

Business Briefs

Economic Theory

Michelin attacks Chicago, Harvard schools

Do not let financiers dictate policy on the basis of short-term considerations, François Michelin, head of the international tire empire, told *La Tribune de l'Expansion* June 21. "Only industry creates wealth," declared Michelin, who then delivered a strong attack against the Harvard and Chicago schools of economics.

As to whether the 1990s will be the years of the great industrial return, Michelin said, "I hope. We have to escape from the diktat of the short term, and of that false concept which is the post-industrial era. These are two philosophies brought to us by Harvard and Chicago that are totally harmful, because only industry creates wealth. To destroy the United States, those young men could not have found better. . . . The Japanese are still laughing."

Soviet Union

Economics minister lauds 'European' model

Soviet Economics Minister Vladimir Shcherbakov said June 25 that Soviet reforms would not follow the "strict capitalistic model of the United States," but rather borrow from the historic experience of the "West European Social Democracy" and the social welfare states as exemplified in Germany and Switzerland. He spoke before an international conference on East-West problems in Crans-Montana, Switzerland.

At the same time, Soviet parliamentarian Viktor Alksnis came out in defense of the planned economy system and rejected liberalization policies in an exclusive interview published by the German daily *Hamburger Abendblatt* on June 26.

Alksnis said that a radical market economic reform would put up to 30 million on unemployment by the end of this year—one million in Moscow alone. A radical reform that did not pay attention to explosive social potentials would have to be outrightly rejected, therefore.

The Soviet Union needs a strong government, likely with emergency powers, and a strong state sector operating according to a plan, he said. There could also be a confined market economy sector operating along more liberal methods, in his view.

World Trade

Czech food to be bartered for Soviet oil

Czech food for Soviet oil, as well as industrial exports from Czechoslovakia to the U. S. S. R., are now under discussion between the two governments. Czech Vice President Pavel Rychetsky said at an event in Vienna June 24 that the Czechs would never be able to buy Soviet oil on a hard currency basis, nor would the Soviets be able to repay their debt of \$5 billion to Czechoslovakia.

For the time being, the extreme dependence of the Czech economy on Soviet raw materials that was established after 1945, will remain in place, despite efforts by Czechoslovakia to gain access to Western raw materials, declared Rychetsky.

On the other hand, Czechoslovakia is the biggest creditor of the Soviet Union in Eastern Europe. Deliveries of surplus food products from Czechoslovakia in exchange for crude oil from the Soviet Union would help the Czech economy obtain 14 million tons of oil needed this year.

Space

European, Japanese agencies reach accord

The European Space Agency and the National Space Development Agency of Japan signed an agreement in mid-June at the Paris Air Show to allow access to each other's data from Earth observation satellites. Heretofore, most European-Japanese space collaboration took place within the overall context of U.S.-initiated international projects.

Thus, the European and Japanese agencies

will now have direct access to the information collected and relayed back to Earth ground stations from ESA's ERS-1 satellite and Japan's J-ERS-1 satellite, both to be launched over the coming year.

With the recent near-cancellation of Space Station Freedom by the United States, which is the largest international project ever undertaken, it is highly likely there will be more European-Japanese space agreements, leaving out the United States.

Meanwhile, U. S. and Soviet government officials may discuss joint manned space flights if there is a Bush-Gorbachov summit this summer, according to the June 30 *Washington Post*. It has long been proposed that a Soviet cosmonaut fly on the Space Shuttle, and an American astronaut visit the Mir space station. The only previous joint manned mission was the Apollo-Soyuz Earth-orbit link-up in 1975.

International Credit

London magazine says: Dump U.S. bonds

An unprecedented warning from the London *Economist* to dump U.S. municipal bonds has the City of London abuzz. Two feature articles draw attention to the exploding fiscal crisis of U.S. state and local governments. A two-page feature titled "Tax-and-spend states get their come-uppance" notes, "States are now struggling to adopt budgets for the 1992 fiscal year which begins in July for many. They look set to assemble a combined deficit of \$30-50 billion."

This piece is followed by another full page titled "America's Municipal Risks," which details items such as the Bridgeport, Connecticut bankruptcy, the New York City disaster, and the Chelsea, Massachusetts liquidity crisis. The article recommends that holders of some \$840 billion in tax-exempt municipal bonds (which include cities, counties, school districts, turnpike authorities, and other agencies of government) "get out before" the municipal bond prices begin to reflect the true severity of risk as local finances collapse.

