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Reforming Finance

Since the 1970s, socially useless trading and speculation has become the most lucrative and dominant function of the financial system. New regulation needs to ensure that banks return to their legitimate role of providing capital to households and enterprises.

By Robert Kuttner

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The project of seriously re-regulating the financial sector requires a great deal more leadership than we have seen so far from any of the large nations. In many ways, the Obama government has been the most disappointing. To the extent that the governments of Britain, France or Germany have ventured slightly bolder proposals, they have been discouraged by the government of the United States.

To appreciate the degree of reform that we need, it is helpful to review the function of the banking system. At bottom, the role of the financial sector is to channel credit and capital to the real part of the economy, to make assessments of risk, and to price the cost of credit accordingly. Until the 1970s, the financial sector in most of our countries was well regulated and well behaved. The financial sector itself was fairly small – under 6 percent of GDP in the US. It existed to serve the rest of the economy. With deregulation,

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The Obama Administration has shown little interest in this degree of fundamental reform. On the contrary, its strategy for resolving the banking crisis has been to prop up banks that are effectively insolvent such as Citigroup, and to disguise the degree of their insolvency.

more and more of what financial intermediaries did became pure speculation, aided by extreme degrees of leverage and pyramiding. The enlargement of the financial sector became an end in itself.

One can divide the financial system into three broad functions:

- extending credit to businesses and households;
- connecting investors to entrepreneurs;
- pure trading and speculating.

The first two functions add value to the economy. But since the 1970s, more and more of the financial system and an increasing share of its profits have been based on the third function. As many critics have observed, all of the banks want to be hedge funds. But pure speculation and trading adds nothing to net economic welfare. At best, it is a zero-sum game. At worst, as in the recent crisis, it simply allows middlemen to take immense risks with other people's money. If their bets pay off, they can become extremely rich. If their bets fail and they are large enough or interconnected enough, governments often make up the losses.

The historic task of government in this era is not just to discourage or prohibit risky practices, but to fundamentally alter the business models of major financial institutions, so that no institution that makes most of its profits from speculation or from trading is in a position to menace the entire system or to require bailouts from taxpayers. Speculation, to the extent that it is permitted at all, should be a purely private activity, and it should be discouraged.

The Obama Administration has shown little interest in this degree of fundamental reform. On the contrary, its strategy for resolving the banking crisis has been to prop up banks that are effectively insolvent such as Citigroup, and to disguise the degree of their insolvency. The consequence of this policy is that real reform is deferred, and the process of recovery is protracted because traumatized banks are rebuilding capital and setting overly strict lending standards rather than providing credit where it is needed. Though the Federal Reserve has reduced short term interest rates to barely above zero, the real economy suffers from a paradox of cheap money and tight credit.

Large money center banks continue to see speculative activities rather than ordinary commercial banking or stock underwriting as their main profit centers. This is a recipe for the next bubble economy.

The reform legislation recently approved by the U.S. House of Representatives is far too weak. It does not include serious controls on derivatives, or fundamental reform of credit-rating agencies. It leaves the most unregulated kinds of financial institutions such as hedge funds and private equity firms almost untouched. It preserves the doctrine of "too-big-to-fail", and puts the Federal Reserve in the role of "systemic risk regulator" despite the Federal Reserve's failure to adequately regulate sub-prime lenders or bank holding companies, both of which were its responsibility during the run-up to the crisis.

True reform would include the following:

- Capital reserve requirements for all classes of financial institutions. The larger the institution and the riskier the activity, the larger the reserve requirement.
- A strict separation of institutions that perform commercial banking from those that make their profits from trading.
- A strict separation of institutions that place orders for retail customers from those that trade for their own accounts.
- The same disclosure and reporting requirements for hedge funds and private equity firms as for publicly-traded and registered companies.
- A prohibition of the tax favoritism for borrowed money used to acquire companies.
- A prohibition of payment of special dividends to private equity owners of operating companies.
- Public ownership of credit-rating agencies.
- A requirement that all derivatives shall be traded on regulated exchanges, with capital requirements and limits on overall position.
- A provision that any firm that locates in a tax or regulatory haven shall not be permitted to do business or have financial transactions in an OECD country.
- A Tobin Tax on all financial transactions, graduated so that very short-term transactions pay the highest rate of tax.
- Corporate governance reform to ensure that shareholders and other stakeholders hold executives accountable for compensation formulas.

One disabling myth of recent years has been the premise that, because of globalization, national governments are relatively helpless to re-regulate finance; any nation that tries to regulate will simply drive business offshore. But the reality is that China and India largely escaped the consequences of the financial collapse because they simply did not permit their banks to traffic in exotic securities. India used punitively high reserve requirements to do the job. Chinese banks commit a variety of sins against free markets, including the use of artificially low interest rates for favored enterprises. But the Chinese government understands that their function is to supply capital to firms, and not to speculate. It would certainly be useful if the major nations could agree on a more effective Basel III with more consistent and adequate capital reserve requirements; or on a universal Tobin Tax. But that day will never come and reform should not be delayed in the meantime.

The reform legislation recently approved by the U.S. House of Representatives is far too weak. It does not include serious controls on derivatives, or fundamental reform of credit-rating agencies.

Much of what needs to be done can still be done by national governments. After the attacks of September 11, 2001, the Bush administration initiated a rigorous enforcement program to crack down on international money laundering to prevent movements of funds to finance terror. The same enforcement program could have been used to prevent regulatory or tax evasion – but that was explicitly prohibited.

Another disabling myth has been that any "innovation" should be welcomed as enhancing economic efficiency. But nearly all of the financial innovations of the past three decades have been

The Federal Reserve Bank

aimed at evading regulation, enriching insiders, reducing transparency, increasing leverage, and passing off risks to others. The valuable innovations are those in the real economy. The proper role of the financial sector is to evaluate those risks and opportunities and make available financing.

To conclude:

