



# ECAAR NewsNetwork

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## Spending More Than NATO, Russia and China Combined, the U.S. Again Ratchets Up Defense

Richard F. Kaufman

Despite the possibility of threats from terrorists and so-called rogue governments, the United States for the first time in its history stands as the world's sole superpower, unthreatened by the military might of any foreign nation. Yet it continues to spend more for defense than the combined total of its NATO allies, plus Russia, and China, and it is engaged in a new military buildup that could lead to another arms race again involving weapons of mass destruction.

Threat assessment analysts provide a number of possible justifications for the new buildup, but all are based on questionable assumptions about such factors as new weapons technology and the behavior of potential adversaries, and all are unpersuasive.

There seems to be a propensity for security overkill that will always drive a certain sector of society to want more protection regardless of costs and objective conditions. For this group, fear of the unknown is reason enough for a military buildup, and the future is inherently unknown. Hawkish politicians exploit these fears by advocating greater military strength at every stage of the war and peace cycle. Never mind that those inclined in this direction often confuse size and strength, and act as if more arms spending means more strength.

### Parties Push Defense Spending Increases

Historically, in the United States, politicians in both major parties have had success by calling for defense spending increases whenever the trend has been stable or on a downward path. That is what happened at the end of the Carter presidency when candidate Ronald Reagan promised to rebuild our "hollowed out" military forces, and that is what is

happening now at the end of the Clinton presidency. In fact, there are several disturbing parallels between the two periods.

Once again, a Democratic president has decided to increase the defense budget in the last year or two of his term, and once again the leading Republican continued on page 5

## Russia's Economy: Financial Lessons Learned

Alexander Nekipelov

All experts agree: The current economic situation in Russia is much better than could have been anticipated during the August/September timeframe of 1998. Former Prime Minister Yevgeny Primakov's government together with the central bank in September and October of 1998 managed to prevent the outright disintegration of the payments system, a dangerous slide into hyperinflation, and the uncontrollable fall of the ruble.

Domestic and foreign specialists alike had regarded as inevitable a default on external debt obligations in the spring of 1999. But due to skillful maneuvering in monetary and fiscal policy, the authorities succeeded in restoring economic stability.

Measures aimed at starting foreign exchange controls and fighting corruption were also initiated. Only as a result of this work could the economy avail itself of the opportunities that emerged in the wake of the considerable drop in the exchange rate. Imports were severely cut whereas import-substituting domestic production was pushed ahead. continued on page 12

*"The new focus needs to be on quick deployment, light armor, and a greater prepositioning of heavy weapons."*

— Charles E. Schumer  
(see p. 10)

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# Sleepless in Seattle: Reconciling Globalization and Development

Isabelle Grunberg

With the addition of labor and environmental standards to the agenda of the Seattle meeting of the World Trade Organization, many are arguing that the WTO is simply tackling too much. They warn of the danger of stitching irrelevant issues onto the trade agenda, making a Frankenstein out of the WTO. In fact, the debate on linking trade with labor and environmental standards has created unusual bedfellows: favoring the linkage is the U.S. administration, allied with a majority of non-governmental organizations, trade unions, and some Western European countries such as France. Against linkages are the vast majority of professional economists and a vast majority of developing countries. At the last ministerial meeting in Singapore in 1996, the issue was settled in favor of the “de-linkers”: it was recommended that labor issues, in particular, should primarily be tackled by a strengthened International Labour Organization (ILO). But the issue has resurfaced again. Where do we go from here?

## **There is a *de Facto* Linkage**

Although some of the policy implications may be unpalatable, there is a *de facto* link between trade and other issues, including labor and the environment. In that sense, bringing up those issues is not deliberately “confusing the WTO’s purpose”; it is responding to real world mechanisms of policy competition. In a free trade regime, a product made in a country with demanding standards will lose out, at least on price, to a product made in a country with a more relaxed regulatory environment. In that sense, “policy competition,” brought about by free trade, is a perversion of the healthy process of “product competition.” By making higher standards non-viable, policy competition undermines the application of otherwise sensible measures such as banking and financial regulations but also, plainly, democratic choice. And what we are seeing is not a one-time realignment, but rather a continuous race to the bottom: policy competition can continue until we arrive at zero standards – or no rules at all.

Between protectionism and the race to the bottom, is there an alternative? Yes, that of agreeing on common standards – but in virtually every field of human existence and human consumption. No wonder the WTO is accused of becoming a world government. This “mission creep” is inevitable, not just to resist the race to the bottom, but simply to ensure the benefits of free trade, which rest on the assumption of a level playing field. The European Union has been engaged in a similar exercise for years. While the EU approach to policy harmonization may be too heavy-handed, the WTO has been leaning toward the lowest common denominator in environmental and consumer safety standards (but the highest common denominator in property rights).

## **The Case for De-Linking**

It is undeniable that the picture of a race to the bottom holds a large potential for disguised protectionism of the North against the South. The South is all the more distrustful, because some trade and aid obligations undertaken by the North at the Uruguay round have not materialized. The South insists that it is wrong to expect the whole world to operate on the same norms and standards. “Leveling the playing field” simply does not make sense between Switzerland and Senegal. Laws, regulations,

norms and standards reflect the economics, politics and societies of particular countries, not just the need to get ahead in the global trade game. Environmental and biodiversity concerns are clearly less pressing when people are hungry. So how do we reconcile the claims of fairness and the realities of policy competition?

## **Link — But in Style**

First, what matters is the *nature* of the linkage. Will environmental and labor rights become like anti-dumping rules at present – enforced through ad hoc, case-by-case, unilateral trade sanctions? Armed with the moral authority of a proclaimed “linkage” between labor rights and trade, will Congress one day decide to block Chinese manufactured imports because of prison labor? A better way is the NAFTA side agreement on labor rights, which simply asks individual countries to enforce their own labor laws. Under this agreement, a few U.S. companies have been brought to court by Mexican trade unions even for violations that had to do with U.S. workers only.

Another criterion for linking in style is to offer positive inducements rather than sanctions. An example is the system of trade concessions given to some Caribbean countries in the framework of the U.S. Generalized System of Preferences. At the very least, these positive inducements, when they exist, should not be penalized, as they are now with the case of the EU-U.S. banana dispute where the European Union stands accused of protectionism for offering preferential market access to small Caribbean landholders that practice sustainable agriculture.

Other forms of positive inducements consist of targeted aid, for example aid to schools and education to prevent child labor.

## **Focus on Investment, Not Trade**

Another idea is to link common standards with investment, not trade. Much of policy competition is driven by the mobility of investment capital and the “threat of leaving the country” if higher standards are used. One could remove the incentives for such threats by having international investors abide by the regulations and practices that prevail in their own countries. According to the University of Maryland Program on International Policy Attitudes, more than 85 percent of some 2,000 respondents believe that U.S. companies should abide by U.S. laws on environmental and work conditions even when operating in foreign countries. International investment could, and would, of course, still remain for the “right” reasons: mining, being present in a market, etc. At the same time, the whole country would not need to convert overnight to new standards imposed from the outside.

In conclusion, the question of links between trade and labor or environmental standards simply will not go away. It is related to some of the major anxieties (and sleeplessness) Western publics have about globalization. At present, we have a discrepancy between an economy that is global, and a decision-making system that is fragmented among nearly two hundred jurisdictions. To redress distortions that are being created, policymakers will need plenty of creative economic diplomacy. This diplomacy should be done in a multilateral, participatory forum where the voices of all can be heard.

