The World Changes, 1989

This has a selection of news stories about the world during 1988 – 1989. It also includes information about economics.

- The Soviet Union was starting to break up in 1989.
- Story: Burma deserves better, Sep 1988, p 2.
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- Prague leaders resist change, Dec 12, 1988 (p 3)
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  - Hayek wrote, "The Road to Serfdom"
- "Gorbachev and the constituency for change" (p 19)
- News: Poland and China test limits of reform under communism (June 12, 1989)
- Stories about Latin America (p 33 – 39)

Note: I was the US leader of a data exchange (for climate, etc.) between the US and USSR. I usually visited the USSR and Russia every other year during 1979 – 2002. It was amazing to watch all of these changes happen. People told me their private stories, and their view of all of the changes happening in the Soviet block of countries.

- Roy Jenne

This has 39 pages.
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Roy Jenne
Dec 2002
Burma deserves better

The people of Burma want and deserve a clear course away from the kind of government that has steered their country toward ruin for 26 years. That’s not what they got with Sunday’s military coup.

The generals who took charge are yet another replay of the political structure erected by longtime dictator U Ne Win, who stepped down in July but is widely thought to retain the reins of power.

On the surface, Burma has endured four changes in leadership since Mr. Ne Win’s departure. In fact, each new administration, including the “civilian” rule of just-deposed President Maung Maung, has sprung from the ruling Burma Socialist Program Party (BSPP). The party, in turn, is inseparable from Ne Win and the military.

The Army chief, Gen. Saw Maung, seized power Sunday vowing to carry out reforms announced by U Maung Maung. Foremost among them are multiparty elections, to come once “law and order” are restored.

Contradictions abound here. The Army’s seizure of power is more likely to hasten chaos than order. Announcement of the coup was followed by two days of street violence. Hundreds of people, many of them unarmed youths, according to the accounts of diplomats stationed in Rangoon, have been killed by troops. Strikes continue throughout Burma, and its economy, shaky at best, is virtually halted.

Things quieted on Tuesday, but no one thinks the protests can be quelled by force of arms. Repeatedly in recent weeks, Burmese have shown themselves ready to risk death to register their disgust for any government that merely puts a new face on Ne Win’s political creation.

The opposition rejects the government’s election plan because the voting would be organized by the BSPP. If elections are to be credible, some kind of independent electoral commission is essential. Older opposition figures have asked to meet with General Saw Maung to discuss substantive alternatives to continued violence; some student leaders are inclined to spurn negotiations.

Unity will be a key to the days ahead in Burma. Can the disparate elements of the opposition mount an organized resistance to military rule? Will the Burmese people remain unified in their willingness to brave the Army’s guns and march in the streets? Will the Army’s unity hold?

Older officers have a vested interest in maintaining the Ne Win system. But younger officers and soldiers could waver. Some observers suspect that mutinies could occur if troops are again ordered to fire massively on civilians.

Those outside Burma have few means of influencing events within the country. The United States is threatening a total cut-off of aid – a move that could have symbolic value but little actual impact.

For years, Burma stagnated in obscurity. Now much of the world looks on as its people struggle to shed a repressive, discredited government.

Would-Be Carpenter Bound by Red Tape

H ENRYK Dutkiewicz is a frustrated Polish private entrepreneur.

The blond-bearded carpenter started dreaming of owning his own company in high school. Working for a state firm looked like a grim prospect: “You can’t live on a state salary. It’s not enough money to [do] more than eat,” he explains. Being his own boss attracted him.

“When you work in a state factory, you’re like a watch which is wound up,” he says. “When you work for yourself, you are the arm that winds the watch.”

Five years ago, Mr. Dutkiewicz first tried opening a small grocery shop. He filed an application with the local administration. It was refused.

“They decided the neighborhood didn’t need another grocery shop,” he recalls. “Perhaps if we had bribed them, it would have been different.”

Under the new economic reform, such bribery no longer will be necessary. A millionaire businessman, Mieczyslaw Wilczek, now is minister of industry. One of his first decrees was to take away from local bureaucrats their power to block private projects.

“They can’t decide whether the neighborhood needs another shop or not,” Dutkiewicz says. “You just go to them and file your papers and you are registered.”

But Dutkiewicz still must overcome numerous obstacles. A carpentry company needs tools, which more often than not are unavailable in Poland. Dutkiewicz figures he needs $1,000 to, as he put it, “arm himself.”

The solution is to visit West Germany and find a job on the black market. Some 750,000 Poles obtained West German visas last year, most to earn valued hard currency. This year German officials say they will issue 1.25 million visas. Dutkiewicz hopes to leave Poland soon to work in West Germany as a dishwasher.

Even with the start-up capital, Dutkiewicz worries about the tax burden on private entrepreneurs. Taxes eat up a whopping 85 percent of earnings. The government recently promised to lower that figure to 50 percent, only to see parliament introduce a new bill raising taxes back to their former level. Dutkiewicz complains, “it kills incentives.”

Fixed prices add to this squeeze. Prices on carpentry work for all state institutions are set by a central price board. The fees have fallen well behind the cost of obtaining wood and other necessary supplies on the private market.

“Unless I can charge what I want,” he says, “inflation would kill me.”

The round-table agreement announced yesterday will not resolve these problems. It contained no provision on taxes or on freeing prices.

“The new private enterprise is a little step forward,” Dutkiewicz concedes. “But there are so many more steps to take.”

-W. E.
Prague leaders resist change

Rights activists scoff at officials' claims of pursuing reform – the Czech way

Dec 12, 1986

By William Echikson
Staff writer of The Christian Science Monitor

Czechoslovakia's communist rulers don't know how to respond to Soviet leader Mikhail Gorbachev's glasnost (openness).

In October, police crushed an independent demonstration celebrating the 70th anniversary of Czechoslovakia's independence.

But when dissidents announced another protest Saturday, International Human Rights Day, the authorities agreed to let it take place. As a result, thousands of Czechoslovaks attended the nation's first officially authorized independent rally in 20 years.

The rally was organized by the Charter 77 human rights group and four other independent organizations. It marked the 40th anniversary of the signing of the Universal Declaration of Human Rights Dec. 10.

According to wire service reports, thousands of demonstrators raised their hands to adopt a resolution calling on the communist leadership to adhere to its international commitments by ensuring the right to freedom of association, travel, and information. The declaration also called for the release of political prisoners and for religious freedom.

"I was surprised not to be in jail," says Vaclav Maly, a former spokesman of Charter 77. "Our rulers take a step backward, and then a step forward."

Like Czechoslovakia, East Germany, Romania, and Bulgaria refuse to implement political reforms. The Soviet leader isn't pushing them, either. He is apparently wary of destabilizing East Europe, and says that each communist ally should have the right to find its own path to socialism.

What this means is vague. No leading Soviet has condemned the 1968 invasion of Czechoslovakia which put Prague's present hard-line rulers in power. When asked whether Soviet forces could be used again against an ally, Mr. Gorbachev and his advisers avoid answering the question.

"Our government says, 'What Gorbachev is doing is splendid – but for the Soviet Union,'" remarks Jiri Hayek, a former foreign minister turned dissident. "Then our government tries to explain, 'What we do is splendid for Czechoslovakia.'"

Political analysts here say such contortions show a regime which is uneasy, defensive, and insecure. The opposition once was a small, beleaguered group of coffeehouse intellectuals. Now, inspired by Gorbachev, it has mushroomed into an active force manned by a new young generation of activists.

"There is a growing tension in society," remarks Karel Srp, leader of Jazz Section, the country's leading independent cultural group. "Our authorities are afraid, they don't know what will happen tomorrow."

In an attempt to defuse the situation, hard-liners have engineered a crackdown. Prime Minister Lubomir Strougal, considered a reformer in the Czechoslovak context, was dropped from his post in October. Conservatives Vasil Bilak and Jan Fojtik kept their positions, and a policeman, Col. Frantisek Kincl, was elevated to the position of interior minister. He threw dozens of dissidents into jail for "preventive detention."

"Some dissidents obviously felt their time had come and that the power was too weak to fight them," says Zdenek Hozeni, a central committee member and editor-in-chief of Rude Pravo, the communist party daily.

Mr. Hozeni says he ruled out any rehabili-

This Prague demonstration, in October, was crushed by police; one on Saturday wasn't
Tunisia: Goodbye to State Socialism

Reforms promise to make it one of the most liberal economies in the Arab world

A visitor to Tunisia familiar with its past reputation as the “sick man” of North Africa might be pardoned these days for doing a double-take. The 17 months since the fall of the country’s autocratic founding patriarch, Habib Bourguiba, have witnessed a veritable “Tunisian spring” of political liberalization.

More striking has been a realignment away from three decades of state socialism that has retrieved Tunisia’s economy from near collapse three years ago and helped produce the highest economic growth rate in North Africa.

Economists partly credit the turnaround to the International Monetary Fund which, in return for a $250 million loan three years ago, forced Tunisia to reduce its deficits and public spending.

Diplomacy has also played a part. Following the restoration of relations with Tripoli early last year, Libyan tourists surged across the Tunisian border, spending $600 million on consumer goods unavailable at home.

The centerpiece of the recovery program has been a package of economic reforms that promise to make Tunisia one of the most liberal economies in the Arab world.

This combination of factors has produced impressive results: exports, remittances, and foreign currency reserves all increased in 1987 and 1988, while tourism soared. Last year Tunisia recorded its first balance of payments surplus since gaining independence in 1956.

Improving economic conditions have fueled aspirations that Tunisia might some day replace Lebanon as a key financial link between the Arab world and Europe.

“Our ambition is to make out of Tunisia a financial and trade center” says the head of the country’s central bank, Ismail Khalil.

Mr. Khalil says all the elements are in place to make such hopes a reality: stability, favorable investment laws, an entrepreneurial private sector, and an economic foot in the doors of Europe, the Maghreb, the Arab world, and even sub-Saharan Africa.

Hopes of becoming the next Beirut in a financial sense have been nourished by the recent decision of New York’s Citibank to open a branch in Tunis, a move Tunisians point to as a sign of investor confidence.

One big step was lowering the value of Tunisia’s currency. An artificially high exchange rate was good for the politically influential middle class because it made luxury imports affordable. But it hurt local producers, whose goods were priced out of foreign markets and who were thus forced to sell to the much smaller domestic market.

“We realized that if we were to speed up growth we needed to rely on external markets,” says Khalil, of the government’s decision to reorient the Tunisian economy toward exports.

In three years Tunisia has dismantled barriers and created incentives for foreign investment, allowed the market to set most domestic prices, eased trade restrictions, and even allowed private banks to take over the job of setting interest rates.

“We’re watching rather than directing,” says Khalil of the government’s scaled-back role in managing the economy.

The cornerstone of the reform program was a decision to begin privatizing most of Tunisia’s 300 state-run enterprises.

But privatization has run head on into the country’s high unemployment and birth rates.

Getting Tunisian companies into fighting trim to compete in the private sector means cutting back on thousands of unnecessary employees. But the government already has its hands full coping with the 70,000 new workers dumped onto the job market each year.

With more workers than jobs, the government has had to slow down its ambitious privatization schemes. In turn, that has meant postponing the day when other elements of the reform package, including the abolition of currency restrictions, are allowed to kick in.

“We have to go slow to minimize the impact,” concedes Khalil, noting that the government is short on solutions to the problem of 15 percent unemployment.

Economists are also keeping a worried eye on 1991, the year when, for the first time, Tunisia will become a net importer of energy.

“The decision has been made to move to a more market-oriented economy,” summarizes one Western diplomat. It’s going to be much slower and more painful than anyone realized in advance.”
Tanzania gains economic ground with capitalistic reforms

By Robert M. Press
Staff writer of The Christian Science Monitor

Der es Salaam, Tanzania

Four years ago, shelves in many shops here were practically bare. And bus stations were jammed with anxious would-be travelers, as gasoline shortages idled most vehicles. Today, shops are crammed. Buses, trucks, and cars cause city traffic jams.

After nearly a decade of economic decline, Tanzania, one of the poorest nations in the world, is gaining ground.

Best known as the champion of Afrikan socialism, this east African nation is beginning to see results from capitalistic economic reforms begun in 1986.

Whether these gains will endure, and further process be made, depends on the willingness of top party officials and govern-ment leaders to stay the course, and on continued public support for the reforms, say economists, party officials, and Western banking representatives.

Production of cotton and tobacco, key export crops, went up sharply in 1987. Good weather helped, but so did the fact the government is paying farmers higher prices as part of the reforms. As a result of the agricultural gains, per capita income rose for the first time in the 1980s. Per capita income is about $240 a year.

The prices being paid coffee farmers have risen 200 percent in three years, says Ian Porter, World Bank representa-tive here. That compares with about a 90 percent hike in the prices of goods during the same period. A government study shows coffee farmers are coming out ahead, says finance minister Cleopa Msuya. Cotton farmers are at least breaking even, says Mr. Porter.

Other reforms Tanzania has made within the past four years include slashing the value of its once highly inflated shilling to make its exports less expensive; cutting federal spending to reduce domestic debt; lifting price controls on hundreds of items to encourage greater production; and easing the restrictions on imports to keep shops well stocked. These reforms have not, however, ended Tanzania's economic crisis. And some of the changes have brought new challenges.

Trimming the federal budget could result in cuts in funds for education and health services. Closing some state-run industries as the government has promised to do - may save money and allow freer competition, but it will add to unemployment. Farmers are being paid more by the government for their crops, but the price of imported fertilizers and pesticides has risen, says Mr. Porter.

Reform within the farm creates a need for more processing and transport facilities that simply are not available.

Urban residents and farmers feel the double pinch of higher food prices and less buying power because of the devalued shilling.

There is little dispute, say Tanzanians interviewed, that the reforms were desperately needed - whether seen as a departure from socialism or as a course correction within the principles of Tanzania's socialism. But there is confusion among some Tanzanians as to where their government is headed ideologically.

"The economy had gotten so bad that there was less debate on a choice between ideologies," says Samuel Wangwe, dean of the faculty of economics and social sciences at the University of Dar es Salaam. "I think Tanzania is moving toward a more pragmatic approach. But whether its moving from its social ideals is not clear.

Political leaders here, however, say the changes do not mark an end to Tanzania's socialism: The state still owns all land, banks, and many essential industries. These will not change.

Tanzania, under the leadership of former President Julius Nyerere, balked for years at making the kind of economic reforms required by the International Monetary Fund (IMF) and the World Bank to gain access to more loan funds. He attacked both institutions as antiso-cialist. But about four years ago, with the economy in shambles and key donors holding back aid pending changes, Nyerere initiated some reforms suggested by the IMF. He then convinced the sole political party here to adopt additional reforms worked out with the IMF in 1986.

In the interim, Mr. Nyerere voluntarily stepped down as President, but held on to his post as chairman of the ruling party, Chama Cha Mapinduzi, that sets government policy. He also handed over the reins of government to Ali Hassan Mwinyi, who has pledged to carry out the reforms. But Nyerere remains the real driver.

Nyerere is still "definitely anti-IMF," says a member of the CCM's national executive committee. But there is no evidence that he is trying to sabotage or impede the reforms, say finance minister Cleopa Msuya, party members, and foreign diplomats. And there "definitely is major support by the government, and party, and the public" for the reforms.

Mr. Msuya and others say some members of the ruling party are calling for the reforms to be slowed down. "The right wing of the CCM is extremely upset with the reforms," says Tanzanian publisher Walter Bgoya. The leftists are not so concerned, he said.

Import licenses, he explains, were once issued by government favor. Now, they are issued more widely without govern-ment favor, and this has angered those importers who were once the chosen few. Some hard-core ideologues see the reforms as 'straying' from true socialism. And party members who represent urban districts see their wealth being undermined by reforms that favor farmers at the expense of urban residents.

But average Tanzanian feels the pinch

Sales from his kitchen table-size vegetable stand bring Elias Kilwere Maya about $3 a day profit. That's keeping him and his family ahead of expenses - but only by about 50 cents a day. At that rate, it would take him nearly four years to save up enough to buy a waist-high refrigerator.

Like many Tanzanians, Mr. Maya has seen few benefits from economic reform. In fact, he and many others are likely to be hurt by the reforms - at least initially. In the cities, people like Maya and his family face higher food prices because farmers are paid more. They have less buying power because the value of the national currency has been slashed. Federal spending cutbacks could reduce funding for education, health, and other public services.

Almost everyone here complains about prices. Several years ago they complained about empty stores. Now, most people say they prefer to see things in the stores, even if they can't afford them.

But for the many people working at minimum wages of $12 a month, even a tin of cooking fat is expensive at $1.70. A Tanzanian journalist says his wife earns the minimum wage, and it barely pays for her bus fare to and from work. The owner of a decrepit taxi says life would be much easier if his taxi ran well. But he can't afford to buy the imported parts it needs for repairs.

Eventually, Western economists say, Tanzania's economic reforms should lead to more local production, more jobs, more foreign exchange, and lower prices as competition brings prices down. But in the meantime, as prices climb and his income falls, urban life is getting "harder," Maya says.

Rural life has also become more expensive for farmers near Morogoro like Nyawenda Ndozo. He has noticed higher prices for the few things he buys. But he's happier being his own boss on a small plot of land granted him by the government than as an underpaid worker on a plantation. - R. M. R
Riot-Wary Egypt Seeks Support for IMF Reforms

By Jane Friedman
Special to The Washington Post

CAIRO—In the wake of riots in Jordan last week against price increases mandated by the International Monetary Fund, Egypt—concerned that just the mention of the IMF could spark disturbances—is trying to build support for IMF reforms believed crucial to this country’s long-term survival.

Last week, Egyptian television, in a conscious omission, did not broadcast videotape of the riots in Jordan in an obvious attempt to prevent an erosion of the fund’s image.

This week, Egyptian officials have been out on the stump speaking in favor of IMF austerity measures that analysts believe could spark tensions during the hot summer.

President Hosni Mubarak, speaking on the May 1 holiday, said Egypt’s economic reform program, to be worked out with the IMF, was virtually drafted and that success in implementing it will depend “upon the willingness of every citizen to contribute to the implementation of the program through his daily behavior.” He exhorted Egyptians to cut down on excessive and wasteful food consumption.

