

the inflationary spiral, “beyond what had originally been anticipated,” it would be necessary to “adjust nominal expenses.” In plain English, new budget cutbacks.

On April 12, William Rhodes, Citibank vice president and head of the banking committee in charge of restructuring Mexico’s debt, declared in New York that temporary rearrangements of Ibero-America’s debt, with continual new bank loans, could not go on indefinitely, and that sooner or later the credits would have to be based on these nations’ commitments to “structural adjustment.” He pointed to Mexico, whose efforts to adjust its economic policies “have helped it to transform capital flight into income.” Rhodes also said that the crisis has forced nations to think again whether foreign investment “truly represents the threat that many had thought, or whether it doesn’t rather contribute to the welfare of a nation more than a huge debt.”

On April 13, Francisco Suárez Dávila, credit director in the finance ministry and the “star” negotiator of the Mexican debt, said that one could not think in terms of moratorium, except in the event that interest rates rise, oil prices fall drastically, and there is a resurgence of protectionism and severe recession inside the United States.

In the same seminar, Banco Internacional president García Macías said that Mexicans’ deposits abroad surpassed \$40 billion, and therefore it were necessary “not only to reduce the flow of our savings abroad, but also to create conditions propitious for retaining and attracting investors, by minimizing their risks and guaranteeing their benefits. . . .” How? By modernizing Mexico’s financial services so that we wouldn’t have to “cede market niches due to financial incapacity.”

On April 7, the general director of Banco Serffin, José Juan de Olloqui, said that Mexico’s national banks should be restructured to allow them to compete with the international banks.

On April 13, the Mexican daily *Unomásuno* reported, “According to 1987 official figures obtained by the U.N.-based Economic Committee on Latin America (ECLA), Mexico has the ‘honor’ of having the greatest fall in real income of all Latin America in the 1977-87 decade, a period that covers the arrival of Miguel de la Madrid in the economic cabinet as planning minister in 1978, and afterwards as President of Mexico. Wages paid in Mexico at the end of 1987 were equivalent to 55.9% of those paid in 1980; in other words, in the five years of the current Mexican government, real wages collapsed by nearly 40%. According to figures provided by the U.S. Labor Department April 6, Mexican labor power was one of the cheapest in the world, selling itself at an average of \$1.37/hour, against \$13.46/hour in that country.”

Given this situation, the “informal economy”—the casinos, the production and trafficking in drugs, the *maquiladoras* (bonded sweatshops)—could be presented by their promoters as a “blessing.”

Small contractors sue Pentagon

by Leo F. Scanlon

The National Council for Industrial Defense, an organization formed in 1986 to oppose the “the defense policy consequences of ‘deindustrialization,’ ” filed a lawsuit against the Secretary of Defense and the Department of Defense on April 8, 1988, as part of an effort to call attention to the devastation being caused among small and medium-sized defense contractors by the “buy-cheap” economic policies of the Reagan administration.

The lawsuit demands that the Secretary of Defense abide by the provisions of the Buy American Act, 41 USC 10, which impose a duty on the Secretary to procure defense materials that are made in America, unless it is determined on a case-by-case basis that such purchase would be inconsistent with the public interest or that their cost is unreasonable.

The plaintiffs argue that the Defense Department has developed a practice of entering into Memorandums of Understanding (MOU’s) with allied countries, which grant blanket waivers of the restrictions on any products of the country. The waivers are permitted under terms of other treaty agreements, but these agreements specifically exempt defense items from such waivers.

In consequence, when one defense-related item is to be purchased from the foreign country, all the industries of the foreign country may bid for subcontract work on any defense contract. The specific advantage this gives to foreign businesses is that they are exempt from the quality control assurance requirements which are imposed on U.S. contractors, and are not burdened by the enormous amount of administrative work which accompanies any defense contract let to a U.S. producer.

In practice, these issues are of little concern to the large multi-national businesses which are the “prime” contractors with the Defense Department, since large-scale, specialized capabilities for shipbuilding or aircraft production are not immediately threatened by the insidious practices which are badly hurting the small producers. Thus it is no surprise that the concerns voiced by the plaintiffs have received little notice from the Reagan administration.