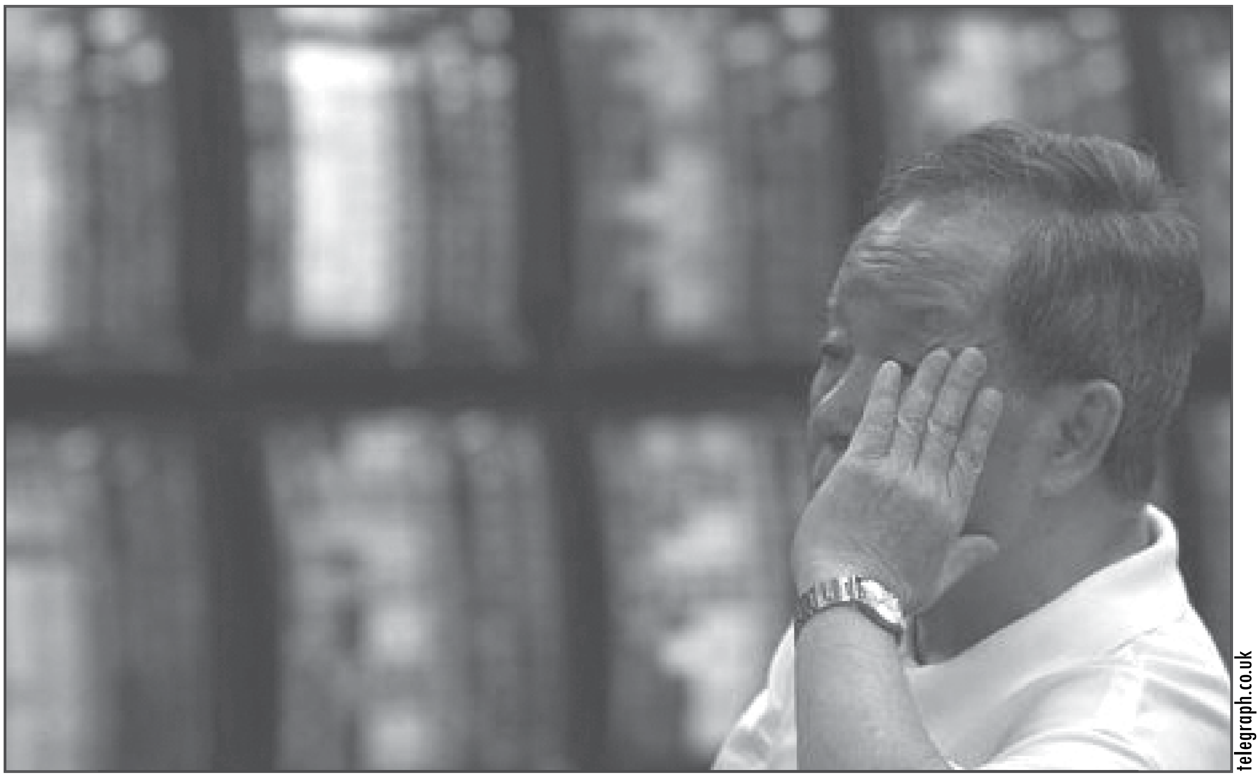
- Banks need to return to their legitimate role of providing capital to households and enterprises.
- Investment banks and venture capital firms need to return to their legitimate role of financing new enterprises, expansions, and transfers of ownership.
- Private equity, as currently defined, is mostly parasitic and changes in tax policy should discourage the entire business model.
- Hedge funds exist only as pools of capital that evade regulation. They add nothing to the net economic well-being and should be discouraged as business forms.
- Derivatives, such as options and futures need to be limited to their legitimate role of providing hedges to commercial users against price fluctuations – and not be used as highly leveraged forms of gambling. Taxation can discourage very short-term trading.
- National governments, given the political will, can achieve most of this.

It should be obvious that virtually all of these proposals are far outside the current political discourse. It is our task to make them mainstream, even conventional.

Robert Kuttner is the co-founder and current co-editor of The American Prospect. This article is part of the book '*After the crisis: towards a sustainable growth model*', edited by Andrew Watt (ETUI) and Andreas Botsch (ETUI/ETUC) and published by the **European Trade Union Institute** (ETUI).

Asia and the Financial Crisis
Asset Price Bubbles and Capital Controls

By Kavaljit Singh



Asian shares fall after US rejects bail-out plan

Capital controls are back in fashion. In June 2010, South Korea and Indonesia announced several policy measures to regulate potentially destabilising capital flows, which could pose a threat to their economies and financial systems.

South Korea it announced a series of currency controls in June to protect its economy from external shocks. Indonesia quickly followed suit when its central bank deployed measures to control short-term capital inflows. In October 2009, Brazil announced a 2 per cent tax on foreign purchases of fixed income securities and stocks. Taiwan also restricted overseas investors from buying time deposits.

The policy measures introduced by South Korea's central bank have three major components: restrictions on currency derivatives trades; enhanced restrictions on the use of bank loans in foreign currency; and, further tightening of the existing regulations on foreign currency liquidity ratio of domestic banks.

The new restrictions on currency derivatives trades include non-deliverable currency forwards, cross-

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Contrary to popular perception, capital controls have been extensively used by both the developed and developing countries in the past. Although mainstream theory suggests that controls are distortionary, rent-seeking and ineffective, several successful economies have used them in the past.

currency swaps and forwards. New ceilings have been imposed on domestic banks and branches of foreign banks dealing with forex forwards and derivatives.

Objectives of controls

The overarching aim of currency controls in South Korea is to limit the risks arising out of sharp reversals in capital flows. Despite its strong economic fundamentals, South Korea witnessed sudden and large capital outflows due to de-leveraging during the global financial crisis. It has been reported that almost $65 billion left the country in the five months after the collapse of Lehman Brothers in September 2008.

Another objective of these policy measures is to curb the country's rapidly growing short-term foreign debt. At $154 billion, its short-term external debt accounts for as much as 57 per cent of its foreign exchange reserves. A sudden shift in global market sentiment can trigger large reversals in short-term capital flows, thereby precipitating a financial crisis of one sort or another.

Bank Indonesia, the country's central bank, announced a one-month minimum holding period on Sertifikat Bank Indonesia (SBIs). During the one-month period, ownership of SBIs cannot be transferred.

Issued by the central bank, the one-month SBIs are the favourite debt instruments among foreign and local investors because of their high yield (an interest rate of 6.5 per cent in early June 2010) and greater liquidity than other debt instruments.

The central bank will also increase the maturity range of its debt instruments to encourage investors to park their money for longer periods. These new curbs are in response to growing concerns over short-term capital inflows. Indonesia's relatively better economic performance has attracted large capital inflows in the form of portfolio investments, since early 2009.

Consequently, Indonesia's stock market index was up 85 per cent in 2009, the best performer in the entire Southeast Asian region. The rupiah rose 17 per cent against the dollar last year.

Asset price bubble

However, the Indonesian authorities remain concerned that its economy might be destabilised if foreign investors decide to pull their money out quickly. Analysts believe that these new measures may deter hot money inflows into the country and monetary policy may become more effective. Despite recovering faster than developed countries, many emerging markets are finding it difficult to cope with large capital inflows. Apart from currency appreciation pressures, the fears of inflation and asset bubbles are very strong in many emerging markets.

The signs of asset price bubbles are more pronounced in Asia as the region's economic growth will continue to outperform the rest of the world. As a result, the authorities are adopting a cautious approach towards hot money flows and considering a variety of policy measures (from taxing specific sectors to capital controls) to regulate such flows.

Use of capital controls

Contrary to popular perception, capital controls have been extensively used by both the developed and developing countries in the past. Although mainstream theory suggests that controls are distortionary, rent-seeking and ineffective, several successful economies have used them in the past. China and India, two major Asian economies and "success stories" of economic globalisation, still use capital controls today.

Post-crisis, there is a renewed interest in capital controls. It is increasingly being accepted in international policy circles that due to the limited effectiveness of other measures, such as higher international reserves, capital controls could protect and insulate the domestic economy from volatile capital flows.

The signs of asset price bubbles are more pronounced in Asia as the region's economic growth will continue to outperform the rest of the world.

Even the IMF these days endorses the use of capital controls, albeit temporarily, and subject to exceptional circumstances. In the present uncertain times, imposition of capital controls becomes imperative since the regulatory mechanisms to deal with capital flows are national whereas the financial markets operate on a global scale.

Yet, it would be incorrect to view capital controls as a panacea to all the ills plaguing the present-day global financial system. The imposition of controls by South Korea and Indonesia assume greater significance because both countries are members of G-20. It remains to be seen how the G-20 responds to the use of capital controls. Will it take a collective stand on the issue?

Kavaljit Singh is the director of Public Interest Research Centre, in New Delhi, and author of many books, including Fixing Global Finance: A Developing Country Perspective on Global Financial Reforms (2010). This article was originally published in **The Hindu Business Line** on 18 September 2010.

Graphic: Darius Galang

Making Money Work:
How Can We Reconnect Capital with Community?

Our investments tend to fund consolidation and speculation. But new models are emerging that allow us to finance the economy we really want.

By Stacy Mitchell

The financial crisis has provided us all with a crash course on how much of our economy is based not on the creation of real value, but on speculation. Over the last year, we have learned that the speculative economy—the one that trades in exotic derivatives like credit default swaps and makes short-term, bubble-inducing bets on assets like real estate and tech stocks—is vast and highly rewarded. We have learned that the speculative economy undermines and consumes the productive economy. And we have learned that money made by speculation is often treated much more favorably by tax systems than money earned through real work.

