have fallen into complete oblivion. Worse still, it is a capitalism which any educated person should be ashamed of, because the corporate strategies that result from the single-minded microeconomic logic of maximizing present shareholder value inherently impart increasingly negative long-term macroeconomic consequences to economic growth, income, and profit creation. What really happens, is rampant overconsumption at the expense of future generations, who are to inherit depleted domestic capital formation, a mountain of foreign indebtedness, and lots of worthless paper assets (stocks and bonds). It might be called "beggar-thy-children capitalism." The motto of this capitalism is, "After us, the deluge."

The Meaning of Capital Formation

The new information revolution has been sold to investors as a technology that will work the greatest wonders to productivity, profits, and wealth, far more than the industrial revolution has done. During the past few years, it has worked marvelously—in the stock market. The general idea behind the unfolding euphoria was and still is, that this technology is able to deliver almost limitless growth and productivity effects, because its implementation requires very little input of capital and resources. Rapidly growing demand for the new technology has met supply, growing just as rapidly.

It is true, indeed, that the implementation of the new information technology requires incomparably less capital input than the industrial technology did. Never before has it been so easy to multiply capacity so quickly. Many see in the new technology the magic wand that conjures away the scarcity of savings and of capital goods, heralding a world of plenty for America and the world. But the great irony about this technology is that its alleged, unique advantage of minimal capital input is the very reason for its inherent inability to create prosperity and profits.

Deeming the minimal capital input, intrinsic to the new information technology as a great economic advantage, is another gross misconception. Capital input is a synonym for capital formation, and capital formation is really at the bottom of everything that matters in creating prosperity. Representing the surplus of production over consumption, it is the one and only source of macroeconomic wealth-creation. At the same time, the building of factories and the production of equipment, create jobs and incomes in the capital goods industries and among their suppliers. Owing to these effects, capital formation is strategic for generating general prosperity.

Conclusions

The U.S. economy is already far weaker than most people realize, because they fail to see that the good-looking GDP numbers for the second and third quarter have been heavily propped up by record-high inventory building. When that stops, recession will hit.

Economic imbalances and financial excesses of unprecedented size have made the U.S. economy and its financial system more vulnerable than ever before. There are serious problems everywhere: in the credit markets, in the banking system, in stock valuations, in credit availability, in the profit performance, in the debt burdens of corporations and consumers, in negative personal savings, and in the huge trade gap and the grossly overvalued dollar. Confidence in the dollar has been the one linchpin that has held this disintegrating system together.

High saving and heavy capital accumulation were paramount in boosting wealth and living standards in the course of the Industrial Revolution. For too long, too many people have believed that the new information technology offers a free lunch by delivering huge gains in equity prices. In reality, this paper wealth creates the exact opposite: financial claims on existing resources.

Hopes for a soft landing of the U.S. economy are completely misplaced. We have witnessed the worst financial bubble in history. Just as misplaced are the hopes that Mr. Greenspan will again save the day by promptly opening the Fed's money spigots. Regard for the dollar will constrain his scope for action in the first place, and the need for painful balance sheet adjustments on the part of heavily indebted consumers and corporations will severely impede the effectiveness of monetary easing, in the second instance.

Dr. Nino Galloni

Globalization And Labor Power

Dr. Galloni is Director General of the Italian Labor Ministry, and president of the Technical Committee for the Unemployment Compensation Agency, in Rome. His speech was entitled "Globalization, Multinational Concerns, and Labor Power." It was translated from Italian by EIR, *and subheads have been added.*

I want to deal with the relationship of globalization, employment, and multinational corporations. I will give concrete examples as well. The basic problem is that, essentially, the problem—excuse the play on words—is not globalization, because globalization is actually only a form of competition among firms, at least in theory, much more developed and exacerbated by the application of modern technologies, especially in the information sector.

