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Macroeconomic Strategy in Wartime

James Tobin from February 10, 2002

“Washington could negotiate a ban on development, production, and export of Pyongyang's medium- and longer-range missiles—a less risky way to counter the threat than unproven missile defenses.”

— Leon V. Sigal
(see page 8)

The US economy suffered two quite distinct shocks in year 2001. First was the business cycle recession, raising unemployment from four to six percent and depressing production, prices, incomes, and asset values – familiar events which Americans had been spared most of the previous decade. Recovery is coming, it is generally agreed, through revival of demand for goods and services by consumers, businesses, governments, and foreign customers. Supply is no problem. The nation has the workers, materials productive capacity and technology to respond to much higher demands.

How to stimulate spending? By still lower interest rates? The Federal Reserve cut its key rate eleven times last year, from 6 percent to 1.75 percent. Or should the Fed husband those remaining 175 basis points of the Federal Funds rate for possible future needs? It seems weak strategy, deliberately keeping monetary policy too tight. To avoid a liquidity trap, the Fed should try to lower longer term rates and loosen bank credit.

By cutting taxes again? A large cut, estimated to add up to \$1.6 trillion in this decade and permanently to deprive the federal government of two of the 16 percentage points of national incomes it now collects. Later last year refunds of \$300 per federal income taxpayer were distributed. Debate continues on further federal fiscal stimulus to demand.

The second blow was the terror of September 11, wholly beyond expectation and experience; it is still potentially terribly dangerous and costly. The worldwide war against terrorism and the protection of the homeland are the highest priority uses of the nation's resources today. President Bush has proposed in his budget for fiscal year 2003 (which begins October 2002) additional military spending of \$48 billion (about 1/2 of 1 percent of GDP) and new outlays of \$38 billion (4/10 of 1 percent) for homeland security. To protect the American people against terrorist attacks, to the degree of safety we took for granted before September 11, if at all possible, will take large

expenditures for many years. At stake are buildings, airways, railroads, ships, ports, communications, theaters, stadiums, utilities, highways, bridges, public health, mail deliveries. . . almost every aspect of civilized life.

Why does the President delay acceleration and spending for war on terrorism and homeland security until next fiscal year? By fortunate happenstance, these measures would also be very good anti-recession demand stimuli. Other stimuli, most of those debated by President and Congress, would contribute nothing to the nation's prime priorities. Indeed dollar for dollar government purchases of goods and services augment demand more than the tax cuts and dollar subsidies generally discussed, of which the recipients will generally choose to save at least part. And of course the direct demands of government are followed by the further spending of those who receive income by meeting the government's needs – the once famous Keynesian multiplier.

The urgency of action on homeland security is especially great because much of the agenda is the job of state and local governments. The challenges and opportunities for these governments are critical. They will need to cooperate with each other and with the federal government. Yet the recession has drastically cut state and local revenues, while their politics and constitutions keep them from borrowing. President Bush and his Director of Homeland Security should engineer generous new grants to state and local governments, meeting their regular responsibilities as well as the new needs of homeland security. It is important to sustain Medicaid and to attach to it financing of prescription drugs.

Further tax giveaways to individual and corporate taxpayers would be most inappropriate at this time. For one thing, it is quite uncertain that much of them would be spent while stimulus is needed. They would be temporary, and the beneficiaries other than the poor and liquidity-constrained might prefer to save funds for the future. Anyway it is an

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illusion to expect that a temporary burst of spending will jumpstart the economy like an automobile battery or prime it like a pump. The state of American business is probably little different today from what it would have been without the \$300 or \$600 income tax refunds of 2001. More important, the President is calling on the American people to make sacrifices to win the world war and protect the homeland. They are willing, indeed eager. Surely those sacrifices do not include still a third set of tax cuts within this president's young term. At this rate, with tax cuts the invariable prescription for whatever ails the national economy, there won't be any taxes left to cut. The advocates of tax cuts allege that tax rates are the highest in history. But it is illegitimate to count social insurance contributions because these are transfers from person to person and are not used to finance government activities.

President and Congress are right to place the emergencies post 9/11 ahead of customary concerns of fiscal prudence, letting the federal budget go into deficit and the federal debt rise. One function of federal deficits and the path of the debt is to share costs and hardships equitably across generations. It is reasonable to shift some of our present burdens to taxpayers of coming decades. The straightforward way to do this is to offset some of today's urgent expenditures and deficits by suspending some of the tax cuts scheduled for later years in the legislation of 2001. If 9/11 type disasters had occurred during the full employment, steady growth, and prosperity of the 1990s, then the new demands of war and homeland security would have had the same priority, but the labor and other resources required would have had to be drawn from other uses. That would have entailed tight money and high interest rates and restrictive fiscal policy as well, including most likely tax increases. It would have been painfully obvious, as it is not now, that the disaster imposed sacrifices on the American people. If and when full recovery from the present recession somehow occurs, our economy will be in that situation. The Kennedy-Johnson tax cuts of 1964-65 worked as intended to restore and sustain full employment but they over-stimulated demand once the burdens of the Vietnam War took priority. Now too it could easily happen that tax cuts welcome in present circumstances will turn out to be embarrassingly excessive in more prosperous times, given the burdens and threats of terrorism. This is especially true given the political obstacles to raising tax rates once reduced, even when the cuts were initially advertised as temporary.

This is no time for an ideological campaign to reduce the shares of government activity in the economy. Let governments

handle the requirements of world terrorism and homeland security they can do best. Inevitably they will buy most of the goods and services they need from the private sector. But if it's better that airport screeners be public employees, so be it.

The attack on Pearl Harbor on December 7, 1941 was, like the terrorist attacks of September 11, 2001, a wake-up call, suddenly focusing the nation on its vulnerability to foreign enemies. The President, Franklin D. Roosevelt then, George W. Bush now, led the nation's response.

In both cases the economy happened to be performing below par at the time of attack. In 1941 the American economy had still not recovered from the Great Depression of 1929-1933. Although the 1929-30 levels of production and income had been restored, unemployment at 10 percent remained stubbornly high. A setback to the recovery had occurred in 1937-38. Like George W. Bush today FDR needed both economic stimulus and war fighting. On both counts economic mobilization was the answer, and FDR wasted no time. He asked immediately for new military appropriations of more than \$100 billion, in an economy with 1941 GNP of \$125 billion, of which federal purchases amounted to only \$17 billion, \$14 for defense prompted by worries about Europe. American industry responded with miracles of innovation and production, notably ships by Henry Kaiser and planes by Howard Hughes. Car and truck factories were converted to tanks and jeeps. The manpower of the armed forces expanded quickly thanks to the draft, selective service already in force. GNP grew by 12 percent from 1941 to 1942, 18 percent the following year. By 1943 labor shortage had displaced unemployment which fell to 4.6 percent in 1942 and to 2 percent the next year. Price and wage controls and rationing were necessary to keep inflation in check. By 1945 half of the United States GNP was war production but what was left for civilian use exceeded the whole of pre-Depression GNP.