*Isabelle Grunberg, a development economist, is secretary of ECAAR’s Board of Directors.*

# The Role of TNCs in Promoting Global Stability and Peace

Welshy Elisiva Tupou

*The author of this essay on the role of transnational corporations (TNCs) won first place in the Isaac Roet Essay Competition, receiving the full prize for the first time in the history of the contest that is organized by ECAAR-EVV in the Netherlands and Belgium. She is from Deakin University in Victoria, Australia.*

In most countries, governments show a natural proclivity to favor negotiations over armed struggle in any conflict. The last decade has seen traditional enmities eroded somewhat through dialogue, the cease-fire in Ireland, and the Oslo Accord between the Israelis and Palestinians being two cases in point. While the soldier has not been totally replaced by the diplomat, these recent success stories in diplomacy have placed a spotlight on the quiet power of the conciliatory word over that of the gun.

The potential benefits that accompany non-military resolution of conflict are significant; so much so that peace is said to have an ensuing "dividend". These benefits are not in the realm of the abstract, but are real and measurable, as depicted in a 1994 survey of the Israeli motor industry, which found that due to the indirect effects of the peace process, there was a welfare gain of \$89 million<sup>1</sup> during 1994.

At the macroeconomic level, another commentator estimates that the extension of the Middle East peace process beyond the Israeli-Egyptian dialogue has made Israel's national income some \$12 billion larger than it would have been without the peace process<sup>2</sup>. The peace dividend, the interruption to production and trade arising out of military confrontation, and the desire to preserve the status quo by incumbent multinationals, may all be seen as important reasons that multinationals stand to gain from promoting peaceful dialogue.

In the past, transnational enterprises *have* sought to influence the direction of policies of governments in countries in which they operated. An example was the application of the "*Sullivan Principles*" by many American firms in South Africa during the Apartheid Regime, as a means by which multinationals hoped to further the cause of the disadvantaged black community.

Another case is the *Caux Round Table*, an organization of businesses in Europe, North America and Japan formed primarily to resolve tensions arising from trade imbalances, through dialogue. The need for an economic underpinning to peace led the Canadian government in the mid 1990s to establish *The Canadian Partnership*, a private sector led group designed to encourage trade and investment between Canada and Ireland. Each of the three cases noted where businesses tried to further peace, involved cooperation between the enterprises themselves.

There are large costs involved in peace promotion, and the benefits can be significant also. However, unless a single multinational can secure most or all of these benefits, there is no incentive to undertake a peace-making role unilaterally due to the "free rider problem." To avoid giving a free ride to competitors, a multinational firm can follow the most economically logical course by not working transnationally as a single entity, but rather in concert with other multinational enterprises.

The recognition that there exists an important nexus between

economic development and peace/stability, brings with it a realization that the potential role of non-government organizations in this process needs to be identified and encouraged. As important players in the global arena, there are particular advantages in developing and using the mediation skills and expertise of transnational corporations to advance peace processes.

The most obvious advantage which the transnational brings to arbitration is expertise in negotiating towards desired outcomes. Their extensive research into the markets in which they conduct business is also an advantage. The sheer size of many multinationals means that they hold a significant amount of political clout, especially in markets where they are large employers of the local population. This means that normally, when transnational corporations speak, they have the attention of governments.

Because the *raison d'être* of business ventures is widely recognized as profit maximization, transnational firms are often not strongly identified with any nation, beyond what their business activities entail. The corollary of this is that the transnational has the advantage of being viewed as a largely apolitical player. On the governmental level, the obstacles which must be overcome when negotiating toward peace are of a political nature.

Under the democratic system where governments go to the polls every few years, issues of a particularly sensitive nature may not be handled in the same manner as in the case where such electoral accountability does not exist. An advantage that firms have over their governmental counterparts in this respect is their longevity. Because of this, transnational corporations are more likely to have a consistent approach to the process of advancing stability and peace as they are uninhibited by the electoral mechanisms that affect governments.

Despite the contributions that multinationals can potentially make within the ambit of peaceful dialogue, there are various factors that can hamper their effectiveness. The inception and generally ardent enforcement of the Arab boycott is an example of an imbroglio that was for all intents and purposes unable to be impacted upon through dialogue. This highlights some of the potential disadvantages that multinational firms have as mediators in conflict resolution.

The primary aim of the firm as a profit maximizing institution may not be best served by undertaking the role of peace promoter. Further, although the transnational has political clout, undoubtedly the sphere in which it exercises the most influence is the economic sphere. As important as economic considerations are, one cannot always apply economic solutions to a non-economic impasse. Despite any arguments one makes on the importance of the state versus that of the transnational, the fact that the latter does not have direct legislative power means that while it *can* affect the environment in which it operates, the legal context in which this occurs remains the state's judicial prerogative.

While physical borders between nations exist, the more abstract idea of national boundaries is becoming a little fuzzy in the minds of many, a phenomenon largely attributable to increasing economic interaction between states.

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## ECAAR Promotes Land Trust for Vieques

Robert J. Schwartz

*In a continuing effort to reforest Vieques, residents plant trees in the restricted area.*

Economists Allied for Arms Reduction (ECAAR) has worked with the Viequenses for more than four years to close the U.S. naval base on the island, but tragically it wasn't until a man was accidentally killed during live target practice that the national media began to focus attention on the plight of the people living seven miles east of Puerto Rico. There is now strong support in the United States for the struggle of the Puerto Ricans to close the base that occupies most of the island on land appropriated 60 years ago in preparation for World War II.

ECAAR's participation has included sponsoring a major study with Professor Lionel McIntyre of Columbia University that resulted in *Vieques Island, Puerto Rico, Looking Forward: A Development Strategy for the Naval Ammunition Facility*, a report praised for its analysis by many experts and officials. Two later studies were done with Professors Leticia Rivera Torres and Antonio Torres, *Vieques, Puerto Rico: Economic Conversion and Sustainable Development* and (Tufts University) *Vieques: Land Trust & Community Extension*, which compliment the Columbia report.

In addition to seeking the closing of the U.S. naval base and rehabilitation with Navy and U.S. funding, ECAAR proposed the creation of a land trust so that the benefits there go to the Viequenses. The trust would be utilized with community attention to sustainable development, development that meets the needs of the present without compromising the ability of future generations to meet their own

needs. A community economic development program should include eco-tourism, agriculture, fishing, mariculture, arts and crafts, education and housing.

Each sector and the government of Vieques should have one representative on the board of the land trust. If a land trust is not formally presented now, the people of Vieques will not be likely to receive the full benefits from the Navy's departure and will be further vulnerable to other exploitative interests such as land speculation. I informed the Committee for the Rescue and Development of Vieques of this concern in a letter dated October 13 and stated that failure to present promptly a *pro forma* land trust would require re-evaluation of ECAAR's participation regarding land use.

Senators and Representatives alike, but ECAAR believes that military firms create fewer jobs than do commercial and sustainable development enterprises. Unfortunately, Puerto Rico has no voting representatives in the U.S. Congress, and hence no one to vote for closing the base. Nowhere else in the 50 states are American citizens subject to the treatment we give the Viequenses. The Navy is anxious to resume using the base before the end of the year, and President Clinton is apparently still bargaining for a two-year period of target practice, although without live ammunition. However, given the facts, he should promptly close the base and demonstrate worldwide that the Navy's claim that Vieques is essential for target practice is simply not true.

ECAAR's *raison d'être* arises from grossly excessive military and defense

*In one of many demonstrations, Viequenses oppose the Navy's use of the island.*

The struggle to recover the land has never been as intense nor as unified as now. All elected Puerto Rican officials are asking the White House to end military testing permanently. At the same time, the request this year by the Department of Defense for additional base closings was rejected by Congress, which is pushing for more military expenditures.

Military bases and plants in the United States have been a pork barrel issue with

expenditures that are unwarranted while vital civilian and human needs of our citizens remain unmet, payment of our dues to the United Nations are not paid, and the potential of our resources to improve world development significantly is dissipated elsewhere. Over time, these views have been communicated to the White House, the Secretary of Defense, Puerto Rican officials and the press.

