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THE WHITE HOUSE

Office of the Press Secretary
(Geneva, Switzerland)

For Immediate Release

May 18, 1998

REMARKS BY THE PRESIDENT
AT THE COMMEMORATION OF THE 50TH ANNIVERSARY
OF THE WORLD TRADE ORGANIZATION

Palais des Nations
Geneva, Switzerland

7:48 P.M. (L)

THE PRESIDENT: Thank you very much, Director General Ruggiero, Federal Counselor Couchepin, your Excellencies, thank you for the opportunity to address you on this most important occasion.

Near the end of World War II, as leaders and ordinary citizens began to dream of a system that would prevent a return to war, President Franklin Roosevelt asked the people of the United States and the world to look ahead to peace with these words: He said, "A basic essential to permanent peace is a decent standard of living for all individual men and women and children in all nations. Freedom from fear is eternally linked with freedom from want."

It was that understanding that led a farsighted generation of postwar leaders, determined to avoid past errors of protectionism and isolationism, to embrace what was then still a revolutionary idea, that freedom -- freely-elected governments, free markets, the free flow of ideas, the free movement of people -- would be the surest route to the greatest prosperity for the largest number of people.

They were also confident that growing economic interdependence would lead to greater peace among nations. The economic alliances and institutions they created -- the IMF, the World Bank, the GATT -- built a platform for prosperity and peace that has lasted down to the present day.

In the fullness of time, events have confirmed the convictions of the founders of the international system. World trade has increased fifteenfold; average tariffs have declined by

90 percent; the trading community has grown from 23 nations to 132, with 31 more working to join. Russia and China, where the shackles of state socialism once choked off enterprise, are moving to join the thriving community of free democracies. Trade

is creating prosperity among the nations of the Americas and offers hope to the emerging economies of Africa and Asia.

On the edge of a new millennium, our people are creating a new economy, a very different one from that our founders faced 50 years ago. The new one is driven by technology, powered by ingenuity, rewards knowledge and teamwork, flexibility and creativity, and draws us closer across the lines that have divided us for too long.

On any given day, over 3 million people take to the air on commercial flights. Three decades ago, phone lines could only accommodate 80 calls at one time between Europe and the United States. Today, they can handle one million calls at one time. In the United States alone, economic output has tripled while the physical weight of goods produced has barely changed. The world's new wealth largely comes from the power of ideas.

This new global economy of ideas offers the possibility, but not the guarantee, of lifting billions of people into a worldwide middle class and a decent standard of living, the opportunity to give their children a better life. Yet it also contains within it, as we all know, the seeds of new disruptions, new instabilities, new inequalities, new challenges to the balance of work and family, of freedom and security, of equal opportunity and social justice, of economic growth and a sustainable environment.

The challenge of the millennial generation here gathered is, therefore, to create a world trading system, attuned both to the pace and scope of a new global economy and to the enduring values which give direction and meaning to our lives. We took the first vital step when we created the World Trade Organization in 1995, a goal that had alluded our predecessors for nearly half-century. The Uruguay Round that founded the WTO amounted to the biggest tax cut in history -- \$76 billion a year when fully implemented. Since that event, world trade has increased by 25 percent. Since 1995, we also have begun to build

an infrastructure for this new economy, with historic agreements on information technology, telecommunications, and financial services, which together affect trillions of dollars in global commerce every year.

At the G-8 Summit just concluded in Birmingham, the leaders worked on ideas to strengthen the international financial architecture so that private capital markets can spur rapid growth while minimizing the risk of worldwide economic instability. Now, we must build on these achievements with a new vision of trade to construct a modern WTO for the 21st century. I would like to offer you my suggestions.

First, we must pursue an ever more open global trading system. Today let me state unequivocally that America is committed to open trade among all nations. Economic freedom and

open trade have brought unprecedented prosperity in the 20th century; they will widen the circle of opportunity dramatically in the 21st. One-third of the strong economic growth we have enjoyed in America these past five years was generated by trade. For every country engaged in trade, open markets dramatically widen the base of possible customers for our goods and services. We must press forward.

Redoubling our efforts to tear down barriers to trade will spur growth in all our countries, creating new businesses, better jobs, higher incomes, and advancing the free flow of ideas, information, and people that are the life blood of democracy and prosperity. At the U.S.-EU Summit in London today, we embraced this goal and committed ourselves to reducing barriers and increasing trade in a dozen important areas.

No matter how much some people might wish otherwise, globalization and the technology revolution are not policy choices, they are facts. The choice is whether we shape these forces of a new economy to benefit our people and advance our values, or retreat behind walls of protection to be left behind in the race for the future.

At a moment when, for the first time in all human history a majority of the world's people live under governments of their own choosing; when the argument over which is better -- free enterprise or state socialism -- has been won; when people on every continent seek to join the free market system, those of us who have benefitted most from this system and led it must not turn our backs. For my part, I am determined to pursue an aggressive market open strategy in every region of the world. And I will continue to work with members of our Congress, in both parties, to secure fast track negotiation authority.

Second, we must recognize that in this new economy, the way we make trade rules and conduct trade affects the lives,

daily -- and the livelihoods, and the health, and the safety of ordinary families all over the world. Therefore, our efforts to make the trading system more open must themselves be made more open.

In order to build a trading system for the 21st century that honors our values and expands opportunity, we must do more to ensure that spirited economic competition among nations never becomes a race to the bottom -- in environmental protections, consumer protections, or labor standards. We should be leveling up, not leveling down. Without such a strategy, we cannot build the necessary public support for continued expansion of trade. Working people will only assume the risks of a free international market if they have the confidence that the system will work for them.

The WTO was created to lift the lives of ordinary citizens. It should listen to them. I propose the WTO for the

first time, provide a consultative forum where business, and labor, and environmental, and consumer groups can provide regular and continuous input to help guide further evolution of the WTO. The U.S. and the EU agreed today to provide such a forum as part of our new trade agenda. It is far more important for the WTO to follow suite. When this body convenes again, the world's trade ministers should sit down with representatives of the broader public to begin to do this.

Third, we must actually do more to harmonize our goals of increasing trade and improving the environment and working conditions. Expanded trade can and should enhance the environment. Indeed, the WTO agreement, in its preamble, explicitly adopts sustainable development as an objective of open trade, including a commitment to preserve the environment and to increase the capacity of nations to do so. Therefore, international trade rules must permit sovereign nations to exercise their rights to set protective standards for health and safety, the environment, and biodiversity. Nations have a right to pursue those protections, even when they are stronger than international norms.

I am asking that a high-level meeting be convened to bring together trade and environmental ministers to provide strong direction and new energy to the WTO's environmental efforts in the years to come -- a suggestion that has already been made by Sir Leon Brittan of the European Commission.

Likewise, the WTO and the International Labor Organization should commit to work together to make certain that open trade does lift living standards and respects the core labor standards that are essential not only to worker rights, but to human rights. I ask the two organizations' Secretariats to convene at a high level to discuss these issues.

This weekend, the G-8 leaders voiced support for the ILOs adoption of a new declaration and a meaningful follow-up mechanism on core labor standards when the ILO ministers meet next month here in Geneva. I hope you will add your support. We must work hard to ensure that the ILO is a vibrant institution. Today, I transmitted to our Senate for ratification the ILO convention aimed at eliminating discrimination in the workplace.

Because this new economy is based on ideas, information, and technology, the return on investment in education has never been higher. And the adverse consequences of being without skills has never been greater. These trends cannot be reversed. Our goal, therefore, must be to help more people benefit from the possibilities of the new economy, even as we ensure that the forces of technology and new trade patterns do not aggravate inequality or reinforce poor labor conditions.

Here I must add -- even as we do more to harmonize our goals of more trade and higher incomes for ordinary people,

each nation must do more to provide universal access to quality education and training. Without that, no trade rules, however wisely conceived or effected, can guarantee individual success to the people we are really trying to reach.

Fourth, we must modernize the WTO by opening its doors to the scrutiny and participation of the public. Through long trial and error, we have learned that governments work best when their operations are open to those affected by their actions. As American Supreme Court Justice Lewis Brandeis said a long time ago, "sunshine is the best of disinfectants."

The WTO should take every feasible step to bring openness and accountability to its operations. Today, when one nation challenges the practices of another, the preceeding takes place behind closed doors. I propose that all hearings by the WTO be open to the public, and all briefs by the parties be made publicly available. To achieve this, of course, would require a change in the rules of this organization. But each of us could do our part now. The United States today formally offers to open up every panel we are a party to, and I challenge every other nation to join us in making this happen.

Today, there is no mechanism for private citizens to provide input in these trade disputes. I propose further that the WTO provide the opportunity for stakeholders to convey their views, such as the ability to file amicus briefs to help inform the panels in their deliberations. Today, the public must wait weeks to read the reports of these panels. I propose that the decisions of the trade panels be made available to the pubic as soon as they are issued.

Fifth, we must have a trading system that taps the full potential of the Information Age. This revolution in information technology is the greatest force for prosperity in our lifetimes. The Internet is the fastest growing social and economic community in history, a phenomenon with unimagined revolutionary potential to empower billions around the world. It has been called the "death of distance," making it possible for people to work together across oceans as if they were working together across the hall.

When I became President, there were only 50 sites on the World Wide Web. Four years ago, there were still less than 3 million people with access to the Internet. Today, there are over 100 million people, with the number doubling every year.

Today, there are no customs duties on telephone calls, fax messages, e-mail or computer data links when they cross borders. We have spent 50 years tearing down barriers to trade in goods and services. Let us agree that when it comes to electronic commerce, we will not erect these barriers in the first place. I ask the nations of the world to join the United States in a standstill on any tariffs on electronic transmissions

sent across national borders. We cannot allow discriminatory barriers to stunt the development of the most promising new economic opportunity in decades.

Earlier today at the Summit of the EU, we agreed to deepen our collaboration in this area. And last week, the Japanese Prime Minister, Mr. Hashimoto, and I, agreed to move forward together with a market-oriented, private-sector-led approach to enhance privacy, protect intellectual property, and encourage the free flow of information and commerce on the Internet. I hope we can build a consensus that this is the best way to harness the remarkable potential of this new means of communication and commerce.

Sixth, a trading system for the 21st century must be comprised of governments that are open, honest, and fair in their practices. In an era of global financial markets, prosperity depends upon government practices that are based upon the rule of law rather than bureaucratic caprice, cronyism, or corruption. Investors demand it. And their loss of confidence can have sudden, swift, and severe consequences, with ripples throughout entire regional economies.

With its insistence on rules that are fair and open, the WTO plays a powerful role toward open and accountable government. But the WTO must do more. When we meet next year, all members of the WTO should agree that government purchases should be made through open and fair bidding. This single reform can open up \$3 trillion worth of business to open competition around the world. And I ask every nation to adopt the

antibribery convention developed by the OECD. Both these steps would promote both investor confidence and stability.

Finally, we must develop an open global trading system that moves as fast as the global marketplace. In an era in which new products lifecycles are measured in months, and information and money move around the globe in seconds, we simply can no longer afford to take seven years to finish a trade round -- as happened during the Uruguay Round -- or to let decade pass between identifying and acting on a trade barrier we all know ought to fall.

In the meantime, new industries arise, new trading blocs take shape, and governments invent new trade barriers every day. We should explore what new type of trade negotiating round or process is best suited to the new economy. There must be a way to tear down barriers without waiting for every issue in every sector to be resolved before any issue in any sector is resolved. There must be a way to do this that is fair and balanced to nations large and small, rich and poor. Surely we can negotiate trade agreements in a way that is faster and better than the way we have followed to date.

For example, agriculture -- which I understand has

been discussed quite a bit here -- is at the heart of our economy and many of yours. Tearing down barriers to global trade is, I believe, critical to meeting the food needs of a growing world population. Starting next year, we should aggressively begin negotiations to reduce tariffs and subsidies, and other distortions that restrict productivity and the best allocation of food. We must develop rules rooted in science to encourage the full fruits of biotechnology. And I propose that even before negotiations near conclusions, WTO members should pledge to continue making annual tariff and subsidy reductions so that there is no pause in reform.

We have to recognize that the fastest growing area of economic activity in the world is services -- the one least disciplined by WTO rules. So when services negotiations are launched, I think it is essential to engage in wide-ranging discussions to ensure openness for dynamic service sectors, such as express delivery, environmental, energy, audiovisual, and professional services.

We have to continue our strong momentum to dismantle industrial tariffs. A good place to start would be an agreement on the sectors from chemicals to environmental technologies proposed by APEC. And we must move forward in strengthening intellectual property protection.

These are my proposals for a 21st century trading system -- one that is more open and accountable; one that listens

to the voices of citizens; that works to protect the environment, and lift the lives and incomes of ordinary people; one that is in sync with the Information Age; that promotes honest, effective government; and that makes better, faster decisions. In short, a trading system based on the new economy and old, enduring values. To move forward, I am inviting the trade ministers of the world to hold their next meeting in 1999 in the United States.

I ask you to think about the opportunity that has been presented to all of us -- the chance to create a new international economy in which open markets and open economies spark undreamed of innovation and prosperity; in which the skills of ordinary citizens power the prosperity of entire nations; in which the global economy honors those same values that guide families in raising their children and nations in developing good citizens; in which poor people, at last, find opportunity, dignity, and a decent life; in which increasing interdependence among nations enhances peace and security for all.

This will be the world of the 21st century if we have the wisdom and determination, the courage and the clarity of our forebears 50 years ago.

Thank you very much. (Applause.)

END

8:13 P.M. (L)

Message Sent To: _____

Leach Wants More Oversight Of Fannie Mae

Treasury Urged to Monitor Investment Practices Of Freddie Mac, Others

By JOHN CONNOR

Dow Jones Newswires

WASHINGTON — House Banking Committee Chairman Jim Leach (R., Iowa) called for a greater Treasury Department role in overseeing the investment practices of Fannie Mae, Freddie Mac and other government-sponsored enterprises.

Mr. Leach suggested that Congress might want to place a Treasury Department representative on the boards of enterprises to ensure that their investments are more closely related to their missions.

At the least, Mr. Leach said, the Treasury Department and other cognizant federal agencies should be more active in seeing that the enterprises advance their missions, not the interests of their shareholders.

GSEs are congressionally chartered, shareholder-owned enterprises charged by Congress with fulfilling specified missions, such as assisting housing.

Criticizing GSEs' use of their preferred borrowing status to fund investments not related to their missions, Mr. Leach said that the question from Congress's perspective is: "Where are the regulators?"

In a speech, Mr. Leach said that regulators, particularly the Treasury Department, "should be insisting that its cohorts in the executive branch watch more closely the chicken coop. Absent greater executive-branch oversight, Congress might want to require that a Treasury representative be placed on every GSE board."

Government-sponsored enterprises have lower borrowing costs than fully private firms. According to Mr. Leach and a recent General Accounting Office report, the enterprises generate considerable arbitrage profits by investing the proceeds of their borrowings in nonmission-related assets.

"Instead of channeling borrowings into congressionally directed undertakings, like the promotion of homeownership or low-cost, long-term lending to farmers, they are increasingly investing substantial funds in higher-yielding securities and use the arbitrage profits to increase payouts to private shareholders," Rep. Leach said.

The situation, he added, "cries out for greater attention from Treasury, which holds the latchkey to federal borrowing, and HUD [the Department of Housing and Urban Development] and the Agriculture Department, which have responsibility for keeping GSEs within their specified missions."

As WTO Marks 50th Birthday, Event Attracts Opponents to Globalization

By BHUSHAN BAIKRE

Staff Reporter of THE WALL STREET JOURNAL

GENEVA — The World Trade Organization is coming under a lot of attention, not all of it welcome, as it starts a big birthday celebration this week.

President Clinton today will lead a clutch of world leaders to the party. Most of the leaders are seeking, through the WTO, to open markets further to international competition in the new millennium.

This occasion to push globalization further and faster — at least for the world's major trading nations — marks the 50th anniversary of the post-World War II trading system, combined with the second ministerial meeting of the WTO's 132 members.

The event has also attracted globalization opponents, some of whom have started their protests well ahead of the WTO's three-day meeting that begins today.

The backlash against globalization is taking many forms. In the WTO, developing countries want to go slowly and with an agenda that will benefit them and not only such major trading nations as the U.S., Japan and members of the European Union. The language and method of this resistance is, as ever, diplomatic and arcane. But out in the streets, those who fear globalization, or have been dispossessed by the changes it has wrought, are vocal and direct.

The weekend has already been marred by violence in this normally quiet, diplomatic city. Even as senior trade officials representing the WTO's members countries met Saturday in yet another late-night session to agree on a text charting the future of trade liberalization, thousands of protesters, ranging from farmers to Zapatistas and loosely gathered under the banner of People's Action against the WTO summit, set cars on fire, attacked fast-food restaurants and sprayed graffiti on bank windows.

Of course, not all those against the WTO regime have taken to the streets. Cuban leader Fidel Castro, whose country is a founder member, is scheduled to address the WTO meeting tomorrow. Mr. Castro has made his feelings known. In a speech to the World Health Assembly here last week, Mr. Castro spoke of the "blind and uncontrolled laws of the market" and globalization causing mass poverty and destroying the earth's ecology.

Still, other leaders such as British Prime Minister Tony Blair, Italian Premier Romano Prodi, Brazilian President Fernando Henrique Cardoso and EU Commission President Jacques Santer are scheduled to point to the key role of trade in bringing prosperity to millions. Even South African President Nelson Mandela, an outspoken world leader, is expected to laud the WTO tomorrow.

Working quietly, meanwhile, environmental and other nongovernmental groups are publicizing their resistance to WTO agreements that, in one way or another, put the quest for freer trade ahead of considerations important to them. For in-

stance, the World Wide Fund for Nature has teamed up with other groups to cite WTO actions that disregard environmental considerations. Specifically, the environmental groups cite a recent WTO panel decision against a U.S. law that seeks to protect sea turtles.

In the WTO, meanwhile, many developing countries are resisting efforts by Europe, North America and Japan to both accelerate trade negotiations and extend their reach into new trade areas.

"We aren't opposed to acceleration as such," says Anthony Hill, Jamaica's trade ambassador to the WTO, speaking on behalf of the "Group of 15," representing developing countries. But any speeding up of the WTO's negotiating agenda "must be in a way where we can see an advantage for ourselves," Mr. Hill adds.

Mounir Zahran, the trade ambassador from Egypt, which last week hosted a meeting of the heads of state of G-15 countries, is more direct. "We don't want to accelerate the WTO agenda," he says.

The conflict doesn't end there. The EU, under its trade chief Sir Leon Brittan, is promoting the notion of an all encompassing millennium round of trade talks. German economics minister Guenter Rexrodt says that beyond the celebrations, the WTO meeting must look to such new areas of potential liberalization as investment and competition.

Japan supports the EU push for a comprehensive round of talks. But the U.S. is lukewarm, preferring instead a sector by sector approach where possible to avoid being hostage to a large round where problems in one area — notably agriculture — holds up progress everywhere.

The WTO has already agreed to new negotiations on agriculture and services at the turn of the century. The EU and Japan, whose farmers exert a lot of political clout, prefer a wider round of talks because gains and losses can be traded across sectors.

As an example of what Washington would like, U.S. officials have been pushing their trade partners to agree to continue, at least for a while, not to impose any tariffs on electronic commerce. If successful, Mr. Clinton may be able to announce such an agreement today and point to it as the way ahead.

But EU officials say Europe won't agree to any more so-called sectoral negotiations. "We've made that clear and we've made clear we want a comprehensive set of negotiations," one senior EU official said.

Recycling Industries Offering

ENGLEWOOD, Colo. — Recycling Industries Inc. said it has delayed a \$250 million private offering, because of market conditions that include recent interest-rate increases.

The metals recycling concern said it plans to continue its acquisition strategy by using its existing financing sources, as well as seeking alternative sources until market conditions improve.

U.S. Seeks New Round of Trade Talks

Clinton Is Expected to Call For Ministerial Meeting Next Year to Set Agenda

By BOB DAVIS
And NICHOLAS BRAY

Staff Reporters of THE WALL STREET JOURNAL

BIRMINGHAM, England — The U.S. and some of its major trading partners are planning to launch a new round of global trade negotiations.

In a speech to the World Trade Organization in Geneva today, President Clinton is expected to call for a ministerial meeting in the U.S. next year that would be used to set the global trade agenda. Administration officials emphasize that they envision a "new type" of trade round, unlike the last one, the Uruguay Round, which dragged on for more than a decade. The new trade talks would begin in 2000.

The WTO is already scheduled to host talks during the next two years to liberalize trade in agriculture and serv-

ices. The new trade round would expand the range of topics, and could include investment, labor rights, competition policy, intellectual property, tariff cuts and electronic commerce, among other subjects.

"This would be a major undertaking, dramatic in its potential," said U.S. Trade Representative Charlene Barshefsky. "It's critical to continued U.S. prosperity and to the assertion of U.S. leadership."

The U.S. initiative builds on the work of European Union Trade Minister Sir Leon Brittan who has been calling for a "millennium round" of trade negotiations. But U.S. officials have considered Sir Leon's idea too open-ended and privately have joked that they aren't sure whether he meant that it would take 1,000 years to complete a deal.

The U.S. and EU also have been at loggerheads on the trade front over U.S. laws restricting foreign investment in Cuba, Iran, and Libya. EU President Jacques Santer said he hoped for a "breakthrough" on the issue by today, when the U.S. and EU hold an annual summit. But it wasn't clear whether the two sides would

be able to strike a deal or what the terms would be if they did.

At the Birmingham summit of leaders of the seven largest industrial nations and Russia, Japanese Prime Minister Ryutaro Hashimoto and the EU's Mr. Santer publicly endorsed a new global trade round. Mr. Santer said the negotiations should be completed within three years.

A Canadian official, however, was less enthusiastic. "We think a comprehensive round is too ambitious," he said.

The U.S. has shied away from multilateral talks since Congress humiliated President Clinton last fall by denying him so-called fast-track authority, which lets the president negotiate trade agreements unencumbered by congressional amendment. But the administration feared that unless it took a leadership role on trade, the Asian financial crisis could set off a protectionist backlash globally.

Moreover, the prospect of a broad trade deal could actually improve prospects for fast track. Business leaders mobilize more effectively when they can see how fast track would yield trade benefits.

The U.S. wouldn't need fast track while it was setting up a trade agenda over the next few years. But it does need the authority to conclude a deal. Trade partners are loath to make concessions to the U.S. if they believe Congress will rewrite a trade pact through amendment.

The timing of a new fast-track push will be hotly debated within the White House. Mr. Clinton's political advisers won't want House Democrats to be forced to take a stand on big trade issues before the November elections, or two years from now when Vice President Al Gore is expected to run for president. The White House doesn't want to alienate unions and reduce the donations and campaign workers they supply for Democratic candidates.

Also on the trade front, the U.S. and Japan announced a deal in Birmingham to liberalize Japan's telecommunications, retail, medical-devices and housing-construction sectors. The U.S. has been trying to use Mr. Hashimoto's oft-stated commitment to deregulation to further open Japan's economy to imports.

The G-7—the U.S., Japan, Britain, Canada, Germany, France and Italy—also agreed to adopt modest reforms in the international financial system in response to the Asian economic crisis. The leaders urged the International Monetary Fund to help develop codes for corporate governance and accounting principles, and urged IMF members to release more complete and timely data. The G-7 also endorsed an idea championed by Canada and Britain to establish teams of officials from the IMF, World Bank and various nations to evaluate financial regulatory systems throughout the world.

Tracking the Economy

May 18, 1998

INDICATOR	PERIOD COVERED	SCHEDULED RELEASE	PREVIOUS ACTUAL	TECHNICAL DATA CONSENSUS FORECAST
Housing Starts	April	Tuesday	1.59 million	1.60 million
Building Permits	April	Tuesday	1.60 million	1.59 million
Trade Balance	March	Wednesday	-\$12.1 billion	-\$11.5 billion
Treasury Statement	April	Thursday	+\$94 billion*	+\$120 billion
Initial Jobless Claims	Week to May 16	Thursday	307,000	310,000
Money Supply: M2	Week to May 11	Thursday	-\$3.3 billion	+\$8.0 billion

* April 1997 surplus

Source: Technical Data

Industrial Output Rises a Scant 0.1% As Production by Utilities Tapers Off

By MICHAEL M. PHILLIPS

Staff Reporter of THE WALL STREET JOURNAL
WASHINGTON—Industrial production barely inched up in April, held back by shrinking utility output. But manufacturers rebounded after two slack months.

While Friday's report by the Federal Reserve Board showed some softness in the industrial sector, it left open the question of whether the economy itself is softening enough to stave off an interest-rate increase when the Fed meets tomorrow.

Overall industrial production grew 0.1% last month, after a 0.3% gain in March. Despite weakness in the past few months, production still posted a 3.8% gain from April 1997. Much of the slowdown could be traced to the tapering off of utility production, which is highly influenced by the weather.

Manufacturers, which have been hit hard by the strong dollar and competition from Asia, actually stepped up output 0.3%, after posting declines of 0.2% in March and 0.4% in February. Factory output rose 4.3%

from April 1997. The latest index, however, is still below December's level.

"The industrial sector continues to show signs of softness in reaction to Asian developments and strong inventory accumulation," said Gerald D. Cohen, senior economist at Merrill Lynch & Co. in New York.

Production of durable goods rose 0.4%, including a 1% gain in production of computers and other business equipment. The production of consumer goods was flat for the month.

Factory capacity utilization slipped to 80.8% in April from 81% in March. "The drop in capacity use should diminish any inclination of the Federal Reserve to raise interest rates," said Gordon Richards, an economist at the National Association of Manufacturers, a trade group. "Far from overheating, the economy is stable and is on a steady long-term growth path."

Separately, the University of Michigan index of consumer sentiment—a gauge of buyer optimism—dropped midmonth, to 105.2 from 108.7 in April.

WSJ Journal Link: For the full text of the G-7 communique, see The Wall Street Journal Interactive Edition at <http://wsj.com>

Lord Peter's Last Case

An unfinished novel by Dorothy L. Sayers, newly completed; plus a volume of her letters.

THRONES, DOMINATIONS

By Dorothy L. Sayers
and Jill Paton Walsh
312 pp. New York:
St. Martin's Press. \$23.95.

THE LETTERS OF DOROTHY L. SAYERS

Volume 2, 1937-1943:
From Novelist to Playwright,
Chosen and edited by
Barbara Reynolds.
Illustrated, 450 pp. New York:
St. Martin's Press. \$27.95.

By Joyce Carol Oates

LORD PETER, DEATH BREDON WIMSEY burst upon the British mystery novel scene in 1923, making his debut in "Whose Body?" a prose puzzle so contrived and chirrupy it resembles a fill-gree cuckoo clock. Its author, 30-year-old Dorothy L. Sayers, whose previous publications had been slender books of verse, had clearly read Arthur Conan Doyle. It was also clear that she was an ardent admirer of the wit and wisdom of Oscar Wilde, had a weakness for West End comedies of manners and problems involving painstaking feats of deduction, and knew how to write English prose with style and zest. (Frequently, in her early novels, rather too much style and zest. As a character says of Lord Peter, the reader might say of his creator, "Your narrative style, though racy, is a little elliptical.")

"Whose Body?" reads as a virtual parody of a Sherlock Holmes mystery, positing a corpse wearing only a gold pinneez discovered in a London bath-tub; who is the dead man, how and why has he been murdered, and why placed with such ceremony in a stranger's dwelling? The drawing, insufferably breezy aristocratic dilettante Lord Peter winds his way unerringly through a snarl of a plot. A shrilly eccentric young nobleman, he is possessed of a long, amiable face that looked as if it had generated spontaneously out of his top hat, as white maggots breed from Gorgonzola. Sayers's boldly fantastic milieu—as in the subsequent "Unpleasantness at the Bellona Club," "Murder Must Advertise" and the short story, "Lord Peter Views the Body"—is populated by colorful caricatures with names like Throgmorton, Thipps, Crimplesham, Swaltham, Mufbles, Frobisher, Pym, Dahlia, Dallmeier and the comically inadequate Police Inspector Sugg. Lord Peter's faithful manservant is Mervyn Bunter, a master of English circumlocution and improbable erudition who is far more proper than his showy lord, and an expert photographer and sleuth's assistant to boot.

Joyce Carol Oates, a professor of humanities at Princeton, is the author, most recently, of the novel "Man Crazy."



Contemporary readers of detective fiction, which has evolved toward the ever more realistic and graphic, will find Lord Peter a taste acquired with some initial difficulty. If you persevere, however, he becomes unexpectedly rewarding: his very whimsy, so grating at the outset, like a tinny radio turned up too high, can be interpreted as the artful stratagem of a shell-shocked World War I veteran who has had to invent a foppish persona to disguise both his cunning and his shot nerves. Lord Peter is a tour de force, superior to the tricky plots his creator has stuck him in; unlike most series detectives in what might be called the crossword-puzzle mode, of which Sayers is a master, he matures, falls in love and marries—appropriately, a plain-featured and strong-willed mystery writer named Harriet Vane, who has been wrongly charged with murder, and whom he saves from the gallows in "Strong Poison" (1930).

With "The Nine Tailors" (1934) in which murder, Lord Peter's genius for amateur detection and the ancient art of ringing the changes on bells are skillfully interwoven in the atmospheric lens of East Anglia, Sayers and her eccentric detective ascend to the Pantheon: this scrupulously researched mystery is considered a masterpiece of the genre, and it has been an obvious influence upon the densely plotted though rather less light-hearted police procedurals of P.D. James. The more romantic "Gaudy Night" (1935), involving Harriet Vane and her devoted Lord Peter, set during a reunion at Shrewsbury College, Oxford (Sayers graduated from Somerville College in 1915, one of the first women to earn a degree), became a best seller in

England and made Sayers famous.

But the scholarly and devoutly Anglo-Catholic Sayers began to lose interest in what she perceived to be a frivolous craft, she characterized mysteriously, writing not as a "literature of expression" but a "literature of escape," which by definition can't attain the highest level of literary achievement. In a letter of November 1938, she notes that she has "taken a dislike" to what would become the final Lord Peter mystery, "Thrones, Dominations," and is having great difficulty in doing anything about it. The book seems to have been abandoned at about this time, as Sayers became increasingly involved in the writing of religious plays and theological essays. Found among her papers when she died in 1957, at the age of 64, and completed now by the English novelist Jill Paton Walsh, "Thrones, Dominations" is an engrossing, intelligent, and provocative novel in the guise of a conventional mystery. If it lacks the zest and flashy originality of the earlier Lord Peter books, it seems fully in character with the later, more introspective ones, and its detailed portrait of the marriage of the no-longer young Lord Peter and the brooding Harriet Vane, set in well-to-do London society in 1936, is both convincing and moving.

"Thrones, Dominations" is not a very graceful title, one source for it is Book 2 of "Paradise Lost," in which an unruly regiment of fallen angels is regrouping. Sayers, who had a schoolgirl predilection for prefacing her chapters with literary epigraphs (some more relevant than others), may have meant the title to indicate that Lord Peter and Harriet, happily married though they are, in-

habit a fallen world. This condition isn't only the result of the murder of an acquaintance ("Murder is very different when one knew the victim," a shaken Lord Peter says) but also of the gloomy foreknowledge that a second world war, so soon after the first, is inevitable.

IN his now classic essay of 1944, "The Simple Art of Murder," Raymond Chandler criticizes Dorothy Sayers—and by implication, her colleagues in the golden age of English mystery writing, Agatha Christie and John Dickson Carr—for writing formula fiction that would not make first-rate literature. "If it started out to be about real people," he writes, "they must very soon do unreal things in order to fit the artificial pattern required by the plot. When they did the unreal things, they ceased to be real themselves." The only kind of writer who could be happy with these properties was the one who did not know what reality was. Yet Chandler's own "realism" has become fantastical, set beside the work of writers as disparate as Ed McBain, Thomas Harris and James Ellroy, in which murder is rarely an art, still less a genteel one. Chandler might have found much to admire in "Thrones, Dominations," for there is relatively little that is contrived in the tangled plot, and the psychological motives for the murders are respectfully explored. As Sayer heroine Harriet Vane thinks, her story was going to be a tragedy, a tragedy of books, written while they were struggling through a black misery and frustration, had intellectual comedies. The effect of physical and en-

PHOTOCOPY
PRESERVATION

BOOK WORLD

*Undoing Violence: Mayhem and the Media***MAYHEM****Violence as Public Entertainment**

By Sissela Bok

Addison-Wesley, 194 pp. \$22

By JONATHAN YARDLEY

whose Internet address is yardley@clark.net

Sissela Bok is something of a rarity in American life: an academic philosopher—more specifically, a moral philosopher—who seeks to engage large issues of broad and immediate public import. The titles of a couple of her previous books suggest the nature and range of her interests: *Lying: Moral Choice in Public and Private Life* and *Secrets: On the Ethics of Concealment and Revelation*. Though she is a scholar, Bok writes with clarity and an utter lack of jargon; her work is always accessible to the lay reader.

Now, in *Mayhem*, Bok takes on the question of violence in mass entertainment and the prickly issues it raises. Does

"carnage as entertainment" abet "callousness and violent crime, as large majorities of Americans tell pollsters, or [does it] merely provide harmless amusement?" Is there a difference between actual violence as shown in television news broadcasts and make-believe violence as shown in movies? If violence as entertainment does have damaging effects, is censorship justified in order to reduce them? Is it possible to pressure the entertainment industry into reducing depictions of violence without at the same time infringing on free-speech rights?

As has been amply demonstrated during debates over the V-chip and other efforts to control violence on television and in the movies, none of these questions is easy. But Bok proposes two broad responses to them. The first is that there is indeed a correlation between media violence and the real world, for children most especially; the chief negative effects are believed to be "increased fearfulness, progressive desensitization, greater appetite

for more frequent and more violent programming, and higher levels of aggression." The second is that there are ways to approach the problem without leaving the First Amendment in shreds.