“The president was expressing his appreciation of the effort the IMF is making to reach a standby agreement with Egypt,” Atef Ebeid, minister for cabinet affairs, said in an interview. “Yes, definitely we will reach an agreement with the IMF.”

Mubarak’s speech, broadcast live, and Ebeid’s statements are the first indication following the riots that Egypt has not been scared away from an IMF agreement for economic reform.

On the contrary, officials say they have confidence in their ability to peacefully implement reform and believe Egypt must have an IMF agreement to reschedule $4 billion of foreign debt that the regime is hard-pressed to service.

But officials also are concerned about the IMF’s image in the wake of the disturbances. Their statements mark a significant departure from earlier statements—full of bitterness and rancor—against the fund.

Although Egypt hopes to conclude an agreement with the IMF within the next two months, it is holding fast against what it sees as radical changes that the agency has been pressing for.

“We were expecting the riots in Jordan,” said Ebeid. “We know that you cannot put a burden on the poor that they cannot take.”

“We will not adopt policies that cannot be implemented. We will never do something that will hurt us and destroy our economic program. We will not commit suicide.”

Talks have been contentious and stalemated since Egypt began negotiating with the IMF more than a year ago. The fund wants Egypt to raise prices to international levels, using targets and timetables. It wants Cairo to raise interest rates above the inflation rate and to ration subsidies.

Washington, apparently convinced that Egypt was not so serious about economic reform, has withheld $230 million in cash aid and some members of Congress have questioned Egypt’s commitment to reform.

Egypt has stood fast against the IMF’s demands, insisting they could cause food riots like those that broke out here in 1977. Instead, Cairo is proposing to cut its budget deficit by 2 percent in the coming fiscal year, float dollar bonds to raise money, increase the prices of government services and minimally raise interest rates and interest on savings deposits.

Recently, the government raised fuel and electricity prices by about 30 percent and diversified the price range of bread, making the cheaper version unavailable.

Ebeid said the government would raise interest rates next week and float the dollar bonds shortly after that. U.S. officials have indicated that at least part of the cash transfer will be released as soon as one or two reforms are implemented.

The second goal of Egypt’s policy is to persuade major creditor nations to support its proposals inside the IMF. Western analysts here say the United States is supporting Egypt’s economic reform program as presented to the Bush administration in early April by Mubarak, Ebeid and others. France and West Germany also have expressed support for the Egyptian proposals.

Egypt has been negotiating with the IMF ever since it reached a standby credit agreement with the agency in 1987. Shortly after that agreement, the fund accused Cairo of reneging and suspended payments, but not before Egypt had rescheduled part of its foreign debt.

Hurt by falling oil prices, almost nonexistent exports and steep food imports, as well as a severe budget deficit, Egypt has been increasingly unable to service its $44 billion foreign debt and desperately needs a

HOSNI MUBARAK

urges Egyptians to end food waste

new debt rescheduling agreement to see its way out of the present crisis. An IMF reform package is a prerequisite for rescheduling.

Western diplomats said the fund has adopted a tough stance this time because it feels that Cairo reneged on the first arrangement.

Ebeid said he hoped that the IMF delegation, due in Cairo within two weeks, would be sobered by the riots in Jordan and more understanding of Egypt’s plight.

“Let’s hope the attitude of the fund will be different,” he said.
Maghreb Makes the Switch From Socialism to Capitalism

FACED with spiraling unemployment and economic stagnation, North Africa’s 30-year love affair with socialism is cooling.

“We are cured of socialism,” says a senior Tunisian official. “Capitalism is the only way. We tried the other way and it didn’t work.”

As in many third-world states, socialism was embraced in the Maghreb following independence as the most efficient way of mobilizing for the essential tasks of statebuilding. Ideologically, socialism offered a radical alternative to the capitalist systems associated with decades of European colonialism.

But, disillusioned with poor economic performance, these governments are now busily dismantling the economic structures erected over nearly 30 years.

In Algeria, where 25 years of centralized bureaucracy and one-party rule were challenged by riots last October, agricultural collectives have been broken up and restrictions on the private sector have been lifted. In Morocco, bloated state monopolies are being dismantled.

In Tunisia, where the process has advanced furthest, the government has dismantled trade barriers, erected incentives to foreign investment, allowed the market to set prices, and begun privatizing 300 state-run companies — all with the backing of President Zine al-Abidine Ben Ali, a former ambassador to socialist Poland.

“I don’t know if he was a socialist when he went to Poland,” notes a European diplomat in Tunis. “He definitely wasn’t when he returned.”

Even Libya has discovered the virtues of free enterprise. Faced with plummeting popularity at home based on economic hardship, Libyan leader Col. Muammar Qaddafi has relaxed controls on businesses, allowing small family firms to operate and permitting private companies to purchase and resell imports at a profit. Economists say the reforms have often been halting because streamlining state-run firms could dump thousands on workers on already glutted job markets, aggravating social tensions.

“People are talking about the need to build the private sector but nobody’s talking about the need to sell the public sector,” observes one diplomatic source of Algeria’s reluctance to make a clean break with the past.

The disillusionment with socialism, once integral to the raison d’etre of many third world states, has also left an ideological void which, among other things, has heightened the appeal of Muslim fundamentalists.

“Ideology has broken down,” notes one political analyst in Algiers of the absence in Algeria’s new constitution of any reference to socialism as the country’s “irreversible choice.” “Now we’re in a pragmatic period which always implies a lot of disillusion.”

Still, economists say the gradual shift toward a freer market is one factor that has helped reduce deficits in Morocco, put consumer goods on shelves in Libya, and given Tunisia one of North Africa’s highest growth rates.

“Socialism achieved great things but all in all it has been disappointing,” says Lakhdar Brahimi, undersecretary general of the Arab League, based in Tunis. “All the more so when you compare it with capitalism.”

G. D. M. III

May 17, 1989

C. Sci Monde
WORLD BANK PREDICTIONS

Ray of Hope For Africa’s Economy

WASHINGTON, D.C.

Some economic light is brightening Africa.

"There are optimistic signs," says Charles Humphreys, an economist with the World Bank. He and William Jaeger led a team of economists that has just completed the latest of a series of Bank reports on sub-Saharan black Africa.

Only a few years ago, some old notes show, a Bank economist predicted that "Africa is going to get a lot worse."

It did. There were drought and famine, declining living standards, growing external debt, grizzly tribal battles, exploding population.

Now Mr. Humphreys says, "For the first time since I don't know when, things are beginning to work in Africa." He sees a fragile trend toward improvement. But, he cautions, "this could be reversed."

What happened?

One change in more than half of the 45 African nations studied in the report was a turn toward economic pragmatism and free enterprise, a move away from stultifying, bureaucratic socialism. That shift began picking up momentum in 1982-83.

Newsmen nowadays are reporting noticeable economic progress from countries like Ghana, Nigeria, and the Ivory Coast.

The new study, this time by economists from both the World Bank and the United Nations Development Program, finds that the reform efforts have paid off. On average, 14 of these countries enjoyed a growth rate in their real national output (taking account of inflation) of 3.8 percent a year in the 1985-87 period. Those countries with weak reform efforts experienced only a 1.2 percent growth rate in these years.

(The Bank's calculations eliminate some nations that experienced especially bad or good economic shocks, including weather that severely affected crops. They also exclude some nations with inadequate statistics or just getting started on reforms.)

Agricultural output rose at a 3.4 percent annual rate in the nations with strong reforms and at a 2.6 percent rate in the weak reform countries like Liberia, Ethiopia, and Zambia. Reformers' export earnings grew at a 7.1 percent annual rate and nonreformers' at a 3.9 percent rate.

Further, the nations with strong reform programs overcame declines in export prices, export earnings, and terms of trade (the ratio between the price of goods exported and the price of products imported), while those with weak or no reforms tended to benefit from opposite such trends. This would indicate that internal reforms are more crucial than external factors.

Though the statistics aren't fully in yet, Humphreys believes many African nations also had a relatively good year in 1988.

Another boost to Africa was the step up in economic assistance from the industrial nations. Africa's share of total foreign aid has doubled in the last 15 years. On a per capita basis, Africans get more aid than people in any other area (aside from Israel).

"The response of the international community has been pretty phenomenal," says Humphreys.

Much of this aid was directed at the reforming nations. For example, in 1980-81, governments and other official creditors increased the annual amount of debt relief for reforming countries by 50 percent; the nonreformers got virtually no relief.

Humphreys hopes the reduced debt load will lead to voluntary lending by commercial banks, more private investment, and the return of flight capital.

African economic progress is not yet strong enough to do much more than keep up with the burgeoning population, growing 3 to 4 percent a year. However, both Humphreys and Mr. Jaeger in their visits to Africa see a more favorable attitude to birth control among government officials.

Certainly, African women tend to be more favorable to limiting the numbers of their children than the men, many of whom believe that fathering five or six children is necessary to prove their manliness. The sign outside a Niger gathering of women said in French: "A child: When I want it, if I want it."

But new population programs haven't yet measurably brought down the continent's high birth rate.

Africa has more than its share of economic problems -- such as weak institutions, inadequate education, deteriorating infrastructure (public works, transportation, etc.), insufficient savings and investment. Sub-Saharan Africa continues to lag behind other developing countries.

But the World Bank economists toss out at least a ray of hope.
ASIA'S NEXT NIC?

Thailand's Economy Surges Forward

By Julian M. Weiss
Special to The Christian Science Monitor

WEST of Asia's increasingly affluent "four dragons," another candidate eagerly awaits its ascension to such status.

Some people say that Thailand will be the next NIC (newly industrialized country), but doubts linger about just how similar conditions in the country are compared with those that propelled Hong Kong, Taiwan, Korea, and Singapore to NIC status.

Only in the past few years were prospects of leapfrogging beyond a largely agricultural base taken seriously in this nation of 54 million. Agriculture still constitutes a sixth of the $51 billion gross national product — an amount $10 billion higher than in 1986. Per capita GNP is more than $800, or about a fifth of the level found in present NICs. In the depressed rural sections, it is probably $300 to $350.

Other impediments seem to frustrate the catalysts required for growth. Compared with the dynamism around other sections of Southeast Asia, Thailand appears to be aloof and uninterested in wide-scale economic development. Also, the model of an export-driven boom is doubtful under current conditions.

Still, several factors have recently intertwined to fuel dramatic growth. For one, economic planners in this pro-Western market-oriented country were quick to diversify products sold overseas. For example, low-end agricultural goods "were dropped," according to Gautam Kaji, country director at the World Bank.

"Thailand became a major food processor, catching up to Taiwan in canned goods."

Nowhere is the diversification strategy more evident than in manufacturing, which accounts for some 2.5 million in a workforce of 27 million. Rubber products, toys, furniture, and transportation equipment are gaining rapidly. The traditional textiles base is not as important as before.

It is foreign capital and technology that is priming the economic pump. An influx of direct investment from Japanese multinationals has seen $2.4 billion enter Thai borders — much of it destined to reach special tax-free economic zones outside the capital. As competitive-conscious Japanese corporations have realized the need to save costs in the face of the yen's historic realignment, Thai planners have assured Tokyo that a large pool of workers could be successfully trained to pursue new occupations.

In recent months, the four NICs have developed a large investment pool. "They reached a certain plateau of growth, and were dropped from benefits of favorable GSP [generalized standards of preference] import treatment," says John Mathieson, a specialist at Stanford Research Institute. With this shift in the East Asian economy, capital from Korea and Taiwan has sought the same benefits of lower-cost labor. Those rates are as low as 60 to 70 baht a day for most workers in Thailand (about 40 cents an hour). In the other "dragons," comparable rates range from $1.25 to $2.20 an hour.

Thailand was reluctant to allow foreign-owned corporations to have control over management of factories, and still offers only minority shares of ownership. Restrictions include quotas on quantities exported. "Bureaucracy must take steps to streamline procedures," says Parris Chang, director of the East Asian Studies Center at Pennsylvania State University. He maintains that privatization — especially in telecommunications and energy — is one formula that will help economic goals. A high growth rate last year of more than 11 percent could be repeated this year, Dr. Chang says.

Meanwhile, the country's inadequate infrastructure is being tackled. Much World Bank money has been channeled to ambitious port and harbor ventures. This year, the bank will authorize loans of $177 million for all sectors.
Déjà Vu on the Streets of Rangoon

By David I. Steinberg

SEASONED observers of Burma, returning after three decades of absence, may be forgiven for thinking they have awakened from a Rip van Winkish sleep of 30 years. Rangoon's buildings have been newly whitewashed, its streets cleaned, roads expanded and repaired, and squatters moved to newly designated plots in the distant rice-field suburbs. The military rulers are calling themselves a "transitional" government.

In 1958, the military in Burma had also taken power through a "constitutional" coup arranged by a civilian government teetering on the abyss of civil war. Then, too, it had viewed its role as temporary -- a "caretaker" government with a mandate to clean up the national mess and hold free elections. In both cases a quick visual fix seemed in order.

Today in Burma, the military promises a fair multiparty election, now scheduled for May 1990, assuming the military is satisfied that there is a return to law and order, as well as some equally undefined improvement in living standards. This will be a far cry from the state that had a single party, a monolithic structure, and a highly Burmese variety of socialism. The foundations of that regime, headed by the iron-willed Ne Win, were destroyed in 1988 by massive, often bloody demonstrations.

Much has changed over the last 30 years, certainly, though someone walking the streets of Rangoon today may remember the same gaps in the sidewalk and the same weathered shop signs.

Burmese problems have festered and grown. Then Burma was poor, but not impoverished; today it is bankrupt. Then the foreign debt was minuscule; today it approaches $5 billion, some 70 percent of an ill-defined gross domestic product. Then the press had been free, if somewhat muted by the military; today it is absolutely controlled.

The 1958 caretaker government had used the slogans of democracy first, then those of socialism. After 1962, democracy was forgotten. Socialism was pushed to limits that a weak bureaucratic state could not manage, resulting in stagnation, even decay. Now the cry is for a free economy and a multiparty system.

A new foreign-investment law is in effect. Oil companies are discussing onshore drilling arrangements with the Burmese, a topic undreamed of for decades. The Burmese are cutting short-term (and environmentally questionable) deals with the Thais on teak extraction and fisheries. This in a state that had advocated "mutually beneficial economic enterprises" with foreign companies as far back as 1971, but had only approved one company (West German) closely associated with Ne Win.

Some 233 political parties have registered -- mostly tiny entities that exist to provide a legal forum for more than four people to gather and discuss politics, a right denied under martial law. Major groups represent the leadership of Aung San Suu Kyi (the daughter of the father of Burmese independence, Aung San); retired general Tin Oo; Aung Gyi (former brigadier and heir apparent to Ne Win); and U Nu (former prime minister deposed in 1962).

A newly elected government will likely be a coalition of parties and diverse personalities. It will have to coexist with a military determined to protect the state and to shield its own leadership from retribution by an outraged urban population.

The Constitution of 1974 is now in abeyance under martial law. Thus the newly elected Hluttaw, or parliament, will be forced quickly to draft a new one.

In it, the government will have to consider Burma's fundamental issue: how best to achieve national unity. The 1947 Constitution called for a federal system, that of 1974 a unitary one. With some ethnic groups in revolt and the Burma Communist Party entrenched on the China border, the unity issue is complex. Previous regimes attempted to deal with it through military power, which proved inadequate.

The observer was probably somewhat more optimistic in 1958 than in 1989, for Burma's fortunes have sunk even as those of its neighbors have risen. Its military has shown a penchant for brutality hitherto unknown, and its population a sense of poised frustration, capable of exploding in unrestrained violence.

Burma seems fragmented politically, ethnically, economically. It perplexes foreign observers, and indeed many Burmese. Yet whatever comes forth from Burma's 1988 trauma and the two critical years ahead, it will no doubt be a Burmese answer to a Burmese puzzle.

David I. Steinberg, an independent consultant, is past president of the Mansfield Center for Pacific Affairs. He is the author of two books and numerous articles on Burma.
Nearly half a century ago, most of the smart people sneered when Friedrich Hayek published "The Road to Serfdom." The world was wrong and Hayek right. Now almost 90, he has written a new book, but this time no one is sneering.

The world turns

By Ronald Bailey

Nearly half a century later, it is hard to remember how rudely Friedrich A. Hayek shocked people when he published The Road to Serfdom in September 1944. Here was a relatively obscure economist, then 45 and a professor at the London School of Economics, asserting that the communist system of our Russian allies was in all important respects little better than that of our Nazi enemies. Hayek's thesis, startling then, fairly widely accepted today, was that without economic freedom there could be no political freedom, and communism stood for economic coercion. Hayek warned: "The power conferred [upon the state] by the control of production and prices is almost unlimited."

Followers of John Maynard Keynes, who then controlled the Free World's post-World War II economics departments, found Hayek an embarrassment, if not a "fascist." Didn't he know "laissez-faire" was forever discredited? What was wrong with taking from the rich and underserving and giving to the poor and deserving?

The world didn't buy Hayek's message, but it listened. Since 1944 in the U.S. and Canada alone, over 200,000 copies of The Road to Serfdom have been sold; the slim volume still sells around 3,000 copies a year.

The world turns. Today the communists abandon communism almost everywhere, while in the West free market economics has become mainstream. At 90, Friedrich Hayek has lived to see his lonely message widely accepted. Economics Nobel laureate James Buchanan says him tribute: "Hayek's insights of the Thirties and Forties were already being incorporated in economic theory without explicit recognition." On the liberal end of the spectrum, Robert Heilbroner recently wrote, "Less than 75 years after it officially began, the contest between capitalism and socialism is over: Capitalism has won.

Forbes called on Hayek at his apartment in a large stucco house on Urachstrasse in Freiburg, West Germany. His health is not good; he has never fully recovered from a recent bout with pneumonia, during which he lay critically ill for six weeks in hospital. But he cheerfully agreed to an interview. A tall, thin man whose bearing even now recalls his days as an officer in the Austrian army in World War I, Hayek welcomed Forbes at the door of his book-strewn and elegantly furnished third-floor apartment. Leaning on a cane, he ushered his visitor into a small sunroom whose windows look out on pine-covered Schausins Mountain—the same room we interviewed him in for a cover story ten years ago ("Friedrich A. Hayek: The Revolt Against Keynes," Forbes, Oct. 1, 1979).