*Robert J. Schwartz is founding trustee of ECAAR and the director of the ECAAR Vieques Project.*

## U.S. Defense Spending *continued from page 1*

candidate — presently, George W. Bush — promises to spend even more. The substance of the Reagan military buildup and the present one also have something in common. Both are mostly across-the-board infusions of money aimed at buying more of what the Pentagon already has. There was little if any effort behind Reagan's buildup to restructure military policy or military forces to make them more effective. There was, for the most part, a rush by each of the military services to spend more on their pre-existing priorities. Much the same thing is happening now.

Clinton initially proposed \$280 billion for the fiscal year (FY) 2000 budget, a significant increase over the year before. Presently, the figure stands at \$292 billion and will rise further with the supplemental appropriation for Kosovo peacekeeping expenses expected early in calendar year 2000. The FY 2000 budget, adjusted for accounting gimmicks, is approximately \$13 billion larger than last year's, and the FY 1999 budget was higher than the previous budget and the one before that. The defense budget is likely to continue rising for at least the next several years.

### Clinton to Decide on BMD This Summer

Among the more distressing developments in this year's defense debate was the continuing failed efforts to eliminate or curtail major programs that are unnecessary or unaffordable, or both. The F-22 fighter aircraft is the prime example. After the House of Representatives deleted the funds to begin purchasing this controversial aircraft, the White House, the Pentagon, and the defense industry waged a vigorous campaign to restore the money. The funds were restored after some cosmetic changes were made to the program. The episode is widely seen as a signal to the military services that the White House and Congress will not stand in the way of requests for funds for existing programs or for new initiatives. The Navy plans to request funds for a new aircraft carrier and more submarines, the Army hopes to expand its troop strength and purchase a new series of medium and lighter weight weapons, and the Air Force intends to acquire a large number of additional B-2 bombers and electronic warfare aircraft.

The most disturbing development concerns ballistic missile defense. The administration has been lukewarm to Ronald Reagan's idea of a missile shield, but this year the White House changed its position, substantially increased funding for a national missile defense system, and went along with a congressional resolution calling for deployment of the system as soon as technologically possible. Last year, Clinton opposed an identical resolution and it was defeated in the Senate. The president is supposed to make a final decision about deployment in mid-2000.

Although billions of dollars are being spent each year for missile defense research and development, construction of a national system has been placed on hold, until now. There are several reasons why this program should be kept on hold. One

reason is that the complicated system envisioned has not been shown to be operable. A recent report, made by a group appointed by the Pentagon to monitor progress, was highly critical of the inadequate testing and the poor management of the system. The same group issued a similar critique of the program in 1998.

Even assuming it can be made to work, the problem with missile defense systems is that they are vulnerable to countermeasures. While it is possible to intercept one or more enemy missiles, under certain conditions, this capability can be easily overwhelmed. Any missile defense system is numerically limited and can be defeated if dozens or larger numbers of warheads or decoys, or both, are sent against a target. It may even be possible to incorporate effective countermeasures into a single enemy missile.

### Moscow Still Resisting ABM Changes

The administration argues that a nationwide missile defense is intended to protect against rogue nations such as North Korea, Iran and Iraq, and it has begun talks with Russia about changing the 1972 Anti-Ballistic Missile treaty in order to permit its deployment. But Moscow appears to be not so inclined and has warned the United States that it will respond to such a deployment by building more long-range missiles and warheads. China also warns that U.S. action will trigger a new global arms race, and the Chinese make the obvious but often ignored point that they will have to spend more on arms and divert resources from economic development.

U.S. allies in Europe are cool to the idea of a nationwide missile defense. In a meeting at NATO headquarters in early December, they told Defense Secretary William Cohen of their concerns about how Russia, China and others would react and the effects of an arms race on the French and British nuclear deterrent forces.

A few days prior to the NATO meeting, Cohen was in Germany criticizing Berlin's plans to cut military spending. The Defense Secretary is displeased with the reluctance of Germany and other European governments to increase their military budgets. Immediately after his return to the United States, Cohen wrote in an op-ed article in the *Washington Post* saying "the allies will have to spend more on defense."

As the new century dawns, most Americans are thinking of ways to enhance sustainable economic growth and prosperity. One would hope that the Clinton Administration would persevere in its commitment to direct domestic and international resources toward peaceful purposes. Thus far, U.S. defense budget increases have been relatively modest. The Pentagon, however, argues that it has large unmet demands in the areas of readiness and procurement. If the political environment becomes even more amenable to expansion of the defense sector, much faster rates of growth are possible. A new arms race can only exacerbate the situation.

*Richard F. Kaufman, former general counsel, Joint Economic Committee, U.S. Congress, is director, Bethesda Research Institute.*

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*"The substance of the Reagan military buildup and the present one . . . are mostly across-the-board infusions of money aimed at buying more of what the Pentagon already has."*

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## A Decade After the Berlin Wall, 'Cold Peace' Replaces Cold War

James K. Galbraith

We are now 10 years after the fall of the Berlin Wall. Ten years is a long time in economic life — as long as the Great Depression, twice as long as either World War. It is not too early to pass judgment on where we stand.

Since 1989, the governing principles of the world economy have been those of the Washington Consensus. These call for privatization and deregulation of domestic markets, openness to global capital, balanced budgets, sound money and a minimal role for the state.

Under this system, the following have occurred:

- Europe has integrated under strict rules requiring balanced budgets and tight money; the result has been stagnation and incredibly high unemployment.
- Japan, which liberalized its banks in the 1980s, a decade ago underwent a bubble and a crash. There has been no significant growth in Japan in the 10 years since.
- The rest of Asia saw a boom fed by speculative finance and a massive crash in 1997. No country has fully recovered.
- In South America, countries already crippled by the lost decade of the 1980s have seen little improvement.

And so far, I have only mentioned the victors and their allies.

For the losers, the picture is worse. No central European country has prospered in this decade. The Russian economy has collapsed, producing a public health crisis and a criminal takeover of state resources. Yugoslavia, a non-aligned power in the Cold War, was the greatest victim of its aftermath, suffering a full decade of war and humanitarian disaster.

Meanwhile, little wars or grim stalemates continue in Afghanistan, Angola, the Koreas, Kashmir and the Congo — all unsettled hangovers of the Cold War and its proxy battles.

The clear conclusion is that the Cold War did not end on economic terms as favorable, generous or sensible as those that followed World War II. There was no inter-allied write-off of debts. There was no Bretton Woods. There was no Marshall Plan. There was no re-creation of the United Nations system. Indeed, the U.N. system based on stable sovereignty is eroding, as we see

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*“... economic development ... requires market stability, peace, and a measure of sustained and shared confidence or optimism, as well as policies that systematically raise the living standards of working people.”*

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ethnic statelets being set up under NATO protection in Bosnia and now Kosovo. Not to mention Chechnya, where a nasty war now rages on the nominal territory of the world's most unstable nuclear power.

Today's situation closely resembles the punitive and unregulated peace following World War I, with its hyperinflation, its depression, its irredentism, its rise of far-right parties in defeated countries and its steady slide toward new disaster. Then as now, freemarket orthodoxies, balanced budgets and tight money ruled.

There are three major exceptions to this grim overview, and none of them followed the Washington Consensus. They are:

- China, which has pursued gradual change and strong growth, has modified but not abandoned its national institutions and financial controls.
- Germany, having generously absorbed the moribund economy of the German Democratic Republic has the strongest economy in central Europe in spite of difficulties.
- And the United States itself which did not pursue balanced budgets in the 1980s, and in the 1990s has seen a monetary policy aimed at full employment, with expanding tax subsidies for low-income workers and a rising minimum wage.

These cases show that successful economic development is a long-term process that does not depend on simple-minded policy rules. It instead requires market stability, peace, and a measure of sustained and shared confidence or optimism, as well as policies that systematically raise the living standards of working people. These do not spring into existence on their own. They must be built.