There can be no doubt that expansion of government spending on goods and services can provide "stimulus" in the process of carrying out the nation's priority programs. However, maybe the economy needs more demand stimulus than it needs added military spending. This could be a matter of debate. The technology of a two-ocean Second World War is a lot more demanding of manpower and other resources than what we have seen of the international war on terrorism. Perhaps this will change drastically by taking seriously missile defense, dear to the President's heart. Otherwise homeland protection would be the main challenge and stimulus.

James Tobin, a co-founding Trustee of ECAAR, died one month and one day after he wrote the above article. He was Sterling Professor of Economics at Yale University and a Nobel Laureate in Economic Science.

Dr. Tobin's research interests ranged widely: macro-economic theory and policy; money and banking; public finance; consumer behavior; welfare economics; rationing; portfolio selection and asset markets economic growth; investment and capital accumulation; inequality and public policy to ameliorate poverty; econometric method; international monetary system. In his late career, he was actively interested in social security and medical care, and in international monetary reform.

In an op-ed titled "Missing James Tobin," Paul Krugman of the New York Times called Dr. Tobin "a great economist and a

remarkably good man." The Times' obituary recognized "one of the most influential economists of his time." Bob Kuttner of the *American Prospect* discussed Dr. Tobin's work for ECAAR on National Public Radio's *All Things Considered*. Colleagues in Russia sent a wonderful memorial in which they remember him as "a prominent researcher with a socially-conscious heart."

Robert J. Schwartz wrote that James Tobin was a consummate teacher who was always ready to assist ECAAR's work. Although he was not entirely happy at being primarily identified with the Tobin Tax, he was pleased that attention was given to it as a potential aid to the UN and to funding development. As a strong supporter of UN objectives he felt that this was important whether the proposed tax would or would not help to stabilize currency exchanges, which had been the original intention.

Priorities to Combat Terrorism and to Save the NPT

Lucy Webster

The May 2002 efforts to create the basis for a peace conference for the Middle East could reverse the escalation of violence that has marked the region. Assertive action to ensure stability for Israel and a new Palestinian state is an essential part of combating terrorism. That is one priority.

A large measure of international cooperation will be required for any success in the Middle East and for defeating terrorism. Beyond a Middle East Peace Conference of the US, the UN, the EU and Russia, the call to step up humanitarian and development assistance is a positive priority too.

Above all, people need opportunities to participate in their own future. It is most urgent to dry up the pools of despair among educated, middle class youths. The despair that springs from gross inequality and the lack of personal and national purpose grips both rich and poor. Especially acute for Palestinians, a lack of identity and hope leads people to become terrorists in many countries now groping for modernization.

A sense of purpose is the top priority for nations as well as for individuals. And to find a common international purpose will require a rational analysis of the roots of terrorism as indicated above. A true international commitment to end terrorism will not be sustained if the United States is simply committed to a military solution based on the idea that terrorism can be eliminated in the way that Nazism was eliminated.

Nor will a common effort to end terrorism be sustained if the United States abandons the nuclear non-proliferation framework that it previously worked to put in place.

The withdrawal of the United States from the ABM Treaty to become effective on June 13, 2002 unless the US Senate acts, is one element in a broad US policy trend to abandon multilateral commitments. Another was the US stance during the April 2002 Preparatory Committee of the 2005 Review Conference of states parties to the Nuclear Non-Proliferation Treaty. US ambassador Eric Javits stated, "we no longer support some of the Article VI conclusions in the Final Document from the 2000 NPT Review Conference", citing the ABM Treaty, and referring to the Comprehensive Test Ban Treaty as "another example of a treaty we no longer support."

Likewise the information available on the recent US Nuclear Posture Review shows the terrible path down which the world is heading. The Bush administration's plan to develop and potentially to use new types of tactical nuclear weapons adds three kinds of costs to those already incurred by its existing nuclear policies.

First, the development of new tactical nuclear weapons will pile additional direct costs on top of the hundreds of billions of dollars already being spent on missile defense.

Second, the idea that such weapons could be used in a first-strike nuclear attack by the United States adds to the fear of many countries, including Russia and China, that the purpose of the missile shield is to permit nuclear weapons to be used without unacceptable risk of retaliation. Nuclear powers that have hitherto relied on the Anti-Ballistic Missile Treaty for their nuclear security may now feel compelled to maintain retaliatory weapons sufficient to overcome US defenses, and thus to deter US attack. This could lead to a new arms race in offensive weapons for many countries.

Third, a US plan to use nuclear weapons completes the destruction of the structure of nuclear non-proliferation, particularly when combined with withdrawal from the ABM Treaty and refusal to ratify the Comprehensive Test Ban. As Robert S. McNamara and Thomas Graham of Lawyers' Alliance for Nuclear Security pointed out in a recent *Los Angeles Times* article, 182 countries signed the Nuclear Non-Proliferation Treaty in exchange for a pledge made in 1978 and reaffirmed in 1995 by the five NPT-recognized nuclear weapon states that they would not use nuclear weapons against any non-nuclear party to the NPT. By breaking that pledge, the United States would give notice that any country is legally free to develop *or purchase* nuclear weapons. For many countries that have up until now forgone this option because they are parties to the NPT, that would not be difficult; they could build and sell as their interests dictated with clear costs to international security.

Parallel actions to abandon other international commitments do not bode well for a common approach to terrorism. The US action to "unsign" the International Criminal Court statute, which the closest allies of the United States support is one more case in point.

As the US military budget expands to tackle new challenges while maintaining Cold War legacy weapons, the priority given to human security at home and abroad suffers. A legitimate military program can be effective only if it is part of a larger picture. Keeping faith with global partners is essential.

Arab League Secretary-General Amr Moussa believes Arab governments will support a conference on the Middle East only if it includes a clear plan for peace with a Palestinian state. That should be a major priority to combat terrorism.

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The Pentagon's Fiscal Year 2003 Budget Request: More of Everything

Christopher Hellman

On February 4, the administration of President George W. Bush released its proposed federal budget for fiscal year 2003 (FY'03). It includes a \$396.1 billion request for national security: a whopping \$379.3 billion for the Defense Department and \$16.8 billion for the nuclear weapons functions of the Department of Energy. This is \$48 billion above current annual spending levels, an increase of 13 percent. It is also 15 percent above the Cold War average, to fund a military force structure that is one-third smaller than it was a decade ago.

In all, the administration plans to spend \$2.1 trillion on the military over the next five years. The huge increase in the defense budget also is the key reason that the Bush FY'03 proposal, if approved by Congress, would lead the nation back into deficit spending - for the first time in four years.

In presenting its request, the Bush administration justified the proposed Pentagon spending increases as necessary for supporting the "war" against terrorism, and providing funds to transform the current military into a force better suited to meet emerging threats to US national security. And while the budget does include funds for costs related to military operations in Afghanistan and transformation initiatives, the bulk of the funding continues to support the current force structure, and to purchase big-ticket Cold War-era weapons systems.

With the president's approval rating steady at above 75 percent and broad support among the American people for the administration's "war on terrorism," Congress has been generally receptive to the idea of a significant boost in Pentagon spending. This is true despite the potential impact of such a large increase on funding for other domestic federal programs, and the likelihood that it marks the return to deficit spending - a concept that was a virtual political "non-starter" as recently as last August.

