

Topical Study #17

## **The Triumph Of Capitalism**

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### **I. The Global Revolution**

“End-of-cycle” and “twin deficit” preoccupations have distracted many investors from seeing and appreciating the big, global picture—which is extraordinarily bullish for stocks, bonds, and humans! The big picture shows that people around the world share a desire to prosper. And increasingly they believe that capitalism is the means to that end—not communism, socialism, mercantilism, militarism, nationalism, or corruption.

More and more people around the world recognize that unless they move toward capitalism, their regulated economies will stagnate. *This fear of falling hopelessly behind capitalist societies, that are clearly flourishing, is one of the most powerful forces of revolutionary change in the world today.* This simple proposition explains the amazing upheaval in the communist world. The aim of Gorbachev’s *perestroika* is to revive the Soviet economy after “the years of stagnation,” his code-name for the Brezhnev period. After years of economic misery, the Polish Communist Party recently surrendered its monopoly of powers by legalizing the Solidarity trade union, which had been banned since 1981, and by permitting the freest elections in over four decades.

Fear of stagnation also explains why Europeans are moving toward economic unification and why Canadians voted to join Americans in a free trade pact. Increasingly, people are willing to forsake some of their narrow national interests to promote multinational prosperity. In 1987, the Europeans adopted the Single European Plan, which will create an open market by 1992, because they hope that freer markets might cure what is commonly called “Eurosclerosis.”

The desire to prosper explains why people no longer accept the mercantilist notion that they must sacrifice for the good of their nation—until recently, a particularly influential idea in Japan and Korea.

Increasingly, people are recognizing that militarism doesn’t deliver prosperity—just a great deal of death and destruction in such conventional military battlegrounds as Vietnam, Afghanistan, Cambodia, and Namibia. The nuclear arms race has created a delicate “balance of terror” which has successfully averted a direct confrontation between the two nuclear superpowers. But it has been extraordinarily expensive. In 1986, the Russians learned an important lesson from the Chernobyl disaster: They could nuke themselves before Americans did so! In the United States, plutonium pollution from our atomic weapons factories has poisoned the environment and could cost \$150 billion to clean up.

*We believe that the Cold War is over—and Japan won!* Japan's economic and financial successes in the global marketplaces have been achieved, in part, because Japan's post-war constitution, which was drafted by General Douglas MacArthur's occupation staff, limits defense spending. Since 1945, the Japanese have invested a meager 1% of their GNP in the military while the superpowers were engaged in an all-out arms race. In the early 1980s, Americans started to feel threatened by the incredible successes of Japan Inc. The Japanese challenge induced Americans, as well as other nations, to restructure and to revitalize their economy.

Governments all around the world are moving away from central planning, state ownership, and excessive regulations. They are moving toward capitalism, which is a legal system that protects private property and permits free trade in competitive markets. Political leaders are deregulating their economies because they fear that their economies will stagnate and fall hopelessly behind unless they permit more entrepreneurs to trade more freely in more competitive markets.

As free trade proliferate, national policymakers are relinquishing some of their sovereignty. Economic nationalism is still a powerful force. Protectionists remain politically active and influential. Still, economic borders are expanding dramatically; they are less and less constrained by political borders. The movement toward free trade should prevail.

Ronald Reagan's faith in free markets and private enterprise was derided by other leaders when he moved into the White House. Eight years later, the economic policies of several of these leaders reflect many of the principles and ideas promoted by Mr. Reagan. *Deregulation, privatization, and tax reform are now global trends.* At the conclusion of the June 1988 Toronto Economic Summit, the heads of the G7 nations signed an economic declaration in which they pledged to continue to liberalize their economies:

We will continue to pursue structural reforms by removing barriers, unnecessary controls and regulations; increasing competition, while mitigating adverse effects on social groups or regions; removing disincentives to work, save and invest, such as through tax reform; and by improving education and training.

The United States has led the world in the direction of tax reform, especially in lowering marginal tax rates on personal income. The watershed Tax Reform Act of 1986 set a standard of rate reduction and base broadening that other countries have emulated. The top individual income tax rate in the US went from 50% to 28% and the number of individual income tax brackets declined from 15 to 2. The highest marginal rate in Britain is now 40%, down from 60% in 1985. In 1979, it was 83% on earned income and 98% on investment income! Tax codes have been simplified all around the world. For example, the number of income tax brackets were reduced from 15 to 6 in Japan and from 16 to 3 in Sweden.<sup>1</sup>

Britain has led the world in privatizing state-owned commercial enterprises, including such huge monopoly utilities as British Telecom and British Gas. Since taking power in 1984, Canada's Conservative government has privatized 18 companies, including Air Canada. Petro-Canada and the national rail service, Via Rail, may be the next government-owned, or *Crown*, corporation to go private.<sup>2</sup> The Japanese are privatizing Nippon Telephone and Telegraph, the Japan National Railroad, and Japan Airlines. On June 1, the Portuguese legislature approved sweeping changes in the Marxist-inspired 1976 constitution, and the administration of Social Democrat Anibal Cavaco Silva announced its intention to denationalize state-run corporations which were created in the 1975 revolution.

Free-market ideology is starting to proliferate in Latin America, where entrenched, and often corrupt, interests have resisted most reforms. During most of the 1980s, Latins blamed their heavy foreign debts for the stagnation of their economies. But, now many Latin American leaders are moving to boost business through deregulation. In Mexico, President Carlos Salinas de Gortari plans to sell or close hundreds of state companies, reduce import tariffs, and deregulate the credit and foreign investment markets. Argentina's new President shocked his Peronist followers by sending the legislature a bill that would privatize a number of state-run enterprises. The Senate voted unanimously for the bill.<sup>3</sup>

## **II. The Collapse Of Communism**

Mikhail S. Gorbachev became the General Secretary of the Soviet Communism Party during March 1985. About one year later, on April 26, 1986, the nuclear reactor at Chernobyl blew up and released as much or more radiation as in the atomic bomb attacks on Hiroshima and Nagasaki. The evidence is circumstantial, but there is a possibility that it exploded in the course of a special shutdown to extract plutonium for warheads.<sup>4</sup>

Thirteen months later, on May 28, 1987, Mathias Rust, a 19-year-old computer operator and amateur pilot from Hamburg, Germany, flew his Cessna across 500 miles of heavily guarded Soviet territory and landed just off Red Square near the Kremlin in the heart of Moscow. Two days later, Gorbachev fired the Soviet Minister of Defense and the Marshall of Aviation.

These two events, i.e., Chernobyl and Rust's flight, probably convinced Gorbachev that a massive restructuring of the Soviet economic and political systems was essential and urgent. Gorbachev was reform-minded when he became the new Soviet leader. When he was the first secretary of the Stavropol region, he developed a close relationship with Yuri Andropov, who was the head of the KGB from 1967 until May 1982. Andropov frequently spend his summer vacations in Stavropol, which has some of the finest mineral water spas in the Soviet Union.