Now, this would not change anything at the level of the economy, because we would have the usual problems for companies, regarding costs, and therefore we should have an alternative between lowering wages, which is typical of an economy that does not develop, and introducing such efficient technologies, as to allow for combining good wages and contained costs per unit of production. But if we were to find ourselves in this situation, we would have to expect a sharp drop in profits, especially in firms exposed to globalization, because in order to be competitive, firms exposed to globalization would have to reduce their prices as much as possible, and therefore, not only costs but also profits. But instead, this is not what happens. This means there is something in our reasoning that has to be clarified.

Above all, it is the big, globalized corporations which make the highest profits. As we will see, the problem is in the organization of production, because what we commonly call globalization, believing that, as the etymology shows, it concerns the whole world, in reality, is relative, is internal to the single multinational corporation. The corporations organize themselves in a new way, compared to the past. . . .

In practice, today, big corporations tend to purchase semi-finished products and services, and it is they which are able to sell, so the essential point is that today, to run a corporation on the planet, one has to have access to markets. Whoever controls access to markets, theoretically, can do big business with just a telephone and a computer. He can get shoes produced in India and sell them in the United States, for example. He does not need workers who are on fixed salaries, or to worry about whether or not a big order comes from the United States. This, in fact, is generally called globalization, and it is the possibility offered by new technologies, to organize production in this manner. This means that the main aspect is not production, the principal aspect is the ability to control access to markets. We will see the financial aspect later.

How Finance Took Over Production

To understand what happened in the organization of big corporations, one has to see, that instead of having dependent workers, these firms have dependent firms in various parts of the world. These small firms have relatively small profits, because they are the ones that feel the effects of globalization. But one has to take a step backward, to understand how we arrived at this situation, which, as we will see, significantly modified the economy as we had known it up to ten years ago. We have to go back to the 1980s, when interest rates in real terms were very high. This naturally determined an elevated financial concentration and many other aspects, which from a productive and democratic point of view are considered negative.

In that period, when interest rates were particularly high, the pension funds, investment funds, and insurance funds, that is, mechanisms that have a common economic goal, had made commitments with their subscribers that did not correspond to the current interests rates of the 1980s. When, in the 1990s, interest rates (on corporate bonds and state bonds) fell, the pension funds and investment funds, in order to honor the commitments they had made with their subscribers, abandoned corporate and state bonds, because the yield on them was lowered, and instead bought stocks, moving into the stock market in a big way.

Italian Labor Ministry representative Nino Galloni

Because these pension funds and investments funds, like those in the United States, were very big, and in general were run by the banks, they became proprietors of corporations. And they imposed on corporate management certain profit rates which did not correspond to the current rates, as had always been the case in the history of capitalism, but instead corresponded to the interest rates of the decade before, that is, of the 1980s, when the funds had made commitments with their subscribers. In other words, the pension and investment funds, in competition among themselves, imposed on the companies which they bought through the stock market, profit margins with no regard for the market conditions.

In the past, we had had a situation whereby, when the real interest rate fell, it was possible to make more investments, and guarantee the owner a sufficient remuneration of capital, of the investment, corresponding to what he would have earned investing his capital in purely financial activities, like state or other bonds, instead of in productive activities. Now, instead, the situation has been reversed: It is the owner, in this case the pension funds, which imposes on management a certain target profit rate. In general, it is 7 or 8%—in real terms, that is. This target is pre-defined and must be achieved.

Thus, the risk is no longer with the entrepreneur, but is unloaded onto society and the labor force.

The Situation in Italy

This is a reversal of what existed in the past. Now, from the organizational standpoint, there are relations created between the big corporation, which controls access to the markets, and the small companies that work for it. For example, in Italy, we have 4.3 million companies, of which only 300,000 make big profits. And there are 2 million firms in Italy which practically make no profits. Then, why do they exist? What explanation can economic theory give us of the existence of more than 2 million companies that don't make any profits? Simply, because they are nothing but dependent workers, who are organized in a firm, because the big corporation wanted it this way, in order not to have to be subject to what are considered the most stringent conditions for dependent workers; thus, the big corporation prefers to have these dependent firms, from which it will buy a product, a service, or a semi-finished product, when it needs it. They are actually independent workers, organized in a firm, but the firms are dependent; they appear to be independent, in reality they are dependent, but they are entrepreneurs, therefore juridically they are independent, though I say they are economically and politically dependent.

