ment (cadres) as well as workers. Events in recent years have proved otherwise. In 1996, the head of the Social Security Department admitted that among the 27 provinces and autonomous regions, only 7 had collected enough money for the unemployment benefit fund, and that more than half a million retired workers and a similar number of unemployed were not able to receive their pension or unemployment benefits. Towards the end of 1997, the total figure for the above two categories rose to 6.5 million, more than a six-fold increase compared to 1996. Even officials admitted that the real figure must have been larger.

Real danger

China now faces the very real danger of the pension and unemployment funds going bankrupt. Furthermore, non-payment of mandatory contributions to the pension fund by many enterprises has left 25 provinces and cities in the red. The crisis is even more serious for the unemployment fund. What is more, even when the money for social security is collected, it may be diverted to other projects. Misappropriation of money destined for the funds is a regular occurrence. As a result many workers are now in absolute poverty, and have no money to consult doctors when they are sick and no money to send their children to school. Many can only eat meat once a week or even less. It is small wonder that there are so many protests by workers. The majority of them break out because of late payment or even non payment of wages, pensions or unemployment benefits, sometimes for months or even more than a year.

Some workers fired from SOEs or collective enterprises find jobs in the private sector, but there are far more unemployed workers than jobs created. For instance, there are more than 250 million unemployed in rural China. Among them, 100 million have left the countryside and moved to cities in search of jobs (the so called 'floating population'). These rural migrant workers add to the already high numbers of urban unemployed. In reality, migrant workers now compete for jobs with urban workers, and in many instance the former are more likely to locate jobs in the private sector because they are willing to accept lower wages and to work in appalling conditions.

On average, rural migrants work 13 hours more than urban workers per week, but receive only half the wages. Therefore, unemployed state and collective workers find reemployment difficult,

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and when they do the jobs are often worse than before. To survive they are forced to eke out a living in the informal sector in jobs such as hawking or pedicab drivers. However, an oversupply of hawkers and pedicab drivers has forced wages down. That the number of working poor is expanding rapidly is beyond doubt.

Although the private sector is rapidly taking the place of the state or collective sector, conditions for workers have not improved. In fact the reverse is true; occupational safety and health (OSH) conditions appear to have deteriorated with the proliferation of private firms. In the past, China did not rank the enforcement of OSH issues highly. Nevertheless, the state sector was relatively responsive towards the need for safe working conditions. The booming private sector, however, has shown a callous disregard to the health and safety of workers. The restructuring of the economy has resulted in lower standards for many workers. Lower standards are not necessarily the result of revising laws and regulations, but rather the result of a shift in the mentality of bureaucrats; their enthusiasm for private enterprises and capital investment means they have little incentive to enforce the law.

This shift of mentality can best be demonstrated in a tragic industrial accident in July 2001. On July 17, a mine in Guangxi was flooded whilst hundreds of miners were working underground. Instead of deploying rescue teams, the owners of the mine worked with local officials to keep the incident quiet. Eventually, 77 bodies were recovered, though many believe that the true number of casualties may be in the hundreds.

The official media subsequently reported that there were no health and safety systems operational at the time of the accident, and that working conditions were simply appalling. What is more, the accident was not unexpected. In October last year, the mine suffered a partial collapse resulting in 28 deaths and 56 injuries.

As long ago as 1990, the State Labour Department listed the mine as unsafe. It was reported that China's coal production accounted for one fourth of the world's total output, but that its casualty records for coal miners accounted for **four fifths of deaths in the industry.** ★

Part 2 of this article will appear in the next IV.

1. Rural residents often complain about the high taxes exacted by rural officials. The CCP has criticised greedy county and village officials for the problem, but it is clear that the issue is not so simple. Rural officials are shouldering an increasing financial burden under the reforms, and although not immune from criticism are justified in the tenor of their complaints.

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Foreign investment and capitalist enterprise

HOW has foreign direct investment affected eastern Europe? Is stable capitalist enterprise being established? CATHERINE SAMARY reports.

ANY balance sheet of foreign investment in the countries of Eastern Europe, to be meaningful, must be prefaced by some comments and clarifications. Firstly, on the social implications of such investment in the historically unprecedented transformations now occurring in Eastern Europe, which most assessments, with their strong ideological bias, completely overlook; secondly, on the very concepts that are used in the statistical analyses, which are anything but transparent. Only then can we discuss the major features of the foreign investments that have been carried out over the last ten years in Eastern Europe.

An historical turning point

Openness to foreign capital (in some dual-ownership joint-venture undertakings), the creation of small private companies with few employees, and trading in commodities were nothing new in the former so-called socialist systems — they go back to the Soviet New Economic Plan in the 1920s. In themselves, such activities did not constitute any change in the system or its economic logic; to avoid a quibble over terminology, let us say that on the whole these societies, while conflictual and oppressive, were not subject to the logic of capitalist profit. Wasteful bureaucratic practices had little to do with capital's drive to minimize costs.

What constitutes a turning point since the fall of the Berlin Wall and Yeltsin's shock therapy in the early 1990s is, however, a transformation of system and logic in which *generalized* privatizations and the *systematic* opening to the market and to foreign capital are designed to *subordinate the economy (social relations) to market profitability criteria* and thus to suppress anything that might evoke and perpetuate any so-called socialist (and more generally non-capitalist) dynamic.

Nevertheless, the dominant discourse and statistical analyses refer to a "transi-

tion to the market economy" as if this were a "natural" mechanism, a return to some universal laws. The events of the last ten years in the former Soviet Union and Eastern Europe are viewed through the prism of an "alignment" with the criteria of the "liberal globalization" (a.k.a. neoconservative globalization) that has been operating since 1980. The external vectors of this program, those that provide the needed "experts", have been the creditors (especially the major international financial institutions) and the European Union. It was the wealth of Western Europe, and not just the positive image it derived from its democratic traditions and the memory of past social policy achievements, that served as the principal argument in favour of "swallowing the pill" (albeit with increasing reluctance) of the reforms in those countries in the periphery and the orbit of the European Union. The privatizations even of public services and the elimination of social welfare, subsidies and protection from foreign trade have become "rules" and surreptitiously transformed into "community conquests" without any consultation with the people of Europe.

The "right of competition", prevailing over all other rights, has been the basis for attracting private financing. It is a neo-conservative article of faith that privatization and the unfettered mobility of capital internationally must bring growth and satisfaction of needs at the lowest cost. But this meant wiping the slate clean, doing away with not only the bureaucracy or its single-party system (which would be met with near-universal joy) but the old system as a whole.

Although these precepts and hypotheses are more controversial than ever among Western economists, Eastern Europe is much less receptive to criticism of them: one must "prove" that one has broken with the "socialist" past. "Economic science" (liberal doctrine, in fact) supposedly replaces the political

arbitrariness of the old single-party regime. And privatizations are often presented as the only way to get rid of the bureaucratism of the past. Any criticism of the liberal policies and unprotected openness to foreign capital is quickly denounced as "old-fashioned" or "populist". People simply want to live better and more freely, not be worse off.