Hayek told Forbes that he is more optimistic about the future of capitalism than he was ten years ago. He believes that the public has come to understand some of the problems posed by central planning. Around the world—from Algeria to Burma to China to Yugoslavia—promises of the better life through socialist planning have soured. In particular, Hayek sees a greater appreciation for the market among the younger generation. Today
unemployed youth in Algiers and Rangoon riot not for a centrally planned welfare state but for opportunity: the freedom to buy and sell—jeans, cars, whatever—at whatever prices the market will bear.

Watching the events of the world prove him right, Hayek now believes that the West will probably win the battle with collectivism—even though the fight is by no means over. Pulling a blanket further up his lap, he remarks: "Communism has ended." But, he adds, Russia and China are "very unstable" because "they've no longer any clear idea of what they really want."

What of Ronald Reagan and Margaret Thatcher and their battles against government control of the economy! Here Hayek surprises. He does not disapprove of Reagan and Thatcher, but he has no high opinion of modern politicians in general. He does, however, say that Reagan's and Thatcher's policies "are as reasonable as we can expect at this time. They are modest in their ambitions." Modesty. The capacity to understand that well-meaning politicians—and their advisers, the intellectuals—will only wreak mischief if they try to guide economic development: this antipolitical concept is at the heart of Hayek's theory of economic and social development.

As a kind of last testament, Friedrich Hayek has just published a brilliant summary of his life's work, The Fatal Concom: The Errors of Socialism [University of Chicago Press, $24.95]. He starts out with the claim that societies and civilization and capitalism are inevitably interlinked. As Hayek puts it, "our civilization depends, not only for its origin but also for its preservation, on what can be precisely described only as the extended order of human cooperation, an order more commonly, if somewhat misleading, known as capitalism."

The "fatal conceit" of the book's title is the belief "that man is able to shape the world around him according to his wishes." This belief underpins the socialists' claim that they can replace the market with planning boards and consciously design a superior social organization that would guarantee greater equality and greater material prosperity.

We asked Hayek: Won't advances in information technology and computers enable central planners to fulfill their promises? Hayek: "No."

FORBES: "Never!"

Hayek: "No."

Throughout his career, Hayek has argued that the economic order is far too complex to be distilled into a five-year plan or simulated with computers. He has a new convert: Mikhail Gorbachev.

The most profound and fascinating—and controversial—insight in The Fatal Concom is that our civilization, its morals and traditions, are not the result of mankind's conscious, rational design. Rather, they developed through a process of cultural evolution similar in many ways to biological evolution.

Capitalism, then, becomes the highest product of this evolution, not an interim phase as the Marxists have always believed. As he puts it: "Those groups following its [capitalism's] underlying rules increased in numbers and in wealth relative to other groups."

FORBES: At 80, Hayek has lived to see his message widely accepted. Nobel laureate James Buchanan pays him tribute: "Hayek's insights of the Thirties and early Forties are already being incorporated in economic theory without explicit recognition."

For Hayek, economics is no Malthusian "dismal science." Capitalism is an ever expanding means to increasing abundance. Economist W.W. Roslow estimates that in the past two and a half centuries the world's manufacturing output has increased seventeen hundredfold—an annual average growth rate of 2.8%, including years of war and depression.

But doesn't the explosive population growth in the Third World contradict Hayek's thesis? No. The populations of these nonmarket economies have multiplied thanks to a spillover of technological advances and innovations forged in market economies. Without the market system, these nonmarket economies would stagnate and starve, again and again the capitalist world is called upon to feed and otherwise succor the noncapitalist countries.

If the market has so multiplied mankind's productive capacities, why do so many intellectuals hate capitalism and embrace state planning in one fashion or another? Here Hayek is nothing if not controversial. He believes that "an atavistic longing after the life of the noble savage is the main source of the collective tradition." The tribal instincts once helped roving bands of primitive men to survive, and are still the bases of the bonds of intimacy we share with our families and friends. By comparison, the more recently evolved institutions of the extended order—contracts, the rule of law, private property, profit—and its impersonal operation strike socialists as cold, selfish and unjust.

To Hayek, then, leftists and Marxists, not capitalists, are the true counterrevolutionaries.

After reading The Road to Serfdom, John Maynard Keynes wrote to Hayek what he regarded as a mild rebuttal to Hayek's arguments against centralized planning: "Moderate planning will be safe if those carrying it out are rightly orientated in their own minds and hearts to the moral issue." . . . . Dangerous acts can be done safely in a community which thinks and feels rightly, which would be the way to hell if they were executed by those who think and feel wrongly."

Keynes, a consummate elitist, was treading on dangerous ground. He was, in effect, arguing that coercion was all right so long as it was exercised by the "right" people. But that was what Hitler thought, too, and what Stalin thought and what Ayatollah Khomeini thinks today. This is precisely the point expressed so well in The Fatal Concom—that those who believe themselves morally competent to determine what is good for other people are dangerous to society would do better to trust tradition and free markets than to put its future in the hands of those who spout the latest bit of social engineering theory.

Interviewed by FORBES last year (Dec. 12, 1988), Nobel economist Milton Friedman gave Hayek the highest praise. He said that in today's revival of faith in free markets "the Adam Smith role was played . . . by Friedrich Hayek's The Road to Serfdom." In The Wealth of Nations, Smith had warned: "The statesman, who should attempt to direct private people in what manner they ought to employ their capitals, would . . . assume an authority which could safely be trusted, not only to no single person, but to no council or senate whatever, and which would nowhere be so dangerous as in the hands of a man who had folly and presumption enough to fancy himself fit to exercise it."

Think of the horrors the world would have been spared had it heeded these wise words. Think, too, of the sufferings that have been imposed upon communist and Third World countries in this generation in the name of what Smith called "folly and presumption," what Hayek calls "fatal conceit."
FLEEING ROMANIANS

Hungary: It’s ‘America’ to Refugees

By Anne Underwood
Special to The Christian Science Monitor

BUDAPEST

IFE she has any regrets about leaving Romania, Maria Boczoni doesn’t show them.

A year after claiming refugee status in Hungary, she and her husband have found jobs and a two-room apartment. Half their rent is paid by her husband’s factory. Her son is able to go to college — something he was unable to do in Romania because of quotas for the 1.7 to 2 million ethnic Hungarians in that country.

“This is our America,” says Mrs. Boczoni.

It’s been more than a year since Hungary began accepting refugees from Romania — astonishing the world by the image of people fleeing one Warsaw Pact country to another. The refugees keep coming by the thousands, fleeing what they say is constant persecution. Within the Soviet bloc, where “fraternal” conflicts never used to surface, the exodus is a hot issue.

“The two countries would be close to war if they weren’t restrained by the Soviet Union,” says a Western diplomat in Budapest.

As Hungary prepares to dismantle its fences along the border with neutral Austria, the Romanian government is strengthening its barricades against its socialist neighbor. Recent arrivals say Romanian border guards shoot on sight and have installed a tripwire on the border.

“The Iron Curtain is coming down between Hungary and the West,” notes Istvan, a volunteer working with the refugees. “It is going up instead between Hungary and Romania.”

For most of the 26,000 refugees, life in Hungary is an improvement. The grocery stores are stocked with real meat and vegetables instead of the pictures or plastic models of food that are often found on shelves in Romania. There is electricity all day long and heating during the winter.

The vast majority do not have to contend with the culture shock that faces most of the world’s refugees. Eighty-five percent are of Romanian ethnic origin and already speak the language when they arrive. They know the customs and traditions, and many of them have relatives in Hungary who will lend a helping hand.

But there are problems. “Family reunification is our biggest headache,” says Maria Vince of the Hungarian Red Cross.

The Romanian government will not give passports to both a husband and wife, so one of the pair makes the journey to Budapest legally and waits for the other to sneak across the border later. Even if the couple meet up in Hungary, they know there are large numbers of friends and family — sometimes their own children — that they may never see again.

Communications back home are not easy. Letters arrive opened, if they arrive at all. It can take five or six hours to get a telephone line to Romania, and then sometimes the operator misconnects the call.

“Even if you get through,” says Mrs. Boczoni, “you are not free to talk because you know informers in Romania are listening to the conversation and recording everything.”

Although the refugees can easily obtain residence permits, they cannot become Hungarian citizens because of a bilateral agreement between Hungary and Romania forbidding dual citizenship. Gabor Bagi, head of the Foreign Ministry department that deals with Romania, says Hungary is weighing the consequences of withdrawing from the agreement.

“We have raised the citizenship issue with Romania, but they refuse to talk,” he says. “They continue to hold us responsible for the refugee flow instead of asking themselves why people are fleeing the country.”

Failing bilateral solutions, Hungary is acting on its own. In mid-March it became the first Warsaw Pact country to join the 1951 Geneva Convention on refugees. The Hungarian government hopes that as a result, it will soon start receiving aid from the United Nations High Commission for Refugees. It also hopes the UN will put pressure on Romania to let citizens join their relatives abroad.

If the refugees of Hungarian origin find life difficult at times, the situation is bleaker for those of Romanian ethnic background. For them, arrival in Hungary is not a homecoming. Most say they want to move on to a third country. Some hitchhike to the Austrian border dozens of times in the hope that the car they are riding in will not be checked.

“We want to go to the West, maybe to Germany,” says Adrianna, pointing to her husband and daughter, Melinda. They have lived for the past eight months in a concrete high-rise that was leased by a church group to house as many as 280 refugees. Adrianna’s family shares the communal kitchen with a dozen other families. In their one-room apartment, the only decorations are some shriveled balloons and a sheet of gift wrap taped to the wall.

Still, most refugees have few regrets.

“In Romania, they used to refer to the Hungarians as hogar, ‘the homeless people,’ ” says Istvan. “Here no one says we are homeless.”
DEMOCRACY UNDER DICTATORS

Poland and China Test Limits to Reform Under Communism

June 12, 1989

By William Echikson

Staff writer of The Christian Science Monitor

WARSAW

During the day, Poles voted. During the evening, several hundred massed outside the Chinese Embassy and lit candles. They prayed. They hung posters reading "Freedom, Peace for China.

A few policemen looked on sympathetically.

While Poland peacefully celebrated its freest elections in more than four decades, China's Communist leaders sent tanks to crush massive rallies for democracy by its students.

"China's battle is our battle," says Andrzej Sudkowski, a law student and one of the demonstration leaders. "We have to be wise to avoid the fate of Chinese students."

To Poles, the massacre in Beijing represents no abstract tragedy. It offers insights into their own struggle for freedom.

Poles say their own experience shows that force fails to solve the underlying problems that cause social unrest. On Dec. 13, 1981, Polish leader Wojciech Jaruzelski adopted a solution similar to that of China's leaders to curb social unrest, though with far less bloodshed. He labeled the unrest a "counterrevolution," declared martial law, and banned the independent Solidarity trade union.

Eight years later, General Jaruzelski conceded that martial law had not solved Poland's deep social and economic problems. The only answer was democracy. He shook hands with Solidarity leader Lech Walesa and pledged to institute parliamentary democracy. Even after last week's election produced a stunning defeat for his party, his spokesman declared the government's determination to stick to the democratic road.

Unless "democratic, future-oriented solutions" are found, "public reactions can swirl out of control," said Jan Bisztyga, the Polish party spokesman, comparing events in his country to events in China. "That is why we here in Poland are pursuing a policy of national agreement to avoid public reactions which could threaten state security."

"We had hoped China's conflicts could be resolved without resort to force," added government spokesman Zygmunt Rykowski. "The events moved us all."

These statements, designed to reassure, also served to remind Poles that their own tentative moves toward freedom still could be crushed.

"Poland's geopolitical situation hasn't changed," Solidarity strategist Adam Michnik warned after the election. "Those who dispose of the instruments of change have not changed."

Both Solidarity and party leaders say the only way to escape this cycle of insurrection and repression, deep-rooted in Polish history, is through a process of controlled change and self-limiting "evolution." Too-rapid change upsets too many established interests, they say, planting the seeds for popular unrest and a hard-line backlash. Too-slow change excites expectations without fulfilling them, they add, also planting the seeds for unrest and backlash.

The Polish experience of 1980-81 offers supporting evidence of this thesis. Solidarity quickly grew into a 10-million-member strong organization. The party crumbled before Solidarity, losing more than 1 million members to the new independent trade union.

Solidarity leaders interpret martial law as a predictable counterattack to a situation where one side of a political struggle finds itself on the defensive and frightened of losing all control. In a recent article published by the Roman Catholic weekly Tygodnik Powołacz, Mr. Michnik stunned many in his country by writing that he "understood" Jaruzelski's action.

"I didn't defend martial law," he explained. "I just said I understood it" and want to avoid a repetition of that experience.

No wonder the party's almost complete collapse in the elections frightened Solidarity leaders. They have responded with repeated calls to moderation.

"We must be careful and move gradually," says Janusz Onysz-chewicz, Solidarity spokesman. "Too much enthusiasm could be dangerous."

But will Solidarity be able to keep moderating its supporters' demands? A taste of freedom tends to whet appetites for more freedom. Will Poles, emboldened by their partial free elections, push for complete freedom too soon? Or, seeing the bloodshed in China, will they continue to be cautious?

The scene outside the Chinese Embassy offers no clear answer. Three demonstrators begin arguing.

"We must move slowly toward fully free elections," law student Andrzej says. "Each change needs time to be digested."

"No. You're a lousy gradualist," counters Stanislas, another young student. "Poland doesn't have any more time."

"Hey, calm down. You may have different opinions, but let's try to find a common language," concludes Szymon, an old onlooker. "If we're going to get anywhere, we're going to have to learn to cooperate."
ARAB SUMMIT TO RALLY BEHIND THE PLO'S YASSIR ARAFAT

UNITY ABOVE, RIVALRY BELOW
The emergency Arab summit set for late May in Casablanca will produce a rare show of Arab unity in support of Yassir Arafat's "moderate" peace strategy and the West Bank uprising against Israel. But given traditional Arab enmities, the chumminess will not last for very long.

The expected presence of Egypt, once an Arab-world pariah for signing a peace treaty with Israel, and the willingness of Syria to attend despite its hostility toward both Egypt and Arafat reflect the summiters' desire for cooperation. What Arafat wants more than a rhetorical boost for his game plan against Israel, however, is more money for his Palestine Liberation Organization and the West Bank intifada.

Only Saudi Arabia and Iraq are paying toward the $43 million a month promised the PLO at an earlier summit.

The display of solidarity will come only after behind-the-scenes bartering. For example, Iraq will seek endorsement of its formula for peace with Iran as the price for curbing anti-Syrian rhetoric. And for being nice to Arafat, Damascus will want backing for its role in Lebanon.

JAPAN'S ALSO-RANS
The Recruit Cosmos stock-for-favors scandal rocking Japan's establishment has handed major opposition parties a golden opportunity to share political power. But the odds are that they will miff it.

Certainly the Liberal Democratic Party that has dominated post-World War II politics appears vulnerable. The scandal has tainted the whole LDP hierarchy, from departing Prime Minister Noboru Takeshita to the lesser luminaries who might have succeeded him. The reluctance of an aging Meiyoshi Ito, perhaps the LDP's only Mr. Clean, to take the job of caretaker Premier underlines the party's declining status. Yet while an anti-LDP backlash may produce opposition gains in summer elections for the upper house of the Diet and in a later vote for the lower house, rivals lack the common goals, programs and political savvy to win a mandate.

There are other weaknesses. The largest opposition party, the Socialists, has failed to bridge ideological rifts within their ranks. Neutralism in foreign policy, backed by the Socialists, is losing appeal among educated Japanese. Several Socialists, Democratic Socialists and members of the Komeito party are themselves linked to the Recruit scandal. Komeito's ties to a Buddhist faction alienate nonsectarians. And the Communists will always have an uphill climb in a land of ardent capitalists.

As for the LDP, it still can bank on a multimember electoral system that gives it an edge in the number of candidates running in each district. More important, despite ethical failings, the LDP is the party that has delivered patronage, pork-barrel projects and a buoyant economy to the Japanese. Even a big anti-LDP protest vote isn't likely to overcome all that.

BRITAIN'S LABOR PARTY HAS A FACELIFT
After three straight election losses and 10 years of Thatcherism, Britain's Labor Party is shedding its Marxist baggage and adopting a new, more moderate political strategy. But will the voters buy it?

Heeded for the scrapheap are some of the most hallowed tenets of Labor's leftist past, including unilateral nuclear disarmament, nationalization of industry, hostility to the European Community and unfettered union rights. Market forces will be welcomed, not fought. Competition and efficiency are goals, not dirty words. Labor no longer will oppose such popular Tory reforms as privatization of state-run industry and tax cuts. Above all, Labor says it would keep Britain's nuclear deterrent and scrap it only as part of a wider East-West arms-control deal.

The new Labor look should be appealing, given Britons' restiveness over rising interest and inflation rates, uneasiness about many Tory reforms, particularly overhauling the National Health Service, and boredom with Thatcher's nanny-knows-best style of rule. Yet the strategy is not only riddled with inconsistencies the Tories will exploit but may be opposed by union leaders and Labor's own extreme left wing. The facelift restores the party's credibility and popularity after the disasters of the 1980s, but leader Neil Kinnock has an awesome rebuilding and healing job ahead in the two to three years before new national elections.

by Gerson Yalowitz with foreign-bureau reports
When in Russia, do as the Swedes do

By Thomas H. Naylor

Soviet leader Mikhail Gorbachev has turned to Sweden as a role model in his Herculean task of restructuring the Soviet economy, according to two of his most important economic reformers, academicians Leonid Abalkin and Abel Aganbegyan.

Dr. Abalkin, who will be a delegate at tomorrow's Soviet Communist Party conference, explained the reason during a visit to Duke University this year: Sweden is one of the few countries with high levels of economic efficiency and social justice.

Hungary, Gorbachev's original economic model, has fallen on hard times - a huge foreign debt, reduced competitiveness, and a decreasing standard of living.

