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## ECAAR Chair James Galbraith Visits Russia

ECAAR's national Chair James Galbraith visited Moscow June 7-8 for a two-day seminar on problems of the Russian economy, which was held at the Russian Academy of Sciences.

Participants included ECAAR-Russia's Co-Chair Stanislav Menshikov, Academicians Dimitry Lvov, Oleg Bogomolov, and Aleksandr Nekipelov, all of whom are members of the Board of ECAAR-Russia, as well as other members of the Academy of Sciences. Academician Lvov, who is ECAAR-Russia's other co-chair, hosted the meeting.

On the first day, five Russian colleagues presented papers covering various aspects of the Russian economic crisis, including its domestic, international, political and security dimensions. On the second day, Galbraith gave a lecture on inequality and unemployment to a large audience from the Academy and other Russian academic institutions.

The tone of the Russian presentations was bleak. Russia faces a deep and prolonged economic crisis, under conditions where neither the will nor the means to achieve recovery presently exist. The legacy of communism has now been compounded by that of failed "market reforms," which created private monopolies in the resources sectors, and caused a vast upward redistribution of wealth, asset-stripping of manufacturing industries, and the pauperization of much of the population.

At the same time, the country continues to face a heavy burden of past debts, obstacles to the marketing of many of its major products (most notably steel) in Western markets, and pressure from the international funding agencies to raise taxes on the population — presently under debate in the Duma — and to maintain open channels for foreign exchange and trade, which also permit capital flight.

There was, indeed, modest progress following the crisis of August, 1998 under the government of Yevgeny Primakov: There was a reduction in arrears of salaries and pensions, imports declined sharply following the devaluation of the ruble, and industrial production recovered modestly in the import-competing non-durables sectors. But that government has now been replaced, and while the new government of Sergei Stepashin is not yet departing significantly from Primakov's policies, Russia still requires a sustained period of institutional rebuilding, including in the financial, industrial and the natural resources sectors. There seems little prospect of this for the time being.

The security concerns that are ECAAR's principal considerations can only be addressed effectively in the context of sustained progress toward economic reconstruction and conversion. Failing this, grave dangers remain over the medium and long term of violent developments within Russia and of negative global relationships.

The war in Kosovo, combined with NATO expansion and the failed role of the West in Russian economic transition — itself widely perceived in Moscow as a betrayal — make for a climate of distrust and hostility toward the United States in particular at the present time. This was reflected strongly in the meetings.

There was strong agreement that both Russians and Westerners need to understand the Russian crisis in a new, realistic and urgent light. Toward this end, the Russian participants agreed to collaborate with economists from ECAAR-US on a new effort to conceptualize Russian economic development from this point forward. This may take the form of a book or monograph to be drafted over the course of this year. Further meetings in Moscow and the United States are anticipated.

***"No single Pentagon office is in charge of buying arms... President Clinton should establish a Blue-Ribbon panel to clean up the mess in procurement."***

***— Richard F. Kaufman  
(see p. 2)***

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## The Mess in U.S. Procurement

Richard F. Kaufman

No single Pentagon office is in charge of buying arms and equipment. Each military service and the Department of Defense does its own procurement, in its own way. Even Secretaries of Defense have avoided interfering with the way the military services and their favorite contractors go about the business of buying and selling arms.

To correct this problem, President Clinton should establish a Blue-Ribbon panel to clean up the mess in military procurement. A useful approach would be for the President to put someone in charge with no potential conflict of interest — the Comptroller General of the United States who also heads the General Accounting Office — and give him a year to come up with a uniform military procurement system to replace the patchwork process now in place.

### **Congress Has Tried to Correct the Problem**

Over the years, scandals involving fraud, waste and abuse led to demands for corrective actions, and steps were taken to create more competition, gain better visibility of contractors' costs when competition is absent, and improve the system of audits and accountability. Many problems remained unsolved but the government was placed in a better position to obtain the information it needed to award contracts, monitor their progress, and curb criminal activities.

In the early 1990s, the defense industry and its allies in Washington promoted a round of procurement reforms that all but eliminated these safeguards against mismanagement and contract abuses. As a way to cut costs, this new approach assumed that much of what the military requires can be bought in the commercial marketplace, reducing government audits and the need to scrutinize defense contract performance. Under this approach, which may make sense when the military's commercial market is truly competitive, Pentagon purchasing agents are supposed to compare prices for the item among different manufacturers and decide which one to buy.

In such a transaction, the government dispenses with negotiations over the price, examination of the manufacturers actual costs, monitoring of production, and audits. Although the core of the arms market is made up of monopolies and near monopolies of products such as bombers, aircraft, submarines, carriers, and many categories of spare parts, the procurement reform legislation enacted in the early 1990s authorizes the Pentagon to determine that a piece of equipment or an entire weapon is a commercial item and can be purchased accordingly.

That is how the Air Force is buying the newest version of the C-130 cargo plane, called the C-130J. This plane has become notorious in the past several years as an example of the congressional military pork barrel. Each year, for the past two decades, Congress has added large sums to the defense budget to buy C-130s that the Air Force has not requested, and directed that they be given to national guard and reserve units in the districts and states of key legislators. More than 250 of the planes were acquired this way. But equally significant, if not more so, is the hands-off, commercial way it is being acquired.

Critics of the J model argue that its modest upgrades are not worth the approximately 50 percent increase in price over previous models. In fact, the Air Force has more planes of this type than it needs and is also protesting its high price.

This year, an internal Pentagon report severely criticized the plane. A Defense Acquisition Executive Summary report, prepared for the Office of Secretary of Defense, identified numerous deficiencies in the C-130J's performance and in the ability of the contractor, Lockheed-Martin, to meet schedules for the delivery of software and hardware items and for testing. The report concluded that the bulk of the problems on this program stem from the unusual nature of a congressionally directed procurement and the new acquisition reform environment.

But the group that issues these reports has little clout in the Pentagon. More weighty is Lockheed-Martin's threat that if the Air Force stops buying the cargo planes it will shift its overhead costs to the already expensive F-22 fighter plane, which the contractor is building in the same facility. The Air Force included \$42.9 million for the C-130J in this year's budget. While that is a relatively small amount for this plane, experienced budget watchers say it invites Congress to once again add money to buy more of them.