And in all the recorded cases of sustained development, notably in western Europe from 1945 to 1973, in Japan from 1950 to 1988, in South Korea from 1960 to 1997 and in China from 1979 to the present, that is exactly what happened.

Global capitalism cannot govern itself. It requires strong and sovereign states and effective international institutions. Neither global financial stability nor global peace can be secured by a single superpower; neither can it be left to unregulated markets. Financial flows are fickle, furtive, occult and subject to panics and crashes. In this respect, they resemble the flow of arms. And where financial instability undermines economic stability, violence and war are the usual result.

What we therefore must rebuild, to replace the illusions of the Washington Consensus, are stabilizing national and international institutions. The two dimensions — security and financial — are more closely linked than we are accustomed to think. Getting the institutions right will not be easy or cheap. But the alternative, wrapped in the twin illusions of free-market prosperity and missile shields, could be very much worse. We already know, from the first decade of the Cold Peace, that the alternative is not going to be better.

*First published on-line by TheStreet.Com, this article is based on a speech given by James K. Galbraith for ECAAR-Japan at the United Nations University in Tokyo in October, 1999.*

### Seminar in India on “Economic Aspects of National Security”

Jean Drèze, Pulin Nayak and Partha Sen are convening a one-day seminar on this theme to be held at the Delhi School of Economics on Thursday, March 9, 2000. It is designed to foster informed discussion of the economic implications of different approaches to national security and regional cooperation in South Asia. Sessions are planned on: 1. Social Costs of Military Expenditure; 2. Nuclear Deterrence; 3. Potential Gains from Regional Cooperation.

**Contact address:** Prof. Pulin Nayak, Director, Centre for Development Economics, Delhi School of Economics, Delhi 110 007, India (fax +91-11-725, email partha@cdedse.ernet.in).

## Kosovo Seminar

Lucy Webster

Asking what the United States is doing to formulate new strategies and policies to deal with the world of the 21<sup>st</sup> Century, Senator Charles E. Schumer (D-NY) opened the October 13 seminar on *Kosovo: New Paradigm or Object Lesson*. Organized by ECAAR and the Center for Defense Information, the seminar consisted of three panels: The War in Kosovo, The U.S. Military Buildup and Rational Readiness and America's Global Role.

Schumer set the theme of the day stating that "we can't afford to keep planning to fight the Soviet Empire on the one hand, and expect to meet the strategic challenges of the 21<sup>st</sup> Century on the other." Spending over \$70 billion on the F-22 program, but less than \$1 billion in 1999 on counter-proliferation programs was an unacceptable mismatch in funding priorities. "...[I]n order to figure out the best way to structure the military budget, we must first determine our global strategy: our procurement decisions must follow our grand strategy, not the other way around," he continued.

This theme was developed more fully by the speakers on the U.S. military buildup and rational readiness. Prof. Kori Schake of the National Defense University said U.S. defense spending had been reduced by about one third since the height of the Cold War, and force reductions were about the same, while commitments had not been reduced by any comparable amount.

This, she stated, raised several questions. First, the strain on personnel probably contributed to low retention rates and meant that many skilled sergeants left before they became the top-notch master sergeants on which the quality of U.S. forces depend.

The disjunction between capacities and commitments also made one ask whether the military was preparing for the kinds of threats it was most likely to face. "That means," she continued, "we need to think in new ways about asymmetric risks, about

terrorism, and about whether you need the existing large building blocks for major theater wars or rather more numerous, smaller, more flexible capabilities." She stressed that it was a question of risk management.

She expressed concern about other trends: The tendency to use military force as the main tool of American diplomacy, and congressional add-ons for things like construction projects when the need is to close unused bases, and to focus on expenditures that help carry out the national defense policy.

Dr. Michael O'Hanlon of the Brookings Institution agreed that readiness had been strained, but said one should also note "how good the force still is." The question of what size forces are deployed for specific operations raised the question of "what's so hard about having 6,000 U.S. Army troops in Bosnia when you've got 500,000 in

the force"? Part of the reason for that, he said, was the two-war strategy. "The Army is required to maintain a force structure that envisions two somewhat miniaturized, but still pretty comparable Desert Storm-like wars in two places at the same time." What is needed is a somewhat nuanced focus on what sort of alternative two-war requirement would be suitable and acceptable to those who are critical of present commitments.

*Senator Charles E. Schumer opening the ECAAR/CDI Seminar on "Kosovo: New Paradigm or Object Lesson" shown here with Lucy Webster and James Galbraith.*

Admiral Eugene Carroll, Jr., of the Center for Defense Information, said there are no peer powers or alliances that pose any significant military threat to the United States or its allies, nor will there be any for the next 15 to 20 years at the earliest, except for Russia's strategic nuclear weapons. What we do face is global violence in the form of civil wars, political terrorists, irredentist movements and occasional trans-border wars. But in no place is there a threat of direct land, air or naval attack against U.S. forces or territory.

Nevertheless, current U.S. strategy dictates that we maintain combat ready forces capable of fighting and winning two major regional conflicts nearly simultaneously, without help from friends or allies. Thus the United States is to sustain a high level of forward military presence, with nearly 250,000 combat ready forces continually deployed on foreign soil and seas.

Franklyn Spinney, who stressed that he was speaking for himself and not for his employer, the Department of Defense, said U.S. military readiness is deteriorating rapidly, but not for lack of money.

In fact, he said, we are spending money like we never spent it before on forces, but people in the field are hurting. One reason concerns the rising cost of modernization. Another is that, while all forces were reduced one third, combat forces have declined by some 40 to 50 percent. Understrength units and shortfalls in critical skills mean that, in addition to the low percentage of troops deployed, there is also a low percentage of deployable troops deployed.

*(continued on page 10)*

***"... we should spend more time and diplomatic attention on the kinds of crises that lead to committing military forces. If it's not worth . . . political capital, then it shouldn't be worth tax dollars or America's soldiers."***

***—Kori Schake***

## Reflections on Kosovo and U.S. Force Structures

James K. Galbraith

Clearly the menu of U.S. policy choices for Kosovo in March 1999 was not large. With diplomatic discussions along then-ongoing lines, the Yugoslav military campaign against the KLA would have succeeded. Whether that outcome would have been acceptable from a humanitarian standpoint may be debated. Or we could (in theory) have mobilized a ground campaign, which, given the topography of the region might have meant a land assault on Serbia proper, for instance from Budapest to Belgrade.

Instead, we constrained ourselves in a number of ways. First, we determined that Yugoslav domination of Kosovo had to end. Second, we decided that for practical purposes no American casualties could be tolerated. And third, we had to act with the forces available, which meant a campaign of aerial bombardment. The result was the 78-day air war.

The air war thus represented a middle ground between ineffective diplomacy and full-scale invasion—a “third way.” The apparent success of that war has now crystallized, in many minds, a particular model of American involvement in world affairs. For many Americans, it is a model of relatively clean, politically achievable projection of power. It is a way of securing national and also humanitarian objectives without interrupting the normal rhythms of domestic political life, and especially without sacrificing our own soldiers.

But for much of the rest of the world the appearance is quite different. For them, it is a model of a country that issues ultimatums and then enforces them with high explosives delivered at long range. That we view our goals as noble, and our soldiers as priceless, is not so important to other people. Let me suggest that we should think very carefully about the implications of this for the American position in the world in the long run.

We will not resolve here arguments about the actual intent of the Milosevic regime in Kosovo, or what would have happened to the civilian population had we refrained from launching the bombing campaign on March 24. Still less can we know how events might have played out in the longer run.

But I think we can evaluate, with some dispassion, the air war itself, and understand for ourselves the nature of this middle course of military action. Proper evaluation of bombing requires some historical context, and that can usefully begin with an austere, rather beautiful document: The United States Strategic Bombing Survey report of October 31, 1945, entitled “The Effects of Strategic Bombing on the German War Economy.” The USSBS study, directed by my father along with such luminaries as Burton Klein, Edward F. Denison and Nicholas Kaldor, is justly famous in the annals of applied economics.