The politicians of every stripe are therefore confronted with a dual source of power and legitimacy. Political pluralism imposes a popular verdict on the prevailing policies, which is fortunate since capitalist transformation implies the freedom to sack workers and the undermining of social rights. But the creditors' money and participation in the European Union are external, conditional sources for the reforms that are undertaken, the logic of which in Eastern Europe implies the "flexibility" and completely unfettered mobility that is sought within the EU by globalized capital.

The dominant discourse of the economists who believe in this "orthodoxy" associates the successes of the "transition" with these structural transformations measured in figures on privatization. Theoretically, the more open one is to privatization, the more one is supposed to attract foreign investments (the source of efficiency), and the better off one ought to be.

The balance sheet bears little relationship to this dogma.

Defining foreign investment

"Foreign investments", in the IMF's standardized balance of payments terminology, refers not to an increase in (physical) productive capacity but to any entry of capital irrespective of its purpose. It may take three major forms:

Foreign Direct Investment (FDI): this presupposes greater stability (as opposed to speculative capital). FDI is "defined" according to the capacity to "control" ownership. An entire business is directly purchased or created, or at least 10% of the shares in an existing company are held by foreign investors. This 10% figure is obviously arbitrary: it does not produce any certainty of stable "ownership" conduct, still less the efficiency of that conduct apart from the simple logic of maximizing the profits of shareholders, especially foreigners. But it reflects a strong trend in contemporary capitalism, exemplified by pension funds: the desire to draw a large number of "small stakehold-

ers" ("households") into the financial markets, dispersing ownership while depriving these shareholders of any real power, the effective control over decisions resting in the hands of a "strategic investor" holding a minority of the shares. This is the dominant form of the privatizations in Eastern Europe: millions of powerless shareholders allowing a concentration of assets in hands that are often almost invisible — the State, with its periodic alterations in dominant parties and its turf wars, alternately combining with and confronting the oligarchs and former managers of enterprises, banks and government ministries and of course foreign capital.

"Portfolio" investment this is the bulk of the more volatile and speculative capital — debt securities (bonds), or shares in the capital of a business, provided, as noted above, that they comprise less than 10% of the shares. This "floating" capital is attracted in particular by the privatizations at fire-sale prices under a debt repayment program, or by the high interest rates on public debt issues. One of the IMF's basic precepts, apart from budget austerity, was to push for financing government deficits through the issue of securities available to non-residents.

The giddy rise in interest rates on Russian GKO's (treasury bills) after the Asian crisis, to try to retain in Russia the capital that was financing the debt, was a catalyser of the Russian crisis of the summer of 1998. The sudden swings in such unstable financing were a common feature of the financial crises of the 1990s, from Mexico to Asia to Russia. Some investments in shares can be just as unstable thanks to the development of the "secondary markets" in which these securities can be "liquidated".

Finally, the "other foreign investments" may be *credits*. They are often hinged on the preceding forms of investment, although the debtor countries prefer FDI because it does not increase their



debt burden. But the banks made credits for the purchase of some securities freely available in the period when stock markets were booming. In the Russian crisis, the new private banks themselves promoted speculation in GKO's in lieu of financing the economy. Who controls the banks controls the underlying logic of the economy. That is why opening up this sector to foreign capital was consistently considered "strategic" and thus protected. The logic of the WTO's negotiations over "services" was to drop those protections as well.

Limited opening

In practice, the scenario in Eastern Europe involved a limited opening to FDI in the 1970s, but indebtedness for the purpose of importing Western technology, in the hope of later repaying the debt through improved exports. Profits from the oil industry were generally recycled by the private banks to the countries of the South and the East, which became heavily indebted. But the downturn in the advanced capitalist countries and the neo-conservative offensive of the 1980s shuffled the cards — and triggered IMF intervention.

The debt then became an essential lever for imposing privatizations and an opening to FDI, which was supposedly to reduce the debt and, in the countries of the so-called Soviet bloc, to dismantle the old system. According to the neo-conservative dogma, foreign direct investment would be completely beneficial to the host countries. The actual effect requires a concrete analysis.

The host countries generally expect that non-debt financing will bring in advanced technology and know-how, create jobs and increase export capacity, which can then more than cover external deficits. But the investors' expectations may be quite different: equity participation in an existing company aimed at controlling a competitor; low-paying jobs with little or no union protection, hence fragile; an opportunity to unload polluting technologies that are outmoded or prohibited elsewhere; a forced expansion of imports of their own products (notwithstanding existing substitutes), etc. Finally, far from a sharing of technological and scientific knowledge, the general dynamic is to exclude the host country, creating an ongoing dependency accompanied by an accelerating and dramatic "brain drain". The use of parts factories, relocated far from the parent company, prevents the host country from controlling the pro-

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duction process as a whole.

The balance sheets are still incomplete. But already there is every reason to question the logic of the MAI (Multilateral Agreement on Investment) and WTO negotiations, in which a central issue is precisely a state's right to control investment, and hence to be able to determine its own development priorities and objectives and to subordinate FDI to them.

What was being privatized?

Who could purchase the public firms which, in these generally industrialized countries, accounted for the bulk of production? Under the old regime, financial accumulation was impossible. Existing savings were roughly estimated at no more than 10% to 30% of the value of the firms put up for privatization.

Hungary is the only case (other than Estonia, on a lesser scale) in which the principal form of privatization from the beginning of the 1990s was the direct sale of the best firms. But in a context in which the accumulation of national capital is very low, it is foreign capital that took the lion's share (and that is why, until the mid-1990s, Hungary received half of all FDI going into Eastern Europe). However, selling off the best companies to foreign capital was not popular either in the nomenclatura or in the population as a whole. The principal form of privatization in the early 1990s in the Czech Republic, Slovenia, Russia and Poland was what was referred to (in a number of variants) as "mass privatization" of public companies: the distribution to citizens or employees of "coupons" with which they could purchase shares in the enterprises, now transformed into limited liability companies.

The workers took over these companies in an attempt to stabilize their jobs, opting for "privatizations" that left the majority of the shares in enterprise collectives (including managers). The governments, however, viewed these processes as a means of compensating for the lack of national capital; giving some popular "legitimacy" to the privatization of the bulk of the firms; "demonstrating" to the international institutions that the reforms "were going ahead" and therefore making some headway in their negotiations over their debts and membership in the EU; and enabling the former managers of the firms and the party/State to allocate to themselves substantial shares in these "privatizations" and open up a process of undermining social protection measures.

But none of this brought new money into the State treasury, nor did it bring about a relationship of forces that would make it possible to impose on the workers restructuring projects entailing high unemployment — although it did make way for some opaque financial transactions.

The privatizations and opening to foreign capital have been characterized systematically — from Albania to Russia, Romania and the Czech Republic — by recurring corruption scandals, rigged financial deals and privatizations of state functions. Veritable wars have broken out over natural resources and tourist resorts (sources of foreign exchange): who will control the oil and natural gas of the former Soviet republics, the mines of Kosovo, access to the Adriatic coast? Far from putting an end to the rule of the old nomenclatura, the privatizations have enabled a great many of its cadres to convert their old privileges of position into privileges of property. "Nationalism" has replaced the rights of the workers in Yugoslavia, legitimizing the new powers — and the appropriation of the territories on pseudo-ethnic foundations.