The shift is a radical one. Sweden has one of the highest living standards in the world, one of the lowest unemployment rates, and almost no poverty. In 1987, it had the lowest misery index (inflation plus unemployment) in the West. Because it has the highest taxes in the West, one of the largest public sectors, the narrowest wage differentials, the most highly unionized workforce, and not particularly well-paid corporate executives, Sweden is often viewed as a socialist country. Nothing could be further from the truth. Ninety-two percent of its industry is privately owned, and it has an abnormally large number of successful multinational corporations, such as Volvo, Electrolux, and Saab-Scania, which derive 75 percent of their revenues abroad.

The Soviets are attracted by the Swedish "third way" strategy to revitalize a sluggish economy and restore international competitiveness. Beginning with a 16 percent currency devaluation, Sweden embarked on a painful industrial restructuring process in 1982 aimed at reducing unemployment and inflation by increasing exports and investment. The gross domestic product grew twice as fast between 1983 and 1987 as in the 1970s. The rate of inflation declined by four percent. Unemployment dropped one and a half percent.

To improve productivity, quality, and capital utilization efficiency, Swedish industry has pursued an unrelenting strategy of innovation and investments in research and development, training, and organizational development rather than more traditional investments in plant and equipment. A shift in economic policy and government incentives for job retraining and mobility also contributed to the rapid recovery of Swedish industry from the cost inflation, industrial crises, and anti-business attitudes of the 1970s.

A striking change has been the abandonment of "sunset" industry subsidies. The shipbuilding industry which employed 28,000 in the mid-1970s has been phased out over ten years, leaving no unemployment behind.

But Sweden is a tiny country of 8.4 million people with a strong base of shared societal values in contrast to the Soviet Union which has a population of 280 million spread over 15 heterogeneous socialist republics. Yet Soviet strategists are interested in Sweden's experience with participatory management, employee training, and the cooperative movement.

Since January 1, 60 percent of Soviet enterprises have had to be financially self-sufficient. Soviet managers have been given more freedom and are experimenting with workplace democracy.

Referring to Sweden's experience with participatory management, Swedish Opinion Research Institute Chairman Bo Ekman has said that the real transition has taken place on the shopfloors and in offices and warehouses: "Without the involvement and support of the individual employee, no real change in competitiveness could have taken place."

One of the Soviets' most serious problems is their technological gap with the West. Although highly skilled at basic research, they have difficulty in translating it into consumer goods. The Swedes are much stronger in converting technology into marketable products. It was not by chance that the Swedish engineering firm Sandvik was the very first Western company to start a joint venture with the Soviets.

The market-oriented Swedish approach to research differs markedly from the inflexible, centralized Soviet approach. Also, Sweden is not a member of the Consultative Group Coordinating Committee, which tries to block the flow of Western technology to the Soviets.

A major obstacle to Soviet reform is manager inexperience in decentralized, market-oriented work practices. The retraining of Soviet managers and workers represents a monumental challenge. But the Swedes have been successful in retraining smokestack industry employees and helping them reenter the workforce.

Cooperatives represent a clever way of injecting new life into the Soviet economy by circumventing Soviet industrial ministries. The new Soviet law on cooperatives provides even more flexibility to the 20,000 new cooperative businesses including restaurants, auto repair shops, and private medical clinics. The Swedes also have a lot of experience with cooperatives.

Sweden has carved out an important niche in the global marketplace which avoids some of the pitfalls of capitalism and socialism. The Kremlin is paying attention to the Swedes. Maybe the United States should too.

Thomas H. Naylor, professor of economics at Duke University, is author of "The Gorbachev Strategy."
Italy moves toward greater political stability and financial discipline

Legislative reform does away with controversial practice of secret balloting

By John Shutt
Special to The Christian Science Monitor

Rome

Italy has taken a great leap out of the political Dark Ages with last week's decision by Parliament to eliminate secret voting in its own chambers.

The move marks a victory for the six-month-old government of Prime Minister Cirio de Mita. It is seen by most observers as the first crucial step in bringing both political stability and financial discipline to a country that has hoppedscotched through 48 different governments and countless economic crises in the postwar period.

Ironically, the debate and vote over the measure -- whether to abandon secret balloting on financial and budgetary matters -- was almost just another episode in the political frustrations Italy has endured during the last 40 years.

In what was also deemed a vote of confidence for the prime minister, the reform measure sponsored by Mr. de Mita's government won with only seven votes to spare.

It was apparently the last chance for party turncoats -- know here as franchi tiratori, or snipers -- to bring down the government under the camouflage of the secret ballot.

The arithmetic last week showed that more than 50 members of de Mita's own Christian Democratic party voted against the issue.

In fact, the snipers -- who earned the nickname for spouting the party line in public and then entering the chamber only to vote with the opposition -- have often lurked within the ranks of the Christian Democrats.

This party has led or been part of each of the coalition governments since the end of World War II. Snipers' settling personal and factional scores has contributed to this high turnover of governments.

Greater party discipline and governmental stability are the most obvious outcome of last week's vote. But it is also welcome news to the many analysts here who consider Italy's bloated and inefficient public sector as the major threat to the country's success after 1992. Western Europe hopes to achieve economic integration by 1992, and thereby become an economic superpower.

The government's budget deficit, for instance, is running at 98 percent of gross domestic product (the US deficit is less than 40 percent of GDP) largely because snipers can vote for local pork-barrel projects instead of sticking to the coalition's austerity guidelines.

"Banking, transportation, and health are all protected by the government and will have to be reshaped," says economist Carlo Scognamiglio, rector of the Libera Universita Internazionale degli Studi Sociali in Rome.

In 1992, when efficient German and British giants will be free to enter Italian markets, less productive local institutions may be caught flat-footed, economists say.

In the meantime, the de Mita government appears to have legislated itself a lease on life to set these reforms into motion. De Mita may also be able to break the postwar record tenure of three years established by the Socialist Bettino Craxi, who controlled the snipers only through his reportedly Machiavellian ways.
Soviets Elections
Old Guard Pounded at Polls
Losers include top party, military leaders

29 Mar 1989

By Paul Quinn-Judge
Staff writer of The Christian Science Monitor

Moscow

The Soviet parliamentary elections have delivered a strong anti-establishment punch.

Each new batch of election results shows a consistent pattern of nationwide losses for the party machine, a steady round of defeats for senior military officers, and outright victories or unexpectedly good performances by radical independent candidates.

Even more striking than the results themselves is the spontaneity of the anti-establishment tendency: Party leaders and military commanders are losing not only in areas like Leningrad or the Baltics, where independent political organizations are active, sophisticated, and vociferous. They are also going down to defeat in places where independent organizations are either nonexistent or tightly controlled.

Senior Communist Party officials have been defeated in the Ukraine, despite its well-drilled party machine. And in places not known for political activism, like Murmansk in the Arctic Circle, early victories included the commander of the Soviet northern fleet and the regional first secretary.

One result of the election may have been to undermine the authority of the Communist Party Central Committee. The defeat of many Central Committee-level officials suggests that they are incapable of any political organization beyond the wielding of compulsion or privilege.

Though both Soviet and Western observers here have tended to describe the electoral trend as a swing to the left, the term is deceptive. There appear to be at least three partly overlapping political tendencies:

- Supporters of radical economic and political reform within the existing framework;
- A more ideological political tendency which rejects many of the fundamental assumptions of the present system;
- The pro-Yeltsin tendency, a working-class/Russian-heartland rejection of party privileges and arrogance.

This final tendency may in the long run prove to be considerably more conservative than the other two. Thus, while radical reformers say that temporary unemployment and price rises inevitably accompany economic reform, some vocal supporters of Communist Party rebel Boris Yeltsin stressed during the campaign that reform should not be carried out at the expense of the workers.

All three tendencies have in common a general suspicion of the party bureaucracy, which is regarded as overwhelmingly anti-reform. And the latter two seem to be united by a desire for a multiparty system. But they may not get on very well together in the long run.

See POLLS next page

China Protests For Democracy Backed by Bush
U.S. Relations With Beijing Are Tied to Recognizing 'Validity' of Demands

By Michael McQueen
And Gerald F. Seib

Staff Reporters of The Wall Street Journal

WASHINGTON - President Bush said U.S. relations with China can't return to normal until the government there recognizes the "validity" of demands by students and other pro-democracy protesters.

The statement, made at a nationally televised news conference last night, represented the president's clearest statement yet of what he expects from China's leaders to heal the strains caused by the weekend crackdown on demonstrators. But Mr. Bush reiterated his desire not to rupture relations with China, where he once served as U.S. envoy, and he indicated he has little desire now to impose economic sanctions.

"What I want to do is preserve this relationship as best I can, and I hope the conditions that lie ahead will permit me to preserve this relationship," Mr. Bush said.

Mr. Bush indicated that his personal relationship with many Chinese leaders, dating to his service there, contributes to his reluctance to criticize them personally. He said that the situation in that country is too unstable to assess which leaders are responsible for the weekend brutality, and that he couldn't even make telephone contact with top Chinese leaders earlier in the day.

Mr. Bush again noted that Chinese leader Deng Xiaoping, viewed as one of those responsible for the crackdown on students, had been purged during the 1970s for pushing political reform. "All I'm saying from that experience is, let's not jump at conclusions as to how individual leaders in China feel when we aren't sure of that," he said.

FRIDAY, JUNE 9, 1989
Gorbachev and the constituency for change

By Norman Cousins

ONE of the major challenges facing the next president of the United States will be to make sense of what is happening in the Soviet Union.

Some of his advisers will say that nothing has changed, that the Soviet leaders are still driven by dreams of world conquest, and that nothing that comes out of Moscow can be trusted. The obvious answer to the question of whether Soviet leaders can be trusted is that they can be trusted to act out of self-interest.

What, therefore, is the Soviet self-interest today? It is a mistake to think that Mikhail Gorbachev is some extraordinary phenomenon or that, if something should happen to him, there will be no forces in the USSR that would or could continue his policies. Actually, Mr. Gorbachev comes off the same historical and ideological spool as Nikita Khrushchev. Gorbachev is more adroit, more sophisticated, more persuasive, more worldly than Khrushchev. His essential purpose, however, is the same: namely, to correct the basic conditions holding back the USSR.

Gorbachev recognizes that Marxism, as interpreted by past Soviet leaders, does not represent a successful national design for living. He is unwilling to set aside the evidence that the USSR becomes weaker, not stronger, in direct proportion to its literal adherence to Marx.

First, Marxism has proved unworkable. Marx was a social philosopher, not an economist or a political scientist. Marx didn't understand production, which he took for granted. One of his main criticisms of capitalism was that it overproduced, creating the need for overseas markets and setting a stage for imperialist conflict. He believed overproduction also led to unemployment and social evils.

What Marx didn't foresee, and what all the Soviet leaders have had to cope with, is that a high productive capability is the first imperative of the modern state. No nation can be strong unless it can master production. The Soviet failure to produce has had consequences not just in comparison with other states but in terms of political and social stability. Failure to meet production goals has meant that the USSR has not been able to house its people adequately or to feed them properly or to provide the wide array of consumer goods demanded in modern society.

Marxism in the USSR has led to nepotism on a wide scale. The man who gets the job as manager of a brick factory is not necessarily the one who knows how best to keep bricks from shipping away, but rather may be the one who can mobilize the most party support.

What stands out in a series of interviews I had with Khrushchev in 1962 and '63 was his awareness of the need to keep loyal but incompetent party workers out of top jobs. Cover-ups of inefficiency were common. If a plant turned out poor products, or chronically failed to meet its quotas, no one blew the whistle. Workers learned to respect the power of the foreman just above them, just as the foreman learned to respect the power of the plant manager. Inefficiency and incompetence were institutionalized.

Inevitably, production failures led to social unrest and, in turn, to the need for widespread political controls. Thus followed a chain reaction, beginning with the inability to meet production goals in agriculture and industry, and extending through to the social and political unrest.

Khrushchev blamed Stalin. He believed the fear Stalin incubated paralyzed the entire nation. Khrushchev tried to correct the problem by telling the party congress everything he knew about Stalin - the tyrannical control of the party, the murder of thousands of dissidents or persons thought to be dissenters, the quixotic and irrational wartime decisions that led to the deaths of millions.

Khrushchev's hope was that, if only the people could be liberated from habits of fear developed under Stalin, they would be free to get on with the business of building a strong society. Khrushchev was prepared to modify Marxism to whatever extent was necessary in order to get the country moving. But Khrushchev was no engineer of consent. He antagonized the Central Committee of the Communist Party and was eventually deprived of all his portfolios - and even a claim on a decent burial.

Gorbachev recognizes that putting the USSR on a high-productivity basis requires more than a pep talk to party functionaries. He sees the connections that tie Marxism together with bureaucratic abuses, inadequate and shoddy housing, long lines in front of food stores, excessive party control, political absolutism, and social unrest.

Unlike Khrushchev, however, Gorbachev is rebuilding from the ground up. He has inevitably alienated many of those who stand to lose from a restructuring of Soviet society, especially those who operate the bureaucratic and ideological controls. But Gorbachev is smart enough to build a growing constituency, one that has a good chance of becoming the dominant political power even if Gorbachev loses personal command.

The next president of the US will be in a position to make the most of the opportunity represented by a USSR turning its dominant energies into upgrading its society. But it is likely that the president will have to deal with forces within the American body politic troubled more by Soviet friendship than by Soviet hostility. It is feared that a reduction of tension could lead to reduced military spending.

The prospect of a USSR preoccupied with the need to build a more open and functional society should have the utmost significance to Americans, confronted as they are with a debt burden that can mortgage future generations.

We need not fear we are buying a pig in a poke. We will be able to put the Soviet leaders to the test at every point along the way, keeping our own vital interests in the forefront, where they belong. And none of our vital interests is greater than understanding and supporting the conditions of freedom wherever freedom has a chance, beginning with the Soviet Union.

Norman Cousins, former editor of Saturday Review, is on the faculty of the School of Medicine at the University of California, Los Angeles.
Communism turned upside down

BY SEWERYN BIALER

Marx and Lenin had it partly right. "Ideas, once they capture the minds of the people, become a material force," proclaimed Karl Marx, the patron saint of Communism. Lenin, the creator of the Soviet state, prescribed an alliance in which the intelligentsia would implant the revolutionary faith in the proletariat. The inevitable result, they were certain, would be a Communist world.

But the ideas that have become a "material force" in Poland and the Soviet Union and are seething beneath the renewed repression in China are not those of class warfare and conquest, but of democracy. In all three nations, Lenin's expanding alliance of intellectuals and workers, not Communism, holds the greatest promise for democracy. The intelligentsia alone are a highly vulnerable target for repression. Only in a compact with workers can the promise be fulfilled.

In China, the developing sympathy and mutual respect between students demonstrating for democracy and workers were the key reason for the massacre in Tienanmen Square. Party leaders could have used troops to disperse students without mass murder. The premeditated savagery was designed to intimidate, to teach an unforgettable lesson not only to students and intellectuals but also—perhaps primarily—to the workers who joined them. If the repression succeeds, the alliance will not reappear. The old Communist hard-liners know from their own experience how potentially explosive is the mixture of their opponents.

In Poland, the alliance between striking workers and their mostly young, intellectual advisers was forged in the crucial years 1980-81. There were no guarantees. Earlier attempts to merge workers' unrest and intellectual ferment—in 1956, 1980, and 1976—failed. This time, thanks to the tenacity of Solidarity's leaders, most notably Lech Walesa, and the failures of the regime, the momentum grew. Outlawed in 1981, Solidarity was legalized this spring and now is the dominant social and political force in the nation. The Communist authorities tacitly acknowledge that, for them, Poland is ungovernable and that economic catastrophe is unavoidable without the organization to which a majority of workers and intellectuals are committed. The sweeping electoral victory of Solidarity last week legitimized this opposition alliance beyond the dreams of even its most committed leaders.

A new relationship

In the Soviet case, generalizations about relations between workers and intellectuals are likely to be misleading. The Soviet intelligentsia did not display in recent years the populist tendencies of their 19th-century predecessors. Soviet workers showed little fondness or respect for the intelligentsia. Yet it has become increasingly clear that a new, complex relationship is developing.

The ties are visible and well advanced in the non-Slavic republics and autonomous areas—in Georgia, Armenia, Lithuania, Estonia and Latvia, and among Tatars and Abkhazians. The growing national struggle for greater local autono-

my and eventual independence is intertwined with the growing thirst for democracy in the Soviet Union as a whole.

In Russia itself, the elections to the new supreme legislative body produced many surprises. One was the extent of the anti-elite, populist mobilization of urban workers. For example, 35 top regional party secretaries in single-candidate districts were rejected by the voters, who by majorities of 60 to 70 percent crossed out their names. The other surprise was the victories by big majorities of a few dozen intellectuals and dissidents. Large groups of workers clearly are deciding that they have much in common with the populist and democratic goals of the intelligentsia's candidates.

The 2,250 members of the Congress of People's Deputies and, even more, the smaller Supreme Soviet they have elected are dominated by centrists or by conformists who, under Mikhail Gorbachev's guidance, rejected almost every proposal submitted by the liberal and dissenting minority. But the obvious fact misses the main point: Weeks of unhampered discussion in the Congress, where no subject was immune to passionate, angry or cold analysis, had no precedent in almost 72 years of Soviet power.

The debates, 8 hours or longer almost every day, were televised live throughout the Soviet Union. By official measure, daily audiences of at least 150 million watched the breathtaking exercise of free speech. The Soviet people—workers, intelligentsia, nationalities—got for the first time ever a foretaste of their potential power through their ballots and through parliamentary debate. The Soviet Union will never be the same again. Next year, local and regional elections are scheduled to be held throughout the nation. Barring the cancellation of democratic reforms or, even less likely, renewed repression, the outcome of these next elections will be determined by the extent of mutual ties between the workers and the intelligentsia.

Their interests—economic, social and political—may not always coincide. What increasingly unites them is the idea of liberty, which can accommodate lesser differences between competing interest groups. It is an idea absent from the old (that is, Marxist-Leninist) Communist vision. In all three nations, the system has failed because of that crucial weakness. Gorbachev recognized it first in the Soviet Union, and the tumultuous scenes in the Congress over the past two weeks are one consequence. In Poland, Gen. Wojciech Jaruzelski tried every alternative to genuine reform before running out of ideas and embracing change.