There are, Bok argues, "four basic moral characteristics—resilience, empathy, self-control, and respect for self and others—indispensable for human thriving." Contrary to the notion advanced by the entertainment industry's apologists and free-speech absolutists, media violence does not provide a catharsis or "an outlet for venting aggression vicariously," but acts to inhibit and suppress these moral virtues, all of them antithetical to the negative effects of media violence.

Bok quotes Saint Augustine's well-known account of gladiators fighting to the death in a Roman arena, and summarizes it as follows: "Augustine conveyed both his perception of the craving for still more bloodshed that the thrill of the games could arouse and his conviction that such experiences threaten grave

harm to spectators—harm for which he used the metaphor the 'stabbing of the soul.'" The paradox of watching violence for entertainment, she correctly argues, is that "the pleasure in seeing it carried out could be so relished as to override all sense of respect for life."

Nowhere are the effects of this more deleterious than in the minds of children, yet there now exists in this country a vast industry by which children are made, not born, to be consumers of entertainment violence. The profits are huge: "In 1997, it was estimated that American children 14 and under would directly spend \$20 billion and would influence the spending of another \$200 billion." Children witness this violence "long before they understand the distinction between fact and fiction, between right and wrong, between shame and shamelessness—and as a result, long before they have the tools for giving their free and informed consent to the conditioning that they are unwittingly undergoing."

What can we do? For starters, Bok sen-

sibly argues that we must think more clearheadedly about what is and is not censorship. "The First Amendment concerns restriction of speech by government," she points out. "Not by citizens." Using economic pressure to express one's disapproval of a television network's or movie studio's products is not censorship; it is a legitimate way of attempting to get them to change the way they do business. Parents who have been cowed into believing that telling their children what they can and cannot watch is censorship must exercise the responsibility this delusion permits them to evade.

Whether Bok is right to believe that we can reverse this steady decline into moral degeneracy is far from clear; the forces driving us down are powerful and the appetites to which they direct themselves are powerful, too. The implicit message in her fine book is that if we do nothing, it will be a moral failure as large as the moral degradation to which we are now subjected.

On the case of the big boys

Round the world, politicians worry about emerging corporate giants. But what, asks Tony Jackson, is the evidence that they exist?

Merger mania, the markets call it. They love the idea. Swiss banks, Wall Street brokers and British drinks groups rush to get together. The drug companies Glaxo Wellcome and SmithKline Beecham propose a £100bn (\$167bn) merger, the biggest in history. Each time, share prices leap in response.

Karl Marx has a view about this sort of thing. More than a century ago, he predicted that capitalism would be destroyed by its drive towards monopoly. He has been wrong so far. But now that globalisation and its attendant giants are upon us, might he prove right after all?

Until now, the tendency to monopoly has been thwarted by two main forces. First and most important, capitalism has shown an immense capacity to renew itself from below: new technology, emerging nations and the "animal spirits" of entrepreneurs create new companies all the time.

Second, capitalism has not hesitated to break its own free market rules. When monopolies have shown signs of forming - for example, in the US with oil and railroads a century ago or with Ma Bell in the early 1980s - governments have simply intervened and broken them up.

But how far can those two safeguards be relied on today? Not far enough, doom-mongers would say. Consider, for instance, how these two forces have been acting in computer software.

The US company Netscape should be a classic case of dynamic capitalism. Founded less than four years ago to make browsers for the internet, it has a market value of some \$2bn. But Netscape is rumoured to be for sale. If true, this is presumably because its life is being squeezed out by the older and dominant producer in its industry, Microsoft.

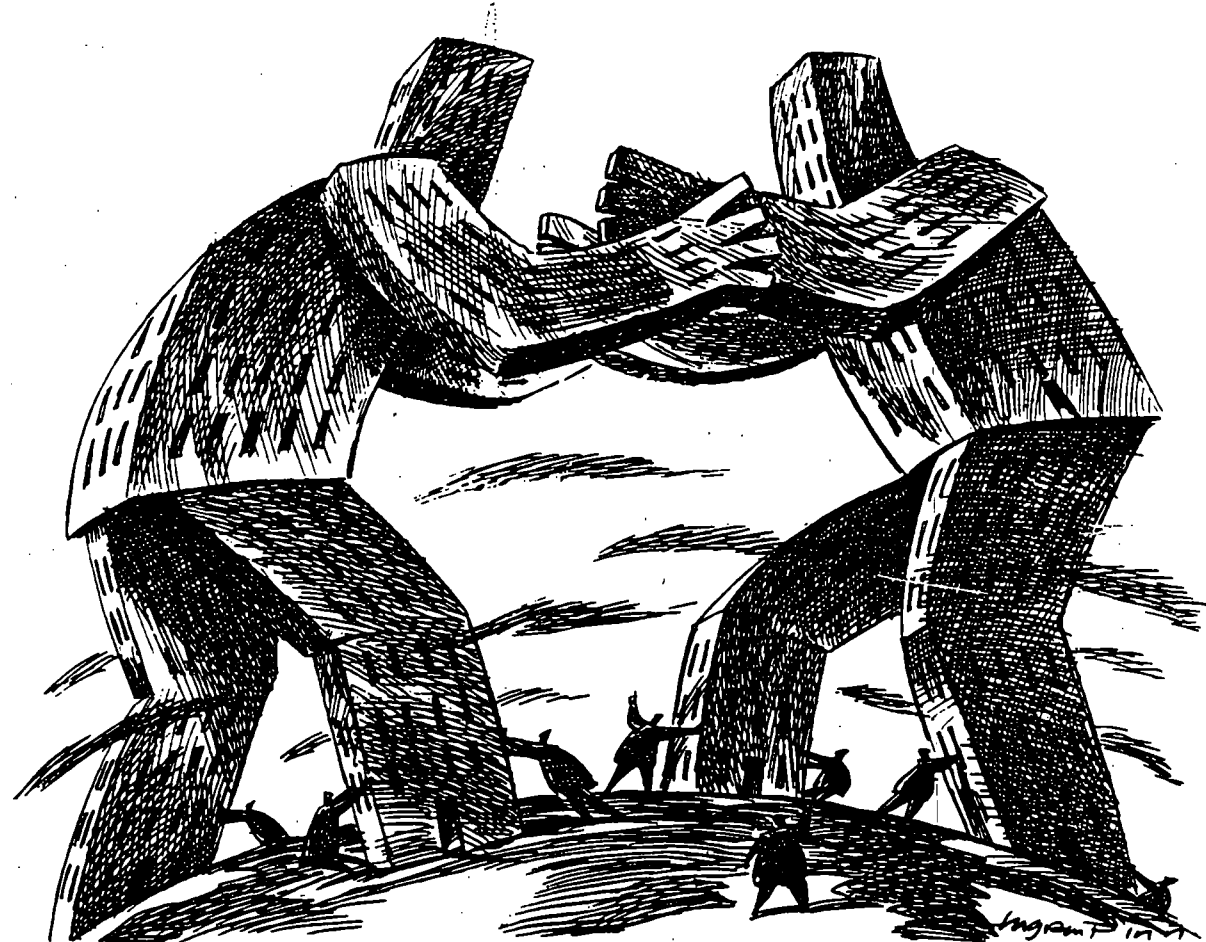
That case is being investigated by the US antitrust authorities. But, it could be argued, there are examples in which that is no longer enough. Today's global markets require a global policeman. No such entity exists.

The point was made explicit two weeks ago by Karel Van Miert, the EU's competition commissioner. What was needed, he told the World Economic Forum in Davos, was more co-operation between competition authorities around the world. Joel Klein, America's chief trust-buster, comes to the same conclusion in an article opposite, albeit using different arguments.

Mr Van Miert said: "More and more, the problem is that there are only a few players left in a sector, and they want to get together to be effective worldwide. I tell them that's not what free markets are about. Otherwise, you end up with worldwide private monopolies in place of the old state monopolies."

A related point was made this week by Don Cruickshank, the retiring UK telecoms regulator. The biggest challenge for his successor, he said, would be to find ways of policing mega-mergers across Europe between telecoms, computing and entertainment. Competition law would not be enough to protect consumers. New regulatory powers would be needed as well.

As bulletins from the coalface,



these warnings cannot be dismissed. But they need not be taken as gospel either. Before deciding how seriously to take them, it is necessary to stand back and ask in strictly objective terms, what is the evidence that industries and markets around the world are becoming concentrated in fewer hands?

The besetting problem is lack of data. Economists are roughly agreed on how to tackle the issue. First, take the biggest companies - say, the top 100. Then measure their output against some broad economic measure - value added, or GDP - over time.

According to one specialist in this field, Professor Leslie Hannah of London's City University, the relevant work has yet to be done. "Not a single measure of global concentration has ever been published," he says, even for now, let alone the past.

Prof Hannah's own belief is that there is no evidence for Marx's theory of continued concentration. Indeed, he argues, the evidence from the period 1970-1990 suggests the opposite. But as he also concedes, such data as exist are badly out of date. There is no hard evidence on what has been happening in that most dynamic decade, the 1990s.

We are therefore forced back on anecdote and observation. One obvious place to start is the FT 500, which lists the world's largest companies by market value. Of the top 50 companies, nine are products of recent merger. A further three, by contrast, did not exist 30 years ago.

The three new companies - Microsoft, Intel and Compaq - all belong to the same industry, personal computers. The nine merged companies belong to three industries:

drugs, banking and telecoms.

This suggests a general truth: that concentration varies enormously by sector. At one end of the scale, take the auto industry. The world's biggest carmaker is General Motors. At present, GM has 16 per cent of the world market. Ten years ago its share was 19 per cent; 20 years ago it was 25 per cent.

That shows the capitalist system working as it should. As emerging nations have industrialised, they have challenged the dominant supplier.

A similar effect can be achieved by technology. Before the first world war, the world's biggest employer was US Steel. The company still exists, but is in comparative terms a minnow. It has been overtaken by upstart "mini"-mills, such as Nucor, which have mastered the technology of making steel from scrap.

At the other end of the scale is computing. Microsoft, according to its many enemies, is the most powerful company on the planet. Certainly, it and the chipmaker Intel have shares of their respective markets that in any other industry would be regarded as unconscionable.

But this is an industry that changes with bewildering speed. Ten years from now, Microsoft may be more powerful again. Or just possibly, as a result of some seismic shift in technology, it may not exist at all.

What about the drug industry? If Glaxo Wellcome and SmithKline Beecham go ahead with their merger, they will have 8 per cent of the world market for prescription drugs. No supplier in history has had more than 5 per cent.

But 8 per cent is scarcely world dominance. It is also worth noting that, even if the merger goes through, there will still be eight drug companies among the top 50 in the FT 500. (For comparison, oil companies and banks have six apiece.) If a merged Glaxo SmithKline seems a monster, that is because it belongs to a monstrous industry.

Perhaps more stable, low-growth industries are different. But the evidence is thin. Consider food manufacturing. Market shares can scarcely be computed here. But the world's biggest producer, with sales of around \$48bn, is Nestlé.

Over the past decade, Nestlé's sales in dollar terms have risen 90 per cent. In the same period, the world's nominal GDP has risen 75 per cent. Nestlé's faster growth is the result of acquisitions, which include Rowntree, Buitoni, Perrier and - 10 days ago - the £715m purchase of the Spillers pet food business.

Given all that activity, it might seem surprising that Nestlé has not grown faster again. But this illustrates an important point: that today's companies, in the developed world at any rate, are more interested in profit and shareholder value than mere size.

David Lang, of the London stockbrokers Henderson Crompton, says: "Consolidation of the world food industry is not really happening. The big companies are focused on emerging markets, where they are not well represented. In North America and Europe, they are sorting out their portfolios, which means selling things."

Where consolidation is occurring, it is often a sign not of overweening power, but of weakness. In the drug industry, for instance, the real growth belongs

to start-up biotech companies, which now have a collective market value of around \$50bn.

The big, old drug companies, like the banks, are getting together because their growth is under threat. The aim is not so much to dominate the world as to cut costs.

Finally, take the telecoms industry. Among the top 50 companies in the FT 500, two are merged US phone companies: Bell Atlantic, which now incorporates its neighbour, Nynex, and SBC Communications, which has merged with Pacific Telesis.

This is in response to a turmoil of change in the US phone industry, which has robbed those companies of their local monopolies. Another old-established monopolist of the phone industry, BT of the UK, bid for the US long distance operator MCI last year. It was beaten by a \$30bn offer from WorldCom, a high-tech phone company founded some 11 years ago. The evidence is that the market for telecoms - one of the vital industries for the next century - is not consolidating but falling apart.

So is everything all right, then? Not entirely. Marx has so far proved wrong, we should recall for two reasons. On occasion when market forces have failed to stop monopolies, the competition authorities have stepped in.

Hence the relevance of Mr Van Miert's appeal. The world's competition authorities, as he observed, are unwilling to agree to a single set of standards, only because they are jealous of their sovereignty.

But in today's world, capitalism has no country and sovereignty does not apply. So far, global monopolies have not appeared. That is not the same as saying they cannot.

Nebraska troubled as beef goes through a lean time

Steady decline in consumer confidence because of health and safety issues is costing meat industry an estimated \$25m a week

The billboard is hard to miss: "Eat steak. Think steak. Sleep Steak." This could only be Nebraska.

The meat industry, ranging from cattle ranchers to slaughter houses and meat-processors, accounts for about a fifth of economic activity, pumping an estimated \$5bn into the state each year. Some of the world's biggest meat-processors are based in the state. About 11,000 people work for the industry directly, in addition to 33,000 beef producers.

While Texas outstrips Nebraska in terms of the quantity of beef produced, the meat industry is a far more significant portion of the latter's economy, accounting for one in seven jobs. As William Dirks, owner of a Hastings-based meat-packing business, puts it: "Beef is a big, big item in Nebraska."

But these are challenging times. Beef prices have fallen about 25 per cent over the past five years. In part this is due to cyclical forces, and concerns about dwindling Asian demand. (About 75 per cent of US beef exports went to Asian markets affected by the current turmoil, according to the National Cattlemen's Beef Association.)

But also underlying the downswing is the relentless decline in consumer confidence in the industry, as worries over the health and safety of eating red meat rise.

According to Dee Griffen from the Great Plains Veterinary Educational Centre, one big hamburger chain saw a 15 per cent fall in sales after an *E. coli* scare in the US last summer. McDonald's, the biggest fast-food chain, says that this has not been

its experience, although it admits domestic sales are "not where we would like them to be", for a variety of reasons.

Other economists calculate that the beef sector's loss of market share over the past two decades is costing the industry about \$25m a week.

The meat safety problem, as far as the US is concerned, became big national news in 1993 when a handful of people on the west coast died after eating hamburgers contaminated with a particularly damaging strain of the *E. coli* bacteria. But it landed squarely on Nebraskans' doorstep six months ago when a newly built meat processing plant in Columbus, then owned by Arkansas-based Hudson Foods, was forced to recall 25m pounds of meat after the same *E. coli* strain was found in a batch

of hamburgers emanating from the factory. It was the biggest food recall in US history.

Today the plant's exterior belies its tarnished reputation, its smart design almost incongruous against a landscape dotted with silos and cornfields. But the Hudson incident is not entirely closed: the Department of Agriculture has yet to publish the results of its investigation or decide whether legal action should be taken against any party involved.

Moreover, a sign for IBP - the larger Dakota City company which acquired the Hudson plant in the wake of the *E. coli* problem - outside the factory is a reminder of the consolidation which has swept the red meat industry as times have become tougher.

According to Azzedine Azzam,

agricultural economist at the University of Nebraska, four meat packing companies now control about 80 per cent of the industry, compared with perhaps 30 per cent two decades ago. This, in turn, has tended to compound the decline in prices paid to producers, although he calculates that cost efficiencies have been even greater.

Renewed efforts to minimise safety risks, such as the Department of Agriculture's requirement that plants devise strict operating procedures, seem unlikely to reverse this trend.

Smaller meat-packers say that the new regulatory requirements favour big companies, which are producing large batches of standard items. They, in turn, may look increasingly towards more specialised products, such as buffalo meat, where margins are

higher. "There are going to be more small niche businesses," predicts Mr Azzam.

In all of this it is hard to say that the Nebraskan economy is hurting. The state's unemployment rate dipped to less than 2 per cent in late-1997, one of the lowest in the US. If anything, the biggest issue is how to prevent the state's brain drain, as the rural-urban shift continues and ambitious individuals leave the state.

But the core problem facing the state's biggest industry looks likely to be around for some time. Despite stepped-up research efforts, the meat industry is still struggling to comprehend the *E. coli* issue. This week an array of leading microbiologists told a conference, called by Ben Nelson, Nebraska's governor, that they were still uncertain where this

damaging strain of *E. coli* came from, or even how it was transmitted. "This bacteria is literally rewriting the rulebooks for food microbiologists," said Mike Doyle, professor of food microbiology at the University of Georgia.

An impressive array of remedies are being mooted - from more regular cleaning of farm water troughs, to increased public education or even vaccination of high-risk individuals - but the problem remains that, however much risk is minimised, US consumers seem to want guarantees that their hamburgers are safe.

As one meat industry representative puts it: "The general public does not understand risk assessment."

Food for thought, Page 8

Nikki Tait

FINANCIAL TIMES

FRIDAY FEBRUARY 13 1998

By ROGER COHEN

BUENOS AIRES — The process known awkwardly as "globalization" is many things. It is the information society. It is the erosion of national sovereignty. It is footloose corporations taking investments where labor is most productive. It is the growing premium on technical skills — and the growing plight of unskilled laborers.

It is also the daily flow across borders of more than \$1.5 trillion, from investors seeking to maximize profits and minimize risk and moving, at times of crisis, with all the discernment of a herd. For them, Seoul and São Paulo, Bangkok and Buenos Aires are one interchangeable "funny world": developing nations that threaten the annual bonus.

"What you realize with the Asian crisis," said Ken Baxter, a Brazilian banker, "is that when there's a stampede in this post-modern world, you don't have time to say, 'Hey, look, cattle, you've got it all wrong!'"

Argentina, unlike Brazil, was supposed to have it all right. During the 1990's it adopted the Inter-

A REGION AT RISK

Second of two articles.

national Monetary Fund program that Brazil has shunned. Ditching decades of anti-Americanism, it won the status of "major non-NATO ally" by hitching its sails to Washington's whims in a way many Brazilians consider demeaning. It tied its currency so closely to America's that the dollar is available in bank cash machines and Argentines think nothing of buying their burgers and newspapers with dollars.

The transformation was stun-

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ning, Argentina a paradigm of the newly globalized economy. The national airline, the postal service, banks — all the enterprises, it seemed, that President Carlos Saul Menem could find — were privatized or sold to international investors as the country embraced free-market capitalism with the vengeance it had once shown in nationalizing everything.

"We're a country of extremes," said Héctor Sabato, director of tourism in the southern town of San Carlos de Bariloche. "The old theme of the invading Yankee has given way to the wonderful Yankee driving the global train that you'd better board immediately or you're finished!"

So the shock has been that much greater as globalization has shown its other face. Since the Asian crisis bit, plants have been idled, growth forecasts have been slashed and the Argentine stock market has plunged more than 25 percent — although from historic heights.

"What's frightening," said Jorge Bustamante of Merchant Bankers Associates, Buenos Aires representatives of Salomon Brothers, "is that however much you scream you're not a region, not the developing world, you're Argentina, you're different, it doesn't matter."

Latin America resembles Asia in its acute dependence on international capital, but in other ways it is indeed profoundly different. The region has been through two financial collapses — the debt crisis of the 1980's and the Mexican meltdown of late 1994. These battered the banking system and left sobered banks, now often in foreign hands. The scope for nasty surprises of the Korean or Indonesian variety has been curtailed.

"Hot money" — the huge short-term capital flows at the heart of the Asian crisis — has ceded its dominant place in Latin America to longer-term investment, of the kind now being made by the Ford Motor Company, RJR Nabisco Holdings Corporation, Nestlé S.A. and countless others.

Yet such distinctions now appear to have only limited value. "The financial risks of globalization are a lot bigger than optimists imagined," said Paul Krugman, a professor of economics at M.I.T. "We are back to a volatile, predepression world economy of financial booms and busts quite different from the cold war years."

In Argentina, this volatility has now fueled opposition to what is widely considered neo-liberalism, or "capitalismo salvaje" (savage capitalism): the radical application of the free-market model personified by the United States. Unused to living with economic pariahs — the millions in Brazil who have never found a way to join the economy — Argentina is discovering what permanent exclusion from the job market means.

Already, a political reaction is evident. An alliance of opposition parties defeated President Menem's Peronist Party in congressional elections last October. If a new crisis enveloped the region, the reaction to neo-liberalism could be violent.

The Unemployed Poor

When Company Profit Means Personal Loss

At the headquarters of the Roman Catholic diocese in the city of San Salvador de Jujuy, a sign on the door reads, "We regret that we cannot attend the unemployed here." Bishop Marcelo Palentini is overwhelmed. He sits behind a computer, working a cellular phone and an electronic agenda, but he does not like the modern world.

In the province of Jujuy, he estimates, 42 percent are unemployed or doing menial work. People used to ask for raises; now they ask for jobs.

Jujuy long had a bloated state payroll, a massively subsidized state-owned steel company, and labor-intensive sugar, tobacco and fruit farms. Then, in the 1990's, the free-market revolution arrived.

The provincial bank was privatized. The power utility was privatized. The postal service was privatized. The steel company was sold to Citicorp Equity Investments S.A., an Argentine group 40 percent owned by Citicorp. The phones were bought by Telecom, a private international group. Agriculture was transformed by imported American machines, each replacing 80 laborers during the cane harvest. Things began to work better; workers began losing jobs. Unemployment soared, to about 17 percent.

Last year the unemployed let their resentment show. Angry people blocked 21 provincial highways for several days. They held hunger strikes. Several people were injured.

The protests eased only after the mediation of Bishop Palentini. He helped to hammer out an accord creating six-month "work contracts" for several hundred, who agreed to do menial jobs for \$200 a month.

Privatization, the bishop says, is positive, "but capital must consider a social dimension."

Still, for the Peronist Governor of Jujuy, Carlos Alfonso Ferraro, privatization is just beginning. Sitting in an office adorned with photographs of Gen. Juan Perón and his wife, Eva, he explained: "Look, it's simple. There is an Americanization of the world. We cannot go in the opposite direction. At last we are going to make America here."

And what of the photos of the Peróns, the very symbols of a state-dominated, nationalist Latin American model? Peronism means revolution, said the Governor. That meant nationalization in 1946 and privatization today. "The heart of Peronism is economic independence," he beamed, "and how could I be independent when my phones didn't work?"

When General Perón took power in the 1940's, he set about distributing Argentina's early-20th-century prosperity — comparable to that of leading European countries — to build a mass following. "Violence in the hands of the people isn't violence," he proclaimed, "it's justice!"

A Peronist cult grew. So, too, did the country's state industries, its rich labor unions, its debilitating militarist myths of salvation through violence and upheaval, myths that would maroon doomed soldiers in the Falkland Islands in 1982 and add the word "desaparecidos" (the disappeared) to the world's vocabulary. Elegant Buenos Aires with its gilt and statuary became an elegy for a nation plundered.

By 1990, in the words of Carlos Fedrigotti, Citicorp's chief executive in Argentina, "the place had simply collapsed beneath the waste, corruption and mismanagement of a welfare state gone wild."

Collapse took several forms. The postal service favored theft over delivery of mail. It could take a decade to get a telephone. The economy shrank by 12 percent during the 1980's.

Argentina's travails were those of a protectionist, coup-plagued continent. Because the economy had failed so completely, when the Berlin wall fell and President Menem abruptly decided to undo General Perón's legacy, the country was something close to a blank canvas. Abruptly, this faraway place "on the way to nowhere" — as despairing Argentines loved to lament — re-entered the world after a long hiatus.

With the economic reforms, growth surged, reaching 8 percent in the first nine months of this year. American investment, including that of George Soros, the New York financier, poured in. A dead dock on the banks of the Plate River was transformed into swinging Puerto Madero, where the steaks came with air conditioning and valet parking.

But if it has drawn the favors of international investors through its reforms, Argentina has also become plagued by new uncertainties.

To look into the vacant eyes of Roberto Angel Garcia, 53, is to understand something of the cruelty of the economic upheaval that competing with the world has meant for Latin America.

Mr. Garcia was dismissed in 1992 along with thousands of other workers from Citicorp Equity's Aceros Zapla steel plant in the town of Palpalá. Long run by the armed forces, it was legendary for its padded contracts until privatization came. Then its work force was slashed to 709 people, from 5,000. The company now produces high-quality special steels and expects to start making a profit this year.

The change will no doubt bring benefits in the long term: postwar development shows that countries that open to trade ultimately do better. But Mr. Garcia is paying the price for the adjustment.

He was too young for a pension, too old to find other work. "They told us we were being fired because we were losing money," he said, "but nobody had ever talked about losses before."

Like other workers, Mr. Garcia received an indemnity on dismissal — about \$19,000. But nobody gave the workers any guidance on how to use the money. Mr. Garcia spent most of his on a four-wheel-drive Ford. Now

names and fictitious addresses, and that makes them very hard to stop," said Ron Poindexter, director of the fraud division of the Florida Department of Insurance, adding that billions of dollars in fraudulent claims have been submitted over the years. "In terms of health care fraud, this is the biggest thing on our plate," Mr. Poindexter said. "It's out of control; it's draining our resources."

It also appears to involve former narcotics traffickers and certain organized-crime factions, particularly from the former Soviet Union, they said. And often, the money from the fraud ends up being laundered into overseas bank accounts.

While the post office boxes used in this form of the fraud are mostly in South Florida, the patient and doctor names used, as well as the insurance companies billed, come from all over the country.

Other versions of the scheme have

Beyond monetary loss, the claims hurt consumers and physicians.

emerged in Florida and in other states, like California, law enforcement officials said, involving actual buildings that hold themselves out as clinics and labs. They gather the patient insurance information and then bill for tests that never occurred. Most of these businesses also disappear within weeks, officials said, although at least one has remained in operation for extended periods and is now the subject of Federal investigation.

The swindle has exploded in just a few years from a blip on the health care scene to a criminal enterprise that Dennis Jay, executive director of the Coalition Against Insurance Fraud in Washington, a group of consumer organizations, government agencies and insurance companies in Washington, estimates at billions of dollars in fraudulent claims. That number is derived from an analysis of industry claims, insurance policy and premium data, denial rates and certain indicators of fraud, Mr. Jay said. However, those numbers remain educated guesses; the amount actually lost to the scheme has not been calculated.

The magnitude of the fraud has attracted an array of investigators, including agents from state insurance departments and the Federal Bureau of Investigation.

But law enforcement officials said they still did not know whether a single, shadowy criminal organization was masterminding the scheme or whether numerous unrelated groups had simultaneously jumped into it. Some clues have emerged that separate schemes are connected; for example, the same patient and doctor names have been used by different conspirators. Either way,

with millions of reimbursement requests being processed every day, the opportunities for cheating are almost without limits.

And Government crackdowns are of little help. Schemes to defraud private insurers have exploded in recent years as new laws tightened loopholes that were used to cheat Federal health programs, law enforcement officials said.

"Medicare and Medicaid didn't catch the crooks; it just shut some of the doors they used," said Lieut. Patricia Voegel, head of a Florida law enforcement squad that investigates insurance fraud. "So instead they have moved on to the private health insurance programs."

For the scheme to work, the swindlers need patient insurance records. To get them, law enforcement officials said, the perpetrators are suspected of doing everything from searching through hospital trash bins to breaking into hospital and pharmacy computer systems.

More forceful methods also appear to be used. For example, in December, burglars broke into two medical buildings in southeast Florida, in one case smashing through the walls. Few valuables were taken, but the doctors could not breathe easy. "The patient records were compromised," Dr. Ashkar said. "Before you know it, the billings are going to start."

The patients whose names appear on the bills hear nothing about it until they receive a notice of payment from their insurance company. If they fail to act on that information, their insurance records will include the fabricated diagnoses.

At the clinics and labs established to defraud insurers, several methods are used to obtain insurance information directly from the patient, law enforcement officials said. Through one, the supposed clinics or labs cajole insurance information from nearby residents — by posing as the friends of immigrant communities. In others, nursing home residents are bused to the bogus operations for free cookies and lemonade. As the food is served, the criminals collect insurance cards.

Afterward, these clinics and labs push through millions of dollars in

billings for exams and blood tests that were never done. Most of these businesses also disappear within weeks, officials said, although at least one has remained in operation for extended periods and is the focus of the unfolding investigation.

Several executives in the insurance and health care industry declined to comment on the record about the fraud for fear that their lives might be endangered by career criminals. But the authorities dismissed those concerns.

"The people in these criminal organizations may do away with each other sometimes," Lieutenant Voegel said. "But we have had nothing to indicate any kind of threat to law enforcement or the insurance community."

For all the difficulty in catching the perpetrators, some insurance companies are finding ways to detect the fraud before it gets out of hand. Using I.B.M. software that spots deviations from 900 different billing norms, for example, last spring Reliastar Financial identified several suspicious billing patterns. When the company investigated, it found that the doctors named had never submitted the bills. It notified the Federal authorities.

"The system couldn't tell that the doctors supposedly submitting these bills hadn't seen the patients at all," said Ben Barnes, a general manager at I.B.M. "But what the system did see was an abnormal set of procedures and billing costs for certain sets of doctors."

Even when doctors are innocent of wrongdoing, payments for legitimate services they have performed can be slowed if they get caught up in an investigation. "Insurance companies won't pay you until they check out every claim," one administrator for several doctors said. At one office of a doctor whose name was used on fraudulent bills, "we used to get paid every 14 days, and now it takes four months," he said.

The authorities made limited progress in tracking down the perpetrators. Since last February, Florida insurance officials have been running Operation Money Box, an investigation focusing on false billings by fake companies in South Florida. To date, 16 people have been arrested, most of whom were picking up checks from post office boxes or depositing them in banks. In one of those cases, a shell company had obtained the names and related information of about 200 patients.

But the organizers of the scheme have made it difficult for a single arrest to allow investigators to track down higher-ups. People at the bottom, such as the money runners, only know the identity of one person directly above them. That person, in turn, knows only the next person up the line, and so on. As a result, getting to the top of the organization is enormously difficult.

Indeed, some of the people arrested cashing checks did not even know what crime they were taking part in. After explaining to one defendant that he had been arrested for participating in a health care fraud, Lieutenant Voegel, the Florida investigator, said, "He told us, 'I knew I was laundering money, but I thought it was drug money.'"

he has one of the temporary work contracts, moving rocks to build a dam. He knows it will not last.

Industries could once afford to be inefficient, because high inflation, repeated devaluations and scant competition from imports masked their failings. But throughout Latin America, such industries suddenly find themselves in a desperate push for productivity.

To be productive — to make more shoes or cookies per employee — generally involves using fewer people and the better machines now available from elsewhere.

The job cuts tend to fall on the old — for the purposes of Latin America's adjustment, this category begins at about 40 — who then join the globally unemployable.

A garrulous union leader in Jujuy, Carlos Santillán, has become the mouthpiece of the unskilled outcasts.

"Menem thinks that by putting our country at the service of the International Monetary Fund, he brought us into the first world," Mr. Santillán said. "But workers have lost in a few years rights they fought for over a century. We're a colony here. All that is missing is to have Clinton come here and plant the American flag."

As he spoke, Mr. Santillán was organizing a strike by municipal workers whose monthly salaries, about \$250 each, were more than a month overdue. A lumbering state bureaucracy, in Argentina as elsewhere in Latin America, has not kept up with economic change.

So bills from privatized electricity and phone companies come on time, but services are promptly cut when bills are unpaid — even though state workers may not have received the salaries with which to pay them.

The Rich Consumers

Gliding Through Life In Shopper's Heaven

The global economy has a smell: a fresh fragrance stripped of any trace of the third world's dust and sweat. It has a sound: piped music and floors so clean they squeak. It has a color: the very white teeth of smiling saleswomen.

These qualities are evident at the Galería Pacífico shopping mall, a Soros property. It is in central Buenos Aires but could be anywhere. People glide past a procession of name-brand stores: Hugo Boss, Timberland, Lacoste.

"Argentina is just beginning," said Eduardo Elsztain, chairman of Irsa, the company that has been the main vehicle for turning Mr. Soros into one of the biggest landowners in Argentina.

Irsa, 25 percent owned by Mr. Soros, has bought office towers, luxury hotels, shopping malls and a large area of Puerto Madero; a sister company, Cresud, has acquired more than 850,000 acres of mainly pampa farmland and more than 180,000 cows.

Galería Pacífico is a soothing emblem of the change that upper-class Argentines embrace. Mr. Santillán, like the Zapatistas in Mexico, may raise his voice against the United States, but most of the newly globalized Argentines, with their 50 channels of cable television and their hunger for cellular phones (1.1 million sold in the last year alone) seem to have embraced America.

Indeed the single most potent symbol of their changed country is the dollar. For decades, Argentines used to start the day by checking the dollar rate. Inevitably the inflation-racked peso had fallen. Planning meant getting through the day.

Then, after yet another bout of hyperinflation, a currency board similar to Hong Kong's was established in 1991, and a rate of one peso to one dollar was established by law. Not a peso can be printed unless it is backed by a dollar.

Of course the dollar-peso convertibility carries a price. Argentina is expensive. Salaries — about \$700 a month in a factory — are relatively high. It is hard for businesses to compete globally.

Moreover, the strong currency, in an open economy, sucks in imports. Entire industries — toys among them — have been wiped out by cheap imports from China, where a worker's wage may be no more than \$40 a month. Argentina, with its exports to Brazil affected by the Asian-induced downturn there, faces a rising trade deficit in 1998.

To offset this, it is essential that international capital, already threatened by Asia, continue to flow — which it will only do if Argentina's productivity continues to rise.

"With the United States as a reference, you have to run all the time," said Mr. Bustamante, the banker. "Convertibility means you can never relax."

To run fast enough for the demands of the global market, Mr. Menem now proposes doing away with the collective bargaining still controlled by labor unions and seeking greater ease in hiring and firing. That in turn will probably mean lower wages but greater productivity.

However, this proposed labor reform is controversial. Virtually nobody — including the opposition alliance that triumphed in October — wants to undo convertibility, close the economy or return industries to state control. In this sense, as the sociologist Felipe Noguera said, "It's not an either-or political world anymore."

