



Moscow Conversion Conference: Emerging Trends

By John Tepper Marlin

Government officials and researchers showed continued perplexity about conversion in an October 1991 conference on conversion in Moscow. But two promising trends also emerged: (1) a growing realism about the economic realities and requirements, and (2) an increasing link between conversion and environmental issues. Both factors bode well for the future of conversion efforts and the health of the planet.

The four-day conference discussions may be summarized under five headings:

- Soviet conversion is proceeding, slowly;
- conversion requires a strategy;
- chemical weapons pose special problems;
- arms exports are a dangerous option; and
- the Soviet investment climate is uncertain.

The conference, hosted by the Soviet Peace Committee, included about 40 people, one-third economists; 10 were from overseas and the rest from Moscow.

A highlight was an answer to a westerner's question: "What is the biggest current threat to Soviet security?" "The main threats to Soviet security," replied economist Zurab Yakobashvili, Deputy Director of the Central Economic and Mathematical Institute (TsEMI), "are incompetence, misunderstanding and ignorance." Misuse of a tank by firing at a chemical facility, for example, could cause a catastrophe." That incisive, and not necessarily reassuring, truth may be compared to Gen. Colin Powell's revealing remark after the Gulf War that the biggest remaining threats facing the U.S. were Kim Il Sung and Fidel Castro.

Soviet Conversion Is Proceeding, Slowly

The conference opened with a sober economic alert from respected Academician Valery L. Makarov, Director of TsEMI, about the high cost of Soviet conversion: "Conversion will take an investment — our models show benefits to the consumer from conversion, but also high transitional costs. We will need much retraining for civilian work." How the Soviets will be able to pay for these transitional costs is a major question that was never satisfactorily answered.

An Armenian participant from the Research Center on Problems of Civilization expressed impatience with the slow speed of Soviet conversion: "The military-industrial complex still consumes 60 percent of Soviet fuel and metals output. It produced 1,500 tanks in 1990, despite CFE agreements. After World War II we converted in 2-3 years — why can't we do this again?"

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First Steps to Halt Nuclear Proliferation

By Alice Slater

The western response to the rapid disintegration of the Soviet Union is not synchronized to the times. The threat of nuclear proliferation in the republics of Ukraine, Byelorussia, and Kazakhstan, as well as in North Korea, Israel, South Africa, India, and Pakistan, requires bold action by the nuclear powers in order to put a lid on further proliferation.

Instead, the U.S., France, and the U.K. are adding to nuclear proliferation by their continued testing of new nuclear weapons. The U.S. has conducted seven nuclear tests this year at its Nevada test site, the last one on October 18, 1991, two weeks after President Gorbachev instituted a third testing moratorium in the U.S.S.R. Great Britain, which also tests at the Nevada site, conducted one test there as recently as November 26, 1991. France has tested three nuclear devices in 1991 at its Mururoa test site in the South Pacific.

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U.N. Forum Examines Proposed Register of International Arms Transfers

By Dorrie Weiss

Traffic in arms is unlike any other trade. Weapons are not normal export items. The product is designed specifically to kill: it has no other function. In the last twenty years there have been over fifty wars. Between ten and twenty million people have been killed, most of them in the Third World. The exporting countries encourage arms sales to compensate for declining economies at home. Despite the waning of the Cold War, U.S. exports jumped 171% and French exports 70% in the past year alone. The exporting countries use military aid as an instrument of diplomacy and stimulate the appetite for high tech weapons in the

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Soviet Conversion Update

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I observed in response that after World War II most companies went back to what they were producing before the war — it was called 'reconversion'. Today, military-industrial companies have been entrenched for decades and most are reluctant to shift to doing anything else. Also, Soviet conversion is suffering from a lack of unity of vision about the future of the republics. But I noted that bottom-up Soviet conversion had been taking place without Moscow's help. St. Petersburg-based military-enterprise managers told me in 1990 they received little encouragement to convert from their Soviet ministries, but had been planning on their own for conversion as early as 1985-86, when Gorbachev's speeches about 'reasonable sufficiency' in defense sent signals about likely military cuts.

Distressed at hearing of the slow pace of Soviet conversion, British writer Chris Anderson asked: "Wouldn't it be cheaper to shut down military factories and pay people to stay at home? (This question was being asked at the time in public by Soviets. Ksenia Gonchar, an economist with the Institute of Economics and World Affairs who also serves as ECAAR's Soviet representative, reports that such proposals were floated in *Izvestia* on October 17 and in *Red Star* on October 23. Writers argued for stopping Soviet military-industrial, "VPK", production, while continuing to pay salaries, thereby freeing up raw materials that might hold down consumer prices.) I suggested that if a step like this were taken, the VPK employees should be paid to go back to school — as many U.S. states are expecting of those receiving unemployment compensation benefits (beneficiaries are enrolled in Title III or other training programs).

