INSIGHTS

July-August, 1998

Volume V. No.4

Published by **Common Ground-USA**

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"It ain't wha people don't know that hurts them, it's what they know that ain't so." George Ade (1866-1944) American humorist

ARE ASIATIC NATIONS OR WE, OURSELVES, RESPONSIBLE FOR OUR ECONOMIC SETBACKS?

Not long ago, some economists told us that America's astounding advances in the high tech field made us secure from serious depressions and assured us of ever increasing industrial profits and ever higher real estate prices. Any decline in our inflated stock market prices were only "technical corrections."

Now we find that the Asiatic nations are no longer financially able to purchase our high tech products. We blame the incompetence of those troubled Eastern nations. But on closer examination, it appears that the Asians only followed the economic advice and demands made by the U.S. and the International Monetary Fund (IMF) and the World Bank, which are largely funded by the American taxpayers.

Almost without exception, the Asian nations were encouraged to reduce taxation of the wealthy who put their money in productive industries, and to impose regressive taxes on consumption, which are mainly borne by the poorer peasants who would have just wasted the money on food and clothing if it weren't taxed away. Further, we encourage the Asiatic nations to adopt farm policies which would encourage production of cash crops by large land holders and which discourage small, family sized, farms. This only follows a trend by the United States as a whole as to economic policy.

HIGH TECH GAINS LEAD TO REAL ESTATE BOOM. WILL A BUST FOLLOW?

Much of the benefits of the high tech revolution was dissipated in an extraordinary increases in land values, particularly in the Pacific Rim States, where the high tech companies flourished. As a result of this land boom, home prices for the first quarter of 1998 exceed the first quarter of 1997 by 19.8% in San Francisco, 17.7% in Oakland, 16.3% in San Diego, 13% in Orange Co. and 12% in San Jose. These were the first five gainers in California, followed closely by Seattle, Detroit, Boston, Denver, and Los Angeles, in that order.

The building situation in the Pacific Rim was described by Brad Knickerbacher in the Christian Science Monitor:

"In the Seattle area, builders are so confident of the potential for high price sales there (partially fueled by the new, newly wealthy employees at Microsoft) that they are building million dollar plus homes on 'spec', meaning that they won't start looking for a buyer until the carpet is laid and the landscaping done. In San Francisco, where the median home price stands at $335,000, record numbers of renters are being evicted as landlords jump on the housing-price escalator and bale out."

In our struggling county of Orange, housing tracts are sold out the first day they are put on the market, and some have buyers sleeping outside their gates overnight to be among the first in line. On some occasions, it was necessary to have lotteries in which the winner was given the wondrous opportunity of paying $300,000 for a "schlock" built house a few feet from its identical neighbors, with front yards and back yards of hankerchief size.

Similar skyrocketing of land prices occurred as to apartment houses and commercial property.

But warning signals are flashing which indicate that what goes up must also go down and that includes high tech profits and land prices. Typical were the reports in Orange County, for example, that Rockwell was striking 3,400 jobs from its overall work force, Western Digital trimmed its global work force by 20%, Motorola was cutting 500 jobs in this country and other blue chip companies were downsizing in project after project.

John Challenger , the Executive Vice-President of a leading Chicago based outplacement firms asserted: "Those who doubt the impact of the Asian financial crisis on the economy need look no further than the semi-conductor, computer and electronics industries, which rely heavily on the Asian Market. Nearly one out of every three job cuts this year, has come from one of those sectors."

Any continuance of these high tech problems will obviously have a domino effect on the real estate market in every of our industrial areas. And persons who stayed awake all night outside the developer's sales office might soon be unable to make their mortgage payments, while the buyers of commercial land at over-inflated prices may be ending up in chapter 11 with the Asiatic instability seized upon as the motivating force.

ASIATIC INSTABILITY CAUSED BY U.S. BAD ADVICE

Let us look at the record. During the Viet Nam war, the Diem government, following advice of Western advisors doubled the sales tax from 10% to 20%. This caused the commercial collapse in South Viet Nam as the low income majority were unable to purchase, and small businesses were destroyed.

Until it was too little and too late, we did nothing to solve the oppressive land monopoly situation created by the French in Viet Nam, and on many occasions stupidly returned what had been French plantations back to their previous owners. Of course, nobody thought of levying heavy taxes on the plantations. These measures helped turn the natives against us, and made the war unwinnable. • • • • • • • • ☞

ARE ASIATIC NATIONS RESPONSIBLE FOR OUR ECONOMIC SETBACKS?

More recently, large IMF loans were made to the venal Mexican government and American banks were given governmental guarantees of repayment of loans made to Mexico. President Zedillo showed his gratitude by insuring funds sufficient to cover the loans, by increasing the national sales tax from 10% to 15%. Again, business chaos took over as retail trade was severely damaged and low income groups made hard-put to stay alive. At the request of the foreign lenders, Mexico brought about the termination of the ancient ejido system of farming, by allowing the prosperous rancheros to purchase the tiny plots of land held for generations by Mexican peasants. Despite the inefficiencies in the ejido system, it had at least guaranteed some protection against pervasive land monopoly. The IMF and the World Bank never dreamed of requesting that Mexico improve its ludicrous system of property assessment by which land owners can set their own assessments.