The survey found that, with one important exception, the strategic bombing of Germany had few effects on German war production. Production of aircraft, for instance, peaked in the summer of 1944 when record numbers were on hand. Only the attacks on oil facilities had important effects on the German war effort, until the combined effect of land operations began to cause the collapse of Germany itself.

Why was this? By comparison with later periods the tonnage dropped on Germany was small, and the bombing itself was highly inaccurate. But the fundamental reason, the survey found,

lay in the economic possibilities for substitution. There are multiple ways to achieve any given military or production objective, and under pressure it is usually possible to find them.

Now, through the late 1940s and 1950s, we solved the problems of tonnage and accuracy in a fairly straightforward way: by replacing conventional explosives with hydrogen bombs. And we developed strategic bomber forces that were capable of delivering these weapons.

But there were difficulties. First, the weapons were unusable. While some factions in the Air Force notoriously militated for a preventive war against the Soviet Union, the government as a whole realized that the United States could not launch such an attack and one was, in fact, never launched. Later, the strategic nuclear missile and the submarine effectively superseded the bomber for both pre-emptive and retaliatory missions.

Thus the bomber force became again a conventional weapon. And in Vietnam, it again confronted the conventional bombing dilemma. Mobile and military targets are hard to hit. And hitting civilian targets does not win wars against a determined adversary, particularly when, as was true of Vietnam, there were few fixed industrial targets of value. Most of the Vietnamese military supplies came in from China and Russia.

The development of precision-guided weapons, which accelerated during the Vietnam war, aimed at finding a useful role for aerial warfare. Precision-guided weapons were, of course, greatly celebrated during the Gulf War, though we learned later that their actual military role was much less than claimed at the time. No Iraqi Scuds were destroyed during that war, as I understand, and great numbers of Iraqi tanks survived to wreak havoc among the Shi’a of Southern Iraq after the war ended. The precision bombs were mainly useful against civilian infrastructure, as in Baghdad and other cities, where it bore little direct relation to the military operations in and near Kuwait.

### **That Brings us to The Kosovo Operation.**

One can not take seriously the idea that the bombing campaign “ought to have worked” within a few days. Bombing is by nature a cumulative operation. The early blows have little effect. This is particularly true if the campaign is conducted conservatively with a view at first to suppressing return fire, to keeping our aircraft above a safe ceiling, and to minimizing civilian casualties.

It follows that a bombing campaign cannot be calibrated to prevent, forestall, or even much impede, a campaign of expulsion of a civilian population on the ground, such as was launched against the Kosovar Albanians once the bombing started. Implicit in the decision to bomb was a decision to let the humanitarian disaster happen, and to sort out the results afterward.

By the time of Kosovo, our inventory of precision weapons had become quite large, and it was possible to conceive of a prolonged air campaign that relied mainly on them. Yet we found, just as in World War II, Vietnam and Iraq, that the basic problems of aerial bombing against military targets remained. First, there were few fixed military targets to bomb, airfields and barracks, notably. Second, the mobile military targets were small, hard to find, or located in and among civilians. Third, the Yugoslav army was quite adept at providing decoys. At the end of the war, we found

we had destroyed only a few dozen tanks and a handful of aircraft, and had caused only a few hundred casualties in the Yugoslav National Army.

That meant, as in earlier cases, the air war was primarily effective because it was, and only to the extent that it was, aimed at the fixed infrastructure of civilian life. We destroyed government office buildings and television stations. We destroyed oil refineries and chemical plants, and we damaged the power grids. We bombed the major automobile factory and other industrial facilities. We destroyed hotels and other business assets belonging to the Serbian elite. We dropped bridges into the water up and down the Danube. We bombed a nation until it gave up.

We need to face this reality squarely. The bombing of civilian and administrative targets is not incidental to military operations in this kind of warfare. It is the essence of the operation. The campaign is successful only through the political pressure that arises from economic and civilian losses, environmental damage, and the psychological stress that comes from being under bombardment for a long period of time. It is perhaps gratuitous to point out that this type of warfare is plainly illegal under the laws of warfare to which we purport to ascribe.

I would rather ask a milder question. Is it in the U.S. national interest that we continue to be seen by the world as the major architect of this system of warfare? Is it something that we as Americans should support? Do we regard it as reasonable, fair and just? (And would we be prepared to accept it as legitimate if another country decided to retaliate, with the lower-technology, yet equally precision-guided, tactics of car and truck bombs?)

#### **This is a Question of Costs and Benefits**

At one level, the benefits of the Kosovo operation are straightforward: it worked, we won, we own the territory. But the *value* of this benefit really depends on whether one believes that the government and security system now arising, led by the leadership of the KLA, is a real improvement over the Serbs. The evidence for this, so far, is not overwhelming. One finds that claims of genocide before the bombing campaign started were exaggerated, while the new group operates with a brutality against Serbs, Roma and other minorities that does not seem all that different qualitatively from the brutality of the older regime.

At the time, much of American and North European public opinion was persuaded by the comparison of Serb actions to genocide, and also by the shame felt over insufficiently rapid action to prevent carnage in Bosnia. But this was not so in Greece, in Italy, and still less in Russia or other parts of the world not members of NATO. Most of world public opinion felt that Yugoslav actions prior to the bombing were, while brutal, not acts of genocide. And the evidence emerging since the end of the conflict has tended to reinforce this view.

In total, the physical and human costs of the operation were very large. Serbia itself is in ruins, with heavy damage to transport, utilities, the industrial base and energy supplies, as well as scars on the urban landscape. Kosovo is a mess, littered with unexploded cluster bomblets that will cause civilian casualties for years to come. There is human and physical damage: civilian death and injury directly from the bombing, and destruction of Kosovar homes that has to be counted in; it would not necessarily have occurred without the bombing campaign.

When you add all of this together, the claim that the benefits exceed the costs depends on a very strong view of the evil of the Yugoslav regime in Kosovo, of the likelihood of genocide proper occurring in the absence of an actual war in the territory. To the extent that evidence of this is less than persuasive, the relative weight of the costs begins to mount, in comparison.

As I said earlier, at the outbreak of the crisis, the actual choices were quite limited: ineffective diplomacy, full-scale invasion, or the “third way.” At some points, there was no choice, practically speaking, given the objectives we had set for ourselves.

But why was that the case? The answer is, in part, that we have downgraded our capability to use diplomacy effectively, and for that matter our ability to mobilize and deploy ground forces where they might be required, precisely because the “third way” seems to solve many of the thorny problems of projecting power.

But in fact, close examination of every case of strategic bombing seems to reveal that it does not resolve issues that ought to be considered important. Bombing is not, and has never been, effective against well-prepared and mobile military forces. It is only effective as a political and economic weapon against fixed civilian targets. It therefore necessarily entails the random murder of innocents in significant numbers. And it necessarily leaves major economic hardship, environmental destruction, and continuing physical hazards in its place, all of which greatly complicate the problem of post-war reconstruction.

As a thought experiment, suppose we had not had the ability to project our air power over Kosovo and Serbia? In that case, we would have had two options, which could have been pursued at the same time. First, diplomacy. Since there would have been fewer alternatives to diplomacy, we would have had a strong incentive to strengthen and to rely on, rather than weaken and marginalize, the diplomatic institutions and our position in them, notably the United Nations. The fact that the United Nations *as it exists* was ineffective does not establish the impossibility of effective multilateral institutions. But we don’t invest in such institutions because, in part, we think we do not need them.

Second, a military mobilization for a ground invasion. The threshold for this extreme step would have to have been very high. But would that have been, necessarily, a bad thing? Absent an actual campaign to drive the Kosovars from their homes, an invasion would not have been launched. And most Kosovar Albanians would still be in their homes today, instead of desperately trying to rebuild them. Would this have been such a terrible alternative to what actually happened?