Most new weapons are still being purchased through procurement contracts that are negotiated with the contractor, rather than through the commercial item loophole. Technically, these weapons must meet military performance standards and the scrutiny of the contracting organization. The reality is that under the new acquisition reform environment management and oversight have become so weakened that there is less likelihood than before that performance and cost objectives will be met.

### **The Procurement Culture Endures**

In addition, the traditional arms procurement culture lives on. The major imperative of this culture can be summarized as, get the money from Congress and run. Once the Pentagon decides to buy a new weapon, it takes whatever steps are deemed necessary to secure congressional approval. This may mean responding to complaints about high costs by reducing the quantities on order to make costs fit the budget, exaggerating performance, misrepresenting test results, postponing or eliminating some tests to make up for manufacturing delays or gloss over test deficiencies, and making unwarranted claims about future savings in operating and maintenance costs.

The current new tactical aircraft programs are cases in point. The Air Force F-22 fighter and the Navy F-18E/F were seen by Congress as too expensive. The Pentagon's response was to pare back the quantities of each program. The result was to balloon the costs per plane as there were fewer to absorb the cost of development. But Congress was satisfied and the development money has flowed. The current estimates are that the F-22 will cost \$184 million each and \$62.7 billion for the entire 341 item program, and that the F-18E/F will cost \$86 million each and \$47 billion for all 548 planes.

*(Continued on lower part of page 3)*

## Proposed Military Retention Plan Could Turn Costly

Liesl Heeter

The issue of declining personnel retention rates within the military has captured the attention of the Joint Chiefs of Staff, making it a key topic in this year's supplemental budget debate.

Corrective measures do not appear expensive: \$1.8 billion out of a \$15 billion emergency funding bill to pay for increased pay raises and more generous retirement benefits in Fiscal Year 2000. But upon closer examination it is clear that the long-term costs of replacing existing regulations could be enormous.

The basic problem is that *all* the services have not been able to maintain adequate recruitment and retention rates. In 1998, for example, the Navy fell 12 percent short of its recruitment goal, while the Army fell 2 percent short. The Air Force and Marine Corps, on the other hand, met their 1998 goals.

To reverse these negative trends, both administration officials and members of Congress have argued that it is necessary both to increase pay and repeal the Military Retirement Reform Act of 1986 (REDUX). Under REDUX, people who joined the military after July 1986 could retire with no more than 40 percent of base pay after 20 years as opposed to men and women who had joined before that date who would continue to receive 50 percent. Repeal of REDUX would give everyone 50 percent. It is also proposed to raise base pay. As well as repealing REDUX, the president's budget request would raise base pay by 4.4 percent. Both the House and Senate defense authorization bills would repeal REDUX and raise base pay by 4.8 percent. Either bill would apply initially to FY 2000, and would also set up an index for future pay raises that would be legally binding with regard to future years.

Because the budget caps for discretionary spending under the 1997 Balanced Budget Agreement are extremely tight in FY 2000, absent the FY 1999 emergency supplemental, Congress would have to cut other defense programs or domestic programs to pay for the repeal of REDUX and the higher pay raise. This

would be difficult, because there are many other competing priorities in the defense budget, and some non-defense programs already are projected to decline to stay under the caps.

Unfortunately, funding the first year of the REDUX repeal and the higher pay raise as an emergency—without having to make offsetting cuts in other programs—makes it seductively easy for Congress to change this policy without having to consider the long-term implications. This is exactly the type of policy-making that has no place in an emergency funding bill.

While an extra high pay raise is probably appropriate for FY 2000, the wisdom of repealing REDUX or setting higher future pay raises in law is, at best, questionable. The available evidence does not support the notion that the existence of REDUX has hurt retention. For example, the Congressional Budget Office (CBO) recently found that "being under

REDUX had no discernible effect on ... mid-career retention decisions." The General Accounting Office came to a similar conclusion: There is "no clear indication that the proposed change to the retirement system ... will address the retention issue. Moreover, there is the possibility that repealing REDUX will have the serious negative effect of discouraging service members from staying for *more* than 20 years." Similarly, CBO found that military personnel generally get paid roughly the same as civilian workers with comparable private sector jobs .

In reality, the long-term costs of repealing REDUX, instituting higher pay raises, and providing other benefits could be much greater than initially envisioned. If the most costly of the current proposals being considered by Congress is enacted (Senate Bill 4), the cost of the changes would be about \$2 billion in FY 2000 and balloon to some \$10 billion by FY 2009.

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Both programs are nightmarish examples of the reformed procurement system. The F-22 already has had cost overruns totaling more than \$14.5 billion, and full-scale production has not begun yet. Indeed, that is the problem. There have been serious problems in the initial manufacturing of the plane and in the development of the avionics system. These have caused delays in deliveries of the test aircraft and in scheduled tests. The Air Force's solution is to defer or eliminate some of the testing and go directly to production, in the hopes that the problems get fixed before too many planes are built. This approach invites disaster and is contrary to the commercial market, where new products are fully tested and problems resolved before production starts.

A similar situation exists with the F-18E/F, being built by Boeing. Among the numerous deficiencies noted in tests of this plane are wing drops — the plane unaccountably wobbles at the

altitude and speed where combat is expected, and the weapons separation problems — bombs dropped by the plane have a bad habit of colliding with each other. In 1998, the Navy claimed that the wing drop problem was solved, but the General Accounting Office discovered that the fix was only a partial solution and caused new problems. Still, the Navy, like the Air Force, plans to rush into production. The response of Congress is to wag its finger while paying the bills. Last year, the House Armed Services Committee directed the Air Force Secretary to certify by the year 2000 that the F-22 is within the cost limits and that tests will be performed as planned. But the committee said if the Secretary cannot make such certification, he should explain why and provide new cost estimates.

President Eisenhower warned against the military-industrial complex as he ended his second term. Bill Clinton could be the first president to do something about it.