Under international pressure, the second half of the 1990s witnessed an acceleration of the opening to foreign capital. But where did it go?

Distribution of FDI over the decade

Where it went depended, on the one hand, on the choices made by the ruling groups (themselves under pressure from social and political dissidents) and, on the other, on the decisions of the foreign investors.

The relative weakness of the privatizations and of FDI in Slovenia is an illustration of the impact of local decisions. Domestic resistance to "outside advisors" was particularly effective in that Slovenia's standard of living and capacity to export to Western European markets were relatively high in the former Yugoslavia. So Slovenia's past accomplishments and resistance to neo-conservative precepts were major factors in its success in terms of living standards.

In Hungary, the converse occurred — the sell-off of the best firms to foreign capital. Everywhere else, and given the growing openness to foreign capital after the mid-1990s, the differing results are a product of the criteria adopted by the foreign investors themselves. Overall, they reflect an extreme concentration of

investments.

The distribution of FDI in Eastern Europe was dictated by some universal criteria. Private money, in its quest for purchasing power, goes first to the wealthy regions. The bulk of global FDI is conducted between developed countries — in 1998, the source of 90% of FDI and the recipients of 60% of FDI (see UN reports, UNCTAD 2000). In the "rest of the world", FDI is strongly focused on a few countries in the South and the East, the best off in terms of resources and growth, and especially those where the government is the most firmly established and property rights are protected.

The former Soviet Union and the countries of Eastern Europe potentially offered substantial natural resources and/or a cheap and skilled labour force, as well as market segments (wherever there is some purchasing power, although the widening poverty reduces its scope) and, quite simply, quick profits (speculation on "emerging markets"). But political and social instability, the lack of infrastructures (including telecommunications) and thus the high cost of the necessary restructuring, as well as the bureaucratic mazes and jurisdictional conflicts (if not local wars) served as disincentives.

The major part of FDI outside the developed countries went to China, with its strong state. China took in a total of \$300 billion during the 1990s, against a mere \$15 billion for Yeltsin's chaotic Russia. The latter, notwithstanding the attractiveness of its natural resources, had accumulated FDI of only \$345 per capita by 1997, on the eve of the summer 1998 crisis. Over the same period Hungary, by way of comparison, had attracted more than \$1,600 in FDI per capita.

As a percentage of GDP, the statistics sometimes vary considerably, depending on the source. In the Commonwealth of Independent States, GDP evaluations are often quite problematic owing to the new monetary criteria and the extent of barter relationships. Furthermore, the effective FDI figures may also vary depending on whether contracts are accounted for at the time they are registered as a project or when they are actually completed. According to Wladimir Andreff, Azerbaijan held the record, with foreign direct investment accounting for 70% of its GDP in 1998¹ (a reflection of the "contracts of the century" in the oil and natural gas industry signed in 1994 and 1998 with the United States and Turkey, but also with Japan, Russia, Great Britain and Saudi Arabia). Apart from this case (and based on the same sources), FDI as a per-

centage of GDP ranges between 12 and 45 percent in Kazakhstan, Armenia and the Central European countries (the lowest levels being in Slovenia). The other countries of the CIS and the Balkans received less than 10% of their GDP in FDI during the same period. And no matter which source is consulted, Russia was at the bottom of the scale with FDI accounting for less than 3% of its GDP in 1998.

This distribution of FDI in 1998 reflects the larger reality when the FDI figures are viewed from the perspective of the stock of FDI² in all the countries in transition in this region. Central Europe (Hungary, Poland, the Czech Republic, Slovakia and Slovenia) accounted for 58% of all FDI inputs. More generally, the ten countries of Central and Eastern Europe that are candidates for membership in the European Union account for 69% of all FDI in the region. In contrast, the CIS as a whole, including Russia, has attracted only 29%, and the Balkans 2%.

Finally, looking at FDI per capita — a more meaningful measure than the absolute figures, and less problematic in interpretation than GDP — it is Central Europe, in the orbit of the EU and the wealthiest part of the group, which was clearly on top in 1998, with more than \$1,000 in FDI per capita. Azerbaijan and Kazakhstan came next with about \$400 per capita and the vast majority of all the others had between 30 and 100 dollars per capita (only \$91 in the case of Russia).

Russian uncertainties

Uncertainty as to the legislation governing ownership and government authority, and the assessment of the social and political risks, weighed heavily in this generally low performance of FDI in a region with substantial natural resources. Between 1991 and 1998, the region's GDP fell by 50%.

The flight of capital from Russia over the decade exceeded inflows to a large extent and expressed the Mafioso-like, speculative nature of this unfettered capitalism so wary of productive investments in a country where, in 1998, more than 50% of transactions took the form of barter. The "systemic" resistance to the market was combined with a reorientation of the major firms to turning a profit without having to restructure. New networks and new dynamics of extremely primitive and unfettered capital accumulation were combined with the maintenance of old networks of planned economic relations in new forms that foiled



restructuring and bankruptcies.

Paradoxically, the 1998 crisis prompted the first resumption in growth since Yeltsin's 1991 shock therapy. The devaluation of the ruble favoured national production and reduced barter to less than 30% of GDP while at the same time some control over capital flows was (provisionally) established. The "order" imposed by Putin on the provincial governors and oligarchs — and on the Chechens — marks the restoration of a strong state with an ultra-liberal Labour Code. It just goes to show how, contrary to the claims of dogma, a strong state is in reality the precondition for a unified market economy.

Consequently, Russia will likely attract more foreign capital in future, even though the political and economic arm-twisting in the shadows, behind the military-industrial complex and Gazprom, and beyond that for control of the region, are strategic issues for a government that likes to think of itself as a major international power. Putin has managed to use the "anti-terrorist" war in Afghanistan for his own interests, which are both rival to and in part convergent with those of the United States in particular, in the control of energy resources in the newly independent republics of Central Asia and the Caucasus.

Concentration of FDI

There are very big differences among the 10 Central and East European Countries (CEECs)³ that are candidates for EU membership. Although instability in the Balkans and NATO's war in March-June 1999 prompted the EU to treat all of these countries as future candidates, the function of the South-East Europe Stability Pact, established in 1999, is to open doors without really opening them while driving for prior cooperation agreements.

But, as we have seen, it is the Central European countries that have received by far the bulk of the FDI going to that region. Luckily for them, their financial

markets are relatively underdeveloped and they were not affected too much by the fluctuations in the "emerging markets" (Asia, Russia, Latin America) in 1998. Their insertion in the EU orbit tended to serve as a positive factor in the eyes of investors. However, there are major differences developing among the CEECs.

Together, the CEECs had taken in a total of about \$100 billion over ten years by the year 2000 — almost ten times more than Russia. Close to 80% of this FDI was concentrated in the three wealthiest countries of the 10-member CEEC: Poland, the Czech Republic and Hungary. Poland, by its size, had the largest share. In 2000, the CEECs took in about 1.7% of FDI flows, amounting to about \$20 billion in an area with a hundred million inhabitants — half the flow into China that year.⁴

Within each country (Russia as well as the CEECs) most FDI has gone to the capital cities; in 1977, 77% of FDI going to Russia was concentrated in Moscow. As a rule, FDI heads for the most prosperous regions and especially urban concentrations (those with the best infrastructure, the highest standard of living and the most skills). This deepens the inequality between countries and between regions.

