

which is just two levels above junk-bond status. This is pushing several internal problems at Ford to a head. Ford is America's fourth largest company, and is the second largest auto company in the world, owning the Ford, Lincoln and Mercury brands, Aston Martin, Jaguar, and Volvo, and having a 33% stake in Mazda.

Ford has \$162 billion of debt outstanding, of which a stunning \$22-32 billion must be rolled over in 2003. Ford's debt is already being treated by bankers as effectively "junk status." Ford Credit, which is the financing arm of Ford Motor, has now had to issue ten-year bonds which yield 9.55%. Ten-year U.S. Treasury bonds have a yield of 4.10%; thus, Ford's bonds sell at a "premium" of 5.45 percentage points (545 basis points) above Treasuries of a comparable maturity. The "premium" of Ford bonds is above those of several Third World countries.

Based on its earnings alone, Ford cannot pay the interest on its debt. According to Egan-Jones Ratings, a Pennsylvania-based independent credit analysis firm, back in December 2000, Ford's operating earnings were just about double its interest expense. Recently, Egan-Jones reported, *Ford's earnings have sunk to less than half its interest expense*. Ford does have a cash reserve, estimated at between \$15 and \$20 billion, but it appears poised to burn through that quickly. Ford's approach to this problem is fierce budget cutting. Ford's chairman, William Clay Ford, Jr., announced last year that the company would cut \$6 billion from expenses, including laying off 30,000 workers. During the last week of October, Ford announced \$1 billion more in cuts. In 2001, Ford lost \$5.1 billion. For the year 2002, though Ford's sales had fallen through September compared to 2001, they had not crumbled. But Ford discontinued many of the 0% financing and other incentives through which it, like the other automakers, had achieved many of its sales; it was losing money on each car sold that way. Now, during October, Ford's sales crashed by more than 30%, cutting its ability to pay debt service expense on its \$162 billion debt load.

This has huge implications for the U.S. bond market, financial system, and economy as a whole. For the past five years, the U.S. economy has maintained only one functioning segment, consumer sales of autos and homes financed through a credit bubble. Now, with the auto sector prop knocked out from under the economy—and it is just a matter of time before the housing bubble pops—the *physical economy's* collapse will be that much more severe.

The downturn of the real economy underlying the debt bubble, is further anecdotally shown by the October manufacturing index of the Institute for Purchasing Supply (formerly the National Association of Purchasing Management) for the Chicago area falling to 45.9, the second-lowest level of this year. The September 2.3% fall in new factory orders is expected to have gotten worse in October. The U.S. economic depression is accelerating; trumpeting non-existent growth based on GDP fakery cannot hide that.

Different Kind of Earthquake in Turkey

by Muriel Mirak-Weissbach

The earthquake that hit Turkey on Nov. 3, was a political one, but its tremors are being felt more acutely in the country and abroad, than if it had measured 8 on the physical Richter scale. The electoral victory of the Justice and Development Party (AKP) of Recep Tayyip Erdogan was a sweep, as it gained 35% of the votes. Only one other formation, the Republican Peoples Party (CHP) with 20%, even made it into Parliament, as all other parties fell below the required 10% national vote threshold. Outgoing Prime Minister Bulent Ecevit's party, for example, received a pittance, and the other two former coalition parties did not fare much better.

Thus, it is not only a change of power: An entire political establishment has been erased. Familiar names like Ecevit, Tansu Ciller, and Mesut Yilmaz may become a thing of the past. For the first time in 15 years, a single party has enough votes to rule alone. The AKP has over 60% of the seats in Parliament, just short of the two-thirds majority required to change the Constitution.

Fed Up With Economic Disaster

The massive vote for a party which is considered Islamist, expresses the thorough discontent among the population, especially regarding Turkey's terrible economic situation, and general opposition to a United States-led war against neighboring Iraq. In fact, one leading factor in Turkey's economic collapse has been the impact of the embargo against Iraq, in effect since late 1990. Turkey was Iraq's biggest trading partner, the country through which its oil exports flowed through pipelines abroad. Since 1990-1991, the flow of oil, and trade overall, has been reduced to a trickle. Massive foreign debt has bled the country dry, and it now shares with Argentina the status of economic hopeless case.

Turkish sources point out that, at the same time, a significant shift has taken place in the country's social and geographical structure: Internal migration has reached an end, and formerly rural populations now live in the big cities, eager to have a share in the economic pie. This they have not received, due to the economic depression which has hit everyone, reducing the power of the middle class, and sparing only a tiny, very wealthy elite.

The Turkish establishment, considered an oligarchy by the disinherited middle class and poor, has not responded to the plight of the population, but has strengthened its ties to Western financial circles. Thus, the protest vote on Nov. 3.

