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The Commune Lives

7 March 2002, by **François Ollivier , Olivier Besancenot**



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 neo-liberal 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*, 'neighbours'. Some sociologists 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 neo-liberalism (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 neighbourhoods of greater Buenos Aires and to the provinces. The assemblies consist of about 100-200 people per neighbourhood; 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 remobilisation 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 privatised 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.

Birth of our power

7 March 2002, by **Ernesto Herrera**



Nobody sleeps anymore, the Neighbourhood, 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 manoeuvre 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, [1] without being insulted or regarded with distrust. Moreover, this power from below is developing a consciousness 'for itself' and a movement where anti-neo-liberal 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 dollarisation and for a South American currency; nationalization of the banks; renationalisation of privatised 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 labour 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 radicalisation 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 neo-liberal 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 [2] 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 [3]

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.

Enron in Argentina

7 March 2002, by **Andrew Pollack**



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 neighbouring countries. It is also building a fibre-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 privatisation 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 privatisation 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 fibre-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 favour 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 fibre optic network that will link Buenos Aires, Bah  a Blanca and Neuqu  n, 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 renationalisation 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 privatisation, 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 renationalisation - 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.

A great leap forward

7 March 2002, by Anne Leclerc , Emile Jourdin, Pierre Rousset



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 globalisation 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 neo-liberal globalisation 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 S  o 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 globalisation: 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 globalisation 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.

Resistance to neo-liberalism, war and militarism: for peace and social justice

7 March 2002



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 neo-liberalism, a face which is brutal and unacceptable. Islam is being demonised, 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 neo-liberal 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 neo-liberal 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. Neo-liberal 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 fulfilment 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 to be used as 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 foreign 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 of 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

7 March 2002, by **Andrew Pollack**



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. 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 monetise 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 analysed 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.'"

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 Dynegy."

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 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. Dynegy'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." [4]

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. [5] 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. [6] 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). [7] 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 non-financial 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 behaviour. (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?



After the scandal - still an example! 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 "godfather 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 analyse 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, a la 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, travelled 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 internalise 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 meagre \$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. [8]

"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 behaviour" - 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 socioeconomic 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. [9] 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.

Theses on Globalisation and the Palestinian Resistance

7 March 2002, by **Dr Majed Nassar, Nassar Ibrahim**



1.2 Together, the popular support for anti-globalisation 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-globalisation 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.

Globalisation 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 Globalisation 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 globalisation debate allows for an examination of the role of imperialism in relation to modern economic forces in general, and multi-national corporations specifically. In this regard, while globalisation is often portrayed as States acquiescing to the demands of multinational corporations, the framework of globalisation/anti globalisation 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 globalisation 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 globalisation 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 globalisation, reflecting through its practices and policies the nastiest and most violent faces of the globalisation 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 globalisation

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 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-Israeli 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 globalisation

5.1 Along with the liberalisation of the national economies, the implementation of Structural Adjustment Programmes, and the dictates of peace with Israel as political surrender - all the internal contradictions of the globalisation 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-globalisation 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-globalisation 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 globalisation.

Rhetoric and Repression

7 March 2002, by **Maia Valecha**



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.

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 defence, 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 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 defence expenditure for 1998-99 was Rs.145 billion, 4.8% of its GDP. While India's defence 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 defence 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.

Will China shake the world?

7 March 2002, by **Liu Yufan**



Chinese stock trader

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 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. [10] 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 million 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 State's 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 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 production 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 xiangang (literally 'off-duty') will be abolished. Xiangang 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 xiangang 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 management (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, 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.

Foreign investment and capitalist enterprise

7 March 2002, by Catherine Samary

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 privatisations 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 "transition 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 globalisation" (a.k.a. neo-conservative globalisation) 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 privatisations 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 privatisation 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 privatisations 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 globalised 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 privatisation. Theoretically, the more open one is to privatisation, 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 stakeholders" ("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

privatisations 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 privatisations 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 privatisations 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 production 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 privatised?

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 privatisation.

Hungary is the only case (other than Estonia, on a lesser scale) in which the principal form of privatisation 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 nomenklatura or in the population as a whole. The principal form of privatisation in the early 1990s in the Czech Republic, Slovenia, Russia and Poland was what was referred to (in a number of variants) as "mass privatisation" 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 "privatisations" 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 privatisation 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 "privatisations" 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 privatisations 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 privatisations 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 nomenklatura, the privatisations 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, legitimising 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 privatisations 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 1998 [