Bush's rhetoric carries an eerie sense of déjà vu: major tax cuts, huge military spending increases, with a rapid return to balanced budgets. President Ronald Reagan made similar

promises. While Pentagon spending during the Reagan administration reached record highs for peacetime (about \$425 billion annually in today's dollars), the deficit spending that supported it and the many tax cuts instituted during his administration drove the national debt from \$900 billion in 1980 to more than \$2.6 trillion in 1988 - a 290 percent increase. The dream of a balanced budget thus was sacrificed on the altar of increased defense spending.

Concerns in Congress about the Bush's proposed Pentagon funding boost have focused on the economic impact of the plan, although other issues have been raised. At the extremes are fiscally conservative Republicans who support more drastic controls on non-defense spending, and liberal Democrats who favor delaying or repealing tax

cuts. Other members, both Democrats and Republicans, support scaling back a portion of the Pentagon increase to ease pressure on other domestic programs. Yet generally speaking, the increase remains popular on Capitol Hill, with some members — who see major opportunities for home-district pork — urging that even more be spent on the Pentagon.

The Bush budget request projects deficits of \$106 billion for the current fiscal year, and \$80 billion for FY'03. It also projects a return to surplus spending by 2005. But while Bush administration officials continue to assert that the country's return to deficit spending is temporary, some members of Congress have raised concerns about the specter of long-term deficits. Sen. Kent Conrad, D-N.D., chairman of the Senate Budget Committee, made the point

Some programs facing funding cuts under the FY'03 proposal:

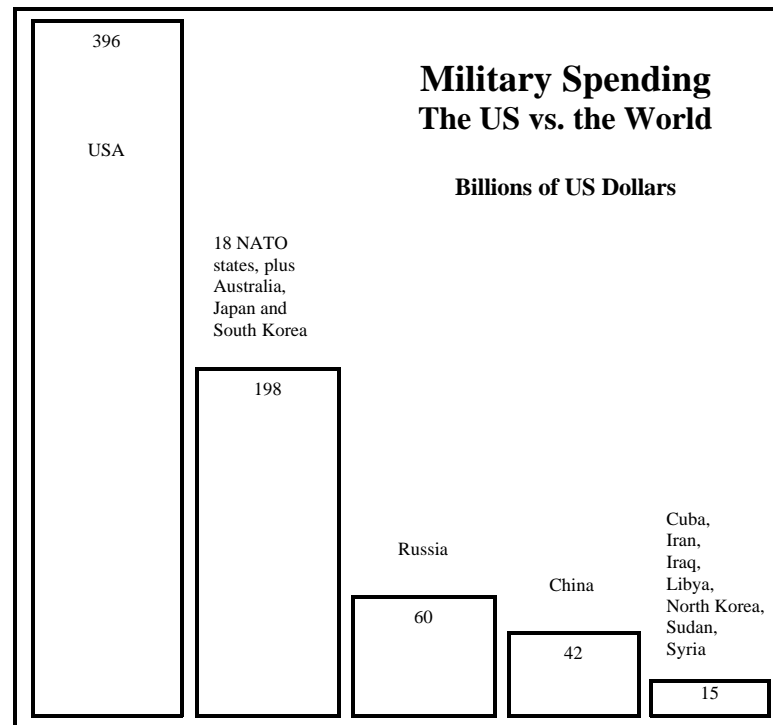
Environmental Protection Agency: \$7.6 billion requested; 4% below FY'02

Community Development Grants: \$4.7 billion requested; 6% below FY'02

Higher Education: \$18.8 billion requested; which is 2% below FY'02

Job Training: \$6.5 billion requested, which is 8% below FY'02

Community Safety: 126 million requested, which is 77% below FY'02



forcefully in hearings on the administration's budget proposal. "We don't see deficits as the president asserted being short-term and small. What we see is an ocean of red ink. What we see is deficits right through the decade. What we see is the use of Social Security and Medicare trust fund money by over \$2 trillion to fund tax cuts and other spending."

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The Human Costs of High US Military Spending

Barbara R. Bergmann

One of the sad results of the September 11 attack has been the rush to increase the already bloated U.S. military budget. Those in favor of devoting ever more of the nation's resources to military hardware have taken what should have been defined as an international detective effort to bring criminals to justice and defined it instead as a "war."

Apparently, the application of that word gives carte blanche to military spending. Ample advantage of that opportunity has been taken by the American administration.

We are reliving the history of the Reagan administration: tax cuts for the rich, and pouring money into the laps of the defense contractors, purposely done to avoid spending on domestic needs. That policy was widely considered mistaken. Apparently, September 11 has erased that judgment. The Democrats, who might have been expected to worry about the effect on American society, and champion greater spending on social needs, have been silent. They don't have the guts to skimp on the "war."

You cannot fight something with nothing. You cannot fight tax cuts and military spending without laying out to the public an alternative plan. Although it may seem to be out of season, those of us who are cognizant of the human cost of America's many unmet needs should be bestirring ourselves to the task of educating the country on the possibility and desirability of filling them. These include, in addition to access to prescription drugs, universal access to health care and dental care, decent nursing

home care for the elderly, quality child care, improved education for all, access to mental health therapies, drug and alcohol addiction therapies on demand, affordable housing, access to higher education by those who can profit from it, a more adequate system of unemployment insurance. These needs will only (and, one can have faith, will eventually) be filled by the establishment of expensive government programs.

Starting on the task of advocating the establishment of such programs may seem inappropriate at this time, as the government surplus has been made to disappear. Yet in that brief golden hour when there was surplus as far as the eye could see, there was no voice that could be heard among politicians, in the press, or among the public, advocating progress in meeting these needs. The Republicans wanted tax cuts for the rich, and the only thing the Democrats felt like pushing was paying down the national debt, masquerading as "saving Social Security". A vigorous advocacy for meeting the country's unmet needs should be started, so that when opportunities present themselves for action this sad history will not be repeated yet again. As part of this advocacy, we must address the excessive spending on the military, and in particular the anti-missile fantasies that seem nothing more than a peculiar ceremony of adoration of Ronald Reagan.

Barbara Bergmann is an ECAAR Trustee and Professor Emerita of Economics, American University and University of Maryland.

The administration has made it clear that it will resist efforts to tap military spending to fund other priorities. Mitchell Daniels, Jr., the director of the Office of Management and Budget, told the Senate Budget Committee that "if there are attempts to raid defense for lesser priorities or to raid homeland security for lesser priorities, then we'll resist that strongly."

According to Rep. John Spratt, D-S.C. top Democrat on the House Budget Committee, the administration's proposed budget falls \$15.8 billion below the amount needed to maintain current government services other than defense and homeland security. And despite the administration's willingness to borrow extensively to fund its proposed budget, a number of important programs would be cut dramatically under the new plan.

No one seems to have a budgetary plan that will fund both military and non-military domestic programs, increase funding for homeland defense, and revive the economy while restoring budgetary surpluses that is likely to work, let alone be politically palatable. In the end—given the broad public support for higher military spending, and the political cover that the current "state of war" provides for the members of Congress reluctant to return to deficit spending—legislators will likely support the administration's request for the Pentagon, while borrowing additional funds to meet shortfalls in other federal programs.