In a police state, the police are usually the best informed citizens of the state. At the KGB, Adnropov was dismayed by the corruption of the Brezhnev regime and the stagnation of the Soviet economy. When he replaced Brezhnev in November 1982, Andropov moved to institute several wide-ranging reforms. But he died in February 1984. Andropov was replaced

by Chernenko, who was 73 years old, and died the following year. When Gorbachev took charge, he was committed to picking up where Andropov, his sponsor and friend, had left off.

The urgent need for change was reconfirmed late last year by the earthquake in Armenia, where thousands of people were buried alive in apartment buildings of inferior construction. In early June, two passenger trains were incinerated by a horrible gas explosion in the Ural Mountains, after pipeline workers ignored a leak. More than 600 people were killed and the country's gas supply was cut by 20%. "There will be no progress in this country if we have such laxness which leads to tragedies both human and economic," Gorbachev told his countrymen, referring to the train wreck and to Chernobyl.

*These disasters are symptomatic of a disastrous economic system that is no longer just stagnating; rather, it is on the brink of collapse.* There are no mass-produced Soviet personal computers or copying machines. Sixty percent of all apartment fires in Moscow are caused by mass-produced Soviet television sets, which have a tendency to explode. The primitive telephone system reaches only a fraction of the population and cannot transmit computer data.<sup>5</sup> Soviet housewives spend at least the equivalent of a day's work each week standing in lines to do the shopping.

The Soviet Union has over 24 million farmers versus 3 million in the U.S. Yet the Soviets must often import large quantities of food commodities, often from the U.S. because Soviet labor productivity is one-tenth of the United States'.<sup>6</sup> Two-thirds of Soviet farms are still served only by unpaved roads. A third of each harvest rots before it gets to market because of inadequate transportation and storage. Meat, butter, and sugar are scarce. According to data compiled in 1982, private plots accounted for a mere 1.4% of the arable land in the Soviet Union yet produced 61% of the country's potatoes, 54% of its fruit, 34% of its eggs, 30% of its vegetables, and 29% of its meat and milk.<sup>7</sup>

Unofficially, Soviet economists admit that their economy had virtually stopped growing in the early 1980s. There has been no growth for as long as 20 years if vodka sales and higher prices for oil exports during the Brezhnev years are excluded from the official figures. The collapse in oil prices during the mid-1980s was a major blow to the Soviet economy. The Chernobyl accident cost the equivalent of \$12.8 billion.<sup>8</sup> Alcohol sales account for an unusually large share of retail sales, i.e., 16% in 1984. Mr. Gorbachev's anti-booze campaign sharply reduced the state's revenues.

The Founders of communist ideology argued that their movement was international; they predicted that it would eventually replace the nation state. Ironically, today a surge of nationalistic agitations is threatening to disunite the Soviet Union. (This is happening at the same time that the capitalist world is becoming less nationalistic and more international.) The 285 million Soviet people include at least 125 ethnic groups in 15 national republics. Only 137 million are ethnic Russians. Ethnic unrest, including large anti-Russian demonstrations and inter-ethnic violence, has become more frequent. Independence and autonomy movements are

sprouting. On July 27, the Soviet legislature approved in principle, the plans of two Baltic republics, Lithuania and Estonia, to develop market-oriented economies independent of the central plan and now governs most business activities throughout the Soviet Union.

Zbigniew Brzezinski, President Carter's Director of the National Security Council, is not convinced that Gorbachev's attempts to restructure the Soviet economy, i.e. *perestroika*, and to reform the political system, i.e. *glasnost*, will be successful. Instead he foresees a protracted period of inconclusive turmoil with a high probability that the reform movement will gradually lose some of its momentum in the face of internal obstacles. Renewed repression could occur if stagnation persists and internal disorder worsens, particularly in the non-Russian republics where nationalist unrest is intense. Brzezinski concludes that "by the next century communism's irreversible historical decline will have made its practice and its dogma largely irrelevant to the human condition . . . [It] will be remembered largely as the twentieth century's most extraordinary political intellectual aberration."<sup>9</sup>

### **III. The Race To Disarm**

In *The New Wave Manifesto* (October 5, 1988), we observed that the "prospects for a more peaceful and prosperous world have never been better." As economic competition heats up around the world, military tensions are easing. More and more people are recognizing that wars and military outlays divert resources from the rest of their economies.

In November 1987, Random House released Professor Paul Kennedy's book, *The Rise And Fall Of The Great Powers*, which brilliantly demonstrates that military power is ultimately dependent on economic power. In 1949, the Soviets exploded their first atomic bomb. Ever since then, for the past 40 years, the United States and the Soviet Union have been rivals in a nuclear arms race. As military technology has become more sophisticated and more expensive, the world's two great nuclear powers are coming to realize that the military race is too costly. Today, military strategists in both countries are discovering that there are economic limits to the unlimited demands of the arms race. The Soviets are particularly hard pressed because they have been struggling to match America's military outlays with an economy that is a third as large as America's.<sup>10</sup>

Professor Kennedy's book was an instant best-seller—not bad for a dense, 540-page academic book with 82 pages of footnotes. Timing is everything. And Professor Kennedy's historical treatise hit the book stores just after the October stock market crash. Not surprisingly, depressing, doom-and-gloom books sold very well at the time.

The professor's epic examines the rise and fall of such great powers as Edwardian England, Bourbon France, and Hapsburg Spain. All of these hegemonies took on more global obligations than they could afford. They crumbled under the weight of their own empires, usually after long and expensive wars. Kennedy had begun his chronicle with the intention of

concluding around 1945 with the sun setting on Britain and dawning brightly on the United States.<sup>11</sup> But recent events caused him to add Chapter 8 in which he concluded that

the United States now runs the risk, so familiar to historians of the rise and fall of previous Great Powers, of what might roughly be called ‘imperial overstretch’: that is to say, decision-makers in Washington must face the awkward and enduring fact that the sum total of the United States’ global interests and obligations is nowadays far larger than the country’s power to defend them all simultaneously.<sup>12</sup>

Chapter 8 made the book a best-seller. But Kennedy wasn’t very happy about that: “Everyone is stampeding past the first four-fifths to get to Chapter 8, the section on the U.S.A.” He also lamented that during dozens of radio and television interviews, his host would typically lead with a morbid question: “So, is America heading down the tubes?”

Professor Kennedy’s masterful recounting of 500 years of political and economic history could have been a masterpiece. It isn’t because he came to the wrong conclusion.

America isn’t heading down the tubes. In various interviews, Kennedy has tried to distance himself from this trivial interpretation of his work by emphasizing that in the book he predicted the *relative* decline, not the *absolute* decline of America. That’s an interesting and relatively lame distinction. The good news is that America isn’t experiencing absolute decline, just relative decline!

Apparently Professor Kennedy was so immersed in historical parallels between the current position of the United States and previous decaying empires that he failed to keep up with current events. Even as he was writing, events were unfolding that suggested that the Soviet Union is the great power which is declining in both *relative and absolute* terms. This development is obviously very favorable for the United States. In his Chapter 8, Kennedy did spend some time on the immense problems of the Soviet Union. But he skimmed over this subject with little appreciation for the positive implications for the United States.