The symbol of the opposition victory in congressional elections last fall was not a figure of the left or right, but Graciela Fernández Mejide, a rights advocate. The alliance she leads could block labor reform, leading markets to punish Argentina.

"A country advances not just through sound economic rules, but also by having a justice system that cannot be bought," said Domingo Cavallo, the former Economics Minister who was the architect of Argentina's transformation until he quit in 1996 in protest against corruption. "This Government seems to tolerate impunity."

The problem is widespread in Latin America, as shown by the swiftly rising crime

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rates in Mexico City, São Paulo and Buenos Aires. Because a global economy puts a high premium on technical skills and ownership of capital assets, it tends to accentuate wealth and income differentiation.

Governments, however, may plead helplessness. How, they ask, can they raise corporate and other taxes to pay for more efficient bureaucracies, education, better health services, honest police forces, stronger justice systems — things Latin America desperately needs — if global investors are generally averse to higher taxation and government spending?

Throughout Latin America, the sheer pace of global economic change appears to have left slow-moving states behind, unable to control the process of which they are a part.

American capitalism is being abruptly introduced into states that, like Argentina, Brazil or Mexico, may not have the technology, or the legal or regulatory systems, to keep up. The result can be galloping corruption and a brutal frontier capitalism.

"Increasingly we see that states need markets, but markets also need states," said Nicholas van Praag, a spokesman for the World Bank. "It's not enough to say that markets can do it all. You need security, you need an education system that works."

In some developing societies, the World Bank has recently begun linking judicial reform to loans — money that once went for railroads and is now thought to be better used for the training of judges.

The Global Colonizers

Even U.S. Giants Have Ups and Downs

Wal-Mart, Buenos Aires, on a Saturday morning: an Argentine flag flutters in the store and there is a sign reading, "Proudly in Argentina." Families stroll down the wide, bright aisles, past displays of Newman's Own salad dressing.

Wal-Mart has created almost 8,000 jobs in Argentina and Brazil since it moved into the two countries three years ago. But it is impossible to say how many lost jobs — at small neighborhood stores or businesses — have stemmed from the store's arrival.

What is clear is that it is changing the Argentine way of life: families buy their bicycles here, sometimes using dollars; the corner bicycle store is no more.

Such change prompts ambivalence. A 65-year-old man, Luis Osvaldo Pazzotta, recalls the now-bankrupt textile factory that stood on this site, complains about the recent bankruptcy of his own carpentry business and mutters, "This is the new world, and I have no place in it."

Fernando Descalzo, a young telecommunications engineer working for McCaw, has other views. He is delighted with his Wal-Mart shopping; his family is about to have a hamburger at the adjacent Wendy's. "We're dollarized, we're Americanized, but frankly I don't care," he said.

Wal-Mart, attracted by the opening of Latin American economies, has already invested more than \$500 million in Brazil and Argentina, opening 17 stores. The number of stores is destined to double in 1998.

"The Americas are our well-deserved first priority for now," said Bob L. Martin, chief executive of Wal-Mart International. "Even with recent difficulties stemming from Asia, especially in Brazil, we are on track to make our first profits in 1998."

But, of course, Wal-Mart is not impervious to the risks of divided societies. In the last few months, five Wal-Mart stores in Brazil have been robbed by assailants operating in large groups and armed with assault rifles.

The Trendy Investors

Patagonian Pampas As Real Estate Craze

When Bill Clinton came to Argentina in October, he stayed at the Hotel Liao Liao near the Patagonian town of Bariloche. Long state-owned, the luxury hotel now belongs to Mr. Soros's investment vehicle, Irsa.

Mr. Soros is not alone. Patagonia is trendy: call it the nature reserve for the globally stressed. Argentina can still be bought for third-world prices, and if it becomes a first-world country the owners of property will make lot of money.

Drive past glittering lakes, on across a steppe so flat that it induces an effect known as horizontal vertigo, and there, just four hours from the Hotel Liao Liao, lies the ghost town of Cutral-Có.

Dust blusters through the windy streets. People stare into space. The airport, once served by Aerolíneas Argentinas, is closed. Aerolíneas has been privatized, and it makes

no economic sense to fly here.

Y.P.F., the formerly state-owned oil company that contrived to lose \$6 billion between 1982 and 1990, used to employ 5,000 people here. Now there are 500; Y.P.F. made \$900 million in 1996.

Mario Acosta, a Y.P.F. manager, explained that when the old system was dismantled, everyone who was not a professional was laid off. "Before," he said, "uneducated people had a certain basic security. But that's finished in the modern world."

Orlando Mendes used to work at Y.P.F. He has found a part-time job in the city administration. But he cannot support his wife and two children on \$200 a month, so every few months he takes a 24-hour bus ride to Buenos Aires, and buys shoes in a factory. The shoeboxes are piled on his children's beds.

"If I'm lucky," he said, "I'll get 16 pesos here for shoes that I bought for 10 pesos. We survive. But I don't like this life. Y.P.F. was a family. Now I arrive at the train station in Buenos Aires, and there are kids everywhere stealing, and frankly I'm afraid."

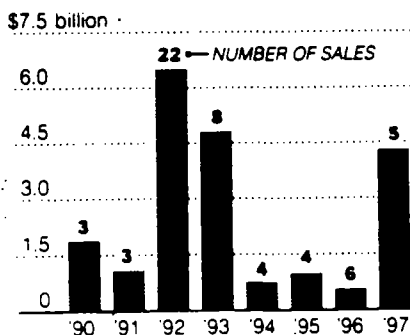
Something else is troubling Mr. Mendes. There are more fences going up in Patagonia, as the internationally wealthy install themselves on newly acquired estates. "I used to go and camp or fish, but now I hear that Ted Turner is here, Rambo there, the Terminator somewhere else. And I say, no, this is not my Argentina."

Selling Off the State

The number and dollar value of enterprises sold by the Argentine and Brazilian Governments.

ARGENTINA

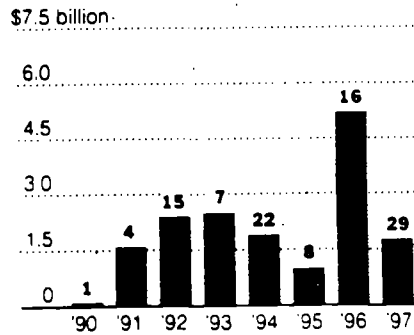
55 sales for a total of \$23.1 billion



Source: Privatisation International Magazine

BRAZIL

102 sales for a total of \$32.3 billion



The New York Times

The New York Times

FRIDAY, FEBRUARY 6, 1998

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Community, Self-Government, and Progressive Reform

The voluntarist conception of freedom that emerged in the debate over wage labor came gradually to inform other aspects of American politics and law. In the course of the twentieth century, the notion that government should shape the moral and civic character of its citizens gave way to the notion that government should be neutral toward the values its citizens espouse, and respect each person's capacity to choose his or her own ends. In the decades following World War II, for example, the voluntarist ideal figured prominently in justifications for the welfare state and the judicial expansion of individual rights. Defenders of the welfare state typically argued that respecting people's capacity to choose their ends meant providing them with the material prerequisites of human dignity, such as food and shelter, education and employment. At the same time the courts expanded the rights of free speech, religious liberty, and privacy, often in the name of respecting people's capacities to choose their beliefs and attachments for themselves.

Despite its achievements, however, the public life informed by the voluntarist self-image was unable to fulfill the aspiration to self-government. Despite the expansion of individual rights and entitlements in recent decades, Americans find to their frustration that their control over the forces that govern their lives is receding rather than increasing. Even as the liberal self-image deepens its hold on American political and constitutional practice, there is a widespread sense that we are caught in the grip

of impersonal structures of power that defy our understanding and control. The triumph of the voluntarist conception of freedom has coincided, paradoxically, with a growing sense of disempowerment.

This sense of disempowerment arises from the fact that the liberal self-image and the actual organization of modern social and economic life are sharply at odds. Even as we think and act as freely choosing, independent selves, we find ourselves implicated in a network of dependencies we did not choose and increasingly reject. This condition raises with renewed force the plausibility of republican concerns. The republican tradition taught that to be free is to share in governing a political community that controls its own fate. Self-government in this sense requires political communities that control their destinies, and citizens who identify sufficiently with those communities to think and act with a view to the common good.

Whether self-government in this sense is possible under modern conditions is at best an open question. In a world of global interdependence, even the most powerful nation-states are no longer the masters of their destiny. And in a pluralist society as diverse as the United States, it is far from clear that we identify sufficiently with the good of the whole to govern by a common good. Indeed the absence of a common life at the level of the nation motivates the drift to the procedural republic. If we cannot agree on morality or religion or ultimate ends, argue contemporary liberals, perhaps we can agree to disagree on terms that respect people's rights to choose their ends for themselves. The procedural republic thus seeks to realize the voluntarist conception of freedom and also to detach politics and law from substantive moral controversy.

But the discontent and frustration that beset contemporary American politics intimate the limits of the solution the procedural republic offers. The discontent that has gathered force in recent decades undoubtedly has a number of sources, among them the disappointed expectations of a generation that came of age at a time when America stood astride the world and when the domestic economy promised an ever-rising standard of living. As economic growth has slowed in recent decades, as global interdependence has complicated America's role in the world, as political institutions have proved incapable of solving such domestic ills as crime, poverty, drugs, and urban decay, the sense of mastery that prevailed in the 1950s and early 1960s has given way to a sense of paralysis and drift.

At another level, however, beyond these particular frustrations, the predicament of liberal democracy in contemporary America may be traced to a deficiency in the voluntarist self-image that underlies it. The sense of disempowerment that afflicts citizens of the procedural republic may reflect the loss of agency that results when liberty is detached from self-government and located in the will of an independent self, unencumbered by moral or communal ties it has not chosen. Such a self, liberated though it be from the burden of identities it has not chosen, entitled though it be to the range of rights assured by the welfare state, may nonetheless find itself overwhelmed as it turns to face the world on its own resources.

If American politics is to revitalize the civic strand of freedom, it must find a way to ask what economic arrangements are hospitable to self-government, and how the public life of a pluralist society might cultivate in citizens the expansive self-understandings that civic engagement requires. It must revive, in terms relevant to our time, the political economy of citizenship. If the reigning political agenda, focused as it is on economic growth and distributive justice, leaves little room for civic considerations, it may help to recall the way an earlier generation of Americans debated such questions, in a time before the procedural republic took form.

Confronting an Age of Organization

In the last decades of the nineteenth century and the first decades of the twentieth, Americans addressed these questions with clarity and force. For it was then that the freely choosing individual self first confronted the new age of organization, suddenly national in scope. "As the network of relations affecting men's lives each year become more tangled and more distended, Americans in a basic sense no longer knew who or where they were. The setting had altered beyond their power to understand it, and within an alien context they had lost themselves."¹

Politicians and social commentators articulated the anxieties of a time when people's understanding of themselves no longer fit the social world they inhabited. They spoke of individuals liberated from traditional communities yet swamped by circumstance, bewildered by the scale of social

and economic life. Woodrow Wilson, campaigning for the presidency in 1912, said, "There is a sense in which in our day the individual has been submerged." Most men now worked not for themselves or in partnership with others, but as employees of big corporations. Under such conditions, the individual was "swallowed up" by large organizations, "caught in a great confused nexus of all sorts of complicated circumstances," "helpless" in the face of vast structures of power. In the modern world, "the everyday relationships of men are largely with great impersonal concerns, with organizations, not with other individual men. Now this is nothing short of a new social age, a new era of human relationships."²

The philosopher John Dewey observed that the theory of the freely choosing individual self "was framed at just the time when the individual was counting for less in the direction of social affairs, at a time when mechanical forces and vast impersonal organizations were determining the frame of things." How did this paradoxical situation arise? According to Dewey, modern economic forces liberated the individual from traditional communal ties, and so encouraged voluntarist self-understandings, but at the same time disempowered individuals and local political units. The struggle for emancipation from traditional communities was mistakenly "identified with the liberty of the individual as such; in the intensity of the struggle, associations and institutions were condemned wholesale as foes of freedom save as they were products of personal agreement and voluntary choice."³

Meanwhile, mass suffrage reenforced the voluntarist self-image by making it appear as if citizens held the power "to shape social relations on the basis of individual volition. Popular franchise and majority rule afforded the imagination a picture of individuals in their untrammelled individual sovereignty making the state." But this too concealed a deeper, harder reality. The "spectacle of 'free men' going to the polls to determine by their personal volitions the political forms under which they should live" was an illusion. For the very technological and industrial forces that dissolved the hold of traditional communities formed a structure of power that governed people's lives in ways beyond the reach of individual choice or acts of consent. "Instead of the independent, self-moved individuals contemplated by the theory, we have standardized interchangeable units. Persons are joined together, not because they have voluntarily chosen to

be united in these forms, but because vast currents are running which bring men together." The new economic structures were "so massive and extensive" that they, not individuals or political communities or even the state, determined the course of events.⁴

Then as now, the lack of fit between the way people conceived their identities and the way economic life was actually organized gave rise to fears for the prospect of self-government. The threat to self-government took two forms. One was the concentration of power amassed by giant corporations; the other was the erosion of traditional forms of authority and community that had governed the lives of most Americans through the first century of the republic. Taken together, these developments undermined the conditions that had made self-government possible. A national economy dominated by vast corporations diminished the autonomy of local communities, traditionally the site of self-government. Meanwhile, the growth of large, impersonal cities, teeming with immigrants, poverty, and disorder, led many to fear that Americans lacked sufficient moral and civic cohesiveness to govern according to a shared conception of the good life.

The crisis of self-government and the erosion of community were closely connected. Since Americans had traditionally exercised self-government as members of decentralized communities, they experienced the erosion of community as a loss of agency, a form of disempowerment. As Robert Wiebe has observed, "The great casualty of America's turmoil late in the century was the island community. Although a majority of Americans would still reside in relatively small, personal centers for several decades more, the society that had been premised upon the community's effective sovereignty, upon its capacity to manage affairs within its boundaries, no longer functioned. The precipitant of the crisis was a widespread loss of confidence in the powers of the community."⁵

With the loss of community came an acute sense of dislocation. In an impersonal world, men and women groped for bearings. As Americans "ranged farther and farther from their communities, they tried desperately to understand the larger world in terms of their small, familiar environment." Their failure to do so fueled a mood of anxiety and frustration. "We are unsettled to the very roots of our being," wrote Walter Lippmann in 1914. "There isn't a human relation, whether of

parent and child, husband and wife, worker and employer, that doesn't move in a strange situation. We are not used to a complicated civilization, we don't know how to behave when personal contact and eternal authority have disappeared. There are no precedents to guide us, no wisdom that wasn't made for a simpler age. We have changed our environment more quickly than we know how to change ourselves." At the heart of the anxiety was people's inability to make sense of the world in which they found themselves. "The modern man is not yet settled in his world," Lippmann concluded. "It is strange to him, terrifying, alluring, and incomprehensibly big."⁶

Despite the dislocation they wrought, the new forms of industry, transportation, and communication seemed to offer a new, broader basis for political community. In many ways, Americans of the early twentieth century were more closely connected than ever before. Railroads spanned the continent. The telephone, telegraph, and daily newspaper brought people into contact with events in distant places. And a complex industrial system connected people in a vast scheme of interdependence that coordinated their labors. Some saw in the new industrial and technological interdependence a more expansive form of community. "Steam has given us electricity and has made the nation a neighborhood," wrote William Allen White. "The electric wire, the iron pipe, the street railroad, the daily newspaper, the telephone, the lines of transcontinental traffic by rail and water . . . have made us all of one body—socially, industrially, politically. . . . It is possible for all men to understand one another."⁷

More sober observers were not so sure. That Americans found themselves implicated in a complex scheme of interdependence did not guarantee that they would identify with that scheme or come to share a common life with the unknown others who were similarly implicated. As the social reformer Jane Addams observed, "Theoretically, 'the division of labor' makes men more interdependent and human by drawing them together into a unity of purpose." But whether this unity of purpose is achieved depends on whether the participants take pride in their common project and regard it as their own; "the mere mechanical fact of interdependence amounts to nothing."⁸

The sociologist Charles Cooley agreed: "Although the individual, in a merely mechanical sense, is part of a wider whole than ever before, he has

often lost that conscious membership in the whole upon which his human breadth depends: unless the larger life is a moral life, he gains nothing in this regard, and may lose." Moreover, in virtue of its scale, the modern industrial system actually undermines the common identity of those whose activities it coordinates. "The workman, the man of business, the farmer and the lawyer are contributors to the whole, but being morally isolated by the very magnitude of the system, the whole does not commonly live in their thought." Although new means of communication and transportation supplied "the mechanical basis" for a more extended social solidarity, it was at best an open question whether this larger commonality would be achieved. "The vast structure of industry and commerce remains, for the most part, unhumanized, and whether it proves a real good or not depends upon our success or failure in making it vital, conscious, moral."⁹

The growing gap between the scale of economic life and the terms of collective identity led social thinkers of the day to emphasize the distinction between cooperation and community. The industrial system was a cooperative scheme in the sense that it coordinated the efforts of many individuals; but unless the individuals took an interest in the whole and regarded its activity as an expression of their identity, it did not constitute a genuine community. "Men do not form a community, in our present restricted sense of that word, merely in so far as the men cooperate," wrote the philosopher Josiah Royce in 1913. "They form a community . . . when they not only cooperate, but accompany this cooperation with that ideal extension of the lives of individuals whereby each cooperating member says: 'This activity which we perform together, this work of ours, its past, its future, its sequence, its order, its sense,—all these enter into my life, and are the life of my own self writ large.'"¹⁰

Notwithstanding the interdependence it fostered, the modern industrial system was unlikely, Royce thought, to inspire the identification necessary to constitute a common life: "there is a strong mutual opposition between the social tendencies which secure cooperation on a vast scale, and the very conditions which so interest the individual in the common life of his community that it forms part of his own ideally extended life." Given its scale, few could comprehend much less embrace as their own the complex scheme in which they were enmeshed.

"Most individuals, in most of their work, have to cooperate as the cogs cooperate in the wheels of a mechanism."¹¹

In a similar vein, John Dewey argued that "no amount of aggregated collective action of itself constitutes a community." To the contrary, modern industry and technology bound men together in an impersonal form of collective action that dismantled traditional communities without replacing them: "The Great Society created by steam and electricity may be a society, but it is no community. The invasion of the community by the new and relatively impersonal and mechanical modes of combined human behavior is the outstanding fact of modern life." More than a fact, it was also a predicament, for "the machine age in developing the Great Society has invaded and partially disintegrated the small communities of former times without generating a Great Community."¹²

For Dewey, the loss of community was not simply the loss of communal sentiments, such as fraternity and fellow feeling. It was also the loss of the common identity and shared public life necessary to self-government. American democracy had traditionally "developed out of genuine community life" based in local centers and small towns. With the advent of the Great Society came the "eclipse of the public," the loss of a public realm within which men and women could deliberate about their common destiny. According to Dewey, democracy awaited the recovery of the public, which depended in turn on forging a common life to match the scale of the modern economy. "Till the Great Society is converted into a Great Community, the Public will remain in eclipse."¹³

Progressive Reform: The Formative Ambition

Broadly speaking, the erosion of community and the threat to self-government around the turn of the century called forth two kinds of response from Progressive reformers—one procedural, the other formative. The first tried to render government less dependent on virtue among the people by shifting decision-making to professional managers, administrators, and experts. Municipal reformers sought to avoid the corruption of urban party bosses by instituting city government by nonpartisan commissioners and city managers.¹⁴ Educational reformers sought to "take

schools out of politics" by shifting authority from local citizens to professional administrators.¹⁵ In general, Progressives looked to social science and bureaucratic techniques to accommodate and adjust the conflicting demands of modern social life. Scientists and experts, they hoped, "would constitute a neutral bar before whom people of differing outlooks could bring their conflicts, and by whose verdicts they would willingly be bound. Professionals armed with scientific method would thus make it possible to dispense with the conflict and uncertainty that had always characterized the political realm."¹⁶

In their attempts to detach governance from politics and to regulate competing interests by means of neutral, bureaucratic techniques, Progressive reformers gestured toward the version of liberalism that would inform the procedural republic. But even as they sought to lessen the need for government to rely on virtue among the people, Progressives retained the formative ambition of the republican tradition and sought new ways to elevate the moral and civic character of citizens. This was especially true of their various projects for urban reform. As Paul Boyer explains, the goal of Progressive reformers "was to create in the city the kind of physical environment that would gently but irresistibly mold a population of cultivated, moral, and socially responsible citizens."¹⁷

The struggle against urban graft and municipal corruption was not only for the sake of honest, efficient government but also for the sake of elevating the moral tone of the city and setting a proper example for new immigrants. The movement for tenement reform aimed not only at doing justice for the poor and relieving their physical suffering but also at uplifting the moral and civic character of slum dwellers. "[T]he physical conditions under which these people live lessen their power of resisting evil," stated one tenement study. Another observed that "citizens of the right type cannot be made from children who sleep in dark, windowless rooms, in dwellings much overcrowded, where privacy is unknown."¹⁸

Following the example of nineteenth-century landscape architect Frederick Law Olmsted, Progressive advocates of municipal parks made their case in moral terms. They argued that parks would not only enhance the beauty of the city but also promote a spirit of neighborliness among city dwellers and combat the tendency to moral degradation.¹⁹ Similarly, the playground movement of the Progressive years had higher ambitions

than providing recreation for children of the city; its aim was no less than “manufacturing good and sturdy citizenship.” According to its advocates, the city playground, with its sandboxes, swings, and playing fields, “would be the womb from which a new urban citizenry—moral, industrious, and socially responsible—would emerge.” As one of its champions declared, the playground could instill “more ethics and good citizenship . . . in a single week than can be inculcated by Sunday school teachers . . . in a decade.”²⁰

Joseph Lee, a leader of the playground movement, explained how team sports could inculcate in children “the sheer experience of citizenship in its simplest and essential form—of the sharing in a public consciousness, of having the social organization present as a controlling ideal in your heart.” Play would serve as a “school of the citizen” by teaching the way in which genuine community goes beyond mere cooperation to shape the identity of the participants: “the team is not only an extension of the player’s consciousness; it is a part of his personality. His participation has deepened from cooperation to membership. Not only is he now a part of the team, but the team is a part of him.”²¹

A more ephemeral expression of the Progressives’ formative ambition was the historical pageant, a civic spectacle that employed drama, music, and dance to depict the history of cities to their citizens. Communities across America mounted such spectacles. The largest was a pageant in St. Louis in 1914, which included a cast of 7,000 and drew audiences of 100,000 on each of four successive spring nights. Conceived as more than entertainment, such civic dramas sought to inspire among urban residents a sense of common citizenship and shared purpose. “As the first strains of melody . . . floated upon the vast audience on that rare May evening,” wrote the chairman of the St. Louis pageant, “there came over all the sense of sanctified citizenship, of interest and confidence in neighbor, of pride in the city.”²²

The city planning movement of the Progressive years also reflected the attempt to elevate the moral and civic character of citizens. Domes, fountains, statues, and public architecture would serve the didactic function of inspiring civic pride and improving the moral tone of urban life. The real significance of city planning, explained a New York City official, was its “powerful influence for good upon the mental and moral devel-

opment of the people.” Daniel H. Burnham, Chicago’s leading city planner and civic architect, argued that municipal structures should express the priority of the public good over private interests. “[G]ood citizenship,” he asserted, “is the prime object of good city planning.”²³ One of the most prominent public sculptures of the Progressive era was the mythic monument Civic Virtue, installed in the park facing New York’s City Hall.²⁴

Progressive Political Economy

Beyond the schemes of urban reform and moral uplift lay broader questions of political economy: Could democracy survive in an economy dominated by large corporations? With the “island community” in decline, what new forms of social solidarity could equip men and women to govern the vast world in which they lived? How, in short, might Americans heal the gap between the scale of modern economic life and the terms in which they conceived their identities?

Political debate in the Progressive era focused on two answers to these questions. Some sought to preserve self-government by decentralizing economic power and rendering it amenable to democratic control. Others considered economic concentration irreversible and sought to control it by enlarging the capacity of national democratic institutions.

The Decentralist Vision

The decentralizing strand of Progressivism found its ablest advocate in Louis D. Brandeis, who before his appointment to the Supreme Court was an activist attorney and outspoken critic of industrial concentration. Brandeis’ primary concern was with the civic consequences of economic arrangements. He opposed monopolies and trusts, not because their market power led to higher consumer prices but because their political power undermined democratic government.

In Brandeis’ view, big business threatened self-government in two ways—directly, by overwhelming democratic institutions and defying their control, and indirectly, by eroding the moral and civic capacities that

equip workers to think and act as citizens. Both in his fear of concentrated power and in his concern for the formative consequences of industrial capitalism, Brandeis brought long-standing republican themes into twentieth-century debate. Like Jefferson and Jackson, he viewed concentrated power, whether economic or political, as inimical to liberty. The trusts were not the product of natural economic forces, Brandeis argued, but rather the result of favorable laws and financial manipulation. The solution was not to confront big business with big government—that would only compound “the curse of bigness”—but to break up the trusts and restore competition. Government should not try to regulate monopoly but should regulate competition to protect independent businesses from the predatory practices of monopolies and national chains. Only in this way would it be possible to sustain genuine competition and preserve a decentralized economy of locally based enterprises amenable to democratic control.²⁵

Beyond the direct dangers to democracy of concentrated power, Brandeis worried about the adverse effects of industrial capitalism on the moral and civic character of workers. Like the free labor republicans of the nineteenth century, Brandeis considered industrial wage labor a form of dependence analogous to slavery. Workers in the steel industry, for example, led “a life so inhuman as to make our former Negro slavery infinitely preferable, for the master owned the slave, and tried to keep his property in working order for his own interest. The Steel Trust, on the other hand, looks on its slaves as something to be worked out and thrown aside.” The results were “physical and moral degeneracy” and the corruption of American citizenship.²⁶

Brandeis retained the republican conviction that free labor is not labor voluntarily undertaken in exchange for a wage, but labor carried out under conditions that cultivate the qualities of character essential to self-government. By this standard, American industrial workers could not be considered free: “Can any man be really free who is constantly in danger of becoming dependent for mere subsistence upon somebody and something else than his own exertion and conduct?” According to Brandeis, the contradiction between “our grand political liberty and this industrial slavery” could not persist for long: “Either political liberty will be extinguished or industrial liberty must be restored.”²⁷

For Brandeis, industrial liberty could not be achieved through shorter hours, higher wages, and better working conditions alone. Nor was it a matter of making wage labor more genuinely voluntary, through collective bargaining, or gaining for workers a greater share of the fruits of their labor, through profit sharing. Sympathetic though he was to all these reforms, Brandeis’ primary concern was neither to perfect consent nor to secure distributive justice, but to form citizens capable of self-government. This formative, civic purpose could be achieved only by industrial democracy, in which workers participated in management and shared responsibility for running the business.²⁸

The recognition of unions moved capital-labor relations one step beyond “industrial despotism” to a kind of “constitutional monarchy” that at least limited “the employer’s formerly autocratic power.” Profit sharing was a further improvement. But “full-grown industrial democracy” required a sharing of responsibility as well as of profits. “In order that collective bargaining should result in industrial democracy it must go further and create practically an industrial government,” in which workers had a voice and a vote on issues of management just as citizens of a political democracy had a voice and a vote on issues of public policy.²⁹

Brandeis favored industrial democracy, not for the sake of improving workers’ incomes, desirable though that was, but for the sake of improving their civic capacities: “Unrest, to my mind, never can be removed—and fortunately never can be removed—by mere improvement of the physical and material condition of the workingman. . . . We must bear in mind all the time, that however much we may desire material improvement and must desire it for the comfort of the individual, that the United States is a democracy, and that we must have, above all things, men. It is the development of manhood to which any industrial and social system should be directed.” For Brandeis, the formation of citizens capable of self-government was an end even higher than distributive justice. “We Americans are committed not only to social justice in the sense of avoiding . . . [an] unjust distribution of wealth; but we are committed primarily to democracy.” The “striving for democracy” was inseparable from a “striving for the development of men. It is absolutely essential in order that men may develop that they be properly fed and properly housed, and that they have proper opportunities of education and recreation. We

cannot reach our goal without those things. But we may have all those things and have a nation of slaves."³⁰

In Brandeis' view, industrial democracy could not take root in giant corporations. "As long as there is such concentration of power no effort of the workingmen to secure democratization will be effective."³¹ In line with the tradition of republican political economy, Brandeis sought to decentralize economic power, partly for the sake of restoring democratic control and also for the sake of cultivating worker-citizens capable of sharing in self-government.

Like Brandeis, Woodrow Wilson saw in the concentrated power of the trusts a threat to democracy. His "New Freedom" promised to diminish the power of monopoly over government and to restore the conditions of economic independence that had formed the basis of liberty in nineteenth-century America. From his first meeting with Brandeis in the summer of 1912, Wilson campaigned for the presidency urging that, rather than regulate monopoly as Theodore Roosevelt proposed, government should seek to restore and regulate competition.³²

But Wilson was not an unwavering adherent of Brandeis' teaching. Unlike his counsellor, he sought to distinguish between trusts, which grew by artificial means and destroyed competition, and those big businesses that attained their size "naturally," as a result of effective competition. "I am for big business," Wilson declared, "I am against the trusts." But this distinction did not fit well with Wilson's more general argument, and he did not always observe it. Wilson's primary case against monopoly was that it frustrated democratic politics and undermined the qualities of character self-government requires. From this standpoint, what mattered were the size and power of giant corporations, not their origins. "The organization of business has become more centralized," Wilson asserted, "vastly more centralized, than the political organization of the country itself. Corporations have come to cover greater areas than states . . . have [exceeded] states in their budgets and loomed bigger than whole commonwealths in their influence over the lives and fortunes of entire communities of men. . . . What we have got to do is to disentangle this colossal 'community of interest.'"³³

So powerful were the forces of monopoly that it was "almost an open question whether the government of the United States with the people

back of it is strong enough to overcome and rule them." Wilson urged Americans to wrest the democratic prerogative from monopoly power: "If monopoly persists, monopoly will always sit at the helm of government. . . . If there are men in this country big enough to own the government of the United States, they are going to own it; what we have to determine now is whether we are big enough, whether we are men enough, whether we are free enough, to take possession again of the government which is our own. We haven't had free access to it, our minds have not touched it by way of guidance, in half a generation."³⁴

His opponent, Theodore Roosevelt, proposed accepting and regulating monopoly power. Wilson attacked this course as a kind of capitulation. "We have been dreading all along the time when the combined power of high finance would be greater than the power of the government," Wilson argued. "Have we come to a time when the President of the United States or any man who wishes to be the President must doff his cap in the presence of this high finance, and say, 'You are our inevitable master, but we will see how we can make the best of it?'"³⁵

Beyond the direct threat that monopoly posed to democratic government, Wilson also worried about the effects of large-scale capitalism on the moral and civic character of Americans. An economy dominated by large corporations disempowered local communities and discouraged the independence, initiative, and enterprise that equipped citizens for self-government. Although he did not display Brandeis' enthusiasm for industrial democracy, Wilson faulted the modern economy for reducing most men to the status of employee, which he did not consider wholly compatible with liberty. To this extent, he shared the formative concerns of republican political economy. "In most parts of our country," Wilson lamented, "men work, not for themselves, not as partners in the old way in which they used to work, but generally as employees . . . of great corporations." But to be "the servant of a corporation" was to "have no voice" in the policies set by a powerful few, policies often at odds with the public interest.³⁶

Wilson's sympathies were with "men who are on the make rather than the men who are already made." He evoked memories of a time when most Americans were not voiceless servants of big corporations but independent laborers or entrepreneurs. That was a time before the concentration of power in vast economic units, a "time when America lay in

every hamlet, when America was to be seen in every fair valley, when America displayed her great forces on the broad prairies, ran her fine fires of enterprise up over the mountainsides and down into the bowels of the earth, and eager men were everywhere captains of industry, not employees; not looking to a distant city to find out what they might do, but looking about among their neighbors, finding credit according to their character, not according to their connections."³⁷

Wilson rejected the idea that a nation of employees was adequate to liberty. If America's future children "open their eyes in a country where they must be employees or nothing . . . then they will see an America such as the founders of this Republic would have wept to think of." For Wilson, restoring liberty meant restoring a decentralized economy that bred independent citizens and enabled local communities to be masters of their destinies rather than victims of economic forces beyond their control. "In all that I may have to do in public affairs in the United States I am going to think of towns . . . of the old American pattern, that own and operate their own industries. . . . My thought is going to be bent upon the multiplication of towns of that kind and the prevention of the concentration of industry in this country in such a fashion and upon such a scale that towns that own themselves will be impossible."³⁸

According to Wilson, the vitality of America lay not in New York or Chicago or other great cities, but in "the enterprise of the people throughout the land," nourished by small-scale, self-sufficient "free American communities." As those communities lost control of their economic destinies to large corporations, American liberty was imperiled. "[I]f America discourages the locality, the community, the self-contained town," Wilson warned, "she will kill the nation."³⁹ Decentralizing economic power was essential to preserving the communities that cultivated the virtues self-government required.