## Russia Looks to Expand Nuclear Weapons Option

Maria Katsva

Although NATO stopped its air strikes on Yugoslavia, many analysts cite its campaign as marking the end of nuclear disarmament in Russia, a process that involved help from the United States. The ratification of the START II Treaty, which would have reduced the number of nuclear warheads to 3,000 for Russia and 3,500 for the United States, is all but dead; ratification of the Comprehensive Test Ban Treaty (CTBT) is next to impossible; and attempts in Russia to stiffen Export Control regulations to curb military equipment sales are unlikely to pass.

Angered by the air strikes, the Duma is expected to vote for a law guaranteeing funding for strategic nuclear forces. On April 25, generals from the Defense Ministry and General Staff went on record, saying Russia was preparing proposals on the deployment of tactical nuclear weapons in Belarus. Similar proposals were actively discussed throughout 1996-1999 as NATO expanded to include Poland, Hungary and the Czech Republic. To many observers of Russia's military establishment, the proposal to place weapons in Belarus signals a clear intent to increase defense spending, particularly in the nuclear arena since the country cannot afford to build a robust conventional force.

### Russia May Place Nuclear Weapons in Belarus

During this meeting, three issues were discussed: deployment of strategic weapons under the Russian-Belarus Unification Treaty (Topol ICBMs that were removed according to the START I Treaty); deployment of tactical nuclear weapons; and the deployment of denuclearized medium-range Pioneer missiles in western regions of Russia and in neighboring Belarus. Russia also expects to operate an early-warning system in Belarus that will replace the dismantled Scrunde radar in Latvia. Belarus will also produce trucks for Russia's mobile SS-25 strategic missiles and for new Topol-M SS-27s.

According to press reports, the Ministry of Defense decided to extend the life of the offensive Delta III nuclear submarines and SS-18 ICBMs by at least two years. It is also possible that Russia will buy back from Ukraine some of the Tu-160 and Tu-95 heavy bombers that have remained in operational condition. Roman Popkovich, head of the Duma's Defense Committee, has said Russia's nuclear strategy would include preemptive strike capabilities, and *The Guardian* newspaper reported that President Boris Yeltsin called for the deployment of tactical weapons to resist a threat from NATO. In addition, reports have surfaced that Russia may be developing MIRVed SS-27 ICBMs.

### Decrees Call for Repair of Nuclear Weapons Complex

After a highly secretive meeting on April 29, Security Council Head, Vladimir Putin told reporters that documents were signed for development of the nuclear military complex. One dealt with programs of non-strategic nuclear weapons. Some believe Iskander tactical missiles currently under development will be equipped with nuclear warheads, and these complexes would be used for joint Russian-Belarus military forces. A second decree dealt with developing a testing and experimental base within the nuclear-military complex, including facilities for simulations and

hydro-nuclear tests as well as the production of special software to ensure the reliability of the strategic nuclear arsenal. Very little has been made public about the April 29 meeting. But statements made by those who prepared documents for it confirm that sub-critical nuclear testing was discussed as well as further discussions of tactical nuclear weapon development. According to an initiative signed in 1991 by President Bush and President Gorbachev, Russia must eliminate all its tactical nuclear weapons by 2004. Most have been destroyed, but researchers acknowledge they have no evidence of exactly how many remain.

### New Generation of Weapons Foreseen

It is also believed that development of a new generation of non-strategic medium- and short-range nuclear weapons with low- and super-low yields was discussed at the meeting in late April. In 1996, former Atomic Energy Minister Victor Mikhailov promoted non-strategic weapons as a possible reply to NATO expansion. Russia, he argued, could develop a new generation of battlefield nuclear arms with relatively low capacity and reduced side-effects. He believed Russia could produce 10,000 such warheads for theater missiles, front-line aviation and for anti-aircraft. In addition, a host of doctrinal issues was considered. Some say they have confirmation that first-strike and preemptive nuclear strike policies and capabilities as well as other strategic issues were discussed.

Since the April 29 meeting, Yeltsin has said nuclear forces remain the key element of Russia's military power. Promising that Russia would maintain as many nuclear weapons as would guarantee the country's security, he called for an increase in defense spending. The 1999 military budget was 2.6 percent of the GNP — the lowest recorded ever. Some Duma deputies would like to see the military budget set at 5 percent of GNP. According to a special Presidential decree, military expenditure should not be less than 3.5 percent.

### Salaries Take Bulk of Defense Budget

About 70 percent of this is spent on salaries and army support. Twenty five percent or less is spent on modernization, new military equipment and purchases. During 1998, almost all purchases, as well as R & D, were for the SS-27 Topol-M ICBM program. Nonetheless, Russian military experts say it was under-financed by 50 percent, and that it is doubtful that even this much will be available this year for nuclear force development. There is also a need to fund anti-aircraft systems and ground forces.

President Yeltsin wants to increase the military budget for several reasons. Nearly 70 percent of the nuclear facilities are in disrepair; according to Duma accounts, by 2001 the life span of all long-range cruise missiles will expire; and by 2003, Russia may have as few as 1,000 strategic nuclear warheads. Yeltsin is also concerned about army and military elite support, which could push him to increase military spending further. At the same time many priority programs are under-financed and Defense Ministry debt to contractors exceeds budget allocations. There just is not enough money for Yeltsin or his successors to build the kind of military many Russians want.

*(Continued on lower part of page 5)*

## Russia's Economy: Back to the Third World or Ahead to the First

Soltan Dzasarov

*This article is the abbreviated text of a piece published in the March 10, 1999 issue of the Russian publication, "Slovo." Prof. Dzasarov is chair of the department of economic theory and business at the Russian Academy of Sciences and an active member of the Board of ECAAR-Russia.*

Probably most Russians have little doubt that there is just one goal: a free market and democracy. But the path is less clear. The choice is between reforms in the interest of the oligarchs, or policies in the interest of the majority of the Russian people.

The seven years of "reform accomplishments" seem to have been inefficient and even pernicious for the present and for the future of the country and its people. Whatever is said about modern Russia, realistically the majority of Russians have found the promises of an economic miracle to be a cynical deception.

The question is not whether to implement reforms. The question is how to do it right. Neoclassical economics and the accompanying monetary models have led the economy to full bankruptcy. This result is unique in world history. In all other cases such market reforms had positive effects: in post-war Germany, in modern China, and even in our own history of the NEP (new economic policy of the 1920s). Hungry, Poland and the Czech Republic are gradually finding their way out of crisis.