Conversion Requires a Strategy

Prof. Warren Phillips of the University of Maryland (its former Vice President and Provost) observed that the objectives of conversion are to reduce military costs and generate new income sources for economic reform. He identified three different conversion strategies pursued by Asian countries: (1) The Chinese strategy was conversion of surplus military production capacity in state-owned plants to civilian capacity. (2) The Japanese strategy was true conver-

sion to peacetime production. (3) The South Korean strategy was privatization of all production, a policy that proved very helpful to the military.

"Hundreds of companies globally, dozens of countries, thousands of academics, want to help. Is there a blueprint? Is the needed educational effort ready? Banking and marketing skills will be needed."

A sharp young deputy of Boris Yeltsin's Russian Defense Committee said: "We need to break out the four elements of conversion:

"1. *Reducing the Scale of Military Spending.* Conversion will initially require a 40 percent increase in spending on military enterprises. But the Soviet military has been extremely wasteful and a rational defense would save a great deal. The Soviet army has 22 kinds of aircraft; most other countries have only 5 or so. The Defense Ministry should be given a budget and then told to procure competitively. Of the more than 1,100 defense enterprises, all dual-purpose projects should be put under a civilian authority. If enterprises fail to get contracts from the military, they should rely on civilian ones. If they fail to get any contracts, they should be allowed to fail.

"2. *Conversion of weapons.* We should start now.

"3. *Conversion of resources.* We should mobilize our resources by using existing stockpiles, turning stockpiles that are starting to rot and corrode over to civilian use, and ending weapons production.

"4. *Conversion of personnel (retraining).*

Most Soviets seem to accept the thesis articulated in 1776 by Adam Smith that *military spending is economically wasteful* and they believe cutting the military budget will greatly strengthen the Soviet economy. The Soviet Conversion Commission's Chairman, Academician Vsevolod Avduevsky, said: "General Radionov calls conversion a 'crime' [because of the reduced status of the military and the danger that without military leadership the best of Soviet industry may grind to a halt]. But in fact conversion is an essential element of our country's economic revitalization." TsEMI's Yakobashvili made a broad case for conversion: "Military spending ruins the economy. Mr. Voronov says it himself. Japan has become stronger economically by not having such a defense burden."

I endorsed the strategy of connecting conversion and the environment: "The best way to obtain more American support for conversion is, I think, with a multilateral plan such as a World Conversion and Environment Bank or Fund. It could give credits for countries that destroy weapons and convert to producing pollution-control or energy-efficient equipment, and deny credits to those who produce or buy weapons and destroy trees or use up excessive fuel."

Chemical Weapons Pose Special Problems

The most intense emotions of the conference were aroused over the proper disposal of chemical weapons. A Soviet facility for disposing of chemical weapons was never opened because of the objections of environmentalists in the area. An environmental specialist at the conference bemoaned this apparent conflict between conversion and ecology and said: "We need to show that ecology is not the enemy of disarmament."

Evgeny Rogovsky of the Institute of Economic Forecasting, after noting that the process of disarmament can indeed be ecologically harmful, urged approaches that solve several problems at once. "For instance," he said, "proposed underground nuclear explosions to burn up chemical weapons would dispose of both the bombs and the chemical weapons."

His remark provoked a furious debate. Academician Makarov asked incredulously: "Are you really serious about using nuclear explosions for peaceful purposes?" Cosmonaut Vladimir Axionov, a Hero of the Soviet Union, was blunter: "Using nuclear explosions for peaceful purposes is a wild idea, disconnected from real life." Rogovsky's main defense of the idea was that it originated from the USA, from the Lawrence Livermore National Lab.

A Soviet academician-chemist said that phosphorus is good fertilizer, so phosphorus-based chemical weapons are best buried: "Nuclear weapons aren't necessary. Transportation for destruction is easier than transportation for use. It can be done. The only problem is democracy."

[Soviet chemist Kirill Babievsky told me in December, at another conversion conference in Berlin: "There is now a proposal to sell to the Iraqis, for hard currency, the whole facility we built to dispose of chemical weapons, which environmentalists wouldn't allow us to

open. We would move it and reassemble it in Iraq. It's a good facility, even from an ecological point of view. The people in the area who opposed it are frankly just not knowledgeable about the technology."]

Arms Exports are a Dangerous Option

An assistant to Soviet Army Colonel Valery Rak asked: "Does export of arms constitute conversion? Obviously one would draw the line against smuggling weapons, e.g. to Yugoslavia. But it would be acceptable to sell arms to Australia. Soviet weapons need more advertising."

A Soviet banker added: "The nations that didn't pay for their weapons turned out to be the most dangerous. Those that paid, like Finland and India, are less dangerous."