The AKP benefitted from the protest for several reasons. The leader of the party, Erdogan, ran a campaign pledging to fight corruption and seek economic and social justice. His record as mayor of Istanbul in the 1990s lent credibility to his electoral promises, because he used his office to effect radical improvements in the life of that huge city. According to a summary overview of his activities as mayor, in the *Frankfurter Allgemeine Zeitung* on Nov. 7, Erdogan made use of a foreign credit measure introduced by then-Prime Minister Turgut Ozal, to finance projects. Among his projects were the country's first subway system and the conversion of heating from coal to gas. Both contributed to improving air quality, which Erdogan further enhanced, between 1994 and 1998, by setting aside 2 million square meters of green parks and planting 600,000 trees.

His greatest achievement, according to all reports, was his solution to Istanbul's water problem. Whereas earlier, water supplies had been available in some neighborhoods only a couple of hours a day, this changed, with the addition of 2.6 million cubic meters of water to the system's daily capacity—the only means to deal with a threefold increase, during his tenure, in consumption of water. And Erdogan also managed to reduce corruption. Thus, when Erdogan promised to fight corruption, and bring infrastructure development projects on line, people believed him, and voted for him.

Dealing With the IMF and Iraq

Erdogan is also known as an Islamist, formerly associated with the Welfare Party of Necmettin Erbakan, who was Prime Minister briefly during the mid-1990s, until edged out of office by the military. The AKP was founded only a year ago from a split out of the Welfare Party (now the Virtue Party), which was banned for anti-secular activities. The AKP leader has been careful to assure public opinion and the military, that he is not an Islamist, and has progressively toned down his rhetoric. However, pro-Islamist voters still consider him such.

Which way the new government of the AKP will go, is an open question. Erdogan has gone to great lengths to assure the electorate, the army and the world, that his party will respect the secular state; will maintain its alliances, especially with the United States—a “natural ally of Turkey”—and NATO; and will “sit down with the IMF” to talk about another \$16 billion rescue package. No matter how willing he may be to deal with the International Monetary Fund, and the IMF may be to bail out this very strategic country, Erdogan finds himself objectively faced with a crisis that no IMF rescue package can solve. If the IMF demands more austerity, more privatizations, and so forth, according to the usual recipe, the new government could face instant protest from the very same constituents who put it in power.

The foreign policy dilemma Erdogan faces, is Iraq. His voters strongly oppose any war against Iraq, which would further devastate the economy, and destabilize the entire region. The day after the election, Erdogan expressed reserva-

tions about any military action, but added, “We are bound by the UN's decision; we cannot say anything before seeing the UN's attitude towards the issue. We don't want blood, tears, and death.” In an interview with Associated Press on Nov. 7, a day on which he met with U.S. Ambassador Robert Pearson, the new Turkish leader declined to say whether Turkey would make bases available to the United States for a military operation, saying it was “too early” to tell.

The armed forces is the power behind the powers in Turkey, as shown by Erbakan's removal from power in 1997. Turkey's Chief of General Staff, Gen. Hilmi Ozkok, stated on Nov. 6, “I can only express our national policy on Iraq, that this business be resolved without war.” He made the statement in Washington, where he met with Vice President Cheney, Chairman of the Joint Chiefs Gen. Richard Myers, Defense Secretary Donald Rumsfeld, his Deputy Paul Wolfowitz, and Secretary of State Colin Powell. The reason for his visit was, clearly, to discuss Iraq, and what Turkey would provide the United States in case of war. Asked if his statement indicated differences with the United States, Ozkok said: “Quite naturally there are differences in our perspectives. This is nothing to be afraid of. In time they can be resolved.”

Prime Ministership or Prison?

Thus far, the military has accepted the election results, and said so officially, despite reported poor relations with the AKP. As the *Neue Züricher Zeitung* editorialized on Nov. 5, “It seems unlikely that the Army at this point, so soon after the elections, would force a ban of the AKP and prevent the Islamists from governing. That would be the elimination of democracy, and Turkey's turning its back on the West.”

But Erdogan will have to walk the tightrope, for certain. It is not only the military which could end his political ambitions, but also legal challenges. In 1999, Erdogan was arrested and imprisoned for four months, on charges of “inciting hatred on religious grounds,” after he had recited a militant Islamic poem at a public rally. As a result, he is barred from becoming Prime Minister. Moreover, shortly before the election, the state prosecutor initiated a case calling for the AKP to be closed down, saying the party failed to respect a court order to have Erdogan renounce its leadership due to his conviction and jailing. If a full hearing begins as scheduled shortly, Erdogan could be convicted and jailed again, and his victorious party banned!

The aftershocks of the Turkish earthquake are also being felt worldwide. In the Arab world, there is enthusiasm for the new AKP among people who consider themselves Islamists, just as there is trepidation among their moderate, anti-Islamist governments. Any military attack against Iraq would ignite the revolt of these Islamists against their governments. Now, it is hoped by many Arabs that the new equation in Turkey may delay the march towards war, if not actually throw a monkey wrench into it, at very close quarters.