Addressing the United Nations’ General Assembly last year on December 7 (Pearl Harbor Day), Mr. Gorbachev announced substantial *unilateral* cuts in Soviet troops, tanks, artillery, and combat aircraft in Europe. It was a sweeping and electrifying disarmament initiative. A total of 500,000 Soviet troops, about 20% of Soviet military forces would be withdrawn worldwide and 10,000 tanks would be removed from Eastern Europe. (The last time that a Soviet leader had stood before the U.N. was 1959, when Khrushchev called for “general and complete disarmament” that would be monitored by an international control body.)

This year, on June 7, the Soviet Prime Minister, who is in effect Gorbachev’s cabinet chief, told the Congress of People’s Deputies: “We intend to proceed persistently along the road of disarmament, seeking to reduce the share of national income devoted to defense expenditures by one-third to one-half by 1995.” By some estimates this translates into a 33% cut in military

spending from current levels! The Prime Minister also stunned the deputies by disclosing for the first time that the nine-year war in Afghanistan could cost the equivalent of \$70 billion.<sup>13</sup>

At first, many Western analysts viewed the Soviet disarmament initiatives with a great deal of skepticism. They reasoned that Gorbachev's cuts would have little or no impact on the fighting power of the Soviet army. However, evidence is building that the unilateral actions are more than just a propaganda stunt designed to split NATO. *It is becoming increasingly obvious that the Soviet simply cannot afford their military overstretch.*

In *The Coming Soviet Crash* (1987), Judy Shelton of the Hoover Institute convincingly demonstrated that the Soviet financial crisis is much worse than assumed in the West. On October 27, 1988, the Soviet Finance Minister confirmed Shelton's conclusion when admitted, for the first time ever, that the government has been running large budget deficits for years and predicted that the 1989 deficit would be the equivalent of \$58 billion. In January of this year, the leading Soviet economist, Leonid Abalkin, said that the actual deficit was \$160 billion, roughly triple the official figure.<sup>14</sup>

In 1988, the U.S. government spent \$298 billion on defense, or 6.1% of nominal GNP. If the Soviet economy is about one-third the size of the U.S. economy, then the Soviets would have to devote an extraordinary 20% of their output to defense just to match America's military outlays! Gorbachev recognizes that this is an impossible situation for his country. He has no choice but to disarm unilaterally. And he is also scaling back his country's costly foreign entanglements from Afghanistan to Vietnam to Cuba.

At the same time, the personable Soviet leader has skillfully scored some impressive political points in foreign relations by pretending that the Soviet retrenchment is voluntary. Gorbachev's initiatives have created some heated debates among the NATO allies about the best way to respond to the Soviet peace offensive. On June 1, at the NATO summit meeting in Brussels, President George Bush demonstrated his skillfulness by proposing a sweeping arms-control plan that challenged the Soviets to hasten the reduction of their superiority in conventional forces. He proposed that the U.S. and the Soviets both reduce their troops stationed in Europe to 275,000 on each side within six to 12 months. This would require the U.S. to withdraw about 30,000 troops, but the Soviets would have to remove 350,000 soldiers from Eastern Europe. Bush agreed to negotiate a reduction in short-range nuclear missiles after the conventional force cuts were completed.

Mr. Bush's troop cut proposal for Europe should stave off Congressional initiatives for unilateral withdrawal. Up to 60% of the U.S. military budget can be counted as being Europe-based. The U.S. devotes almost twice as much as Europe to defense. For example, Germany spends only 3% of its gross domestic product on defense versus 6.1% in the U.S. Of the 305,000 American troops stationed in Europe, 249,000 are in West Germany. If force reductions don't occur, then Americans are likely to press the Europeans for more burden sharing.

Congressional pressure to reduce the number of American soldiers in Korea was increasing. Senator Dale Bumpers, Democrat of Arkansas, introduced a bill that would require pulling 10,000 of the 46,100 troops out of Korea over three years. The Pentagon is reassessing America's military commitments in East Asia. The Bush Administration is likely to urge the Japanese to share more of the financial burden required to retain the U.S. security presence in the Pacific Rim.

*If the expansionist phase in Soviet history is really ending, then President Bush is right to proclaim that it is time to move "beyond containment." Under the Reagan Doctrine, the U.S. countered every Soviet action in the Third World with arms and cash for the anti-communists. In the first half of the 1980s, America experienced the longest sustained peacetime buildup of military equipment in U.S. history. This burden should ease dramatically over the next several years as the Soviets are forced to retrench.*

#### **IV. The Japanese Challenge**

While the two superpowers were engaged in a costly nuclear arms race, the Japanese were winning the economic race. After World War II, the American occupation forces moved quickly to dismantle the military government of Japan and establish a democratic regime, which was constitutionally prohibited from maintaining "land, sea, and air forces, as well as other war potential."

Another top priority of the Americans was the revival of the Japanese economy, which had been devastated by the war. In early 1949, American economic advisor Joseph Morrell Dodge pegged the exchange rate at 360 yen per dollar. It remained fixed at this ratio until 1971. The yen remained "cheap" until January 1986 when the dollar plunged below 200 yen. In other words, until recently, the yen was undervalued, giving the Japanese an enormous competitive advantage in global markets.

During 1947, the same year that the Japanese renounced the use of military force, W. Edwards Deming arrived in Japan. Dr. Deming, a Yale trained physicist and statistician, was recruited by General MacArthur's staff to help prepare for the 1951 Japanese census. He had developed sampling techniques that were used for the first time in the 1940 U.S. census. He was also an expert in "statistical process control." These techniques of industrial process control defined the limits of random variation in any aspect of a worker's task and set acceptable highs and lows so that any deviation outside those limits could be easily detected and fixed. The Japanese eagerly adopted Dr. Deming's ideas, which greatly contributed to a dramatic improvement in the quality of Japan's manufactured products.<sup>15</sup>

In the early 1980s, Americans started to feel threatened by the incredible economic success of the Japanese. Ironically, Americans had been instrumental in preparing the stage for Japan's



economic miracle. Increasingly, Americans began to fear that America's prosperity was at risk: "Made in Japan" was no longer a joke—it was a juggernaut. Some economists warned that the country would become "deindustrialized."<sup>16</sup> A few Americans argued that trade protectionism was the only way to counter the Japanese juggernaut. They maintained that the Japanese were taking unfair advantage of our open economy, while keeping their economy closed to foreigners. Our free trade principles were too naïve, they said. We had to get tough and retaliate against Japan's mercantilism.

But most Americans responded to the Japanese challenge by restructuring our economy. America's so-called rust bowl manufacturers "reindustrialized." Costs were slashed and productivity was enhanced. Quality became "job one" and Deming's statistical techniques spread like a prairie fire from one rust bowl industry to the next. Government policies promoted deregulation and lowered tax rates. Central bankers cooperated in joint measures designed to reduce the foreign exchange value of the dollar, which increased the competitiveness of our exporters in global markets. As a result the U.S. has enjoyed several years of prosperity.