In short, let me suggest that it may have been bad national strategy to develop the third way of remote aerial warfare. The point that some military alternatives are best not pursued is not new. We have banned chemical and biological warfare. We have recognized that tactical atomic weapons were too dangerous to use, particularly when positioned close to the front lines. We are moving toward downsizing of the nuclear arsenal itself.

Our current capability to bomb presents similar problems. It tempts us to take a path that is easy on ourselves, but inflicts maximum damage on other people, and that prompts us to neglect our responsibility to win over the candid opinion of the rest of the world before committing our forces to military action.

*Panel on "The U.S. Military Buildup and Rational Readiness" showing Michael O'Hanlon, Kori Schake, Franklyn Spinney and Eugene Carroll.*

### Action in Kosovo Highlights Problems

The implicit question addressed by the one day seminar was whether NATO's campaign against Yugoslavia gave new focus to the mismatch between U.S. military capacities and global challenges.

On this point, Senator Schumer said he was concerned "that the Kosovo victory will lull us into a false belief that America can solve all the world's problems by bombing from 15,000 feet." "In fact," he continued, "most military experts agree that the biggest threats to global peace and security. . . will be from escalating regional conflicts, and the proliferation of weapons of mass destruction."

"We must devise new military strategies that adapt to these new realities. That means restructuring our military — as Army Chief of Staff Eric Shinseki stated recently — to become lighter, more flexible and agile. The new focus needs to be on quick deployment, light armor, and a greater repositioning of heavy weapons."

### Impact of the Bombing Campaign

James Galbraith developed the case against bombing as an effective approach to military goals. As regards Kosovo, he said, "a bombing campaign cannot be calibrated to prevent, or forestall, or even much impede, a campaign of expulsion of a civilian population on the ground." (see the article on pages 8 and 9.)

Richard Kaufman, who had played a key role in organizing the seminar, said that NATO estimates that 150 Yugoslav tanks were destroyed was later revised downward to 93 and that some unofficial estimates are much lower.

Andrew Cockburn, author of several books on military, security issues, thought that even the widely quoted Serb figure of 13 tanks destroyed by NATO may be an over-estimate. Although General Wesley Clark reported 93 Serb tanks as destroyed, he could only identify 26 tanks and self-propelled field artillery pieces on the ground when he went to look for them.

In view of this lack of success against military targets, Cockburn thought the main lesson learned by NATO was probably that more ruthless and earlier attacks on civilian targets would be needed for success in the future.

### Kosovo, Russia and Expanding NATO

Richard Kaufman said the Kosovo events reinforce remilitarization trends as countries conclude that it is more than ever in their interests to be inside rather than outside the NATO military alliance.

Colonel Edward L. King, a long-time senior military advisor in the Senate, stressed his conclusion that expanding NATO was an incautious step, increasing commitments and undermining prospects for good relations with Russia. He also said that NATO should keep its core mission of defense and not try to become a European fire brigade. Instead, the United States "should welcome and faithfully support the encouraging efforts of European leaders to create a creditable, autonomous EU military force."

### America's Global Role

Michael Intriligator, UCLA professor and vice chair of ECAAR, opened the panel on America's Global Role saying U.S. involvement in Kosovo, as well as the expansion of NATO were at the cost of "being blindsided, not looking at more important problems in the world," most particularly the U.S. relationship with Russia, helping them to implement treaties to destroy and dismantle weapons of mass destruction. He also stressed the fact that military action under the U.N. system requires U.N. endorsement.

Lucy Webster, who chaired the seminar and circulated a paper, raised a related point. She asked whether closer cooperation with Russia might not have led to an abstention by Russia and China on a Security Council decision to send a large number of peace-enforcement troops into Kosovo to separate the Serb military from the Kosovar civilians. For the future, she

thought that NATO resolve could be used in this way instead of bombing.

Senator Gary Hart said a high priority was "to integrate Russia into the West." Ever since August 1991 there had been no real debate on what are current threats to U.S. security. Both political "parties found it convenient to just coast along . . . on Cold War energy and the national security structures laid down in the Cold War."

Outlining his own policy ideas, not as co-chair of the U.S. Commission on National Security for the 21st Century, Hart said the U.S. should take the lead in internationalizing peacemaking. This does not mean high-performance weapons — "more people have been killed in the last decade by machetes."

At the same time energy independence was important; the U.S. should not fight for Saudi oil. And regarding "an attack on the homeland of the United States, the Trident submarine, the B-2 bomber, high-precision munitions . . . are not going to stop the threat." For this he proposed fuller use of the National Guard.

### The Idea of Sovereign Responsibility

John Steinbruner of the Brookings Institution said Russian "isolation and economic weakness is by far the greatest danger to the United States."

Kosovo, he said, represents "a new security imperative of very great consequence. This has to do with defending legal order generally." When legal order breaks down as in Rwanda, Somalia, Bosnia, or Kosovo, there is "an incubation of illegal activity which can and does globally extend itself." We are seeing the early stages of a doctrine of sovereign responsibility, with an obligation to uphold a minimal legal standard; and if a country can't or won't, the international community has to do it on behalf of everyone. We and everyone else, will have to be the world's policeman.

If in 1998 the U.S. president had said the threat to the people of Kosovo was one for the international community, he could have gone to Russia and China and said that this should be done through the Security Council, but that action would be taken in any case. Yugoslav sovereignty would remain, but international force would be used to "restore the legal standards that the parties cannot attain." If the U.S. had said it was going to organize such a force, Russia and China might have helped, to maintain sovereignty and protect people.

## Swedish, South African Activists Cite Corruption in Recent Offset Deals

Terry Crawford-Browne

Swedish Prime Minister Goran Persson in late November headed an eight-day 700-person trade delegation to South Africa. But few were there to greet him. He was snubbed by South African President Thabo Mbeki, who chose not to attend the arrival ceremonies. And many of the events designed to promote trade between the two countries were poorly attended.

Persson had come to South Africa to promote the sale of the BAe/SAAB JAS 39 Gripen Fighter. This project, with its massive cost overruns, has become an acute political and financial embarrassment in Sweden, according to several Swedish non-governmental organizations (NGOs). But the Swedish fighter program is also an intensely debated issue in South Africa, where many believe armament sales from “first world” to “third world” countries such as South Africa — which face massive internal crises of poverty while threatened by no foreign military power — highlight a growing recognition that corruption in the later usually originates in the former.

The sale of the Gripen Fighter by the Swedish Prime Minister and the business community is intended to cash in on the support of former Swedish Prime Minister Olof Palme for the struggle against apartheid although many of the same business men were then supportive of apartheid.

### Arms Exporters Accept Bribes, NGO Reports

A recent *Transparency International* report notes that bribes to foreign officials in the business of promoting arms exports are legal in many European countries. In fact, the payments have even been made tax-deductible.

A three-day civil society consultation in Cape Town between Swedish and South African NGOs culminated in a controversial debate on “Defense Expenditure and Poverty Alleviation”? The Special Advisor to the Swedish Prime Minister and the South African Deputy Minister of Defense represented their respective governments.

Both governments had vehemently opposed inclusion of the issue in the consultation program. Insistence by the Swedish Christian Council and the South African NGOs ultimately prevailed, however. The coalition for Defense Alternatives, through which the South African affiliate of Economists Allied for Arms Reduction (ECAAR) operates, was one of the local organizers.

The debate focused on offsets, which have become a very real feature of the international arms trade. Under pressure from some of the NGO representatives at the meeting in Cape Town, a Swedish official reluctantly acknowledged that offsets are prohibited in “first world” civil trade agreements precisely because the practice is so open to corruption.

“Why,” the official was asked, “is Sweden now promoting corruption in South Africa”?