According to CDI's latest analysis, the proposed \$395 billion Pentagon spending package exceeds that of the next 25 nations combined. It is not surprising that as the world's lone super power the United States spends more on its military than any other nation. What is surprising, however, is just how much larger the U.S. defense budget is compared to any other nation, or even groups of nations.

Consider the following:

- At \$396 billion, the U.S. military budget request for FY'03 is more than six times larger than that of Russia, the second largest spender.
- It is more than 26 times as large as the combined spending of the seven countries traditionally identified by the Pentagon as our most likely adversaries (Cuba, Iran, Iraq, Libya, North Korea, Sudan and Syria).
- The United States and its close allies spend more than the rest of the world combined, accounting for more than two-thirds of all military spending. Together they spend over 39 times more than the seven rogue states. ("Allies" includes NATO, Australia, Japan and South Korea.)
- The seven potential "enemies," Russia and China together spend \$117 billion, less than one-third (30 percent) of the US military budget.

The FY'03 budget request includes \$767 billion for *discretionary* spending (the money the president and Congress must decide and act to spend each year), \$396 billion of which will go to the Pentagon.

The other category of federal spending is *mandatory* spending, money that is spent in compliance with existing laws that govern the particular program or function. Mandatory spending includes entitlements, money or benefits provided directly to individuals such as Social Security, Medicare, Medicaid, Food Stamps, and Federal Retirement. It also includes interest payments on the national debt.

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Toward a New Assertive Approach to Peace and Security in the Middle East

Chris Toensing

At its root the Israeli-Palestinian conflict, currently passing through one of its bleakest phases, is a political conflict, not a religious or an ethnic one. The conflict has a political solution: the creation of an independent Palestinian state in the West Bank, East Jerusalem and Gaza Strip—all illegally occupied by Israel since 1967—along with resettlement and compensation for Palestinians made refugees during the 1948 war.

The Palestinian uprising which began in late September 2000 broke out because seven years of the US-sponsored Oslo “peace process” had failed to produce meaningful progress toward the goal of an independent state. Despite 19 months of continuously escalating Israeli military repression, the Palestinian will to resist Israeli occupation has not broken. To the contrary, the fierce Palestinian defense of Nablus and Jenin during the March-April 2002 Israeli invasions of those towns showed that Palestinians now regard themselves in a struggle for the survival of the idea of independence. Both Islamist and secular factions appear to have adopted suicide bombings as a weapon of last resort, to send a message that maintaining the occupation will exact a devastating toll on Israelis.

Whatever George W. Bush may say, Israeli Prime Minister Ariel Sharon is not a “man of peace.” Allied with the right-wing settler movement, Sharon is opposed to Palestinian independence and will try to block its emergence by all means at his disposal. At present, Israeli public opinion backs his strategy of crushing Palestinian resistance through military force—though this cannot provide Israel with security. Sharon may employ still harsher force if more Palestinian attacks on civilians within Israel provide him with the excuse.

This drastic impasse requires a drastic solution: a UN peacekeeping force armed with a mandate to end Israel’s occupation of Palestinian lands. Such a force would oversee the implementation of UN Security Council resolution 242, supplanting Israeli troops in the West Bank, East Jerusalem and Gaza. Removing the occupation would remove the prime cause of anger and desperation among Palestinians. The hated curfews, closures and internal checkpoints would disappear, enabling the Palestinian economy to begin its recovery from the disastrous losses of the last two years. With a political future for Palestine safeguarded, the Palestinian leadership could act decisively to prevent rejectionist elements from attacking Israel. Israel and the Palestinians could re-engage in good-faith negotiations, under UN supervision, to resolve the issues of borders, settlements, refugees, Jerusalem and water. Peacekeepers could assume the tasks of evacuating settlers or dismantling settlements—both likely to be politically impossible for the Israeli government to do by itself.

Prompt deployment of a peacekeeping force may be the only chance of halting an increasingly horrible, and one-sided, war between Israel and the Palestinians. But it can’t happen without a fundamental transformation in US policy toward the Israeli-Palestinian conflict. In our unipolar world, the US can make or break effective international intervention.

So far various proposals for international intervention in the conflict have fallen short of what is required. Saudi Crown

Prince Abdallah included a vague call for a multinational force in his eight-point memorandum on Middle East peace presented to Bush on April 26. A week earlier, UN Secretary-General Kofi Annan suggested the deployment of a multinational force to act as a buffer between Israeli troops and Palestinians in the Occupied Territories. Buffers will not be respected by Palestinian militants because they may legitimize the existing forward positions of the Israeli army as semi-permanent lines of demarcation between Israeli- and Palestinian-controlled areas.

The worst-case scenario here is that UN troops, whether armed or not, might find themselves caught in skirmishes between Israeli occupation forces and resistance fighters, as happened from time to time during Israel’s occupation of south Lebanon. As in Lebanon, the Palestinians would denounce the UN presence as a means of preventing them from prosecuting their war of independence. Meanwhile, the Israelis would protest that the international force was doing nothing to prevent attacks on soldiers and settlements (and perhaps civilian targets within Israel). Fighting on the ground would be matched by a war of words in the international media.

Complicating the picture is the lack of a clear message from the Palestinian leadership. The Palestinian Authority (PA) did broadcast a demand for international peacekeepers as Israel pursued various measures of collective punishment for the bombing of a settler bus in November 2000. Nasser al-Kidwa, the PA’s representative at the UN, pressed this case to Security Council members. But Annan, as well as the US, France and Britain, replied that any such demand was conditional upon the approval of Israel.

Successive Israeli governments have rejected a peacekeeping force as foreign interference in what they regard as an internal security problem. Since this original demand was nixed at the UN, the PA has backed down, often using the terms “observers” and “monitors” instead of “protection force.” The National and Islamic Forces—a coalition of militias that exercises nominal “field leadership” of the uprising—has not taken a uniform stand on international intervention. Only Palestinian NGOs and civil society leaders have consistently sounded the call for an armed protection force.

US policy, echoing Israel, has generally dismissed the idea of international intervention. The Bush administration vetoed a UN resolution that would have sent unarmed observers to the region in March 2001. Recently, US officials have referred to the possibility of using CIA or State Department personnel to “monitor” implementation of US ceasefire plans. At worst, Palestinians would perceive that US monitors were merely sent to tamp down their resistance to the occupation. “We should be extremely cautious about calling for any kind of intervention unless it is explicitly linked to removing the Israeli occupation, because the more likely scenario would be to ‘police’ the PA areas,” says Adam Hanieh, a Palestinian human rights activist who has written about the issue.