We have also learned how entangled we all are in the speculative economy. If you think about it, there are very few opportunities for you and I to invest our savings in ways that would strengthen our local economies. Most of us, whether we like it or not, have our retirement and other savings invested in funds composed of stocks, derivatives, and other speculative vehicles.

This de-linking of money from place and productive investment is not the inevitable result of economic evolution. Money is a human invention and the rules that control its dynamic are also a human invention. The rules in place today favor mobility over community, speculation over productive investment, volatility over permanence.

How can we reconnect capital with community needs? Global climate change has created an urgent need to retool much of our infrastructure, develop regional food systems, retrofit buildings, reestablish neighborhood enterprises, and so on. And yet our system for pooling and deploying capital is completely ill-suited to this task, oriented as it is to maximizing short-term gains rather than building long-term community capacity.

One way we might begin to reorient the financial system is to establish a modest tax on all financial transactions, including international currency trades. This would lessen the appeal of high-frequency speculative trading. It would also generate a stream of revenue that could be used to establish a publicly owned wholesale bank or fund that would channel capital to Community Development Financial Institutions. These in turn would finance small businesses, cooperatives, and social enterprises.

We might also consider funding, as the New Economic Foundation has suggested, a Green Industrial Bank to provide long-term financing for green infrastructure and renewable energy development. At the local level, cities are already pioneering ways to finance the transition to renewable energy. The city of Berkeley, California, for example, is using its bonding authority to provide long-term, low-interest loans that enable homeowners to become electricity producers by installing solar cells on their rooftops. The debt, which stays with the house if the owner moves, is repaid over a 20-year period through a fee added to their biannual property tax bill.

Another useful model, which relies on a mix of public and private investment, is Pennsylvania's Fresh Food Financing Initiative. This $120 million fund has provided low-interest, long-term loans to finance over 60 locally owned food markets in neighborhoods and small towns that lacked places to buy fresh food. All but one of these stores has succeeded, demonstrating that the reason "food deserts" exist in so many low-income communities is not that grocery stores are not viable in these areas, but rather that banks have been reluctant to finance these ventures. We ought to build on this model by establishing similar funds to capitalize a new generation of neighborhood stores, small-scale farms, and other enterprises that can expand the capacity of communities to meet more of their needs locally.

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Global climate change has created an urgent need to retool much of our infrastructure, develop regional food systems, retrofit buildings, reestablish neighborhood enterprises, and so on.

In the private sector, we should look to reform the banking industry by both breaking up big banks and adopting policies that favor independent banks

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and credit unions. These smaller institutions have generally been much more responsive to their local communities. And, while big banks have focused on the needs of big business, small banks operate at a scale better matched to the needs of local economies.

We have learned that the speculative economy undermines and consumes the productive economy. And we have learned that money made by speculation is often treated much more favorably by tax systems than money earned through real work.

Financial institutions are not the only way to link local capital with community enterprise. A growing number of local businesses are being financed directly by their customers. In the United States, Community-Supported Agriculture schemes, or CSAs, which enable people to fund the operations of a farm in exchange for a share of its harvest, have multiplied to well over 3,000. Hundreds of independent bookstores, restaurants, and other local businesses in both the U.S. and the U.K. have raised capital from their customers to sustain or expand their operations. Earlier this year, more than 100 customers of the Busy Bee Toyshop in Greater Manchester put up £32,000 to take over the store, which had recently closed, and operate it as a cooperative. In Brooklyn, a similar initiative made hundreds of customers investors in their local bookstore. People have come together not only to save or grow local businesses, but also to start them. Six years ago, in Powell, Wyoming, over 800 families invested $500 each to capitalize a new community-owned downtown department store.

Many political and corporate leaders are eager to put the financial crisis in the rear-view mirror and return to business-as-usual. But we should not let them. More than ever, we need a vision for a new economy. We need a bold new deal that reorients antitrust, planning, and financial policy to shrink the power of corporations, resurrect citizenship, nurture local enterprise, and build a sustainable future.

Stacy Mitchell is a senior researcher with the *New Rules Project*, a program of the Institute for Local Self-Reliance that challenges the wisdom of economic consolidation and works to advance policies that build strong local economies. This article was published in yesmagazine.org.

http://www.abc.net.au

Does Wall Street Still Hold Sway?

Slow, Small Changes at the IMF

By Mark Weisbrot, CEPR

Over the past year or two the IMF has made some positive changes in policy and in their published work, some of which challenges the conventional wisdom among central banks and even the past practice of the IMF itself. The Fund, which prior to the current decade was one of the most powerful financial institutions in the world, has presided over a number of economic disasters and was widely seen – at least in the low- and middle-income countries to which it has lent for the past four decades – as generally doing more harm than good. Now there is debate over how much it has changed, and what these changes mean for the IMF itself and its role in the global economy going forward.

First, the good news: Last year the IMF created some $283 billion of its reserve currency, Special Drawing Rights (SDRs), available for borrowing by its 186 member countries. This is exactly the kind of thing that should be done in a world economic downturn. It is similar to the "quantitative easing" – i.e. creating money – that the U.S. Federal Reserve and the Bank of England have done during the recession. Although the IMF is not a world central bank, in this case it was acting as one, in a

life.com

The Fund appears to be gradually re-thinking some of its ideologically driven mistakes, which is a good thing for the institution – and because it is influential, for the world. But the problem is that it is still run by "special interests."

positive way. And the SDRs were made available to member countries without any conditions attached – something the IMF has never done before. Unfortunately, the SDRs were allocated according to each country's IMF quota, which meant that the high-income countries got the bulk of the money. And of course most of the low-income countries can't afford to take on more debt. Nonetheless, this was a positive step for the IMF towards developing countries.

The IMF has also recently published some interesting papers that indicate a re-consideration of their views on some important policy issues. The first, entitled "Rethinking Macroeconomics," was co-authored by the IMF's chief economist Olivier Blanchard and released on Feb. 12. In this paper the authors question a number of orthodoxies: Is the 2 percent inflation target that is common among central banks too low? Should central banks in some countries target the exchange rate? This kind of re-thinking could lead to governments having more room to pursue policies that lead to higher employment.

The second paper, "Capital Inflows: The Role of Controls," is even more important. In this paper the authors suggest that government controls on capital inflows may help countries be less vulnerable to economic crises. Recall that in the 1990s the IMF, together with the U.S. Treasury department, pressured Asian countries such as Indonesia and Thailand to remove restrictions on capital inflows. This was a major contributor to the Asian financial and economic crisis of the late 1990s, which was brought on by a sharp reversal of the large capital inflows that came in after this de-regulation. The IMF has generally favored removing restrictions on capital flows, despite the fact that there has never been much empirical evidence in favor of such de-regulation.

These papers indicate perhaps an unprecedented level of rethinking at an institution that has represented a conservative orthodoxy for decades. The question is, how much can we expect it to lead to a change in the IMF's policies – most importantly, the conditions it attaches to lending?

This is where the bad news comes in. In the last few years, the IMF has continued with a long-held double standard: It supports counter-cyclical policies – i.e. expansionary fiscal and monetary policies during a downturn – for the high-income countries, but not so much for low- and middle-income countries. In a study of 41 countries that had current agreements with the IMF in 2009, we found that 31 of these agreements had involved tightening either fiscal or monetary policy, or both, during a downturn. This contrasts sharply with what the IMF recommends for the rich countries like the U.S., which is running very large budget deficits and the Fed is holding policy interest rates at near-zero, and has created hundreds of billions of dollars in order to counter-act the recession (although our own stimulus has still been much too small relative to the fall-off in private demand; hence the loss of 8.5 million jobs and the bleak employment picture for years to come.)