Academician Avduevsky urged his compatriots not to continue selling arms: "To sell weapons we have to keep producing them. We produce more weapons than any other country, including the U.S. By continuing to produce these weapons, we deprive the civilian economy of needed resources. Do we want to live better now at the expense of our children's future? We seem to have lost much of our gold reserves, but we could make our way selling oil. *Why do we need to sell weapons? The Japanese have conquered with no weapons. Only the Third World countries are still allowed to fight.*"

The Soviet Investment Climate Is Uncertain

While conferees were agreed that Soviet conversion will be expensive, they disagreed over how it should be financed. Some believe that adequate resources don't exist within Soviet borders and that hard currency must be generated from foreign investment.

This will require encouraging actions by the republic governments. The Deputy President of Megapolis Bank said: "Banks can't provide conversion services without government support. The banks would need government guarantees of repayment of the loans." But another participant responded: "It might pay a bank to take a special interest in military accounts. Think of the resources that 4 million military personnel represent on the deposit side."

The need for western investments was never far from the minds of the conferees. Prof. Phillips was cautiously

encouraging, noting that a year earlier "Roald Sagdeev at the University of Maryland brought 65 Soviet enterprise managers to a Washington conference. Five are actively in negotiations with, for example, Westinghouse. American companies have found a lot of interesting technology among their Soviet counterparts, but they need (1) Adequate political risk insurance, for example by the World Bank; (2) Better property laws; (3) Better bankruptcy laws; (4) Better mechanisms for contract enforcement; (5) Administrative laws; and (6) Better banking laws."

Zurab Yakobashvili pointed out that governmental problems did not lie entirely on the Soviet side: "We can't sell our space missiles because of COCOM restrictions. We need movement from both sides."

Jeff Straub, a venture capitalist/pilot from San Diego, was encouraging about the potential for the kind of technology that has been developed in Soviet military enterprises. "Organoplastics," he said, "are one promising route for converting Soviet enterprises. They make good fishing poles, light aircraft, golf clubs. In a U.S. company I am on the board of, after conversion revenues were up 300 percent and profits commensurately higher. Another company looked for new markets and now tracks whales and does other oceanographic work. Sales increased 200 percent. The Soviet aircraft industry should convert to civilian production. In Alaska, 600 companies are in the business of flying small planes and the Soviet republics could benefit greatly by developing a small-plane industry." This article updates *Soviet Conversion 1991* (NY: Council on Economic Priorities, 1991). *The author is Project Director for Conversion, Council on Economic Priorities.*

Steps to Halt Proliferation

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Continued testing by the nuclear powers threatens to unravel the non-proliferation treaty which is scheduled to be renewed in 1995. Under its terms, non-nuclear nations pledged to forego the acquisition of nuclear weapons based on promises by the nuclear powers to end their testing and production of nuclear weapons. Despite Mr. Gorbachev's implementation of three test moratoriums in the Soviet Union since 1985, there has been no reciprocal action by the other nuclear powers. Indeed, at the U.N. this past January, the

U.S. and U.K. vetoed an amendment to the Partial Test Ban Treaty to convert it to a Comprehensive Test Ban even though the amendment had the support of a then viable U.S.S.R.

Despite U.S. representations that its testing program is required to test the "safety" of its weapons, most of the tests are used to develop new kinds of nuclear warheads such as nuclear powered x-ray lasers, optical lasers, and microwave generators to be used in outer space. It is also developing earth penetrating nuclear weapons that can travel underground. Furthermore, the "safety" argument is specious. It is only the older weapons in the U.S. stockpile that are being tested for "safety." With the manifestly urgent need to retire the fragmenting Soviet stockpile, the U.S. should now be dismantling its own arsenal and can readily dispose of its "unsafe" weapons while maintaining a more than adequate supply of "safe" ones. The much heralded START treaty would still leave the U.S. with about 10,000 long range nuclear weapons; the Soviet arsenal was to remain at about 8,000 strategic weapons. Former Secretary of Defense Robert McNamara has stated that the U.S. and Soviet arsenals could rapidly be reduced to 1,000 warheads each and that ultimately, only 100 nuclear weapons would be needed for minimum deterrence.

The cost of the U.S. testing program in 1991 has been \$1.1 billion in toxic explosions, at \$160 million per test, and \$8 billion in new weapons development for which most of the tests are designed.

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Proliferation

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This does not include the incalculable cost of the brain drain, with hundreds of thousands of IQ points devoted to creating new forms of nuclear weapons, or the unknown costs of additional radioactive contamination at the test sites at a time when the world is wrestling with the still unsolved problem of how to dispose of nuclear waste.

Economists have a unique role to play in making the true costs of nuclear testing known and in developing alternatives for the expenditure of these "defense" funds. Surely the U.S., U.K., and France could get more defense for their dollars, pounds and francs by using their nuclear testing budgets to pay for the dismantling of the nuclear arsenals in the former Soviet republics and the demobilization of the army in the cash-starved and crumbling Soviet Union. Such measures would also encourage other nations to renew their participation in the Non-Proliferation Treaty.