At best, the monitors envisioned by the US might be akin to the Temporary International Presence in Hebron (TIPH), deployed in 1997 after a rash of violent incidents involving tiny

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“Offshore Banking, Money Laundering, and Security” – A Panel Discussion

Sponsored by: The ECAAR Business Council and The Consulting Group, **Hosted by:** TIAA-CREF

Speakers: Jonathan Winer, Esq., Alston and Bird, and Randall Dodd, Director, Derivatives Study Center

Moderator: Peter Clapman, Senior Vice President and Chief Counsel, Corporate Governance, TIAA-CREF
730 3rd Avenue (at 45th St.) – 18th Fl., Room 4, New York, NY, on May 7th, 2002

The attacks of September 11th and the collapse of Enron have demonstrated the economic and national security implications of loopholes in US financial regulation. Derivatives and special purpose entities (SPE) registered in tax-haven countries are used for unproductive activities, avoiding taxes, outflanking US financial regulations, distorting US financial reporting requirements and manipulating credit ratings. “Shell” corporations in tax havens are used to launder money from arms and drugs sales and to finance terror.

About the Speakers:

Jonathan Winer, Esq is the former US Deputy Assistant Secretary of State for International Law Enforcement, and an internationally recognized expert on the international offshore financial sector. He has written, lectured and testified before Congress on domestic and international financial crime, enforcement and regulation, and on data protection and privacy. At Alston & Bird, he represents US and non-US clients on legal issues associated with transnational financial regulation, and is working with US Treasury officials on implementation issues associated with the USA-PATRIOT Act.

Randall Dodd, Director of the Derivatives Study Center of the Economic Strategy Institute, previously served as an economist at the Commodity Futures Trading Commission, and as special adviser to Commissioner Holun. Dodd who received his Ph.D. in economics from Columbia University, specializing in international trade and finance, formerly worked as a senior economist at the Joint Economic Committee of the US Congress, as an economist for the Democratic Study Group, and as Legislative Director for Rep. Joe Kennedy, currently teaches at American University, and has also taught at John Hopkins University, Columbia University, Rutgers University, and the University of Maryland.

Peter Clapman (Moderator), Senior Vice President and Chief Counsel for Corporate Governance, TIAA-CREF, also serves as Chairman of the International Corporate Governance Network, a global watchdog organization that discusses issues of shareholder rights and executive and director conduct. He is also a member of the editorial board of the *Corporate Governance Advisor*.

communities of religious-nationalist settlers living amidst a hostile Palestinian population in that West Bank town. TIPH has no mandate to do anything but report back to participating governments, which in turn have no mandate to recommend action based on TIPH reports. Accordingly, TIPH can do nothing to prevent settler or soldier attacks on Palestinians, which have been frequent since the uprising began. TIPH vehicles are regularly pelted with rocks and bottles by settlers. In late March, two TIPH personnel were shot dead in mysterious circumstances while driving from Hebron to Jerusalem. These observers may be a target of violence, but are powerless to stop it.

The failed TIPH experiment underlines the fact that not just any international intervention will do in Israel-Palestine. To be effective, the peacekeepers must be armed and empowered to disarm and arrest those from either side who would disrupt the peace. But more importantly, their mission must be primarily political—to effect the two-state solution to the conflict—and must adhere to strict timetables so as not to become semi-permanent and hence part of the problem.

UN intervention to ensure independence for East Timor makes for an interesting, if imprecise, comparison to the Palestinian case. As with the Palestinians, the world overwhelmingly supported East Timorese self-determination, against the wishes of the occupying power, Indonesia, which was also heavily backed by the US. When Indonesia and proxy militias embarked upon a war to suppress the spirit of East Timorese independence in September 1999, the US and Australian governments balked at armed intervention because Indonesia wouldn't accept it. Finally, reports from East Timor became so grim that the US suspended aid to Indonesia; three days later, Jakarta relented. UN peacekeepers are now watching over East Timor's transition to statehood.

Washington's refusal to endorse a far-reaching international presence in Palestine is of course rooted in its acceptance of Israel's characterization of the present conflict as a security crisis, rather than a political crisis of the occupation. Despite claims to be an “honest broker” and protestations of loyalty to Bush's “vision” of a Palestinian state, the US has pointedly refrained over many years from using its enormous leverage with Israel to bring its ally into compliance with UNSC 242. Despite Sharon's defiance of his calls to withdraw Israeli tanks from reoccupied Palestinian cities in April, Bush did not threaten any portion of US aid to Israel to bring his ally into compliance with UNSC 1402, either. John Negroponte, US ambassador to the UN, promised to veto any new resolution based on Annan's recent call for a (presumably toothless) multinational force.

International intervention to end Israel's occupation of Palestinian lands—the best hope for peace and security for Palestinians and Israelis alike—is a pipe dream until the US puts ending the occupation at the center of its own policy toward the Middle East and relinquishes its stranglehold upon Israeli-Palestinian diplomacy. One fervently hopes that the parallels between East Timor and Palestine do not grow any stronger before these things happen. In the meantime, the thin gruel of ceasefires and “confidence-building measures” on offer from Washington, coupled with Sharon's aggression and Palestinian desperation, are a recipe for indefinitely prolonged and agonizing conflict.

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Negotiating an End to North Korea's Missile-Making

Leon V. Sigal (with thanks to the Arms Control Association)

In the debate over national missile defense, missile menace from so-called rogue states is used to justify spending \$60 billion on defenses. Exhibit A for missile defense proponents has been North Korea. But the Democratic People's Republic of Korea (DPRK) has refrained from testing a ballistic missile capable of reaching the continental United States, and even worst-case estimates put it a decade away from deploying one. Long before that, Washington could negotiate a ban on development, production, and export of Pyongyang's medium- and longer-range missiles—a less risky way to counter the threat than unproven missile defenses.

In a major stride toward such a ban, North Korea agreed last September to suspend testing while missile talks proceed. It was expected to send a high-level representative to Washington to conduct the talks, assuring equally high-level attention in the US government. In return, the United States announced on September 17 that it would ease its decades-long economic embargo on North Korea. North Korea has kept its end of the bargain; there has been no untoward activity at its missile test sites since September. The United States has been slow to reciprocate but is now committed to relaxing sanctions soon. Until it does, however, North Korea's high-level representative will not come to Washington.

Both Tokyo and Seoul recognize that an end to adversarial relations with Pyongyang is the best way to halt proliferation and improve security in Northeast Asia, but that lesson has not yet been absorbed in much of Washington. US policy-makers must ask themselves why North Korea would move to disarm if the United States remains intent on treating it like a foe.

To negotiate an end to North Korea's missile threat, the United States and the DPRK need to set political relations on a new course by declaring an end to enmity. As a practical step toward that end, the United States should call off its economic embargo now. In return, the DPRK would agree in writing to a formal moratorium on missile testing as a first step to a complete ban.

Pyongyang's Missile Game

Most experts assume North Korea is racing headlong to develop long-range missiles, but if Pyongyang had wanted missiles worth deploying or selling, it should have been perfecting the *No Dong*, *Taepo Dong-1*, and *Taepo Dong-2* with repeated testing. Instead, it has conducted just two medium- or longer-range missile tests in the past decade—one of the *No Dong* on May 29, 1993, and another of the *Taepo Dong-1* on August 31, 1998—both of them failures.

North Korea's restraint is just one sign of its interest in a diplomatic resolution of the missile issue. Since 1992 it has expressed its willingness to stop exporting missiles, for a price. In October 1992, Israel took up a North Korean invitation to open talks in Pyongyang. In January 1993, the director-general of the Israeli Foreign Ministry, Eitan Bentsur, made an offer of diplomatic relations and hundreds of millions of dollars of investment and technical assistance in mining and agriculture as inducements for North Korea to halt its missile exports to Iran, Pakistan, and others. But Israel broke off negotiations at the insistence of the United States, which wanted to keep pressure on Pyongyang to force it to give up its nuclear weapons program.