The firms most hurt by the practices identified in the lawsuit are typically small industrial manufacturers, producing various plastic, electronic, or metal goods, and doing a percentage of business with the Defense Department, on the second or third tier of sub-contracting. In some cases the

percentage of business contracted with the Defense Department may be as little as 10-15%, but if the prime contractors go offshore for the product, the American producer is forced to drop off the list of producers, and get out of the defense-related business, and into something else. In other cases, the offshore competition may result in closing a plant altogether, often devastating a small town or region.

The cumulative effect of this practice is enormous. According to a study prepared by the Joint Logistics Commanders of the U.S. military, the impact of a "total cutoff from foreign sources would be a drop to zero production in the U.S. for periods ranging from 6 to 14 months (starting as early as the second month after M day) for such key weapons systems as the Sparrow missile, the M-1 tank, the OH-58D helicopter, sonobuoys, and the F/A-18 and F-16 fighters." The list of items which are no longer produced in the United States is, of course, much longer, and includes items such as anchor chains for naval ships!

East bloc suppliers

One of the contentions of the National Council for Industrial Defense is that, in fact, no one knows what the foreign dependency of the Defense Department actually is, as there is no data base kept which tracks the origins of subassembly components of even the most vital items in the arsenal. Further, it is known that foreign producers, in turn, occasionally purchase components from East bloc suppliers, which components are then incorporated into an Allied weapon system. Again there is currently no method for tracking or identifying these parts.

The astounding truth of the matter was identified by William G. Phillips, president of the organization, who pointed out that "our nation is the only major power in the world that does not have an operational strategy for the development and maintenance of a viable defense industrial base."

The plaintiffs hope that a success in their lawsuit would

force the issue within the Defense Department, and put the purchasing decisions into the hands of individual procurement officers, who will be less likely to let the matter slide under the umbrella of broad MOUs. Unfortunately, the bureaucratic pressures which dominate Washington weigh heavily against any procurement officer who makes a decision favoring a U.S. company over a foreign competitor, especially since the Justice Department has conducted witch-hunts against procurement officers who have been accused of "corruption" for practices much less controversial than this.

Defense industry analysts routinely characterize these problems as a by-product of the Nunn amendments which mandate two-way trade and weapons interoperability among the Allies. These goals are of course desirable, but the destruction of small and medium industries in the U.S. defense base is by no means a necessary result of this effort.

The real source of the problem was identified by Mr. Phillips in testimony he delivered to hearings held by Congress last year, when he stated: "The closing of thousands of U.S. manufacturing plants, the weakening of our subcontractor base, and the loss of hundreds of thousands of manufacturing jobs has been rationalized by some economists and amateur futurists as being inevitable. They say that the 'deindustrialization' of America is a good thing and only a transitional phase from our traditional smokestack economy into a brighter tomorrow filled with rosy prospects of a service-oriented, high-tech system that will provide the needed numbers and types of jobs for our young people in the years ahead.

"They tell us that the offshore movement of U.S. manufacturing industry is only part of a global 'free market' economic system that will eventually eliminate economic greed and nationalistic self-interest that causes armed aggression of one nation against its neighbors. Madam Chair, we reject such naive and unrealistic drivel. Deindustrialization of the United States would relegate our country to the role of a second-rate world power, robbing us of the control over our own destiny and the economic and political independence of our people. . . . The danger of such a scenario is clear—we might be forced into a global nuclear conflict because of the decay of our U.S.-based defense industrial capability and our inability to wage a sustainable non-nuclear defense effort."

More dangerous than this is the fact that this disaster is the deliberate policy of an establishment committed to wholesale strategic restructuring of U.S. alliance commitments. Those who prepare to abandon our allies to make their own arrangements with the Soviets, see no need to worry over the health of the defense industrial base, as they see no need to be concerned over the collapse of the U.S. farm sector. What can't be provided by the multi-national monopolies, they reason, isn't needed. The grim fact is that there is no constituency in the current administration which will respond to these vital concerns, and there will be even less of one under a Bush presidency. It will take more than a lawsuit to solve that side of the problem.

Now Available by Subscription

Weekly EIR Audio Reports Cassettes

- News Analysis Reports
- Exclusive Interviews

\$500/Year

Make checks payable to:
EIR News Service, P.O. Box 17390
Washington, D.C. 20041-0390
Attn: Press
MasterCard and Visa Accepted.