Forum Examines Register of Arms Transfers

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developing countries. Arms purchases represent a dead-end for developing nations, consuming resources that should be directed to human needs. The IMF, the World Bank, and UNDP all mention the connection between development, social conditions, and arms consumption. Arms transfers are the primary reason for the net outflow of wealth from the South to the North, from the undeveloped countries to the industrialized nations. They can have a destabilizing effect on political systems and ignite regional wars.

One of the ways that has been suggested for helping to check the arms flow is a register of all arms exported by producing countries. Until now, there has been little accurate reporting and scant knowledge of the true extent of military exchanges. The UN has been urging the creation of a register that would insure mandatory compliance with reporting procedures. Against this background, a forum titled *Promoting Transparency in International Transfers of Conventional Arms* was co-sponsored by the UN and the NGO Committee on Disarmament at the end of October. (ECAAR has a representative on the board of the committee.) The forum

dealt with the need to monitor the flow of conventional weapons and technology between countries by means of an international register of arms transfers that would operate under the aegis of the UN. The first group of panelists, all of whom were members of the UN Expert Group, detailed the need for such a register. An afternoon panel of independent experts then commented in a session titled *Looking Beyond the UN Arms Transfer Study*. This group was more critical, claiming that the proposals did not go far enough in their scope. Most speakers agreed that a register was simply a necessary first step toward meaningful agreements on arms control, a confidence building move rather than an end in itself. It would help create an environment where nations could develop enough trust to move forward. In itself, it is only a passive measure.

Arms transfers are granted legitimacy by the UN Charter, which recognizes the right of countries to defend themselves. The world spent about a trillion dollars in arms in the last twenty years. Most of the money spent on conventional arms was spent by the Third World. The register would reflect only licit shipments: no one has any idea of the magnitude of clandestine shipments. Weapons of mass destruction are always illegitimate, and would not be included in the register. Small arms would also be excluded since they can be controlled by border agents. Some of the speakers felt that the register should include small arms, and that machine guns ought to be counted as well as tanks. Some also felt that it should include holdings and procurement, not just transfers and exchange. A skewed picture would emerge if the indigenous weapons of producing countries were not included in the register. There also ought to be a method of reporting research and development, purchases as well as transfers, military potential and capacity. Some felt that reporting should be obligatory when contracts are first drawn, before the weapons are manufactured, so that claims could be made by protesting countries before the transfers take place. It was also noted that without a regime for verification and sanctions, the existence of the register would be of limited value.

Later in November, in a briefing at the U.S. Mission, John King spoke of multilateral disarmament in more sanguine terms than those usually heard at the UN. He spoke of prospects for a great reduction in nuclear arms. Until now, he said, bilateral disarmament had been

urged in multilateral forums. He praised the movement toward an arms register, although he felt the non-arms-producing countries would not welcome a register because it would reveal the extent of their imports. He mentioned many of the positive changes evident in international news reports. When asked about the U.S. position on the Comprehensive Test Ban Treaty (CTBT) he said that testing would continue to be a priority in order to guarantee the safety and reliability of nuclear weapons.

Attention Members

If you are attending the AEA meetings in New Orleans, please join us for

GENERAL MEMBERSHIP MEETING
New Orleans Hilton
Riverside & Towers
Room: Trafalgar
January 3, 1992
4:45-6:45 p.m.

AFFILIATE REPORTS France:

The first meeting of the "Comite d'Honneur" of Economistes Contre la Course aux Armements (ECCAR) will take place on December 20 in Paris. Le Comite is a ten-person committee of influential economists who, with the President Professor Jacques Fonantel, will organize the larger association, define its objectives and plan its activities. This group, which acts as the governing board of ECCAR, covers a very large theoretical and political range.

Members include:

Professor Henri Bartoli, well known for his analyses of labor and labor organization, also for his personal work on behalf of the French University.

Professor Charles Bettelheim, Ecole des Hautes Etudes en Sciences Sociales at Paris, analyst of contemporary economy and the Third World.

Claude Gruson, who has served both as General Director of INSEE and Deputy-Secretary General of the United Nations.

Yves Mainguay, manager at EDF, retired Professor, specialist in energy economics.

Professor Wladimir Andreff, Paris 1, Director of ROSES, specialist in transnational corporations, sport

economics and particularly of Eastern European Countries.

Professor Jean-Jacques Laffont, Toulouse, well known for his analyses of collective choices, microeconomics and industrial economics.

Professor Claude Berthomieu, Nice, specialist in public opinion and public enterprise, member of the Conseil National des Universités.

Denis Clerc, journalist, founder of *Alternative Economique*.

Professor Edmond Malinvaud, College de France, former General Director of INSEE, internationally known for his work in econometrics, micro and macro analyses.

Professor Philippe Herzog, Paris, European parliament.