In 1996, the United States opened missile talks of its own with the DPRK, but in the ensuing two years Washington held just two rounds of talks, hardly an indication of seriousness. On June 16, 1998, North Korea made public an offer to negotiate an end to its exports and to the "development"—its word—of new missiles. Development is usually understood to cover both tests and the production of missiles for the purpose of testing. With that offer came a threat to resume tests if negotiations were not held.

The 1998 statement, carried in English by the state-run Korean Central News Agency, was explicit: "Our missile export is aimed at obtaining money we need at present. As the United States has pursued economic isolation of the DPRK for more than half a century, our resources of foreign money have been circumscribed. ... If the United States really wants to prevent our missile export, it should lift the economic embargo as soon as possible and make compensation for the losses to be caused by discontinued missile export." The statement went beyond the issue of exports: "The discontinuation of our missile development is a matter which can be discussed after a peace agreement is signed between the DPRK and the United States and the US military threat [is] completely removed. If the US concern about our missiles is truly related to the peace and security of Northeast Asia, the United States should immediately accept the DPRK-proposed peace agreement for the establishment of a durable peace mechanism on the Korean Peninsula."

Such a "peace agreement" would remove the "US military threat" as perceived by Pyongyang by setting up a "peace mechanism" with a military-to-military channel involving the United States, South Korea, and North Korea that Pyongyang has sought to replace the Military Armistice Commission.

When the United States did not take up this offer, North Korea carried out its threat to resume tests, launching a three-stage rocket in a failed attempt to put a satellite into orbit. For eight years the DPRK has been expressing interest in a missile deal, but it was unwilling to give up its missiles without getting something in return. What North Korea wanted most of all was a political accommodation with the United States, South Korea, and Japan to ensure its security.

This is nothing new. Pyongyang has been trying to reach out to all three countries since the late 1980s. When the United States moved to accommodate it, the DPRK responded in kind. When President George Bush announced the withdrawal of all US nuclear arms from South Korea in September 1991, Pyongyang signed a de-nuclearization accord with Seoul and a safeguards agreement with the International Atomic Energy Agency (IAEA). It backed up its words with deeds. To make nuclear arms, North Korea would have had to shut down its reactor, take out the spent fuel, and reprocess it to extract plutonium, the explosive ingredient in nuclear weapons. In a step later verified by IAEA inspectors, it halted reprocessing in autumn 1991. In October 1994, it concluded the Agreed Framework, freezing its nuclear weapons program. North Korea has adhered to the Agreed Framework even though the United States failed to deliver promised heavy-fuel oil on time, has been even slower to ease its economic embargo, and has yet to start construction of replacement reactors through the consortium it leads.

(continued on page 9)

North Korea has showed some self-restraint in its missile program as well. On at least two occasions, in May 1994 and in October 1996, the North suspended preparations for missile tests at the request of the United States. Meanwhile, the United States kept South Korea from developing longer-range missiles. At the time of the *Taepo Dong-1* test in August 1998, the United States had just opened talks with North Korea about gaining access to the suspect nuclear site at Kumchang-ni. In May 1999, North Korea granted access to the underground site at Kumchang-ni, and later agreed to suspend missile testing in return for an end to sanctions under the Trading with the Enemy Act.

By contrast, when Washington did not engage in diplomatic give-and-take or failed to carry out its agreements, Pyongyang retaliated. When Washington ignored Pyongyang's proposal for replacement reactors in June 1992 and instead resumed "Team Spirit" military exercises with South Korea in March 1993, Pyongyang gave notice of its intent to renounce the nuclear Non-Proliferation Treaty, and when the United States intervened to stop Israel from trying to negotiate an end to its missile exports, North Korea conducted its first and only No Dong test.

While exercising restraint, Pyongyang has kept its nuclear and missile options open. That has led many observers to conclude that it is engaged in blackmail intended to coerce Washington into providing economic aid. It is not. It has been playing tit-for-tat, in an effort to get Washington to negotiate in earnest.

If the past is prologue, cooperating with Pyongyang works. The Agreed Framework has frozen North Korea's known nuclear program. Enough plutonium for five warheads is now stored in casks under the watchful eyes of the IAEA. The reactor at Yongbyon capable of generating more plutonium-laden spent fuel is shut down, along with a nearby reprocessing plant, and construction of two larger reactors has been halted.

Moscow, Beijing, and Tokyo Get It

Russia and China are well aware of North Korea's desire for a diplomatic resolution of the missile issue. That is why Russian President Vladimir Putin recently offered to work with the United States to induce North Korea to cease development of longer-range ballistic missiles. That is also why Beijing has concluded that US missile defenses are aimed at it, not North Korea. "The US is a huge superpower and you're afraid of little North Korea?" Sha Zukang, China's director-general for arms control and disarmament, said recently.

China's possible reaction to U.S. missile defenses has also encouraged other states in the region to support a diplomatic resolution with North Korea. The conventional wisdom in Washington is that China is intent on modernizing its missile forces regardless of what the United States does about missile defenses. That wisdom is fatally flawed.

As of 1995, China had deployed just 18 missiles capable of reaching the United States, although it has long had the capacity to build more. If the United States decides to deploy defenses,

China's armed forces will not only deploy more missiles to counter them, but will also demand a hike in defense spending to pay for the missiles rather than cut back on conventional arming.

At a time of slowed economic growth, such a reallocation of resources from domestic needs to defense will prompt an intense struggle between the military and the regional authorities, who want more spent on domestic needs. In that struggle, the United States will be cast as China's foe, possibly setting off a new cold war in Asia and undermining U.S.-China cooperation.

This possibility puts America's allies, Taiwan and Japan, in a bind. While they are reluctant to offend a Congress that makes missile defenses the litmus test of alliance, they do not want to provoke China's hostility either. It is for that reason that the newly elected leadership in Taiwan quietly favors a negotiated solution to the missile threats in Northeast Asia.

Japan is prepared to be generous. As a sign of its priorities, it has quietly set aside more money for investment in North Korea than it has allocated for research on missile defenses. It could eventually stop barring Pyongyang's admission to the Asian Development Bank—a step that would put Tokyo in a position to provide the lion's share of any *quid pro quo* for a ban on tests, production, and ultimately deployment of North Korea's medium- and longer-range missiles. It would also put Japan in a position to negotiate a missile deal of its own with North Korea if US-DPRK talks falter. Other states are ready to do their share as well. Israel has expressed renewed interest in providing economic aid and full diplomatic recognition if North Korea restrains its missile exports. Under Kim Dae Jung, South Korea has been even more resolute than Japan in taking a cooperative course with the North.

A first step for active peace could be an agreement to replace the Military Armistice Commission with the new three-way "peace mechanism" sought by Pyongyang. That military-to-military mechanism, which would involve the three countries with armed forces on the peninsula, would become a channel for working out the details of a gradual pullback and drawdown of forces poised along the Demilitarized Zone. In that context, the presence of U.S. forces is not likely to be the issue; their role will be. The North envisions them serving as a potential stabilizing force on the peninsula—but only if the United States changes its political posture from that of a foe to that of a partner of sorts.