China has now turned its back on reform, at least temporarily. But the passion of recent weeks is not dead; it is merely subdued. China, too, will never be the same again. But what happens next depends on the durability of the growing popular alliance between the two critical groups. If the workers and intelligentsia forget the central idea, they will fail. If they are true to it, they cannot be defeated.

Seweryn Bialer, a leading scholar in Soviet affairs, is Ruggles Professor of Political Science and director of the Research Institute on International Change at Columbia University.

U.S. NEWS & WORLD REPORT, June 19, 1989
The World’s Worst Communication Gap

By Pat M. Holt

The third world may turn out to be the biggest foreign policy challenge to the Bush administration, far overshadowing relations with the Soviet Union. English has long been the language of world trade and politics, but industrialized countries and the third world might as well be speaking Martian for all they understand each other.

Examples abound of how the first and third worlds talk to each other without communicating:

- Much of the third world thinks the communications media have a duty to make a constructive contribution to political stability and economic growth. Western concepts are quite different. Hence the fierce Western resistance to third-world proposals for a new World Information Order with licenses issued to correspondents. Yet a Western correspondent cannot gain admission to the White House or the congressional press galleries or even cover a fire without a “license” in the form of a press card.

- Muslims are offended by “The Satanic Verses,” and many are convinced that if the British government had not approved of the book, it would not have been published.

Pakistanis hear American fulminations against nuclear proliferation as cover for a policy to prevent the development of a Muslim bomb. The United States says it does not want a Jewish bomb, either, but Muslims don’t think it did very much when Israel destroyed an Iraqi plant working on nuclear weapons. The third world also thinks the US is selective in its outrage over chemical weapons, getting more upset about them in Libya and possibly in Egypt than in Europe. There is an element of truth in this. Less sophisticated command-and-control procedures probably make it more likely that nuclear or chemical weapons will be used first in regional wars in the third world. The third world finds this patronizing.

- Brazil sees concern over deforestation of the Amazon as imperialistic meddling in its affairs.

- India and China turn a cold shoulder to agreements to protect the ozone layer by reducing production of chlorofluorocarbons (CFCs).

- Mobs sack Caracas protesting an economic austerity program demanded by the International Monetary Fund as the price for assistance on Venezuela’s foreign debt. Brazil, Egypt, and other countries approach similar flash points. Third-world debt is resulting in a transfer of $30 billion a year from poor countries to rich ones, precisely the opposite of what ought to be occurring.

- The US is insisting that the third world reduce the supply of drugs for which Americans create the demand. At the same time, it is extolling the virtues of conservative fiscal policies. Coming from the country with the world’s biggest debt and deficit, this strikes the third world as not only patronizing but also hypocritical.

Clearly, the industrialized countries and the third world have very different priorities. The third world sees the West as saying it cannot have what the West already has, whether that’s nuclear weapons or economic development.

Protection of the environment, or in some cases its restoration, is costly. It may well involve some reduction of living standards in even the most prosperous, technically advanced countries. In the third world, there is little room for reduction before one gets below the subsistence level.

The greenhouse effect or destruction of the ozone layer would bring ecological disaster to Beijing, New Delhi, and São Paulo as surely as to Chicago, Stockholm, and Paris. Yet the world seems to be heading that way while its leaders talk past each other.

At bottom, the problem is one of population growth. More people put more pressure on the environment – and on US immigration controls, too, for that matter. Thomas Malthus was ahead of his time in warning nearly two centuries ago against population outgrowing food supplies. Before that happens, population threatens the ecosystem that makes food production, as well as life itself, possible.

Yet the warnings of industrialized countries about the dangers of population growth are taken in the third world as a plot to perpetuate Western dominance. In fact, they are modest proposals to prolong human survival.

Pat M. Holt, former chief of staff of the Senate Foreign Relations Committee, writes on foreign affairs from Washington.
Indochina Is Wooing Outside Investment
New Laws in Vietnam, Laos and Cambodia Meet Skepticism

By Helen White
Staff Reporter of The Wall Street Journal
BANGKOK, THAILAND — Attempts by communist Vietnam, Laos and Cambodia to revitalize their destitute economies and rebuild ties to the West won’t be easy.

While Indochinese officials touted their new foreign-investment laws and abundant resources at a Bangkok conference, business executives were quick to note the problems inhibiting foreign investment in those countries. They cited inadequate infrastructure, entrenched bureaucracy often unwilling to go along with economic reform and scarcity of foreign exchange.

“It is easy for a country to write up laws and regulations which are designed to promote trade and investment,” said An and Panyarakchun, vice president of the Federation of Thai Industries and a former diplomat. “But it is another matter to enforce...and to implement [them].”

The conference, “Indochina: From War Zone to Trade Zone,” was held Friday. It was organized by Thailand’s Nation newspaper, The Asian Wall Street Journal and the Board of Trade of Thailand.

That the meeting occurred at all was a sign of the recent shift from hostility to conciliation between the countries of Indochina and their Western-oriented neighbors, particularly Thailand. For 10 years, the U.S. and the Association of Southeast Asian Nations have led a political and economic blockade against Vietnam for its 1978 invasion of Cambodia, and coordinated a campaign to deny recognition and assistance to the government that Vietnam installed in the Cambodian capital, Phnom Penh. As an ally of Vietnam, Laos was shunned, too. (Asean comprises Thailand, Malaysia, Singapore, Indonesia, the Philippines and Brunei.)

But in the past year, the international isolation has weakened as the Indochinese, grabbing hold of a trend in the communist world, have begun reshaping their centrally run economies, moving gradually to market-oriented policies.

Thai Prime Minister Chatichai Choonhavan reiterated his belief that economic ties between Asean and Indochina would reduce regional hostilities. “There must not be two Southeast Asias,” he said.

When he became prime minister in August, Mr. Chatichai said he intended to turn the battlefields of Indochina into marketplaces, and his efforts have helped improve relations between Thailand and its Cambodian neighbors. Indeed, Nguyen Co Thach, Vietnam’s deputy prime minister, suggested Thailand should coordinate “our common efforts in future regional economic cooperation.”

While the Indochinese delegates explained their countries’ economic reforms, business executives highlighted potential problems in investing, though many were cautiously optimistic about Indochina. Pramón Sutivong, secretary-general of the Board of Trade, said that on trade missions to Vietnam, Thai businessmen were not even able to identify which officials were responsible for dealing with foreign investors. “There was some confusion as to who is in charge, and whom to talk to,” he said.

Private-sector speakers cited other problems, including a lack of banking facilities, poor infrastructure, fears that pro-investment policies may be reversed and if not, that bureaucrats may stifle venture. Several speakers said that trade should naturally precede investment, allowing business executives to become more familiar with Indochina before making large commitments. But though the market is huge, per-capita income of no more than $200 a year limits purchases. And the three Indochinese governments, cut off from aid and economic relations with much of the West, are strapped for foreign exchange.

Joseph Hart, president of the American Chamber of Commerce in Thailand, urged Indochinese leaders to make investment procedures easy, to form business-support organizations and to build hotels, offices, and transport to facilitate investment. “The easier you make it for visiting foreign businessmen to walk in, learn about your country, get to and from meetings and talk to the right people, the faster business will take place,” he said.

Vietnam’s foreign-investment law, enacted in late 1987, provided the model for Lao and Cambodian legislation. All three countries allow foreign investment by contract, through joint-ventures and by wholly foreign-owned companies. They also protect foreign investors against nationalization and assure that profits can be remitted home.

Mr. Thach said more than 1,500 foreign delegations had visited Vietnam since the law was enacted, and more than 50 licenses have been granted to foreign companies. He said food production, consumer-goods manufacturing and export-oriented production were getting priority.

Vietnam’s rampant inflation has been cut substantially in the past six months, Mr. Thach said. And this year, Vietnam has drastically cut the gap between the official and black-market currency exchange rates. “In light of the achievements recorded over the past six months, we are firmly convinced that our economy will be stabilized and developed within the next two to three years,” he said.

Among Vietnam’s attractions for investors, he listed its vast natural resources, the large and cheap labor force, inexpensive raw materials and cost of living, and plans to improve communications.

Lao, which has only four million people compared with Vietnam’s 67 million, has nevertheless received positive responses from foreign investors. Phao Bounnhaph, the commerce minister, said more than 70 foreign companies have applied to invest.

Kong Somol, vice president of the Council of Ministers of the People’s Republic of Kampuchea, as the government in Phnom Penh calls itself, emphasized Cambodia’s potential in agriculture, forestry, animal husbandry, fishing and tourism. Despite two decades of civil war, his Vietnamese-supported government had eliminated famine, he said.

But the overall picture of Cambodia painted by Mr. Somol was bleak: Gross national product, the value of a nation’s output of goods and services, in 1986 was only 70% of that of 1966, despite a 20% increase in population. He added that war-damaged roads and waterways remain unrepaired, and said there is a lack of raw materials and electricity to revive industry. Since 1978, population has increased faster than food production.

Mr. Kong Somol also warned that the country could be plunged again into civil war after Vietnam withdraws its troops in September, unless other countries, including Thailand, the U.S. and China, cut off aid to the Cambodian factions fighting the
Chinese Students Protest, Calling for Political Freedom

By James L. Tyson
Staff writer of The Christian Science Monitor

BEIJING

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HOUTING "long live democracy," 900 students marched yesterday into central Beijing, carrying a growing movement for political freedom to the door of China's communist leadership.

The march was the boldest move yet in a four-month-old campaign by Chinese intellectuals for free expression. It defied efforts by the Communist Party to channel the coming 70th anniversary celebrations of the May 4th Movement away from such liberal dissent and toward patriotism and reverence for Marxism.

During the May 4th Movement of 1919, students angered by foreign imperialism and an ineffective state, rallied much of China's society around the ideals of democracy and science. The marchers Monday sounded many of these same themes.

Stopping before the gate of the leadership's walled compound, the young protesters shouted slogans for "freedom," "rule by law," and reform of the economy and political system. They also denounced corrupt officials and an effort by some communist theorists to promote a "new authoritarianism," the rule of a despot who would bring about political and economic reform.

Activists carried wreaths and banners mourning the death Saturday of Hu Yaobang, a comparatively liberal leader who was ousted as Communist Party general secretary in 1987 for failing to quell nationwide student protests for democracy. But march organizers said that their real goal was political freedom.

"Ever since conservatives in the party pushed out Hu, intellectuals have felt increasingly resentful," said an assistant professor at the University of Political Science and Law, the university of most of the ralliers. "We're marching to honor Hu, but more importantly to honor what he stood for: a belief that it is imperative that China advance political reforms and promote true democracy," said the professor, a march organizer who withheld his name.

With the march, Chinese intellectuals brought to the streets their campaign to compel the leadership to tolerate dissent and relax its grip on political power. Since

January, more than 120 scientists, academics, writers, and artists have signed petitions calling for basic political freedoms and a release of political prisoners.

While not arresting the petitioners, the leadership has expelled an organizer of one of the petitions from China and coerced some intellectuals into recanting by claiming the petitions were an effort to use foreign pressure to bring about domestic political change.

Moreover, as early as February the leadership began an effort to steer commemoration of the May 4th Movement away from its original, explosive aims.

The secretariat of the Communist Party determined that the "central themes to mark the 70th anniversary of the" movement are "patriotism, reform, pioneering, and forging ahead," according to a Feb. 21 dispatch by the official New China News Agency. The party avoided mentioning the true aims of the movement - democracy and science.

Noting the omission, the Worker's Daily, on Feb. 24 said, "Some people are afraid of the two gentlemen (democracy and science), some have been trying to disgrace them, and some have been practicing autocracy in their names."
So Taiwan Was Right All Along

By Li Shao Min

I was born in China after the 1949 Revolution and grew up with Mao's Great Leap Forward and the Cultural Revolution. Although I ardently admired Mao, this admiration was set against the backdrop of increasingly violent political movements and a steadily deteriorating economy. I came to realize there was something wrong with my society. But what? The answer involves the story of a conversion—a conversion becoming common among Chinese intellectuals of my generation.

Back in the 70s, in my search for an answer, I could do no more than compare the reality of Chinese socialism with Marxist theory. No alternative philosophies or accurate data about other societies were available. My conclusion, therefore, was that socialism in China must have failed because of abuses of power by the Chinese Communist Party and Mao.

From 1978 to 1982, while I was studying political economy at Peking University, the party began its post-Mao reforms. Books formerly forbidden began to circulate, albeit with restrictions. I managed to read a few of these: the memoirs of party co-founder Zhang Guotao, which describes the evolution of the party; a book by Mao Milovan Djilas's "New Class"; and Raymond Aron's "In Defense of Decadent Europe."

I began to question the very premises of communist society. Simultaneously, however, I decided that capitalism, with its individualistic, and dynamic features, was not applicable to a country such as China, weighed down by a long history of feudalism and the burden of its traditional culture. I thought that China might adopt a few aspects of capitalism, thus finding a middle road between socialism and capitalism—perhaps something along the lines of the Yugoslav model.

Then, in 1982, I came to the U.S. to study. During the next four years I continued to believe that capitalism would not work in China. But the maintenance of this belief increasingly required that I resort to irrelevancies or evasion. To restore my pride about being a student from China, I would mention the military and diplomatic achievements of socialist China, or the social problems of capitalist America. Above all, I avoided serious study of Taiwan, for I found it extremely difficult to admit that Taiwan was more successful than China.

Nevertheless, in late 1986 and early 1987, several developments prompted me to conclude that China must learn from Taiwan. First, a few years of reading in political economy, political theory and the history of social thought opened my mind to new ideas. Second, Taiwan began to democratize. Taiwan is no less Chinese than China. Why isn't it fettered by China's feudal legacies? Third, the antibourgeois-liberalization campaign in China at the end of 1986 completed my transformation into an advocate of private-property rights and the free market.

Having become convinced that China should learn from Taiwan, I wanted to learn what others in China thought. Was my view typical?

Last summer, the New York office of the United Daily News, a Taipei daily, offered me a grant to carry out an opinion survey. I invited three other students from China to help. We selected 500 students in the U.S. and sent questionnaires to 2,100 students from China; 607 replied. We also conducted a similar survey in China, passing out 800 questionnaires at three universities; 314 students responded.

Many of China's young intellectuals in America recognized Taiwan's success. To the question "Is Taiwan's economic development in the past 40 years successful?" 92% said yes. When asked "Should China learn from Taiwan's experience in economic development?" the percentage of positive responses was 86%. To the question, "Should China adopt a private-ownership system like Taiwan's?" 60% answered positively, 17% negatively, and 22% did not know. (Most respondents in the last category noted that they did not know enough about Taiwan to make a judgment.)

The survey conducted in China also indicated that most young scholars acknowledged Taiwan's economic success. When asked about Taiwan's economic development in the past 40 years, 76% agreed it was successful, 21% chose "don't know," and only 3% said it was not successful. Seventy-five percent thought their country should learn from Taiwan's economic success, 10% disagreed, and 15% did not have an opinion.

These percentages become especially impressive when it is remembered how determined the Communist Party was, from the late 1940s until the late 1970s, to convince the Chinese people of China's success. Only in the past 10 years has there been an opportunity to observe the outside world. Chinese students have been allowed to study abroad for even less time. If liberalization continues, more young Chinese intellectuals will gain access to accurate information about China and the outside world, and they will also become more conversant with the social sciences. Inevitably, I believe, many of them will arrive at conclusions similar to mine. Not the least of those conclusions will be that China ought to learn from Taiwan.

Mr. Li, who holds a doctorate in economics from Princeton, works for AT&T. This is adapted from an article in the summer issue of Orbis.
After Tiananmen: Fear and Retribution

BY CLAUDIA ROSET

BEIJING—The soldiers are cleaning up. At an intersection near Tiananmen Square, troops guard a crane while it lifts away the charred buses that last weekend served as civilian barricades. Down the road, soldiers fling their AK-47 rifles across their backs and take up leaflet brooms to sweep away ash and broken glass. An officer carries a crushed bicycle to add to the junk heap. Citizens watch quietly from a distance, looking up. They have seen enough people shot these past few days to know the cost of interfering with the projects of the People’s Liberation Army.

The Communist Party is cleaning up too. After three weeks of vital power struggles and two weeks of baffling silence, Premier Li Peng turned up yesterday on a televised broadcast. He was shown in the Great Hall of the People wearing a blue Mao suit and addressing representatives of the army, which he praised for its violent supression of the huge democracy movement centered in Tiananmen Square. "You worked hard," said Mr. Li, who on May 19 announced the martial law that has finally taken hold in the city.

With this broadcast China stands in front of anyone with doubts—that the party has reached a decision. It will seek no compromise with the liberal Chinese thinkers who this spring roused millions of their countrymen to demonstrate for freedom. Instead, the party will continue to rule an unwilling people by sheer force of its guns. Having decided to fall back upon this fundamental feature of communism, China’s rulers have starkly signaled their next move.

The "counter-revolutionaries" who inconvenience the party with their democratic ideas must now be swept away. This can be done only at tremendous cost to China’s economic progress and international standing, a cost that will take a second place to the survival of totalitarian rule. This priority was evident, for example, when soldiers in downtown Beijing Wednesday shot up the front windows of one of the city’s diplomatic compounds—accelerating the exodus of an already horrified foreign community.

It is far worse for the Chinese, who cannot escape the onslaught of their own government. Already the terror is beginning. The party and military demanded that all illegal student and worker organizations dissolve themselves and that the leaders turn themselves in to the police. On television last night a state spokesman read a list of some of the 5,000 that are known to call on anyone who took part in the democracy movement.

The party has said it would purge all members who joined the demonstrations. Party chief Zhao Ziyang, an economic reformer, who on May 19 expressed sympathy for the demonstrators, has not been heard from since. He has reportedly been dumped from his job—as was the moderate party chief Hu Yaobang who preceded Mr. Zhao. Zhao’s death April 15 occasioned the occasion for the first student demonstrations that led to the uprising this spring.

The list of obvious government targets is long. There, of course, of the students leaders, most of whom have already fled their campuses for fear of arrest. There are white-collar state employees, some of whom not only joined the demonstrations, but used their government jobs to further the democratic cause. Many reporters for the state-controlled press, for example, seized the chance for a few incredulous days weeks to report not the party line but the truth. This was received gratefully by the Chinese public.

