Business Briefs

Corporate Strategy

German firms avoid 'modern' management

Small and medium-size German firms, known as the *Mittelstand,* have generally managed to remain productive and escape the disasters of big industry, because they oppose "modern" management methods and stick to traditional methods of corporate "common sense," Hermann Simon, a former marketing specialist at the University of Mainz, documents in *The Secret Winners,* according to a review in the Jan. 30 *Frankfurter Allgemeine Zeitung.*

The book is based on studies of about 500 firms in Germany. "They disregard the rules of management gurus, don't think much of outsourcing, strategic alliances, or modern marketing methods," the review began. Those firms, "though largely unknown to the public, are leading firms in their respective markets."

One of the traditional aspects of corporate solidity is that these firms used to build their own machine tools, and favor a high rate of technological innovation: Simon found firms that have 20-25 patents per 100 employees, while Siemens Corp., which is the world leader in the total number of patents held, has a ratio of only 10 per 100 employees.

The concentration on concrete requirements of production does not permit the firms to build up an unproductive bureaucracy—"more work than heads," is the phrase used by Simon.

Labor

Russia, Ukraine face growing strike wave

Russia and Ukraine are facing growing labor unrest. Nationwide strikes of coal miners began on Jan. 31, involving about a half-million miners in each country, Itar-Tass reported on Feb. 1. The strikes were called by the independent miners unions, to demand the payment of back wages. In most cases, miners have not been paid since October.

"The economic crisis is a consequence of the reforms that have been undertaken," said Natalya Vitrenko, a deputy of the Ukrainian Parliament, wire services reported. "This is a scenario to destroy all our industry as proposed by the International Monetary Fund."

In Russia, on Feb. 3, miners suspended their two-day-old strike after Prime Minister Viktor Chernomyrdin signed a 10.4 trillion ruble ($2.2 billion) financing package, including $133 million in overdue wages, for 1996. But they threatened to strike again if the government did not follow up pledges to finance their crumbling industry. The strike had taken on a political character, with many miners demanding the resignation of Chernomyrdin.

The coal miners strike overlapped a three-day nationwide Russian teachers strike that began on Jan. 30, involving 250,000 teachers in 51 regions.

In Severomuysk, near Lake Baikal, where a 15-kilometer tunnel has been under construction for 20 years as part of the Baikalo-Amurskaya railroad, appalling work and living conditions have led workers to threaten that they may go on strike; a strike could lead to the flooding of the tunnel.

Finance

Casino economy, not wages, causing problems

The problems of the German State are not caused by high wages or spending for social programs, but by international capital flows, which have turned the world economy into a casino, Arne Heise, of the trade union-related Institute for Economic and Social Sciences in Düsseldorf, charged in the February issue of the monthly *International Politics and Society,* published by the Friedrich Ebert Foundation in Germany.

Heise warned that financial speculation is destroying the sovereignty of States in respect to social policies. Germany, in particular, is a victim of global speculation and the flow of speculative capital. This is the problem for German exports, and not high wages, he said.

Even Social Democrats and trade unionists have capitulated to the illusion of inevitable globalization, and therefore are now losing political support, he said. The so-called inevitability is nothing but coercion of national policy by globalized financial markets. He attacked efforts to replace State emphasis on social policies with a free trade "competition State." However, his strange conclusion is, that the social State cannot be sustained under these circumstances, and should be reestablished on a supranational basis.

Economic Policy

Polish model a disaster, says Moscow professor

The "Polish model" of privatization and other International Monetary Fund-dictated policies should not be followed by Russia, warned Prof. Taras Muranivsky, in an article entitled "Where Is the Polish Road Taking Us? Six Years of Reform in Poland," in the Moscow daily *Nezavisimaya Gazeta* on Jan. 23. Dr. Muranivsky is president of the Schiller Institute for Science and Culture in Moscow.

Russians generally receive only the most "optimistic" information about the Polish reforms, Muranivsky wrote, yet the defeat of Lech Walesa in last year's Presidential elections was more due to the social consequences of the reforms, than to "image" or other factors. This is an important lesson for Russia, whose reforms were launched on the Polish model, he said.

While Poland has had two parliaments and six governments in six years, one thing has been constant: "the illusion of 'free market reforms' under IMF supervision," which, in reality, entails the massive sell-off of national industry to foreign companies, which are interested in cheap and relatively skilled labor." Muranivsky cites the research of "the Polish economist from the U.S., Anna Kaczor-Wei" (published in *EIR*), who "is of the view that Poland is coming more and more to resemble certain Latin American countries, particularly Mexico. . . . Essentially, Poland is becoming one big *maquiladora.*"

Muranivsky summarizes Kaczor-Wei's

findings on the flow of investments into Poland, out of the productive sector and into finance and banking. He quotes Member of Parliament Wojtiech Blasiak, who said during a parliamentary debate on the new privatization law, that Poland was losing its economic independence and becoming a Third World country.