A change in political relations is critical to preventing proliferation on the Korean Peninsula. Once the political conditions are put in place, economic engagement with the South could help curb the North's appetite for nuclear weapons and missiles. As North Korea begins producing other goods for a world market, it will have ways to acquire hard currency that are not military.

Leon V. Sigal is director of the Northeast Asia Cooperative Security Project at the Social Science Research Council in New York and author of Disarming Strangers: Nuclear Diplomacy with North Korea.

A National Vieques Summit for Peace with Justice

Robert J. Schwartz represented ECAAR at an April 12-13 conference hosted by Hostas Community College and the National Puerto Rican Coalition. One purpose of attending was to distribute brochures about the Peace in Peacetime International Encounter, which is described on page 12 of this Newsletter.

The following Coalition objectives for Vieques were agreed:

- Demilitarization
 - Decontamination
 - Devolution of land
 - Sustainable economic development
-

ECAAR-South Africa Challenges Arms Expenditures

Terry Crawford-Browne, Chair of ECAAR-SA

In November 2001, ECAAR-SA and Terry Crawford-Browne lodged a class action suit on behalf of "the class of poor people in South Africa" for cancellation of South Africa's 5 billion US dollar armaments acquisition program for new warships and warplanes. These have been ordered from Germany, Britain, Sweden and Italy.

Legal commentators are keenly following the case as a critically important test of constitutional commitment to socio-economic rights, as enshrined in the Bill of Rights of South Africa's 1996 Constitution. At that time, there was vigorous debate on whether such rights should be included, and whether they were judicially enforceable. Inclusion prevailed.

Thus, while the United States' Bill of Rights guarantees "first generation" rights: freedom of speech, freedom of assembly etc., the South African Bill of Rights extends to the "second generation" rights of housing, health care, food, water, social security, children's rights, and education, and to the "third generation" right to life. Literally the first test of the South African Constitution was the ruling by the supreme Constitutional Court that the death penalty was incompatible with the right to life.

The Constitution, adopted as "the supreme law of the Republic." is regarded as being perhaps the world's most progressive.

In bringing the class action suit in terms of Section 38 of the Constitution, ECAAR-SA is arguing that the arms deal is constitutionally unlawful because it is:

- Strategically irrational since there is no conceivable foreign military threat to South Africa to warrant massive expenditures on armaments, and that the real threat to South Africa's security and democracy is poverty;
- Economically irrational because it was predicated upon expectations that expenditure of US\$5 billion (R30 billion in 1999) would generate offsets of foreign investments and exports worth R110 billion to create 64,165 jobs; and
- Financially irrational because foreign exchange and other risks limit the State's financial ability to meet the socio-economic commitments of the Bill of Rights.

Cabinet ministers were warned of the foreign exchange risks by ECAAR-SA and by the Department of Finance but proceeded with the acquisition program then costed at R6.25 per US\$1. In December 2001, it fell to R13.88 per US\$1 and is projected at weaker than R40 per US\$1 by the year 2010.

The Minister of Finance who signed the loan agreements for the arms deal in January 2000, insisted until February 2002 that the contract price remained R30 billion, but then conceded that currency depreciation brought the rand cost to R52.7 billion before including interest and other charges.

In addition, the Budget confirmed that increases in defense spending, at 15 percent annually, are by far the fastest growing, and dwarf expenditures on education, housing, health and welfare which average 6 percent. By 2010, the cost of the arms deal may well rise to over R350 billion, thus squeezing out the State's ability to meet socio-economic expenditure plans.

The Executive responded in March 2002 on procedural points:

- That jurisdiction in the case should be in Pretoria rather than Cape Town, because Pretoria is South Africa's executive capital and Cape Town the parliamentary capital and that the loan agreements had been signed in Pretoria;

- That ECAAR-SA and Terry Crawford-Browne do not have *locus standi* to bring the case;
- That documentation, including the "arms deal" report, the "affordability study," and various affidavits (including one by Jeff Dumas) should be ruled irrelevant and inadmissible;
- That once the Cabinet had agreed upon the acquisitions, the role of the Minister of Finance was merely to negotiate the cheapest means of finance.

Courts in South Africa, as elsewhere, are reluctant to challenge the right of the Executive to make policy. However, the Constitution requires that public power vested in the Executive and other functionaries must be exercised in an objectively rational manner. Action that fails to pass this threshold is inconsistent with the requirements of the Constitution, and is therefore unlawful.

The world and most South Africans have been bewildered by the Executive's policies regarding HIV and AIDS. As an AIDS dissident, President Thabo Mbeki has seemingly denied the causality between HIV and AIDS, and has blamed AIDS on poverty. South Africa is now the country worst affected, with some 25 percent of pregnant women testing HIV positive. An estimated six million South Africans are likely to die of AIDS-related complications within the next five years, and the life-expectancy rate will plummet from 60 to 44 years.

The economic consequences of AIDS in South Africa are horrendous. The apartheid state and the democratic government have squandered 20 years before addressing this catastrophe.

The Treatment Action Campaign (TAC) has challenged the Executive's refusal to provide the drug nevirapine to pregnant women and their children. This drug is cheap and has proved effective in preventing mother-to-child transmission. TAC has won a series of court battles against both the pharmaceutical companies and the Executive and, in May 2002, the Executive is expected to lose its final appeal to the Constitutional Court.

Having previously claimed that South Africa could not afford a comprehensive program against AIDS, the Executive is now furiously back-pedaling, and is quintupling its financial commitments. Even so, its HIV/AIDS budget for the financial year 2004/2005 will still be a derisory R1.8 billion (US\$164 million) compared to the tens of billions being spent on warships and warplanes. The TAC precedents have enormous implications both constitutionally and in supporting ECAAR-SA's case for cancellation of the arms deal.

The arms deal has been the subject of massive public controversies over the past six years, mainly because of allegations and evidence of corruption submitted by ECAAR-SA in September 1999 for investigation by the Heath Special Investigating Unit. After President Mbeki dismissed Judge Heath, a parliamentary investigation was thwarted by party politics.

Similarly, a joint investigation by the Auditor General, Public Protector and Directorate of Public Prosecutions—although finding the acquisition procedures riddled with malpractices—exonerated the Executive. The Chief Director of Procurements and lesser officials have been dismissed, and the ANC's former Chief Whip in Parliament and the CEO in South Africa of European Aeronautic and Defense Systems (EADS) are awaiting trial on charges of corruption and fraud. The Institute for

New Prospects for Vieques

Robert J. Schwartz

Since 1999, when a civilian was killed in error during military practice bombing at the US Naval base on Vieques island, there has been strong support in the United States for the struggle of the Puerto Ricans to close the base that occupies most of Vieques on land appropriated in preparation for World War II.