### Increasingly, Offsets are Seen as Taxpayer Scams

It has become increasingly evident that offsets are scams to fleece the taxpayers of so-called first world supplier countries as well as third world recipient countries. For the latter, the primary

purpose of offsets is to give political legitimization for large outlays on armaments by allowing policymakers to point to apparent but ultimately non-existent, economic benefits.

One of the presentations at the ECAAR conference at the University of Middlesex, England, in June 1999 revealed that offsets relating to the L20 billion Al Yamamah deal had been intended to create 75,000 jobs in Saudi Arabia. But the agreement never worked as planned. Almost completed, the contract provides only 1,600 jobs and of these only 300 are low- to medium-technology positions held by Saudis; the rest are held by imported expatriates.

At issue in South Africa is the government’s intention to spend R30 billion (U.S. \$5 billion) on warships and warplanes from Britain, Germany, Sweden and Italy. More important to the government than the armaments themselves are the lures of R110 billion in offsets from the European weapons companies and their associates. These offsets are supposed to create 65,000 jobs.

The offset proposals remain vague and totally unsubstantiated. A German project for a stainless steel plant and deep water harbor has been condemned by both financiers and environmentalists as a disaster in the making.

And, as Anglican Bishop David Beetge commented during the consultation debate, “How do I tell a mother that the bullet which killed her son provided someone with a job”?

Taxpayers are not permitted to know the offset details in terms of contractual, “commercial confidentiality” clauses. Suspicions of corruption are therefore rife and fueled by a document released to the media by ANC intelligence operatives on behalf of dissident ANC Maps.

### Prominent Officials Named in Corruption Claim

The allegations name prominent officials and politicians, including the Deputy President, as beneficiaries of the offset arrangement. Church leaders and others have called for a judicial commission of investigation. The Coalition for Defense Alternatives has led opposition to the weapons acquisition program.

Pan Africanist Congress MP Patricia de Lille announced on November 30 that she had presented six or seven boxes of evidence to the Judge Heath Corruption Investigation Unit, and that President Mbeki would now be asked to promulgate an official investigation. Concerted efforts by politicians and officials some months ago to close the Heath Unit recently failed when former President Nelson Mandela extended and substantially expanded Judge Heath’s mandate.

De Lille’s request for an official Heath Unit investigation was endorsed by a broad spectrum of organizations, including the Anglican and Catholic churches, the South African Council of Churches as well as ECAAR-SA.

*Terry Crawford-Browne, an economist and retired bank official, is chairman of ECAAR-South Africa.*

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“ *‘How do I tell a mother that the bullet which killed her son provided someone with a job’* ”?

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## Russia's Economy *continued from page 1*

Thus, a two percent growth rate is expected for 1999 in overall GDP, with seven to eight percent growth in the industrial sector.

The situation has also improved in the financial sphere. The number of profit-making enterprises has increased as has the cash component of their current assets. For the first time in recent years federal budget targets for incomes and expenditures in 1999 will be realized. In addition, the increase in oil prices on the world market has had a positive impact.

Primakov's successors, Sergei Stepashin's government, interpreted these positive processes as evidence that Washington Consensus policies, if pursued in a coherent manner, were perfectly correct and should continue.

This was clearly stated in a joint declaration of the government and central bank on July 13, 1999. The authorities committed themselves to tough monetary and fiscal policies, a further liberalization of the economy (import reductions, cancellation altogether of export tariffs, cancellation of the recently introduced barriers designed to block capital flight) and the implementation of certain structural reforms.

Vladimir V. Putin, the current Prime Minister, has adhered to this approach, which at this point is flawed for several reasons.

First and most important, it fails to take into account the fact that efficient post-August stabilization mechanisms had nothing to do with correcting basic distortions in the economic system. Widespread lack of efficient control over enterprise management by the owners of capital remains at the heart of the problem. Management often ignores demand constraints, supplying produce in exchange for non-payments or illiquid money surrogates. Asset stripping at state and privatized enterprises, capital flight as well as criminalization of economic activity are all rooted in a lack of adequate regulation of property rights. Corporate governance reform and the rationalization of the management of state assets should be seen as indispensable measures for transforming the economy into a genuine market economy. They are not just two among numerous "structural reforms."

### Eliminating Obstacles to Normal Market Transactions

A fundamental misunderstanding of the nature of the current economic system makes the government believe it can gradually solve the issue of arrears by a resolute application of bankruptcy procedures and responsible fiscal policy. The "virtual economy" in Russia is one of the most important manifestations of distortions in the economic system and it therefore cannot be eliminated without the above mentioned changes in property rights.

However, this is not sufficient. A one-time monetization of all overdue debt in the economy will be needed to switch on

## The Role of TNCs *continued from page 3*

This, and recent breakthroughs in relations between combatants through the successful use of dialogue has made it imperative that greater definition be given to the role that transnational firms may play in any future parley.

While transnational enterprises as peace promoters have advantages over their governmental counterparts, one must wonder whether the primary objective of the firm is best served by such a task. Due to the cost of facilitating discussions, and the free rider problem, the most common way for transnational companies to

adequate bankruptcy mechanisms and eliminate the obstacles currently inhibiting normal market transactions. Rationalization of property rights is also very importance to overcome the deep investment crisis. No investment-led growth is probable until economic units are oriented to maximize of their net worth.

Secondly, the issue of liberalization should not be tackled in a simplified way. One has to take into account the fact that a market process of reallocation of resources produces two challenges: The first involves the issue of employment and the possibility of largescale structural unemployment. The government has to decide whether it is ready to intervene or prefers to stand aside, waiting for market mechanisms to settle the issue. In fact, government invariably intervenes, and it is better when it does so in a planned manner. The second challenge requires that the government and its supporting institutions successfully convince the general population that the market will indeed work for them. The transition in Russia to a market economy has been so rocky that many people continue to perceive the market as non-optimal, at least as not working for them. Many prefer to bear additional hardships to preserve or restore the status of the country in a way that would reflect its modern scientific and technological potential. Of course, in fact, this can be done best if an adequate industrial policy is designed and implemented.

As far as the financial sphere is concerned, premature liberalization is very dangerous, and Russia has its own experience of this. Taking into account the immaturity of the country's financial infrastructure and its heavy debt burden, it would be correct to limit domestic convertibility of the ruble to current account transactions and to introduce rational capital controls. Efforts should focus on making the ruble perform all money functions domestically and on restructuring Russia's financial institutions instead of dogmatically following neo-liberal prescriptions.

Some economists criticize the government's approach on the grounds that tough monetary and fiscal policies are counter-productive in the Russian case. They believe that printing more money could increase the utilization of productive capacities and crowd out non-payments and barter transactions.

It is smart to be skeptical about such recipes. If "money shortage" is a systemic phenomenon, one cannot expect to overcome it by manipulating supply. Also, according to Keynes, deficient demand means households or firms do not want to spend money — perhaps because they do not have it to spend.

*Alexander Nekipelov, a member of the Board of ECAAR-Russia, is director of the Institute for International Economic and Political Studies at the Russian Academy of Sciences.*

impact on negotiations, and indeed the most economically logical vehicle for this to occur, has been through co-operation among themselves. As we head towards the twenty-first century, there exist significant opportunities for transnational enterprises to participate and impact upon peace negotiations. Only time will tell whether they will choose to use these.

<sup>1</sup> Fershtman Chaim, and Neil Gandal (1995), "The Effect of the Arab Boycott on Israel: The Automobile Industry," Sackler Institute Working Paper (1995).

<sup>2</sup> Lapidot Reuven, "Middle East Ties," *Jerusalem Post*, 15 Oct. 1998.

## ECAAR Takes Issues of 'Peace and Security' to Seoul

Dorrie Weiss

ECAAR was represented by a panel of speakers at a Korean conference on *Globalization, Handshake or Fist*. This October conference of non-governmental organizations held in Seoul was convened by the president of Kyung Hee University and the NGOs linked with the United Nations. With an opening address by President Kim Dae-Jung and closing by the First Lady, the event included Asian dancers, musicians, acrobats, singers and folk artists linking the concepts of Culture and Peace.