Let us reflect, for example, on one fact: The biggest multinational corporations on the planet, present an added value per worker of $400,000. Since the average salary is not high, we have to ask ourselves, how is it possible for these big multinational corporations to have profits in the order of $300,000 or $350,000 per employee. Evidently, because behind these figures there are other costs which have to do with the relationship to these dependent firms.

Certain Profit Rates Are Set

What is the basic point in my argument here? Forcing firms to achieve a high profit rate, is not in contradiction with economic development in innovative sectors; that is, in sectors where earnings have increased and costs have fallen, it is possible to combine high profit rates with economic development and growth of the firm. But innovative sectors, according to the way the economy of our planet is currently organized, are in a minority. In the majority of the so-called new, mature sectors, the opposite is the case: Costs have risen and earnings have fallen. Therefore, in order to reach the same profit rates of innovative sectors, corporate ownership imposes on management cuts in production and employment, which are not justified by the conditions of the competition or of the market, that is, of globalization, but by the fact of having a certain profit as an objective.

This is the cause of economic crises as well as of shortcomings in production. I will give an example to clarify this better. It is the experience of an Italian group, a world leader in the field of mechanical turbines. This group was state-owned, it was a firm of ENI. The fact that it was state-owned, did not prevent it from becoming a world leader, which, in fact, it had become. But at a certain point, the politicians decided that it had to be privatized, that it should no longer be state-owned, because, they asked, what does the state have to do with turbines? In the end, the government decided to sell it to General Electric, since it was in that sector. The problem was that, in the meantime, GE had come under the control of pension funds, which did not care about leadership in turbines, or production of turbines. They cared only about getting an 8% profit, because that was the target defined by GE, or rather, by the pension funds on the firm, and that target had to be reached. This firm was not only globalized, and competed on the international market with success, but it was also a world leader, and was particularly capable in the turbine sector.

Now, how did the new managers of the firm succeed in achieving a real profit rate of 8%? They closed down research centers, fired the most expert workers, who were around 45 years old; they hired young workers without fixed contracts, who cost much less, and did all this with the support, not only of the politicians, but also of the unions. As a result, this company is seeing its share of the market dwindle, it is cutting production and reducing employment.

High Profits vs. Development

What do we learn from this kind of experience, and this kind of thinking? That we are witnessing in the current historical period, a process in which financial activities are decoupling from productive activities, but controlling them. While we observe the economic situation in innovative sectors, and see that there is compatibility between profit earnings imposed by management and economic development, it is only in these innovative sectors, which have rising earnings and falling costs. But in the majority of sectors which are competitive, which are globalized, which reach high profits (but not as high as what is demanded by the ownership), the two objectives—growth of the firm, therefore, productive development, and the particularly high profit rate—are not compatible.

On this basis, we can obviously make projections for the future. For example, earlier we saw the dramatic figures of the collapse in the American stock market, and elsewhere, pulled down by the fall in the New Economy stocks. A report of about a year ago, forecast that in certain parts of the New Economy, there would be, beginning in 2002, a cut in earnings, as if to say, that even what we today call the New Economy, excluding certain services and niches, is destined rapidly to become a new, mature sector, but not as innovative as we had thought earlier. Probably, this perspective, in terms of earnings, known by stock market operators, favored the fall in the stocks on the New York stock market, with all the consequences we were able to evaluate in the speeches this morning.