Some of the IMF-sponsored macroeconomic

policies that have provoked so much ire in the past continue today. The Fund is currently squeezing Ukraine, for example, to reduce its spending, and suspended its disbursement of funds to the government in order to force budget tightening. This despite the fact that Ukraine's economy shrank by about 15 percent last year, and its public debt was only 10.6 percent of GDP. A country in this situation should be able to borrow as needed to stimulate the economy, and reduce its deficit after it has accomplished a robust recovery. In nearby Latvia, the IMF and European Commission are lending with conditions that have already resulted in the worst cyclical downturn on record, and it is not clear when or how fast the economy will eventually recover.

It also remains to be seen whether the IMF will follow through and change its actual policy on capital controls. If it were serious, it could actually help countries design and implement such policies successfully. But the Fund's agreement last year with Ukraine, a country that seems to have successfully used capital controls during the downturn, called for these to be phased out.

Most bad policies result from either the power of special interests or ideologically driven mistakes. The Fund appears to be gradually re-thinking some of its ideologically driven mistakes, which is a good thing for the institution – and because it is influential, for the world. But the problem is that it is still run by "special interests." First, it is controlled by the finance ministries of the high-income countries – principally the U.S. Treasury department. The borrowing countries have practically no say in decision-making; the 2006 changes in voting shares lowered the rich countries' majority from 52.7 to 52.3 percent, and proposed changes will take it to 50.9 percent. No significant change there since 1944.

How much can we expect it to lead to a change in the IMF's policies – most importantly, the conditions it attaches to lending?

But there is another obstacle to policy change at the Fund that is equally important: within the G-7 governments that run the IMF, their finance ministries are also dominated by special interests. This is certainly true of the U.S. Treasury Department, which has had a disproportionate number of personnel that were previously employed by Goldman-Sachs. To see how influential these corporations are in the U.S. government, we need only look at the "nothing-burger" legislation that the Congress is considering for financial reform, despite massive public anger and the financial sector's well-publicized excesses in the bubble years leading up to the recession. How much change can we expect from the IMF on such key issues of capital controls while Wall Street and European banks still hold sway over the Fund's directors?

Mark Weisbrot is an economist and co-director of the Center for Economic and Policy Research in Washington, D.C. This article was originally published in **The Guardian**.

http://twitterpakistan.com

Drowning in debt

IFIs should cancel all foreign debts of Pakistan owed to bilateral and multilateral creditors

By Abdul Khaliq, Committee for the Abolition of Third World Debt, Pakistan

Pakistan is facing the worst-ever natural disaster of its history. About 20 million people are displaced due to recent devastation caused by the angry floods. The communication infrastructure has been totally ruined; roads, bridges and railway tracks have been destroyed. The economic loss runs in billions of dollars. Flood-hit people are in urgent need of basic amenities; shelter, medicines, clothes, proper food and healthy environment, etc. Pakistan is in real and worst human and economic crisis.

The country's already creaky economy has been pushed to the verge of ruin by this calamity. With foreign aid only trickling in, the impoverished country has been forced to take out further loans while pleading for outstanding ones to be restructured.

The current external debt of Pakistan stands at \$55 billion. That figure will jump to \$73 billion in 2015-16, as debts that were rescheduled after 9/11, in exchange for Pakistan's co-operation in the war on terror, will come back into action. Besides this, Pakistan is paying over \$3 billion on debt servicing every year on average. As for the FY 2010, this amount is \$5.64 billion, which Pakistan will be paying to its creditors amid 20 million people crying for most urgent basic needs: food, clothes, shelter, health and education.

Moreover, strict conditions under SBA agreement with IMF are adversely affecting the lives of working classes in Pakistan. These conditions include reducing budget deficits, eliminating fuel and electricity subsidies, and increasing indirect taxation.

The international institutions, including World Bank and ADB, had offered \$3 billion in new loans to Pakistan to withstand the disaster, rather than giving grant-aid. This will only add to Pakistan's enormous and unsustainable debt of \$ 55 billion debt.

Pakistan's debt repayments already amount to three times what the government spends on healthcare — in a country where 38 percent of under 5-year-olds are underweight, only 54 percent of people are literate, and 60 percent live below the poverty line.

Thus, under the present circumstances, it is almost impossible for the government of Pakistan to meet basic requirements of its millions of displaced people as the international response to Pakistan is far less than the Tsunami and Haiti disasters — the world community has only provided \$229 million to Pakistan so far. This translates into \$16.16 for each affected Pakistani person as compared to \$1,087 every affected person in Haiti and \$1,249 per affected person in the Indian Ocean tsunami.

The total number of people affected by the floods (20 million) exceeds the combined total in three recent mega disasters—the Haiti earthquake, the 2004 Indian Ocean tsunami and the 2005 Kashmir earthquake.

The devastating floods hit the debt-ridden Pakistan at a time when it is already facing the music of joining US-led war on terrorism. Struck by this double penalty, the country is rendered unable to cope with this horrific calamity and its long term impacts on economy.

It is pertinent to mention that major portion of Pakistan foreign debts was obtained during the dictatorial regimes — the martial law regimes of General Ayub Khan, General Yahya Khan, General Ziaul Haq and Gen. Musharraf. About 80 percent of the total foreign debt was contracted during dictatorial and autocratic regimes.

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The people of Pakistan did not benefit from the foreign loans provided to General Ziaul Haq and which were provided by Western countries only after the Soviet invasion of Afghanistan. The loans were spent on building the 'infrastructure' for running the Afghan jihad.

In most cases, these loans were spent against the wishes of the people and benefited only a specific segment of society. This

Pakistani families displaced by flood live in a camp setup for displaced people in Thatta, Pakistan.

debt is illegitimate and is not binding on the people of Pakistan and the current democratically elected government has legitimate right to refuse these loans.

Where debt campaigners in Pakistan are demanding its government to refuse foreign debt payment, we urge debt campaigners to put pressures on the creditors, governments and international institutions to affect an immediate freeze on Pakistan's debt repayments. We also urge the lenders to extend Pakistan grants, rather than loans, which are essential for Pakistan to develop the means to withstand such disasters in future.

It is nothing short of criminal that a country as poor as Pakistan is bled of resources every year to repay borrowers who extended unjust loans to that country over decades. It is vital that desperately needed emergency aid is not effectively swallowed up in debt repayments and a freeze on such payments must be called immediately.

If Pakistan is to build up the infrastructure to withstand such appalling disasters in future it must be freed from its debt trap. A debt audit is needed and those debts found to be unjust and unbeneficial must be cancelled immediately to give the country a fresh start. Most certainly supposedly anti-poverty institutions and IFIs should not be making Pakistan's debts even worse.

This is the time that government of Pakistan and civil society organisations must come up and demand the governments and IFIs: The issue of Pakistan debt is fast gaining national and international importance. Debt campaigners are taking interest in the debt issue of Pakistan, especially in the context flood calamity. That is why October 14 has been declared as solidarity day with Pakistan during the on-going Global Week of Action against Debts and IFIs, going to observe from 7-17 October.

Debt levels around the globe have also increased dangerously, as a result of policies designed to subsidise the wealthy and favour free flow of capital in a market that was supposed to be self-correcting. A number of other debt related issues and IFIs will be taken up during this week. Together with the food, climate, and fuel crises, the economic crisis led to massive job and wage losses, cut-backs in the provision of basic human rights to healthcare, education, housing, water, and social security, etc.