Even the peasants in farm towns miles outside Beijing complain that their government routines have changed. "It is not reliable," said one man walking his bike along a dirt road last Friday about 50 miles out of the city. A farm wife in a nearby village said that same day that she knew little about demonstrations except that they were anti-government. For that reason alone, she said, "we peasants support the students."

Blue-collar workers also hold a place of honor on the government hit list. When the striking students occupied Tiananmen on May 13, they were followed the next day by a group of workers trying to organize an independent labor federation modeled on Poland’s Solidarity. These people held a strike from the north end of the square, where just a week ago they were broadcasting calls for liberty over their own loudspeakers. Thousands of people came to listen. "What this government most fears," said one such broadcast, "is an alliance of students and workers. That is what we are doing."

In an interview last Thursday, a cook who had left his job to work around the clock to feed the demonstrators, said the party will continue to rule an unwilling people by sheer force of its guns. Having decided to fall back upon this fundamental feature of communism, China’s rulers have starkly signaled their next move.

Particularly costly to China will be the probable sacrifice of some of the brightest thinkers, who were hammering out economic reforms in Mr. Zhao’s backshop. These people, many of whom studied at American universities, were already hearing threats from the government before the army moved in. In the normal course of their jobs they had been working out ways to pry loose China’s economy from the central planning that has kept the country abnormally poor for 40 years while Asia’s market economies have been catching up with the developed world. China’s economic reforms are now getting much of the blame for giving citizens the idea that they might claim the legal freedom that must in the end accompany more open markets. The architects of these reforms are unlikely to escape punishment.

The cost of suppressing all these groups may be astronomical. In simple terms of human suffering, China’s regime has provided examples of how its modern thinkers are received when the party feels besieged. Most notorious is the case of Wei Jingsheng, a Beijing worker who in 1978 held forth eloquently on the need for democracy. In 1979 he was sent to prison for 15 years.

There will be the additional cost to China that anyone harboring such ideas and free-market reforms and democracy will be far more reluctant to try to work these ideas into official policy. This was the hope for peaceful evolution in China away from communism. The government has now set the stage for little short of violent confrontation between a party that will not agree to reduce its grip on power and a population that is wise to the corruption, lies, waste and, in a panic, murder fostered by communist rule.

Having marched the army into Beijing, the party must now move fast to convince the rest of China that there is no going back. In cities such as Chengdu, Shanghai, Nanjing and Canton, people have been demonstrating in outrage over the brutal crackdown in Beijing. Already martial law has been declared in Chengdu; it may be coming to Shanghai. The party has left itself no chance of placating the citizens. It can demonstrate only that it will deal with them ruthlessly.

It would not be surprising were the repressions against the demonstrators to come in force as early as this weekend. The government chose weekends to declare martial law, which officially went into effect Saturday, May 20, and then to enforce it, June 3-4. Perhaps the weekend timing appeals because it entails minimum interference with city traffic.

China’s best-known dissident, Fang Lizhi, has already sought refuge at the American embassy. For many, there can be no such escape. Even before the army marched in, a 29-year-old professor talked about this possibility from his post in a tent near Tiananmen Square’s Monument to China’s Revolutionary Heroes, where he had come to support 20 of his students. He spoke nervously because he has a wife and children to protect. His words sum up the feeling that China’s regime has now ordered for anyone who might wish to help move this huge nation into the modern world: “I am afraid.”

Miss Rosset is editorial-page editor of The Asian Wall Street Journal.

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Hounding the World’s Tyrants

For more than 40 years I have been hounding the world’s scoundrels and scalawags, with a great clanking of the crusader’s armor, tilting at windmills with a felt-tip pen, creating more commotion than reformation.

I have assaulted corrupt and dictatorial regimes, head down, eyes unblinking, without regard for the anti-American usurper usually waiting in the wings to take over—as if American interests are better served by a vigorous, uncompromising enemy than by a lethargic, purse-lining friend, as if the traditional crimes of 5-percenter politics were more repellent than the traditional crimes of radical totalitarianism.

No one was more surprised than myself when occasionally I finished a quest with someone’s head on a spike. There was Lon Nol, for example, a sorry specimen who ruled Cambodia with haphazard abandon. He tilted toward the West, so Washington overlooked his shortcomings.

Bribery is a venerable institution in the Eastern Hemisphere, so it didn’t take much enterprise to uncover graft within the palace. My stories about this helped fell Lon Nol’s regime.

Unhappily, Lon Nol was succeeded by the radical revolutionary, Pol Pot, who renamed the country Kampuchea and began stamping out all vestiges of the past. He accomplished this, with gruesome efficiency, by slaughtering one-third of the populace.

Another who felt the point of my pen was Libya’s aged King Idris, surrounded by courtiers lining their own pockets. He was succeeded by Moammar Gadhafi, boss of a tiny gang of radical army officers ready to kindle the Mideast tinderbox.

My attacks on the late, vainglorious shah of Iran so ruffled his peacock feathers that he canceled an interview with ABC television after learning that I appeared on its “Good Morning America” show.

But the shah was succeeded by the angry, implacable Ayatollah Ruhollah Khomeini, who fits the label “Great Satan” that he likes to pin on others.

I also came under fire from Nicaragua’s late dictator Anastasio Somoza, who, after his overthrow, called a news conference in exile and denounced me by name. Now he has been succeeded by Daniel Ortega, who stole the revolution from the Sandinista majority and imposed Marxism on an unsuspecting people. Ortega made the ousting of the U.S. presence a revolutionary imperative.

I can claim perhaps one modest success. I assailed the Philippines’ dictator Ferdinand Marcos, who hit back at me from Malacanang until his unceremonious ouster. I intervened to free his archrival, Benigno Aquino, from prison, supporting him until his martyrdom. After his widow, Corazon Aquino, succeeded Marcos, I joined the rejoicing.

I was also the first to report the bizarre shanghaiing of the South Korean dissident, Kim Dae Jung, who was snatched from his exile in Tokyo, nailed inside a packing crate and hauled home to South Korea by the military dictatorship. I visited him in Seoul while he was under house arrest and joined in an appeal for his release. Now he is running for president.

Yet I believe the ruling party’s candidate, Roh Tae Woo, is better qualified to lead South Korea.
WHAT PRICE REVOLUTION?

Cynicism Mounts in Castro's Cuba

By J. D. Gannon
Special to The Christian Science Monitor

HAVANA

WHEN I first met Raúl Maceo, he was 17, an enthusiastic Cuban nationalist, and in love with American rock 'n' roll.

On one of our first walks around old Havana I asked Raúl (not his real name) what President Fidel Castro meant to the Cuban people. "Well, you have to understand that for us Fidel is like a cross between Jimmy Carter and Muhammad Ali," he said — that is, politician and superstar.

A few years later, Raúl spent two years fighting in Angola as part of the Cuban contingent helping the Angolan government against rebels supported by South Africa and the United States. He now works for a Cuban state company and listens to "American Top 40" every day.

On a visit to Havana earlier this month, I showed a taxi driver the return address on one of Raúl's old letters and found him still living there. We spent that night again walking around old Havana talking about music. We also discussed the implications of Soviet leader Mikhail Gorbachev's April 2-5 visit to one of the socialist world's few holdouts against his policies of openness and economic and political reform.

Raúl dropped me at my hotel and we made plans to meet in Revolution Plaza the next day to watch the two leaders on their way from the airport.

"25 YEARS OF VICTORY: Many disillusioned Cubans might question that claim.

I went to my room, but Raúl got only a half block away before Cuban security agents detained him. They questioned him for five hours about his contact with me before releasing him. He had committed no crime or statutory infraction. He had simply been walking with an old friend who was a foreigner attending an event to which the Cuban government had invited hundreds of foreign journalists and officials.

"There are no laws against us walking together," he said later. "But that's the way it is...[and] I am powerless to do anything about it."

Raúl admitted being frightened by the arrest, but he was angry the night we spoke. "What have I been fighting for [in Angola]? What are we fighting for if this is all we can expect?" There was a cynicism that had been absent in the youthful Raúl, the one who passionately defended "Fidel" and "Soviet internationalism."

I mentioned the change to him during dinner. "Well that was a long time ago and I'm not that idealistic anymore," he conceded.

With us were two other Cubans, a father and son. The elder picked up on Raúl's lost idealism and launched on a withering critique of Castro's Cuba. This man was not a dissident; he was a member in good standing of a state enterprise and an official of his union. "I also have my comrade's medal" from fighting with Castro in the 1950s, he noted.

"These boys here have no rights," he said. "If they'd [detrained] me I could've called someone, gotten someone's hand slapped, because I am known. "But these boys have no rights. That is the reality here."

All three were skeptical that Mr. Gorbachev was the harbinger of change for Cuba. There would be no change in Cuba, they said, until Castro decreed it.

"We are so isolated" the father said. "And it is your fault," he said, implicating the world at large, especially those who praise the social benefits that Castro's revolution has brought Cuba.

"For 20 years [the outside world has] let Fidel do this to us... Argentine friends come here and tell me that they pay 60 percent of their salary for rent. And when I tell them I pay none, they exclaim 'Oh what a paradise you live in.'"

"Cuba is the saddest place in the world. Know why?" he asked. "Because in Chile there are thousands of dead. In El Salvador thousands of corpses. But in Cuba there are tens of thousands with dead souls. They have killed our soul... and all the poets say that is worse..."

"We're tired of waiting, tired of having no hope... never enough money," he said with a shake of his head. "If you don't understand me, go ask the Russians."

Two nights later I happened to pass several hours with five Soviet journalists. They were all from Moscow and had all voted for the dissident candidate Boris Yeltsin who overwhelmed his party-appointed opponent in national elections last month.

The Soviets were filled with a hope and spirit which — no matter how cautiously it was expressed — was irrepressible. None of them were impressed with Castro. He was the reactionary and Gorbachev was the progressive. The mood was in stark contrast to the atmosphere of the night before.
Thatcherism: Here to Stay

By John O'Sullivan

Margaret Thatcher's principal difficulty, as she enters her second decade in office, is that the achievements of her first decade are increasingly taken for granted by the British public.

Ten years ago, the British economy was mired in "stagflation" - a combination of high inflation and zero growth. Today it is enjoying its eighth year of rising real prosperity.

Ten years ago, a rash of strikes by overmighty unions brought the country to a halt. Even the dead went unburied. Today, the unions have been brought within the law, with the result that Britain has fewer strikes than almost any other industrial country.

Ten years ago, Britain had only recently called in the International Monetary Fund to help pay the bills. Today the British government is running a large annual surplus.

Are these achievements permanent? Or will a future Labour government overturn them? The best sign of their permanence is that the various opposition parties, however reluctantly, have adapted to Thatcherite priorities. Inflation, not unemployment, is now the great bugaboo of British politics to be avoided at all costs. Every Labour policy proposal is carefully advertised as "non-inflationary." Labour may raise the top tax rate from 40 to 50 percent, but there is no talk of any return to pre-Thatcher levels of 88 and 98 percent. Trade union laws may be amended at the edges, but the union anarchy of 1979 is gone forever. Neil Kinnock goes so far as to describe Labour's new approach as "socialist individualism."

Thatcherism, then, is here to stay. So is Mrs. Thatcher any longer necessary? Her opponents argue that Thatcherite prosperity has been bought at too high a price in social divisiveness - picket line violence, football hooliganism, yuppie greed - which must now be remedied. And given the existence of a large government surplus, they argue further, the nation can now afford a little more collective compassion from Mr. Kinnock or the center parties to do just that. Opinion polls suggest that this soothing syrup is exactly what the nation wants.

This jumble of charges has no organizing logic other than partisan malice. As regards greed and hooliganism, Thatcher is being blamed for the vices of human nature. And as for industrial strife, she could never have brought powerful unions within the law if she had not been prepared to face down picket violence.

Nor is she unprepared to spend money. She has recently embarked on ambitious programs of environmental and "infrastructure" improvement. But her social programs are of a distinctly Thatcherite kind, designed to revive initiative and independence among the victims of 30 years of socialist dependency. Tenants of run-down, low-income housing. Parents with children in the blackboard jungle. Victims of inner-city decay. "Social Thatcherism" is based on the idea of individuals, businesses, and community groups helping the poor to help themselves out of dependency, rather than government's helping them into it. Government would assist voluntarism, not replace it.

Legislation to extend parental power in schools and tenant power in government low-income housing is only now coming into effect, and reviving lost habits of virtue is a slow task. But social Thatcherism could replace the morality of social compassion if the Tory government should win another term.

Which looks likely. Thatcher remains in a strongly political position despite the occasional by-election defeat - indeed, maybe because of it. Just as the American voter achieves balance in government by electing a Republican president and a Democratic Congress, so the British voter aims for the same end by voting in a Tory government at general elections but voting for opposition candidates in midterm by-elections. In effect, the voters warn ministers not to go too far. And ministers pay attention. Thatcher's health service reforms, for instance, far from overthrowing the idea of "socialized medicine," are based firmly on the principle that the patient must continue to have free access to health care.

This is a semi-constitutional arrangement that works well. Since it gives the voters what they want, why should they take the needless, additional risk of voting for a Labour government? Even if Labour in power could be trusted to protect Thatcher's legacy of increased prosperity and wider share ownership (which some voters might legitimately doubt), they know that it is not easy to accomplish these things. It requires courageous leadership, sensible, down-to-earth views, and a willingness to stand up to hostile forces, from the miners union to the Irish Republican Army.

They have seen that Margaret Thatcher possesses these qualities; they are not certain that anyone else does. That is why they will continue voting for her at election time.

John O'Sullivan, editor of National Review magazine, formerly was a domestic-policy advisor to Prime Minister Thatcher.
Reliving 56 years of turmoil on the political landscape

By James MacGregor Burns
Knopf
864 pp., $35

By Stephen E. Ambrose
Special for USA TODAY

In this third and concluding volume of his widely acclaimed history of America, Pulitzer Prize-winner James MacGregor Burns carries the story forward from FDR’s nomination in 1932 to Ronald Reagan’s farewell in 1988.

What a tumultuous 56 years! Depression, world war, cultural upheaval, a revolution in civil rights, prosperity, a counter-revolution, more war, civil liberties routed, civil liberties triumphant, more war, greater cultural upheaval, a technological revolution virtually beyond comprehension, more changes than any other people has ever experienced in the whole history of mankind.

Burns lived through it all, observing the scene with a skeptical eye from his post as professor of political science (since 1941) at Williams College in Williamstown, Mass. His Roosevelt: The Lion and the Fox (1956) is a classic commentary on the New Deal. He wrote the first scholarly study of JFK; it helped get Kennedy the 1960 nomination. He is one of the heavyweight intellectuals of the Democratic Party.

Burns opens the work with FDR flying to Chicago to accept the nomination. Roosevelt was the first presidential candidate to fly — a wonderful symbol of the freshness and confidence of liberalism as its practitioners shoved the con-
servative aside and assumed power.

The ensuing 48 years saw liberalism triumphant. Then came the trash of liberalism as freshness and self-confidence became the characteristics of the conservatives. Burns gives a fair and thoughtful analysis of why and how this happened.

He gives us much more — sports, the women’s movement, the civil rights crusade, developments in the media (including a paragraph on the phenomenon of this newspaper), arts and letters — a tour de force of commentary on the ordinary, the grotesque, the unique and the admirable in American life. Throughout, he displays uncommon common sense and sensitivity.

He returns, always and properly, to the Oval Office. He is fascinated by our leaders and, sad to relate, deeply worried about the decline of leadership. At the conclusion of this epic work, he looks back on the Constitutional Convention of 1787 and comments, “The floundering leadership of 1987 stood in stark contrast to the bold, purposeful work of the Framers of the Constitution.”

George Washington, Thomas Jefferson, John Adams — “two hundred years later, was there a single leader who could be compared with these men?”

Nor does he have to reach back 200 years to make invidious comparisons. “Reagan’s erratic leadership, both foreign and domestic, compared poorly with that of his fellow conservative Margaret Thatcher … and that of the worldly Soviet party boss, Mikhail Gorbachev.”

This is a book to be read, savored and thought about. Burns closes with a hope — that in the next political cycle, the president “will confront the oldest continuing challenge in America: the broadening of real equality of opportunity combined with the expansion of individual liberty.”

Will it happen? Burns is unsure.

What he calls “the structure of disarray” has become a dividing force, he writes. The pulling and tugging in the adversarial relationship that is the core of our political, economic, legal and educational systems make setting and reaching goals, as we accomplished in the Depression and World War II, increasingly difficult.

Stephen E. Ambrose, Boyd professor of history at the University of New Orleans, has written biographies of presidents Eisenhower and Nixon.
Why Communism Is Losing

THERE are a number of reasons that communism is on the retreat around the world.

One is that it simply is not working as an economic force. It does not work in communist lands. It has not worked in those third-world countries that have experimented with its precepts. The contrast in living standards between the socialist countries and those like Japan, Western Europe, and the United States that hew to free enterprise is clearly evident.

Another reason is that communism is incompatible with the sense of freedom that impels and inspires mankind, no matter how long it has been repressed by authoritarian regimes.

As Milovan Djilas, a Yugoslav writer and politician, said in an interview a few months ago: “Communism can exist only as a totalitarian system. Communism with a human face is not possible. Human rights as we in the free world visualize them are not possible under communism: They are contradictory to the system. Glasnost and perestroika may open up a little more tolerance here and there, but in essence communism will remain a monopolistic power.”

But one of the most significant new problems confronting communist states is the explosion of the information era. Truth is increasingly difficult to stifle. News flashes freely across international borders. Information flows like water, seeping under the guarded boundaries, into the student dormitories, into the newsrooms of restricted newspapers.

In the Soviet Union, for instance, a reporter needed written permission to unlock the office copying machine to use it. But as glasnost has opened the door a crack, the Soviets have been coping with the facsimile machine, the personal computer with its capacity for networking, the instant international telephone system, and the now-unjammed transmissions of the Voice of America and the BBC.

Nothing illustrates better communism’s fear of information than the actions taken by the Beijing regime in the face of student demonstrations for reform.