ECAAR has worked with the Viequenses for more than six years to close the base, and we are now beginning to see real prospects for success. Our participation has included sponsoring a major study with Professor Lionel McIntyre of Columbia University entitled *Vieques Island, Puerto Rico, Looking Forward: A Development Strategy for the Naval Ammunition Facility*, a report praised for its analysis by many experts and officials. This study was submitted to former Secretary of Defense William Cohen. There were two later by Professors Leticia Rivera Torres and Antonio Torres, *Vieques, Puerto Rico: Economic Conversion and Sustainable Development*, based at MIT and *Vieques: Land Trust & Community Extension*, based at Tufts. These complement the Columbia study.

In addition to seeking the closing of the US Naval base and rehabilitation using US Navy and federal funding, ECAAR proposes creating a land trust from which the benefits would go to the Viequenses. The trust proposal stresses sustainable development to meet the needs of the present without compromising future opportunities through a community economic development program to include eco-tourism, agriculture, fishing, mariculture, arts and crafts, education and housing.

With the large additional military expenditures proposed by the G. W. Bush Administration and accepted by Congress, the struggle to end the Navy's military exercises and those of allied naval forces in Vieques more complicated. But nowhere else in the 50 States are American citizens subjected to bombing and ship to shore target practice as they are on Vieques.

The Navy's claim that Vieques is essential for target practice is refuted by highly respected retired Admirals Gene LaRocque and Jack Shanahan who have assisted ECAAR on the Vieques project. Ever since the Chinese invasion of Korea over 50 years

ago, new weapons and tactics have made the US tactics used then increasingly obsolete—air bombardment, firing missiles from naval vessels, and landing men from ship to shore. Over the years that ECAAR has been a part of the movement to return Vieques to its people, our views and reports have been communicated to the White House, the Secretary of Defense, Puerto Rican officials and the press. What once seemed impossible, can now be seen as an impending reality.

Key people involved in ECAAR's efforts include Charlie Connelly, editor and publisher of *The Vieques Times*, Robert Rabin, Committee for the Rescue and Development of Vieques, Lourdes Miranda, President of the Miranda Foundation which gave initial funding and good advice, and Eng. Johnny Vaquez, Director of Planning and Community Development, Municipality of Guaynabo, who has been organizing with Migdalana Bernardo, a key person in the planning and development of the base transfers from Fort Buchanan to Guaynabo.

The referendum in Vieques sponsored by the Navy and former Puerto Rican officials was overwhelmingly in favor of having the Navy cease its activities in Vieques. In the last election of November 7, 2000, the three major officers, the Governor, the Resident Commissioner to the US Congress, and the Mayor of Vieques, were replaced by persons strongly favoring the departure of the Navy. The two US Senators from New York and many Representatives in the House have declared and demonstrated in Puerto Rico for the Navy to leave Vieques.

With the world turmoil since September 11 in which the US is heavily engaged, the problems of Vieques may seem small and unimportant. However, Vieques is a symbol of unacceptable treatment given by the US government to US citizens. The potential ending of this injustice aided by ECAAR's work is most satisfying and a move in the right direction. To me particularly, this is the idea upon which ECAAR was founded: to use our research and knowledge to reduce military expenditures and to apply funds to economic development at home and abroad.

Robert J. Schwartz is the Founding Trustee of ECAAR.

Democracy in South Africa (IDASA) ranks the arms deal investigations as the "litmus test of South Africa's commitment to democracy and good governance."

Despite public interest in the corruption issues, this is not the basis on which we are challenging the acquisitions. South Africa is probably the country least vulnerable to foreign naval attack.

The real threat to South Africa's security is poverty, with some 35 percent of the population being unemployed and more than 50 percent classified as "poor."

ECAAR-SA's court application for nullification of the loan agreements signed by the Minister of Finance would, if granted, effectively cancel and collapse the arms deal. The cancellation costs of export credit guarantees would be borne by the European governments concerned, not by South African taxpayers.

The EU Code of Conduct on Arms Exports requires regard for the socio-economic circumstances in countries receiving European arms. A successful court case will help European civil society begin to challenge their governments about the marketing

and promotion of arms exports to developing countries.

Because of its constitutional implications, an excellent legal team has drastically cut its fees to take the case. We are now wrangling with the Executive on procedural points, not on the substance of the case. This phase can end soon, and a court date be set. The case is now lodged in the Cape Town High Court, which can make a decision subject to constitutional ratification, or refer it to the Constitutional Court based in Johannesburg.

Should the application be successful, it will have enormous implications for South Africa's military posture. A complete rethink of defense requirements will become possible—away from traditional notions of military security for the State in favor of human security for the people.

The socio-economic focus of the Constitution means that the governing principles are as follows: "National security must reflect the resolve of South Africans, as individuals and as a nation, to live as equals, to live in peace and harmony, to be free from fear and want and to seek a better life."

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Action Opportunities for Readers and ECAAR Members

Wednesday 19th June 5.00 pm for 5:30, Room G230 at Middlesex Business School, London, UK
"A Perfect Crime: Inequality in the Age of Globalization" with **James K. Galbraith**

Sixth Annual Middlesex Conference on Economics and Security

**Friday
June 21st**

Middlesex University Business School, London NW4

10.00-11.30 **Plenary 1: Arms Trade and Industry Restructuring**
Speakers: Ron Smith and Paul Levine
Chair: James K Galbraith

12.00-14.30 **Parallel Workshops followed by Lunch**

14.30-16.00 **Plenary 2: "The New Strategic Global Situation:
What has changed since September 11, 2001?"**
Speakers from: ECAAR US/Russia/UK

16.00-16.30 **Tea followed by Parallel Workshops**

**Saturday
June 22nd**

10.00-11.30 **Plenary 3: Terrorism, Human Security and Development**
Speakers: Richard Jolly, Fanny Coulomb and Jurgen Brauer

12.00-16.30 **Parallel Workshops, Lunch, Parallel Workshops, Tea**

16.30-17.30 **Plenary 4: Open Forum on Policy Issues.** Chair: Jurgen Brauer
Panel: Richard Kaufman, CAAT, ECAAR Russia,

For more information or for conference registration, please contact Maria Lane <m.lane@mdx.ac.uk>

Peace in Peacetime: International Encounter on Peace and Development

**August 12th
to 15th**

Convened by the Arias Foundation for Peace and Human Progress and the Senate of Puerto Rico in association with the Earth Council and Economists Allied for Arms Reduction to take place in Puerto Rico. See www.fiatpax.org or write to lina@arias.or.cr.

**Thursday
October 15th**

Oscar Arias to Address Major ECAAR Fundraiser
at the Park Avenue, New York home of Patti and Jeffrey Kenner.

Cape Town, South Africa Offsets and Economic Development conference

**September
25th to 27th**

Sponsored by Economists Allied for Arms Reduction (ECAAR) US, the National Research Foundation (SA), the Centre for Conflict Resolution and the School of Economics, University of Cape Town, the University of Port Elizabeth and Middlesex University Business School. See www.ecaar.org.

Plan to attend the ECAAR AEA/ASSA events and Dinner in Washington, DC with Robert S. McNamara and Thomas Graham on Saturday, January 4, 2003.

Renew your ECAAR membership and/or make an extra contribution on a secure site online at <https://www.chi-cash-advance.com/sforms/appeal196/contribute.asp>.

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