Muranivsky writes, "Further privatization measures in Russia . . . resemble today's reforms in Poland. . . . The struggle against privatization is sometimes shrugged off as communist propaganda, but that is not the point. Economic life in Poland today, and now in Russia, rests primarily on trade in imported goods. But it is well known, that that is a road to nowhere." The State must intervene, to invest in the productive sector and infrastructure. "Purely monetarist methods, and privatization based on them, can ruin the entire economy."

Gold

Price surge reflects strategic decision

The spot price of gold, which stood at $387 per ounce on Jan. 1, surged past $416 per ounce on the London gold market on Feb. 2, bringing it to a six-year high. Speculative hedge funds, such as George Soros's Quantum Fund and Mercury Asset Management (a division of S.G. Warburg, which is now owned by Swiss Bank Corp.), which already hold huge positions in metals on the London Metals Exchange, are pouring fresh cash into gold futures on the New York Commodity Exchange, the London *Financial Times* reported.

At the same time, Barrick Gold of Canada, one of the world's top-five gold producers, run by the speculator Peter Munk of Canada, and which includes on its board J. Trevor Eyton, chairman of the Bronfman family's Brascan Ltd., announced that it was reducing its hedging position by 100 tons.

Gold producers, such as Barrick, have tended to inhibit any price rise in the recent past, by taking advantage of higher prices to sell their production forward, which is a form of hedging. This dumps gold onto the market, driving its price back down. If Barrick and other producers reduce their hedge positions, this will tend to push gold's price higher. Thus, Barrick's decision is strategic, and could have come after consultation with other members of the raw materials cartel.

"The break and close above a key level around $409 was the turnaround point for gold," said one European analyst. "It really looks as if we could have the makings of a major bull run." The increase in commodities' prices over the past 18 months represents the stampede by the Anglo-Dutch oligarchy, grouped around the House of Windsor, out of financial holdings, which are on the verge of disintegrating, into hoarding of raw materials, including increasingly scarce food supplies, base metals, and precious metals.

Banking

Two Japanese banks take losses, restructure

Two Japanese banks, including the Long-Term Credit Bank of Japan (LTCB), one of Japan's top 21 banks, announced Jan. 31 that they would write off large amounts of bad loans and begin major restructuring programs, including workforce reductions and cuts in foreign operations.

An LTCB spokesman said the bank aimed to cut jobs by 10% through attrition. It has about 3,900 employees. LTCB will close offices in Milan and Melbourne, and a branch in central Tokyo, and may also sell Greenwich Capital Markets, its U.S. securities unit, and shut its unit in Belgium. LTCB is thought to have some $20 billion or more in bad loans, including $500 million to the bankrupt *jusen* home loan companies, out of a loan portfolio of some $200 billion.

Hokkaido Bank, a smaller regional institution, said it would close all its overseas operations (a branch in New York, an office in London, and an office and a subsidiary in Hongkong) by the end of March. It said it planned to write off bad loans of $747 million in the year to March 31, 1996, and to post a loss of $364 million. Even after the planned write-offs, it would still have problem loans of $1.66 billion.

Briefly

CHINA will build two power stations in Nigeria, the government announced Jan. 10, Reuters reported. A World Bank loan fell through, because it "insisted on Nigeria increasing electricity charges," the wire said. In December, the two nations signed a $500 million deal for China to modernize Nigeria's railways.

BENIN President Nicephore Soglo threatened on Jan. 25 to use edicts to implement the International Monetary Fund-dictated third structural adjustment program, which has been postponed three times by Parliament. He insisted that any decision taken by the World Bank "cannot be put into question."

MONT PELERIN Society founder and Nazi economist Friedrich von Hayek's triumphant moment was when he received the "Companion of the Queen" honor from Queen Elizabeth II of Great Britain, a Mont Pelerin Society member and friend of von Hayek told a caller recently. "Von Hayek was through and through British."

AUTOMAKERS are reducing their first-quarter production 9.6% below 1995, to reduce inventories of passenger cars, which have swelled from 60 to 65 days, to 76 days. Fifteen car assembly plants plus four light truck assembly plants, in the United States, Canada, and Mexico, are being idled for at least one week.

GERMAN pensioners are warning that they will "march on Bonn," if there are pension cuts. Walter Hirrlinger, the president of the Association of Pensioners, Handicapped, and War Victims, told the daily *Bild am Sonntag* on Feb. 4, that his group will begin collecting signatures, which will be presented to Chancellor Helmut Kohl on March 10.

FRENCH unemployment is 11.7%, according to government figures released on Jan. 31. In the southern port city of Marseilles, 23% of those under 25 years of age are unemployed. A new wave of strikes has begun.