The debt campaigners in Pakistan will also be organising actions and activities to highlight the issue. The focus of anti-debt campaign is calling upon the IFIs and creditors to:

1. Cancel all foreign debts of Pakistan, owed to bilateral and multilateral creditors.
2. Immediate freeze on foreign debt repayments of Pakistan.
3. Immediate halt to structural adjustment program and IMF-led economic reforms
4. Ensure that emergency disaster-related assistance be in the form of grants instead of loans.
5. Lead efforts to establish up-front funding for climate change-related disaster preparation. With early warning systems, risk analysis and preparation, Pakistan could have reduced the damage caused.

Abdul Khaliq is the focal person for CADTM Pakistan (cadtm.pakistan@gmail). This article published by the Pakistani newspaper **The News** on Sunday on 17 October 2010.

France's President Nicolas Sarkozy during a visit to Haiti's capital

France urged to repay Haiti billions paid for its independence

Leading activists write to Nicolas Sarzoky urging president to repay more than €17bn to help earthquake-hit country rebuild

By Kim Willsher
Guardian.co.uk, 15 August 2010

A group of international academics and authors has written to Nicolas Sarkozy calling on France to reimburse the crushing "independence debt" it imposed on Haiti nearly 200 years ago.

The open letter to the French president says the debt, now worth more than €17bn (£14bn), would cover the rebuilding of the country after a devastating earthquake that killed more than 250,000 people seven months ago.

Its signatories – including Noam Chomsky, the American linguist, Naomi Klein, the Canadian author and activist, Cornel West, the African-American author and civil rights activist, and several renowned French philosophers – say that if France repays the money it would be a solution to the shortfall in international donations promised following the earthquake.

Despite pledges at an international donors' conference in March of aid totalling £3.4bn, only five countries – Brazil, Norway, Australia, Colombia and Estonia – have sent aid amounting to about £325m.

The letter, published in the French newspaper Libération today says the debt was "patently illegitimate ... and illegal".

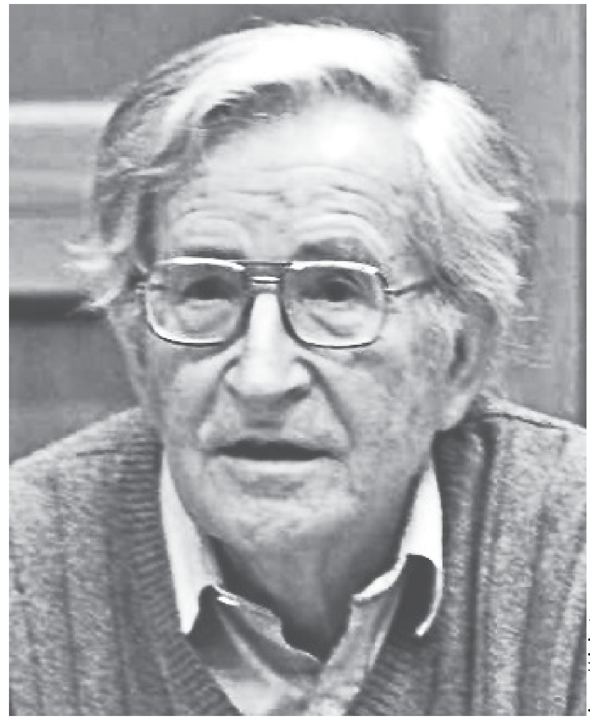
The debt dates back to when Haiti, then St Dominique, was France's most profitable colony thanks to slavery. In 1791 the slaves revolted, and in 1804, after defeating Napoleon's forces, they founded the world's first independent black republic.

But after independence, French slave owners demanded compensation. In 1825 the French monarch Charles X demanded Haiti pay an "independence debt" of 150m gold francs – 10 times the fledgling nation's annual revenue. The original sum was reduced but Haiti still paid 90m gold francs – about €17bn today – to France. It was still paying off this debt in 1947.

In 2004, a lawsuit launched by Haiti to recover the money was abandoned when France backed the overthrow of the government.

Campaigners say the debt was illegal even in 1825, because when the original demand for compensation was made slavery was technically outlawed.

Their letter says: "The 'independence debt', which is today valued at well over €17bn ... illegitimately forced a people who had won their independence in a successful slave revolt, to pay again for the freedom.



http://dehai.org

Noam Chomsky

"In 2003, when the Haitian government demanded repayment of the money France had extorted from Haiti, the French government responded by helping to overthrow that government."

The letter describes France's actions as "inappropriate responses to a demand that is morally, economically, and legally unassailable", adding: "In light of the urgent financial need in the country in the wake of the devastating earthquake of January 12, 2010, we urge you to pay Haiti, the world's first black republic, the restitution it is due."

The letter has also been signed by members of parliament from Europe, Canada and the Philippines, as well as scholars, journalists and activists in France, Haiti, the US, Canada, the UK, Nigeria, Sierra Leone and Germany.

This article was published in Guardian.co.uk on 15 August 2010.

UN climate finance report stresses market-based and private sources, draws flak from civil society

By IBON International

A high-level UN report on climate finance emphasising the role of carbon markets and private sources for funding climate action in developing countries was released on November 5, Friday.

http://www.endwaterpoverty.org

UN Secretary-General Ban Ki-Moon

The report was authored by seventeen finance ministers, senior economists, and heads of government that make up the UN Advisory Group on Climate Finance (AGF). UN Secretary-General Ban Ki-Moon convened the group in February this year to study sources for raising the $100 billion in adaptation and mitigation financing promised to poor countries in the Copenhagen Accord.

The panel suggests that public money could be raised from carbon taxes ($30 billion), aviation and shipping taxes ($10 billion) and foregone fossil fuel subsidies ($10 billion). It found that carbon offset markets could generate as much as $50 billion, and private sector flows as much as $200 billion. Also identified as sources are multilateral development banks such as the World Bank ($40 billion).

Mr. Ban will present the report to official climate negotiators when they meet in Cancun for the annual UN climate summit beginning November 29. Governments are still trying to agree on a post-2012 global climate deal after the talks collapsed in Copenhagen last year.

Civil society groups meanwhile find that the report "unwisely" gives emphasis on carbon markets and other private flows as sources of climate funding.

Steve Suppan of the Institute for Agriculture and Trade Policy said the AGF's recommendations are based "blind faith in the capacity of highly volatile and unreliable carbon price signals to induce long-term investments in low carbon energy production and manufacturing."

"The AGF acknowledges that meeting the needs of developing countries will take a 'systemic approach' to financing climate adaptation and mitigation," noted Janet Redman of the Institute

>> Continued on next page

for Policy Studies. "Options like a financial transaction tax meet the mark: stabilizing the economy by curbing dangerous speculation and raising hundreds of billions of dollars each year for global public goods like combating climate change. The AGF is undercutting its own mission by underestimating the revenue generated by a feasible and popular source of public finance."

The groups also criticise the panel's report for its inclusion multilateral development banks as sources.

"It was inappropriate for the AGF Report to make reference to the role of multilateral development banks. MDBs are not a source of climate finance, but are used as a channel. And they are not acceptable even as a channel. MDBs are a part of the climate problem, not the solution. The World Bank and other MDBs are far, far more adept at causing climate pollution than in helping countries to mitigate or adapt to it. Using MDBs as a channel would also mean climate finance in the form of loans or other debt-creating instruments," said Lidy Nacpill of Jubilee South – Asia/Pacific Movement on Debt and Development.

"Adaptation funding, in particular, is compensation for damages done by developed countries and should only be given in grants. It is untenable that the AGF suggests otherwise. The enormous costs of dealing with climate change must not add to the already heavy debt burdens experienced by many developing countries," added Nacpil.