### Declaring One Thing and Doing the Opposite

Why is Russia such an exception? The answer is very simple: We have been declaring one thing, but doing the complete opposite. Under the motto of market reforms, we have created something extremely different from a real market economy. We have constructed a criminal social system, which has no analog in world history and is incompatible with civilized free market enterprise. This is an economy where:

- 1) one can't take a step in business without a bribe for criminal "krysha" (cover);
- 2) it is "unnecessary" to compensate employees with salaries or pay contractor's bills;
- 3) pricing is subject to negotiation in order to artificially decrease the revenues and hence avoid certain tax levels;
- 4) only 25 percent of all accounted transactions are made with actual money exchange; the rest being by barter deals;
- 5) lack of competition is replaced with a system of personal connections and privileges granted by the state.

An economy in such a form can not and will not provide a step toward the development of conventional free market terms and conditions. Furthermore, in some ways the former centrally planned economy was more market oriented than the current one, although a true market system was not achieved then either.

Our economy is not a free market, both because of these clear indicators, and also because of its processes. Instead of the past command-administrative economy that was obsolete and inefficient, but did have an organized structure, we now have a "criminal-voluntary" economy. Its completely arbitrary criteria of action are not limited by law or ethics. Instead, the thirst for gain has become the main motive leading to a system of destructive economic imbalance. If this scenario is continued, the formation of any truly free market or normal economic development are excluded not only today, but also in the future.

### Free Market Competition and Criminal Private Property

The advantage of a free market compared to a centrally planned economy relates to free competition that can create a mechanism to define the value of accumulated resources so they tend to go to those who can use them most efficiently. In contrast, the nomenclature privatization in Russia has excluded efficient business people. The majority of people who have succeeded have not done so by market efficiency, but by the power of the criminal world and by using bribes and other "services."

As a result, large-scale property has not been separated from the state, the prerequisite of a free market; it is closely interwoven with the state through criminal agreements. Thus the normal process for developing free market conditions of capital accumulation has been precluded. Profits and gains are achieved not by the skills of business people, but by misappropriation, i.e. by distribution and redistribution of resources by means of bribes, connections and other forms of criminal business practices.

### Service Industries and Manufacturing Industries

The disparity between the service and manufacturing sectors in the modern Russian economy led to a scandalous situation with no parallel in economies elsewhere. A striking illustration is the over ten-fold greater profits in banking and trade compared with manufacturing. In normal free market countries, the level of gains in manufacturing sectors is at least twice as high as the bank interest rate. Otherwise, the manufacturing business people simply could not afford to apply for credit.

*(Continued on page 10)*

### Regional Cooperation Seen as Key

To have a successful nuclear deterrent, Russia would need to increase spending to develop nuclear submarines, which comprise the most expensive part of the nuclear triad. The new Yuri Dolgoruki nuclear submarine development currently faces great financial obstacles which can hardly be overcome.

In case of an international crisis, Russia could find an additional \$600 million from non-budget sources. It has been pointed out that S-400 anti-aircraft testing was financed through non-budget funding sources. But others look to regional budgets as the main source of funding for Russia's future military.

By 2010, they say, Russia could deploy from 600 to 1,000 strategic nuclear warheads, and could modernize some of its existing nuclear weapons systems. Regional cooperation is key then — and friendship with Belarus. The main question is whether Russia's regional governors are interested in helping Moscow finance its nuclear weapons programs. If not, it may be that pronouncements to reinvigorate the military are groundless.

Maria Katsva, a Russian journalist, is a graduate associate at the University of Georgia's Center for International Trade and Security.

## An Appeal for Peace During Kosovo War

Lucy Webster

**Many people at the conference were primarily impressed that there was any action in support of human rights in response to ethnic cleansing. Others were primarily concerned by the destruction of the bombing and its impact on the scale of ethnic cleansing and on the flow of refugees.**

Nearly 10,000 men, women, young people and children took part in the Hague Appeal for Peace events from 11 to 15 May, 1999, making it the largest peace conference in history. They came from more than 100 countries, one-fifth of which were at war in Yugoslavia, and from other countries where there was war, in Africa, Indonesia or Kashmir.

The conference launched an action plan, *The Hague Agenda for Peace and Justice for the 21st Century*, with 50 detailed programs. These set an international agenda for the coming decades on conflict prevention, implementing human rights, peacekeeping, disarmament, and coping with the root causes of war. This included “strengthening of the UN’s capacity to prevent violent conflict, mass violations of human rights and genocide — for example, through the creation of standing UN peace forces for use in humanitarian interventions, and through the identification of alternative sources of finance for UN peace operations.”

Hundreds of civil society organizations from many countries cooperated for more than a year on producing the *Hague Agenda*. It has been published as a UN document in six languages for the 1999 General Assembly as A/54/98.

The event marked the centennial of the first International Peace Conference, which began a process of active interaction by civil society with governments to prevent war and control its excesses. Over the years the process contributed to the establishment of the Permanent Court of Arbitration and the International Court of Justice.

The 1999 conference demonstrates the new democratic diplomacy of cooperation between civil society, governments and intergovernmental organizations that has been effective to obtain the treaty to ban landmines, the draft statute to create an International Criminal Court and the World Court opinion on the illegality of nuclear weapons.

The Hague Appeal for Peace defined peace as not just the absence of conflict between and within states, but as the presence of economic and social justice. Environmentalists, human rights advocates, humanitarian aid and development workers shared a common interest in building a culture of sustainable peace.

While the statement printed below represents the predominant views of a very large majority of the conference participants who took part in three long evening meetings on the situation in Kosovo, others in the conference had slightly different attitudes and views.



### Proposed statement on the war in the Balkans for the final plenary session of the Hague Appeal for Peace Conference

8,000 people have met this week to learn from one another and to discuss long and short term strategies and actions to create a world without war.

Many hundreds have come here from war zones, where there is daily killing, violence, massive human rights abuses and the use of weapons against civilians, particularly women and children. Many here are refugees, some have been without a home and country for decades, some for only days or weeks.

But many thousands of us come from countries which are at present involved in war here in Europe and we have been struggling with how to address this within the context of this conference.