The Nationalist Vision

Another branch of the Progressive movement offered a different response to the threat posed by corporate power. Rather than decentralize the economy to render it amenable to democratic control by local political units, Theodore Roosevelt proposed a "New Nationalism" to regulate

big business by increasing the capacity of the national government. "Big business has become nationalized," Roosevelt declared in 1910, "and the only effective way of controlling and directing it and preventing the abuses in connection with it is by having the people nationalize the governmental control in order to meet the nationalization of the big business itself."⁴⁰

Like Brandeis and Wilson, Roosevelt feared the political consequences of concentrated economic power. Big business corrupted government for the sake of profit and threatened to overwhelm democratic institutions. "The supreme political task of our day," Roosevelt proclaimed, "is to drive the special interests out of our public life." This task required that the citizens of the United States "control the mighty commercial forces which they have themselves called into being," and reclaim self-government from the grip of corporate power. "The corporation is the creature of the people; and it must not be allowed to become the ruler of the people."⁴¹

Where Roosevelt disagreed with the decentralizers was over how to restore democratic control. He considered big business an inevitable product of industrial development, and saw little point in trying to recover the decentralized political economy of the nineteenth century. Those Progressives who sought to restore a competitive economy of small units represented "a kind of rural toryism, which wishes to attempt the impossible task of returning to the economic conditions that obtained sixty years ago." They failed to recognize the necessity of industrial concentration and the need to "meet it by a corresponding increase in governmental power over big business."⁴²

"Combinations in industry are the result of an imperative economic law," Roosevelt argued, "which cannot be repealed by political legislation. The effort at prohibiting all combination has substantially failed. The way out lies, not in attempting to prevent such combinations, but in completely controlling them in the interest of the public welfare." Since most big corporations operated in interstate or foreign commerce, beyond the reach of individual states, only the federal government was suited to the task of controlling them. The power of the national government had to grow to match the scale of corporate power.⁴³

In its embrace of consolidated power, Roosevelt's "New Nationalism" marked a break with republican political thought. The republican tradi-

tion had taught Americans to fear concentrated power, whether economic or political, as hostile to liberty. From Jefferson to Brandeis, the political economy of citizenship in its various expressions had opposed the drift to bigness. Now Roosevelt argued that an economy of scale was here to stay, and that the only way to reclaim democratic control was to abandon the republican impulse to disperse power. Under modern economic conditions, dispersed power no longer served the cause of self-government: "People speak as if it were an innovation to nationalize control by the government of big business. The innovation came on the part of the business men who nationalized the businesses. All we wish to do on behalf of the people is to meet the nationalization of the big business by nationalized government control."⁴⁴

But even as the New Nationalism renounced the decentralizing aspect of the republican tradition, it adhered to the formative aspect. Like republicans since the day of Jefferson, Roosevelt worried about the civic consequences of economic arrangements and sought to cultivate in citizens the qualities of character essential to self-government. Roosevelt's aim was not only to reduce the domination of government by big business, but also to enlarge the self-understandings of American citizens, to instill what he called "a genuine and permanent moral awakening," "a spirit of broad and far-reaching nationalism."⁴⁵ More than a program of institutional reform, the New Nationalism was a formative project that sought to cultivate a new sense of national citizenship.

For Roosevelt, Progressive politics was emphatically an enterprise of moral uplift. "The prime problem of our nation is to get the right type of good citizenship," he asserted. Democratic government could not be indifferent to the virtue of its people. "In a democracy like ours we cannot expect the stream to rise higher than its source. If the average man and the average woman are not of the right type, your public men will not be of the right type."⁴⁶

Roosevelt sometimes identified the civic virtue he hoped to inspire with the strenuous dedication to duty displayed by those who fought the Civil War.⁴⁷ On other occasions, he spoke more modestly of the "homely virtues" of honesty, courage, and common sense, and the political virtues of knowing one's duties and performing them.⁴⁸ But the primary object of Roosevelt's soulcraft was to persuade his fellow citizens to rise above the

material preoccupations that threatened to distract them from nobler ends. "If there is one thing which we should wish as a Nation to avoid, it is the teaching of those who would reenforce the lower promptings of our hearts, and so teach us to seek only a life of effortless ease, of mere material comfort."⁴⁹

In his fear of luxury's power to corrupt the soul of the citizen, Roosevelt expressed a long-standing theme of republican political economy: "Material development means nothing to a nation as an end in itself. If America is to stand simply for the accumulation of what tells for comfort and luxury, then it will stand for little indeed when looked at through the vistas of the ages." Only if America treated material abundance "as the foundation on which to build the real life, the life of spiritual and moral effort and achievement," would it stand for something worth remembering. "Material well-being is a great good, but it is a great good chiefly as a means for the upbuilding upon it of a high and fine type of character, private and public."⁵⁰

As Roosevelt was the leading spokesman for the New Nationalism, Herbert Croly was its leading philosopher. In *The Promise of American Life* (1909), Croly laid out the political theory underlying the nationalist strand of Progressivism. Unlike Brandeis and the decentralizers, Croly argued for accepting the scale of modern industrial organization and for enlarging the capacity of national democratic institutions to control it. The Jeffersonian tradition of dispersed power was now a hindrance, not a help to democratic politics. Given "the increasing concentration of American industrial, political, and social life," American government "demands more rather than less centralization." But according to Croly, the success of democracy required more than the centralization of government; it also required the nationalization of politics. The primary form of political community had to be recast on a national scale.⁵¹

"The nationalizing of American political, economic, and social life means something more than Federal centralization," Croly explained. It also meant inspiring in citizens a new sense of national identity, or fashioning the people "into more of a nation." This was the way to ease the gap, so acutely felt in the Progressive era, between the scale of American life and the terms of American identity. Given the national scale of the modern economy, democracy required "an increasing nationalization of the

American people in ideas, in institutions, and in spirit." An intensification of the national life would serve democracy by cultivating citizens capable of governing an economy and society now national in scale.⁵²

Although Croly renounced Jefferson's notion that democracy depends on dispersed power, he shared Jefferson's conviction that economic and political arrangements should be judged by the qualities of character they promote. Repeatedly and explicitly, Croly wrote of the "formative purpose" of democratic life. More than a scheme for majority rule or individual liberty or equal rights, democracy had as its highest purpose the moral and civic improvement of the people. "Its superiority must be based upon the fact that democracy is the best possible translation into political and social terms of an authoritative and comprehensive moral idea." For Croly, the project of nationalizing the American character was "an essentially formative and enlightening political transformation." Its aim was "the gradual creation of a higher type of individual and associated life."⁵³

American democracy could advance only as the nation became more of a nation, which required in turn a civic education that inspired in Americans a deeper sense of national identity. The primary instruments of this civic education were not schools as such but the institutions and practices of a national democratic life. "The national school is . . . the national life." "The nation, like the individual, must go to school; and the national school is not a lecture hall or a library," but a democratic life that aimed at a collective purpose.⁵⁴

Far from the liberalism of the procedural republic, which seeks not to promote any particular conception of virtue or moral excellence, Croly's democratic nationalism rested on the conviction that "human nature can be raised to a higher level by an improvement in institutions and laws." The point of democracy was not to cater to people's desires but to elevate their character, broaden their sympathies, and enlarge their civic spirit. "For better or worse," Croly concluded, "democracy cannot be disentangled from an aspiration toward human perfectibility. . . . The principle of democracy is virtue."⁵⁵

The decentralizing and the nationalizing versions of progressive reform found memorable expression in the 1912 contest between Woodrow Wilson and Theodore Roosevelt.⁵⁶ "For the only time except perhaps for

Jefferson's first election in 1800," a historian has observed, "a presidential campaign aired questions that verged on political philosophy."⁵⁷ From the standpoint of subsequent developments, however, the greater significance of the 1912 campaign lay in the assumptions the protagonists shared. Wilson and Brandeis on one side, and Croly and Roosevelt on the other, agreed despite their differences that economic and political institutions should be assessed for their tendency to promote or erode the moral qualities self-government requires. Like Jefferson before them, they worried about the sort of citizens the economic arrangements of their day were likely to produce. They argued, in different ways, for a political economy of citizenship.

The civic emphasis of their political economy sets it apart from debates familiar in our day, which focus instead on economic growth and distributive justice. This contrast can be seen more clearly in the light of a third strand of Progressive reform. For alongside the civic arguments of the decentralizers and nationalizers, a new way of thinking and talking about political economy was beginning to take shape. Although it found only tentative expression in the Progressive era, this third strand of argument would eventually set the terms of American political debate. The third voice of Progressive reform sought democracy's salvation in a different, less strenuous solidarity. It encouraged Americans to confront the impersonal world of big business and centralized markets, not as members of traditional communities or as bearers of a new nationalism, but rather as enlightened, empowered consumers.

The Consumerist Vision

As Americans struggled to find their way in an economy now national in scale, some sought a basis of shared identity and common purpose that could transcend differences of occupation, ethnicity, and class. They sought "a mundane common denominator," a "new ideology of social solidarity rooted in common experience." The common experience they appealed to was the experience of consumption.⁵⁸

Turn-of-the-century Wisconsin Progressives, for example, based their movement on the notion that "all men and women are, after all, consumers—of high prices, defective products, and unresponsive politicians; their

roles as consumers forced them to make common cause.” Rather than emphasize producer-based issues, such as industrial democracy, these Progressives focused on problems that confronted people as consumers and taxpayers, such as high streetcar fares, high taxes imposed by corrupt politicians, and air pollution from the utility’s power station. The reforms they advocated sought to promote the interests of consumers and taxpayers through various forms of direct democracy—direct primaries, initiative, referendum, recall, direct election of senators, and women’s suffrage. Their overall aim was “a new mass politics that united men as consumers and taxpayers in opposition to the old politics that was based on ethnic and producer identities.”⁵⁹

By the early twentieth century, the citizen as consumer was a growing political presence. “[T]he real power emerging today in democratic politics is just the mass of people who are crying out against the ‘high cost of living,’” wrote Walter Lippmann in 1914. “That is a consumer’s cry. Far from being an impotent one, it is, I believe, destined to be stronger than the interest either of labor or of capital.” Lippmann predicted that women’s suffrage would increase the power of the consumer, since “[t]he mass of women do not look at the world as workers, [but] as consumers. It is they who go to market and do the shopping; it is they who have to make the family budget go around; it is they who feel shabbiness and fraud and high prices most directly.” The growth of large retail organizations such as department stores, chain stores, and mail-order businesses also encouraged Americans to think and act politically as consumers. Just as large-scale production made possible the solidarity of workers, centralized retail markets made possible “the solidarity of the consumer.”⁶⁰

Lippmann did not embrace the consumer society with “unmixed joy.” He deplored modern advertising as a “deceptive clamor that disfigures the scenery, covers fences, plasters the city, and blinks and winks at you through the night,” evidence of the fact “that consumers are a fickle and superstitious mob, incapable of any real judgment as to what it wants.” But he predicted that the consumer would nevertheless become “the real master of the political situation.”⁶¹

Not all would share Lippmann’s reservations. The historian Daniel Boorstin has chronicled the advent of “consumption communities” in almost lyrical terms, depicting their emergence in the early decades of the

century as a new and buoyant episode in the American democratic experience: “Invisible new communities were created and preserved by how and what men consumed. The ancient guilds of makers, the fellowship of secrets and skills and traditions of fabricating things—muskets and cloth and horseshoes and wagons and cabinets—were outreached by the larger, more open, fellowships of consumers. . . . No American transformation was more remarkable than these new American ways of changing things from objects of possession and envy into vehicles of community.”⁶²

Chain stores such as A & P, Woolworth’s, and Walgreen’s, mail-order houses such as Montgomery Ward and Sears, and brand names such as Borden’s, Campbell’s, Del Monte, and Morton’s salt bound countless Americans together in new communities of consumption: “Now men were affiliated less by what they believed than by what they consumed. . . . Men who never saw or knew one another were held together by their common use of objects so similar that they could not be distinguished even by their owners. These consumption communities were quick; they were nonideological; they were democratic; they were public, and vague, and rapidly shifting. . . . Never before had so many men been united by so many things.” Boorstin acknowledged that “[t]he new consumption communities were . . . shallower in their loyalties, more superficial in their services” than traditional neighborhood communities. But they were nonetheless “ubiquitous, somehow touching the American consumer at every waking moment and even while he slept.”⁶³

The fullest statement of the consumer-based vision of Progressive reform was Walter Weyl’s *New Democracy* (1912).⁶⁴ Weyl, an economist and journalist, joined with Croly and Lippmann as a founding editor of the *New Republic* and helped promote the Progressive cause championed by Theodore Roosevelt.⁶⁵ Like Croly, he sought a new, democratic solidarity to confront the undemocratic power of big business, “the plutocracy,” as Weyl called it. But instead of seeking a new nationalism, Weyl saw democracy’s best hope in the solidarity of consumers. Where earlier reform movements had grown out of Americans’ producer identities (as farmers or artisans, small businessmen or industrial workers), reform now required rallying Americans in their role as consumers.

“In America today the unifying economic force, about which a majority, hostile to the plutocracy, is forming, is the common interest of the

citizen as a consumer," Weyl declared. "The producer (who is only the consumer in another role) is highly differentiated. He is banker, lawyer, soldier, tailor, farmer, shoeblack, messenger boy. He is capitalist, workman, money lender, money borrower, urban worker, rural worker. The consumer, on the other hand, is undifferentiated. All men, women, and children who buy shoes (except only the shoe manufacturer) are interested in cheap good shoes. The consumers of most articles are overwhelmingly superior in numbers to the producers."⁶⁶

In the past, "production seemed to be the sole governing economic fact of a man's life." People worried more about wages than about prices, and so acted politically primarily as producers. This led to policies, such as the tariff, that helped the few at the expense of the many. But the growth of monopoly capitalism diminished workers' direct interest in their product, even as it heightened their concern with rising prices. "The universality of the rise of prices has begun to affect the consumer as though he were attacked by a million gnats." According to Weyl, "[t]he chief offense of the trust" lay not in its threat to self-government, but in its "capacity to injure the consumer." This led to hope of rallying consumers to the cause of Progressive reform. "[T]he consumer, disinterred from his grave, reappears in the political arena as the 'common man,' the 'plain people,' the 'strap-hanger,' 'the man on the street,' 'the taxpayer,' the 'ultimate consumer.' Men who voted as producers are now voting as consumers."⁶⁷

But the shift from producer-based reform to consumer-based reform was more than a new way of organizing interests. It reflected a shift in the aim of reform and in the vision of democracy underlying it. In the republican tradition of political economy that informed nineteenth-century American debate, producer identities mattered because the world of work was seen as the arena in which, for better or worse, the character of citizens was formed. Consumption, when it figured at all in republican political economy, was a thing to be moderated, disciplined, or restrained for the sake of higher ends.⁶⁸ An excess of consumption, or luxury, was often seen as a form of corruption, a measure of the loss of civic virtue. From Jefferson's agrarian republicanism to Lincoln's celebration of free labor to Brandeis' call for industrial democracy, the emphasis on producer identities reflected the attempt to form in citizens the qualities of character necessary to self-government.

A politics based on consumer identities, by contrast, changes the question. Instead of asking how to elevate or improve or restrain people's preferences, it asks how best—most fully, or fairly, or efficiently—to satisfy them. The shift to consumer-based reform in the twentieth century was thus a shift away from the formative ambition of the republican tradition, away from the political economy of citizenship. Although they did not view their movement in quite this way, the Progressives who urged Americans to identify with their roles as consumers rather than producers helped turn American politics toward a political economy of growth and distributive justice whose full expression lay decades in the future.

Weyl did not explicitly renounce the civic tradition, but he did articulate, with remarkable clarity, the link between consumer-based reform and a political economy of growth and distributive justice. Where Brandeis and Croly spoke of democracy's formative purpose, of its role in perfecting or uplifting the character of citizens, Weyl's "new democracy" undertook no formative mission. Its aim was not virtue but economic abundance and the fair distribution of abundance. The point of democracy was not to cultivate the virtue of citizens but to achieve "the widest range of economic satisfactions."⁶⁹

"It is the increasing wealth of America," wrote Weyl, "upon which the hope of a full democracy must be based." It is economic growth, or the "social surplus," that "gives to our democratic strivings a moral impulse and a moral sanction." Weyl did not claim that maximizing national wealth was an end in itself. To the contrary, the problem with the existing pattern of economic growth was its unequal distribution. "What the people want is not wealth, but distributed wealth; not a statistical increase in the national income, but more economic satisfactions, more widely distributed."⁷⁰

Weyl's case for a wider distribution of wealth rested on two arguments, one utilitarian, the other voluntarist, or contractarian. The utilitarian argument held that a more equal distribution would produce a higher level of overall happiness, since an extra dollar to a poor person means more than an extra dollar to a rich person. "A million dollars of commodities consumed by one overrich man gives less pleasure than would the same sum added to the expenditure of ten thousand people." Where the distribution of income and wealth is highly unequal, economic growth

does not necessarily increase the general welfare; given the exploitation on which the plutocracy's prosperity is built, an increase in wealth may even decrease the general welfare. "A nearer approach to an equality of wealth and income would undoubtedly mean a vast increase in the sum total of economic satisfactions."⁷¹

Weyl's second argument concerned the economic prerequisites of genuine consent, especially in labor contracts. Like other labor reformers and Progressives of his day, Weyl attacked the laissez-faire orthodoxy advanced by industrialists and enforced by the *Lochner*-era courts, and did so in the name of a voluntarist conception of freedom. The new democracy would insist "on a real, economic (as well as a legal) equality between bargainers; upon a real, economic (as well as a legal) freedom." Genuine consent required a "social interpretation of rights." "A law forbidding a woman to work in the textile mills at night is a law increasing rather than restricting her liberty, simply because it takes from the employer his former right to compel her through sheer economic pressure to work at night when she would prefer to work by day."⁷²

Like other reformers, Weyl argued for a progressive income tax, public spending on education, health, and other social programs, and government regulation to improve industrial working conditions. But unlike Brandeis and Croly, he argued for these reforms on terms that left the political economy of citizenship behind.

More than Brandeis or Croly, Weyl was a prophet of the procedural republic. Their democratic visions retained contact with the formative ambition of the republican tradition and with the civic conception of freedom as self-government. Thus Brandeis insisted that democracy was "possible only where the process of perfecting the individual is pursued," and Croly held that democracy "must stand or fall on a platform of possible human perfectibility." Weyl disagreed. The "new democracy" for which he spoke sought not to perfect the people or to cultivate civic virtue but rather to achieve "the widest range of economic satisfactions."⁷³ He argued not in the name of self-government but instead in the name of utility, fairness, and a more genuine consent than the market economy, left to its own devices, makes possible. By detaching the Progressive cause from its formative ambition and basing it instead on fair treatment for the citizen-consumer, Weyl gestured toward a political

economy of growth and distributive justice that, later in the century, would set the terms of political debate.

From Citizenship to Consumer Welfare

The transition from a political economy of citizenship to one premised on consumer welfare can be seen in the fate of two attempts, one well-known, the other scarcely remembered, to curb "the curse of bigness." The first, the antitrust movement, began over a century ago and remains an instrument of public policy to this day. The second, the anti-chain store movement, provoked a flurry of legislation and debate in the 1920s and 1930s, then quickly died out. Both movements arose, at least in part, to preserve self-government by protecting local communities and independent producers from the effects of massive concentrations of economic power.

As civic considerations faded and consumerist ones became more prominent in American political economy, antitrust law survived by assuming a new function; once a way of decentralizing power for the sake of self-government, it became a way of regulating the market for the sake of competitive consumer prices. Anti-chain store laws, by contrast, displayed no similar flexibility. Unable to demonstrate their service to consumer welfare, their fate was tied to the hope that independent grocers, druggists, and shopkeepers might carry republican ideals into the twentieth century. As that hope faded, the demise of the anti-chain store movement intimated the demise of the civic strand of economic argument itself.

Anti-Chain Store Legislation

In the years following World War I, the growth of chain stores revolutionized the way Americans bought commodities. It also threatened the role of independent retailers across the land. By 1929, chains accounted for one-fifth of all retail sales and 40 percent of all grocery sales. Beginning in the late 1920s, state legislatures sought to restrict the growth of chain stores, primarily by imposing taxes that increased according to the number of stores a chain operated within the state. In Indiana, for example,

chains were assessed \$3 for the first store, rising to a rate of \$150 for each store over twenty. In 1935 Texas levied a tax of \$750 for each store over fifty, a considerable sum at a time when the average net profit per store for grocery chains was only \$950.⁷⁴

Many of the laws were struck down by state courts, but in 1931 the U.S. Supreme Court upheld a challenge to a chain store tax.⁷⁵ The favorable ruling by the Court, together with the growing economic distress on independents brought on by the Depression, quickened the pace of the movement. In 1933 some 225 chain store tax bills were proposed across the country, and 13 were enacted. By the end of the decade, more than half the states had passed some form of tax on chain stores.⁷⁶

Opponents of the chain store system often cast their arguments in republican terms. In a series of radio broadcasts, Montaville Flowers, an antichain publicist, argued that the chain system was "contrary to the whole genius of the American people and American Government, which is local self-control of affairs." The chain store threatened self-government by producing great concentrations of economic power, destroying local communities, and undermining the status of independent shopkeepers and small businessmen. Independent retailers such as the local pharmacist traditionally served communities as leading citizens of "intelligence and character." But the chains reduced the pharmacist to a "drug clerk" beholden to a distant corporation, and so deprived the community of a trusted figure. In a similar way, the chain system "deprives hundreds of thousands of good citizens of their means of livelihood, reduces them from a status of independence to that of hirelings under humiliating regulations, thus . . . lowering the spirit of communities and the nation."⁷⁷

While the chains reduced their employees to "cogs in big wheels," Flowers declared, independent stores stood for the free labor ideal, preserving "the open field of opportunity, the equal chance for their employees to go into business for themselves according to the blessed traditions of our country." The chains also threatened agrarian republican ideals: "The deadliest blights that ever befell the farm are the catalogues of Sears-Roebuck and Montgomery-Ward!" Farmers were fools to buy goods from the catalogues of chains, "for every time you do this you are destroying what independence you have left and binding tighter upon you the burdens of your serfdom!"⁷⁸

Leading politicians also worried about the civic consequences of the chain store system and feared for the fate of local communities. "A wild craze for efficiency in production, sale, and distribution has swept over the land, increasing the number of unemployed, building up a caste system, dangerous to any government," said Senator Hugo L. Black of Alabama, who would later serve on the U.S. Supreme Court. "Chain groceries, chain dry-goods stores, chain clothing stores, here today and merged tomorrow—grow in size and power. . . . The local man and merchant is passing and his community loses his contribution to local affairs as an independent thinker and executive."⁷⁹

When, in the case of *Liggett Company v. Lee* (1933), the U.S. Supreme Court struck down a portion of a Florida chain store tax law, Justice Brandeis offered an eloquent dissent that summarized the republican case against chain stores. The citizens of Florida, he reasoned, had taxed the chains not only to raise revenue but also to help independent retailers. "They may have done so merely in order to preserve competition. But their purpose may have been a broader and deeper one. They may have believed that the chain store, by furthering the concentration of wealth and of power and by promoting absentee ownership, is thwarting American ideals; that it is making impossible equality of opportunity; that it is converting independent tradesmen into clerks; and that it is sapping the resources, the vigor and the hope of the smaller cities and towns." This, Brandeis maintained, was a legitimate constitutional purpose.⁸⁰

Many believed, Brandeis observed, that the inequality of wealth and power bred by giant corporations posed a threat to self-government, and that "only through participation by the many in the responsibilities and determinations of business can Americans secure the moral and intellectual development which is essential to the maintenance of liberty." If the citizens of Florida shared that belief, there was nothing in the Constitution to prevent them from acting on it by imposing taxes on chain stores. "To that extent," Brandeis concluded, "the citizens of each state are still masters of their destiny."⁸¹

The chain stores and their defenders addressed the republican arguments of their opponents but cast their main arguments in terms of consumer welfare. The notion that independent retailers embodied republican virtue was, they argued, a piece of sentimentality that did not fit

the facts. Far from being a pillar of the community, the typical shopkeeper was "a dirty, illiterate, short-sighted, half-Americanized foreigner, or a sleepy, narrow-minded, dead-from-the-neck-up American," according to a writer for a chain store publication. The head of J. C. Penney observed that even as Americans romanticized "the old isolated corner store" they did their shopping at chains. Much as we might "like to go back to Uncle Henry's store and swap stories with Henry and the other idlers around the stove," few would be "willing to pay for such idleness as a tax on all the goods our family buys." Walter Lippmann also found little to mourn in the passing of the neighborhood store: "Six grocers in three blocks, dingy little butcher-shops, little retail businesses with the family living in the back room, the odor of cooking to greet you as you enter the door, fly-specks on the goods"—these were hardly conditions worth trying to preserve.⁸²

As for their record of service to local communities, the chains admitted to an initial neglect that they pledged promptly to remedy. A 1931 debate manual published by the National Chain Store Association acknowledged that in the "pioneer stages of their development," chains "may have been a little lax in cooperating with local enterprises and community welfare," and "neglected to some degree their social responsibilities and public relations." But the chains were now avid participants in local chambers of commerce, contributors to the Community Chest, and supporters of the Boy Scouts and the Red Cross. They too could be good citizens.⁸³

But even as the chains tried to demonstrate their good citizenship, their spokesmen argued that the true measure of the chain store's worth lay elsewhere—in its contribution to the welfare of consumers. Its primary justification was not civic but utilitarian: "what is best for the majority of the people constitutes the greatest good to the greatest number in their daily economic life." If chains "give to the consuming public better goods at lower prices, then no individual or class of individuals, no matter how their personal interests may be hurt, have the right to harass, criticize or attempt to destroy such an agency for good."⁸⁴

All the debates about the civic role of chains—in building or damaging local communities, in increasing or reducing prospects for employment and opportunity—concerned "secondary functions of a store." Here the

shift from civic to consumerist considerations found unapologetic expression. The "first duty, the largest community responsibility of a retail store," stated a chain store publication, was to benefit consumers. This was the simple fact that critics of chain stores forgot. "For to listen to them you would think that a store was only incidentally and in a sort of unimportant way, an establishment for the sale of commodities at retail prices, and that the main business of a store was to contribute to charity and build sidewalks and public meeting halls, and solve the unemployment problem." But this "belittled" the main function of a store, which was not to serve a civic purpose but to maximize the welfare of consumers by selling good products at low prices, a function "the chains are fulfilling . . . to the hilt."⁸⁵

By the late 1930s the chain stores had successfully rallied to oppose the laws, mounting lobbying efforts and public relations campaigns and enlisting the support of consumers, farmers, and organized labor. The A & P helped defeat a 1936 California referendum calling for a chain tax by buying up a surplus crop of California produce and keeping agriculture prices high. A series of collective bargaining agreements a few years later brought labor's support to the chains. The chains suffered a temporary setback when Congress passed the Robinson-Patman Act of 1936, which restricted their ability to buy merchandise at reduced prices from wholesalers. But a 1938 proposal by Representative Wright Patman to enact a federal chain tax failed, and by the end of the decade the antichain movement had expired. While local grocers and druggists had presented themselves, not wholly convincingly, as the yeomen of their day, the last bearers of republican virtue, the chains stood instead for good products at low prices. In the face of these alternatives, the political economy of citizenship was losing its capacity to inspire.⁸⁶

The Antitrust Movement

Antitrust law, by contrast, enjoyed a longer career, under shifting ideological auspices. Born of the political economy of citizenship, it lived on in the service of the political economy of growth and distributive justice that, by the mid-twentieth century, was ascendant. To be sure, both the civic and the consumer-oriented objections to monopoly were present from the

start. Americans opposed economic concentration out of concern for self-government, and also out of fear of the high prices monopolies could extract from consumers.

Some recent commentators, opposed to the political purposes of anti-trust law, have claimed that the Sherman Act was concerned solely with economic efficiency and consumer welfare.⁸⁷ But the congressional debates themselves and the broader terms of economic argument around the turn of the century suggest otherwise. When Congress debated the Sherman Antitrust Act in 1890, it sought both to protect the consumer from monopoly pricing and to preserve the decentralized economy of small businesses and trades long seen as essential to self-government. More than a matter of economic efficiency or consumer welfare, the antitrust movement reflected "the political judgment of a nation whose leaders had always shown a keen awareness of the economic foundations of politics. In this respect, the Sherman Act was simply another manifestation of an enduring American suspicion of concentrated power."⁸⁸

For Senator John Sherman and his colleagues, the law banning combinations in restraint of trade "constituted an important means of achieving freedom from corruption and maintaining freedom of independent thinking political life, a treasured cornerstone of democratic government."⁸⁹ Sherman attacked the trusts for cheating consumers by artificially driving up prices, and also for amassing unaccountable power that threatened democratic government. The concentrated power of the trusts amounted to "a kingly prerogative, inconsistent with our form of government, and should be subject to the strong resistance of the State and national authorities. If anything is wrong this is wrong. If we will not endure a king as a political power we should not endure a king over the production, transportation, and sale of any of the necessities of life."⁹⁰

As Richard Hofstadter observed, "the political impulse behind the Sherman Act was clearer and more articulate than the economic theory. Men who used the vaguest language when they talked about 'the trusts' and monopolies . . . who had found no way of showing how much competition was necessary for efficiency, who could not in every case say what competitive acts they thought were fair or unfair . . . were reasonably clear about what it was that they were trying to avoid: they wanted to keep concentrated private power from destroying democratic government."⁹¹

Along with the direct threat posed by big corporations to democratic government, antitrust advocates worried about the indirect effects, on the moral and civic character of citizens. When reformers spoke of preserving competition, their concern was not only, or even primarily, with consumer prices, but rather with an economy of small, independent producers and with the qualities of character—of enterprise, initiative, and responsibility—that this system ideally called forth. Henry A. Stimson, a clergyman writing in 1904, called small business "a school of character second in importance only to the Church." The advent of the great corporations and trusts had brought prosperity but also a damaging "effect upon the character of many employees, who, under former conditions, would have been either managing their own business or ambitious for the opportunity of doing so." The republican tradition had long worried that a nation of hirelings and clerks could not cultivate the independence and judgment necessary to self-government. Now Stimson wondered, along similar lines, how even the corporations would manage to develop the leadership they required. Such positions "require men who have been accustomed to that independence of action and that breadth of view which only the responsibility of directing their own affairs can produce. It is a temper of mind and of spirit as far as possible from that of the lifelong clerk or employee."⁹²

In a speech to a national conference on trusts in 1899, Hazen S. Pingree, governor of Michigan, denounced the trusts for their corrupting effect "upon our national life, upon our citizenship, and upon the lives and characters of the men and women who are the real strength of our republic." The strength of the republic had always resided in "the independent, individual business man and the skilled artisan and mechanic." But the trust concentrated ownership and management of business into the hands of the few, forcing once independent entrepreneurs and tradesmen to become employees of large corporations. "Their personal identity is lost. They become cogs and little wheels in a great complicated machine. . . . They may perhaps become larger cogs or larger wheels, but they can never look forward to a life of business freedom."⁹³

Drawing still on the civic conception of freedom that animated the free labor ideal, Pingree accused the trust of creating "industrial slavery." The master was the director of the trust, the slave "the former merchant and

business man, and the artisan and mechanic, who once cherished the hope that they might sometime reach the happy position of independent ownership of a business." Even the prosperity the trusts might bring could not justify such moral and civic degradation. "I care more for the independence and manliness of the American citizen," Pingree concluded, "than for all the gold or silver on or in the world. . . . A democratic republic cannot survive the disappearance of a democratic population."⁹⁴

A subsequent speaker, whose defense of the trusts brought vehement protest from the audience, challenged the producer ethic espoused by Pingree and offered a glimpse of a consumerist ethic whose widespread acceptance lay several decades in the future. For George Gunton, a labor leader turned professor, the case for the trusts rested simply on their service to the public welfare, which consisted in turn of low prices for consumers and good wages for workers. By this measure, the hated Standard Oil Company, Carnegie Steel Company, and the great railroads were resounding successes. Thanks to their capital investments and economies of scale, Gunton argued, they produced better goods at lower prices than small businesses could ever have offered.⁹⁵

As for the effect of corporations on the conditions of labor, Gunton declared bluntly that "[t]he laborer's freedom and individuality depend upon two things—permanence of employment and good wages. Wherever the employment of labor is most permanent and wages are highest, there the laborer is most intelligent, has the greatest freedom and the strongest individual identity." In a bold reversal of the free labor ethic, Gunton argued that big business made better citizens than small business. Thanks to the security of employment in large corporations, "it is there where the laborers are most independent. It is notorious that large corporations have the least influence over the opinions and individual conduct of their laborers." The small businessman, by contrast, "who does not know from quarter to quarter . . . whether he can meet his obligations, is neither as brave, as intelligent nor as free a citizen as the wage laborer in the safe employ of a large corporation." The producer ethic that bade laborers stand with independent producers against the trusts was misguided: "The laborer has not a single interest, social, economic or political, in the existence of employers with small capital."⁹⁶

The framers of the Sherman Act left to the courts the task of defining its broad prohibition of contracts and combinations in restraint of trade, and the first decade of the law brought little enforcement.⁹⁷ In 1897, however, the Supreme Court did apply the act against a railroad rate-fixing cartel. In one of the first major antitrust opinions, Justice Rufus Wheeler Peckham held that the Sherman Act banned price-fixing even where it did not result in excessive or unreasonable prices. Even if it did not harm consumers, such price-fixing could force small, independent producers out of business, and the antitrust laws protected them too. Price-fixing that reduced consumer prices might nonetheless "[drive] out of business the small dealers and worthy men whose lives have been spent therein, and who might be unable to readjust themselves to their altered surroundings. Mere reduction in the price of the commodity dealt in might be dearly paid for by the ruin of such a class, and the absorption of control over one commodity by an all-powerful combination of capital."⁹⁸

Robert Bork has recently argued that Peckham's mention of small producers was an unfortunate "slip" or "lapse" in an opinion otherwise concerned with maximizing consumer welfare.⁹⁹ But Peckham's opinion goes on to explain the importance of small producers in terms reminiscent of the free labor ideal. The passing from the scene of "a large number of small but independent dealers" was not only disruptive to them and their families but also a loss to the country as a whole. For even if the small businessmen displaced by big corporations could find new ways of making a living, "it is not for the real prosperity of any country that such changes should occur which result in transferring an independent business man, the head of his establishment, small though it might be, into a mere servant or agent of a corporation for selling the commodities which he once manufactured or dealt in, having no voice in shaping the business policy of the company and bound to obey orders issued by others." The loss of an independent class of producers was a civic loss not measurable in terms of consumer welfare alone.¹⁰⁰