The groups also expressed concern that the AGF was guided by a pledge developed countries made in Copenhagen to mobilise $100 billion per year by 2020 in public and private finance—a pledge which falls short of reasonable estimates of climate financing.

"$100 billion is an arbitrary, political figure that is based neither on need nor on equity. If the U.S. government rapidly mobilized trillions to bail out Wall Street, why cannot at least equal effort be put toward bailing out the planet from a climate crisis that rich countries caused?" said Karen Orenstein of Friends of the Earth U.S.

New RoA Report features bolder approach to aid thinking, practice

By Jennifer Malonzo, Reality of Aid Network

As official development assistance (ODA) falls and donors break their promises of more and better aid to poor countries, the Reality of Aid (ROA) Network highlights the limitations of the aid effectiveness reform agenda and calls for a bolder approach to development cooperation in its new report titled Aid and Development Effectiveness: Towards Human Rights, Social Justice and Democracy. ROA is a nonprofit initiative of Northern and Southern non-government

http://www.realityofaid.org/

The Reality of Aid 2010 Report titled "Aid and Development Effectiveness: Towards Human Rights, Social Justice and Democracy" in its launch last, 26 October 2010 in Paris, France organizations focusing on poverty reduction and development assistance.

ROA chairperson Tony Tujan

According to the ROA 2010 Report, total ODA has fallen by US$2.7 billion in 2009 and donors are reneging on their pledges for Sub-Saharan Africa with aid to the region short by at least US$14 billion in 2010. Moreover, despite donor rhetoric, recipient country ownership and leadership on aid decisions have not improved.

Ownership, which means recipient countries can truly use aid for their real needs and priorities, is one of the key principles of the 2005 Paris Declaration of the High Level Forum on Aid Effectiveness sponsored by the Organization for Economic Cooperation and Development (OECD). The ROA Report noted, however, that donor tying of aid and imposition of policy conditions still impinge on developing countries' policy space and development processes.

No wonder the international community, after over half a century of development cooperation, remains far from achieving ODA's declared goals of eliminating poverty, starvation, disease, and war. The Report thus presents development effectiveness as an alternative approach to international cooperation that aims to protect and fulfill the rights of poor and marginalized people and empower them to claim these rights.

"All governments and development actors must embrace development effectiveness as a reform agenda that focuses on results on the ground to achieve poverty reduction and human rights-based development," said ROA chairperson Tony Tujan.

Several cases where donors have ignored the rights of communities in developing countries in ODA-funded projects are cited in the ROA Report. In the Philippines, for instance, the Japan Bank for International Cooperation (JBIC) funded a dam that displaced 2,500 families and ruined their livelihoods. When JBIC approved the funding it had no social or environmental guidelines, and the free and prior informed consent of the indigenous Ibaloi people was not obtained before the dam construction.

Donor and recipient governments are aware that women comprise the majority of the poor and economic downturns affect them more because of gender biases. Yet gender equality and women's rights remain largely invisible in donor aid activities, with only US$2.1 billion in such spending reported by the OECD's Development Assistance Committee (DAC) donors for 2007 and 2008.

The report, with 36 contributions from ROA members in 30 countries, is a timely contribution to the debates on transforming aid thinking and the global aid architecture in the run-up to the fourth High Level Forum on Aid Effectiveness to be held in Busan, South Korea in 2011.

Tujan said, "The challenge and opportunity for Busan is a new political agreement, a Busan Declaration, which establishes a development effectiveness framework for aid effectiveness reform and sets the path for the construction of an equitable, inclusive and progressive architecture for development cooperation."

The Reality of Aid

An Independent Review of Poverty Reduction and Development Assistance

Statement on the occasion of the UN High-Level Plenary Meeting of the General Assembly on the Millennium Development Goals

20-22 September 2010, New York City

By Reality of Aid Network

Ten years have lapsed since the Millennium Summit, and five years remain to realize the Millennium Development Goals (MDGs). Despite the many pledges on making aid work for development, donors have underperformed, and the current aid architecture continues to deliver aid in ways that impede its developmental impacts.

Donors built a consensus to mobilise resources to finance development in the 2002 Monterrey conference on financing for development. They further committed to improve aid effectiveness in the 2005 Paris Declaration and 2008 Accra Agenda for Action in order to increase the impact of aid in poverty reduction and achieve the Internationally Agreed Development Goals, including the MDGs.

We continue to note with concern that:

Donors have failed to reach the longstanding 0.7% of donors' GNI target to support internationally agreed goals including MDGs

In 2009, "Real Aid"—defined by Reality of Aid as ODA minus debt cancellation and the costs of spending on Southern refugees and on students arriving in donor countries—stood at $112.7 billion, or only 0.29% of donors' combined Gross National Income.

Furthermore, aid increases since 2000 also do not show a strong orientation towards poverty reduction and development for the poorest. Only 42.1% of new aid dollars—aid that donors had cumulatively disbursed by 2008 above what they had allocated in 2000—had gone to potential use for poverty reduction, MDGs and other development programs.

Moreover, the current aid architecture remains unfit for the purpose of development effectiveness.

Several donors continue to provide ODA in the form of loans, further deepening the long-term debt of poor countries.

Donors, especially international financial institutions, continue to impose conditionality, seriously diminishing country ownership of development policies and undermining development outcomes.

Progress in untying bilateral aid has been slow. Too much aid is still tied to the purchase of goods and services provided by rich countries despite several agreements prohibiting the practice that Australian campaigners dub “boomerang aid”.

- ***Provide, as grants and not loans, additional and sufficient volumes of Real Aid in line with internationally agreed development goals and development priorities.*** Real Aid must be scaled-up, show a stronger orientation towards development in terms of distribution and allocation, and be delivered in modes that do not create debt burdens.

- ***Ensure democratic ownership not just by recipient governments, but more so by the poor and marginalized populations, including civil society organizations.*** Progress has been most successful in countries where national ownership of development goals is strong, especially within civil society.

- ***Introduce measures to ensure that aid respects human rights agreements and empowers poor and vulnerable communities to claim their rights.*** **Respect for human rights, gender equality and environmental sustainability are cornerstones for achieving development impacts.** Governments, donors and CSOs should reiterate that the primary objective of aid is to combat poverty and hunger and promote public goods such as education, health and gender equality in ways that respect human rights, environmental sustainability and justice. Social and environmental impacts must be measured and reported, respecting the right to free, prior and informed consent.

- ***Be transparent in aid decision-making and with aid data.*** Transparency and openness by donors and recipient governments, alongside active CSO engagement, reduces the risks of aid allocation and delivery being inappropriate, ineffective and even harmful for development. At the minimum, international donors must sign up to and implement the principles and measures outlined by the International Aid Transparency Initiative.

- ***Untie aid and ensure that public procurement takes account of public policy goals.*** To increase the development impacts of aid and public spending, donors must transfer power over jobs and contracts in the short-term, as well as provide opportunities for local suppliers to provide goods and services including technical expertise and infrastructure development in line with long-term national goals.

- ***Ensure strong policy coherence for development.*** Many other policies in the areas of trade, debt, investment and finance influence development outcomes on the ground and prevent or enable communities and governments to implement sustained policies and programs. These too must be consistent with the maximum effort to achieve the internationally agreed development goals and alongside efforts to improve the effectiveness of aid.

The Reality of Aid is joining with other members of the BetterAid Platform to promote an international process to reform and increase the development effectiveness of the aid architecture through a binding **convention on Development Effectiveness** under the United Nations. CSOs, along with allies among governments, will explore the implications of a more binding framework that holds governments accountable for the commitments they make in various international meetings. A multilateral convention of Development Effectiveness could strengthen the coherence between these commitments and accountability to international human rights law which, as this statement argues, is the basis and standard for measuring development effectiveness.