Several hundred people have met on 3 nights for a total of 14 hours and although there has not been unanimity, it was the feeling of the vast majority of those involved, that the following statement should be presented to the final plenary.

We participants at the Hague Appeal for Peace Conference call for:

- an immediate end to the war on the ground and in the air in Kosovo, Serbia and Montenegro;
- the urgent reintroduction of an enlarged force of OSCE monitors to end intimidation of the remaining civilian population;
- the introduction of humanitarian agencies to address the plight of internally displaced Kosovars;
- the creation of conditions for the safe return of all those who have been driven from their homeland;
- the adherence to all aspects of international humanitarian law and human rights conventions by all parties to the conflict;
- immediate involvement of the United Nations in the search for creative and viable solutions for a secure and equitable future for all the people of the region;
- the devotion by the international community of massive political and financial resources to a comprehensive economic and social reconstruction plan for the affected region;
- the recognition of the United Nations by all governments as the only appropriate body to authorize international action to maintain or restore peace, security and respect for human rights;
- the examination by the governmental conference in the Hague 18-20 May of instruments which could have been developed to prevent the Kosovo catastrophe.

NGOs can make a vital contribution to a peaceful outcome in the Balkans and in all other areas of conflict by offering support to those courageously acting for peace and justice in their region.

**The Hague Appeal Conference took place as the military and paramilitary forces of Yugoslavia attacked the ethnic Albanians in Kosovo, and NATO dropped bombs on Serbia and Kosovo.**

There was an alternative to NATO air strikes on Serbia and Kosovo that would have saved more lives than the bombing campaign. Because of conflicting views at the Hague about how to achieve peace in the region, this point did not emerge clearly.

In brief, UN endorsement for a large peacekeeping force might have been obtained; at least a greater effort should have been made. Such a force, together with the OSCE observers who were in Kosovo could have protected civilians — which bombing could not do.

The key NATO states, which are also major players on the UN Security Council, could have made an effort to keep non-NATO countries, especially Russia, involved and helping. This should have been done at and after the Rambouillet negotiations and also earlier at Dayton when Kosovo was kept off the agenda.

If Russia had been involved as an intermediary with Milosevic, efforts to avoid a Security Council veto of a UN peacekeeping plan might have succeeded. And, if the Council had not been ready to endorse action to maintain peace, the General Assembly could have acted under the Uniting for Peace Resolution of 1950, which like the proposed Council action, would have needed to be under Chapter VII of the Charter since Yugoslavia would not invite the United Nations, or anyone, in to stanch the gross violations of human rights within its borders.

This strategy for an alternative to bombing was promoted at the conference. It was workable, but would have been more so if the UN peacekeeping capacity proposed in the *Hague Agenda* had been in place already. For more details see the article by the author on the ECAAR web site: [www.ecaar.org](http://www.ecaar.org).

The ECAAR statement on Kosovo as published in *The Nation* issue of May 31 was also circulated at the Conference. That statement, dated May 7, is also on the ECAAR web site. The following points are quoted from that “Statement from Members of ECAAR’s Board and Associates.”

“To a great extent, the bombs have been aimed at the civilian economy of Yugoslavia, and so at the political and social destruction of that country. We condemn all human rights abuses in Kosovo. But this is a strategy that brutalizes a nation for the crimes of its leadership, without effectively punishing those crimes.”

“The bombs have no humanitarian rationale. They have not slowed the eviction of the Kosovar people, the many murders that have been reported, nor the destruction of Kosovar homes. And to those casualties, the bombs add hundreds of innocent Kosovar and Serb civilians, who are dying in entirely predictable accidents every day.”

“Here at home, the bombing serves as a pretext for those who wish Congress to provide vast new funds for military expansion, without debate....”

“Finally, the American people must confront the deep contradiction in our position in the world, laid bare by the past month’s military, diplomatic, and human disaster:”

### Consigning War to History

UN Secretary-General Kofi Annan praised the work of the Conference in his closing-session statement. He pointed to the 17 current wars in Africa, but also stated that, “Disputes can be resolved peacefully. Wars can be ended. Even better, they can be prevented.”

Archbishop Desmond Tutu asserted that, if the world could abolish slavery and end apartheid in South Africa, then it could also abolish war. He said the Conference delegates should take on the wider challenge of building the structures that would consign war to history.

### Meeting in over 400 panels, workshops and round tables, participants discussed and debated mechanisms for abolishing war and creating a culture of peace in the 21st century.

The Conference launched at least 11 action initiatives:

- (1) International Action Network on Small Arms (IANSA),  
web site: [www.iansa.org](http://www.iansa.org)
- (2) Global Campaign for Peace Education,  
email: [<bar19@columbia.edu>](mailto:bar19@columbia.edu);
- (3) Global Ratification Campaign for the International Criminal Court,  
email: [<cicc@igc.org>](mailto:cicc@igc.org);
- (4) International Campaign to Ban Landmines,  
web site: [icbl.org](http://icbl.org);
- (5) Abolition of Nuclear Weapons,  
email: [<wagingpeace@napf.org>](mailto:wagingpeace@napf.org);
- (6) Global Action to Prevent War,  
email: [<info@globalactionpw.org>](mailto:info@globalactionpw.org);
- (7) Stop the Use of Child Soldiers,  
web site: [www.childsoldiers.org](http://www.childsoldiers.org)
- (8) A call for a global ban on depleted uranium,  
email: [<mtpdu@ime.net>](mailto:mtpdu@ime.net)
- (9) Campaign to End Genocide,  
email: [<gstanton@wfa.org>](mailto:gstanton@wfa.org);
- (10) International Network on Disarmament and Globalization  
email: [<sstaples@canadians.org>](mailto:sstaples@canadians.org)
- (11) Campaign on Women in Peace-Building  
email: [aadrian-paul@international-alert.org](mailto:aadrian-paul@international-alert.org)

The Hague Appeal’s own website will, from time to time, have update information on the list above at [www.haguepeace.org](http://www.haguepeace.org).

“— If we wish to remain the world’s policeman, we must be prepared to maintain a large Army and even larger reserves, to invest in air-lift and sea-lift, and we must be prepared to spill American blood on the ground in many distant conflicts, including this one.”