By threatening our prosperity, the Japanese challenge revived our competitive instincts. So far, our responses to the challenge have been mostly successful. We converted the threat into an opportunity to revitalize our economy.

The Japanese challenge has reawakened other nations and revitalized other economies all over the world. As in America, many people in Europe perceive Japan Inc. as a threat to their economic security and independence. They sense that their national economies are suffering from a disease that they commonly call "Eurosclerosis"—the hardening of Europe's economic arteries. For example, a truck driver needs 35 pages of invoices, customs declarations, and import statistical surveys to carry a load of goods from one end of the so-called Common Market to the other.

Europe's leaders fear that their economies will stagnate and fall hopelessly behind unless they give up some of their national sovereignty in exchange for freer trade in a unified European market. This is why they signed, in 1987, the Single European Act, which would create an open market by 1992. We don't expect to see a United States of Europe by 1992. More likely, the Europeans will finally achieve the original common market ideals they had hoped for when they established the European Economic Community in 1958. According to Andreas van Agt, head of the European Community's Delegation in Japan:

The amazing success of Japan has worked as a shock, a shock therapy for Europe. Europeans were slow in modernizing their industrial sectors, in speeding up research and development activities and in innovating their technologies. They have been awakened from their doze by Japan, which created the economic miracle of the second half of the 20<sup>th</sup> century. Without Japan I don't believe that we would have found the

courage and determination to tear down all the hurdles on our rush to a fully integrated market.<sup>17</sup>

At the end of last year, Canadians, who twice before in their history had rejected proposals for free trade with the United States, endorsed such an arrangement. The opposition was overwhelmed by a growing sense that economic nationalism would hinder Canada's economic future: Some industries were bound to suffer from free trade, but most would be revitalized by the competition and gain from the wider set of business opportunities. Canadians feared that the alternative to free trade with the United States might be national economic stagnation. The trade pact provides for the elimination of all tariffs by January 1, 1998. Many U.S. and Canadian industries are urging that the tariff cuts be speeded up for hundreds of products.

## **V. The Free Trade Movement**

Ironically, Europe's "1992" response to the Japanese challenge has unleashed "Fortress Europe" anxiety in Japan, as well as in the United States and Canada. Many American and Japanese firms are expanding their plant and equipment investments in Europe because they anticipate huge opportunities in Europe. At the same time, they see such direct investments as a smart hedge in the event that the secret agenda behind "1992" is the protection of the European market from competitors based in Asia and North America.

Undoubtedly, some Europeans privately endorse this hidden agenda. If the Europeans do shut their market to foreigners, then they will be shut out of the foreign markets. Pressure is likely to build in Mexico to join the North American free trade bloc. Such an American common market would include 350 million people. It is very unlikely that the European bloc of 320 million consumers would desire to set up major hurdles to free trade with all those people in North America.

If the Japanese really are concerned about the threat of Fortress Europe, then odds are that they will cooperate more readily with Americans to reduce bilateral trade tensions. *The Japanese challenge is changing the world, and in turn the Japanese are changing in response to pressures from other countries.* Traditionally, most Japanese have believed that theirs was a poor, small, island nation with few natural resources and that everybody had to sacrifice to build it up. This overwhelming national consensus helps to explain why the Japanese have worked longer hours and saved more than their Western counterparts. Also, they've favored mercantilist economic policies which encouraged production and exports, and discouraged consumption and imports. This approach was extraordinarily successful, but in recent years most of the world started to see Japan as rich, greedy, and unfair.

Fearing that such resentment can fuel anti-Japanese protectionist sentiments, the Japanese are striving to open their economy and to stimulate domestic demand. The Japanese are learning that with economic strength comes certain global responsibilities. Japan has become an economic power by having open access to other capitalist markets. It should therefore be in

Japan's interest to champion free trade. While doing so, the Japanese will have no choice but to deregulate their economy.

The postwar movement toward multilateral free trade, which is endorsed in principle by 100 countries that are members of the General Agreement on Tariffs and Trade, received a big boost on April 8, 1989 in Geneva. The GATT nations settled a number of disputes and agreed to guidelines which set the stage for the next round of negotiations, which could dramatically liberalize global trade relations. They agreed to halt any new farm subsidies and to negotiate future reductions. (Last December, talks in Montreal broke down without agreement because the Europeans refused to accept the American position which called for the elimination of farm subsidies.) Other provisions of the latest accord strengthen the powers of GATT's free trade regime.

According to the April 10, 1989 issue of *The Wall Street Journal*, several GATT representatives said that the global business community is increasingly lobbying for trade agreements to protect their expanding investments in other countries. According to the *Journal*, Peter Daniel, Canada's Assistant Deputy Minister for External Affairs, said that GATT was just one of the trade frontiers along with Europe's 1992 program and the U.S.—Canadian Free Trade Agreement—where businessmen are becoming increasingly involved in free trade issues. "Businesses are starting to see what [free trade agreements] mean, what [such agreements] can do for the bottom line," he said. "There really is a global market out there, and they want to see this thing work."

The June 8, 1989 issue of the *Financial Times* reports that the chief executive officers of IBM and Hewlett-Packard are inviting the other leading U.S. computer manufacturers to form a group called the "Computer Systems Policy Project." The CSPP group plans a powerful lobbying effort in Washington to strongly oppose protectionism. The article observes that as "major customers of Japanese semiconductor producers and as companies that have made considerable investments in Japan, some with manufacturing facilities and others with large scale operations, the computer makers are concerned that escalating trade friction could damage their interests."

## **VI. Democracy & Reform**

In this year's *World Development Report*, the World Bank arranges 120 countries according to per-capita income—Ethiopia is at the bottom and Switzerland is at the top. Professor Paul McCracken, a former chairman of the president's Council of Economic Advisers, observes, "Well over half of the countries with per-capita incomes above the world average are political democracies, compared with only a few for the bottom 60." He concludes that there seems to be a tendency for a market-organized economic system to nudge a nation toward political democracy:

Perhaps the experience of economic freedom stimulates the desire to extend the range of freedom into the political spectrum. The higher levels of affluence that can be achieved, and certainly achieved more rapidly, with a market economy mean a better educated and more sophisticated citizenry less inclined to be pliantly submissive to self-anointed political masters.<sup>18</sup>

In his opening address to the Nineteenth Special Party Conference held during June 1988, Gorbachev said, “We are facing many intricate questions. But which one of them is the crucial one? As the [Central Committee of the Soviet Communist Party] sees it, the crucial one is that of reforming our political system.” In other words, economic reforms, i.e. *perestroika*, could not proceed unless they were preceded by political reforms, i.e. *glasnost* and *demokratizatsiia*.

