Nicaragua, perhaps as a bold propaganda move, accepted the treaty, which Washington dismissed as a "draft" document. Seeking the Reagan administration's support, the Contadora group presented a revised proposed treaty on September 12, 1985, which eliminated the requirement that the United States immediately cease supporting the *contras*. This time Nicaragua refused to sign and in December seconded Costa Rica's proposal for a six-month suspension of the Contadora negotiations. The talks eventually did resume, and produced, on June 6, 1986, a treaty that linked the banning of U.S. advisers, bases, and exercises to limits on the size of the Nicaraguan army. Once again, Nicaragua accepted the treaty, but Washington rejected it.

The Reagan administration, Bagley concludes, simply will not trade U.S. acceptance of the Nicaraguan regime for Managua's promises not to team up with Cuba and the Soviet Union, or to threaten its neighbors. There is "little benefit to be gained from talking about a negotiated accord," one U.S. official told Bagley, because Washington has been "hoping for the overthrow [by the *contras*] of the Sandinistas."

For their part, President Daniel Ortega's Sandinistas have done little to allay Washington's suspicions. Managua has failed to hold elections that included opposition leaders, or (as El Salvador, Honduras, and Costa Rica have requested) to reduce the number of its own troops and Soviet Bloc advisers in Nicaragua.

As long as Washington rejects the Sandinistas, and Managua's actions inspire mistrust in Washington, the much-touted Contadora process, Bagley says, will remain "largely irrelevant."

ECONOMICS, LABOR & BUSINESS

Rohatyn's Plea

"The Blight on Wall Street" by Felix Rohatyn, in *The New York Review of Books* (Mar. 12, 1987), 250 West 57th St., New York, N.Y. 10107.

Today's stock market has soared to record highs, but this boom, warns veteran investment banker Rohatyn, has little to do with America's real economic growth. While speculators make runaway profits, "business is relatively slow and major sectors of our economy are in serious difficulty."

Shakily financed corporate takeover bids head Rohatyn's list of market abuses. Speculators with no long-term interest in the target attempt to acquire a company by "raiding" its stocks (buying up large numbers of shares) for quick profits. The corporate "raider" finances his bid with "junk bonds" that cost him little up front and give high yields. Financial institutions sell these bonds (which substitute for real equity) "in the tens of billions of dollars."

Under today's market rules, raiders can make bids without committing themselves to purchase. Once a bid is made, short-term traders rush to acquire large speculative holdings of shares. Generally, if the target company agrees to pay "greenmail" to the raider—buying back its shares at a premium—the raider will agree to stop the takeover campaign. If the takeover succeeds, the speculator may cannibalize the company's assets or cut back on research and development to service the huge debt on his "junk" bonds.

Takeover bids—or fear of them—led to the mergers of Chevron and Gulf, Occidental and Cities Service, Mobil and Superior. In each case, the companies' profits have plummeted.

In the effort to repel takeover bids, some companies (including FMC, Colt Industries, Owens-Corning Fiberglas, and Gillette) have increased the price of their stocks to make themselves less desirable. Earlier raids and the resultant expense of "greenmail" undermined these companies by reducing their equity and increasing their amount of debt.

Market rules should be tightened, Rohatyn says, to curb speculative abuse. "If America is to compete with Japan," he argues, "we must invest in and create new products, instead of tearing apart our industries and simply inventing new kinds of paper."

No De-Industrialization

"U.S. Manufacturing: Any Cause for Alarm?" by Molly McUsic, in *New England Economic Review* (Jan.-Feb. 1987), Federal Reserve Bank of Boston, 600 Atlantic Ave., Boston, Mass. 02106.

Is America "de-industrializing?"

No, says McUsic, a former senior research assistant at the Federal Reserve Bank of Boston. "The fears of a rising service economy, with barber shops and laundromats replacing steel mills and auto plants, are greatly exaggerated."

Since 1960, manufacturing's share of U.S. nonagricultural employment has dropped from 28 to 21 percent. McUsic attributes this to two causes:

U.S. manufacturers have become more efficient, increasing factory productivity an average of 2.2 percent a year since 1973. Since the last recession in 1980–82, the nation's "overall level of manufacturing productivity [has remained] the highest in the world."

Many factory jobs once considered goods-producing have now become "services." A security guard on the payroll of a textile company is counted as part of the manufacturing sector. If the same guard were working for a firm under contract to the textile company, he would then be providing a "service," and manufacturing employment statistics would drop. If one-third of the 3,741,000 jobs created by the "business services" sector from 1960 to 1984 were filled by factory employees, McUsic says, "there would have been no drop in 'manufacturing employment.'"

Moreover, America is still more efficient than other industrialized nations. Manufacturing output per hour of work increased 5.8 percent in the United States between 1982 and 1984, compared with 4.6 percent in France and 4.4 percent in Italy. McUsic calculates that American manufacturing is 14 percent more productive than Canada's and 41 percent more productive than Britain's.