A similar situation took place in Peru where prime minister Fujimori disregarded his campaign promise not to increase the sales tax, but imposed this increased burden with knowledge that this would win the approval of IMF and the World Bank.

The sorry history of IMF and World Bank loans to Latin America, particularly to Mexico and Peru, is outlined in a 1994 book published by the powerful Cato Institute, entitled *Perpetuating Poverty, The World Bank and IMF and the Developing World* by Doug Bandow and Ian Vasquez. The authors assert that $400 billions, most of which came from American taxpayers, has been given over the years to Latin American countries only to exacerbate their poverty and regression. Unfortunately, not a word is mentioned in this treatise concerning the land monopoly and the regressive taxation inflicted on almost every nation in Latin America.

The newspapers described how the IMF demanded that Thailand greatly increase its sales tax, resulting in another business depression and drying up capital. However, little was reported about the IMF's conduct in Indonesia. In that country, the IMF and the World Bank, followed their usual practice for developing countries, which is to demand that the best farm land be converted to cash crops such as coffee, sugar, and tobacco, with farmers producing food for local consumption forced to marginal land. In Indonesia, loans were made contingent on the clearing of Indonesian forests so that palm oil could be produced.

Carol Welch, writing for the Christian Science Monitor, compared the Indonesian debacle to the 19th century situation where food was exported in great amounts from Ireland to England by British landowners while millions of Irish suffered from starvation.

"To meet short term revenue targets set by the IMF, now spearheading a $43 billion bailout for the country, Indonesia is increasing exports like palm oil to earn hard currency. In the last few years, Indonesia has ravished its plantations. As a result, forest fires have dramatically increased, decimating natural habitat for rare species, displacing indigenous peoples, and spurring harmful greenhouse gases."

The straw that broke the camel's back in Indonesia was the imposition of a huge increase in the tax on gasoline, which led to overthrow of the corrupt Sujarto regime.

The IMF is also preparing its 17.1 billion dollar loan to Russia. This comes on top of various previous loans made to keep the Russians from drowning in their own incompetence. As for consideration for these funds, the Russians were asked to impose and did impose a 5% sales tax. The communist dominated Duma enacted the demanded sales tax. At the same time, the communists in the Duma were able to defeat a bill calling for a land tax. The communists were obviously better accustomed to sales taxes as the value added tax of the old Soviet Union was the source of practically all of its revenues.

In the mean time, agents of the World Bank, the U.S. Agency for International Development, and the IMF are directing countries all over the world to enact their favorite economic measures if they wish to obtain American approved loans. In some instances, particularly in Russia and Estonia, World Bank agents, working with Joan Youngman and Jane Malme of the Lincoln institute, have reportedly been advising Eastern governments to avoid Single tax supporters and to warn against imposition of substantial land taxes.

But the glory days of the IMF and the World Bank may be over. At long last, voices are now being raised against the irresponsible policies of the IMF and the World Bank. In a Wall Street Journal article, arguing for the abolition of the IMF, former Secretary of State, George Shultz, stated that it was ineffective, unnecessary, and obsolete. Journalist Tyler Marshall quotes Jeffrey Sachs, the Harvard economist who advised both the Russian and Polish governments on privatization:

"The IMF programs don't instill confidence, they don't stop financial panics. "In fact, they often incite them." Sachs added that he was advising governments to "not go to the IMF." He concluded by stating that the IMF has to learn that a financial bureaucracy can't rule half the world. It is deeply corrosive."

In the next few weeks, congress will consider Clinton's request for payment of $18 billion to replenish the IMF's strained budget. Some liberal democrats have criticized the Robin Hood in reverse programs of the IMF, in which the poor pay the taxes and the wealthy get wealthier. Conservative Republicans are very disturbed by the great waste involved in the World Bank and IMF programs, with their ever increasing demands for personnel, luxurious offices and big expense accounts.

House majority leader Dick Armey has spoken out strongly against replenishing of the IMF coffers. The only solid support for continuance of IMF and World Bank funding comes from exporters who believe that with financial shots in the arm from IMF and the World Bank, Asiatic countries will be able to resume their purchase of American goods. But considering the wealth of some of the high tech entrepreneurs, such support may be formidable.

We hope that each of our readers will write or phone their congresspeople and tell them to vote for the termination of these two public entities, or is it public enemies ?■ ✍

A SHORT SHOT ON TAXES

Opponents of the Single Tax claim its enactment would mean that high tech companies and their executives would get off comparatively scot-free relative to taxes.

If that is so, I wonder why Microsoft, Intel, and Hewlitt Packard are the biggest contributors to a successful initiative campaign to severely limit property taxes in the state of Washington. Possibly its because Bill Gates' home was assessed at $48 million, and the home of his co-founder of Microsoft, Paul Allen, had his house assessed at $54 million.

The advent of high-tech has not changed the crucial importance of location, though attributes which make for high land value may have changed. Microsoft, Intel and the others pay top premium dollars for proximity to highways and universities and cultural centers and attractive residential communities for their employees • •✍