In March, Soviet citizens elected 2,250 deputies to a new, more powerful parliament called the Congress of People’s Deputies. For the first time in the history of the Soviet Union, most of the seats were contested by two or more candidates. Of course, 100 seats were reserved for the Communist Party brass, including Mikhail Gorbachev. And the political system remains firmly in the hands of that one party. Still, most citizens sensed that the elections were a significant step in the direction of greater political democracy.

Gorbachev engineered the electoral reform in an effort to reduce the influence of conservatives who have resisted the pace and extent of his reforms. Indeed, the Congress picked Gorbachev to fill the new office of the President, which actually enhances his power. Gorbachev realizes that economic reform is impossible without political reform. His objective is to remove the party bureaucrats—there are 18 million of them—from day-to-day administration of the economy.

Reacting to a major strike by the Soviet Union’s miners, Gorbachev reversed an earlier decision to postpone countrywide elections for local government councils until 1990. On July 24, the Soviet leader declared that each republic was free to choose when to hold such elections. One of the miners’ major complaints is that local union organizations are appendages of industrial management. Most of the strikes ended when Moscow made several concessions to stem the spread of the coal field unrest. Gorbachev is attempting to channel this unrest into a populist movement that will purge the Communist Party of conservative officials that oppose his reforms. “The workers are taking matters into their own hands thoroughly, and this inspires me greatly,” he said.

The Polish election on June 4 went far beyond Russia’s in March. Almost 90% of the candidates in the Soviet political campaigns were Communists. In Poland, the Solidarity union won a stunning victory against the Communist Party’s candidates. The Communists lost all but 8 of 100 seats in the newly created Senate. They still remain in power because they automatically keep a majority of the seats in the lower house of parliament, in accordance with a pre-election agreement with Solidarity leaders. Still, even in the lower house, union-supported candidates won all but one of the 161 seats they were allowed to contest.

*The forces of democracy and pluralism are also gaining ground in capitalist societies.* On July 23, the Liberal Democratic Party, which has ruled Japan for 34 years without any serious opposition, was defeated by the Japan Socialist Party in an election for the upper house of Parliament. The LDP remains in control of the government because it still has a majority in the more powerful lower house, which is scheduled for elections next year. Voters were angered by April's 3% consumption tax, the Recruit scandal, and the elimination of some barriers to farm imports. Moreover, the election results demonstrated the increasing political influence of women, who were outraged by Prime Minister Uno's womanizing. Mr. Uno resigned. (The Socialists are led by the charismatic 60-year-old Takako Doi, who is the first woman to serve as a party leader in modern Japanese history.)

In mid-June, Europe's voters elected 518 members to the European Parliament, which meets for a week on a monthly basis in Strasbourg, France. Direct elections were held in 1979 and 1984. Prior to 1979, the members were nominated by their national parliaments. Under the 1987 Single European Act, which abolishes internal trade barriers among the European Community by 1992, the Parliament acquired more powers including certain rights to amend or reject EC legislation. For example, a recent parliamentary ruling requires that new cars must be equipped with catalytic converters by 1991. Many members of the Parliament see Strasbourg, rather than their home capitals, as the fast track to political glory.<sup>19</sup> One member from the U.K claims that he can do more for his West Midlands constituents than when he was a minister in Whitehall.<sup>20</sup>

On May 31, Yuri P. Vlasov stunned the Soviet Congress of People's Deputies, and millions of Soviet television viewers and radio listeners, by delivering an impassioned attack on the KGB. The former Olympic weight-lifting champion, who is a deputy from Moscow, charged that the agency "exercises all-embracing control over society, over each individual." He received a standing ovation after his speech. The next day, on June 1, Vladimir A. Kryuchkov, the new chief of the KGB, told Western reporters that the newly-elected Supreme Soviet legislature should have full authority over the KGB. The interview was held outside the auditorium where the Congress of People's Deputies, the policy-making body that had just chosen the members of the smaller Supreme Soviet from its ranks, was in its seventh day of debate.

On July 14, the members of the Supreme Soviet voted to confirm Kryuchkov in the post he has held since October 1988, but only after a round of intense and often critical questioning. He described his appearance, which was the first time a KGB chief has had to stand before the legislature and tackle a range of uncensored questions, as a "major event" for the dreaded spy organization.<sup>21</sup>

The revolt against arbitrary power and political corruption is a world-wide phenomenon. In the United States, the Speaker of the House, Jim Wright, lost his influential position after Congress investigated many of his unscrupulous business deals. In Japan, the Recruit scandal led to a resounding electoral defeat for the conservative ruling party. The democracy

movement in China is to an important extent a reaction to the corruption of the communist regime. On July 28, the Chinese Communist Party Politburo banned children and spouses of top officials from using their connections to run trading companies and reap huge profits. In addition, China's leaders will no longer have access to private food supplies that are not available to the public.

## VII. The Workers Of the World

In *The Communist Manifesto*, Karl Marx and Friedrich Engels called on the workers of the world to unite against their capitalist oppressors. By owning the means of production, the capitalists were able to exploit their employees and alienate them from their work, their families, and from society. So Marx and Engels advocated the abolition of private property. Ironically, in the countries where Marxist theory has become practice, workers have been exploited, impoverished, alienated and terrorized by the "dictatorship of the proletariat." In capitalist societies, workers have generally prospered. They've acquired political power by organizing into trade unions. And they've won social welfare reforms, which protect workers from many of the early capitalist exploitations that so disturbed Marx and Engels.

In *The New Wave Manifesto* we predicted that the "workers of the world" are on the verge of a great transformation, but "it will probably take many, many years before the vast potential of consumers and producers in the communist world is set free from state control and central planning." As a result of the recent brutal wave of repression, the Chinese have taken a great leap backward, rather than forward. In the Soviet Union, the reform-minded leadership would like to move ahead, but after 70 years of repression the workers have no idea of the difference between careful, high-quality work and what has traditionally been acceptable in their country.<sup>22</sup> Stalin killed anyone with any genetic affinity to capitalism. Entrepreneurial farmers, who made prerevolutionary Russia an exporter of grain, were wiped out as unwanted *kulaks* in the ugly first stages of collectivization.<sup>23</sup>

The wildcat countrywide strike of mine workers in the Soviet Union during July belies the notion that the communist state is run for the benefit of its workers. The miners are angry that *perestroika* hasn't improved their miserable standard of living. Gorbachev's promises of economic and political reforms have raised expectations. So has the victory of the Solidarity union in recent Polish elections. But in the Soviet mine districts, it is not unusual for three families to share one apartment, with only one toilet and no bath. Meat, sugar, and toilet paper are chronically out of stock. A single bar of soap is supposed to last each miner for three months. Moscow settled the strike by agreeing to ship thousands of tons of soap and more food and consumer goods to the miners. Gorbachev's concessions could backfire if strikes elsewhere deepen the strains under which the economy labors.