The CEECs are directly subject to the Anglo-Saxon "model", which is tending to become generalized within the EU itself. But the restructuring of the major enterprises will be consistently difficult because it is socially explosive. The vast majority of FDI is in major retailing (particularly the food industry), telecommunications including mobile phones (France Télécom purchased the Polish exchange TPSA for \$3 billion in 2000), and, beginning in the late 1990s, the financial sector: more than 70% of the Polish banks and most of the Central European banks overall are now controlled by foreign capital. This process, which is relatively recent, means that the constraints weighing on the major companies may well harden.

Central and Eastern European countries that are candidates for EU membership

2000 Stocks	Billions of \$	\$ per capita
Bulgaria	3.4	411
Czech R.	21.1	2,056
Estonia	2.8	2,011
Hungary	19.9	1,971
Latvia	2.1	871
Lithuania	2.3	634
Poland	36.5	942
Romania	6.4	287
Slovakia	4.9	909
Slovenia	2.9	1,440

Source: World Investment Report 2001 (UNCTAD), EBRD

Everywhere, however, the growth is primarily the result of the increase in the number of small businesses, while often entire sectors of the economy, grouped around the huge enterprises of the past, remain stricken. These were primary locations of socialization of the workers under the old regimes. But it is much more costly, both economically and socially, to restructure them.

In the Central and East European countries, the United States is less of a factor. Germany is the primary source of FDI and the leading trading partner of most of the CEECs, the Deutsche mark (now replaced by the Euro) playing an essential role in "nest eggs" when it is not the official currency (as it is in Montenegro and Kosovo). The Netherlands, Austria and Italy are also major investors. Proximity counts for a lot: Sweden and Finland, for example, invest to a greater degree in the Baltic states.

Fragile economies

Behind the "successes", as registered in the numbers and quantities of FDI or privatizations, social relations are being transformed. Bulgaria's real unemployment rate is higher than 30%. Similar levels exist in a number of regions of Poland and Hungary. And far from having reached the "end of the tunnel", the "most advanced" economies such as Poland, entered a recession in recent months, as did the Czech Republic in 1998. The others are still in the early stages of the restructuring necessitated by the new economic logic.

The deepening of social and regional disparities, the unemployment and external deficits illustrate how these countries

are experiencing "competition". And it is certain that foreign-owned firms will display greater readiness to submit to those rules, relatively unfettered as they are by "compromises" between various domestic social forces subject to pressures from the electorate.

Most of the foreign-owned firms are also the ones that export to EU markets, and they often import their own products. All of the CEECs that are candidates for EU membership are running current account deficits with the Union. The radical restructuring of trade flows in the wake of the 1991 dissolution of the COMECON (the Soviet bloc's counterpart to the Common Market) has resulted in a new dependency that can be a serious drag on the East European economies.

The slowdown in EU growth, particularly in Germany, will mean a significant drop in exports to the West. And domestic purchasing power is limited; the queues have disappeared but most citizens cannot afford to buy the products. Fiscal austerity and the contraction in banking credit will not help to sustain growth. Furthermore, in a country like Poland the desire to attract foreign capital in order to finance the public debt has been expressed in a rise in interest rates that is now adding to the difficulties faced by private businesses.

Conditional "assistance"

The funding originating from the European Union for "assisting membership" has much the effect of a vicious circle: far from compensating for these problems, it aggravates them. For the most part, this funding is not donations but credits (in the case of two thirds of such "assistance"), and conditional credits at that. The criteria for allocation, or for the rescheduling of debts, are in fact political and economic.

For example, in terms of donations, Poland is the only one of these countries to have had its debt cancelled, in the early 1990s — something that is never mentioned as having anything to do with the fact that it is also the first economy to register growth again. The cancellation of Poland's debt was one of the "other foreign investments" noted in the balance of payments.

Concealed in this entry were some geo-strategic considerations: Poland was the only such country in which a mass trade union movement, *Solidarnosc*, had challenged the old regime, in 1980. The privatizations, allegedly associated with

democracy and pluralism, were never demanded by a congress of *Solidarnosc*. The corruption of the Polish trade unionists — like that of the independent union of the Ukrainian miners in the early 1990s — was also part of the "invisibles" in the balance of payments.

Geo-strategic criteria must also be considered in any assessment of trends in "assistance" credits. The future boundaries of the European Union are a basic issue. But in the context of austere fiscal policy, another concern is to minimize the costs of enlargement. The major recipients are therefore those countries that are the closest and wealthiest (and most likely to repay), the same criteria that orient FDI. About half of this Western "assistance" comes from the EU and the European Investment Bank (EIB).

Within the EU, the largest official bilateral assistance credits are granted by Germany, France and Italy. The primary vehicle for the EU's multilateral assistance to the CEECs is a specific multilateral agreement called PHARE (Program of Community Aid for Central and East European Countries). Over ten years (from 1990 to 1999), the Commission in Brussels has committed a total of 10.89 billion Euros in favour of the CEECs under this program — compared with the 100 billion DMs that Germany's eastern Landers (provinces) have received from that country's federal government, and the \$112 billion surplus on current account rung up by the EU during the same period.

What this means is that, on the one hand, the EU is not prepared to pay, in order to absorb all the CEECs, what it cost to unify Germany, and on the other, that the CEECs bring in far more than they cost. The interrelationship between "assistance", credits, privatizations and FDI is therefore "organic", and associated with the overall economic logic of the governing institutions (governments, international financial institutions and the EU). And it is at that level, as well, that the challenge is developing. ★

Translated by Richard Fidler.

Source: *Conjoncture*, published by the BNP Paribas, July-August 2001 issue, no. 7

1. Vladimir Andreff, "L'investissement direct étranger dans le développement inégal des pays en transition", *Nouveaux Cahiers de l'UEDE, Du socialisme à l'économie de marché: errances de la transition* (October 2001).

2. A country's stock of FDI is the sum total of all the FDI it has received up to a particular date. FDI "flows" are the variations between two dates (usually measured in years).

3. In order of credibility of EU membership, under the European Commission criteria, they are Hungary, Poland, the Czech Republic, Slovenia, Estonia, Slovakia, Latvia, Lithuania, Bulgaria and Romania.

4. See <http://europa.eu.int/comm/enlargement/index.htm>

A European left strategy

THE third Conference of the European anti-capitalist left was held in Brussels on December 12-13, 2001.

FRANÇOIS VERCAMMEN*

It brought together parties, alliances and anti-capitalist movements from 10 countries, all committed in their respective countries to policies of regroupment and convergence.¹ This third Conference amounted to significant progress in comparison to those in Lisbon (March 2000) and Paris (December 2000), in terms of participation, quality of political debate and commitments undertaken.