Professor Jacques Fontanel, Grenoble, President ECCAR, Chairman of Espace Europe in Grenoble.

The prestige of these individuals and the broad range of their political/ideological backgrounds lends great distinction to the French affiliate. The members of the Comite have united to work together for world peace and against the continued arms race without any political considerations. This will be for some members, the first time they have ever worked together. At the December meeting the Comite d'Honneur will create the structures of the organization and begin to plan specific projects such as conferences, colloquia, publications, etc.

ECCAR-France has already begun to be known through the writings and conference participation of Professor Fontanel. Publications include "Disarmament Agreements and Negotiations, The Economic Dimension," Serge Sur editor, UNIDIR, Geneva, 1991, including two articles by Fontanel and Michael Intriligator (ECAAR-USA). "European Armament Industry"?, *Economic Policy*, No. 13, Nov. 1991, Fontanel and Ron Smith (ECAAR-UK). "L'economie du desarmement," *Strategie*, Fondation pour les Etudes de Defense Nationale, 1990.

Professor Fontanel will be joined by Jean-Francois Guilhaudis as participants at an ECAAR sponsored panel at the AEA entitled "Disarmament in Favour of Developing Countries" (see AEA article for details). He will also be presenting at the conference organized by ECAAR's Dutch-Flemish affiliate, Economen Voor Vrede, in the Hague in May 1992 on "Disarmament and Development." He is working on an upcoming conference on "Conscription ou Armees de Metier" in collaboration with

the Centre d'Etudes de Defense et Securite Internationale de Grenoble.

Economen Voor Vrede: Conference "Economics on International Security"

As you may have read in the last ECAAR newsletter, EVV is planning to organize a large international conference in May next year. The conference will be held from 21-23 May 1992 at the Academy building of the Peace Palace in The Hague and will be organized jointly with the Tinbergen Institute. The conference will be organized as follows:

The opening address on Thursday will be given by Jan Tinbergen, followed by a presidential address by Lawrence Klein. After the lunch there will be an invited session given by Walter Isard. On Friday morning there will be two sessions with invited speakers: John Kenneth Galbraith and Jacques Fontanel.

Following lunch there will be two sessions of contributed papers. The idea is that there will be five parallel workshops in both sessions, in total ten workshops. For each workshop a chairperson has or will be appointed who had the responsibility for the contents of a workshop. Each workshop will contain three presentations of one-half hour each. The last presentation of the workshop will be given by the chairperson. A number of people have already agreed to be chairpersons: Akira Hattori, Stanislav Menshikov, Manas Chatterji, Jurgen Brauer, and Peter van Bergeijk. Topics which will be dealt with at the workshops include: "The role of Superpowers and International Institutions after the End of the Cold War," "Conversion in the Former Centrally Planned Economies," "Regional Conflicts and Disarmament in the Developing Countries," "Economics of Military Expenditures of Developing Nations," and "Economic Sanctions and the New World Order."

On Saturday morning a special session will be devoted to policy making, recommendations to policy makers, and the outcome from the conference will be presented by the chairpersons of the workshops.

People who want to receive information on this conference are requested to send a small note or fax with their name, affiliation and main field of interest, to Annemarie Rima, EVV, PO Box 1738, 3000 DR Rotterdam, fax 3110 4520204.

Board Members Visit China on Behalf of ECAAR

by Manas Chatterji and Robert Schwartz

Our trip to China from October 5 through the 15th for discussions and to explore the future of ECAAR there, was packed with activities. Representatives from the Chinese People's Association for Peace and Disarmament (CPAPD) met us at the airport and although they had a full schedule outlined, we indicated our prearranged appointments with various economists in Beijing and Shanghai. So, we combined the two programs.

The highlights of our stay were the meetings we had with students and economists. At a joint lecture that we gave to economic graduate students in a seminar of Professor Ma Zhihzhou, Department of World Economics, Fudan University, Professor Chatterji outlined the massive environmental problems which the world faces and Dr. Schwartz discussed the current economic scene in the West, the Soviet Union and Eastern Europe. We left a good deal of time for questions, many of which were directed to the development and meaning of ECAAR. It was a splendid opportunity to discuss shifting from a military to a civilian economy. The questions were good, the interest real and there was a desire to participate in ECAAR.

During a two and a half hour meeting with Peking University President Wu Shuqing, who is also a Professor of Economics, we discussed the history of the University and its importance to the growth of China. In observations about the apparent strong economy, it was noted that joint ventures do have a role in future development. The briefing we received at our first meeting at CPAPD on the current Chinese economic picture by Lu Jian of the State Council, PRC, was helpful. We met with Xia Zhaolong, Director of China Economic Information Service, Xinhua New Agency, who explained to us that the economic and business section of Xinhua was a special service to the business press of the world and utilized as well by the Chinese news media.