Today, in the noncommunist world, workers in mature industrial economies have become less militant. Relations between labor and management are less antagonistic. Workers recognize that increased global competition requires greater cooperation with management to insure the

survival of their company in the global marketplace. And the employers are giving workers more of a stake in their firms through profit sharing programs.

In 1987, fewer major work stoppages began in the U.S., and they involved fewer workers than in any of the preceding 40 years, according to the Bureau of Labor Statistics. Organized labor's share of the American workforce was only 17% during 1987, down from the all-time high of 35.5% during 1945. At their June 1989 convention, the auto workers gave their union president, Owen Bieber, strong approval to pursue cooperative programs on the plant floors of the Big Three auto companies. They rejected the more militant stance advocated by a small group of dissidents who are opposed to Bieber's cooperative approach. On July 27, workers at the Nissan car and truck assembly plant in Smyrna, Tennessee overwhelmingly rejected representation by the United Auto Workers in a vote which culminated a bitter 18-month campaign to unionize the plant.

In Britain, the proportion of workers belonging to unions, and the amount of time that they spend striking, are both lower than in the 1970s, and at much the same level as in the 1950s and 1960s.

*While workers have become less militant in the industrialized economies, they are becoming more so in the "newly industrializing countries" (NICs).* For example, in the decade from 1977 to 1986, there were only 1,735 strikes in South Korea. In the past three years, the number of strikes has topped 6,600. Unions suppressed by more than three decades of authoritarian rule are proliferating. Two years ago, a wave of strikes toppled the government and brought to power the first elected president for a generation. Pay has risen by more than 20% in each of the past three years.<sup>24</sup>

Agrarian societies can be transformed into NICs within two decades. For example, the agricultural sector's contribution to real GNP in Korea fell to 12.0% in 1988 from 43.5% in 1963.<sup>25</sup> Within one decade NICs can become "advanced industrial countries" (AICs). NICs become AICs when workers start to pressure the country's political and business leaders for higher wages. This happens because the workers realize that, despite long hours and hard work, they aren't sharing in the growing prosperity of their country.

As labor costs rise in a NIC, the industrial product cycle moves away from labor-intensive production toward more sophisticated products. The labor-intensive work migrates to "still agrarian countries," where labor is abundant and cheap. In time SACs become NICs, and then AICs. In the 1960s, Korea's leading export was textiles; now VCRs have become far more important. Today, Korea is the world's third biggest producer of memory chips. In the future, Korea's business conglomerates, called *chaebols*, intend to move from semiconductors into high-definition television and civilian aircrafts.<sup>26</sup>

During the 1950s and 1960s, many developing countries adopted socioeconomic policies modeled on the Soviet Union. Repeated failures have led to widespread disillusionment in the

Third World with communist doctrine. Now the leaders of many developing countries are looking at the capitalist nations of the Pacific Basin as role models for economic growth.

### **VIII. Global Business**

As capitalism proliferate, global competition is intensifying. Business leaders are learning that to survive and to prosper they must adapt rapidly to the changes in the global marketplace. They must continuously cut their costs. If market conditions permit, companies will raise prices to boost profits. But then competitors, both at home and abroad, are bound to expand capacity and offer lower prices.

There are all sorts of ways to cut costs. In the early 1980s, firms restructured by reducing their payrolls. Manufacturers produced the same or more goods with fewer workers. So factory productivity rose rapidly. Cost cutting in the late 1980s is less often associated with layoffs. Managerial and technological innovations are now major sources of productivity gains. Just-in-time inventory management techniques will continue to reduce expenses. JIT is forcing companies to form “partnering” relationships with their suppliers. Higher quality-control standards are also proving cost-effective.

*In addition to restructuring their home-based operations, many corporate managers are globalizing their businesses.* Some fear protectionism and see their overseas affiliates as a hedge against trade barriers (and exchange rate volatility). Others believe that as capitalism proliferates, the world will continue to prosper. Consumerism is spreading in the Pacific rim. Southeast Asian leaders are opening their economies to foreign capital. Europe is moving toward a common market. Capitalists see tremendous opportunities and are expecting to profit by building factories in Europe, North America, and the Asian NICs. Labor shortages in the major industrial economies are also spurring manufacturers to move some of their labor-intensive work to countries with ample labor supplies.

By the end of January of this year, 411 Japanese manufacturers had opened or made plans to start production in the European Community. That is nearly triple the number of Japanese plants in the EC six years ago. In late January, Toyota Motor Corp. announced plans to locate a huge automobile assembly plant in Britain, the largest foreign investment ever in Britain. The French, who had sought to limit Japanese investments in Europe, reversed their stance in April, when Industry Minister Roger Fauroux said that the French government has decided that “it is better to have Japanese [factories] than to have unemployment.”

Foreign direct investors spent \$65.0 billion in 1988 to acquire or establish U.S. businesses. That's up sharply from \$40.3 billion in 1987. The British were the largest investors, accounting for \$21.5 billion, or one-third of last year's total outlays. The Japanese were second with \$14.2 billion in direct investments. Ellen M. Herr of the Commerce Department observes:



The ongoing strategy of several large foreign multinational companies to expand and diversify beyond their home markets has contributed to the increase in large investments and the average size of these investments. Foreign multinationals are generally seeking to acquire U.S. companies that can round out their global capabilities, provide access to new technology, or furnish a well-known brand name.<sup>27</sup>

Majority-owned foreign affiliates of U.S. companies plan to increase overseas capital expenditures 12% in 1989, to \$48.1 billion. If realized, this increase will represent the third consecutive year of growth in capital outlays abroad, reversing the declining trend from 1982 to 1986. The EC's plans to dismantle internal trade barriers have led to a surge in capital spending in 1988 and 1989 by U.S.-owned affiliates, to \$18.8 billion and \$21.1 billion, respectively, up from \$15.4 billion in 1987.<sup>28</sup>

As the capitalist world prospers and globalizes, many communist-ruled countries are attempting to attract foreign capital by liberalizing their business environments. During October 1988, the Hungarian Parliament endorsed sweeping "company law" legislation that allows Hungarians to become private entrepreneurs of large companies and permits foreigners to own up to 100% of Hungarian businesses. In January 1988, the Budapest Stock Exchange formally opened.<sup>29</sup> In the late 1987, Vietnam adopted one of the most liberal foreign-investment codes in the communist world. For example, it allows foreigners to hold up to a 99% stake in joint ventures.<sup>30</sup> A new law allows 100% foreign ownership of Cambodian enterprises. The Cambodian government is offering strong guarantees against confiscation and nationalization.<sup>31</sup>

Marx and Engels expected the workers of the world to unite the world into one international society free of national borders. *Ironically, it is the capitalists of the world that are doing the most to internationalize the global economy!*

## **IX. The Technological Network**

*The rapid pace of technological innovation, particularly in the area of telecommunications, is stimulating the multinational integration of capitalist economies at the same time as it is boosting the forces of disintegration in the communist world.* A common characteristic of totalitarian regimes is a fanatical control of the flow of information to the population. As more of these regimes attempt to restructure their economies, the need to introduce advanced technology limits the ability to regulate information. Telephones, radios, televisions, fax machines, VCRs, satellite dishes, and personal computers make it harder to surround entire populations with an iron curtain. The free world's ideas and images are easily accessible and make it harder for totalitarian governments to keep secrets and to distort the truth.