Italy's *Party of Communist Refoundation* was present for the first time in the form of a delegation of two members of the national leadership. Without questioning the continuity of the international relations inherited from the former PCI (from which it originated), it has for several years practiced an orientation of "diversification". Other political formations from the Communist tradition were also present: the Dutch *Socialist Party*²; "La Gauche" from Luxembourg (made up of the CP itself, supporters of the *Fourth International* and a current which has left the CP) and the Turkish ÖDP (*Party of Freedom and Solidarity*, comprising currents originating from the CP, Guevarism, Maoism and Trotskyism).

Pluralist

Other formations present have a pluralist character which is more evenly balanced between the different currents: the Portuguese *Left Bloc* whose components are very integrated and include the UDP ("Marxist-Leninist", of Maoist and 'pro-Albanian' origin), which is the largest current, the PSR (Portuguese section of the *Fourth International*) and a small but very significant grouping originating from the CP; the Danish *Red-Green Alliance* (with Communist, left socialist and Fourth



François Vercammen

Internationalist components). Then there is the *Socialist Alliance* (England), recently set up and a dynamic factor to the left of the *Labour Party*. The integration of the different currents there is clearly weaker for the moment and the Trotskyist groups play a dominant role, above all the *Socialist Workers Party* (SWP) following the departure of the *Socialist Party* (SP).³ Hence the independent presence of the SWP and SP at the conference. The SSP (*Scottish Socialist Party*) has an exceptional political dynamic in Scotland: the degree of integration of its different currents (various Trotskyist groups, left nationalists, left socialists, ecologists) is comparable to that of the Portuguese *Left Bloc* and the Danish RGA. *Espacio Alternativo* (from the Spanish state) is made up of different currents although a majority are members and ex-members of the *United Left* (*Izquierda Unida*, dominated by the Spanish CP), where supporters of the *Fourth International* play a significant role.

Involved from the beginning in these Conferences, the French LCR is in a paradoxical situation: while seeking the formation of a new broad anti-capitalist workers' party it does not for the moment have partners similar to those which exist in the other countries.

Lutte ouvrière which has a significant electoral impact through its main public representative, Arlette Laguiller, has a project of unification of Trotskyists alone and there are no significant and organized currents emerging from the CP, PS or Greens.

We are then talking about political formations which are very heterogeneous in origins, traditions, ideological residues, internal régime and methods of functioning and work — which does not prevent a political convergence which appears to be growing and attracting new participants.

Why? Firstly, we are undoubtedly witnessing the emergence of a new "anti-capitalist" common identity that differs from social democracy and Stalinism, at a time

EUROPEAN UNION ★

when the revolution is not for the moment on the agenda. There is a common political sympathy combining a radical opposition to the European Union as currently structured, commitment to the everyday class struggle, a focus on the problems of society, the struggle against capitalist globalization, democratic demands at all levels, and so on. Hence there is a

clear consciousness of a new political opportunity to emerge from marginality and influence real social life. To do this it is necessary to forge unity between very diverse political forces, unity which goes well beyond simple punctual unitary action and electoral alliances. Advancing the process of convergence has to go hand in hand with political content and action.

Convergence

We could also mention here the role played in this process of convergence by the political generation which has ripened through the dual cycle of (semi-) revolutionary advance and reactionary downturn over the 1965-1995 period. Thus, this conference was capable of transcending two pitfalls which plague the leaders of traditional parties when they 'discuss' their respective political lines: diplomatic encounters rendered trivial through clichéd and wooden language, or the juxtaposition of anecdotal experiences. We also managed to avoid a well known feature of the 'revolutionary' small group tradition: ideological confrontation which sterilizes political debate and undermines common work.

The report by the Portuguese comrades on the new international situation was from this point of view useful — global, approaching the key questions which concern everybody, constructed on political judgments supported by arguments, in a tone which invited discussion. The report centered on two questions:

1. To what point is there a discontinuity with the previous political situation; and how far will the imperialist counter-offensive (combining war, the use of the recession to launch a new wave of neoliberal attacks against the working class and the narrowing of democratic space in the name of the struggle against terrorism) go?

2. Will imperialism succeed in stifling the movement against capitalist globalization, social struggles, the various forms of

★ EUROPEAN UNION

resistance, the renaissance of the social and political movement of the exploited and oppressed? What is the role of the movement against globalization in the struggle against the war? How can we relaunch the global social movement and strengthen its links with the class struggle?

Two aspects polarized the debate. The first concerned the analysis of "fundamentalism" and its possible anti-imperialist dynamic; the second the anti-war movement and its political orientation. The SWP was the protagonist, claiming that the weakness of the anti-war movement in France (compared to Britain and Italy) was due to a large part to the line put forward by the LCR.

On the analysis of political Islam, there was real progress without complete agreement being reached (the SWP continuing to insist on the potentially anti-imperialist aspect of mobilizations sympathetic to Bin Laden and *Al-Qaida*). However, the SWP had difficulty in convincing the meeting that the cause of the (relative) weakness of the French movement could be attributed to the content of its platform. As the delegate from the PRC said, the most powerful movement in Europe — that of Italy — was based on a similar orientation to that of France, around two axes: a priority denunciation of the imperialist war and rejection without concession of the *Taliban* and *Al-Qaida*.

It should also be noted: the British *Socialist Party* (formerly *Militant*) refused to sign the declaration because of a disagreement on Europe. They argued that the current recession would lead to a rise of protectionism inside the EU setting the different member-countries against each other and potentially leading to an existential crisis (notably in relation to the euro). It was alone in defending this viewpoint.

Spectrum

The depth of political convergence achieved should not be underestimated given that the Conference succeeded in bringing together a spectrum going from the recomposed radical left to revolutionary organizations like the SWP and LCR via the PRC of Italy whose political prestige is soaring after Genoa, in Italy but also in the eyes of the other European CPs.

In today's world, initiatives from the parties of the radical left are not the be all and end all of things, for it is the 'new' movement against capitalist globalization which is currently harnessing the vitality and political creativity of the activist layers

in movement.

History has taught us that this is only a stage; the future will say how the dialectic inside the movement will go. Meanwhile, we can clearly assess the progress and limits of the Conferences. Each organization which participates has its own analysis and project and there is no need to have absolute agreement in order to work together. But the meetings need to continue, essentially for the following reasons:

■ First, there is this elementary note: a political current exists which is clearly distinct from social-democracy and the Green parties, as well as (in a slightly different relationship) the Communist parties. This current has increasingly affirmed itself since the early 1990s around the themes of convergence, pluralism and anti-capitalism.

It results from the 'neoliberalization' of social-democracy and the exhaustion of the revolutionary left, following the years of lead (1985-1995) which simultaneously eliminated the traditional perspective of class collaboration and that of socialist revolution. These radical formations are capable of having an impact and even entering the regional, national and European parliaments (if the electoral system of the country does not totally crush elective democracy).

Hence a simple political conclusion. Why not repeat what is done at the national level on the European level? All the more so in that the EU is increasingly imposing itself as a restrictive and burdensome institutional framework. Why, then, leave the 'established' parties of the left the monopoly of the 'international' - European perspective?

The practical conclusion flows from this: we need to meet together so as to take common positions and act together, while of course being aware that each organization is involved in other unitary frameworks.