At a meeting with Professor Zhou Jian Ping at the Institute of Foreign Economic Relations and Trade, Shanghai Academy of Social Sciences, we visited the headquarters of the Academy. It is a research center with its focus on the city and concerned with all

aspects of planning. Shanghai, like other cities in China (but on a very large scale) is concerned with housing and continues to build high rise apartment complexes. Shanghai is again, as before the revolution, a major world port, an industrial and financial center.

While in Shanghai, we also toured the large, modern Booshan Steel Complex and the not yet completed bridge from Shanghai to Pudong, the area for a planned investment program by the Shanghai Municipality. It already has over 1 million people and 200 industrial enterprises. We were both impressed by the economic activity, evident by the great deal of construction and the variety of consumer goods in rural areas as well as in the cities. On our return to Beijing we visited with Sun Weiyan, President of the University of International Business and Economics, the "business school" of China which is growing rapidly.

While there is official recognition of a slowing in the growth during the earlier part of this year, that has been overcome and the present growth rate is impressive. It is evident that the policy is strong on economic development including the use of foreign investments and joint enterprises with a "free market" in the smaller enterprises, particularly evident in retail establishments. There is no varying from the policy of government control of key sectors of the economy. The program of economic development was quite visible to both of us, comparing what we saw recently with that of our last visits in 1985 and 1988. There was a surprising freedom of expression with the people we met. On a personal basis there was an unhappy feeling about Tiananmen Square and that it should have been settled without violence. It was also evident that the government is concerned about events in most former socialist countries but does not anticipate that happening in China.

Mr. Niu Qiang, Division Chief of CPAPD and a friend, was our most competent guide, translator and aide during the trip. We enjoyed meeting Madame Ou Tangliang, a member of the Standing Committee who was our host at dinner and a day visit with economist Sol Adler and his wife Pat.

There was strong interest by almost all the economists and political scientists in ECAAR. Invitations to conferences would be welcomed. We received copies of some of the high quality papers which were presented at the Pugwash conference in Beijing the week before we arrived, including those by Robert Mc-

Namara, "Nuclear Weapons After the Cold War," Zhong Jinsheng, Department of Hydropower Development, "Energy and Environment in China with Particular Reference to the Development of Hydropower," and Professor Qi Xiyu, People's University of China, "A Precious Opportunity and a Major Challenge - Reflections on a New International Order."

There was good awareness of world events by the academic people we visited and some have been receiving our newsletter. However, it was also clear that the establishment of any ECAAR-China will not be soon. It will be possible to arrange conference participation and probably to have exchanges between our universities. At the time of our visit, the first meeting of the Regional Science Association (International, China-Beijing), earlier organized by Professor Chatterji was held. The next meeting on Regional Development in the Developing Countries will be held in October 1992. People interested in participating are requested to contact Professor Chatterji at (607) 777-3475.

Lecture Tour of Japan by Walter Isard

Under arrangements made by Professor Akira Hattori, University of Fukuoka, and convenor of ECAAR-Japan, Professor Walter Isard presented a public lecture on the Economics of Arms Reduction at the University of Fukuoka which was jointly sponsored by the Nishinippon Shimbu. It was followed by a lively discussion of the problem of maintaining and/or dismantling the nuclear missiles in the Soviet Union. Who should bear the costs? Are there any implicit obligations upon Japan and the U.S.A.?

A second lecture on the same subject was given at the International Center in Kitakyushu. Here the discussion shifted to the implications of disarmament for regional development within Southeast Asia, and appropriate methods of analysis for identifying such. How might the demand for financial assistance from Japan be affected?

A third lecture was scheduled for the evening of September 13 during the middle of the Hokkaido conference of the Japan Society for Economics and Econometrics. Unfortunately, a typhoon hit Kitakyushu and interrupted airline travel; the lecture had to be delivered during the following evening when most attendees had scheduled their departure. The lecture was on advances in peace economics contained in the

chapters of the forthcoming ECAAR sponsored book *Economics of Arms Reduction and the Peace Process* to be published by North Holland press. The implications of arms reduction on trade was one of the subjects actively discussed.

A fourth lecture was delivered in Tokyo at the Japan Center for Economic Research on "Regional Conflicts in the Post Cold War Era." Here there developed a very spirited discussion on the following questions: Should financial assistance be accorded the republics emerging with the dissolution of a totalitarian Soviet Union before a sound long-run program is developed? What are the respective roles of Japan, U.S.A and Western European countries in easing the adjustment problems of the republics? Must Japan and the U.S.A bear the brunt of the financial burden? If so, in what proportion? From the discussion there emerged considerable interest in the work of ECAAR.

Conference Urges that Investment Spending Is Key to Economic Growth

The Economic Policy Institute's Washington, D.C. conference on October 18, 1991 featured a stellar group of speakers including Lester Thurow, Robert Heilbroner, Robert Reich, ECAAR board member, Isabel Sawhill, Robert Kutner, and John Jacob who addressed the morning panel on the topic of "Public Investment and the Future of America." Thurow stated a theme that was echoed by most of the speakers: the economic debate as to what it would take to keep America competitive in today's global economy is not between public and private spending but between spending for investment versus spending for consumption.