The Progressive era brought renewed energy to the antitrust movement, whose most articulate and influential spokesman in those years was Louis D. Brandeis. Unlike antitrust reformers of our day, such as consumer advocate Ralph Nader, Brandeis did not oppose the trusts in the name of the consumer. He was less concerned with lowering consumer prices than

with preserving an economy of small, independent producers. Brandeis' emphasis on small producers rather than consumers as the victims of monopoly has led one critic to suggest that Brandeis should be remembered not as the "People's Lawyer" but as "the mouthpiece for retail druggists, small shoe manufacturers, and other members of the petite bourgeoisie."¹⁰¹ More than a matter of special pleading, however, Brandeis' concern for the fate of small producers reflected a long tradition of republican political thought. From Jefferson to the Knights of Labor, the political economy of citizenship had sought to form the moral and civic character of Americans in their role as producers—as farmers, or artisans, or small businessmen and entrepreneurs. Brandeis' producer ethic retained this link with republican assumptions. He championed the cause of small, independent producers, not for their own sake but for the sake of preserving a decentralized economy hospitable to self-government.¹⁰²

Of course, Brandeis did not altogether ignore arguments of economic efficiency and consumer welfare. When defenders of big business argued that trusts brought economies of scale that reduced waste and increased the efficiency of production, Brandeis replied that size often diminished efficiency. Beyond a certain point, large institutions developed a centrifugal force that defied human understanding and control.¹⁰³ "If the Lord had intended things to be big, he would have made man bigger—in brains and character."¹⁰⁴ As evidence of the inefficiency of size, Brandeis pointed to many attempted trusts—in the whiskey, cordage, malting, paper, leather, and steamship trades—that had either failed or met with little success. Those trusts that had succeeded—in the oil, tobacco, sugar, and steel industries—had done so not through superior efficiency but through monopoly control of markets or price-fixing. "I am so firmly convinced that the large unit is not as efficient . . . as the smaller unit," Brandeis told a Senate committee, "that I believe that if it were possible today to make the corporations act in accordance with what doubtless all of us would agree should be the rules of trade no huge corporation would be created, or if created, would be successful." Under conditions of fair competition, "these monsters would fall to the ground."¹⁰⁵

But Brandeis' primary argument against the trusts looked beyond economics to considerations of self-government. Even if it could be shown that they were more efficient than small units, monopolies posed a threat

to democracy that outweighed any economic benefits they might bring. Brandeis rejected the notion that bigness itself is no offense, for he believed "that our society, which rests upon democracy, cannot endure under such conditions. . . . You cannot have true American citizenship, you cannot preserve political liberty, you cannot secure American standards of living unless some degree of industrial liberty accompanies it. And the United States Steel Corporation and these other trusts have stabbed industrial liberty in the back." Some defended monopoly by pointing to the wastefulness of competition. "Undoubtedly competition involves some waste," Brandeis replied. "What human activity does not? The wastes of democracy are among the greatest obvious wastes, but we have compensations in democracy which far outweigh that waste and make it more efficient than absolutism. So it is with competition."¹⁰⁶

Brandeis' distance from the consumer-oriented reform movements of our day can best be seen in his defense of resale price maintenance, a practice by which manufacturers set a retail price for their product that no distributor may discount. In 1911 the Supreme Court ruled that Dr. Miles Medical Company, which manufactured a patent medicine, could not enter into contracts with its wholesale and retail dealers requiring them to sell the patented elixir for a minimum specified price. Such agreements, the Court held, were an illegal restraint of trade under the Sherman Act. Brandeis disagreed and mounted a campaign to persuade Congress to exempt resale price maintenance contracts from antitrust restrictions. He argued that uniform retail prices of brand-name products helped protect small retailers from price-cutting by the chain stores, department stores, and mail-order houses, and so promoted a competitive economy. Banning price maintenance would enable big retailers to drive small ones out of business.¹⁰⁷

Brandeis explained the benefits of price maintenance using the example of the Gillette safety razor. If Gillette could fix the retail price of its razor, no dealer could sell the item at a discount; in this sense, competition would be reduced. But as a result of the fixed price, a great many retailers, large and small, could sell Gillette razors; in this broader sense, competition would be enhanced. "Every dealer, every small stationer, every small druggist, every small hardware man, can be made a purveyor of that article . . . and you have stimulated, through the fixed price, the little man

as against the department store, and as against the large unit which may otherwise monopolize that trade."¹⁰⁸

For those concerned solely with consumer prices, price competition is more desirable than preserving a competitive economy in Brandeis' sense of a decentralized economy of many small producers. But for Brandeis, consumer prices were not everything. Consumers who thought so were hopelessly short-sighted. Instead of chasing after small discounts offered by price cutters, consumers would do better to buy through consumer cooperatives, to "look with suspicion upon every advertised article," and to "start a buyers' strike at any rise in price of any staple article of common consumption." The unorganized consumer, concerned only with price, was "servile, self-indulgent, indolent, ignorant," and foolishly played into the hands of monopoly. "Thoughtless or weak, he yields to the temptation of trifling immediate gain, and, selling his birthright for a mess of pottage, becomes himself an instrument of monopoly."¹⁰⁹

In any event, price maintenance raised issues more important even than consumer welfare rightly understood. For according to Brandeis, the ability of manufacturers to set uniform prices made possible the decentralized economy of small, independent producers essential to democracy itself. "[T]he prohibition of price-maintenance imposes upon the small and independent producers a serious handicap," wrote Brandeis in a widely publicized article called "Cut-Throat Prices: The Competition That Kills." Prevented from setting prices through contracts with distributors, manufacturers would be apt to combine with chains, cutting out small retailers. "The process of exterminating the small independent retailer already hard pressed by capitalistic combinations—the mail-order houses, existing chains of stores and the large department stores—would be greatly accelerated by such a movement. Already the displacement of the small independent business man by the huge corporation with its myriad of employees, its absentee ownership and its financier control presents a grave danger to democracy."¹¹⁰

Brandeis' campaign to exempt price maintenance agreements from antitrust law did not succeed, although Congress eventually enacted such legislation in the Miller-Tydings Fair Trade Act of 1937. The culmination of the Progressive era's antitrust movement came in 1914, with passage of the Clayton Act, which tightened restrictions on uncompetitive practices,

and the establishment of the Federal Trade Commission, an administrative agency charged with investigating and regulating "unfair methods of competition." After 1914, antitrust sentiment waned. From World War I until the late New Deal, enforcement was less than vigorous, and hostility to big business figured less prominently in political debate. Massive mergers of the late 1920s increased the trend toward consolidation but did not provoke the popular protest of earlier years. The onset of the Depression brought some calls for antitrust action, but the New Deal at first suspended the antitrust laws to experiment with the government-backed cartels and price codes of the National Recovery Administration.¹¹¹

The late 1930s brought a dramatic revival of antitrust sentiment and activism. Prompted partly by the failure of the NRA and partly by the recession of 1937, Franklin Roosevelt asked Congress in 1938 to increase funding for antitrust enforcement and to appropriate \$500,000 for a comprehensive study of the concentration of economic power in American industry. In the message accompanying these requests, Roosevelt drew on both the civic and the consumer welfare strands of argument against monopoly. Invoking the civic objection, he declared that "the liberty of a democracy is not safe if the people tolerate the growth of private power to a point where it becomes stronger than their democratic state itself." At the same time, he voiced concern for the effects of monopoly on employment, distributive justice, and "the buying power of the nation as a whole."¹¹²

In the same year, Roosevelt appointed Thurman Arnold, a Yale law professor, to head the Antitrust Division of the Justice Department. Arnold seemed to some an unlikely choice for the post, since he had written with some sarcasm of the antitrust movement. In *The Folklore of Capitalism*, a book published in the year before his appointment, Arnold described the antitrust laws as empty rituals, "great moral gestures" that absorbed the energy of reformers but did little to slow the trend toward bigness. He ridiculed the notion that it was possible to reverse the age of organization and return to a decentralized economy of small units: "Men like Senator Borah founded political careers on the continuance of such crusades, which were entirely futile but enormously picturesque." Meanwhile, "by virtue of the very crusade against them, the great corporations grew bigger and bigger, and more and more respectable." Despite his

provocative writings, Arnold was confirmed by the Senate, although Senator Borah advised him at his nomination hearing "to revise that chapter on trusts."¹¹³

Notwithstanding Arnold's disdain for crusades against bigness, his tenure proved to be the most vigorous period of antitrust enforcement in the nation's history. Under Theodore Roosevelt, the celebrated "trust-buster," the Antitrust Division of the Justice Department had "sallied out against the combined might of the great corporations with a staff of five lawyers and four stenographers." Largely dormant through the 1920s and early 1930s, the Antitrust Division was a mere "corporal's guard" when Arnold took office. During his first year he increased the number of lawyers from 58 to more than 100 and substantially increased the number of antitrust cases. From the adoption of the Sherman Act to 1938, the government filed an average of nine antitrust prosecutions per year; in 1940 alone, Arnold filed eighty-five. Among his cases were highly publicized actions against the dairy industry, the building and construction industry, the motion picture industry, the American Medical Association, tire manufacturers, and the fertilizer, petroleum, newsprint, billboard, typewriter, and transportation industries. By the time he left the Justice Department in 1943, Arnold "had filed (and won) more antitrust cases than the Justice Department had initiated in its entire previous history."¹¹⁴

On the surface, Arnold's unprecedented success in antitrust enforcement might seem strangely at odds with his well-known antipathy toward the movement to curb "the curse of bigness." Upon closer inspection, however, the apparent inconsistency dissolves. For Arnold's great revival of antitrust law was a revival with a difference. Unlike antimonopolists in the tradition of Brandeis, Arnold sought not to decentralize the economy for the sake of self-government but to regulate the economy for the sake of lower consumer prices. For Arnold, the purpose of antitrust law was to promote economic efficiency, not to combat the concentration of power as such. Arnold's revival of antitrust thus marked a shift in the aim of antitrust and in the political theory underlying it. For Brandeis, antitrust was an expression of the political economy of citizenship, concerned with preserving an economy of small, independent producers. For Arnold, antitrust had nothing to do with the producer ethic of the republican tradition; its purpose was to serve the welfare of consumers.¹¹⁵

Arnold was explicit about this shift of purpose. In the past, he wrote, most assumed that the antitrust laws were "designed to eliminate *the evil of bigness*. What ought to be emphasized is not the evils of size but the evils of industries which are not efficient or do not pass efficiency on to consumers. If the antitrust laws are simply an expression of a religion which condemns largeness as economic sin they will be regarded as an anachronism in a machine age. If, however, they are directed at making distribution more efficient, they will begin to make sense."¹¹⁶

For forty years, Arnold observed, Americans had debated whether big organizations were good things or bad things. But "[t]hat debate is like arguing whether tall buildings are better than low ones, or big pieces of coal better than small ones." Such questions had no meaning except in relation to some purpose, and according to Arnold, the only purpose of economic organization was the efficient production and distribution of goods. The republican tradition had attributed to economics a broader moral and political purpose, and the early advocates of antitrust, true to this tradition, had assessed economic arrangements for their tendency to form citizens capable of self-government. Arnold dismissed this "old religion" as a sentimental notion out of place in an age of mass production. He was the first major antitrust advocate to reject altogether the civic argument for antitrust and to insist exclusively on the consumerist one: "there is only one sensible test which we can apply to the privilege of [large] organization, and that is this: Does it increase the efficiency of production or distribution and pass the savings on to consumers?"¹¹⁷

Once considerations of citizenship were left behind, concentrated power was no longer objectionable as such, apart from its effect on consumer welfare. "[C]onsumers never can be convinced that size in itself is an evil. They know that the automobile they ride in could not be produced except by a large organization. They remember the time when glasses and dishes and hammers and all the things that are now sold at the ten-cent store at low prices were luxuries. They know that this efficiency in distribution could not have been accomplished without mass production and mass distribution. Consumers are unwilling to lose the advantages of a machine age because of sentimental attachment to the ideal of little business." Americans should be enlisted to support antitrust enforcement, Arnold insisted, not out of hatred of big business but out

of interest in "the price of pork chops, bread, spectacles, drugs, and plumbing."¹¹⁸

Arnold revived and transformed antitrust at the very time the anti-chain store movement, its onetime political and ideological companion, was fading into oblivion. In Arnold's hands, antitrust won its place as an established legal and political institution by renouncing the small-producer ethic that had called it forth and promising instead to reduce "the price of pork chops." But beyond securing the place of antitrust in American politics and law, the shift from the civic to the consumerist ethic contained a larger significance. Though not apparent at the time, it intimated a broader change in the way Americans would think about economics and politics through the rest of the century.

Unlike republican political economy, which seeks to form in citizens the habits and dispositions that equip them for self-government, a political economy premised on consumer welfare takes people's preferences as they come; it abandons the formative ambition of the republican tradition and seeks economic arrangements that enable people to satisfy their preferences as fully and fairly as possible. Arnold's antitrust took up this new stance. Concerned as it was with the welfare of consumers, it shed the old formative ambition and attended instead to productivity and prices. In the passage from Brandeis' vision of antitrust to Arnold's can be glimpsed America's passage from the political economy of citizenship to a political economy of growth and distributive justice, from a republican public philosophy to the version of liberalism that informs the procedural republic.

Notwithstanding the growing prominence of consumer-based arguments for antitrust, the civic argument did not die out all at once or altogether. The political economy of citizenship would continue to find voice in antitrust debates, but after the 1940s and 1950s it increasingly became a minor voice, a residual expression. In a 1945 case declaring illegal Alcoa's monopoly in the aluminum industry, Judge Learned Hand recalled the formative aims of the early antitrust laws: "It is possible, because of its indirect social or moral effect, to prefer a system of small producers, each dependent for his success upon his own skill and character, to one in which the great mass of those engaged must accept the direction of a few." Hand observed that, beyond the economic reasons for

forbidding monopoly, "there are others, based upon the belief that great industrial consolidations are inherently undesirable, regardless of their economic results." Among the purposes of the Sherman Act, he wrote, "was a desire to put an end to great aggregations of capital because of the helplessness of the individual before them."¹¹⁹

In 1950 Senator Estes Kefauver, sponsor of a law to tighten restrictions on mergers and acquisitions, argued that economic concentration disempowered citizens by depriving them of control over their economic and political destiny. "Local economic independence cannot be preserved in the face of consolidations such as we have had during the past few years. The control of American business is steadily being transferred, I am sorry to have to say, from local communities to a few large cities in which central managers decide the policies and the fate of the far-flung enterprises they control. Millions of people depend helplessly on their judgment. Through monopolistic mergers the people are losing power to direct their own economic welfare. When they lose the power to direct their economic welfare they also lose the means to direct their political future."¹²⁰

Two years later, when the Senate debated legislation to protect resale price maintenance, or "fair trade laws," from judicial invalidation, Senator Hubert Humphrey offered one of the last sustained statements of the civic argument for a decentralized economy. Humphrey began by denying that such laws led to higher consumer prices. But even if they did, he argued, they would be justified for the sake of preserving the small, independent producers on whom American democracy depended: "We are not necessarily talking about whether some penny-pinching person is going to be able to save half a cent on a loaf of bread. We are talking about the kind of America we want. Do we want an America where, on the highways and byways, all we have is catalog houses? Do we want an America where the economic market place is filled with a few Frankensteins and giants? Or do we want an America where there are thousands upon thousands of small entrepreneurs, independent businessmen, and landholders who can stand on their own feet and talk back to their Government or to anyone else." The family-size farm, like the family pharmacy and hardware store, was important to preserve, not because it was more economical than the large corporation, but because it "pro-

duces good citizens, and good citizens are the only hope of freedom and democracy. So we pay a price for it. I am willing to pay that price."¹²¹

For a time, the civic strand of argument found continued expression in the courts. In 1962 the Supreme Court cited *Kefauver's* argument on behalf of small business and local control of industry in preventing the merger of two shoe companies. Chief Justice Earl Warren, writing for the Court, conceded that antitrust law protects "competition, not competitors." "But we cannot fail to recognize Congress' desire to promote competition through the protection of viable, small, locally owned businesses," he added. "Congress appreciated that occasional higher costs and prices might result from the maintenance of fragmented industries and markets. It resolved these competing considerations in favor of decentralization."¹²²

A few years later the Court blocked the merger of two Los Angeles grocery chains on similar grounds, despite the fact that their combined market share was only 7.5 percent.¹²³ And in a 1973 case challenging an acquisition in the brewing industry, Justice William O. Douglas invoked Brandeis' civic argument against concentrated power: "Control of American business is being transferred from local communities to distant cities where men on the 54th floor with only balance sheets and profit and loss statements before them decide the fate of communities with which they have little or no relationship." Douglas offered as an example the case of Goldendale, a once-thriving community in his home state of Washington. "Soon after an out-of-state giant bought a locally owned sawmill, 'auditors in faraway New York City, who never knew the glories of Goldendale, decided to close the local mill and truck all the logs to Yakima. Goldendale became greatly crippled.'" Douglas cited the fate of Goldendale as "Exhibit A to the Brandeis concern" with the disempowering effects of monopoly on local communities. "A nation of clerks is anathema to the American antitrust dream."¹²⁴

But these statements of the civic case for antitrust were increasingly the exception. By the 1970s and 1980s, the "antitrust dream" of a decentralized economy sustaining self-governing communities had given way to the more mundane mission of maximizing consumer welfare. The leading modern treatise of antitrust law, published in 1978, states that despite occasional judicial suggestions to the contrary, the courts have given

economic efficiency priority over such "populist" goals as decentralizing the economy. "Size alone is no offense." There is "little if anything in the cases that suggests the courts have in fact been willing to pursue populist goals at the expense of competition and efficiency."¹²⁵

For those who would look to antitrust as a promising vehicle for the political economy of citizenship in our time, the authors of the treatise offer a sobering suggestion to the contrary. It is now difficult to imagine a thoroughgoing reversal of the trend toward industrial concentration under way for at least a century. Under the circumstances, the "undeviating pursuit of wealth dispersion and small size at the expense of efficiency would be so unacceptably costly that it is out of the question." We are by now too enamored of the fruits of consumption, too far down the path of economic concentration to speak realistically of restoring an economy sufficiently dispersed to vindicate the civic ideals for which Brandeis spoke. As a practical matter, "antitrust policy is simply not going to sacrifice consumer welfare to the point of guaranteeing a very large number of producers in every market." Given that fact, it is doubtful that any tinkering around the edges could have sufficient effect on the structure of the economy to realize any meaningful gains to self-government. Given the distance we have traveled, any "plausibly acceptable interference" with existing market structures would be quite modest and "unlikely to increase power dispersion very much or to affect political life in any noticeable way. The arbitrary preservation of a few firms here or there cannot contribute significantly to the dispersion of power or to the protection of political democracy."¹²⁶

Some such realization may underlie the fact that by the 1970s conservatives and liberals, despite their differences, shared the premise that the main purpose of antitrust policy was to promote the welfare of consumers. Robert H. Bork, a conservative legal scholar later nominated by Ronald Reagan to the Supreme Court and defeated by the Senate, wrote in 1978 that "the only legitimate goal of American antitrust law is the maximization of consumer welfare," not the "survival or comfort of small business." Bork deemed the political purpose of antitrust espoused by Brandeis and a few misguided judges "a jumble of half-digested notions and mythologies," unfounded in the law and dubious on their merits. "There is no persuasive evidence that a middle-level corporate

executive is socially or politically a less desirable creature than he would be if he ran his own business." According to Bork, concern with local control and the protection of small business is an "ancient and disreputable" theory of antitrust whose enforcement would exact high costs in economic efficiency and consumer welfare.¹²⁷

But the focus on consumerist arguments was not restricted to conservatives such as Bork. It was also found among liberal reformers such as Ralph Nader, who favored a more activist antitrust policy. Although Nader and his followers did not disparage, as did Bork, the civic tradition of antitrust, they too rested their arguments on considerations of consumer welfare. A progressive in the pro-consumer tradition of Weyl and Arnold, Nader's concern was with "citizen-consumers," not citizen-producers. According to Nader, the "modern relevance" of traditional antitrust wisdom lay in its consequences for "the prices people pay for their bread, gasoline, auto parts, prescription drugs, and houses." Mark Green, another consumer advocate, wrote that, properly focused on "pocket-book losses by consumers," the antitrust issue "becomes radically modern: Can a competitive marketplace give consumers their money's worth?" Although some may emphasize the social and political costs of corporate bigness, "the primary assumptions of antitrust enforcement" should be "efficient production and distribution—not the local farmer, local druggist, or local grocer."¹²⁸

The widespread assumption that antitrust policy should promote consumer welfare did not of course mean the end of political controversy over antitrust. Most antitrust debate in the 1980s reflected competing conceptions of consumer welfare. For conservatives, consumer welfare and economic efficiency were one and the same; promoting consumer welfare meant maximizing total economic output, regardless of whether efficiency gains "trickled down" in the form of lower consumer prices or simply led to higher corporate profits. As Bork wrote, "consumer welfare . . . is merely another term for the wealth of the nation. Antitrust thus has a built-in preference for material prosperity, but it has nothing to say about the ways prosperity is distributed or used."¹²⁹

Liberals, on the other hand, were concerned not only with total output but also with distributive effects and issues of fairness; for them, promoting consumer welfare meant lowering consumer prices and improving

product quality and safety. These different conceptions of consumer welfare led conservatives to favor less government intervention in the market, liberals more.

The Reagan administration, in line with the conservative view, sharply reduced antitrust enforcement of mergers and takeovers. William Baxter, the first head of the Reagan administration's Antitrust Division, declared: "The only goal of antitrust is economic efficiency." His successor, Charles Rule, stated that antitrust law should not insist that efficiency gains be passed on to consumers, since "it is not necessarily clear whether the consumer or the producer is more worthy of the surplus." Increased corporate profits may, after all, benefit "the proverbial widows and orphans" who are shareholders of the company. But Rule acknowledged that in the conservative conception of consumer welfare, distributive effects were of no concern anyway; it made no difference whether efficiency gains went to widows and orphans or to Wall Street tycoons: "The consumer welfare standard of the antitrust laws . . . looks to the total size of the economic pie . . . not merely to the size of the individual pieces."¹³⁰

Liberals, including consumer advocates and some Democrats in Congress, replied that antitrust law should be concerned not only with maximizing total wealth but with preventing unfair transfers of wealth from consumers to firms with market power. They were concerned not only with the size of the economic pie but also with the way the pieces were distributed.¹³¹ In some cases monopolies, by limiting output and raising prices, produce inefficiencies that actually reduce total output. In other cases they produce efficiency gains that boost corporate profits without lowering consumer prices. This leads to "large aggregate economic growth without commensurate growth in consumer value."¹³² Liberals emphasized this "transfer cost" of monopoly: "When consumers pay excessive prices, income from the consuming public is redistributed to the shareholders of particular corporations." The conservatives' claim that widows and orphans and other ordinary Americans may be among the beneficiaries of higher corporate profits ignores the fact that the vast majority of corporate stock is actually owned by a tiny fraction of the wealthiest Americans.¹³³

These competing views of consumer welfare led in the 1980s to a debate over retail price-fixing that illustrated how radically the terms of

antitrust debate had changed. The issue of retail price-fixing, or resale price maintenance, goes back a long way. When the Supreme Court ruled in 1911 that Dr. Miles Company could not fix the price at which retailers sold its popular elixir, Brandeis protested that without price maintenance, the chains would drive small druggists out of business. In 1937 Congress finally agreed and enacted the Miller-Tydings Fair Trade Act, which exempted resale price maintenance from antitrust law. In 1952, led by Hubert Humphrey, Congress strengthened the fair trade act. In 1975 Congress, in a bipartisan flush of pro-consumer sentiment, repealed it.¹³⁴

In the 1980s the question of retail price-fixing arose again, in slightly different form. At issue was the ability of powerful retailers, such as department stores, to fix prices by pressuring manufacturers to refuse brand-name merchandise to discounters who undercut their prices. The 1911 *Dr. Miles* decision had made price-fixing illegal, but the Reagan Justice Department refused to enforce it, arguing that businesses should, for the sake of efficiency, be free to use their market power to negotiate prices as they please. Democrats in Congress, led by Senator Howard Metzenbaum of Ohio and Representative Jack Brooks of Texas, disagreed. They wanted the government to crack down on vertical price fixing, thus lowering prices to consumers. If the economy was to revive quickly, said Brooks, "it will be because people won't have to pay the Bloomingdale's price for a product."¹³⁵ For Progressives of old, the chains had been the villains, cut-throat competitors whose discounts would destroy the small, independent druggists and grocers and small businessmen on whom democracy depended. For modern liberals, the discounters had become the heroes, whose low prices enabled consumers to avoid paying the Bloomingdale's price.

Had the protagonists paused to reflect on the origins of the policies they defended, they might have been puzzled by the company they were keeping. The shifting terms of political discourse over the course of the century had made for strange ideological bedfellows. In the name of economic efficiency and deference to the market, the Reagan conservatives defended a policy once championed by Brandeis and Hubert Humphrey, progressive advocates of small producers and the civic case for antitrust. In the name of lower consumer prices, liberals and consumer

groups defended the discounting chain stores once despised by progressives as destructive of a decentralized economy of independent producers. That the paradox was scarcely noticed may be a measure of the passing of the public philosophy that gave antitrust its first occasion.

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HEADLINE: Toni Morrison's Feminist Portrayal Of Racism

BYLINE: Ron Charles, Special to The Christian Science Monitor

DATELINE: BOSTON

BODY:
PARADISE

By Toni Morrison

Alfred A. Knopf

318 pp., \$ 25

Reading a novel by Toni Morrison is an act of faith. She demands much from her language and her readers, but when that faith is rewarded, the effect is stunning.

In "Paradise," her first novel since winning the Nobel Prize in Literature in 1993, she has produced a story sure to generate volumes of feminist appraisal. This novel doesn't reach the emotional spikes of her best early work, but in a way it is more articulate than her rich, exhausting "Beloved" (1987). Oprah Winfrey has already tapped it as the next selection for her TV book club.

Reminiscent of Zora Neale Hurston's "Their Eyes Were Watching God" (1937), "Paradise" examines the residual effects of racism on the relationships among blacks, rather than between blacks and whites. The book bursts open with the first shot of a grisly assault on a women's commune by the leading citizens of the isolated town of Ruby, Okla.

Between that attack, set in 1976, and the book's conclusion just a few weeks later, Morrison stirs the long history of this mythical all-black community like a witch's brew. Racism serves as the fluid in which all the events take place, warping values and stirring the paranoia that eventually encourages conflicted men to murder the women they believe responsible for their town's decay.

In a series of swirling chapters, each named for a different woman, the author conflates the beautiful and the horrible, the past and the present. Forged in the fires of white racism and black rejection, the founders of Ruby constructed a paradise of stability and safety entirely detached from the rest of the world in 1949.

They built their homes and lives around a giant stone oven "that both nourished them and monumentalized what they had done." Inevitably the oven cools and this monument of their grandfathers' accomplishment grows irrelevant.

Some citizens find the possibility of change exciting, but the town leaders have identities and fortunes riding on the status quo. For them, Ruby is in a state of moral and physical decay, which only a radical rededication to its founding discipline can cure.

Tragically the drive to rid themselves of impurity slowly demonizes the odd group of women living outside the town in an abandoned convent.

Much of the novel tells the sad, sometimes shocking ordeals these young women endured in a misogynist world before finally stumbling upon this room of their own.

If Alice Walker's "The Color Purple" (1982) romanticized the harmonious culture of women in opposition to the contentious world of men, "Paradise" emphasizes that theme in bold italics. But Morrison is less intent on condemning the brutal, self-centered men in her novel than examining the way a history of instability has made these men fear the creative, unorthodox power of women.

At the center of the abandoned convent is the matriarchal Connie, whose doctrine of universal acceptance and unqualified compassion provides solace to women. With a strange mixture of mysticism, witchcraft, and Christianity, Connie serves as a radical alternative to the town fathers' confirmed xenophobia.

The number of characters spun through the desperate history of Ruby poses significant practical and emotional challenges for the reader. The entwined genealogy of the nine founding patriarchs produces a family tree as daunting as a street map of Los Angeles. Though it's sometimes difficult to feel attached to the individuals in this swirl of names, the effect is bewildering, bewitching, and stunning.

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GRAPHIC: PHOTO: TONI MORRISON: The Nobel Prize-winner continues to explore racism's legacy for black men and women. BY KATE KUNZ

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January 11, 1998, Sunday, Late Edition - Final

SECTION: Section 7; Page 6; Column 1; Book Review Desk

LENGTH: 2018 words

HEADLINE: The Promised Land

BYLINE: By Brooke Allen; Brooke Allen is a writer and critic who reviews frequently for The New Criterion and The Wall Street Journal.

BODY:

Paradise

By Toni Morrison.

321 pp. New York: Alfred A. Knopf. \$25.

"How exquisitely human was the wish for permanent happiness," a character reflects in Toni Morrison's complex and impressive new novel, "Paradise," "and how thin human imagination became trying to achieve it." The history of human civilization is fraught with efforts, inevitably vain, to establish utopias of one sort or another, and the tales of their undoings always tell us a great deal about human nature. Morrison's imaginary utopia -- the all-black town of Ruby, Okla., population 360 -- proves no more impervious to the outside world than any other. The story of its birth and its eventual crisis is richly revelatory not only of human nature but of the troubled history of black America from Reconstruction through the civil rights movement.

At the end of the 19th century, 158 freedmen made the journey westward from Mississippi and Louisiana. "Smart, strong and eager to work their own land, they believed they were more than prepared -- they were destined." Yet inexplicably they were turned away from each new Negro town being built and developed. The truth -- that their skins were too black, that they were subject to discrimination even by other former slaves -- was unacceptable to them, but over the generations this realization would slowly poison the air of the Oklahoma refuge they would found: first the town of Haven, then, when the world caught up with Haven and began to infringe upon it, the more remote community of Ruby.

Well into the 1970's Ruby is still -- at least on the surface -- the town it was when it was settled, still functioning smoothly along its founding principles of self-sufficiency, pride and mutual support. In many ways it does indeed seem to be paradise. There is a firm common standard of propriety. Ruby has no crime; bad behavior among the young is firmly dealt with by the community itself, and there is no need for any sort of police. A tired housewife can take a solitary midnight stroll without a second thought. No one goes hungry: if a family's crop is ruined, or its barn burned, the neighbors make up the loss with unthinking generosity. To Ruby's modern inhabitants, as to its Old Fathers, "Here freedom was not entertainment, like a carnival or a hoedown that you can count on once a year. Nor was it the table droppings from the entitled. Here freedom was a test administered by the natural world that a man had to take for himself every day. And if he passed enough tests long enough, he was king."

The New York Times, January 11, 1998

The price that must be paid for such a paradise is that of utter isolation. Strangers, by common accord, are not welcome in Ruby. There is "nothing to serve a traveler: no diner, no police, no gas station, no public phone, no movie house, no hospital." Like Sleeping Beauty's castle, with its king, queen, princess, cooks, courtiers, grooms, even horses sleeping heavily behind its impenetrable wall of briers, Ruby and its inhabitants exist in a state of enchanted but doomed perfection.

Even death passes it by, for no one in Ruby has died since sweet, modest Ruby Morgan (for whom the town was named) fell ill on the journey from Haven to the new community, immediately after World War II. No local hospital would accept a black person in the wards; only one nurse tried to contact a doctor for her, and that doctor turned out to be a veterinarian. When Ruby died, her heartbroken brothers, the twins Deacon and Steward, made a pact with God that He, and the world, should leave the town of Ruby alone. "A prayer in the form of a deal, no less, with God, no less, which He seemed to honor until 1969."

By that time the town's philosophy of self-help and aloofness has begun to show signs of wear. The 60's have penetrated even into the hinterland, even to Ruby. The young people have started to challenge the anachronistic worldview of their elders, in whose opinion "Booker T. solutions trumped Du Bois problems every time." A black fist is rudely painted on the Oven, the symbol of the community treasured since the days of the Old Fathers. The older people cannot understand: "There were no whites (moral or malevolent) around to agitate or incense them, make them ugly-up the Oven and defy the adults."

Richard Misner, a young and forward-looking minister who takes on one of Ruby's two parishes, tries to reason with the older inhabitants, who refuse to see, for instance, why they should look upon Africa as anything but a foreign country -- and a backward one at that. "Slavery is our past," Misner is assured. "Nothing can change that, certainly not Africa." His reply -- "We live in the world. . . . The whole world. . . . Isolation kills generations. It has no future" -- is ignored.

Deacon and Steward Morgan, now in their 50's, are still the town's first family, its double conscience and identity. Like many of the principal characters in Morrison's fiction -- Sula, for instance, or Beloved, in the novels of those names -- the twins are remarkable not for their verisimilitude but for the symbolic weight with which they are invested. Deacon and Steward are identical, superficially indistinguishable, but subtly different. Steward represents what has happened to Ruby's utopian inspiration; his wife, Dovey, has begun to think of him almost always in terms of what he has lost:

"The more Steward acquired, the more visible his losses. The sale of his herd at 1958's top dollar accompanied his defeat in the statewide election for church Secretary because of his outspoken contempt for the schoolchildren sitting in that drugstore in Oklahoma City. He had even written a hateful letter to the women who organized the students. His position had not surprised her, since 10 years ago he'd called Thurgood Marshall a 'stir-up Negro' for handling the N.A.A.C.P.'s segregation suit in Norman. In 1962 the natural gas drilled to 10,000 feet on the ranch filled his pockets but shrunk their land to a toy ranch, and he lost the trees that had made it so beautiful to behold."

And Steward, like Deacon, is childless. But if Steward symbolizes what Ruby has become, Deacon -- marginally less arrogant, less assured that the

The New York Times, January 11, 1998

population of Ruby constitutes a chosen people with a cause that is inevitably righteous -- is a symbol of the regeneration that is unlikely but not quite impossible for this well-meaning but lost community.

In the scrubland a few miles outside of Ruby, there is another community, one that epitomizes everything Ruby most distrusts and fears. A broken-down convent, once a school for the purpose of Christianizing and domesticating Arapaho Indian girls, is now home to a motley group of women -- drifters who have come together almost by chance. There is Consolata, an older woman brought up by the nuns and the sole survivor of their regime. There is Mavis, a frightened and confused young woman who accidentally smothered her twin babies by leaving them in an overheated automobile, and who has fled from her husband and older children, whom she fears. There is Gigi, traumatized after witnessing a child's death in the Oakland riots; Seneca, deserted at the age of 5 by her teen-age mother; and Pallas, a supposedly privileged white girl whose self-indulgent parents have failed her miserably.