There are about 40,000 Chinese studying in the United States. During the recent student rebellion and the subsequent massacre in Tiananmen Square, many of the Chinese on American campuses, from Columbia to Berkeley, faxed daily summaries of Western news

accounts to universities, government offices, hospitals, and businesses in China. In Tiananmen Square, many of the demonstrators' signs were written in English because the students knew that television cameras and satellites were broadcasting their struggle around the world.

The biggest hit in Soviet television history was the meeting of the new Congress of People's Deputies, which was covered live by eight cameras of the Soviet broadcasting system, eight hours a day during the end of May and early June. An estimated 200 million viewers watched the remarkably candid proceedings.<sup>32</sup> Of course, the officials can still pull the plug on the T.V. cameras. But if they hope to modernize their economy, they will have to permit widespread use of personal computers, fax machines, and copiers.

By 1988, it was estimated by *Radio Free Europe-Radio Liberty Report*, that there were approximately 1 million VCRs in Poland, 300,000 in Hungary, 150,000 in Czechoslovakia, and 50,000 in Bulgaria.<sup>33</sup> As a result of the increasing availability of politically uncensored video tapes, the traditional communist control over domestic mass communications is disintegrating.

*In the capitalist world, global communications are rendering borders meaningless.* Improvements in telecommunications and computer technology permit many service firms to globalize their operations much as industrial businesses have been doing for years. So they can access workers in low-wage countries where labor is plentiful.

New York Life has been processing claims from Castleisland, Ireland since July of last year, using a computer link to its processing center in New Jersey. The cost of the Castleisland operation is 20% lower than for claims offices in the U.S. Ireland has a large pool of well-educated young people who need jobs and are willing to work for wages lower than those that must be paid in the United States. In Ireland, McGraw-Hill is processing subscription renewals and Travelers Insurance is writing software. American Airlines' parent company employs 1,050 workers in Barbados in a data-entry operation.<sup>34</sup>

On May 30, 1989, the General Electric Company announced plans to create an international telecommunications network that would permit its employees to communicate worldwide with each other, using voice, video, and computer data.

This trend toward more "cross-border data flows" will accelerate as the price of long-distance telecommunications continues to fall. Phone companies are furiously laying transcontinental fiber-optic lines. As a result, the capacity of international data circuits is rising by 40% a year. Line charges are expected to fall between 22% and 40% by 1996.<sup>35</sup>

The communications revolution is one of the major forces behind the integration of capitalist financial markets. For example, U.S. government bonds are now traded in New York, Tokyo, and London on a 24-hour basis. This integration puts pressure on the leaders of the G7 nations to coordinate their fiscal and monetary policies. Policymakers recognize that their

actions can cause huge moves in global financial markets. Bad policies are instantly spotted as they trigger adverse reactions in the bond, stock, and foreign exchange markets in the major financial capitals of the world.

## **X. Global Convergence**

During December 1987, a group of 33 economists from 13 countries issued a statement which concluded that the global stock market crash during October was attributable to “the existence of major and unsustainable imbalances” in the world economy. They claimed that the most “glaring” imbalance is the growing indebtedness of the United States. The distinguished group of economists concluded that “unless more decisive action is taken to correct existing imbalances at their roots, the next few years could be the most troubled since the 1930s.”<sup>36</sup>

The statement was disseminated by the Institute for International Economics. Peter G. Peterson is the chairman of this institute’s board of directors. In his widely read article, “The Morning After,” which appeared in the October 1987 issue of *The Atlantic Monthly* just before the crash, Mr. Peterson suggested that the imbalances might be structural: “Yet here we confront a deeper issue—the vast differences in culture, history, and politics which make it just as hard for other industrial countries to do what we find natural (stimulate consumption) as it is for us to do what they find natural (stimulate savings).”

The global pessimists seem to share a world view that is static. They worry about the imbalances caused by the “natural” differences among nations. *Our world view is dynamic and we see “global convergence” as the natural trend among different societies.* In capitalist Asia, we expect savings rates to decline and American-style consumerism to proliferate as wages rise and markets are opened to imports.

At the same time, in the United States, we expect that powerful demographic forces related to the aging of the baby boom generation will push the personal saving rate up to 10% by 1993, which we estimate will generate \$500 billion in personal saving, or five times as much as was saved by Americans in 1987. Even if the federal deficit remains at \$150 billion “for as far as the eye can see”—to quote David Stockman, who expected to see \$200 billion forever—there would be a shortage of bonds which could push the government bond yield down to 5% by 1993. (See our Topical Study #16: *The Baby Boom Chart Book*, January 25, 1989.)

In our dynamic scenario, the U.S. trade “imbalance” gradually becomes balanced. To a large extent, the trade deficit reflects the leadership of American companies in the trend toward business globalization. Commerce Department data for 1986 show that overseas affiliates of American companies generated \$720 billion in revenues. That’s three times the value of our 1986 merchandise exports! Americans do sell lots of fine American products to foreigners, the problem is that most of those products are manufactured overseas. The good news is that more and more foreign manufacturers are setting up factories in the United States. Rather than worrying about this trend, we should encourage it.

## **XI. The Malaise Crowd**

In 1968, the English edition of a book titled *The American Challenge* became an international best seller. The French author, Jean Jacques Servan-Schreiber, warned his fellow Europeans: “If we are to be master of our fate, we will need a rude awakening. If this doesn’t come, the Europe, like so many other glorious civilizations, will gradually sink into decadence without ever understanding why or how it happened.” Mr. Servan-Schreiber was alarmed that Europe was falling hopelessly behind America. He believed that “American power has made an unprecedented leap forward” and that within a decade Americans would have a virtual monopoly over the global economy. Americans excel in science, technology, and management. In some of these areas, countries like Japan might keep up with the Americans, but “they will not be strong enough to deal with the U.S. as equals, nor will they be truly competitive.”

On July 20, 1979, President Jimmy Carter addressed the nation. His speech was titled “Energy and National Goals,” but it came to be called the “Malaise Speech.” In the midst of a severe energy crisis, the President solemnly declared that “the problems of our Nation are much deeper—deeper than gasoline lines or energy shortages, deeper even than inflation or recession.” Mr. Carter’s depressing message was that the real threat to America was a crisis of confidence. “It is a crisis that strikes at the very heart and soul of our national will. We can see this crisis in the growing doubt about the meaning of our own lives and in the loss of a unity of purpose for our Nation.” The American people were expecting their President to rally the nation behind a bold and decisive plan of action, instead they heard a demoralizing sermon, which included six ineffectual measures.