Voice of America broadcasts, listened to by millions of people in China, have been jammed to limit the flow of information. American television reporters, in Beijing for Mikhail Gorbachev’s visit, had their permission to make live broadcasts revoked in contravention of their written contracts with the Beijing regime. The ban was lifted on Tuesday.

Gorbachev’s visit was overtaken by demonstrations, and the authorities were irked when the protests became the focus of reports to the outside world. What drama as we saw depicted live from Beijing the attempts of Chinese officials to cut the broadcasts off, even as network anchors hung on broadcasting the last up-to-date developments.

For Beijing’s embattled regime, and probably for most communist governments, this struggle with the information era is a losing one. Live television broadcasts may be banned, but resourceful reporters find ways to get their material out. People outside China still have a fair idea of breaking developments, and the whole story will ultimately emerge.

Inside China, the authorities may jam incoming foreign broadcasts and attempt to stifle their own press, but the people’s hunger for news will not be stifled. Telephone calls from the US to China have tripled, from a routine 10,000 a day to more than 30,000 a day during the protests. A lot of news is flowing back and forth amid the family chatter.

Many thousands of Chinese students who have studied in the US and other free countries have returned home with their eyes opened. They are drawing on networks of friends and colleagues around the world.

China has long been a country of wall posters, and the posters are getting the news out despite government censorship of newspapers, radio, and television. Generals who have told the government they will not attack demonstrating students leak their letters of protest; wall posters in Shanghai tell what is happening in Beijing; both domestic developments and foreign reaction are chronicled one way or another.

Truth is communism’s worst enemy—and it is winning.
A SOVIET humorist, commenting on the shortage of consumer goods in his country in comparison with the great amount of new and exciting information in its press, contends that today in the Soviet Union reading is more interesting than living. In a country where even Pravda and Izvestia are often sold out, and where sugar has been rationed, this is certainly true. Amazing revelations appear daily. Previously suppressed works are printed in large editions. Domestic politics, heretofore boring and lacking any real substance, has become fascinating.

Almost every field of endeavor has become more interesting than in the past. But no area is more strikingly different today than the study of history. The past is now more relevant to the present in the USSR than ever before in Soviet history. Literature, the theater, and cinema are dominated by the past. New writers have difficulty getting published today in the USSR because the press is full of works by authors like Boris Pasternak, often forbidden in the past. And new works on historical subjects frequently outnumber contemporary themes.

Historians themselves are having to relearn their field. High school textbooks are being rewritten. Rehabilitations are common: The formerly ignored Nikolai Bukharin now is seen as a precursor of perestroika, for example, and his American biographer has been invited to the USSR, after years of being refused admission, to oversee his biography’s appearance in a Russian edition. Even Leon Trotsky is now discussed openly, and parts of his historical legacy are being recognized. No longer a nonperson, Trotsky has not been rehabilitated, but he is at least treated as a genuine player during the first decade of Soviet power. It has even been admitted that he was murdered at the order of Stalin.

Historical “facts” are having to be reevaluated as well. Recently it was announced that the bones of Nicholas II and his family were recovered more than a decade ago in Sverdlovsk, where the royal family was executed in 1918. Now it is deemed possible to make their discovery public and to clarify the details of their deaths and the disposal of their bodies.

In the USSR, as in the West, historians have long tried to fill in the gaps in their knowledge of the past. In the USSR, however, as in prerevolutionary Russia, inconvenient historical facts have been suppressed. Many Soviet historians, as a result, know less about certain aspects of their own history than do scholars abroad, and no Stalinist era? Why did they refuse to speak out? Was it solely fear for their own lives or those of their families, or was there something more involved?

These questions are troubling for Soviet citizens. A recent Soviet visitor to the United States remarked that it would be horrible to believe that the Russian people have a fatal flaw that leads them to follow, unquestioningly, leaders like Stalin. What would that say about them as a people, as prospective contributors to a better world, as builders of a more humane society for their children? What would it portend for the future of Gorbachev, of perestroika, for our planet?

Ironically, history in the USSR has become the most contemporary of all the social sciences, its discoveries the most relevant to the present. In grappling with their past, the Soviet people are attempting to understand themselves better. Sincerity and honesty are essential for Soviet professional historians to overcome the stodgy, dogmatic reputation they have gained, justifiably, in the West. Now everyone in the USSR is concerned with the country’s past, and professional historians there have been joined by amateurs.

Some, like the nationalist organization Pamyat, are looking for a “usable past” that is to be found in prerevolutionary, purely “Russian,” often obscurantist traditions. Others hope to reinvigorate their Marxist ideals by returning to the traditions they associate with Lenin, Bukharin, and even Khroushchev. But their search for the past will lead them to an understanding of themselves and their present.

George Santayana said those who fail to remember the past are doomed to repeat it. For no people in the world today is this observation more important than it is for the citizens of the USSR. For most of them the principal issue of the past is Stalinism. “Democratization,” glasnost, and “new thinking” are all directed toward overcoming the legacy of Stalinism and guaranteeing that in the future the only relevance Stalinism will have to the lives of Soviet people will be as a closed chapter in their history.

Ironically, history in the USSR has become the most contemporary of all the social sciences, its discoveries the most relevant to the present.

period of their past is murkier or has been treated more dishonestly than the era of Stalinism. The Stalinist legacy is the overwhelming issue among Soviet historians today, as it is so often for Soviet writers of fiction, for dramatists, for filmmakers, and for people on the street who survived Stalinism.

Truth about the Stalinist past is emerging. Sometimes, as in the case of the Katyn Forest massacre, the initiative comes from foreigners. At others, as in a reexamination of the cost of forced collectivization during the 1930s, the stimulus to learn the truth comes from Soviet citizens themselves.

Scholars, the news media, and the ordinary citizen are all willing to confront a history that is often frightful.

Yet it is not the details of Stalinist oppression and barbarism that are at issue. Rather, it is the implications of Stalinism that occupy Soviet citizens’ minds. They ask themselves how Stalinism was possible, how it could have developed from a Leninism that Mikhail Gorbachev has upheld as a model for every good communist to emulate. How was it that fine, loyal, upstanding Soviet citizens could surrender to the deceit, cruelty, and moral corruption that so typified the Soviet era? Why did they refuse to speak out? Was it solely fear for their own lives or those of their families, or was there something more involved?

These questions are troubling for Soviet citizens. A recent Soviet visitor to the United States remarked that it would be horrible to believe that the Russian people have a fatal flaw that leads them to follow, unquestioningly, leaders like Stalin. What would that say about them as a people, as prospective contributors to a better world, as builders of a more humane society for their children? What would it portend for the future of Gorbachev, of perestroika, for our planet?

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The West has ‘won’ the ‘cold war’

If there is anyone left who still clings to the belief that the world’s superpowers are morally equivalent, the events of the past few months should have laid that myth to permanent rest.

What has happened, in effect, is that the democratic West has “won” the “cold war.” The communist world, in a dozen different ways, has conceded that the moral and political premises of its system have been rendered false.

“Scientific socialism” has been, in practice, neither scientific nor socialist in the sense of putting the tools of production into the hands of the people.

The decades-old assertion that “bourgeois freedom” was less important than sustenance and equality has been laughed off the political stage.

The world now knows the USSR can’t adequately feed, clothe or shelter its own people — and that the privileges of the “nomenklatura” — access to better food, schools and jobs — make America seem an egalitarian utopia.

When a totalitarian, expansionist state wins power over a neighbor or a colony, it imposes a range of controls on that subjected party. Everything from the language to the economy becomes a reflection of the conquering power. That’s why Russian is spoken throughout the non-Russian “republics” of the Soviet Union, and why, in another time, the Philippine political system was “Americanized.”

Consider, for example, what the Soviet Union might be demanding of the U.S. were the situation reversed, were the U.S. conceding to the world the failure of our economic system and the fundamental mendacity of its history and its political assumptions concerning freedom.

Would Moscow be insisting on the dismantling of NATO, the end of America as a naval power in the Pacific, a series of trade agreements that gave the Soviet Union dominant economic advantages?

By contrast, Washington has authorized the sale of subsidized wheat to the Soviet Union, and has helped six major U.S. firms enter a joint agreement with Moscow worth billions of dollars.

And politically? The president and the secretary of state are publicly cheering Mikhail Gorbachev on, even as U.S. and European pundits bewail Gorbachev’s control of the international agenda.

The elected leaders of the West are applauding a move toward free elections, toward the creation of a political structure that could make the Soviet Union a much more vibrant state.

And in looking toward Peking, the West at times seems almost afraid to encourage the astonishing appetite for democracy that has effectively disarmed the People’s Liberation Army and brought that nation to a crisis.

The West still retains an essentially moral view of individuals: a view that regards freedom, liberty and autonomy as good.

If Japan is bashing us in the marketplace because it is free, which of us now regrets the decision after World War II to nurture democracy there?

If the Soviet Union becomes stronger because it develops an appetite for freedom, which of us would rather it be allowed to descend into Stalinism the better to strengthen America’s hand in the world? That approach is, literally, “un-American.” We’ll celebrate “victory” in the “cold war” when the first really free Soviet parliament and the first freely elected South African president and the first free Polish judiciary are realities.

And that’s what makes us different.

Jeff Greenfield, based in New York, is a political commentator for Universal Press Syndicate.
The Larger Context

Some people blame capitalism for the poverty of Latin America. They ignore its (continuing) precapitalist legacy.

WHY LATIN AMERICA IS POOR

By Michael Novak

A Midwestern nun, Sister Mary, wrote me that she has just returned from serving as a missionary for ten years in “a Catholic” nation of Latin America, and is appalled at the “capitalism” she saw there.

She fears that, reading my column, “a good American capitalist could comfortably settle back into self-satisfaction, and not feel any further need to question.” There are, in fact, plenty of questions for everyone—including Sister Mary.

Why, for example, are Latin Catholic nations as poor, as badly governed and as riddled with corruption as Sister Mary says? And why does she blame these wrongs on capitalism, seeing that Latin America is still precapitalist?

Sister Mary’s letter reached me just after I returned from some lectures in Santo Domingo, the very island on which, during his second voyage of 1493, Christopher Columbus launched the first European experiment in the Americas.

Actually there were to be two great experiments in this hemisphere—one in Latin America, begun on Nov. 22, 1493, and the other in North America, begun more than a century later, in Virginia in 1607 and in Massachusetts in 1617.

Writing from Scotland in 1776, Adam Smith observed both of these experiments—one imitating the political economy of the Holy Roman Empire, the other pioneering a new model without precedent on earth. Smith foresaw that the former would end in the poverty and misery quite visible to Sister Mary today, and that the latter would end in unparalleled liberty and prosperity.

Smith urged the nations of the world to break from the former and to follow the latter into a new era of humane development.

Hispaniola, as Columbus called the rich, verdant and spectacular island that is today divided between Haiti and the Dominican Republic, was established under Spanish law and Spanish concepts. Through and through it was a statist project.

The Spanish Crown clasped all economic powers to its silken bosom. No industry could be launched, no crop planted, no manufacturing undertaken without a grant of economic power from the state. Further, the Crown at first demanded in taxes 50% of all fruits of labor. Not surprisingly, agriculture and industries barely began immediately collapsed.

Historians record that many of the Spanish immigrants wished from the beginning to set up a feudal system on ancient patterns. They thought less of creating new wealth by invention than of seizing bright metals, the glittering objects of avarice. They neglected the laws and liberties that reward industry, cultivation and investment over generations. Even in 1871, a Dominican told an American journalist, “All I want is to be sure that my property will be handed down to my children with certainty, but under the present state of things there is none.”

The Spanish thought that poverty was relatively unchanged. A good Christian aristocrat would treat the poor leniently and paternalistically, a bad Christian harshly. The poor are passive recipients, whose eternal lot is dependency. These are feudal, not capitalist, ideas.

Oppressive Spanish taxation of the New World opened the Caribbean to raiders from France, the Netherlands and England—to traders in contraband, to pirates and huge fleets of warriors intent on seizure. Wealth was gained the old-fashioned way, by taking it. Sir Francis Drake’s invaders sacked Santo Domingo in 1586, stripping the Cathedral of St. Mary’s of its gold and precious vessels. For generations other marauders looted, pillaged and kidnapped for ransom. In this precapitalist world, natural rights to life, liberty and property found no institutional anchor.

Even today, in most Latin American countries, as Peruvian economist Hernando de Soto says in his brilliant book, _The Other Path_, a large majority of the vigorous economic activists among the poor are forced to work outside the law. So narrow and antiquated is the legal system governing economics that they are treated as illegals or informals, subject to criminal penalties.

Compare by contrast the industry, orderly fields and productive agriculture—and the sway of institutions of ordered liberty—that delighted the admiring eye of visitors to North America from Crévecoeur to Tocqueville. Throughout the northern experiment, the vast bulk of those who came poor did not long remain poor. The new idea of economic order that so engaged Adam Smith—the new emphasis upon invention, discovery and the orderly protection of economic activism—was absent from Latin America, and is absent still.

Sister Mary should think on that before she blames Latin America’s poverty on “capitalism.”

The condition of les misérables in Latin America today is as utterly unnecessary as it was in Victor Hugo’s France in 1832. Ancient ideas, ancient institutions and ancient customs hold back the entire Latin American continent, which came from the hand of God one of the most richly endowed in natural resources on all the earth.

Sad. Even our missionaries fail to understand the powerful new ideas that made the North American experiment so liberating for “huddled masses yearning to breathe free.” Ideas matter. Laws matter. Institutions matter. The “new order” makes the difference.

Philosopher, journalist and ex-U.S. ambassador Michael Novak directs social and political studies at the American Enterprise Institute in Washington, D.C. Among his recent books are Taking Glasnost Seriously and Free Persons and the Common Good.
Peru, under democratic rule since 1980, is on the verge of economic collapse. Chile, shackled for years with a dictatorship, is an economic success story. Yet, Peru's failures are not those of democracy, and Chile's successes are not those of dictatorship. While Peru has fought individual initiative with socialization and bureaucracy, Chile has harnessed the market economy, partly by encouraging individual incentives.

Last year, Chile's real gross national product expanded by 7.3%, while the Peruvian economy contracted by 7.5%. Santiago, the Chilean capital, is experiencing a construction boom comparable to the Washington metropolitan area, while one needs eagle eyes to spot new construction in Lima.

New businesses sprout daily in Chile; in Peru, established businesses are folding in record numbers. From September to March, Peru lost more than 500,000 jobs. According to estimates by economist Roberto Abusada in the news magazine Caretas, Peruvian production fell 25% during that period. In contrast, Chilean unemployment fell to a new low of 5.9%, a world-class performance.

Chile has built up thriving manufacturing and agricultural sectors, reducing the proportion of its exports obtained from the mining sector to 40%. Endowed with a resource base similar to Chile's, Peru has neither diversified its economy nor maintained earlier levels of production of its traditional exports. Strikes bog down the mining sector in Peru, accounting for about half of exports. Traditionally a leader in the export of fish and fish products, Peru has been surpassed by Chile by a ratio of 2 to 1.

CREATING CONVERTS. In Peru, the moneyed class is excelling in the fast-moving and glamorous world of finance. Their clients are drawn from the city's corporate and political elite. In Lima, the rich have created a new, exclusive quarter, introducing new boutiques and restaurants.

The failing Peruvian economy is creating new converts among the hungry masses to the Maoist terrorist group Sendero Luminoso ("Shining Path"). Terrorists bomb targets and kill government officials with regularity. Crime is rampant in Lima, with thieves and muggers taking over the streets. Inflation is at hyperinflation levels of 7,000%-a-year. Predictions of civil war or a military coup are on everyone's lips.

Peru's 270 government-owned companies gobble up half the nation's budget. Worse, the poor end up paying the price for inefficient state-owned monopolies: The Peruvian government prints money to pay public salaries, causing the hyperinflation that hits the poor hardest.

Peruvians take little solace in the fact that they enjoy more political liberties than do Chileans, who after all live under a regime with a repressive human rights record. Instead, they openly envy Chileans' economic freedoms. In Chile, a business can be registered in a day and money invested without fear of government confiscation, but Peruvians must bend their way through government monopolies and restrictions that force many legitimate businesses to operate in the underground, if at all. Hernando de Soto, former managing director of Peru's Central Reserve Bank, reports in his book, The Other Path, that it took 293 days of wading through red tape and $1,231 in bribes—32 times the monthly minimum wage—to legally set up a small garment factory in Lima.

BANK CONTROLS. Chilean strongman Augusto Pinochet has protected private property rights with constitutional reforms designed to outlast his rule. The central bank of Chile is prohibited from lending money to the government under any circumstances other than a state of war, thus preventing Santiago from financing budget deficits by printing money. Consequently, Chilean inflation is 12% a year, low for the region.

While Peru built up the state sector, Pinochet took on the entrenched Chilean bureaucracy and won. Since 1973, hundreds of state companies have been privatized and encouraged to compete against state enterprises. The national pension system was privatized, and today about 70% of the pension system is in private hands and funded with stock ownership, thus creating a popular resistance to the renewal of socialization.

Their livelihoods disappearing, Peruvians are increasingly aware of Chile's success. Recently, a Peruvian diplomat in Washington was fired for articulating the view that Peru needs a Pinochet. Yet many Peruvians openly bemoan the absence of a similar figure within their military to rescue the country from its cataclysmic decline.

The experience of these two countries demonstrates that the region's problem is not the size of government, but the external debt. Peru is failing despite not making a payment on its foreign debt since 1986. The country has accumulated arrears of about $10 billion on its $18 billion debt. Chile enjoys high growth even though the country meets its foreign debt obligations, last year paying $2.9 billion in principal and interest on its $15 billion debt.

If Latin America is to avoid economic decline, the U.S. government and multilateral institutions we support must begin to stress the importance of economic as well as political freedom.
Peruvians Gloomy About Reversing Economic Downturn

By Kathryn Leger
Special to The Christian Science Monitor

LIMA, PERU

PERUVIANS, already struggling with 3,000 percent annual inflation and declining standards of living, are bracing for still-tougher times.

In early April, the government of President Alan García Pérez will announce another round of austerity measures to gradually reduce subsidies on basic foodstuffs and selectively raise prices. The aim is to combat inflation by reducing imports and consumption, and to cut the budget deficit and build up government reserves.