“— The alternative, which we favor, is to build stronger and more effective international institutions, especially the United Nations, its agencies, and other multilateral institutions that work through law and mediation to promote peace and sustainable economic development. These agencies deserve our strong political and full financial support.”

“In either case, there is no justification for maintaining the strategic air power we now possess in its present form. Those forces were built for fighting the Third World War. They are not suited to our real security needs in the post-Cold War world.”

## Commission on Vieques Hears ECAAR Testimony

Lionel McIntyre

*On June 9, 1999 Professor Lionel McIntyre of Columbia University and Solnes Urena a former student of the Graduate Program in Urban Planning presented testimony before the Governor's Commission on Vieques, chaired by Secretary of State Norma E. Burgos Andujar.*

Upon arrival on Vieques island on June 4 to testify before the Commission of Inquiry, I could see the effects on the community of the Navy's errant bombing of April 19th that led to a civilian death and wounded four others. The tragedy had galvanized the local citizens who mobilized in protest.

Immediately after stepping off the 5 o'clock ferry on Friday, June 4, we observed members of various civic groups preparing for a 6 o'clock youth march from the Monte Santos neighborhood to the Town Square in Isabella. This followed arrests made the week before by the Navy of citizens who occupied Camp Garcia to protest the bombing. An all day Reggae concert was held on Saturday in solidarity with the people of Vieques to condemn the Navy's activities on the island. A Sunday night ecumenical service held in the Town Square by five or six religious

organizations also protested the Navy's presence. Numerous meetings were held with members of the Committee for the Rescue and Development of Vieques as well as with environmental experts, academics, researchers and students from the main island and with an organization of women and youth that was newly founded in April.

These and other activities, underway as we entered Vieques, represented the level of activity sustained since mid-April. Clearly, mobilization was many fold that of our first visit in January 1996 to start our urban planning study of the municipality and the western portion of the island.

During the Commission hearings on Tuesday, June 8, the Vieques community provided testimony about its experiences of the Navy's occupation of the island and of the impact of its continuing bombing practice. The testimony was supported by experts in archeology, transportation, business, environment, education, and by youth and religious leaders.

The Commission hearing was well attended all day by the public and commission members, and the hearings were broadcast live. The evidence on the accidental bombing acknowledged by the Navy showed that low-grade uranium had been used with the munitions fired on the island. These disclosures heightened the concern of all sectors of the community on Vieques and on the main island.

Our presentation provided evidence from the research findings of the 1996 Urban Planning Vieques Studio that had been sponsored by ECAAR. We explained that the principles of planning and development that were proposed for the western portion of the island were applicable for the eastern Camp Garcia portion also. The key elements of the proposals were to transfer the Navy-held lands, to establish a land trust and extension program, and to transfer economic benefits to local residents. Recent experiences on the island convinced us, as we stated in our concluding remarks to the Commission that "...the more progressive logic of this historic period is to replace armaments of mass destruction with mass education for peace and prosperity."

### From the Testimony of ECAAR Trustee Robert J. Schwartz

"The people of Vieques, U.S. citizens, have struggled for 50 years to stop the military exploitation of their home...

I come to make this presentation with my admiration for your people and your beautiful country, which I first encountered as a young economic official of the U.S. Treasury from 1943-44, in World War II. The Puerto Rican people loyally supported the U.S. government in that war. It is far beyond time for the U.S. to repay that loyalty by returning to the Viequenses the island, which is rightfully theirs.

During an interview with Ms. Michelle Faul of the Associated Press, I was asked if I knew of any other base where target practice takes place in a populated area. The question was correctly loaded, for nowhere in the 50 States are American citizens subject to this treatment."

CHARLES E. SCHUMER

United States Senate

WASHINGTON, DC 10510

May 3, 1999

The Honorable Richard Danzig  
Secretary of the Navy  
The Pentagon  
Washington, DC 20350-1000

Dear Secretary Danzig:

I am writing today to request that the Navy cease the use of live weaponry immediately and permanently on the populated island of Vieques, Puerto Rico. The civilian population of this tiny island has been sandwiched between the Navy's Camp Garcia and the Naval Ammunition Facility for over 50 years. The government of Puerto Rico has lobbied, petitioned and begged the Navy to end their bombing exercises on this tiny island, but they have thus far been unsuccessful.

There is a long history of conflict between the 9,300 people that share this island with a live-ammo Navy training ground. The residents of this island, which is only the size of the District of Columbia, have watched their fishing sites destroyed, their beaches polluted and their economic development stagnate as a result of the constant bombing, shelling and military training on 70% of their island. Furthermore, on April 19, the Navy dropped two 500-pound bombs which missed their targets and killed one Puerto Rican, Mr. David Sanos Rodriques, and injured four others. This recent accident is a prime example of the dangers associated with practicing bombing raids on a populated island.

By continuing the Bombing on Vieques, the Navy has demonstrated a flagrant disregard for the lives of their fellow American citizens. It is time for the Navy to find a new, unpopulated area to practice using their military weapons and ammunitions. The U.S. Navy can not and should not force the people of Puerto Rico to live in fear for their lives by continuing to use their island for target practice.

I know that the Government of Puerto Rico stands ready to collaborate with the Department of Defense to effect a swift transition to a peaceful solution to this long-standing problem.

Sincerely,

Charles E. Schumer  
United States Senate

# A Challenge to South African Arms Purchases

Terry Crawford-Browne

In a controversial move, the South African government plans to purchase 28 BAe/SAAB Gripen fighter aircraft from Sweden, 24 Hawk fighter-trainer aircraft and four heavy-lift marine helicopters from Britain, four frigates and three submarines from Germany, and 40 utility helicopters from Italy.

The Mandela Administration made the announcement in November that it intended to spend R29 billion (US\$5 billion) on warships, warplanes and helicopters to re-equip its Navy and Air Force, which many believe are completely obsolete. The United Nations arms embargo, imposed in 1977 and rescinded with the transition to democracy in 1994, is often cited as the primary reason to purchase the new equipment.

*“... BAe/SAAB executives now plead that South Africa's offset requirements are exaggerated and unachievable.”*

The United States is not involved in the tender process because Philadelphia court indictments of 1991-1998 established that South Africa's armaments industry pirated American missile technology during the 1980s, and sold it to Iraq and China.