They are an unprepossessing bunch, what the world would label as losers. But they are benign; indeed, over the years they have a history of giving sustenance and aid to those whom the grimly righteous ethos of Ruby has failed: a pregnant teen-ager, a mother gone mad from tending her incurably ill children, an unhappy girl designated as the town slut. Nevertheless, the women of the Convent represent something fearsome to Ruby's town fathers: disorder, deception and drift, "the three d's that paved the road to perdition, and the greatest of these was drift." Perhaps worse yet, they were women who had turned away from men -- "not women locked safely away from men; but worse, women who chose themselves for company, which is to say not a convent but a coven."

As the town of Ruby, fatally cut off from the larger world that might give it meaning, begins to rot from within, it seizes upon the Convent as the center and the cause of all evil in the community. A violent confrontation between the men of Ruby and the women of the Convent is inevitable, but when it occurs, the results are unexpected, both tragic and oddly regenerative.

"Paradise" is Toni Morrison's first novel since she was awarded the Nobel Prize in Literature in 1993, and it is possibly her best work of fiction to date. Morrison is an extraordinary novelist, but not all of her efforts have been successful; in fact, it could be argued that what makes her extraordinary is her ambition, her eagerness to strive for spectacular effects she is not always capable of achieving.

Morrison is a symbolist in the tradition of Eugene O'Neill and Ralph Ellison, and in "Paradise," as in all of her fiction, character and incident are subordinated to, and in the service of, the novel's central symbols. Deacon and Steward are not so much characters in their own right as representatives of the two complementary yet opposing faces of Ruby; Richard Misner is little more than a mouthpiece for the views espoused by young liberals in the 60's; Consolata, the mother figure at the Convent, is an almost pure consciousness, the embodiment of an abstract longing for home.

Morrison used this symbolist technique to perfection in "Song of Solomon" (1977). In "Beloved" (1987), she carried it beyond its usefulness; its characters -- Sethe, Denver, Paul D, Baby Suggs -- were so obviously constructed to fulfill their allotted symbolic roles that they lost any human reality, and the story's emotional force was blunted. In "Paradise," however, the symbolic

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construction works well, partly because Morrison has skillfully mixed symbolic characters like the Morgan brothers and Consolata with real and often heartbreaking ones. Mavis and Seneca, for example, are living and breathing women, sloppy, inadequate and tragic.

The power of these imagined women to move us and to impress themselves on our memory points to a curious fact: Morrison, for all the complex technical work and linguistic innovations with which she fills her novels, is at her most emotionally forceful when she writes the most simply. It is impossible not to admire the skill and panache with which she wrote "Jazz" (1992), her last novel before "Paradise": her aim was obviously to produce a prose poem, an evocation of the aura and lilt of the jazz music that filled the air of Harlem in the 1920's. She succeeded magnificently, but as fiction "Jazz" fails to move, in spite of the tragic events it narrates; it lacks the essential honesty that Morrison demonstrated so memorably, so straightforwardly, in her first novel, "The Bluest Eye" (1970).

Morrison has always sought to fill her fiction with poetry. In "The Bluest Eye," "Song of Solomon" and "Tar Baby" (1981), the poetry enriched the work and made it complete; in the later novels like "Beloved" and "Jazz," the incantatory stylistics became more forced and self-conscious, ultimately stealing focus from the characters, who fought in vain to hold center stage. Fiction, after all, is not poetry; the author has created characters and has an obligation to maintain their integrity and reality.

With "Paradise," Morrison has brought it all together: the poetry, the emotion, the broad symbolic plan. Not that the novel is free of awkward elements. The male-female dichotomy, for example, with the male represented as rigid and legalistic, the female as mysterious and "other," irrationally threatening to the male, is a contemporary cliché, and Morrison plays it too heavily. And "Paradise," like Morrison's other fiction, is not an easy read -- dense, repetitive and obscure, it requires close scrutiny and concentration. But the novel richly rewards the reader's efforts. It is an ambitious, troubling and complicated piece of work, proof that Toni Morrison continues to change and mature in surprising new directions.

GRAPHIC: Drawing

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HEADLINE: U.S. Role in Global Economy

BYLINE: Kathleen Schalch, Washington, DC; Bob Edwards, Washington

HIGHLIGHT: NPR's Kathleen Schalch reports on the likely U.S. role in the new global economy. Trade representatives are calling for the U.S. to lead the way. They say President Clinton needs fast track authority to win the best offers from our trading partners. But some critics say the economic crisis in Asia will lead to an immense trade deficit with the U.S. -- possibly reaching a record \$300 billion. Anxiety over trade issues has united an unlikely coalition of environmentalists, Christian conservatives, labor activists and some lawmakers on Capitol Hill. They advocate a more protectionist stance.

BODY:

BOB EDWARDS, HOST: This is MORNING EDITION. I'm Bob Edwards.

When it returns to work this month, Congress will confront new questions about the costs and benefits of the emerging global economy. The huge volume of goods and money moving throughout the world has created unprecedented wealth, but it's also blurred national boundaries, formed new classes of winners and losers, and threatened to bankrupt entire countries.

The Clinton administration wants the U.S. to forge ahead by toppling trade barriers and seizing new opportunities. But Congress may not cooperate. Instead, many analysts foresee a growing wave of protectionism.

NPR's Kathleen Schalch reports.

KATHLEEN SCHALCH, NPR REPORTER: U.S. Trade Representative Charlene Barshefsky is adamant. She says the United States cannot afford to retreat from its leadership role in the global economy.

CHARLENE BARSHEFSKY, U.S. TRADE REPRESENTATIVE: It is critical that we maintain our leadership in defining the rules of trade, in defining the rules of commerce, and in helping to write the rules by which economies become more

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market-oriented, more commercially in tune with the way in which we like to do business.

SCHALCH: Barshefsky says the U.S. is facing crucial trade negotiations in the coming months on issues ranging from intellectual property to agriculture, and needs fast track authority to get the best deals possible. Without it, she says, our trading partners won't put their best offers on the table since they won't know what they'll get in return.

Most economists, including Jeffrey Garten (ph), dean of the Yale School of Management, argue that new trade agreements will benefit the U.S.

JEFFREY GARTEN, DEAN, YALE SCHOOL OF MANAGEMENT: Generally speaking, our economy is much more open than other economies. So, we're in the process of really leveling the playing field.

SCHALCH: Historically, such arguments have won over lawmakers as well. But during last year's fast track debate, skeptics in Congress outnumbered believers.

And since then, there have been more setbacks. In December, for the first time, the World Trade Organization ruled against the U.S. It was a landmark case which pitted Kodak against its Japanese rival

Fuji. Even Ambassador Barshefsky expressed dismay. She says the WTO ignored the way Japan's distribution system discriminates against imports.

BARSHEFSKY: This is widely recognized, widely acknowledged, and indeed, even Japan admits as much.

SCHALCH: The WTO decision could heighten trade tensions between the U.S. and Japan, and undercut the administration's argument that the international trading system is essentially free and fair.

Another looming problem is the financial crisis in Asia. Ironically, the reforms the IMF is demanding will wrench some of that region's economies open in ways U.S. trade negotiators could only dream of.

At the same time, the U.S. trade deficit with Asia is likely to explode. Exports from the region were already competitive. Now, plummeting currencies could make them up to 70 percent cheaper. And with demand shrinking at home, these nations will have to export.

Marcus Nolan (ph) of the Institute for International Economics predicts that the U.S. global trade deficit could reach a record \$300 billion and that Congress isn't going to like it.

MARCUS NOLAN, INSTITUTE FOR INTERNATIONAL ECONOMICS: When the U.S. trade deficit goes up, the U.S. gets into trade disputes with foreign countries, regardless of whether these disputes have anything to do with the trade deficit or not. It's just a political lightning rod.

And I am afraid, as the trade deficit reaches new historical heights, that there will be a temptation in the Congress and in the administration to resort to protectionism in the United States. This, if it spread to other countries,

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could be very, very bad for the world's economy, given the fragility of world financial markets at this time.

SCHALCH: According to Eric Peterson (ph) of the Center for Strategic and International Studies, arguments against protectionism could fall on deaf ears in Congress. Peterson says Democrats are increasingly beholden to organized labor, which opposes free trade, and Republicans have splintered over the issue.

ERIC PETERSON, CENTER FOR STRATEGIC AND INTERNATIONAL STUDIES: American trade is now in a squeeze play. There have been a number of centrist Democrats and Republicans over the years who have been the core of a cohesive trade agenda that the United States has championed. But unfortunately, that core is now diminishing. There are fewer and fewer Democrats and Republicans in the center now who seem willing to champion freeing of international trade.

SCHALCH: Edward Graham (ph) of the Institute for International Economics offers a harsher assessment.

EDWARD GRAHAM, INSTITUTE FOR INTERNATIONAL ECONOMICS: A substantial percentage of the Congress -- and I would say that this

includes the vast majority of those who were elected in 1994 -- are simply very ignorant on this issue and they're somewhat inclined to react under the pressures of the moment. I would say, in fact, even further that not only are a lot of these members quite ignorant of international trade issues, but some of them seem to be downright proud of it.

SCHALCH: But many members of Congress say the problem is not ignorance, it's that they've looked into the matter and don't like what they see.

Massachusetts Democrat Barney Frank says liberals like himself are tired of the government acting like its sole purpose is to make sure goods and capital flow freely across international boundaries.

U.S. REPRESENTATIVE BARNEY FRANK (D-MA): The ability of capital to move undercuts the ability of unions and government to provide fairness. We are told, "cut back on your unemployment compensation rules, reduce your taxes, take a wage cut, take a cut in your health care benefits, or else we will move."

SCHALCH: Frank says open markets and the free movement of capital have triggered a race to the bottom. House Minority Leader Dick Gephardt has warned that as globalization has knit the world's economies together, it has pulled Americans apart. Tennessee Republican Zach Wamp voices the same concerns.

U.S. REPRESENTATIVES ZACH WAMP (R-TN): I think we've gotta be very careful as a country that we do not lose our own soul because of our desire to make money.

SCHALCH: Wamp says U.S. commercial interests should not undermine American values.

WAMP: Other countries do not have our values, they do not have our culture. We should be careful in working out agreements with them. If they have no regard for human rights, or very little regard for human rights, as our friends in China do today -- and it's proven. Out in the countryside, they have sweatshops for teenage girls that would make any decent human being sick.

SCHALCH: Wamp and other lawmakers say their qualms are shared by the American people. Indeed, anxieties over trade have brought together an unlikely coalition of environmentalists, Christian fundamentalists, human rights and labor activists.

Steve Frank (ph) heads a national organization of conservative Republicans.

STEVE FRANK, HEAD OF A NATIONAL ORGANIZATION OF CONSERVATIVE REPUBLICANS: The policies that are being made on trade are being made by faceless bureaucrats in other countries, and we don't have the right to question 'em. As citizens and voters, we don't have the right to elect and unelect them.

And the grassroots, as I travel throughout the country, recognize that trade policy is an area that we have not taken a great interest

in over the years. Now we must. And we recognize the impact on families and jobs and communities in the United States. And it's time that we speak out.

SCHALCH: Eric Peterson of CSIS says the trade debate has moved inexorably from Wall Street to Main Street. Closed plants make headlines, he says, while the benefits of trade, such as cheap imports and good export jobs, don't. Peterson worries that the old internationalist consensus will crumble just as it's begun to pay off.

PETERSON: Over the last 10 years, one-half of humanity has projected itself into the global market economy. And this is exactly what we have wanted for over half this century, what the U.S. has championed. And now, precisely at the time when all these societies are working to liberalize their economies, to instill free market practices, the champion of free trade, the United States, runs the risk of retreating from its historical commitment. That, I believe, is serious business.

SCHALCH: But Peterson says heading off protectionism won't be easy, and he expects trade to be the hot button issue in the next elections.

Kathleen Schalch, NPR News, Washington.

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LOAD-DATE: January 12, 1998

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By JOHN NOBLE WILFORD

WASHINGTON, Jan. 8 — Examining the distant light from stars that exploded before the Sun was born, astronomers have determined that the universe has apparently been expanding at a slow, steady rate since the beginning and is destined to expand forever.

The findings, if supported by further observations, suggest the answer to the fundamental question about the fate of the universe: Will it go on expanding, as it has since its creation in a theorized Big Bang? Or will the gravity of its mass eventually bring the universe to a halt, or possibly cause its collapse in a Big Crunch?

The new research also means that the universe could be as much as 15 billion years old, thus resolving a paradox posed by earlier findings that suggested an age for the universe that was younger than many of its constituent stars. But some theories about the early universe may have to be reconsidered.

In a remarkable display of agreement for the contentious field of cosmology, two teams of astronomers today reported observations of a certain class of exploding stars, or supernovas, showing that galaxies and other objects about halfway back in cosmic time were receding at velocities comparable to those of objects in more recent epochs. The results were announced at a meeting here of the American Astronomical Society.

"All the indications from our observations of supernovas spanning a large range of distances are that we live in a universe that will expand forever," said the leader of one team, Dr. Saul Perlmutter of Lawrence Berkeley National Laboratory in California. "Apparently there isn't enough mass in the universe for its gravity to slow the expansion, which started with the Big Bang, to a halt."

Dr. Peter Garnavich of the Harvard-Smithsonian Center for Astrophysics in Cambridge, Mass., a leader of the other team, said the low deceleration of the expansion rate means that the universe is much older, about 15 billion years old, than had been calculated by some astronomers, whose estimates had ranged as low as 8 billion years. If the universe was not expanding at a faster rate earlier, then it has taken longer for it to reach its present size.

When the astronomers speak of matter in their calculations, they include everything — ordinary matter that is seen or has not yet been

The New York Times

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detected, as well as the dark matter that is thought to include exotic particles, the existence of which has only been theorized. Recent research indicates that the mass of such matter is no more than 20 percent to 30 percent of what is considered the critical density needed to hold the expanding universe in check.

In an independent study of the expansion rates of 14 distant radio galaxies, Dr. Ruth A. Daly, a Princeton University astronomer, said "our results are basically almost identical" to those of the Berkeley and Harvard-Smithsonian supernova observations. "We are 95 percent confident that the universe is going to expand forever," Dr. Daly said.

Remarking on the close agreement of the different studies, Dr. Neta A. Bahcall, a Princeton astrophysicist, said this reinforced confidence that the conclusions are correct, or else everyone has overlooked some hidden flaw.

None of the astronomers at a news conference could think of any reasons for skepticism. But they cautioned that many more supernovas would need to be observed in detail before the issue could be resolved.

The findings were not entirely unexpected. For more than a year, astronomers have been reluctantly coming to the realization that the universe is lightweight; it has a low mass density. The higher the density, the greater would be the deceleration of the expanding universe. But preliminary studies of distant objects like supernovas had begun to show little, if any deceleration.

The supernovas being studied belong to a class known as Type Ia. Their intrinsic brightness can be de-

termined by how quickly each supernova fades away, making them reliable distance milestones for clocking any deceleration, compared with the expansion velocities of supernovas in more recent times.

Because the light of these supernovas fades in a month or so, astronomers must act quickly to make their measurements. They are using telescopes in Chile, the Canary Islands, Hawaii and Arizona, as well as the Hubble Space Telescope. The Hubble is called upon to study the most distant supernovas, some as far as seven billion light-years away, that are difficult to measure accurately from the ground.

The research confronts theorists with new challenges. A low-density universe does not readily conform to what is known as the inflationary model of the Big Bang theory. According to this model, in its first moments the universe underwent an extremely rapid expansion, then settled down to a more stately pace as it cooled off and gathered matter into stars and galaxies.

One prediction of the inflation model is that the universe should have a critical density. That would be just the right amount of mass to keep it from collapsing of its own weight or expanding into vanishing infinity.

If, as it now seems, the universe falls considerably short of critical density, theorists have already begun to add to their equations something called the cosmological constant. This is a kind of theoretical antigravity force — an energy in the vacuum of space that attenuates the effects of mass gravity. In the absence of sufficient mass, this force could perhaps slow down cosmic expansion to allow for a bigger, older universe.

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The legal tangle presented an extraordinary number of issues that could become the subject of appeals for years if Mr. Kaczynski is convicted, including whether the defendant or his lawyers should control his defense and whether a person who appears to fully understand the proceedings can be ruled incompetent because he does not agree with his lawyers' plan to describe him as mentally ill.

Mr. Kaczynski's ability to keep the court system off balance with accelerating requests at each court session has become the topic of widespread discussion. Partisans on all sides say the paralysis of one of the country's most important trials proves whatever point they had about the trial of the man whom prosecutors say killed 3 people and injured 28 over nearly two decades.

Judge Burrell's decision to begin evaluations of Mr. Kaczynski's competence came just as the judge was coming under criticism nationally as some lawyers suggested that Mr. Kaczynski's behavior in court inherently raised questions about his competence. The judge had repeatedly asserted that he was persuaded that Mr. Kaczynski was competent.

Lawyers specializing in the law governing mental illness, said Judge Burrell might well be correct that Mr. Kaczynski is legally competent, because the standard of legal competence is very low. Defendants who are severely mentally ill are routinely found competent as long as they understand the charges against them and can assist their lawyers or argue their own cases.

The Constitution guarantees a defendant the right to represent himself as long as he understands the risks.

Judge Burrell said at the hearing today that Mr. Kaczynski had told him as recently as Wednesday in private sessions that he did not wish to represent himself. The judge said

that led him to conclude that Mr. Kaczynski's request today came only because the judge denied his request on Wednesday to dismiss his lawyers and proceed with a new lawyer who had promised not to use any mental illness defense.

The judge said Mr. Kaczynski's continuing objections raised the question of his competency. The defense lawyers, who have until now insisted that he is competent, said his continuing objection to the mental-illness strategy raised for the first time a doubt about his competency. Although legal competence relates to a defendant's ability to understand events at the trial and to assist in his defense, his lawyers are trying to raise a different issue. They say he is so mentally ill that he should not be held responsible for his actions.

"I do not think Mr. Kaczynski can bear for us to present that defense," said Quin Denvir, one of his lawyers. "Therefore, he cannot cooperate or allow us to do that. That is why we do have that doubt."

Prosecutors, who have said they have seen no evidence that Mr. Kaczynski is not competent, shifted their position in court after Mr. Kaczynski's latest effort to challenge his lawyers. The chief prosecutor, Robert J. Cleary, said prosecutors had concluded that the "safest course" would be for the court to order a competency evaluation.

A lawyer appointed to represent Mr. Kaczynski in his conflict with his trial team, Kevin Clymo, was called to the courthouse today. After conferring briefly with Mr. Kaczynski, Mr. Clymo said Mr. Kaczynski objected to the plan to order a competency evaluation.

"His position is, he is competent," Mr. Clymo said. "He wants to go forward."

If Mr. Kaczynski is deemed competent, a series of complex new issues would be presented to Judge Burrell. Although people have a right to represent themselves if they understand the risks, the judge said today that he believed that Mr. Ka-

czynski would prefer to be represented by lawyers and that his current team was excellent.

Mr. Cleary, the chief prosecutor, said Justice Department lawyers at the highest levels in Washington had spent Wednesday night researching the legal issues involved in Judge Burrell's declaration on Wednesday that he believed that the defense lawyers, not Mr. Kaczynski, could control the question of whether they argue that he suffered from mental illness.

Lawyers following the case have said that it is not clear if the ruling is legally correct. In general, courts have said that a client controls the substance of his defense, like what plea to enter, and that lawyers control legal strategy.

Mr. Cleary said today that prosecutors feared that the judge's ruling that Mr. Kaczynski could not order his lawyers to refrain from using mental-illness assertions "creates the potential for grave appellate error in this case."

Judge Burrell conceded today that "the law is not clear on this precise question."

Mr. Cleary then suggested that the court could order the defense lawyers to follow Mr. Kaczynski's orders. The judge, seeming to back away from his previous ruling on the question, suggested he might direct the lawyers to defend Mr. Kaczynski without raising the psychiatric issues.

The defense lawyers said that, especially in a death-penalty case, they believed that their professional obligation to provide a client with the best defense dictated by the facts might not permit them to follow such an order.

Ms. Clarke said an order directing them to represent Mr. Kaczynski in a way that might be dictated by the very illness he was afraid of disclosing could put the lawyers in an untenable position. Such a ruling by Judge Burrell, she said, "would pit the lawyer against his professional oath."

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Universe Will Keep Expanding Forever, Research Teams Say

By Kathy Sawyer
Washington Post Staff Writer

The universe will continue expanding outward forever instead of snapping back in a "big crunch," according to strong new evidence unveiled yesterday by five teams of astronomers. Experts said the findings, which contradict leading theory, could solve some scientific puzzles—including a simmering debate about the age of the universe—and create others, rippling through studies of nature's smallest particles, its large-scale cosmic structure and the ongoing quest for a "theory of everything" that would unify those fields.

Several groups, including two large international teams using the Hubble Space Telescope in tandem with the world's most powerful optical telescopes, presented a rare united front in a briefing at the annual winter meeting of the American Astronomical Society, where conflicts in data are common. These researchers said their evidence had been gathered separately using three different methods and therefore should suffer from no common flaw.

"For the first time ever, we're going to actually have data, so that you will go to an experimentalist to find out what the cosmology of the universe is, not to a philosopher," said Saul Perlmutter, leader of the International Supernova Cosmology Project based at the Department of Energy's Lawrence Berkeley National Laboratory in California.

Most astronomers agree that the universe began in a "big bang" about 15 billion years ago, when all of time and space were contained in a single dense point—a singularity—which suddenly blossomed outward in an expanding fireball of particles. One of the abiding questions has been how much matter the resulting universe contains, and what will be its ultimate fate. The most popular and simple theoretical models call for exactly the "critical density" of matter required to put the brakes on, allowing the universe to coast indefinitely on the verge of collapse.

The international groups, as well as two teams from Princeton University and one from Yale University, concluded that the universe contains only 20 percent of the matter required to provide enough gravity to halt the expansion.

Because of recent advances in technology, the researchers were able to draw these conclusions from studies of exploding stars, some of them halfway across the observable universe, with unprecedented measurements of their distances. These explosions, known as supernovae, are so intrinsically bright that their light is visible even though it has traveled as much as seven or eight billion years across time and space to reach Earth.

Supernovae of a certain type are ideal candidates for use as cosmic yardsticks because their brightness can be determined by measuring the rate at which they dim after they explode. This way, astronomers can tell if they are bright objects far away, or dim objects relatively close. "It's like reading the label on a light bulb. It tells

the wattage," said Peter Garnavich of the Harvard-Smithsonian Center for Astrophysics in Cambridge, Mass., who represented the other international observing team.

The supernova light is feeble when it arrives here, its wavelengths stretched out (a phenomenon known as redshift) by the general expansion of space itself. Once the researchers determine the distance the light has traveled, and its redshift, they can calculate the rate at which the universe has expanded over its history, and also how much this rate is accelerating or slowing. Perlmutter bowled over his audience with an unexpectedly large sample of 40 supernovae: some of them collected within the last five days. Garnavich's team presented three, including the most distant individual star—albeit an exploding one—ever observed.

Other teams also used new methods. Princeton's Neta Bahcall studied the evolution of the largest structures in the universe—huge clusters of hundreds of galaxies, each with billions of stars—to reach the conclusion that this is a "lightweight universe." And Ruth Daly, working with another Princeton team, measured the redshifts of 14 galaxies with "hot spots" emitting radio waves.

The researchers said that more observations are required to eliminate the possibility that intervening dust has skewed the results, and some outside experts noted that there are unknowns associated with the supernovae that could affect the interpretations.

But if the early conclusions are borne out in subsequent observations, said Daly, the lack of significant slowing in the expansion means the universe could be as much as 15 billion years old. (Previous estimates had calculated the age of the universe based on a density five times as dense as the new evidence indicates.) This would help eliminate an apparent paradox that arose in recent years, as increasingly refined data suggested the universe is unexpectedly young—even younger than the oldest stars within it.

The findings also appear to breathe fresh life into the theory that there is a so-called cosmological constant—a kind of reverse gravity that inhabits the vacuum of space and repels, rather than attracts, the researchers said. Albert Einstein proposed the idea and then rejected it as his greatest blunder, and it has been derided as a convenient "fudge factor" used to make equations work. But some scientists said the new evidence appears to represent observational evidence that this force actually exists—and may currently be accelerating the outward expansion of everything in the cosmos.

"These observations seem to imply a real dilemma for a lot of particle physics models," said David Spergel of Princeton, a cosmologist and astrophysicist not affiliated with any of the teams. But he said the new data also "may be telling us" how to resolve some long-standing theoretical conflicts. It could even reflect "some kind of new physics happening now ... It may be that we happen to live at a special time."

The Washington Post

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Images Support Theory of New Planet

Hubble Photos Show Bulge in Star's Halo Dust—63 Light-Years From Sun

Associated Press

A bulging warp spotted in photos of a star called Beta Pictoris may be the gravitational wake of a large planet plowing through the star's dusty halo, astronomers said yesterday.

The pictures boost the theory that one or more planets have formed around Beta Pictoris, a young, bright star 63 light-years from the sun, said Sally Heap, a NASA astronomer.

The pictures, taken by a new camera on the Hubble Space Telescope, focus on the disk, or halo of dust and gas that rotates around the star. Instead of having a smooth flow, the disk has a large bulge in one quadrant.

Heap said the bulge could only be shaped by the orbital path of a large planet, perhaps one many times larger than Jupiter, the largest planet orbiting the sun.

"We can't see [the planet], but we can see the effects of its gravitational pull," Heap said at a news conference by the American Astronomical Society.

Radio astronomy studies have suggested the presence of planets around more than a dozen other stars, but this is the strongest evidence yet in visible light of a possible planet. It adds to an earlier study that

suggested planets were forming around Beta Pictoris.

To make a photo search for a planet, astronomers had to block the light from the very center of Beta Pictoris. This allowed the Hubble to photograph the star's disk.

Heap said the picture clearly shows that one side of the disk swirls outward in a bulge "that could only be formed by a planet."

Beta Pictoris has long fascinated astronomers because it is about eight times brighter than the sun, apparently very young and relatively close to the solar system.

Heap said the star is 20 million to 100 million years old, a fraction of the sun's 4.5 billion to 5 billion years.

Despite its young age, Heap said, the star apparently already has planets forming. This suggests, she said, that planets form very early in the life of a solar system. "When we study Beta Pictoris, it tells us things about how solar systems, such as ours, formed," she said.

The case for a planet about the star is strengthened by a study that found that the dust in the Beta Pictoris disk is of the same composition as the dust found in comets in the solar system.

The Washington Post

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Indonesia's crisis feeds fear of global spread

By James Cox
USA TODAY

HONG KONG — An astonishing slide this week in Asian currencies has renewed fears that the region's financial crisis is spiraling out of control and could eventually spread to the USA and Europe.

Experts say Asia's ailing economies now are almost certainly headed for three to five years of recession and, in places, violent unrest.

From Tokyo to Jakarta, the crisis is accelerating because of concerns that Asian leaders lack the discipline and ability to revive their economies.

"Pessimism is so rampant that even good news is discounted as a one-time blip on the road to oblivion," says Ron Bevacqua, economist at Merrill Lynch Japan in Tokyo.

Concern deepened this week as the focus turned from South Korea to Indonesia, which has witnessed unprecedented capital flight and a devastating loss of investor confidence in just four days.

Investors bolted from Indonesia's shares and currency on Thursday, sending both to historic lows. The rupiah plunged 18%. The leading stock index fell 12%.

The rupiah tumbled 32% this week through Thursday; Indonesian share prices have fallen 16%. In early trading today, the currency slid further but stocks both recovered a bit.

Indonesia's troubles have stoked fears that U.S. companies' earnings will be hurt by the Asian financial turmoil. Thursday, the Dow Jones industrial average fell 100 points to 7803 even though long-term U.S. interest rates neared record lows (market, 3B).

The panic selling in Indonesia has been driven by fears that the country's \$43 billion rescue package will collapse. That's because Indonesia's President Suharto is resisting austerity measures prescribed by the International Monetary Fund (IMF) as conditions of the bailout.

Analysts say it now looks unlikely that the IMF will go ahead with its next scheduled \$3 billion payment to Jakarta in March.

The IMF wants Indonesia to close debt-ridden banks — some owned by Suharto family members — and undertake a sweeping economic restructuring.

Thursday night, senior IMF officials said they will go to Indonesia next week to discuss the country's adherence to the IMF reform conditions imposed as part of a multibillion-dollar bailout.

Without new IMF loans and credits, Indonesia risks defaulting on foreign debt. Spooked investors fear that could cause Suharto to declare a moratorium on payments to overseas creditors.

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Moratorium or not, "This is a financial and economic crisis that is rapidly becoming a social and political crisis," says Stephen Rogers, head of research at UBS Securities in Jakarta. "Wide-scale social unrest is certain as bankruptcies, business failures and unemployment rise."

Currencies across Asia have been pummeled this week — many hitting new lows — in what amounts to a no-confidence vote in political leadership.

The Malaysian ringgit has fallen 13% since Monday. The Philippine peso is off 6%; the Singapore dollar 4%; the Thai baht 4%; and the Taiwan dollar 2%.

In Hong Kong, it is the stock market that has taken the hit, sliding 3.0% Thurs-

Top lenders

Loans to Indonesia from major international banks rose to \$58.7 billion through June. Nationality of leading creditors:

Country	Loans (billions)
Japan	\$23.2
Germany	\$5.6
France	\$4.8
United States	\$4.6
United Kingdom	\$4.3

Source: Bank for International Settlements

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WORLD ROUNDUP

Crackdowns target terrorists trying to scuttle Belfast talks

Police in both parts of Ireland say they're trying to shut down the maverick gangs conspiring to shatter the Catholic and Protestant paramilitary truces that have made Belfast peace talks possible. On Thursday:

► Police in Dublin seized 3,000 pounds of explosives, possibly destined for terrorists' bombs in Britain, and arrested four men suspected of trying to break the 6-month-old Irish Republican Army truce.

► Detectives in Belfast roused four militant Protestants from their beds in the hard-line Shankill district to be interrogated about a New Year's Eve gun attack on a Catholic pub in which one man was killed.

Peace talks resume Monday. The IRA has declared a cease-fire in its war against British rule so as to win its political ally, Sinn Féin, a place in Anglo-Irish sponsored peace talks along with Northern Ireland's other pro-British Protestant and pro-Irish Catholic parties.

British Northern Ireland Secretary Mo Mowlam is taking the unprecedented step of going into the Maze high security prison near Belfast today to persuade loyalist prisoners to renew backing for peace talks.

ISRAEL PULLBACK: Trying to appease both his

hard-line coalition partners and President Clinton, Israeli Prime Minister Benjamin Netanyahu says he'll decide the size of a West Bank troop pullback before he meets Clinton in two weeks. But he won't carry it out for several months. The withdrawal decision will be made only after Israel determines whether the Palestinians are carrying out their obligations, such as cracking down on terrorism, Netanyahu says.

GREECE-TURKEY TENSION: Greece says its air force jets intercepted 30 Turkish fighters that violated Greek airspace above the Aegean Sea on Thursday. Ankara denied any violations, saying Turkish jets routinely fly over international airspace in the Aegean.

The two NATO members, and regional rivals, are at odds over territorial rights in the Aegean and the divided Mediterranean island of Cyprus. The island has been split since Turkey invaded its northern third in 1974, in response to a coup in Nicosia, inspired by the military junta then ruling Greece. A self-declared Turkish Cypriot state in the north is recognized only by Ankara. It keeps 30,000 troops there.

SUICIDE PLOT: Spanish police say they foiled a mass suicide planned by a sect whose 30 members believed their souls would be carried away by a spaceship from the top of Tenerife's Teide volcano.

Compiled from wire reports

CAPITAL ROUNDUP

Clinton, Democrats talk financial control

President Clinton stressed the need for fiscal discipline during a meeting Thursday with 14 key congressional Democrats to discuss the upcoming budget and long-term issues such as Social Security changes. "I think that there's a real consensus that we shouldn't talk about spending a surplus that we hope for until it's actually produced," House Minority Leader Richard Gephardt, D-Mo., said. He said a possible raise in the cigarette tax, by 50-60 cents a pack, didn't come up.

Later, Clinton flew to New York for two fund-raisers expected to bring the Democratic National Committee \$850,000. He's in Texas today for more fund-raising and stumping for his education agenda. He returns to Washington Saturday.



Cisneros: Pleads innocent

CISNEROS PLEA: Former HUD secretary Henry Cisneros pleaded innocent Thursday to 18 federal charges of conspiracy, obstructing justice and lying to federal agents about payments he made to a former mistress while he was being considered for the Clinton administration Cabinet post. The woman, Linda Jones, and two former Cisneros employees also are accused of conspiring to hide the payments, which the indictment says totaled about \$250,000. Cisneros, 50, resigned in 1996 amid the controversy. He is free on bond pending trial Nov. 4. He has hired Washington lawyer Brendan Sullivan, who defended former White House aide Oliver North during the Iran-contra scandal of the Reagan administration.

RON BROWN DEATH: Attorney General Janet Reno said the Justice Department is not looking into the death of former Commerce secretary Ron Brown, but would do so if there's any credible evidence of a crime. Military investigators concluded he died of multiple injuries in the crash of an Air Force plane during a visit to Croatia. But some black leaders have urged further investigation, citing a deputy military medical examiner who said that an unusual wound at the top of Brown's head could have been a bullet hole, and that an autopsy should have been done. Investigators said X-rays and other scientific data ruled out a gunshot. A justice department spokesman said the agency has reviewed with defense officials information obtained by military pathologists.

SENATE COSTS: Senate Republicans have held down the costs of legislating, according to new figures. The Senate budget in 1996 was \$441 million, less than the \$444 million allocated in 1994, the last year under Democratic control. One change Republicans made when they took control in 1995 was to break out the amount spent on investigations. That totals \$190 million over three years. The House does not report investigative costs separately.