■ There is a second point even more important than the first: the enormous gap between the brutality of the capitalist offensive and the working class' capacity for response. For the first time in 125 years there is no alternative vision of society, no programme of alternative action and no alternative organized movement on a mass scale. This vacuum is unprecedented. No radical or revolutionary organization has the means or credibility to fill it alone, still less by trying to impose itself against the rest of the militant left. Patient work to bring about a convergence of the live forces in the workers' and social movement, or, where they

exist, in the currently existing left parties is an urgent necessity.

■ Thirdly, the EU is undoubtedly being constructed. In the five years to come, we will be confronted with a powerful, articulated and above all supranational state apparatus. The whole ideological framework of the workers' movement will become largely obsolete and many things will have to be rethought, "Europeanized": demands, tactics of struggle, modalities of action, activist networks, organizational links, the construction of teams of militants and leaders. The anti-capitalist left will not escape this process.

The second Conference (held in Paris) reached agreement easily enough on the critical analysis of the EU, the concrete denunciation of its policy and a general (socialist) alternative. Better: we were able to enumerate a catalogue of concrete demands — partial and anti-capitalist — that each can defend in their own country against their own state and employers.

But the essential was lacking: the struggle of the exploited and oppressed comes up increasingly against a Europeanized economic-industrial structure and Europeanized state structures; the centre of economic and political power is shifting. The survival of the workers' movement is linked to its Europeanization. We need to advance patiently but systematically towards a European anti-capitalist programme and strategy.

There will be a chance to do this — while the 'Brussels' conference was dominated by the world situation, that of 'Madrid' will undoubtedly take place under the aegis of the capitalist Europe which has been set in motion. ★

* François Vercaemmen is a member of the United Secretariat of the *Fourth International*.

1. See IV 337 for the press statement released after the conference. The participants in the conference were: the *Red Green Alliance* (RGA, Denmark), the *Scottish Socialist Party* (SSP), the *Socialist Alliance* (SA, England), the *Socialist Workers Party* and the *Socialist Party* (Britain), the *Socialist Party* (SP, Netherlands), *La Gauche* ("The Left", Luxembourg), the *Ligue Communiste Révolutionnaire* (LCR, Revolutionary Communist League, France), the *Left Bloc* (BdE, Portugal), *Espacio Alternativo* ("Left Space", Spain), *Rifondazione Comunista* ("Party of Communist Refoundation", Italy), *Solidarité-S* (Switzerland, Geneva), the ÖDP ("Party of Solidarity and Liberty", Turkey), with *Plataforma de Izquierda* ("Left Platform", Spain) attending as observer.

2. Of distant Maoist origin, the *Dutch Socialist Party* is a member of the *European Unitary Left - Nordic Green Left* (GUE/NGL) in the European Parliament.

3. The *Socialist Party* (SP) of England and Wales, formerly the *Militant Tendency* of the *Labour Party*, is a Trotskyist organization which was at the origin of the launch of the *Socialist Alliance* in England and which has since taken a more sectarian and self-proclamatory course, leaving the Alliance. It is part of an international organization — the *Committee for a Workers' International* — recently weakened by the exclusion of its Pakistani section (*Labour Party Pakistan*, LPP) and the departure of militants from the *International Socialist Movement* (ISM), which was at the origin of the creation of the SSP.

Leonora Lloyd (1940-2002)

THE death of Leonora Lloyd on January 23 at the young age of 61 has deprived the movement of a dedicated fighter for socialism, for feminism and above all for a woman's right to control her own fertility.

Leonora died only 18 days after the celebration of her father Charlie van Gelderen's life which took place on January 5 following his death in October last year. (see IV 336 and 337). She was determined to speak there though she was obviously fighting to overcome the pain her illness brought.

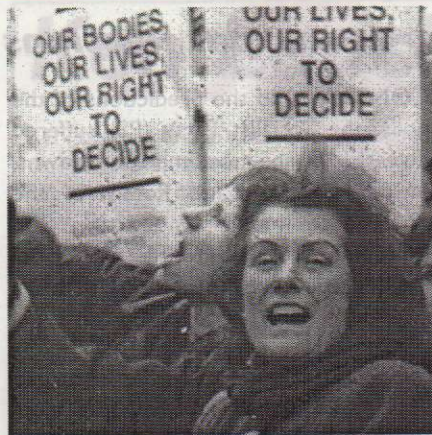
All Leonora's life she was a fighter. She was born in Cape Town in November 1940, although her family had moved to London in the 1930's. But her father was away in the army so her mother, Millie Matthews, returned to South Africa to be with her family. She grew up in Richmond in an intensely political atmosphere and joined the *Labour League of Youth* at 14. In 1960 she was arrested outside the South African embassy in protest at the Sharpeville massacre. She joined the *International Marxist Group* in the late 1960's and left in the early 1980's. She remained a committed socialist all her life.

But for many, it is for her contribution to the struggle for women's liberation in Britain that Leonora will be most remembered.

In 1968 Leonora was involved in the setting up of NJACCWER, the *Joint Action Campaign Committee for Women's Equal Rights*. This followed on from the famous Ford machinists' strike of 1968. The strike was not formally about equal pay, but it was certainly concerned with the principle of equal pay for work of equal value; the principle that would be central to the Equal Pay Act which became law in 1970.

NJACCWER launched a charter which took up issues beyond the Equal Pay question — also calling for equality of opportunity for women in employment, education and public life, promising to "keep on fighting until the women of this country have full rights in every sphere". In practice however, it campaigned only for Equal Pay. The highlight of its existence was an Equal Pay demonstration in May 1969.

NJACCWER was undoubtedly central to ensuring the passage of the 1970 Act. But its work should have continued afterwards to ensure the legislation was implemented as employers tried to get round its provisions. Unfortunately the organisation failed to live up to this challenge,



which is why the IMG subsequently launched the Working Women's Charter campaign — which took up the same demands as NJACCWER but also broadened out to issues as abortion and contraception.

Leonora was one of the founders of *Socialist Woman*, a magazine launched by the *International Marxist Group* in 1969 as the voice for a network of Socialist Women's groups. The pages of the early *Socialist Woman* are a testament to the important role of socialist feminists in the creation of the broader women's liberation movement in Britain. Leonora's first contributions to the magazine concentrated on equal pay for women, though she also wrote a number of book and film reviews.

However the particular role for which Leonora is most remembered in the central role she played in the creation and sustaining of the National Abortion Campaign, which was founded in 1975.

Limited abortion law reform had taken place in Britain in 1967, but suffered a series of sustained attacks through the mid-70s. A series of MPs, backed by the extremely well organised anti-abortion lobby funded and organised by the Catholic Church, launched assault after assault on the rights won through that legislation. In between battling off restrictive legislation, the campaign also fought for positive legislation that would go beyond the 1967 Act and enshrine a woman's right to choose in law.

In all of this and more Leonora was so often at the centre. She spoke at countless meetings, in particular understanding the importance of winning support from the trade unions for a woman's right to choose. The huge demonstrations that NAC organised in opposition to each successive attempt to restrict our rights would not have been possible without the huge support generated amongst the ranks of trade union women.