In addition, Finance Minister Carlos Rivas Dávila says he is seeking a bridge loan from the Inter-American Development Bank to make good on arrears and prepare the way to resume disbursement of $100 million in credits. Last week, Mr. Rivas Dávila renewed formal contact with foreign bank creditors for the first time in three years, since President García capped debt repayments at 10 percent of the country’s annual export earnings.

But economists, and Peruvians in general, are skeptical that government attempts to improve the economy will succeed.

"The economy is controlling the government, not the other way around," says economist Guido Pennano. "Inflation is the main problem, and there is no investment because no one knows what is going to happen in the future."

Critics like Mr. Pennano say the government is building up reserves at the expense of the middle class and poor. They suggest Mr. García will use the reserves to pump up the economy in time for municipal elections in October and national elections in May 1990.

The word 'survival,' previously reserved for the estimated 40 percent of Peruvians who live in extreme poverty, is now regularly used to describe the economic position of the middle class.

"Hyperinflation has quashed [the middle class’s] sense of future," says Felipe Ortiz de Zevallos, a leading financial analyst and polster. "The lack of credit and hyperinflation has eliminated the possibility of buying on credit or making investments."

"Never in the history of Peru has the middle class suffered like it is now," says Dante Meza, a real estate agent who has had to use his car as a taxi in recent months to help make ends meet. "People have to try and stretch what they have and find other jobs. It's creating a real sense of desperation."

Wages have not kept up with inflation. This week a pound of tomatoes cost almost the equivalent of half a day's wages for the average government worker.

"Meat is not even part of our diet anymore," said Ruth Borja, a mother of one. Borja, who works for the government's national archives said she can barely survive on her monthly salary of 60,000 intis (about $46).

Others have had to give up going out at night or buying newspapers to have extra money for food. Some have quit their jobs to find work closer to home because bus fare eats up to three-fifths of their salary. Others are selling what they have and leaving the country.

The situation is even more precarious for the millions of poor who live in the shanty towns around Lima. They can barely afford milk, despite government attempts to provide a cheap, powdered version.

Victoria Torres, a mother of six, says her family survives on soups made of noodles, bones, or fish heads. "Just about everything seems out of our reach," says Mrs. Torres, whose husband, a laborer, earns about $40 a month. "What is going to happen to us? All we can do is wait and see."
THE OTHER PATH
The Invisible Revolution in the Third World

by Hernando de Soto
foreword by Mario Vargas Llosa
from a review by Roy A. Childs, Jr.

When I began to research and write about this astonishing book, it made me appreciate what exciting times we live in, for this is a book that will change the world. It was written by Hernando de Soto, a businessman and economicist in his mid-thirties, and published with a preface by world-famous Peruvian novelist Mario Vargas Llosa. Called El Ojo Serrano, it is a work of genius.

THE OTHER PATH is already generating a mass movement in Latin America! To give you a hint of its startling impact, last year when the Peruvian government tried to nationalize the banking system—par for the course in dismal Latin American nations—hundreds of thousands of people, most motivated by De Soto’s analysis, turned out in protest! When was the last time you heard of such a thing in a nation like Peru? It boggles the mind! And novelist Vargas Llosa, author of the book’s truly scintillating preface, which, still, both quite right and the redistributionist left in the Third World, is now being touted as a likely successful candidate for President of Peru in 1990.

Manifesto for the Third World

What is it all about? If this isn’t some reactionary political tract, or another leftist diatribe, what is it? In fact, it is a virtual manifesto for laissez faire capitalism in the Third World. From an approach you never dreamed of.

For years De Soto watched helplessly as the Third World sank ever deeper into stagnation and despair. His native Peru seemed doomed. Then there appeared a few rays of hope. Suddenly small ramshackle communities began to spring up, and there were small, steady leaps in standards of living. Why?

The “Informal” Economy

Because poor people began pouring into urban areas after a series of disasters—natural and otherwise—had devastated the countryside. But the socialist government had made no provision for them. Thus there was no housing, no transportation, no food or water, no jobs. Still they came and—began to provide all of these things and more for themselves. Shut out of the “formal” economy, they ignored the state and a whole black-market or “informal” economy came into being. Over the past few years, it has generated 83 percent of the markets in Lima alone, 47 times the housing of the public authorities, and 95 percent of all transportation. And that merely scratches the surface.

De Soto founded the Institute for Liberty and Democracy (ILD) to research the informal economy, and found, shockingly, that all presuppositions about the Third World economic system had to be overthrown. The poor were inventing the free market. The free, informal, market was the spontaneous answer of the poor to economic oppression by the state. It was their means of providing for their own needs.

As for the government, Vargas Llosa writes, “The state is the problem, not the solution.”

THE OTHER PATH is having the impact of a fist being pounded against the doors of closed systems. It has already been the subject of hundreds of stories, interviews, editorials, and the like worldwide. You will hear much more about it in the months and years to come. 256 p.

THE SHOT HEARD ’ROUND THE WORLD
COMMENTS ON THE OTHER PATH:

“You must read this book to understand the consequences for poor people of traditional Latin American mercantilist values, attitudes, and institutions.”
—Lawrence E. Harrison
Author, Underdevelopment is A State of Mind

“The best way to understand Latin America’s problems and issues is to read The Other Path. It is a new book which is sweeping Latin America.”
—Bill Bradley, U. S. Senator

“...this is a book that will change the world... it is a virtual manifesto for laissez faire capitalism in the Third World.”
—Roy A. Childs, Jr.

“The big argument among Latin America’s Catholics today may be symbolized thus: Gustavo Gutierrez (The Theology of Liberation) vs. Hernando de Soto: The Other Path... Hernando speaks for the poor... he makes a revolutionary critique of elites both of the right and the left.”
—Michael Novak, author of Will it Liberate?

“The Other Path opens a new and promising path that helps Latin America find itself... It is an important book because it full of novel approaches.”
—Nicolas Ardito-Barletta, General Director of the International Center for Economic Growth, Ex-President of the Republic of Panama.

—Erasco Penaherrera, Vice President of Ecuador.

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U.S. Forces Wrong Medicine Down Latin American Throats

BY MANUEL F. AYAU

The Americas

GUATEMALA CITY--The subject of foreign aid for economic development is not easy to discuss. A new Agency for International Development report, remarkable for its self-criticism of aid programs, will likely be condemned as insensitive to the interests of the Third World. Aid proponents are shielded from criticism by the

nocent belief that if intentions are good, the results sought are automatic, unless some evil spirits conspire to pre-empt achievement of the worthy goals. However, the truth is that only a small fraction of the foreign aid given to Latin America in the past 30 years has actually been of help. Some has been wasted (to put it charitably). But most has actually aggravated the malaise it was intended to cure.

Latin Americans don't stay poor because we want to. It is because we are bribed into accepting interventionist economic policies by so-called developmental economists who view the free market as disorderly, inefficient and unethical. This perception is the result of ignorance of how the market coordinates people's actions, how it allocates resources, why bankruptcy plays an important role, why private property is essential, etc.

There are three broad areas in which bad advice has been proffered as freely as greenbacks. All other bad policies—involving land reform, import substitution and the like—are generally variants of these:

• Tax Policy. Since its inception, foreign aid has been contingent on the adoption of tax policies that are promoted more by a redistributive than a productive philosophy. Redistribution of land and incomes disguised as "reform" and a more equitable distribution of wealth have been a precondition of aid.

• Monetary mismanagement. All Latin American central banks have as their primary function the totally unnecessary task of expropriating all the foreign exchange earned by their citizens. They pay producers who earn the foreign exchange less than it is worth in the market and then proceed to sell it at different prices depending on what is going to be saved for. By enforcing multiple exchange prices, many Latin speculators (or those with inside information) are able to obtain dollars at one rate to sell at a higher one. In effect, monetary policies of Latin America force the producer of dollars to subsidize the spender of dollars and the flight of capital. Central banks become the arbiters of all activities, including how often and for what purposes their citizens should travel (as if they knew).

• Labor legislation. U.S. labor organizations, funded overtly and covertly by the U.S. government, have dispensed a lot of aid to Latin America trying to reform Latin labor laws. Often the help does more harm than good—for the economy and for the workers.

A severance-pay provision was initiated in Guatemala that gives the worker the right to one month's wage for every year of employment according to the last wage, but only if he is fired. If he quits, he gets nothing. Therefore the price of leaving voluntarily to take a better job is very high, equivalent to losing all his savings. So the worker is likely to pass up better opportunities. Should the worker quit, the employer is relieved of a contingent liability. Thus, the employer has a strong incentive not to raise wages to induce workers to stay. In effect, workers become captive labor without bargaining power. Should they tell their employer that they would leave if their salary is not increased, the employer will smile inwardly. The end result is that most people end up earning less than they could, and they are stuck in the wrong job to boot. The productivity of the country is lower, diminishing the purchasing power of all earnings.

Of course now that the free-enterprise lexicon is chic (even among communists), aid officials must change their tune. But even in the name of capitalism, aid officials continue to make critical misallocations—currently by pouring money into private-enterprise projects (as distinct from free enterprises). Private entrepreneurs can be as opposed to the competitive forces of the free-enterprise system as the most stubborn interventionists. Most are by necessity so entangled and dependent on the webs of government intervention that they don't believe the world can operate without it. Since free the economy means undoing the environment in which they have succeeded, they might not be enthusiastic about destroying their privileged positions.

It is only in the achievement of understanding the functioning and ethics of the free society that foreign aid can contribute to economic development—not in solving actual problems, but in helping to understand the problems. And this can be done with a fraction of the resources that are wasted in the attempt to solve problems themselves. The U.S. Congress has the rare opportunity to do good by spending less money. Considering its own huge budget deficit, that should come as good news to the U.S. taxpayer.

Mr. Ayau is president of Universidad Francisco Marroquin in Guatemala.
Beyond Argentina 9 June 1989

Anyone who tires of thinking about the mammoth Latin American debt problem ought to keep in mind that, for better or worse, the United States government and United States banks are going to be held responsible for how this thing comes out. If Argentina, Brazil, Venezuela, or even Mexico descend toward political and economic anarchy, both the U.S. political interests and the banks' financial interests will be damaged— in the long run probably severely so.

We make these remarks against a backdrop of Argentina speeding toward crisis on the wings of inflation estimated by some now at more than 104,000% and with debt talks resuming in New York tomorrow between Mexico and its bank creditors. There were reports Wednesday out of the Madrid International Monetary Conference that the World Bank, IMF and Japanese banks had agreed to put up $5.5 billion for Mexico. Presumably some of that could be used to reduce debt principal, in line with the Brady Plan. Debt spokesmen for Mexico and Citibank said the commitment could produce rapid progress.

We hope that's true. The U.S. banks no doubt have to pursue their interests in this matter as they see them, but we've worried for some time that the banks, the international institutions, and some parts of the U.S. government often can't see the forest for the trees in this issue. Whatever any particular set of numbers looks like for the Americans, the U.S. simply can't fail to produce a positive political outcome for the Latin continent. That is the responsibility of leadership that currently rests on the United States, and if the U.S. can't produce that leadership, the Latin America and other countries as well will look for someone who can—the Japanese, if we're lucky, or the Cubans or the drug lords or home-grown demagogues.

Which brings us specifically to the role, or non-role, of the U.S. administration in this process. Suffice it to say that Latin American policy under George Bush and in the late stages of the Reagan administration hardly has been crowned with success. What little policy the U.S. has is mostly made at Treasury, which is charged with responsibilities for keeping Latin debt problems under some semblance of control. It hardly can be said that Treasury has been succeeding.

Brazil may be forced to declare another debt-service moratorium soon, according to banking circles, and that will do nothing to improve the deteriorating political situation in that country. Venezuela is hard pressed. Mexico's Carlos Salinas de Gortari is under heavy political pressure to come up with a good deal with the banks. The ultimate solution to these countries' economic problems lies at home, but the U.S. should be exerting some leadership to bolster reformers working in the right directions.

Nothing Washington or the banks could do would solve the 40-year-old problem of Argentina, which our Americas column elaborates on nearby today. But the administration certainly could have exhibited more support for Argentina's Raul Alfonsin who, despite his shortcomings in economic strategy, has been regarded widely as an upright and courageous president. Either through oversight or design he was hung out to dry in April when he badly needed U.S. support for his "spring plan." When it was not forthcoming, he felt compelled to float the austral, and its value quickly plunged. By some accounts, the election was lost to the Peronists that weekend.

Mr. Bush's critics are entitled to ask whether, so far as Latin American policy is concerned, anyone is minding the store. The best answer to that question would be a more vigorous effort to give support for those positive political trends that still exist in the nations to our south.
THE WALL STREET JOURNAL FRIDAY, JUNE 9, 1989

Will Reality Force the Hand of Argentina's Peronists?

BUENOS AIRES - Foreigners always wonder how Argentina with the quality of its people, fertile soil, and cities that seem like transplanted European capitals can have an economy in such shambles. In fact, our economy is grinding to a halt. Prices are climbing by the hour. Commerce is reduced to its minimal expression since salaries cannot keep up the pace, and high interest rates inhibit borrowing for investment or even maintenance. As a result, factories are closing and shops are running out of merchandise.

While the economy slowly has been declining ever since Juan Peron nationalized

The Americas

By Manuel Tanoira

most services and put the important industries under tight control 40 years ago, it started to collapse just before our May 14 presidential elections. Polls showed that Argentines were so disenchanted with the ruling Radical Party that they were willing to vote for the Peronists, who had started the downward slide in the first place. Economic and financial operators panicked, afraid that the new government was going to apply obsolete remedies.

The collapse also was pushed along by cutoffs of foreign loans, due to an understandable reason: We have not paid any capital or interest on our foreign debt for the past year. We consistently have failed to fulfill our promises to rationalize the economy, cut public spending and put our house in order. International institutions and foreign creditors grew tired and suspended financial help. Without support loans, the government did not have enough foreign currency to regulate the exchange. The austral/dollar rate went from 18/1 to 200/1 in a few weeks and the price escalation started in earnest.

President Raul Alfonsin came into office in 1983 with a foreign debt of $50 billion incurred by the military governments that preceded him. During his five-year tenure the debt went up to more than $60 billion. Nevertheless, those who blame our problems on the service of such debt fail to take into account that debt payments, net of new foreign loans, have not been significant in the past five years. For a country with a gross national product of more than $100 billion, such payments cannot justify our dramatic decline. Moreover, we also have added $5 billion of internal debt.

The causes of our problems are startlingly easy to pinpoint. The main culprits are the state-owned enterprises. The largest 12 of them account for 80% of the fiscal deficit. National railroads lose about $5 million a day. Aerolineas Argentinas loses close to $1 million daily. But they produce their greatest harm by what they impede more than by their cost. Forty percent of our locomotives are not in service because of lack of maintenance. Government offices are heavily (70%-80%) overstaffed. Inefficiency within the government's electricity-generation monopoly has caused the country to go on rotated blackouts. Consumers are at the mercy of bureaucrats.

We also maintain obsolete nationalistic prejudices against foreign capital. We keep subsidizing inefficient industries, so consumers pay twice the international price of a TV set only partially assembled here with imported components. We have built an industrial system based mostly on subsidies, effectively castrating its ability to compete in the world market.

Worst of all, our citizenry has grown accustomed to it. We only grumble protests without taking decisive action. With the regulators and interventionists in power, there is no possible recovery.

But reality has caught up with Argentina, and the road to recovery is pretty straightforward:

First, we have to put our international finances in order. Unless we resume payments or negotiate an agreeable solution with our creditors, no new money will come in and credit will be hampered.

Then we have to cut down on government expenditures. The deficit incurred by inefficient state-run enterprises gives Argentina enough money to pay the service on our foreign debt. Others in the world have shown us that there are many ways to privatize these industries without great social cost. Participation of the workers in the ownership will help soften opposition. Also, foreign and internal debt can be swapped for equity stakes in state-owned assets.

Since the private sector has to grow, it eventually will absorb the surplus of state employees who have to be laid off. In the meantime, salaries could be paid out for as long as needed to relocate people. An example: Railroads cost well over $1 billion each. They transport only 7% of cargo and passengers, so little harm will be done if they are eliminated. Total cost outlays, if divided by the 100,000 employees, would average about $800 per month per employee. In a country where salaries average between $50 and $100, even $400 a month would be a huge severance pay (the rest of the money could be used to compensate rail users). What can we expect from the Peronists? The history of Peronism leads one to expect more of the same poison. President-elect Carlos Menem voiced only platitudes and grandiose schemes throughout his campaign. No details of policy plans ever were given and many suspect that this was because he does not have them. His opponent from the incumbent Radical Party, Eduardo Agenloz, presented a specific and detailed economic program. But his party had so bungled the economy that Mr. Menem won easily.

Most of the population, including rabid anti-Peronists, is demanding that Mr. Menem assume the presidency before Dec. 10. While food riots seem to have subsided with the arrests of extreme leftist instigators, the economic crisis keeps worsening. The government's image is deteriorating by the hour. No believable economic plan will succeed unless it is presented and guaranteed by the Peronists, who also have complete control of Congress. Therefore, stopping the crisis requires that the elected government take over as soon as possible. (The latest rumor suggests that a changeover might take place in the first week in July.)

Mr. Menem has surprised everyone by naming his cabinet well ahead of time. In a move that pleased the business community, Mr. Menem announced that Miguel Roig would be his minister of economics. Mr. Roig is a retired vice president of Bunge & Born, the only multinational of Argentine origin. He is an admirer of the Nobel Prize-winning economist Lawrence Klein and has suggested that Mr. Klein's neo-Keynesian economic policies may work for Argentina. Linking economic actions with results certainly would be a welcomed novelty here. However, mixing the Peronists' wishful thinking with the notion that positive change can be implemented without first reducing the influence and purchasing power of the state could be an extremely lethal cocktail.

Of course, the Peronists have little room to maneuver. And Mr. Menem's political base may have broadened to the point where he can stand up to the unions to make hard cuts when necessary. At this point, most Argentines will support any reasonable measure that the new government takes. Our options, as the Peronists well know, have been limited by a force stronger than any ideology: reality.

Mr. Tanoira is an engineer and former secretary for growth promotion under President Alfonsin.