DEFENSE POST: Defense Secretary William Cohen is recommending a second term for Air Force Gen. Joseph Ralston, who is vice chairman of the Joint Chiefs of Staff. He was dropped from consideration for the chairman's job last year after news broke of an adulterous affair years ago. President Clinton and Congress have the final say on Ralston.

POLITICS: Senate Agriculture Chairman Richard Lugar, R-Ind., said he intends to seek re-election and won't run for president in 2000. He unsuccessfully sought the GOP president nomination in 1996.

Sen. John Kerry, D-Mass., said he won't decide until later this year whether to run for president. Kerry said Vice President Gore is "the front runner, by far. But that's meaningless" so far ahead of the election.

Written by Paul Leavitt with staff and wire reports

& Economic policymakers have been fighting the last war so long, they cannot see they are about to enter a very different battle on the opposite front.

The old war was against inflation. It shaped the fears of those who watched it run out of control in the 1970s. Yet the inflation war is largely over. The enemy may re-emerge in the future, and it is important to keep a vigilant eye. But for now, inflation is vanquished. The new enemy approaches from the opposite direction. While our policy artillery is still aimed at the spectre of spiralling inflation, the real danger is spiralling deflation.

The generation that witnessed the worldwide depression of the 1930s recalls the power of this enemy, but memories are distant. The seeds of depression were sown in the late 1920s, when demand began to fall. By 1927, sales of houses, cars and consumer durables were in decline, commodity prices had turned downwards and industrial production began to fall. We are entering a similar era. But we have become so accustomed to the danger of excessive demand that we no longer appreciate the danger of its opposite - inadequate demand. Nor do we feel the urgency of taking pre-emptive action.

A deflationary spiral can be as dangerous as an inflationary one. Falling prices squeeze profits, causing companies to reduce wages and cut employment. As a result, workers have less money for goods and services, causing prices and profits to drop further. The value of property bought on credit declines until it is worth less than the debt owed, resulting in defaults. Lenders are unable to make further loans. The crisis deepens.

A vicious deflationary cycle can also let loose a vicious social cycle, worsening the economic one. In contrast with periods of strong demand, characterised by low unemployment and rising wages, periods of weak or receding demand lead to higher unemployment and falling wages. Deeper indebtedness, combined with higher unemployment, may give rise to strikes, changes in demo-

Personal View • Robert Reich

Deflation: the real enemy

Policymakers should forget inflation and focus on the danger of falling prices and demand

cratically elected governments, or violent forms of unrest. Such instability further slows the economy.

Even before the Asian currency crisis, world prices were falling for basic goods, such as food, energy, steel and other commodities. On January 8, the US Labor Department announced wholesale prices had dropped 1.2 per cent in 1997. The core rate of price inflation (which excludes energy and food) showed the smallest annual gain since the department began gathering the data in 1974. If, as many economists assume, official data overstate inflation by around 1 percentage point, deflation has commenced.

A large, unco-ordinated, global contraction is under way. We are experiencing only the beginnings.

Demand is contracting in south-east Asia, and the consequences are rippling outwards. Many Japanese banks are technically insolvent and are no longer making loans to small and medium-sized local companies. Japanese companies that had relied on south-east Asia as a growing market have lost a large portion of their customers. US companies that had expected east Asian growth to continue are frantically revising their plans. For example, nearly one third of the backlog of orders for Boeing aircraft is from Asian airlines.

Demand is also shrinking in much of Latin America. In an effort to maintain investor confidence, Fernando Henrique Cardoso, Brazil's president, last year sharply raised central bank lending rates. The result has been to flatten consumer demand in Latin America's largest market of 160m people.

Brazil's contraction is rippling through much of the rest of Latin America, where economic austerity is also in



On the march: economic woes are not confined to Asia

vogue. Real wages are falling throughout much of the continent and inequality is widening. The maintenance of adequate demand requires a large and growing middle class, which Latin America may be in danger of losing.

Demand is also listless in western Europe. Budget deficits are being slashed in order to qualify for a common currency one year from now. At the same time, European interest rates remain relatively high.

Until recently, a rising share of German exports had gone to developing countries, including Asia. But orders for exports have been tumbling for months. The value of ordered export goods has dropped by more than their volume - further proof of price declines. German unemployment shows no signs of improving.

Lionel Jospin, France's prime minister, has continued to cut his budget even though 3.1m French citizens are without jobs. France's unemployment rate has

remained above 12 per cent for more than two and a half years. This is how long unemployment benefits last. Those over the limit began occupying employment offices last month.

The US is doing much of the job of keeping the global economy moving forward. Its economy is supremely healthy. Unemployment is lower than it has been in almost a quarter century. The economy grew by nearly 4 per cent in 1997, largely due to consumer spending and to large outlays by business for new equipment in anticipation of even greater demand. Spending pushed corporate profits to their highest levels in 30 years.

US wages, however, have barely risen. The real median wage is still below its 1989 level. The sluggishness of wages is significant. It means the economy is being propelled largely by household debt. Household debt - including credit cards, personal loans and mortgages - is at record lev-

els. Accordingly, personal bankruptcies have also risen to a record level, as have defaults on credit cards.

We are rapidly reaching the limit. Recent evidence suggests the rate of growth in US household debt is starting to slow, as households cut back their borrowing. As they do so, the most important source of demand in the US will shrink.

Consider the big picture: an east Asia of toppling currencies and bank insolvency; rising unemployment in Latin America's largest economy and falling real wages throughout the region; stagnation and unemployment in Europe; a rapidly approaching limit to the capacity of US consumers to take on more debt. As the global economy slows, social unrest threatens.

This unco-ordinated global contraction could lead to a deflationary cycle. Central bankers, financial ministers and International Monetary Fund officials, acting rationally in their own spheres of responsibility, may be failing to see the larger picture. They should be discussing what steps they could take to have a significant effect in the opposite direction. At the very least, they should draw up contingency plans. A wider view would consider whether it is time for central bankers in advanced economies to loosen the reins on the money supply.

The strict budget requirements for eligibility in Europe's single currency need to be reconsidered in the light of a possible deflationary cycle. Similarly, it may be wise for pending US budget surpluses to be used for tax cuts and additional spending. Japan must embark on a package of measures to stimulate domestic demand. And the IMF, while continuing to make Asian loans conditional on financial restructuring, must balance its demands for sharp cuts in public budgets and higher interest rates against the strong contractionary forces under way.

Policymakers who for years have sought to pre-empt spiralling inflation must now be active in fighting spiralling deflation.

The author is professor of social and economic policy at Brandeis University. He was secretary of labor in the first Clinton administration.

The comeback kid (again)

Clinton's apparent return to partisan politics aims to ensure his centrist message survives his presidential term, says Gerard Baker

As 1997 closed, US president Bill Clinton seemed to have passed the point that occurs in every second term presidency when the incumbent goes from being a dynamic achiever to a lame duck.

In November, he suffered one of the most serious setbacks of his presidency when he failed to win congressional approval for "fast-track" authority to negotiate trade agreements. It was a symbolic defeat that suggested that the president may have exhausted his supply of political capital in the congress. Shortly afterwards Mr Clinton seemed to many to be slowly lowering the shutters on his presidency.

The agenda for 1998 would probably be dominated by the Republican-controlled congress, officials acknowledged with a shrug. White House advisers reported the chief executive was "mellow", less prone to temper tantrums over minor setbacks. He played more golf. He seemed more detached from the process of politics. He even acquired that ultimate symbol of late-term presidential relaxation: a dog.

In retrospect it looks, at least in part, a crafted illusion. As his adversaries began to write his political obituaries, the president spectacularly smashed through the mirror.

In a breathless flurry of activity in the first two weeks of the year, Mr Clinton and his advisers have marched out a daily succession of policy initiatives on a range of big domestic issues. These have included an expansion of Medicare, the system of public health insurance for the elderly; new tax credits for child care; more money for job training and education initiatives, and the barest outline of plans to ensure the long-term viability of social security, the US public pension scheme. Next week, there may be a proposal for a big increase in the minimum wage.

The burst of energy has taken the Republicans by surprise. They had been looking forward to commandeering national debate this year with their plans for tax cuts. Instead they find themselves on the defensive.

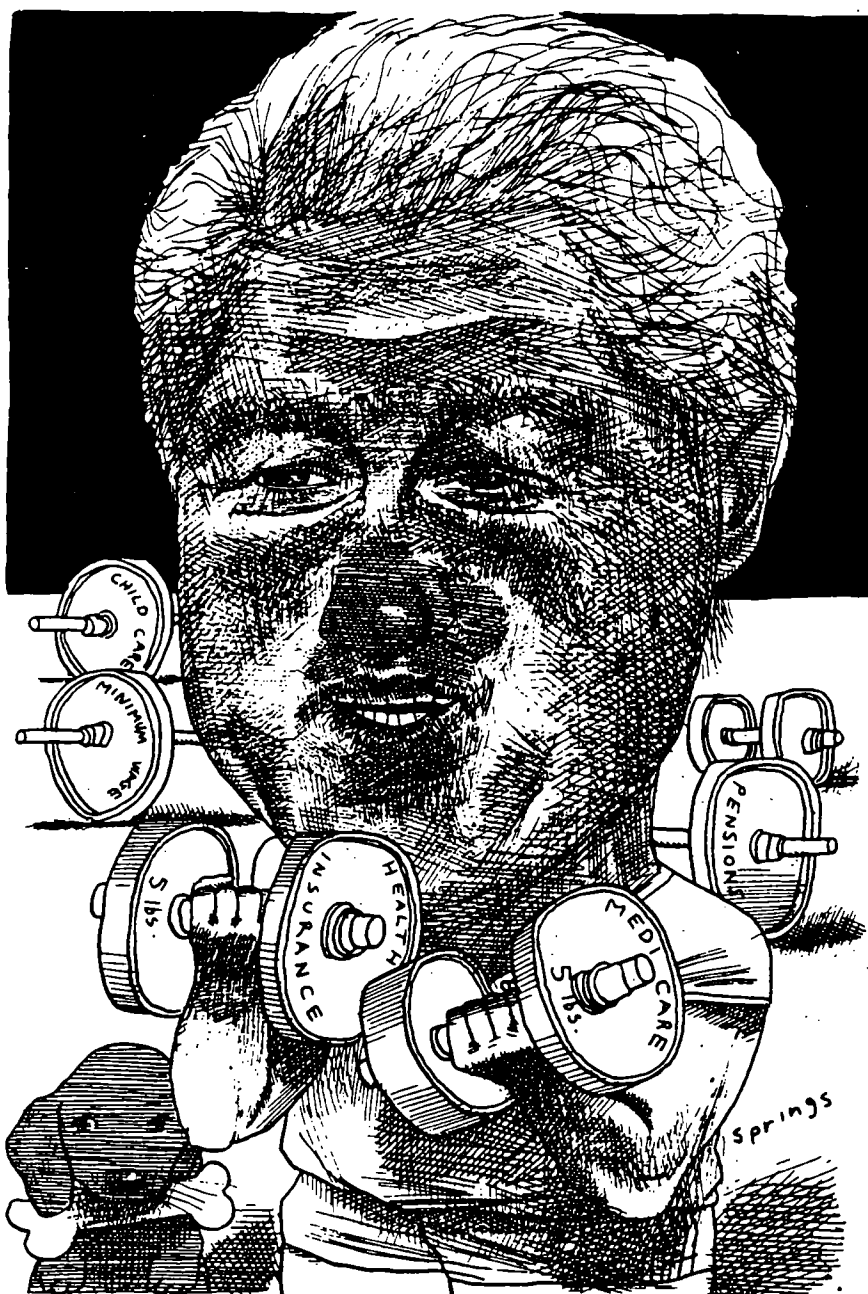
Their instant response was to categorise the initiatives as a return to "big government" by the Democratic party.

"Expanding government is not something the Republicans are going to go for, unlike the president and his party," said Richard Armitage, a senior Republican in the House of Representatives.

But the aim of Mr Clinton's January surprise is more subtle than that. It is less a decisive step to the left, more an attempt to defend his New Democrat centrism from being outflanked by the left. Hence it is an attempt to fashion a political strategy that will take him through this year's crucial mid-term congressional elections to the presidential election that will end his term of office in two years.

The intention seems to be to rebuild bridges with an increasingly hostile Democratic party in the country in a way that would bolster support for Mr Clinton's favoured successor in 2000, vice-president Al Gore. But it will involve a gentle backing away from the bipartisan politics that have served him, though not his party, so well.

Much of the "New Clinton" is



as much about form as about substance. The impression of great reforming energy created by the spate of announcements was clever news management.

"These were all proposals the president was almost certainly going to announce in his State of the Union speech at the end of January," says Steven Hess, a political analyst at the Brookings Institution, the Washington-based think-tank. "But instead of herding them all together in one speech, he has let them seep out one by one - a clever piece of control."

Furthermore, for all the noise they have attracted, the proposals are not all that radical. They are all in keeping with the modest, incremental approach to social policy Mr Clinton has followed over the past few years.

The most important departure is the Medicare proposal. The plan is to extend coverage from those currently eligible, the over-65s, to those aged 62-65. The scheme would be self-financing, paid for by individual premiums, not the government. The child care plans are sizeable - \$21.7bn

over five years - but they are a long-promised extension of tax breaks. The education and training programmes will cost a negligible sum. Most important, all these measures will be taken against the background of a budget that will be balanced by no later than next year - three years earlier than foreseen as recently as the middle of 1997.

Even an increase in the minimum wage is a clever piece of political opportunism. Mr Clinton's advisers calculate that, as they did last time it was raised two years ago, many Republicans will bury their conservative doubts about what has proved to be a highly popular proposal.

"For all the talk that these initiatives represent a radical break towards much greater social activism, they are in fact perfectly consistent with what the president has proposed throughout his term - modest and cautious government," says one budget policy watcher.

The real political significance of the initiatives is that they will, however, represent a break from the bipartisanship of the past few

years in the context of a significantly different set of circumstances in which the policy debate is framed this year.

For the first time in a generation, the US federal budget is expected to be in rough balance in 1998, and may even produce a small surplus. That surplus will grow gradually over the next few years, assuming the economy does not experience a recession.

Conservative Republicans have seized on the prospect of this fiscal nirvana to propose tax cuts. Though they cannot agree on the type or scale of such reductions, they see electoral gain from offering at least something. Mr Clinton's modest proposals for expanding popular government programmes, all within the prudent framework of a balanced budget, may prove an effective counterweight for the Democrats.

The president certainly needs to find something to restore Democratic fortunes. Five years of "Clintonomics" may or may not have been good for America, but they proved disastrous for the Democrats. In 1994 they lost control of the House of Representa-

tives for the first time in 36 years; at state and local level the party is in deep trouble, and last year's campaign finance scandals have left it strapped for cash.

Disillusionment with the president was widespread within the party - and the nadir came with last year's defeat on a proposal to continue giving the president "fast-track" authority to negotiate trade deals (ie, without having Congress go through the deal line by line afterwards). On that vote, Mr Clinton lost the backing of his most consistent supporters, even though fast-track authority is something all presidents have had since the mid 1970s. In the wake of that defeat, the president's advisers decided it was time to mend some fences.

At first sight, Mr Clinton's new-found enthusiasm for old-fashioned Democratic-party politics seems odd. His brand of bipartisanship - rising above the smoke-filled rooms, eschewing big government and special interest-dominated politics - had been rather successful for the past three years. After the Republicans took control of Congress in 1994, Mr Clinton sailed to a second presidential election victory as the champion of bipartisan politics. His biggest achievements - welfare reform, balanced budgets, freer trade - have all been won in the teeth of opposition from most Democrats.

What seems to worry Mr Clinton though, is his legacy as a New Democrat.

Only Al Gore seems to offer the certainty that the Clinton brand of politics will continue after 2000. Though Mr Gore is still front-runner in the Democratic race for nomination, his reputation has been badly scarred by the campaign finance imbroglio, and by his association with Mr Clinton's bipartisan approach to critical policy issues, especially fast track.

Mr Gore needs to mend his fences quickly if he is not to lose out to his more populist challengers, notably Richard Gephardt, leader of the Democrats in the House of Representatives.

"Bill Clinton always had the remarkable ability to run against his own party, in spite of his own party," says one Democratic pollster. "Al Gore doesn't have the same personal qualities that would enable him to do that. He needs a solid party base."

For that reason most of all, the congressional session that will begin in the next two weeks will be crucial to the outcome of the struggle in the Democratic party.

Mr Clinton and Mr Gore are treading a difficult path. Republicans are anxious to brand the new approach a return to Big Government - a message they will hammer home hard in the election campaign this autumn. And a number of issues will sorely test the fragile unity of the Democrats. One will emerge right at the start of the new session: Democrats hostile to the International Monetary Fund will attempt to add tough conditions to the administration's request for more IMF funds.

But if they can muffle the cries of opposition within their own party, they will have greatly enhanced the possibility that the politics of New Democrats survive beyond one president.

Rubber Dollars

ON THE budget, the politicians seem to be returning to the concept of the rubber dollar. They stretch it and suddenly the same dollar can be spent on several things at once. Policies that once upon a time seemed contradictory—such as paying down the national debt while cutting taxes—become magically synchronous instead.

House Speaker Newt Gingrich gave a speech in Georgia Monday. He was sketching out what Republican objectives should be in an era ahead in which it seems possible that the budget deficit will yield temporarily to a surplus. The speaker would pay down the debt while steadily cutting taxes and at the same time doing a couple of other things on the side, like ensuring the solvency of the Social Security system and greatly improving U.S. schooling. The shoring up of the Social Security system would be accomplished without inflicting any pain on anyone, neither taxpayers nor beneficiaries. "Anyone who tells you that we will have painful choices about Social Security doesn't understand the marketplace," the speaker said.

The Republicans, in short, are for the perfect world, and it's pretty hard to be against that. It's also a good bet that Mr. Gingrich favors mostly nongovernmental solutions to the Social Security and education problems—some variant on privatization in the case of Social Security. But privatization is not a real solution; in part it is a euphemism for dismantling the current system. As a practical matter, his goals—less debt, lower taxes, no diminution in what would otherwise be the standard of living of the elderly—do contradict each other. They vie for the same dollars. But of course if you count the same dollars twice...

In fact, the budget debate hasn't changed all that much despite the shift from deficit to prospective

surplus. That's because the real debate has never been so much about fiscal responsibility as about the role and size of the federal government, which Mr. Gingrich and the Republicans want in a general way to reduce and the Democrats by and large to maintain if not to expand. Republicans helped to produce the string of mega-deficits that developed in the Reagan years by cutting taxes, then invoked those deficits as reasons to cut spending. Democrats seeking to protect the spending, and whose disposition had once been to shrug off deficits as unimportant, also began to invoke them, as reasons to increase taxes rather than cut them further.

The surplus, if in fact it develops, will be short-lived. The impending retirement of the baby boomers will have the twin effects of weakening federal revenues while adding enormously to costs. The temporary prospect has nonetheless sharpened the underlying debate about the size and functions of government. Lacking the deficit to hide behind, both parties are driven to say what it is they are really after.

The president re-entwined the issues, or tried to, when he announced, also on Monday, that he intended to speed up the process of balancing the budget—balance it next fiscal year instead of in the year 2002, as last year's budget agreement calls for. It was a preemptive move; the Republicans are now forced to choose between the balance he proposes and the tax cuts they prefer. In opposing tax cuts he does the right thing, and we wish him both fortitude and success. A momentary surplus ought not be the pretext for further weakening the ability of the government to perform the many legitimate functions the country rightly expects of it.

The Washington Post
WEDNESDAY, JANUARY 7, 1998

Robert J. Samuelson

The Way the World Works

We are bombarded every new year with dozens of prophecies. Some will come true, some will not. But what will almost certainly come true is that the most important trends and events of the next year won't have been predicted at all. This was so last year, when Asia's economic turmoil surprised almost everyone, and it's routinely so. Hardly anyone foresaw the collapse of communism, the advent of AIDS, the explosion of the Internet and the sharp drops in crime and inflation. Our best seers are regularly humbled. Why is this?

One explanation, of course, lies in technical complexity. Who but an alert doctor would have known of the early AIDS cases and imagined how they might spread to millions? However, the same argument—understandable ignorance—cannot be made so easily of the Internet. A decade ago, millions of Americans used computers, but few foresaw the Internet's emergence. Even some presumed authorities (say, Bill Gates) initially misjudged its impact. This lapse highlights a larger source of our blunders: the way most of us view change.

We see it as boiling water. It proceeds slowly and predictably. The water warms, and it boils. But much change is abrupt and dramatic. It differs from what came before. Consider a few other scientific analogies. Pure water can be gradually lowered below its freezing point and remain a liquid. But touch it with anything, and it instantly turns to ice. It's a liquid one second, a solid the next. Or consider two chunks of uranium. Together, they're harmless. But rearrange the uranium atoms, and you can create a critical mass—and, conceivably, an atomic bomb. Life and history aren't always water coming slowly to a boil. Sometimes they're a critical mass triggering radical change.

We know now that Asia's booming economies had reached a critical mass leading to today's bust. Countries had made many poor investments—office towers in Thailand, factories in South Korea—that couldn't repay the funds used to build them. But in the reigning optimism of the "Asian Miracle," no one connected the dots. A few bad projects were dismissed as isolated mistakes.

The chain reaction happened because something altered perceptions. Thailand devalued its currency in

early July, admitting (in effect) that its problems were so widespread it could no longer repay all its debts. Parallels were soon discovered in other countries. Fearing devaluations, domestic and foreign investors rushed to sell local currencies and stocks. The ensuing panic selling—which forced many currencies and stock markets down—made matters worse. But they were not (as many supposed) instances of runaway irrationality.

The Soviet collapse proceeded similarly. A repressive regime represses best when its cruelty is credible. Few challenge its authority. Rare dissenters are isolated, jailed or killed with ease. They stand out.

Why Asia's economic crisis, the collapse of communism and falling crime are connected.

Hardly anyone hides or defends them. Everyone fears; many inform. The old Soviet Union earned its reputation for cruelty over many years: in the "liquidation" of kulaks (private farmers) in the late 1920s; in the millions of political prisoners sent to the gulag in the 1930s; in quelling uprisings in Hungary (1956) and Czechoslovakia (1968). But by the 1980s, the Soviet Union lost its capacity for boundless repression.

Solidarity's protest in Poland was not brutally put down. Political liberalization at home was tolerated and, under Gorbachev, encouraged. Perhaps this was a miscalculation. Or perhaps it reflected self-doubt among communist elites. Brezhnev once reportedly joked with Willy Brandt: "Do you know what Marx would say if he were alive today? 'Workers of the world, forgive me.'" Whatever, the change fostered a critical mass of opposition in Eastern Europe and Russia. Dissidents were emboldened. They multiplied and felt strength in numbers. Political control became harder. The rest is history.

What these cases involved was not instant upheaval

but slow changes whose ultimate consequences went unrecognized because they (a) contradicted conventional wisdom and (b) couldn't occur until they passed some unknown threshold. The same process may apply to some U.S. social and economic problems: They may reach—as Malcolm Gladwell has argued in the *New Yorker*—a "tipping point" after which they rise or fall rapidly. This, he says, may be true of crime. A hypothetical example shows why.

Assume a town starts with 100 criminals: 10 are caught each year, and 12 people become criminals. At first, crime rises slowly. In year one, it will be 2 percent higher. But after five years, it will be up 10 percent, and at some point (the tipping point), it could soar. Police are overwhelmed. They have a harder time solving crimes; more people become criminals and commit more crimes. Now reverse the assumptions. The town adds 20 percent more police, who catch 12 criminals a year. Longer prison terms deter people from crime; there are only 10 new criminals a year. Crime drops slowly, but at some point it may plunge. Police solve and stop more crime. Fewer people become criminals.

All this may make falling crime rates a bit less mystifying (in 1997, Los Angeles had fewer than 600 murders for the first time since 1977, and murders in New York, 756 as of late December, were a third of their 1992 level). It may also explain unexpectedly low inflation (1.8 percent in the past year). Once companies believe government will reduce inflation, they act in ways—cutting costs, improving efficiency—that reduce inflation. Raising prices would make them uncompetitive. Similarly, some recent favorable trends (falling abortions and teenage pregnancies) could ultimately prove surprisingly large. As people change, the force of their example may influence others.

The lesson is that small changes feed on themselves, cause people (and institutions) to behave differently and then crystallize into huge shifts. As Gladwell notes, not all change is linear—in a straight line. The belief in linear change survives because it makes everything seem simple and controllable. If we want warmer water, we just turn up the heat. This is not, however, the way the world usually works.

Italy Gets Big Lift In Effort to Join EMU at the Start

Italy's drive to join a single European currency appeared to reach the point of no return yesterday, as European Union finance ministers declared the country is on track to bring its budget deficit this year to below 3% of the nation's output—the key criterion for joining monetary union. The upbeat appraisal came at a gathering of the ministers in Brussels that represented the last serious chance for European governments to throw a monkey wrench into Italy's campaign to be a founding member of European economic and monetary union next Jan. 1.

The decision will make it much more difficult to leave Italy out of the single currency when EU member nations make a final decision on all this in the spring. With markets now expecting a monetary union that spreads from Finland to Sicily, the exclusion of Italy would cause terrible damage. Traders would almost certainly hammer the Italian currency, bonds and stocks, all of which would become less attractive to investors who are now betting that Italy will enjoy all the benefits of a strong and stable currency.

European Airlines Criticize EU

The European airline industry is turning up the heat on the European Commission saying lengthy delays in approving alliances are undermining the sector's ability to compete globally. The trade group also demanded that the European Union tackle high airport charges, releasing a study showing that European airports—particularly those with service monopolies like Paris's Charles de Gaulle and Rome's Fiumicino—have much higher fees than their counterparts in the U.S. and Asia.

Key Bank Merger Set for Germany

Three public-sector banks in the state of Baden-Wuerttemberg in southwest Germany have agreed to a merger that would create the sixth-largest bank in that nation with an estimated 430 billion marks (\$234.59 billion) in assets. Though hardly the first merger of its type in Germany, the deal is unusual because it combines the retail services of a savings bank, Landes Girokasse Stuttgart, with the wholesale and state functions of the two large state banks, Suedwestdeutsche Landesbank and Landeskreditbank Baden-Wuerttemberg. With nearby Munich growing in importance as a financial center in part because of a large

bank merger there last summer, Baden-Wuerttemberg probably reasoned that the state capital, Stuttgart—where the new bank's board will sit—needed to strengthen its influence in Europe's banking industry as well.

France Telecom's Shares Buck Trend

In contrast to Deutsche Telekom AG's day-earlier announcement, France Telecom SA says the Asian financial crisis won't have one iota of impact on its 1997 results. The French telecommunications concern has been viewed in recent days as something of a haven for investors because unlike many large European companies—including the German phone giant—it has stayed clear of the troubled Asian economies. That fact has helped France Telecom's shares climb about 9% since the start of the year, a period when Deutsche Telekom's shares took a tumble, falling about 7%.



Ford Ponders Russian Venture

Ford Motor Co. is studying the possibility of working with a Russian auto maker to build cars at a plant outside St. Petersburg. Such a plan would seem to make sense for the No. 2 auto maker given the turmoil in Asia, which has some analysts thinking the Russian market could outpace even China in coming years. If Ford does take the plunge, the move would add the company to the growing ranks of foreign auto makers seeking to set up shop in the former Soviet republic in time to profit from an expected gradual increase in the purchasing power of the average Russian.

BRIEFLY:

- Anglo-French engineering concern GEC Alsthom continues to make its presence known in rail systems across the world, winning a \$152.5 million contract to supply trains for an automatic underground metro line in Singapore.
- One of Italy's top soccer teams, Rome's *Societa Sportiva Lazio* SpA, aims to have its shares quoted in Milan by June.
- British Sky Broadcasting Group's shares plunged 7.6% to their lowest level in two years amid EU regulatory concerns over its digital TV venture.
- French military aircraft maker Dassault Aviation SA has set up a joint program to design a future generation of fighter jet with British Aerospace PLC, but says it has no near-term plans to merge with the British company.

ASIA/PACIFIC

Bankruptcies Soared in Japan in '97

Last year saw the highest number of bankruptcies in Japan in over a decade as 16,365 businesses closed up shop. According to a report by Teikoku Databank Ltd., another wave of bankruptcies is likely to sweep the nation in coming months because lenders are growing increasingly reluctant to approve badly needed business loans. Japanese banks are still trying to clean up their own books, sullied by bad real-estate loans earlier in the decade.



Asian Companies Cut Bonus Payments

It stands to reason that if Asian workers have their pay cut, they can't buy the products that debt-laden domestic firms want to sell. In that region, annual or semiannual bonuses often account for a hefty portion of a worker's total salary. But in many Asian nations, such payments are shrinking, underscoring a bleak economic outlook for 1998. Even a heroic surge in exports won't be enough to offset the money that domestic companies and households won't spend this year. The bonus situation differs from country to country. In Japan, semiannual bonus payments are up slightly from a year earlier. But in Hong Kong, bonuses for bankers and stockbrokers are lower than a year ago. And in South Korea and Southeast Asia, worst-hit by the financial crisis,

bonuses are shrinking sharply—if they are paid at all.

Traders Cautious on Singapore Stocks

Singapore's stock market has moved from one extreme to another. It took a pounding in the first weeks of this year amid worries about Singapore's exposure to neighboring Indonesia's problems, as well as concerns about the effects of slowed corporate earnings. But as the market has proved more resilient lately, analysts recommend picking up select companies, usually blue chips or exporters with U.S.-dollar revenue. And traders' fears have been allayed somewhat as the city-state has been more generous lately in disclosing financial information.

BRIEFLY:

- Japan's three biggest brokerage firms, Nomura Securities Co., Daiwa Securities Co. and Nikko Securities Co., reported losses for the latest quarter, and it appears they face more trouble in coming months because of corruption scandals.
- The bird-flu scare rattling Hong Kong has taken hold in China, with one province banning chicken imports from a neighboring province and even the capital losing its appetite for poultry.
- Caltex Petroleum Corp. of the U.S. is expected to announce this week its purchase of South Korea's *Hanwha Energy* Co., a Korean newspaper reported.
- Sales of new cars in Thailand fell 38.4% last year to 363,156 units, reflecting the nation's severe economic downturn.
- Times are so tough at South Korea's *Asiana Airlines* that employees are being encouraged to take unpaid leaves of up to one year.

THE AMERICAS

Mexico's Oil Giant Plans New Projects

Old refineries will be revamped and new plants will be built as part of \$3.1 billion investment over the next three years by Mexico's state-owned oil monopoly *Petroleos Mexicanos* SA. The plan calls for 42 new plants and the modernization of 18 existing facilities, and the company says five of those projects will be put out for tender in the first week of May. The program also includes projects for storage and distribution in Mexico City and the Yucatan peninsula and the development of oil loading facilities at Salina Cruz on the Pacific coast.

BBV to Buy Rest of Argentine Bank

As yet one more indication of its commitment to Latin America, Spain's *Banco Bilbao Vizcaya* SA agreed to acquire the 28% of *Banco de Credito Argentino* SA it doesn't already own for \$161.1 million. BBV is buying the stake from the Argen-

tine bank's former chairman, Fernando de Santibanez. The Spanish bank already owns 72% of *Banco Credito* through its 48.2%-owned Argentine unit, *Banco Frances del Rio de la Plata* SA. *Banco Credito* and *Banco Frances* are merging into a new institution that will be called *BBV Banco Frances* SA, in which BBV will have majority control.

BRIEFLY:

- Argentine energy conglomerate *Perez Companc* is set to begin construction of a \$215 million petrochemical plant in Porto Alegre, Brazil, as part of its efforts to boost its market share in South America's largest country.
- Ecuador closed off part of the Rumi-cacha bridge, which links Ecuador with Colombia, for repairs that could last six months. About 86% of the bilateral trade between the two nations passes across that bridge.

Chile Is Feeling Full Heat of Asia's Downturn As Copper Exports Sag, Stocks and Peso Slide

By PAMELA DRUCKERMAN

Staff Reporter of THE WALL STREET JOURNAL

Chile, the Latin American nation most vulnerable to Asia's economic downturn, has lost its cachet as a "haven" for investors.

Chilean stocks are down 13% for the year to date, the second-worst decline in Latin America, after Venezuela's 16% tumble. The Chilean peso has slid 10% against the dollar since October, when the Asian crisis forced down the price of copper, its chief export. And a recent interest-rate increase and weakened Asian trade ties are expected to damp corporate earnings growth by a third.

Yesterday, Chilean Finance Minister Eduardo Aninat said the government will cut the 1998 budget for state companies by \$340 million to deal with the effects of the Asian financial crisis. This includes a 12% cut for mining giant Corporación Nacional del Cobre de Chile, or Codelco.

This isn't to say the economy has gone off a cliff. Economists expect Chile's

gross domestic product—or the total value of goods and services produced in a nation—to climb a respectable 5% this year, and foreign reserves to remain strong. What's more, the government had the

foresight to establish a copper price stabilization fund—now totaling \$1.9 billion—that can compensate for several years of lower prices.

But that hasn't stopped many on Wall Street from pulling the plug on the region's third-largest market after Brazil and Mexico. Most of the large investment firms recommend that portfolio managers stay underexposed to Chile. Merrill Lynch predicts that Chile's IPSA index will grow 10% this year, vs. an average of 27% estimated stock market growth in Mexico, Argentina and Brazil.

"Chile isn't Chile anymore," says James Barrineau, Latin strategist at Salomon Smith Barney Inc.

Since the Asian crisis struck, the same qualities that once distinguished Chile from other Latin economies are causing investors to flee. The record levels of dollar debt held by Chilean companies, once a testament to the country's strong credit, are now more expensive to repay. Its

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export-led growth strategy is backfiring because of lower copper prices and withering demand from Asia, which buys one-third of Chilean exports.