In examining the growth industries of the future, i.e., microelectronics, biotechnology, telecommunications, civilian aviation, robotics, Thurow noted that these are "brainpower" industries and that the U.S. failure to develop a post education system for the non-college bound, has resulted in two thirds of our workforce earning less now than in 1960. John Jacob made the case for universal training and apprenticeship. Thurow contends that this decline affects everybody's wages, not just the unskilled. Without quality public education America's economy will continue to deteriorate.

Heilbroner noted that it is not "straight thinking" to argue that government spending is always a drain on the economy. That is only true when the spending is for consumption, i.e., military wages, social security. Capital growth investment for infrastructure or to develop human resources is not a diversion of GNP from growth purposes. Kutner characterized the rule that "savings equal investment" as an "old chestnut."

Many of the speakers suggested that funds could be reallocated from the military and also noted the skewed tax policy of the U.S. Robert Reich pointed out that the richest 20% of the nation's population took home 50% of its income. He questioned whether that top 20% has a responsibility to invest in the productivity of the bottom 80% of its people. Laura Tyson, in an afternoon panel which included Dennis Hayes, Duane Fitzgerald and Governor Richard Celeste, noted that the U.S. ranks at the bottom of tax revenue as a percentage of GNP while it spends the largest percentage of GNP for military purposes.

Isabel Sawhill stated that America has to overcome the problem of cynicism and needs a "wake up call." Human resource investment is critical and the U.S. should not squander more resources on consumption, i.e., middle class tax relief. A subsequent panel, with David Obey, Paul Warnke, Jeff Faux and Robert Kaufman noted where military cuts could be made. Kaufman pointed out that 60% of the \$350 billion 1991 defense budget is related to defending against the U.S.S.R. - which since this conference, has ceased to exist as a nation. Warnke urged that U.N. peacekeeping be strengthened as a way to enable the U.S. to scale down its military budget. He noted the utterly wasteful appropriation of \$4.5 billion for a new version of Star Wars to be located in Grand Forks, North Dakota "which might only protect the U.S. against a Canadian Scud attack."

Senator Tom Harkin gave a rousing luncheon address reiterating many of the themes heard earlier in the day and pointing to the swollen Pentagon budget as a source of funds for investing in America's growth. Governor Celeste expressed a need to "restore our rage" if asked where the funds for investment in human resources and infrastructure would come from. He noted the "off-budget" policy of the Bush administration which has been able to by-pass the Gramm-Rudman bill to find \$120 billion for the S&L bailout as well as many billions more for the Gulf War which were

also and "off-budget." Celeste stated that the GAO now predicts that the S&L "off-budget" bailout may cost \$300-500 billion and that states have no "off-budget" line from which to provide critical human services. Dennis Hayes, who organized Earth Day, urged that economists must integrate environmental costs into their calculations.

Finally, Duane Fitzgerald, President and CEO of a large Maine shipyard with 10,000 employees stated that while wages, investment capital and work rules were no block to his company's ability to compete internationally in the civilian sector, a lack of national U.S. industrial policy did hamper U.S. business. He stressed that defense industries are willing to convert but the U.S. government is "turning a blind eye to illegal foreign subsidies" by international competitors in countries where their governments provide, for example, "billions of dollars in ship building support."

NOTICE

NEW YORK CITY AREA MEETING

Wednesday, January 8, 1992
 Guest Speaker: Professor Stanislav
 Menshikov
 "Revolution in Moscow: Towards
 New Anarchy"
 hosted by
 Carnegie Council on Ethics
 and International Affairs
 170 East 64th Street, New York, NY
 5:00 to 6:30 pm
 Admission: \$15.00
 (no charge to ECAAR members and
 guests who join ECAAR).

R.S.V.P. (212) 870-3345

Conferences and Meetings

Student Pugwash U.S.A

Student Pugwash U.S.A International announced its Seventh Biennial International Conference, entitled **Visions for a Sustainable World: A Conference on Science, Technology and Social Responsibility** to be held June 14-20, 1992 at Emory University in Atlanta, Georgia.

The 1992 Biennial Conference will assemble 90 students from around the world with professionals from science, government, industry and academe to examine the role of technology as it relates to energy and the environment,

peace and security, bioethics and health issues, population and development.

Participants will be chosen through a competitive, merit-based process. Students in all disciplines, both undergraduate and graduate, are eligible to apply. For an application or further information contact: Conference Coordinator, Student Pugwash U.S.A, 1638 R Street NW, Suite 32, Washington, DC 20009 (202) 328-6555. Application deadline is February 15, 1992.