International Conference on Indigenous Peoples Rights, Alternatives and Solutions to the Climate Crisis

November 4-9, 2010
Baguio City, Philippines

DECLARATION OF SOLIDARITY

We, 76 indigenous peoples representatives and advocates from 15 countries in Asia, Pacific, Australia, Africa, North and South America, and Europe, bind ourselves in solidarity for the pursuit of indigenous peoples' rights to self-determination and liberation at this international conference.

We reaffirm our inherent rights to self-determination and collective ownership of our land, territory and resources knowledge, and to freely determine our political status and define our own course of development appropriate to our particular situations and cultures. We have struggled to assert these rights since time immemorial. Along the way, we have had victories like the adoption of the UNDRIP and other UN instruments, as well as losses and martyrs, but we continue to struggle until today, in response to the alarming realities we continue to experience.

Indigenous peoples face serious and urgent problems including the violation of our collective rights as indigenous peoples, oppression by states, development aggression and plunder of our land and resources by multinational corporations and international financial institutions in collusion with the local elite. Government policies and neglect have led to continuing impoverishment, discrimination and deprivation of our identity. The US-led war of terror and State's counter-insurgency programs and policies result in increased militarization and extrajudicial killings in an atmosphere of impunity. All of these amount to virtual genocide of indigenous peoples in various parts of the world, resulting in mental trauma, active population transfer, displacement, minoritization and marginalization of indigenous peoples in our own lands.

The urgent climate crisis exacerbates these difficult conditions that indigenous peoples are experiencing today. Northern governments, especially the US, corporations and IFIs are largely responsible for greenhouse gas emissions and global warming. However, they have refused to honor their historical responsibility to reduce emissions and pay reparations, and are deepening the environmental crisis with new plans for expanded resource extraction, unregulated free trade, invasive investment, privatization and unlimited growth. Meanwhile, indigenous peoples, who contribute the least to global warming, are severely affected by climate change, hampering their capacities to cope with these problems.

Negotiations among States through the UNFCCC processes have turned climate change into a trade issue and an opportunity for profit. The right to pollute is being traded as a commodity through carbon emissions trading. Adaptation and mitigation measures such as REDD, REDD+ and other market-based mechanisms are offered as solutions but have negative impacts and cause divisions among indigenous peoples, whose access and control of forest resources are eroded. The WTO is also now talking of liberalizing trade of environmental goods and services, which will further compromise our rights. Throughout these discussions, indigenous peoples voices have not been heard because we have had no real and meaningful participation, being relegated to the sidelines as mere observers.

We believe that the root cause of the enormous problems we face today is the neoliberal global capitalist system, which puts profits before people and the planet. Central to this system is the expropriation and control of resources by multinational corporations, and dispossession and marginalization of small producers, workers, peasants, women and indigenous peoples.

A genuinely sustainable and comprehensive solution to the climate crisis lies in a fundamental shift towards people's sovereignty over our shared heritage. This requires a thoroughgoing change from current production and consumption patterns, which promote mass consumerism and extravagance to sustainable ways and standards of living.

To our credit, indigenous peoples around the world continue to practice and demonstrate viable alternatives and solutions to the climate crisis and the profit-driven development paradigm. We stand by our traditional knowledge and practices such as sustainable agriculture, biodiversity conservation, seed-keeping, simple living, cooperative labor and mutual help, indigenous socio-political institutions, community-based adaptation, mitigation and disaster response, which are viable solutions to the global crisis as proven through generations. We acknowledge the important role of indigenous women in maintaining our traditional ways of life.

We believe that building a strong and united international indigenous peoples movement for self-determination is the urgent call of the day. This movement stands for the right of indigenous peoples to govern ourselves and for liberation from imperialism, state oppression and human rights violations. In its various forms, self-determination may include legal recognition and proportionate representation of indigenous peoples in State mechanisms, autonomous self-rule, federalism or asserting sovereignty from an oppressive state. We will work for the empowerment of our peoples, and for the victory of the people's will over the powers-that-be, while respecting the legitimacy and forms of struggle and self-determination that our peoples opt to employ.

On this historic occasion of the International Conference on Indigenous Peoples Rights, Alternatives and Solutions to the Climate Crisis, we celebrate our struggles as indigenous peoples. We commit to support each other, build wider solidarity and to continue to strengthen our peoples' movements.

As a result of this conference, we resolve to:

1. Uphold indigenous peoples' rights to survival, self-determination, liberation and social justice. Organize ourselves, as the Indigenous Peoples Movement for Self-determination and Liberation, together with other indigenous peoples around the world, to strengthen our solidarity and coordinate our efforts beyond this conference.
2. Defend our land against development aggression and plunder of our resources by mining, logging, megadams, oil exploration, biofuel and industrial plantations, politically and economically motivated population transfer and other so-called 'development' impositions. Work for the recognition and respect of indigenous peoples' rights, including the important role of indigenous youth and women in the struggle for control and ownership over our ancestral territories and sustainable management of our resources.
3. Hold imperialist countries, MNCs/TNCs and financial institutions accountable for their historical environmental debt to humanity. We say No! to all market-based mechanisms and false solutions to climate change and demand that indigenous peoples' rights be respected worldwide in addressing the climate crisis. We call for sustainable solutions to the climate crisis, including adaptation and mitigation strategies based on indigenous peoples' traditional knowledge and practices. Create our own spaces for indigenous peoples participation and engagement in the climate change debate. Support and adopt the Peoples Protocol on Climate Change and enrich this further to reflect indigenous peoples perspectives.
4. Push for proactive government and international programs and policies in response to climate disasters affecting indigenous peoples, who are among the most vulnerable to climate change. Document successful efforts, indigenous science, traditional knowledge and practices on climate change adaptation and mitigation, especially indigenous women's roles, and integrate these practices into our responses to climate disasters.
5. Resist corporate monopoly and control of agriculture and all its instruments such as IRRI, WTO, etc. and promote biodiverse ecological agriculture. Promote community-based indigenous sustainable agricultural practices, conduct continuing study and exchange on indigenous production systems, and do policy advocacy

to get governments to commit to food sovereignty. Campaign against land acquisitions and military offensives that undermine the food sovereignty of indigenous peoples.

6. Condemn militarization, political repression, extrajudicial killings, enforced disappearances, torture, military invasion and occupation of ancestral lands and all forms of human rights violations perpetrated by State forces against indigenous peoples. Uphold the UN Declaration on the Rights of Indigenous Peoples, the Universal Declaration on the Rights of Peoples (Algiers Declaration), and other international conventions. Combat criminalization, vilification, terrorist-labeling of indigenous activists and leaders and the misuse of indigenous culture for counter-insurgency objectives of States in line with the US-led War on Terror. Stop recruitment of indigenous persons, especially the youth into State military and paramilitary forces.
7. Stop all forms of socio-economic and politically motivated population transfer in indigenous peoples territory and cease cultural genocide and ethnocide of indigenous peoples.
8. Support the struggles of indigenous peoples for self-determination, liberation and sovereignty in its various forms. Continue to learn from each other and conduct studies on the various experiences in the exercise of self-determination. Form broad alliances and connect our movements to the wider struggles of other sectors, national and international movements across a wide spectrum of society in recognition of our common targets and aspirations.

In keeping with our indigenous tradition of consensus building, we affirm and approve this declaration. We draw lessons from our past struggles and strength from our martyrs. Let it be known widely that we will pursue our struggle for self-determination and liberation of indigenous peoples to its rightful end!