As a result, Chile's current-account deficit, the broadest measure of trade flows, is expected to worsen to an estimated 6.2% of GDP for 1998, up from 4.7% in 1997, Merrill Lynch figures. "Traditionally [Chile] had been a hedge because of the export strength of the economy, but that's what is weak now," said Jorge Mariscal, Latin America strategist at Goldman, Sachs & Co.

Underperformance certainly isn't new to Chile; its IPSA index rose 9% in dollar terms last year, while Latin markets rose an average of 25%. But analysts say it's different now that Chile's bolsa is actually falling faster than most. That has punctured the myth that Chile—which boasted the only Latin market to rise in the quarter following Mexico's December 1994 peso devaluation—was somehow cushioned against sharp falls.

That myth was based partly on a belief that Chile's \$31 billion private pension-fund system, the largest in Latin America, would prop up stocks when foreign investors fled. But jacked-up interest rates

and sagging stock prices are luring the pension funds into bonds. The funds are also expected to raise their position in non-Chilean stocks this year from 1% to 5% of total holdings, again at the expense of domestic equities.

Chile's declining status is also a matter of relative value. Though its economy was restructured in the mid-1980s, several years ahead of other Latin countries, strong growth and successful reforms across the region are narrowing Chile's lead. While Chile is still the top-rated country in the region, four Latin countries, including Brazil and Argentina, were upgraded by Standard & Poor's last year. Even after the recent price drops, Chilean stocks still trade at a 10% premium to other Latin equities, more than many investors are willing to pay given the current economic and market turbulence, analysts say.

Credit-driven sectors such as banking and retail, plus heavy borrowers such as electric and telephone companies, are likely to be hard hit, according to Merrill Lynch.

"Equity investors are driven by short-term opportunities for gain or loss," explains Lacey Gallagher, director of Latin sovereign ratings at S&P. "They consider other factors besides fundamentals."

Ecuador's Fight With U.S. Firms Adds to Foreign-Investor Gripes

By THOMAS T. VOGEL JR.

Staff Reporter of THE WALL STREET JOURNAL

The government of Ecuador, already under fire for the way it handles foreign investors, is embroiled in a dispute with three U.S. companies over a contract to build and operate two power plants.

The companies, engineering firm Energy Services Inc. of Farmington, Conn.; and Virginia power companies M.C.I. Power Group L.C. and Old Dominion Electric Cooperative, charge that Ecuador has refused to make payments called for by the contract. They say they stand to lose about \$23 million.

"It's time for Ecuador to . . . correct this kind of outlandish and unscrupulous behavior," says Charles Moseley, a lawyer for the three power-plant investors.

Ecuador contends that the U.S. companies didn't fulfill their contractual obligations. Ecuador's ambassador to the U.S., Alberto Maspons, adds that it was "a little stupid" of the companies to sign an unclear contract with the government.

While the amount of money at stake isn't large, many foreign investors and diplomats say the dispute is emblematic of the hazardous investment climate in Ecuador. The U.S. Trade Representative's office put Ecuador on its so-called priority watch list last year because of poor protection of intellectual-property rights, a move that could eventually lead to economic sanctions.

In the power-plants case, part of the problem appears to be that the project straddled three presidential administrations, leaving the issue in the hands of new government personnel every few months.

The project began in November 1995 when SeaCoast Inc. of Amarillo, Texas, signed a one-year contract renewable every six months with state utility Incel to install and operate two badly needed

power plants. Unfortunately for SeaCoast, government approval took so long that, by the time the contract was signed, the company had less than a month to complete the plants. To get around the problem, both sides also signed a "clarification memorandum" that purportedly protected SeaCoast from certain lateness penalties.

SeaCoast had trouble securing financing for the deal. So in late 1995, with an eye on the potentially lucrative Ecuador contract, Energy Services, M.C.I. Power and Old Dominion bought SeaCoast.

In December 1995, Ecuador's president at the time, Sixto Duran-Ballen, reassured the new investors that the government backed the project, say company representatives. The first plant went into operation by February 1996, and the second by March of that year, by which point the investors had spent about \$40 million.

In May, Incel notified SeaCoast that it was voiding the contract, explaining later that the U.S. company had failed to complete the plants on time. By July, the government of President Abdala Bucaram entered power, disrupting negotiations to renew the contract and recover some \$21 million SeaCoast contended it was owed.

By late 1996, the investors decided to cut their losses and sell the plants for \$17 million to a unit of Tripetrol Holdings Inc., an Ecuadorean oil company which has had close ties to the government in the past. Since then, Mr. Bucaram was ousted from office and replaced by Fabian Alarcon and SeaCoast had to start new negotiations yet again.

Ivor Massey Jr., a managing member of M.C.I. Power, had been considering other power and mining projects in Ecuador when M.C.I. invested in the project, he said. Not now. "We're certainly not interested anymore," he declared.

On the Table: Global Finance Reform

IMF Funding May Hinge on Ideas for Avoiding Next Meltdown

By Steven Pearlstein
Washington Post Staff Writer

Few people have a better understanding of the world's free-wheeling financial markets—or have made more money in them—than George Soros and Robert Rubin. But now, in the midst of the Asian financial crisis, the famed speculator and the U.S. treasury secretary have concluded that the system is broke and needs fixing.

"The private sector is ill-suited to allocate international credit," Soros wrote in a recent article for London's Financial Times. "It provides either too little or too much."

Rubin, in a speech last week at Georgetown University, said the Asian crisis demonstrates that markets cannot not be trusted to correct their own excesses and called on

governments to step in and "modernize the architecture" of international finance.

All this should come into sharper focus this morning on Capitol Hill as the House banking committee opens hearings on the Clinton administration's request for \$18 billion in additional U.S. funding for the International Monetary Fund, the organization set up 50 years ago to be the balance wheel for the global financial system.

With Americans increasingly skeptical about the benefits of free trade and free markets and wary of taxpayer bailouts for big banks and wealthy investors, even the IMF's staunchest defenders in Congress now concede it is unlikely the funding will be approved without restructuring the IMF and rewriting of the rules of global capitalism. But Rubin and other experts warn that the hard part will be to tinker with

See GLOBAL, G3, Col. 3

GLOBAL, From G1

the intricate machinery of global finance without inadvertently gumming up the works.

What follows is a quick review of four of the most talked-about ideas:

■ **Loan insurance.** When the IMF shows up with a loan to keep a country from going into default—and protect the crisis from spreading to other countries—it often has the effect of protecting foreign bankers from the full consequences of their imprudent loans. In the process, it sends a signal to bankers everywhere that they can overlend and make risky loans elsewhere, knowing that if things get real bad, the IMF will bail them out.

One solution, proposed by Soros, is to recognize the necessity of such interventions but require the banks to pay for it themselves through an insurance scheme. Soros envisions a new International Credit Insurance Corp., operating alongside the IMF, that would charge a small fee on every international bank loan and use the proceeds to finance any rescues. The new agency would also set ceilings on how much lending to insure for any one country and set minimum standards for bank regulation in any country that receives insured loans.

Economists say the insurance idea faces a number of practical problems. Governments might resist the idea of an international agency imposing credit quotas and international regulation of their banks.

William Cline, managing director of the Institute for International Finance, argues that the biggest problem with Soros's plan is that borrowers and lenders know that, when push comes to shove, the IMF is likely to rescue banks even in countries that don't participate

in the insurance scheme, if only to protect economies and banking systems elsewhere. The incentive, said Cline, will be for the riskiest lenders and borrowers to go without insurance.

■ **The Tobin tax.** One reason for the wild swings in global financial markets—and the need for IMF bailouts—may be that it has become easy and costless to exchange one currency for another. James Tobin, the Nobel Prize-winning economist, suggests throwing some sand in the gears of this process by imposing a universal tax on currency transactions.

Peter Kenan, an economist at Princeton University, says the biggest problem with the Tobin tax is that it won't work if one or two countries decide not to impose the tax and set themselves up as foreign exchange havens. And even if the tax could be universal, Brown University economist Peter Garber predicts financial engineers on Wall Street will come up with fancy new financial derivatives that could allow traders to speculate in currencies without actually owning them.

Barry Eichengreen, an economist at the University of California at Berkeley, has questioned the very premise of the Tobin tax. While there is some currency speculation that contributes to market instability—the traders who, herdlike, follow the momentum of the market wherever it leads—there is also speculative trading by contrarians that actually helps to stabilize markets. A shortcoming of the Tobin tax, Eichengreen ar-

gues, is that it fails to distinguish between good speculation and bad.

■ **Hot money tax.** A big part of the Asian crisis is that the region's banks got much of their money not from local depositors but by borrowing, short-term, from foreign banks. When some of those foreign lenders decided to pull their money, the Asian banks found themselves caught in a squeeze between their short-term borrowing and the long-term loans they had made with that money.

Chile has tried to reduce this risk by requiring its banks and corporations to put \$1 in the Chilean central bank for every \$3 they borrow from abroad. The central bank holds the money for a year without paying interest, which effectively acts like a tax on short-term foreign borrowing. So far, say economists, the program has accomplished its goal with few negative side effects.

Other economists note that if the goal is to slow down the flows of short-term capital, it is perhaps even more important to prevent people and corporations inside developing countries from moving their money outside the country, as happened in many Asian countries. Along those lines, Eichengreen has proposed that countries adopt a similar deposit requirement covering investments and loans outside its borders.

■ **International bankruptcy.** One reason foreign investors rush to abandon troubled economies at the first sign of trouble is that there is no international equivalent of the bankruptcy laws. That

certainly was the case in Asia where, according to a study released yesterday by the Institute of International Finance, banks and stock market investors withdrew \$33 billion last year from Korea, Thailand, Malaysia, Indonesia and the Philippines.

Without a bankruptcy mechanism, economists explain, lenders have every incentive to call in their loans quickly, before the country runs out of money and leaves less fleet-footed lenders facing total loss. With a bankruptcy process, lenders are apt to be more patient, knowing that all creditors will be treated equally as part of a negotiated restructuring process.

Jeffrey Sachs, an economist at Harvard University, has recommended that the IMF require countries to submit to some form of international bankruptcy as a condition for receiving IMF assistance. And Sachs predicts that, with a bankruptcy mechanism in its portfolio of options, the IMF could rely more on private capital for its rescue package by decreeing that banks that provide new loans to a distressed country would be repaid before the old creditors—a standard technique used to reorganize corporations under U.S. bankruptcy laws.

Last year, however, a committee appointed by finance ministers of the industrialized countries concluded Sach's idea probably wouldn't work. One reason is that while many corporate restructurings involve exchanging debt for stock in the company, there is no way for a Thailand to offer stock in a country.

Consolidation Hovers Over A Flat Helicopter Market

Boeing's Civil Unit a Possible Acquisition Target of Bell

By Tim Smart
Washington Post Staff Writer

On a cool, cloudless day at the Patuxent River Naval Air Station in Southern Maryland, U.S. Marine Corps pilots put the V-22 tilt-rotor helicopter through its paces as it hovers a few feet off the tarmac. The V-22 "Osprey" is a unique bird, combining the speed of an airplane with the takeoff and landing capability of a helicopter.

The V-22, which has survived repeated attempts to kill it, is unusual for another reason. As a \$40 billion program at a time of shrinking defense budgets, it represents one of the few bright prospects in the otherwise flat helicopter industry.

Unlike other parts of the aerospace business, helicopter manufacturers have not suffered the kind of Darwinian consolidation that in a few

years has reduced the number of military plane makers to two.

A key reason is that major helicopter makers all are divisions or subsidiaries of larger, multinational companies such as United Technologies Corp., Boeing Co. and Textron Inc. Their rich parents have helped them withstand lean times, in which only about a third of the production capacity is being used, industry experts said.

"At least for the time being, all of the helicopter companies are generating profits and cash," said Terry D. Stinson, president and chief executive of Textron's Bell helicopter unit, which is teamed with Boeing on the V-22.

While there have been some combinations, such as the 1992 merger of France's Aerospatiale and Germany's Daimler-Benz helicopter units into Eurocopter, as well as last year's acquisition of McDonnell Douglas Corp. by

See HELICOPTERS, G2, Col. 1

HELICOPTERS, From G1

Boeing, the world market still has four major helicopter companies along with a slew of smaller niche players that all fight for a piece of a slow-growth business.

"The helicopter industry was slower than most of the other aerospace industries in getting to the consolidation table and it's probably still lagging," said Dean Borgman, Boeing senior vice president.

That soon may change. Industry speculation in recent weeks has focused on a possible sale of Boeing's civil helicopter business to Bell. The companies would not comment on any talks.

Boeing has strengthened its competitive position through its 1997 acquisition of McDonnell Douglas, whose Apache helicopter is a mainstay of the Army. Boeing is a partner with Bell in the V-22 program while also jointly working with the Sikorsky division of United Technologies on the RAH-66 Comanche, a stealthy scout helicopter.

"On the military side, I would say that if you looked at the three out there today and the new company, we represent the most enviable," Borgman said.

Teal Group, a Fairfax-based aerospace consulting firm, estimates that Boeing will lead the helicopter market over the next 10 years, with about a 25 percent share of the \$52 billion worth of helicopters forecast to be sold worldwide.

But analysts said that Boeing is weak in civil helicopters, a liability that some in the industry thought would be resolved by Boeing selling its helicopter business to Sikorsky or acquiring Sikorsky. Either of those options seems less likely, analysts said, now that Boeing has acquired McDonnell Douglas and also given speculation about a Bell-Boeing deal.

"While all companies have been hurt by the precipitous decline in military spending, Sikorsky has experienced the worst fall from grace," said a recent market forecast issued by the Teal Group.

For example, in 1990 Sikorsky held a 41 percent share of the world rotorcraft market, with deliveries worth about \$2.5 billion, according to Teal. By 1996, this had declined to a 27 percent share,

"The helicopter industry was slower than most of the other aerospace industries in getting to the consolidation table."

—Dean Borgman, Boeing senior vice president

worth just over \$1 billion.

The Teal forecast predicts Sikorsky's share of the market will fall even further over the next decade, to 14 percent in 2006, or about \$750 million in sales.

"Sikorsky is the weak sister, and we know that," says Pete Bzdak, a Pentagon engineer who helped prepare a 1995 "industrial assessment" of the helicopter market for the Defense Department.

To help steady Sikorsky and keep the production lines at its Stratford, Conn., factory moving, Congress in recent years has appropriated enough money for the Army to buy a couple dozen Sikorsky Blackhawks annually until production of the high-tech Comanche starts up in 2004 or 2005.

This past budget cycle was no exception. The Clinton administration initially requested \$183 million to buy 18 UH-60 Blackhawks, but House members added \$90 million for an extra 12 helicop-

ters. The Senate added even more, \$127 million, to buy a total of 36 helicopters. The final budget appropriation came to \$272 million for 28 helicopters.

That is still way below the 10 to 12 Blackhawks a month that Sikorsky built during the heyday of the program in the late 1980s and early 1990s, but with foreign sales, it should allow the company to muddle through until Comanche kicks in.

"My view on Sikorsky right now is that the Blackhawk gives them the financial stream to go forward," Stinson said.

Bell, by comparison, has a strong civil aviation business and with the V-22 it is sitting pretty. The company also is marketing a civil version of the tilt-rotor craft, dubbed the 609, to corporate clients.

Stinson says the combination of speed and range make the 609, priced between \$8 million and \$10 million, a natural for the offshore oil-exploration business.

Balancing commercial and military business is critical in the helicopter industry. While there are more civil helicopters built, military machines tend to be of higher value and the programs help finance research on new models, from which civil designs are often derived.

While the U.S. military has been buying fewer helicopters in recent years, foreign governments have been aggressive purchasers, especially of advanced American models such as the Blackhawk and Apache.

U.S. makers have successfully pressured the Clinton administration for the right to bid on an upcoming contest in Turkey for attack helicopters worth some \$3 billion. But congressional opposition over Turkey's less-than-stellar record on human rights has scuttled some arms deals with that nation.

The Washington Post
FRIDAY, JANUARY 30, 1998

ECONOMY

Globalization Comes to a Southern Town

Shelby, N.C., Residents Worry Despite a Robust Economy

By MICHAEL M. PHILLIPS

Staff Reporter of THE WALL STREET JOURNAL
SHELBY, N.C. — This rural town is in the thick of one of the hottest regional economies in the nation. Just 4.1% of local workers are jobless. And the area, once dependent on aged textile mills, now turns out everything from compact disks to jet-aircraft components.

So why are so many people here fretting about the future?

In their antebellum mansions and humble ramblers, Shelby residents are learning that today's cutthroat global economy means constant turmoil. Even during a boom, there's growth and retrenchment, hiring and firing, optimism and fear — all at the same time.

"It's a jungle economy," says James E. Crawley, dean of the business school at nearby Gardner-Webb University. "Globalization is here to stay. Whether you like it or not, that is what's taking place."

Nationwide, the unemployment rate was a low 4.7% in January. Yet mass layoffs are on the rise. Federal Reserve Chairman Alan Greenspan told the Senate Budget Committee last month that 300,000 jobs are lost each week in the U.S. even as more are created, a "very major set of churning forces," he said. American workers can be confident they'll find some job, but they can't be sure how long they'll keep it.

In Shelby, the jungle economy is churning out new victims. Over the coming months, one of the town's most sought-after employers, Kemet Electronics Corp., will dismiss more than 500 workers and move their jobs to Mexico. Kemet makes the tiny wafers called capacitors that dot circuit boards in everything from mobile phones to personal computers.

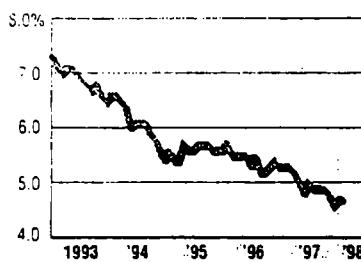
For most residents, the textile layoffs of the last decade, while unwelcome, were at least understandable. The mills were, after all, battling foreign competition in a low-tech industry. Residents hoped the arrival of high-tech companies such as Kemet, which began operating in Shelby in 1980, would mean a more secure future. Yet stability is the one thing that has evaded Shelby's workers, boom or no boom.

Nancy Blackburn, an unmarried 54-year-old, bought a \$32,000 mobile home after she finally upgraded from temp jobs to a permanent, \$9.80-an-hour Kemet position with full benefits. She had just

Tumultuous Labor Market

Unemployment Dropping...

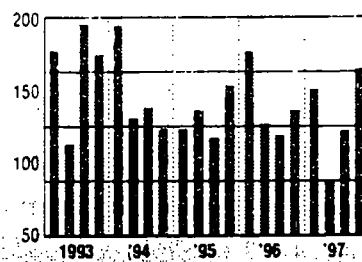
Unemployment rate, seasonally adjusted



Sources: Bureau of Labor Statistics, Challenger, Gray & Christmas, Inc.

But Downsizing Won't Go Away

Job cuts, in thousands



mailed her second \$300 mortgage payment when she walked into the factory on Nov. 11 and learned that permanent no longer means permanent. "I worked all this time to get what I've got, and now it's gone," she says. "I thought I had found security."

In a much milder rerun of the downsizing of the early 1990s, a number of U.S. companies are cutting costs by cutting jobs. And the relentless rise of the dollar, tight U.S. labor markets and cost-saving restructuring by foreign competitors are likely to force U.S. firms to reduce their wage bills even more. "That could put heightened pressure on Corporate America to enter another phase of its own restructuring," says Stephen S. Roach, chief economist at Morgan Stanley Dean Witter.

In the last quarter of 1997 alone, U.S. companies announced more than 152,000 job cuts, the largest fourth-quarter figure since the bad old days of 1993, according to Challenger, Gray & Christmas Inc., a Chicago outplacement firm. Last month, an additional 72,193 cuts were announced. Even white-collar employees get sucked into the every-man-for-himself atmosphere. One Kemet manager already has accepted a new position with a local company. But the manager is still actively pursuing another firm — just in case. "I understand Kemet made a business decision," the manager says. "I have to, too."

Kemet, based in Greenville, S.C., was under the gun even before the Asian meltdown. The capacitor business is particularly sensitive to labor costs. Kemet managers feared that labor costs at the Shelby assembly plant — combined with escalating prices for palladium, a key ingredient for capacitors — would soon price its products out of the market.

So the company decided to move most of Shelby's production to Monterrey, Mexico. Of the 985 people employed in November, only 270 will have jobs there when the restructuring is completed this fall. The nonunion Shelby plant will still process ceramic material, and plant manager Charles F. Earley hopes to rebuild the staff to 700 by 2002.

Unlike those fired in the early 1990s, however, today's displaced workers nationwide probably won't end up jobless for long. Even as Kemet hands out pink slips, expansion-minded companies are scoping out Shelby and surrounding Cleveland County. Just last month, Shelby's business elite hosted executives from Promark Electronics hoping to convince the Columbus, Ohio, company to locate a new assembly plant in the county.

Over blueberry muffins and baked eggs, locals touted the business incentives, leisure-time attractions and other selling points. What mattered most to Promark President Philip J. Glandon, however, was

whether he could hire qualified workers for a facility that might employ 250 within five or six years. "If Shelby can put together a real good real-estate deal, we'll probably go there because of the Kemet layoffs," says Mr. Glandon.

AGI Inc., a printed-materials company based in Melrose Park, Ill., already is interviewing Kemet employees and others for a new Cleveland County plant that will make packaging for the neighboring compact-disk factory. One highly skilled applicant, Fred K. Jones, 49, has had 14 job offers since he moved to nearby Spartanburg, S.C., from upstate New York a year ago. Mr. Jones expects to earn a salary in the mid-\$30,000 range if he lands an AGI position.

"I can't think of a better time for Cleveland County to have a layoff like this," says Randy K. Kesterson, general manager of Curtiss-Wright Flight Systems Inc., a local unit of Curtiss-Wright Corp., of Lyndhurst, N.J. "If you want the job and you come to work on time and you're an honest person, you can find work here."

There's a catch, however. That job might pay less, offer fewer or no benefits, be further from home and promise only temporary employment, especially for workers with just a high-school diploma and few work skills.

More than 1,250 people applied for some 80 spots at AGI, which offers health care, adoption assistance, vacation and other benefits of a permanent job. AGI, however, generally pays less than Kemet. AGI recruiters report that applicants' most pressing question was whether the company planned to stay around for a long time, in keeping with Fed Chairman Greenspan's theory that worker insecurity keeps a lid on wages. "People are concerned about their jobs," says Clarann Schiavo, 46, who is slated to lose her \$13.31-an-hour Kemet job. "I know more will come in, but I also know more will leave."

Almost one-third of Kemet employees were temps, who received no benefits, less pay than their permanent counterparts and were the first to go when times got tough. Company managers say the temps were needed to protect the permanent staff from fluctuations in capacitor demand.

But workers, buffeted by forces beyond their control, are dubious about the benefits of a job without benefits. Heath Hovis, a 52-year-old electrician with the Shelby schools, saw his wife laid off in 1996 after 19 years at a textile company. One daughter, who briefly worked at Kemet, is still hunting for a job, while another is employed by a local drive-in.

"Temporary jobs are really all that high-school graduates can get right now," says Mr. Hovis. "I understand the [companies'] reasoning, but I don't know who they think is going to buy their products."

THE WALL STREET JOURNAL
THURSDAY, FEBRUARY 12, 1998

Jakarta Currency Plan Has Yet to Sway IMF

Markets Are Wary Of Harm to Rupiah

Committing itself openly to a controversial currency-board arrangement, Indonesia may have put itself on a collision course with the International Monetary Fund and global financial markets. Neither the IMF

By Wall Street Journal staff reporters Darren McDermott in Singapore, Jay Solomon in Jakarta, Indonesia, and Bob Davis in Washington.

nor the markets appear convinced that Indonesia can pull off such a quick fix for its economic woes without further harming its beleaguered currency.

In a speech to parliament, Finance Minister Mar'ie Muhammad said the government is "preparing steps toward the setting up of a currency-board system, including legislation to support the board." Lawmakers quickly lent their support to the program and said government regulations could be enacted to implement the plan. The timing is unclear, but the government appears ready to act in days on the board, which would replace the central bank.

Reached at his home in Baltimore, Steven Hanke, a Johns Hopkins University economist who served as an adviser to the Indonesians on a currency board, said he was flying to Indonesia to do "the final scrub-down on the currency board." He estimated it would take less than three weeks to complete the work.

Though the IMF doesn't oppose the principle of currency boards and has helped countries set them up in the past, IMF officials have told their Indonesian counterparts that they don't believe a currency board is appropriate now for Indonesia and they deride the plan in private. Among other reasons they cite, Indonesia faces severe crises of confidence in both its political and financial systems.

The IMF and its allies appear to have settled on a strategy of trying to slow the momentum in Indonesia for a board. U.S. Treasury Secretary Robert Rubin, indicating the cold reception the Indonesian currency-board plan is receiving at the Treasury, told reporters that "there are a lot of issues that have to be thought through." An IMF spokesman said the fund's discussions with the Indonesians over the currency board "are likely to be ongoing for some time."

IMF and Treasury officials feel they are constrained against publicly trashing the plan for fear of causing a renewed meltdown in investor confidence in Indonesia, making an economic rescue even more costly. For now, public statements are likely to be guarded, while officials lobby President Suharto and his aides to reverse course.

A radical reconfiguration of Indonesia's financial system would require a wholesale restructuring of the IMF-sponsored, \$43

Please Turn to Page A17, Column 1.

Continued From Page A14

billion bailout package currently in place in Jakarta. Economic-growth and interest-rate targets would have to be scrapped; IMF negotiators would have to troop to Jakarta yet again.

A currency board typically replaces a central bank with a pledge by a government to hold sufficient foreign-exchange reserves to trade each unit of its currency for a stable reserve currency at a preset rate. The government loses its ability to set interest rates, which instead fluctuate in tandem with the reserve currency, in this case the U.S. dollar.

Talk alone of the currency-board plan has spooked currency speculators from betting against the Indonesian rupiah, traders say, giving a temporary boost to the battered currency. Since last week, the rupiah has risen about 30% against the dollar, ending Asian trading Wednesday at around 7,650 per dollar.

But by stating publicly it is considering a currency board, which would involve pegging its currency at about 5,000 to 6,000 rupiah per dollar, Indonesia has embarked on a risky voyage from which there is no easy return.

"If they don't go ahead now, the currency will collapse," says Neil Saker, an economist at SocGen Crosby and a proponent of an Indonesian currency board.

Concern Over Speculators

If no currency board materializes, speculators will return in force to savage the rupiah, because they know the government has played its last hand, say foreign-exchange executives. Even if Indonesia does adopt a currency board, speculators are eager to test the government's resolve in holding the peg.

In a bizarre twist in the increasingly bizarre currency-board saga, Mr. Hanke of Johns Hopkins, who is credited with con-

vincing the Indonesians of its merits, disclaimed authorship of a working paper that was floated around Jakarta outlining its benefits. Instead, Simon Nocera, who runs CapMac Investment Management Co. in San Francisco, contends he authored the paper during a stay in Indonesia at the end of January. Mr. Nocera, a former IMF economist, told friends and colleagues about the paper before it became public.

But Mr. Nocera sharply criticizes the Indonesian government for failing to fully carry out a strategy necessary for a successful currency board. First, he says, Indonesia must fundamentally restructure its banking system. Without such change, "you could lead to speculation on the currency," he said. "The Indonesians are only doing the easy part—the currency board."

Waiting for a Signal From the IMF

The IMF's role will be crucial. Despite its misgivings, its approval, and even leadership, of a currency board are seen as essential for it to succeed, say Mr. Saker and others. That's because the fund's support for Jakarta is one of the last pillars of market confidence Indonesia has left.

Observers on both sides of the debate await some public signal from the IMF. But fund officials privately express opposition to Indonesia adopting a currency board at this point, arguing that a host of "preconditions" would need to be in place before such an arrangement would work.

The current IMF bailout package for Indonesia, signed in November, was already renegotiated once because of Indonesian backsliding on key issues such as banking

reform and fiscal spending. Signs that Indonesia may not be able to stick to the second agreement are already cropping up, including failure of the government-owned food-distribution agency to relinquish its monopoly on key commodities.

"At the end of the day, it's certain the IMF will have to revise its program (for Indonesia) for the third time," predicted economist Rajeev Malik of Jardine Fleming in Singapore.

Criticism on Timing

Some economists argue that if Indonesia is already flouting agreed-upon reforms, it can't be trusted to stick to the extremely rigid policy directives of a currency board. With elections coming in March and social unrest on the rise, this hardly seems a suitable time to tie policy to an inflexible mechanism that could send interest rates shooting skyward. Yet high interest rates could be the only way to combat hyperinflation that now threatens the world's fourth most populous nation.

Just two weeks ago, Indonesian authorities and the IMF announced broad banking reforms designed to shore up Indonesia's tottering banking system. They pledged that Bank Indonesia, the nation's central bank, would guarantee the claims of nervous depositors and creditors on domestic banks to prevent the nation's financial system from freezing up.

But under a currency-board arrangement, the central bank would be powerless to make good on such guarantees. In its report on currency boards last year, in fact, the IMF cautions against nations with weak banking systems adopting such mechanisms for this very reason.

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Globalization drive is getting dangerous

By WILLIAM PFAFF

PARIS — A war between economic societies is going on. It is a war that may prove as important to modern history as the rise and fall of imperialism and colonialism. Important resemblances exist between today's struggle and the phenomenon of colonialism.

Western forces

The United States, ambivalently backed by Europe and Canada, is attempting to force the replacement of crucial economic and social institutions in the non-Western world with institutions drawn from its own experience and that of Western Europe.

This campaign is inspired by U.S. economic theory, promoted by U.S. economic and business publicists, and waged by U.S. industry, commerce, and government. Its goal is deregulation and integration of the world economy, so as to impose the economic standards and practices, and in important respects the manner of life, of the capitalist West.

The campaign originated in the struggle against the Communist economic model. Until the 1980s, many in the West believed that the Communist model, in its Russian and Chinese versions, could defeat the West.

The West's drive toward globalization demands elimination of "backward," "inward-looking," "protectionist" structures in other societies, so as to incorporate the members of those societies into the Western-dominated global economy as consumers and producers.

Such was the concern of an influential 1975 Trilateral Commission study. However, a decade later, Soviet Communism collapsed as George F. Kennan and a few others had foreseen.

Many then argued that the East Asian economic model in Japan, South Korea, Singapore and Taiwan was superior to the Western model, and that the United States should try to adopt its practices.

In purely economic terms, the centrally directed East Asian model for national industrial mobilization was a much more serious challenge than the Leninist-planned economy had been. But it, too, had, and has, an internal contradiction: its dependence upon export-led growth, ultimately irreconcilable with its protectionism.

In Japan, where the East Asian model originated, the nation's ability to adapt its economic system to changing circumstances in the 1990s was handicapped by the country's political blockage, a legacy of World War II and the Cold War. Japan's success in the future will undoubtedly depend more on political reform than economic adaptation.

The success of the similar South Korean system, based on high domestic savings and investment with high productivity, — plus, initially, close control of bank lending — was in the last few years undermined because the government yielded to Western demands for market and credit liberalization, opening its market to specu-

lative Western investment. South Korea has already elected political reform.

Ruling classes

The East Asian model should not be confused with the essentially feudal economic system which exists in Indonesia and some other Southeast Asian countries, where resources and industry are controlled by family or clients of the ruler, or of the ruling political class, who in turn enrich Western investors prepared to pay the required tribute.

China today is probably closer to this feudal model than to East Asian capitalism. What such societies need is not the deregulation urged by Western financial institutions and governments, but the opposite: uncorrupt and disinterested regulation.

The East Asian model will be modified in the course of the present crisis, but it is reasonable to believe that it will survive with its fundamentals unchanged. It is a legitimate outgrowth of East Asian social institutions developed over the course of the region's history.

Elsewhere in Asia, the lasting consequences of the crisis may be more destructive. But those who expect the crisis to result in a widespread adoption of something resembling the U.S. market economy are mistaken. They are making the naive mistake of those who believed that Western-style capitalism would spontaneously spring up in the debris of the command economy in Russia.

Western capitalism's intellectual and moral foundations have been Western Christianity and Enlightenment liberalism. The moral foundations of East and Southeast Asian civilizations have been religiously based hierarchical political structures and patriarchal social and family structures. These lie behind both the East Asian economic model and Asian economic feudalism. They now are under implicit attack from the West.

Western colonialism, in its day, was a moral challenge to Asian civilizations. More recently, in China (and Vietnam, North Korea and Cambodia), an imported Marxism attempted to destroy inherited moral structures. Now the attack once again comes from the West.

The West's drive toward globalization demands elimination of "backward," "inward-looking," "protectionist" structures in other societies, so as to incorporate the members of those societies into the Western-dominated global economy as consumers and producers — to the West's advantage, obviously. Otherwise, the West would not be doing it.

This is dangerous, just as colonialism was dangerous. Colonialism undermined and sometimes destroyed the moral underpinnings of colonized peoples, producing violent reactions. In the end, the empires withdrew, but they left a great deal of wreckage, and in some places, a legacy of hate.

The new Western offensive means no damage. But it is a war of society and culture, and causes damage. The damage has political consequences. That does not today seem really understood.

William Pfaff is a syndicated columnist.

PHOTOCOPY
PRESERVATION

Huntington "People want both
Soy's and soul. ~~for~~ benefits
of modernity and the idealistic
pursues of an culture + values."

The West - seems to think interest
is at stake only, when oil is
involved. In Sargasso, no oil.
Only an idea that is the essence
of America: tolerance + consistency.
and leaders, leaders don't
understand that the West is
far more threatened in Sargasso
than in the Gulf.

(Bernard Henri-Lévy)

But like generations / civilization:

we want sugar w/out calories

butter w/out fat

love w/out love pains

dying w/out suffering

light w/out darkness

} futile
illusions

Remarks by
FIRST LADY
HILLARY RODHAM CLINTON

in commemoration of the
50TH ANNIVERSARY
of the
UNITED NATIONS GENERAL ASSEMBLY
ADOPTION AND PROCLAMATION
of the
UNIVERSAL DECLARATION OF HUMAN RIGHTS

December 10, 1997



"We must rededicate ourselves to completing the circle of human rights once and for all. We must challenge ourselves to see more sharply, to hear more clearly, to feel more fully."

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