For many women, this battle to defend and extend women's control over our fertility was the first contact with the

ideas of the women's liberation movement. This fight also challenged the idea that the role of trade unions was only to take up issues of pay and conditions — rather than to fight on all the issues that affect working people — and working class women in particular.

At the same time as playing a high profile, leadership role, no task was too small for Leonora. She went from public debates with anti-abortionists under the bright lights of the TV cameras, back to the chaotic NAC office to get out yet another mailing. She was everywhere, inspiring others with her conviction that without control over our bodies, women would never have control over our lives.

She was particularly proud of the Schools Kit that she developed for NAC — it was vital to her that younger women should not suffer the return to the backstreets that women who had grown up before the 1967 Act had lived through — at the cost of so many lives.

Leonora also understood that the battle for abortion rights was an international struggle. When NAC was launched in 1975, women in France active in MLAC (*Mouvement pour la Liberté de L'avortement et de la contraception* — Movement for free abortion and contraception) hosted the first international conference on abortion, contraception and sterilisation attended by women from Europe, the United States and Latin America.

The Supreme Court in Germany had just thrown out a more advanced abortion law than that in place at the time, and abortion clinics in Italy were under attack from the right. The conference led to greater co-ordination of battles across Europe with an international solidarity demonstration being organised in Italy in October 1975. In 1978, Leonora organised for NAC to host the second conference here in Britain in June of that year. This internationalism was to remain an important thread of her political activity.

Many of the restrictions on women's rights that motivated Leonora to devote so much of her life to the fight for socialist feminist ideas have still not been won.

In Britain anti-abortionists are currently bringing a court case to prevent the sale of the morning after pill in pharmacies. Earlier this year 17 women walked free in Portugal after being prosecuted for using an illegal abortion clinic — but there are no legal clinics available. On Page 34, we report on the current attacks in Ireland, with the referendum on abortion on March 6.

One way we can pay tribute to Leonora is to step up our own commitment to those battles. ★

Terry Conway

A crucial vote

IRELAND is facing its fifth constitutional referendum on the question of abortion on March 6.

BRENDAN YOUNG

THE outcome of the referendum will be of critical importance to Irish women, to working class women in particular and to Irish culture and society in general. Ten years ago, it was established that the risk of a woman's suicide were grounds for an abortion. This happened in the wake of an incident known as the "X" case, in which a 14 year old became pregnant after being raped.

Under the proposals being voted on in this referendum, women who are suicidal as a result of a crisis pregnancy will not be allowed to have an abortion in Ireland. Contrary to the recent assertions of Irish Health Minister Mícheál Martin, Health Boards will also be denied the power to take rape or incest victims in their care for abortions overseas — even if they are suicidal.

The only grounds for abortion will be risk of the loss of the woman's life from physical causes — neither rape, incest nor suicide are included. Women who try to perform an abortion on themselves, or anyone who helps a woman to get an abortion in Ireland, will face twelve years in prison. Under the proposed law there is the possibility of a trial like that we saw recently in Portugal — with fewer avenues for a legal defence.

A woman with complications in pregnancy will only be allowed an abortion when there is a risk that she may die. In some states in the USA laws like this have meant that abortions are delayed until there is more than a 50% chance the woman will die. A woman carrying a non-viable foetus will be compelled to go to full term or wait until her life is threatened — rather than have an early, safe termination.

Doctors will only be allowed to perform such abortions in a limited number of "approved places" — rumours say 16 — which could be many miles from a local hospital. Lives and health will be risked as women are ferried from place to place. Current practise allows abortion in local hospitals under remote

Municipal elections open political crisis

CONTRARY to the predictions of the polls, the Socialist Party (PS) suffered defeats in all the most important towns, including Lisbon and Porto, in the Portuguese municipal elections on December 16, 2001 while the Social Democratic Party (despite its name, a bourgeois party) won the majority of municipalities.

Socialist prime minister António Guterres resigned following the election results, and parliamentary elections will now be held on March 17, 2002.

Heading a minority government (115 socialist deputies against 115 for the opposition), Guterres had relied on the support of the right to push through his budget and had even bought off a Popular Party deputy with some benefits for his seat in the north of the country. This artificial majority accelerated the decline in prestige of this government and parliament. While tax reform was one of the key themes of the Socialist election campaign, practically nothing has been done in this area, while in social security and in health there has been no halt to the continued degradation of the public services and the interpenetration of public and private medicine.

PSD leader Durão Barroso is renowned for his lack of charisma, ideas and political project. The PSD's victories are due above all to the electorate's desire for change but on the essential political questions the PS and PSD have never diverged.

Guterres was replaced as PS leader by Ferro Rodrigues. Initial hopes that this might represent a shift to the left have been dashed by Rodrigues himself; he says he is just as likely to make an agreement with the Popular Party (PP)

as with the Communist Party (PCP).

The PCP continues to lose influence and historic bastions, and the more critical voices in the party are arguing for unity with the PS at the elections

At the beginning of January a petition signed by more than 500 members demanded a congress, the biggest movement of dissidence from the official line known up to now. The dissidents include most of the current parliamentary group and the overwhelming majority of the intellectuals as well as some local councillors and trade union functionaries

The *Bloco de Esquerda (Left Bloc)* was contesting these local elections for the first time. In Lisbon the pressure of the 'useful vote' for the PS-PC unitary list was strong but the Bloco did win 3.8% in the elections to the executive and 4.8% in the municipal Assembly vote, with 2 representatives elected. Across the country the Bloco ran in 70 out of 308 local elections averaging 2.92% in the municipal assemblies and 2.25% in the câmaras (respectively 79,000 and 61,000 votes).

If one compares the vote for the Bloco in the presidential elections of 2001 (3%, 129,000 votes) or the parliamentary elections of 1999 (2.5%, 131,000 votes) it shows that the Bloco's vote in the big urban centers is more resistant to the drift to the right than that of the PS or PCP.

In the draft election manifesto discussed by the Bloco leadership in January five key themes emerge: reform of the health system; drugs and drug addiction; tax reform; reform of public administration to bring greater democracy and transparency; reform of education. ★ **Luís Branco**

direction from specialists in teaching hospitals — a system the new law will end. Hospital consultants are only now waking up to this restriction and are taking legal advice.

There is a conscience clause which allows a doctor to refuse to perform an abortion. The Commonwealth Medical Association says that in such circumstances, there must be provision for emergencies. Irish Taoiseach Bertie Ahern's proposal has no such provision.

The Women's Health Council — a state appointed body advising the government on women's health policy — has sharply criticised the proposals. It

has recently been revealed that the psychiatric evidence submitted to the government is not the position of the Royal Society of Psychiatry of Britain and Ireland — who say it is a misrepresentation of their views.

To date the Alliance for a NO Vote has led the active campaigning and has established a national profile as the leading pro-choice organisation opposing the government's plans, working with all who oppose the referendum and who are not part of the anti-abortion movement. Against the referendum proposals are Fine Gael, the Labour Party, the Green Party TDs, Sinn Féin, the National

Women's Council, the Irish Family Planning Association, many women's organisations, the pro-choice movement and the far left. 22% of Bertie Ahern's voters say they will vote no, while his coalition allies, the Progressive Democrats are split.