The Conference worked in 10 areas. ECAAR's panel was part of the section on Peace and Security with four speakers: Akira Hattori, of ECAAR-Japan, Dorrie Weiss, the event organizer, Jong-II You, a Harvard and Cambridge educated economist who is an advisor on economic public policy in Korea, and L. Eudora Pettigrew, president of the arms control commission of the United Nations and the International Association of University Presidents. The panel was moderated by Ambassador Jonathan Dean, Union of Concerned Scientists advisor on arms control.

The panelists considered the impact of globalization on social and economic institutions; the role of the United Nations in a world where borders are blurring and issues of sovereignty are increasingly irrelevant; the question of whether increased

homogenization will be an impetus for peace or simply destroy old cultures without providing values to replace them; and whether new technologies that make globalization possible prove to be a comfort or a scourge to humankind.

Panelists also discussed the flow of information and ways information can be manipulated. In Japan, for example, where there will be no laws until 2001 addressing freedom of information, secrecy about certain government figures prohibits people from assessing official assistance to developing countries.

This lack of transparency is a major factor in the near collapse of the Japanese pension system and in the huge debts accrued by major corporations. Information technology was cited by one panelist as a possible threat to world peace because of the ease with which it can transform itself into information warfare. A frightening array of information weapons have been developed, ranging from extraordinary surveillance tools, intelligence intercepts and satellite eavesdropping, to sophisticated hacking that can disrupt power grids, banking systems, airport control, and emergency response lines. Because of the anonymity afforded the perpetrators and the lack of global law, it is hard to know where attacks originate and hard to prosecute offenders.

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## Lethal Arrogance: Human Fallibility and Dangerous Technologies

*The author of Lethal Arrogance: Human Fallibility and Dangerous Technologies is Lloyd J. Dumas, University of Texas (Dallas) professor of political economy and member of the Board of Directors of Economists Allied for Arms Reduction. The book, costing \$29.95, was published in November, 1999, by St. Martin's Press, which provided the basis for this article.*

It is September 23, 1999. After a long, uneventful journey through millions of miles of space, NASA's Mars Climate Orbiter sweeps gracefully around the far side of the red planet heading toward orbital altitude. It never reappears.

One week later, workers at a nuclear fuel fabrication plant near Tokyo are routinely mixing uranium with nitric acid in a tank. Suddenly, there is a blue flash of light, radiation spews into the air and levels of radioactivity jump to 10,000 times normal. Thirty-five workers are exposed, and 300,000 people in the plant's vicinity are ordered to stay indoors. It is the worst nuclear accident in Japan's history.

Both events illustrate what happens when human error meets high-risk technology, an intersection that lies at the core of this book. It is a warning about the arrogance, our common assumption that we can always control the technologies we create — no matter how powerful, no matter how dangerous — and permanently avoid disaster. Our fascination with the power of what we can do often stops us from seeing how easily even the most sophisticated controls can be undone by simple human error.

NASA's \$87 million Mars Climate Orbiter was lost because one engineering team working on the project was using English weights and measures, while the other was using the metric system. The horrific Japanese nuclear fuel plant accident was

caused by workers dumping almost seven times the proper amount of uranium into the tank.

In moving from a carefully monitored laboratory environment to the unpredictability of the real world, the idea of complete control of any technological system becomes an illusion. This is illustrated in Russia today, where economic deterioration, corruption and criminality surround more than two dozen nuclear power plants, large stores of toxic chemicals, radioactive materials and large arsenals of weapons of mass destruction.

Everything in Russia today seems to be up for sale. Police in Western Europe have recorded hundreds of arrests in schemes to sell nuclear materials on the black market that have apparently been stolen from facilities in Russia. General Alexander Lebed, former security advisor to Boris Yeltsin, claimed in 1997 that more than 100 "suitcase" nuclear bombs were missing from the Russian arsenal. More than once, frustrated managers of electric power plants have cut off power to military bases, in some cases compromising the safety and control of nuclear weapons. Nuclear power plants themselves have also been seized, as in December 1996, when unpaid workers took over the control room of the largest nuclear power plant supplying St. Petersburg. The book presents these case histories and much more.

*Lethal Arrogance: Human Fallibility and Dangerous Technologies* argues that, in a world of imperfect human beings, control over dangerous technologies is necessarily incomplete and transient, even in the best of circumstances. When circumstances are far from the best, as in many parts of the world today, the combination of error-prone people and powerful technology is a recipe for disaster.

## John Kenneth Galbraith and Amartya Sen to Address ECAAR Dinner

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## *Dinner Program*

*Dinner Chair: ECAAR Director, Lucy Webster*

*Welcome by ECAAR Chair, James K. Galbraith*

### *To Honor John Kenneth Galbraith*

*statement by*  
***Amartya Sen***

*Other Statements of Esteem:*

*Akira Hattori, Lawrence R. Klein, Franco Modigliani, Robert J. Schwartz, Robert M. Solow*

***Response:***  
***John Kenneth Galbraith***

*Dinner Committee*

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*Draft Dinner Program  
as of 12/15/99*

## ECAAR Events at the Boston 2000 AEA/ASSA Meetings

### Peace Economics and Military Industry

Presiding: Jurgen Brauer, Augusta State University

8 a.m., Saturday, January 8, in Room: Marriott/Boston College

Jacques Fontanel and Fanny Coulomb, Espace Europe, Université Pierre Mendès France – *“Restructuring of the French Armaments Industry”*

Akira Hattori, Fukuoka University, Japan – *“Reconstruction and Rationalization of the Japanese Defense Industry”*

Paul Dunne, Middlesex University Business School – *“Restructuring of the British Defence Industry”*

Binyam Solomon, Statistics Canada – *“The Canadian Defense Industrial Base”*

*Discussants:* Charles Anderton, Holy Cross College;

Jeff Dumas, University of Texas, Dallas

### Russia:

### New Policies to Stabilize the Economy and Stimulate Growth

Presiding: Michael D. Intriligator, University of California – Los Angeles  
(ECAAR/AEA Panel)

2:30 p.m., Saturday, January 8, in Room: Marriott/Salon G

Alexander Nekipelov, Russian Academy of Sciences – *“The Russian Economy after August 17, 1998: Have New Policies Been Successful?”*

Marshall Goldman, Wellesley College and Harvard University – *“Private Property and Privatization in Russia: Is a Retrofit Possible?”*

Joseph Stiglitz and David Ellerman, World Bank – *“On New Directions in the Russian Reforms”*

*Discussants:* Douglass North, Washington University;  
Michael D. Intriligator, UCLA

### ECAAR General Meeting and Business Meeting

Presiding: James K. Galbraith

*Reports on Projects and Proposals for Future Program Activities*

6:00 p.m., Saturday, January 8, in Room: Marriott/Nantucket

### DINNER WITH JOHN KENNETH GALBRAITH AND AMARTYA SEN

7:30 p.m. Saturday, January 8, in Room: Marriott/Salon A & B

Boston Marriott Copley Place Hotel

110 Huntington Avenue, Boston, MA 02116

PLEASE SEE THE FACING PAGE FOR DETAILS.

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December 1999

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ECAAR NewsNetwork  
211 East 43rd St. Suite  
1501,

New York, NY 10017

tel: 212-557-2545

fax: 212-557-2589

ecaar@igc.org

www.ecaar.org

Lucy Webster  
Executive Director

Kelley Bates  
Editor

Louise DeCesare  
Administrative  
Executive

Dorrie Weiss  
UN Observer

Contributing writers in  
this issue:

Richard F. Kaufman

Alexander Nekipelov

Isabelle Grunberg

Welshy Elisiva Tupou

Robert J. Schwartz

James K. Galbraith

Terry Crawford-Browne

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