In a previous issue of THE SOCIAL CONTRACT *we printed Sir James Goldsmith's contrarian view on the GATT treaties. An Australian writer picks up on Goldsmith's theme in this article, a portion of which is reprinted with permission from* The Australian *of July 31, 1993.*

Rural Exodus A Road to Disaster

By B. A. Santamaria

[*The article began with observations on the decline of the Australian National Party which has its base of support in rural and agricultural interests.*]

The depopulation of the countryside is the basic cause of the decline of the National [Party] vote. Its significance, however, ranges far beyond that fact. In the short run, the rural exodus may, superficially, seem to make sense. In the slightly longer run — with unemployment and underemployment in Western industrial countries now close to 30 million, and growing relentlessly, and with a vast refugee problem building up on every continent — it is nonsense.

As far back as 1942, William Hocking, professor of philosophy at Harvard, dismissed the nostrum that urbanization was the key to economic and social progress. "Capitalism can maintain its health only on three conditions," he wrote. "(a) It must take the problem of employment as its collective responsibility: it must satisfy the will to work. (b) The owning and use of capital must be general. (c) Ownership in its full sense must be widely diffused; this means the ownership of real property instead of mere abstract tokens such as money and securities. And real property comes to its best expression in the farm operated by its owner or owners, for here we have capital bearing its natural and unchallenged fruit in direct response to labor and intelligent investment."

Five decades later such concepts are not even worth a laugh in a society which prefers to make its money out of paper shuffling, but is now, as a result of this interpretation of progress, flat on its back waiting for the Keating-type recovery which, whether in Australia, Britain or the U.S., never comes.

One of the West's most successful practitioners of "playing the markets," Sir James Goldsmith, put his finger on the nub. "When people are forced to move from the countryside to the towns, both the countryside and the towns are destabilized. The famous *favelas* of Brazil, the slums of such mega-towns as Rio de Janeiro, did not exist before the Green Revolution, which was supposed to eradicate hunger throughout the world by applying science to agriculture and thereby increasing output...

"Large mechanized, scientific farms did produce more food per person, directly employed, but those no longer employed were chased into towns, creating vast urban concentrations with their attendant slums. As they were uprooted not only from their homes but also from their cultures and families, the refugees and their children were reduced to dependence on welfare and crime.

"...those no longer employed [on the farms] were chased into towns, creating vast urban concentrations and their attendant slums."

"The GATT proposals would do even greater damage. By preventing nations from protecting their farmers, rural communities throughout the world would be washed away as if by a flood. Whole populations would be uprooted and swept into urban slums. In the world as a whole, the rural population consists of about 3.1 billion people. Let us suppose that as a percentage of total population, it were to be reduced to the levels that already exist in the new farming countries such as Australia and Canada.

"The result would be emigration from the land to the town of about 2.1 billion people, figures which worsen as the world's population grows. As the affected nations become ungovernable and impoverished, so their people will be forced to seek refuge elsewhere. Mass migration will follow, and do not think that any nation would remain unaffected by vast movements of uprooted and tragic peoples." ■

Here is a view of the labor surplus from the trading floor, reprinted by permission from the August 30, 1993 edition of The Australian Financial Review.

Shock in Store for the First World

By Ivor Ries

Just as the oil shocks of the 1970s destroyed conventional investment wisdom by sparking a decade-and-a-half of rampant inflation, the "labor supply shock" is set to dramatically alter the lives of investors and consumers in advanced industrial economies.

That's the view of Neal Soss, the straight-talking chief economist of First Boston Corporation, one of Wall Street's "big six" investment banks. Soss coined the term "labor supply shock" recently to explain how the massive shift of capital, industrial machinery and technology to the Third World will affect the lives and financial fortunes of people living in the high-income countries of the OECD, including Australia. Soss says that the shift of capital and technology to the Third World — with its hundreds of millions of surplus workers — will undermine the value and bargaining power of labor in the rich First World countries and in so doing remove the major cause of inflation.

In essence, Soss is talking about the end of the middle-class dream: the concept that each generation will be able to enjoy a substantially better lifestyle than its predecessor — in major economies such as the United States, Europe and Japan. While Soss's labor supply shock theory may alarm Australians and their rich-nation colleagues, for investors the Soss message is incredibly bullish. The loss of bargaining power for workers in the developed world, Soss says, is likely to lead to a low-inflation environment to last at least a decade and perhaps a whole generation. Using the low-inflation assumption, Soss says that the global bull market in bonds that began in America in 1982 may still have a long way to run and that that, in turn, should underpin a continuing rise in equity prices.

"Interest rates will stay low. I can foresee at least another decade of low interest rate levels," says Soss. "And in countries where interest rates have not yet come down much, they will come down a lot further.

"Between 1952 and 1982, interest rates crept up with only brief moments of remission. You basically had a bear market in bonds that lasted 30 years. The bull market in bonds is only 12-years-old and still has a long way to run." To back up that point, Soss says that the yield on 30-year Treasury Bonds in the U.S. should fall below 6 percent before the end of the year, compared with about 6.68 per cent on Wednesday and about 7.5 per cent a year ago.

If Soss's labor supply shock theory is even half-way right, advanced country workers, consumers and investors are going to have to endure some big changes over the remainder of the decade.

"...for investors the Soss message is incredibly bullish. The loss of bargaining power for workers in the developed world is likely to lead to a low-inflation environment..."

For low-skilled workers the years of 5.8 per cent annual wage rises are over. Soss says that employers in the First World can only stay in business by reducing the labor-cost component of production, and that will mean continuous job cuts and increasing mechanization (which is made easy with low interest rates,) and working smarter.

Workers that don't have the skills to run the new high-technology production machinery will be out of a job. And, as IBM's plan to shed another 35,000 workers underlined this week, vast numbers of white-collar and middle-management jobs are also a thing of the past. The shrinkage of well-paid middle-management jobs in the U.S. had led to the development of the so-called "Generation X."

X-ers, the well-educated post-baby-boom generation, are finding that the "fast track" they were promised by the movies frequently leads to a $5-an-hour job at McDonald's.

For consumers, low-income growth and the feeling of loss of job security will lead to searching