Across the board, opinion poll evidence indicates approximately 35% for, 33% against, 20% undecided and the rest abstaining. There remains however, much confusion as to what a 'yes' or 'no' vote means — including amongst supporters of the right to choose, some of whom think a 'yes' vote means more choice.

The campaign is working to win over undecided voters by explaining the implications of the referendum, while making it clear that supporters of choice should vote 'no'. This is a delicate task, as there are many who would say they oppose abortion and do not support the right to choose, but would not want to see another 'x' case.

And while some polls indicate significant support for increased abortion services in Ireland, this is no guarantee of a majority 'no' vote. There is no suicidal 14 year-old being denied an abortion — as in 1992 — to humanise the choice for the voters.

Despite changes in attitude towards sexuality and abortion amongst the population, the outcome of this referendum is not a foregone conclusion. Either result will have a profound impact on Irish society. Defeat for the government will mean that no further referendums will be possible and abortion will be legalised for certain circumstances — specifically on grounds of risk of suicide. The pro-choice movement would be hugely strengthened.

Victory for the government will be a setback of enormous proportions for the struggle for reproductive rights in Ireland. The anti-abortionists have served notice that they will try to get the morning after pill and IUD outlawed. And needless to say the Irish women who go for abortions in Britain — and now to Russia where it's cheaper — at a rate of 7 to 10,000 a year, will be further criminalized and stigmatised.

International support is very important. It will help show the world the misogynist and reactionary intentions of the Irish government. It helps maintain pressure on Fianna Fáil and the wobbly PDs. While we are confident of defeating the government, we need the solidarity of our comrades, sisters and brothers overseas. ★

Ken Loach



Ken Loach

KEN Loach is Britain's best-known independent filmmaker. He became known in the 1960s through 'social realist' TV dramas like *Cathy Come Home*, about homelessness, *The Lump* about the exploitation of casual workers in the building trade, and *Kes*, the moving story of a working class boy and his love for his pet kestrel. In the 1970s he made, together with leftwing scriptwriter Jim Allen, the monumental series *Days of Hope* about the 1926 British general strike. In the early 1980s, at the high tide of Thatcherism, Loach was virtually blacklisted by TV bosses and unable to work.

But at the end of the decade he started a prolific stream of independent movies which continues to this day. These include *Hidden Agenda* about Northern Ireland, *Carla's Song* about Nicaragua, *Land and Freedom* about the Spanish Civil War, and *Raining Stones* about a working class community in Manchester. All have caused controversy, none more than *Land and Freedom*, which followed closely Orwell's *Homage to Catalonia*, and was hotly debated by former participants in the Spanish revolution. His most recent film is *The Navigators*, about the British railways after privatisation. Loach also directed the *Socialist Alliance* TV broadcast for the 2001 British general election. Alan Thornett spoke to him following the release of *The Navigators*.

Your movie shows a very thorough knowledge of the rail worker's background. How did you get it?

The script was written by Rob Dawber who was a railwayman, a track worker for seventeen years. I hope the film reflects his knowledge and experience. Also, many of the parts are taken by people who are, or were, rail workers. There were always experts on hand to put me right.

Can you explain how the railways in Britain got to this point?

The railways were the last major industry to be privatised by the government of Margaret Thatcher and John Major. Their belief was that only private capital and the disciplines of the market would make for efficiency and high productivity. The consequence, as with all privatisation, has been disastrous. In a rational society there would be a balance between society's needs and its ability to satisfy them. There would be a thoughtful and ordered use of resources. There would be proper training and working conditions with fair pay and job security. The needs of private capital are quite incompatible with such requirements.

The railways were divided into separate units while still in public ownership. Different buyers were sought for the track and train operation. Working conditions were attacked. Safety procedures were changed. Many thousands of experienced workers left the industry. The railway culture of safe practices, built up over generations, was consciously attacked. The consequent mess, predicted by railwaymen, seems to be a surprise to the Labour government. They are ideologically committed to privatisation, like their predecessors. Despite an unusual degree of popular support, the government refuses to take the railways back in to public ownership and develop a properly funded transport system using the most advanced technology. Instead, the subsidy to the private owners has increased and the chaos continues.

The new extension of global capitalism is destroying even the idea of workers' solidarity, it's not very promising. What do you think?

You're right, the facility to transfer capital around the world in an instant, searching for the fastest profit, is a challenge to the workers' movement. The bureaucratic leadership of most unions in Britain seems incapable of meeting this. But the fight against casualisation, so-called flexibility, privatisation and redundancies calls for a new internationalism. If we are to have any chance of getting a few victories, particularly in the new integrated Europe, we must make and develop contacts at grassroots level. Whenever I've had the chance to see these contacts made, I'm always surprised at the immense good will and sense of solidarity that is waiting to flower.

The end of your film is a terrible and dark end for the workers... Is it because you think there aren't any other perspectives possible today?

The end of the film is dark, because we didn't want to encourage any false hopes. Unsafe working practices and poor working conditions are a necessary consequence of privatisation, not a bit of individual bad luck. There is only one way out, in the end: a publicly owned and accountable railway run by those who work in it, in partnership with the community it serves.

If you hadn't any constraints, what would be the movie of your dreams?

The movie of my dreams is the next one. The cinema of my dreams is something else. Maybe run on the same principles as we would like to see the railways operate! ★

Boost sales and donations!

SALES of and donations to *International Viewpoint* must grow by 13% this year!

International Viewpoint's supporters gave a wonderful response to our recent appeal for donations: 4000 euro in donations came in from around the world, including the contribution of a donor who boosted each gift by 50%. Together with a generous and unexpected additional contribution to the magazine by the *Fourth International*, this means that the magazine opens the New Year with a clean bill of financial health, and a tough target for the year.

New plans give *International Viewpoint* a chance to remain at the ten-issues per year level we were at last year. IV's management committee has set itself the following goals for 2002.

We intend to deepen our focus on five key themes: (i) the Global Justice and anti-war movements; (ii) key national struggles and

the role of the left within them; (iii) central debates within the major left organisations, and the progress of left recomposition; (iv) major discussions within Marxism and between Marxists and anti-Marxists and (v) the activities and political positions of the *International* (including the *Fourth International's* upcoming World Congress).

We also intend to improve the production quality, in two key areas. First, the editing of articles (native English speakers who read the journal know that in the past some articles have been rather literal translations from French, Italian or Spanish, and thus somewhat inaccessible) Second, design: the journal is still too unprofessional in design as compared with other leftwing English language journals.

Our goal is to boost the circulation of the magazine by around 12 per cent. This will involve: more collaboration with the sections and FI groups in English speaking coun-

tries, and countries where there are a large number of people who read English; selling subscriptions at major events in the UK and US; winning more subscriptions from libraries and helping people to sell the magazine more easily.

We aim to increase fundraising and encourage more donations for the magazine and to enlarge the team of volunteer translators, designers and editors who support the magazine.

We feel that IV has an irreplaceable role. With your energy, support, creativity and perhaps even your gifts, the magazine will flourish in 2002.

D.C.

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