## Jobless Rate Spurs Military to Push Offsets

With its unemployment rate at 35 percent, South Africa's military establishment lobbied long and hard to have their arms purchases include offsets that would eventually create 65,000 jobs. Thus analysts believe unprecedented demands were made on European suppliers for offsets worth R110 billion to contribute to South Africa's economic development.

It is widely held that such demands are possible because the international arms industry is a “buyers' market.” However, the “free lunch” is likely to come unglued. Current practices may not benefit either the seller or the buyer. International studies of offsets show that buyer countries pay heavily for the equipment they produce and derive little economic benefit or job creation from the practice.

The notorious £20 billion British/Saudi Arabian Al Yamamah contract was hyped-up to create 75,000 jobs for Saudi Arabia. Now that the Al Yamamah deal is virtually complete, it transpires that only 1,600 jobs actually resulted. Except for an additional 300 medium-tech jobs for Saudi citizens, all the other jobs were filled by imported expatriates.

## NGOs Embarrass Swedes for Arms Sales

Caught by public pressure, BAe/SAAB executives now plead that South Africa's offset requirements are exaggerated and unachievable. Sweden's first export deal for the financially and politically embarrassed BAe/SAAB Gripen project seems to be falling apart.

A campaign by Swedish non-governmental organizations (NGOs) — supported by Economists Allied for Arms Reduction-South Africa (ECAAR-SA) and the South African Council of Churches — has highlighted the contradictions of Sweden's support for the struggle against apartheid with the Swedish government's promotion of weapons exports to “third-world” countries facing desperate crises of poverty.

In addition, Germany has now moved to supply four frigates and three submarines costing R11.2 billion against offsets worth R36.2 billion which are intended to create 26,404 jobs. Germany proposes to build a stainless steel plant and metallurgy center in the economically depressed Eastern Cape near Port Elizabeth.

But environmentalists have conducted numerous studies showing that the Coega project is an ecological and financial disaster in the making. Consequently there is active lobbying against the proposals by German Church supporters.

At a June 14 meeting between the Parliamentary liaison of the South African Council of Churches and ECAAR-SA, the government's chief negotiator agreed that his task is to determine whether the R29 billion weapons procurement program is affordable. Recently, he has publically announced that one or two of the six components may have to be dropped.

During the South African Defense Review conducted in Parliament between 1996 and 1998, representatives from several civil society groups argued that it would be different if South Africa were threatened by a foreign military power.

But it isn't.

Civil society critics contend that poverty afflicts millions and is the real threat to South Africa's security and democracy. Thus, we return to the submissions of NGOs in Parliament back in 1996 that the military wish-list — the 28 BAe/SAAB Gripen fighter aircraft, the 24 Hawk fighter-trainers, the four marine helicopters and the like — is simply not affordable given the social crises facing post-apartheid South Africa.

The next few months will indicate which arguments have prevailed. South Africa's weapons procurement program remains therefore, very much from being a “done deal.”

*President Thabo Mbeki of South Africa announced his new cabinet on June 17th. The Minister of Defence is Mr. “Terror” Lekota who is considered a “dove.” Even more surprising is the appointment of Mrs. Nozizwe Madlala-Routledge, wife of the director of the Quaker Peace Centre which administers the Coalition for Defence Alternatives through which ECAAR-SA operates. Her appointment, described as “either a stroke of genius or a monumental gaff,” must be unique in the world.*

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*continued from page 5*

The recent "crisis" of the Russian banking sector provides a clear example of its exploitative nature. Banks isolated themselves, not looking after manufacturing and its timely modernization, and by simply robbing it, which did not even permit normal growth. Thus the role of private banking in our economic situation has been exceptionally negative.

#### **Raw Materials Industries and Manufacturing**

The Soviet economy's imbalance in favor of raw materials extraction as opposed to manufactures has been surpassed in the current economy. A market system should stimulate high-tech development and increase the share of manufacturing and production in the economy. Arms reduction processes created opportunities for military conversion to increase our export potential and move a variety of domestic products into the worldwide marketplace.

But "radical-destructive" elements (individuals) did not need this "light at the end of the tunnel," seeing their interests from a different perspective.

Manufacturing industries, especially high-tech and efficient organizations of the military-industrial complex, underwent purposeful and severe reductions as high-quality professionals were denied regular salaries or unceremoniously fired from their jobs.

Today, production has stopped in those industries, and high levels of unemployment and poverty are typical. As a result, the share of raw material industries in total production has risen from 11.6 percent to 33.4 percent while manufacturing has decreased. This can be seen as a substantial decrease in the efficiency of the economy.

#### **Domestic and Foreign Economic "Hero Strata"**

In the course of the recent seven years, the top strata of the Russian economy has been very proud of the results of its transformation, explaining it as the "destruction of the command-administrative economic system." In reality, their "reforms" have led the country to an unprecedented collapse of production, investment, commodity usage, levels of employment and living standards.

The facts lead many of us to the thought that the important cause of failure of our "reforms" (contrary to the Chinese experience), is the conclusion that the reforms were conceived not by us and not in our best interests, but by others in their own interest. So that those thoughts not be seen as extreme leftist fantasies, I would refer to an article in the *New York Times* (September, 1998), which called our economy an "Oligarchy of Thieves." A substantial number of the West's independent and competent economists understand the failure of Russian reforms as showing that they were implemented not in the best interests of the country and its people, but mainly in the interests of the West.

Thus, American scientist James Angresano, has compared the free market reforms in China with those of Central and Eastern Europe. He explains the success of the first and the failure of the second by uncovering substantial differences in the concepts and strategies. He shows that China has been implementing its reforms in conformity with an advanced concept of a "planned-market economy" based on the best interests of the nation and the needs of its population.

In contrast, the Eastern European countries, including Russia, followed the recommendations of the international organizations. Angresano wrote: "From the early 90's, those countries' objectives for transformation were based on the interests of the West and were guided by ideological postulates of neoclassical theory with an aspiration to provide new markets for Western exports, secure access to raw materials, and increased political influence in the entire region." Consequently, as China achieves new

***"...high-quality professionals were denied regular salaries or unceremoniously fired from their jobs."***

heights in its GDP and finds its way into the ranks of developed countries, Russia has followed IMF recommendations and is sinking to the level of countries of the third world.