Ten years later, in 1989, the malaise theme remains very popular with many very influential observers of the American scene. They warn that America is losing its leadership in the world economy. We, Americans, are living beyond our means. We consume too much. We don’t save enough and we don’t invest enough. Our government’s deficit is too large. We have become the world’s biggest debtor. In short, America is in decline. Japan is the ascending power. Today’s pessimists warn that if Americans don’t wake up to the Japanese challenge, then we will sink in decadence. We will fall hopelessly behind. We will become a second rate power. If we don’t respond to the challenge, then we can expect a day of reckoning and a calamitous erosion in our standard of living.<sup>37</sup>

The pessimists aren’t seeing the big, global picture. Communism has failed. Capitalism has triumphed.

By 1993, U.S. government bonds should yield 5% and the Dow should be at 5000.

- <sup>1</sup> Vito Tanzi, "The Response Of Other Industrial Countries To The US Tax Reform Act," *National Tax Journal*, September 1987. Also, "U.S. Tax Cuts Now Go Global," *Fortune*, November 24, 1986.
- <sup>2</sup> "Privatization Program In Canada Likely To Continue Despite Critics," *Investor's Daily*, July 10, 1989, p. 30.
- <sup>3</sup> "Desperate, Latin Nations Discover The Free Market," *The New York Times*, July 30, 1989.
- <sup>4</sup> Martin Walker, *The Walking Giant: Gorbachev's Russia* (New York: Pantheon Books, 1988), p. 226.
- <sup>5</sup> Robert G. Kaiser, "The U.S.S.R. In Decline," *Foreign Affairs*, Vol. 67, No. 2, 1988. pp. 102-3.
- <sup>6</sup> "The Soviet Economy," *The Economist*, April 9, 1988, p.9.
- <sup>7</sup> Thos. G. Butson, *Gorbachev* (New York: Stein and Day, 1986), p. 22.
- <sup>8</sup> "Add Soviet Economy To Quake's Toll," *The New York Times*, December 10, 1988, p. 7.
- <sup>9</sup> Zbigniew Brzezinski, *The Grand Failure* (New York: Charles Scribner's Sons, 1989), p. 1,100.
- <sup>10</sup> The C.I.A. estimates that the Soviet Union's gross national product is equal to 50% of the United States' GNP. However, William Safire argues that Gorbachev may have unwittingly revealed that the Soviet economy is barely a third as large as the U.S. economy. See his June 8, 1989 column in *The New York Times*.
- <sup>11</sup> Peter Schmeisser, "Taking Stock: Is America In Decline?" *The New York Times Magazine*, April 17, 1988, p. 67.
- <sup>12</sup> Paul Kennedy, *The Rise And Fall Of The Great Powers* (New York: Random House, 1987), p. 515.
- <sup>13</sup> "Soviet Premier Says Cutbacks Could Reach 33% For Military," *The New York Times*, June 8, 1989, p. 1.
- <sup>14</sup> "Soviet Deficit, Triple The Official Figure, Prompts Economists's Gloomy Assessment," *The Wall Street Journal*, January 26, 1989, p. 10.
- <sup>15</sup> Mary Walton, *The Deming Management Method* (New York: Dodd, Mead & Co., 1986).
- <sup>16</sup> For example., see Barry Bluestone and Bennett Harrison, *The Deindustrialization of America* (New York: Basic Books, 1982).
- <sup>17</sup> "EC Official Sees Integration As Step To Closer Japan Ties," *The Japan Economic Journal*, January 7, 1989, p. 1.
- <sup>18</sup> Paul W. McCracken, "Maybe You Can't Get There From Here," *The Wall Street Journal*, July 24, 1989, p. A14.
- <sup>19</sup> "The European Parliament Gets Its Act Together," *Business Week*, June 12, 1989, pp. 44, 49.
- <sup>20</sup> "A Mandate Which Goes Beyond 1992," *Financial Times*, May 30, 1989, p. 18.
- <sup>21</sup> "Pointed Questions For Chief Of K.G.B.," *The New York Times*, July 15, 1989, p. 3.
- <sup>22</sup> Robert G. Kaiser, "The U.S.S.R. In Decline," p. 102.
- <sup>23</sup> Robert G. Kaiser, "The U.S.S.R. In Decline," p. 104. See also Robert Conquest, *The Harvest Of Sorrow: Soviet Collectivization And The Terror-Famine* (New York: Oxford University Press, 1986).
- <sup>24</sup> "Labour Pains," *The Economist*, July 1, 1989, p. 57.
- <sup>25</sup> Jinho Chung et al. "Opening Doors To Korea's Stock Market," Prudential-Bache Securities, July 1989.
- <sup>26</sup> Alice Amsden, *Asia's Next Giant: Late Industrialization In South Korea* (New York: Oxford University Press, 1989).
- <sup>27</sup> Ellen M. Herr, "U.S. Business Enterprises Acquired Or Established By Foreign Direct Investors In 1988," *Survey Of Current Business*, May 1989, pp. 22-30.
- <sup>28</sup> Alicia M. Quijano, "Capital Expenditures By Majority-Owned Foreign Affiliates Of U.S. Companies, 1989," *Survey Of Current Business*, March 1989, pp. 20-22.
- <sup>29</sup> Hungary's Heady Capitalist Experiment," *Institutional Investor*, March 1989, pp. 119-122.
- <sup>30</sup> "Vietnam Revisited: Turn To The Right?," *Fortune*, August 1, 1988. pp. 84-102.
- <sup>31</sup> "Cambodia Shifts To Free-Market Approach," *Investor's Daily*, May 22, 1989.
- <sup>32</sup> "Soviet TV's Biggest Hit: 200 Million Watch Political Drama," *The New York Times*, May 31, 1989, p. 11.
- <sup>33</sup> Zbigniew Brzezinski, *Grand Failure*, p. 138.
- <sup>34</sup> "The Growth Of The Global Office," *The New York Times*, October 18, 1988, p. D1.
- <sup>35</sup> "Business Goes Body Shopping," *Newsweek*, July 10, 1989, pp. 46-47.

<sup>36</sup> C. Fred Bergsten et al., *Resolving The Global Economic Crisis: After Wall Street. A Statement By Thirty-Three Economists From Thirteen Countries* (Washington, D.C.: Institute for International Economics, December 1987).

<sup>37</sup> See, for example, Peter G. Peterson, “The Morning After.” Interestingly, that also happens to be the title of a chapter in David A. Stockman, *The Triumph Of Politics* (New York: Avon Books, 1987 [1986]). Stockman, who joined Peterson’s Blackstone Group in 1988, argued that the Reagan Revolution had failed because taxes were slashed without any significant reduction in social welfare spending. The resulting deficits are likely to damage the economy, he argues. A similar plea for higher taxes can be found in Benjamin M. Friedman, *Day Of Reckoning* (New York: Random House, 1988). Also see Alfred L. Malabre, Jr. *Beyond Our Means* (New York: Random House, 1987). In *The Great U-Turn*, Bennett Harrison and Barry Bluestone update their deindustrialization theme. They argue that the standard of living is declining and that income inequality is increasing.