Western Economic Association Meetings 1992

The Western Economic Association International (WEA) has issued a call for participants at the 67th Annual Conference to be held at the Hyatt Regency in San Francisco on July 9 to 13, 1992. We have sent mailings with application information to all ECAAR members in the western states. If you did not receive that information, you should contact the WEA through its Executive Office, 7400 Center Avenue, Suite 109, Huntington Beach, CA 92647-3039.

Economists are invited by WEA to present conference papers, organize sessions, discuss papers or chair a session on a topic of their choice. The WEA conference would be an opportunity for you to raise ECAAR issues and engage other economists and students in the sort of critical thinking, discussion and analysis of the effects of the arms race, that is needed now more than ever, in the post-cold war era.

We encourage ECAAR members to participate at regional economic association meetings and request that you send us information on your involvement.

Eastern Economic Association Meetings 1992

ECAAR is organizing a panel on "Economic Aspects of Peace and Disarmament" for the annual meeting of the Eastern Economic Association, Hotel Pennsylvania, New York, March 27-29, 1992.

Chair: Robert J. Schwartz, Trustee and Treasurer, ECAAR. Faye Duchin, Director, Institute of Economic Analysis, New York University: "Development and the Environment: An Approach to Evaluating Strategies that Can Reduce International Conflict" John Tepper Marlin, Council on Economic Priorities: "Building a Peace Economy," Dietrich Fischer, Pace University: "Non-Military Aspects of Security: A Systems Approach"

Panels to Note at the 1991 American Economic Association Meetings

The following panels are being organized by ECAAR members and fall under the umbrella theme of "Conflict & Peace Economics. Panels 1, 3, 4 and 5 are being co-sponsored by ECAAR and Peace Science Society International (PSSI). Panel 2 is a joint offering of ECAAR and the AEA, No. 6 is under the sponsorship of PSSI and AEA.

Friday, January 3

1. Conflict and Peace Economics I

8:00 a.m., Hilton Hotel, Trafalgar - Professor Walter Isard (Cornell) presiding

Papers and Presenters: "Military Expenditures and Human Development Measures," by Professor Jurgen Brauer (Augusta College); "Regional Conflict and Disarmament Issues for Developing Countries," by Professor Manas Chatterji (SUNY-Binghamton)

Discussant: Professor Jim Horner (Cameron University)

2. Utilizing Military Funds for Economic Development

10:15 a.m., Hilton Hotel, Elmwood; Dr. Robert Schwartz (Smith-Barney) presiding

Papers and Presenters: "The Reappearance of the Peace Dividend," by Professor Lawrence R. Klein (University of Pennsylvania); "The Soviet Viewpoint," by Professor Stanislav Menshikov (Prague); "The Czechoslovakian Viewpoint," by Dr. Jiri Jonas (IMF-Czech);

Discussants: Professors Michael Intriligator (UCLA) and Betty Lall (NYU)

Saturday, January 4

3. Economic Analysis of Military Expenditures of Developing Nations

8:00 a.m., Hilton Hotel, Grand Salon; Professor Jurgen Brauer presiding

Papers and Presenters: "Disarmament for Development in Favor of the Developing Countries," by Professors Jacques Fontanel and Jean-Francois Guilhaudis (Grenoble); "Some Economic Aspects of Military Expenditure in Light of the End of the Cold War," by Dr. Simon Cunningham (United Nations); Discussant: Dr. Sanjay Pradhan (The World Bank)

4. Economic Conversion and Structural Economic Change

10:15 a.m., Hilton Hotel, Grand Salon; Professor Lloyd Jeff Dumas (University Texas/Dallas) presiding

Papers and Presenters: "Conversion as a Conflict Management Problem," by Professor Walter Isard; "Economic Conversion in the U.S.A. and the U.S.S.R.," by Dr. John Tepper Marlin (JTM Enterprises); "Role of State and Local Government in Economic Conversion," by Michael Closson (Center for Economic Conversion)

5. Models Relating to Military Expenditures

2:30 p.m., Hilton Hotel, Grand Salon; Professor Sol Polachek (SUNY-Binghamton) presiding

Papers and Presenters: "Sectoral Effects of Multilateral Reductions in Military Expenditures in the Major Industrialized and Developing Countries," by Professors Jon Havemann, Alan Deardorff and Robert Stone (University-Michigan); "Defense Spending in a Ricardian World," by Professor Carlos Seiglie (Rutgers-Newark); "A VAR-Intervention Analysis of Anti-Terrorism Policies," by Professors Todd Sandler and Walter Enders (Iowa State)

Sunday, January 5

6. Trade Conflicts - Analyses of and Management

8:00 a.m., Hilton Hotel, Grand Salon; Professor Walter Isard presiding

Papers and Presenters: "General Equilibrium Modeling of Trade Flows," by Professor Jeffrey Bergstrand (Notre Dame); "Trade Conflicts and Resolution Methodologies," by Christian Petersen (World Bank)

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