Briefly

● **CHOLERA** could become epidemic in Moldova (formerly Moldavia), *Pravda* reported June 26, after a Soviet border guard became ill with the disease in the town of Kagul. This is the only case recorded in 1991, but the paper added, "The epidemiological situation in Moldova remains grave." During the past five years, the cholera bacillus has been isolated 38 times in water samples taken in the republic.

● **THIRD WORLD** nations must introduce more democracy, conduct "sound" economic policies, and respect human rights if they wish to qualify for foreign aid, British Overseas Development Minister Linda Chalker told a joint meeting of the Overseas Development Institute and the Royal Institute of International Affairs June 26.

● **FRENCH** Labor Minister Martine Aubry has announced that May unemployment topped 9.5%, rising by 52,200 to 2,688,900 persons. "That's a total which has never been reached before in our country," he said, warning that worse is yet to come. "The large-scale layoffs in troubled sectors—electronics, computers, cars, textiles—have not yet found their way into the figures."

● **CHINA** sponsored a conference of developing nations on "The Environment and Development" June 18-19. Ministers from 41 countries attended, along with representatives of nine developed nations and 10 organizations. The declaration called for a "new and equitable international economic order conducive to sustained and sustainable development."

● **THE PRICE** of lumber is nearly 30% higher in June than it was in May as a result of a judge's injunction blocking the U.S. Forest Service from selling most West Coast timber, ostensibly to protect the Spotted Owl's habitat. With housing starts running far below normal, the price increase can be explained only by supply constraints.

Finance

S.G. Warburg to broker Polish industry

The Polish government is adopting an industrial privatization scheme drawn up by the S.G. Warburg investment house, which will transfer key decisions for 400 Polish enterprises into the hands of foreign managers by early next year, the *Financial Times* reports. The enterprises represent 25% of the country's industrial sales and 12% of total employment in Poland.

The industries will transfer 60% of their equity into National Wealth Management Funds (NWMF) which will be owned by all Poles over 18. Each Pole will be given participation certificates which will be traded on an open market after the firms post performance reports at the end of their first year as "privatized" companies.

There will be between 5-20 NWMFs which will have Polish chairmen, but will be managed by Western banks and fund managers. It has not been decided how the industries will be allocated among the funds, or how the Western banks will be compensated. The Polish Parliament's approval is required before the scheme can go into effect.

Education

Cities, counties spend more on prisons

American cities and counties are spending more tax dollars on police and prisons than on education, according to a new report. This trend began during the Reagan administration and continues to worsen under President Bush.

The report is based on a study conducted for the National Center on Institutions and Alternatives at George Washington University by Prof. William Chambliss.

Findings of the report, as reported in Maryland's *Prince George's Journal* in June, include the following:

● Cities spend 20% more on law enforcement than education. In 1968-69, cities were spending \$27 per capita for criminal justice and \$34 for education. In 1988-89, the spend-

ing was \$130 for criminal justice and \$106 for education.

● As of 1982, counties began spending more on criminal justice than education, and by 1988, the gap widened to \$2 billion.

● Federal spending for police and prisons has risen far faster than spending on education. Over the past 10 years, the federal government cut its education spending by 25% (adjusting for inflation) while increasing spending on criminal justice by 29%. In 1990 alone, the war on drugs received \$12 billion in federal spending.

● State budgets still invest more in education than criminal justice, but state budgets for police and prisons are rising faster than education budgets.

Vulcanology

Philippines eruption greatest since Krakatoa

Vulcanologists are now warning that their recent predictions that Mt. Pinatubo volcano in the Philippines was winding down may have been premature. According to Lindsey McClelland of the Smithsonian Institute's Scientific Event Alert Network, which keeps track of volcanic eruptions worldwide, Mt. Pinatubo may be building up to another major eruption. The volcano has erupted several times already, the major eruption being on June 15-16.

The Philippines eruption is already classified as one of the greatest of the past century, greater than that of Mt. St. Helens, and more than twice as large as that of El Chichón in Mexico in 1983.

The volcano now undergoes as many as nine small eruptions per day. If there is another major eruption, it will probably be the greatest since the Pacific island of Krakatoa disappeared in 1883. The eruption of Krakatoa, in the straits between Java and Sumatra, killed over 30,000 people through tidal waves and fire tornadoes.

The amount of material ejected by Pinatubo has been enormous, and it has reached high in the stratosphere, promising a major impact on climate for the next two years.