Recently, Prof. M. Chosudovsky of Canada published "The Globalization of Poverty" where he shows the negative role of IMF activity on the fate of its client countries. One chapter of the book devoted to Russia has the title, "Transformation of the Russian Federation to a Third World Country."

Our current situation should not be considered a result of near-sighted and incompetent political activity of the Russian government. It is a consequence of the fact that its policy was developed and implemented on the basis of recommendations of international organizations and a range of Western consultants and specialists. Dissenting from this chosen policy, qualified domestic professionals were not even allowed into the reform process. Also, by tradition from the Soviet past, they were put under pressure and discredited by most of the mass media.

#### **Using Our Own Experience with that of Others**

When government leadership was given to Yevgeny Primakov, there was new hope for the development and implementation of truly free market reforms in the best interests of the country and its people. To accomplish this, we will need to make a larger effort than yet envisioned. We will need new solutions, which will incorporate our own experience with the experiences of others.

## Conference on *The Arms Trade, Security and Conflict*

An ECAAR sponsored conference on "The Arms Trade, Security and Conflict" was held at Middlesex University Business School on 11-12 June. Funded by the *Arms Trade Research Group* involving members of Economics Departments at the Universities of Surrey, Birmingham, Middlesex and Birkbeck College London, it marked the end of their project on modeling the arms trade. About 50 people attended from various part of Europe, the U.S. and Africa. Provocative presentations and discussion engaged both researchers and activists on topics ranging from case studies to complex theoretical models.

The first keynote address by Keith Hartley (York, U.K.) on *The Costs and Benefits of the Arms Trade*, systematically set out the costs and benefits of the United Kingdom's arms trade, showing that the economic rationale for exports was less than clearcut. He used nuclear submarine production as an example of defense production without exports, where the true costs of the venture can be measured. The second keynote address by Todd Sandler (Iowa State) on *Alliance Formation, Expansion and the Core* was an impressive exposition of a complex paper on how the spatial nature of countries and their potential allies can impact upon the nature and success of any alliance.

The keynote addresses were supported by a wide range of papers, 17 in all. ECAAR Vice Chair Jurgen Brauer (Augusta), showed not only that the number of developing nations with the potential to produce arms has increased considerably over the past 10 years, but also showed a strong statistical correlation between arms production potential and actual arms production. This point was discussed in relation to questions concerning the practicality of supply-oriented arms control regimes.

Other papers on the arms trade, arms races, arms production and arms control added to the breadth of coverage of some of the most important policy issues facing the modern world. The range of institutional, theoretical and econometric analyses across a range of countries was impressive and provided substantial contributions to the literature.

Conference feedback suggested that both researchers and campaigners had gained valuable knowledge and enjoyed engaging in the high level debates and discussions, which were conducted in a friendly and constructive manner. Papers from the conference are to be published, and selected papers will make up a special issue of *Defence and Peace Economics*. Further details are available at: [www.mdx.ac.uk/www/economics](http://www.mdx.ac.uk/www/economics).

### UN Symposium on Disarmament and Development Tuesday, July 20, 3:00-6:00, UN Conf. Room 8

ECAAR Trustee, Lawrence R. Klein, will preside and make a presentation at a symposium organized by three UN Departments, UNDP and ECAAR. Each group will speak, as will the International Action Network on Small Arms (IANSA). To participate and for UN access, contact Lucy Webster (212-557-2545).

**September/October Capitol Hill Conference on U.S. Military Expenditures.** For the date and further information, contact the ECAAR N.Y. office during August. The conference will address questions of U. S. defense policy that arose in relation to Kosovo.

### ECAAR Dinner with Ken Galbraith & Amartya Sen Saturday, January 8, 2000, 7:30 P.M.

*Please book your tickets early for this major ECAAR event during the Boston AEA Conference. Call 212-557-2545 for reservations.*

In addition to ECAAR panels of the conference, (see September '99 Newsletter for details) our Annual Business Meeting (at 6:00 P.M. the 8th) provides opportunities to introduce substantive papers. Please contact Lucy Webster if you wish to do this.

January 5-6: ECAAR members are invited to The Georgetown Conference on Socio-Economics. Contact ECAAR office for details.

## ECAAR Leaders Present Papers at Canadian Conference

ECAAR co-sponsored a session on the "Economic Causes and Consequences of the War in Yugoslavia" at the Annual Meeting of the Canadian Economics Association on May 30, 1999 at the University of Toronto. The organizers of the session were Brian MacLean of Laurentian University and James K. Galbraith of the University of Texas and Chair of ECAAR-US. The session was chaired by Dimitri B. Papadimitriou, president of the Jerome Levy Economics Institute.

Two papers were presented: *The Mistakes in Yugoslavia and the Dangers in Russia* by Michael D. Intriligator of UCLA and Vice Chair of ECAAR, and *The Failure of Economic Reforms in Yugoslavia and Eastern Europe* by Richard F. Kaufman of the Bethesda Research Institute and former General Counsel of the Joint Economic Committee of Congress.

Intriligator said the NATO action in Yugoslavia had contributed to the outrageous ethnic cleansing and refugees pouring out of Kosovo. It had also changed NATO from a defensive alliance to an offensive one, and he said the air strikes were a clear violation of the United Nations system since there was no mandate from the Security Council. He further stressed the extent to which the air strikes had distracted the attention of national decision makers in NATO states from the catastrophic economic and political situation in Russia.

Kaufman traced the impact of externally imposed economic policies in Yugoslavia. External debt from the 1970s, and later IMF conditions led to disintegration since these required austerity programs from Belgrade, when there was a desire for more autonomy in the richer republics (Croatia and Slovenia).

*ECAAR members are asked to suggest topics for research and articles on which they would like to provide material for the Newsletter. As well as suggestions for written items, we would appreciate offers of photographs, drawings, political cartoons, and graphs.*

*Articles should be some 800 words. Before writing one, please send a brief outline to us by August for the September Newsletter or by October for the December issue. The Newsletter is now online at [www.ecaar.org](http://www.ecaar.org). Items not used in the Newsletter may be placed on the web site.*

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