Develop the Entire Planet

Now, the problem of the New Economy is that 50% of the world population does not have electricity or telephones. This is quite a bottleneck to economic development. Therefore, in the absence of a world plan to allow the entire world population access to electricity, it is obvious that even the growth of the New Economy, as of any other sector, may meet certain limits in earnings potential of rich countries, because as far as the economic development of less rich countries is concerned, we know that the demographic growth rate often is greater than the rate of economic growth, and therefore, the average income is reduced. If a general plan for developing the planet is not made, it is obvious that we will continue to meet up with these problems.

Every once in a while, innovative products will emerge, innovative services which allow for compatibility between high profits and development, but most of the productive, real economy will tend to stagnate. In addition, the threat that ownership, desiring specific profit rates even in mature, non-innovative sectors, will impose production and employment cuts on firms, will obviously influence industrialized countries as well. This means, essentially, that free-market policies produced an increase in wealth in certain situations, even on the social level inside industrialized countries, but then produced either welfare systems (in general, one has recourse to this form of assistance, to contain the damages of free-market economics) or poverty.

Clearly, anything we say today about world development, and development especially of countries with lower income rates than in the industrialized sector, must face the problem of the environment and pollution. Now, it is clear that if we talk about an increase of world production at given technologies—that is, current technologies—then we will have a corresponding increase in pollution. But this kind of argument is radically wrong, because we have to consider that, in the context of a grand development project for humanity, the new technologies which will have to be introduced, to facilitate this development, will themselves be less polluting than those in the past. Think, for example, of what the world would be like today, from the environmental standpoint, if the industrial technologies applied were those of 50 years ago. Pollution would be much worse. Let us ask ourselves, for example, why automobiles, which have witnessed enormous improvements in technological standards, have not seen the same kind of improvement regarding reduction of fuel consumption. Because there were political interests of petroleum producers, interested in spreading the use of automobiles, and reaching increasing technological levels, but that saving fuel was not such an important factor. This example could be replicated elsewhere.

In the final analysis, the problem is to ensure that politics reassumes control, productively, and in the interest of the whole population, over technological development and over decision-making, to ensure that technologies are decreasingly polluting, and that in all sectors, all possibilities are placed at the service of man, in order to reach the objectives defined by this seminar. Thank you.

Tatyana Koryagina

Current Condition of The Russian Economy

Dr. Koryagina is a senior scientist at the Institute of Macroeconomic Research, Ministry of Economics and Trade Development of the Russian Federation; Academician of the Russian Academy of Natural Sciences. The full title of her paper is "The Current Condition of the Russian Economy, with Near- and Medium-Term Forecasts of Its Development." Subheads have been added and it has been translated from the Russian by EIR

Taking an unbiased look at the current condition of Russia's economy, raises more questions than answers. To make a joke about it, you could compare the situation in this problem area, with the rather prolonged silence of the Russian VIPs who were sitting on the podium in the conference-hall at the Davos World Economic Forum, after they were asked, "Who is Mr. Putin?"

The spectrum of assessments of the current period in the Russian economy is quite broad—from extremely pessimistic ones, to quite rosy. I would like to draw your attention to the most essential element. That is, the high degree of uncertainty, in assessments of the prospects for economic growth in Russia. The high level of the uncertainty factor, and therefore of the degree of economic risk, is caused by a whole array of domestic factors, as well as external ones. I shall indicate the most important of these.

The Uncertainties

First. There is still uncertainty about how, and in what order, the policy on debt-repayment will be designed. Prime Minister Mikhail Kasyanov stated not long ago, while he was in Italy, that Russia will make all its debt payments due this year on debts to Paris Club creditors (and, one would think—according to the government's logic—this commitment will also apply during the years ahead). It will, however, be quite difficult—not to say impossible—to secure approval from the State Duma [lower house of Parliament] for a "debt policy" of that sort. For the government's domestic debts are also substantial, and require prompt repayment. At the present time, protest actions are developing across the entire front of