"For us, our strength comes from our ancestors, our determination to succeed from our children, and our success from our unity." - Maori activist

Signatories:
Far North Queensland Indigenous Youth Advisory Committee, Australia
Maleya Foundation, Bangladesh
Chittagong Hill Tracts Association – Youth, Bangladesh
Migrante British Columbia, Canada
International Campaign for Boroks' Human Rights (ICBHR), India
Naga Peoples Movement for Human Rights, India
Forum for Indigenous Perspectives and Action, India
Indonesian Scholars and Leaders Council (ISLC), Indonesia
Aliansi Masyarakat Adat Nusantra (AMAN), Indonesia
Partners of Community Organisations (PACOS Trust), Malaysia
Nepal Taman Student Acd., Nepal
Nepal Indigenous Nationalities Student Federation, Nepal
Nepal Constituent Assembly, Nepal
Pacific Indigenous Peoples Environment Coalition, New Zealand
Ogoni Solidarity Forum (OSF), Nigeria
Advocates of Science and Technology for the People (AGHAM), Philippines
Tumandok Solidarity Network, Philippines
International Movement of Catholic Students Asia Pacific (IMCS AP), Philippines
Suara Bangsamoro, Philippines
Center for Environmental Concerns, Philippines
Moro Christian Peoples' Alliance (MCPA), Philippines
Moro Christian Peoples' Alliance (MCPA), Philippines
Kalipunan ng mga Katutubong Mamamayan ng Pilipinas (KAMP), Philippines
HAGIBAT, Philippines
IBON International, Philippines
Peoples' Movement on Climate Change, Philippines
ANIDO University of the Philippines Diliman, Philippines
Cordillera Peoples Alliance, Philippines
Serve the People Brigade – Cordillera Disaster Response Network, Philippines
Katribu Partylist, Philippines
Innabuyog, Philippines
Dap-ayan ti Kultura iti Kordilyera, Philippines
Kilusang Mayo Uno – Kordilyera, Philippines
Cordillera Women's Education and Research Center (CWEARC), Philippines
Center for Development Programs in the Cordillera (CDPC), Philippines
Montanosa Research and Development Center, Philippines
Ifugao Peasant Leaders Forum, Philippines
KASTAN, Philippines
PANLIPI, Philippines
Insight Share, United Kingdom
Land is Life, United States of America
Yayasan Anak Dusun Papua (YADUPA), West Papua
West Papua National Authority (WPNA), West Papua
Asia Pacific Indigenous Youth Network (APIYN)
Pesticide Action Network Asia and the Pacific (PAN AP)
Catholic Committee against Hunger and for Development (CCFD)
International Alliance of Indigenous and Tribal Peoples of Tropical Forests (IAITPTF)
Tebtebba Foundation

The currency war is a class war

Competitive devaluation is a war of global finance on labor, argues Paul Quintos.

http://www.kuwaittimes.net

The ongoing currency war is not really a battle between countries with current account deficits versus countries with surpluses. It is the continuing offensive of finance capital against working people in the world, especially in the South. Here is why.

According to the World Bank, the main challenge to economic recovery today is finding sources of growth in global demand.

What the Bank, the IMF and the G20 governments do not admit is that the only just and robust way to do this is to raise the purchasing power of the majority of people in the world -- wage workers, farmers, and so on – whose share of global income has declined precipitously under three decades of neoliberal globalization. With more money in their pockets, they will spend more, stimulate production, encourage more investment and generate more jobs.

The best way to do this quickly is to boost public spending on labor-intensive services like education, health, water, housing, public infrastructure and green investments; ensure universal access to essential services; and reduce inequalities along gender, ethnic, and geographic lines. This also entails expansion of public ownership or public control over critical sectors that cannot be left to the market such as finance, (renewable) energy, mass transportation, etc., along with redistributive measures such as agrarian reform in the case of unindustrialized countries.

Indeed, there is no shortage of social needs that remain unmet or underprovided because they are not profitable enough for the private sector while governments are forbidden by neoliberals in power from "crowding out" private investment.

It should be emphasized that a large part of this additional public spending does not have to come from increasing public debt. A substantial portion can come from raising taxes on the rich (after all the tax cuts they got from previous administrations) especially on capital gains, dividends, property and financial transactions. The US spends more than USD 2.8 billion on “defense” every single day – equivalent to about two-thirds the federal deficit -- excluding indirect costs such as interest on the additional debt and care for veterans. Surely a big chunk of that money is better reallocated to building lives and communities rather than destroying them.

In other words, all these entail taking money (and power) from the rich to give to the poor. What a monstrous proposition!

So instead, governments of the richest countries representing the interests of finance capital have tried spending trillions of dollars to bailout the biggest bankers who triggered this crisis, lowering interest rates to near zero and printing more money (aka quantitative easing). All of these measures have put more money in the hands of finance capitalists yet all have failed to spur investment in the real economy, generate jobs and lift people out of poverty and insecurity.

According to the World Bank, the main challenge to economic recovery today is finding sources of growth in global demand. What the Bank, the IMF and the G20 governments do not admit is that the only just and robust way to do this is to raise the purchasing power of the majority of people in the world -- wage workers, farmers, and so on – whose share of global income has declined precipitously under three decades of neoliberal globalization.

In fact, governments in the “deficit” countries are making the problem worse by shifting to fiscal austerity. Many of the G20 countries (including EU members), have started implementing or announced plans to raise effective taxation in their economies; cut public pensions, health care, education, unemployment benefits and social security; layoff public sector workers and cut public sector wages. The IMF, reinvigorated by a new infusion of money and mandate from the G20, is increasing its lending in low income and vulnerable countries with the usual pro-cyclical monetary and fiscal policies attached -- worsening the adverse impacts of the downturn on developing countries.

The upshot to this is that working families are made to pay for the costs of the global crisis several times over, through falling incomes and rising unemployment, then through reduced access to social services in order to pay for the handouts given to financial giants responsible for the crisis. In other words, robbing the poor many times over to give to the rich.

And what are the rich doing with this money? According to the IIF, financial investors are taking advantage of excess liquidity and record low U.S. dollar short-term interest rates to fund bets in emerging market assets. This is creating new asset bubbles, particularly in Asian property markets, and forcing currencies in emerging markets to appreciate. In other words, they are fuelling the currency war and setting the stage for more financial convulsions.

Elites in countries most affected by the crisis would rather find external sources of demand and export their way to recovery rather than redistribute wealth to raise domestic purchasing power. The US aims to double its exports within the next five years. The EU has been extremely aggressive in pursuing bilateral Economic Partnership Agreements overseas. They all have their sights on emerging economies, both as markets and as competitors. But amidst conditions of depressed global demand, export gains of some countries are losses for others. Hence measures that cause even minor changes in exchange rates – such as monetary policy or capital controls -- are seen as weapons in a nascent trade war.

Such a trade war will put pressure on firms to be more competitive and squeeze more profits from their workers and from their suppliers especially in developing countries, and so on. This ultimately pits workers against one another in a race to the bottom. The flood of dollars is also fuelling speculation in commodities trading, pushing up food prices beyond the reach of the poorest households and exacerbating the already unprecedented level of hunger in the world.

http://www.smh.com.au

Indian middleclass in a supermarket. Companies lare planning on expanding its operations in India to capitalise on the country's growing middle class.

Governments of the richest countries representing the interests of finance capital have tried spending trillions of dollars to bailout the biggest bankers who triggered this crisis, lowering interest rates to near zero and printing more money

To sum up, this is another way that finance capital is shifting the burden of the crisis onto the shoulders of the working poor in the world.

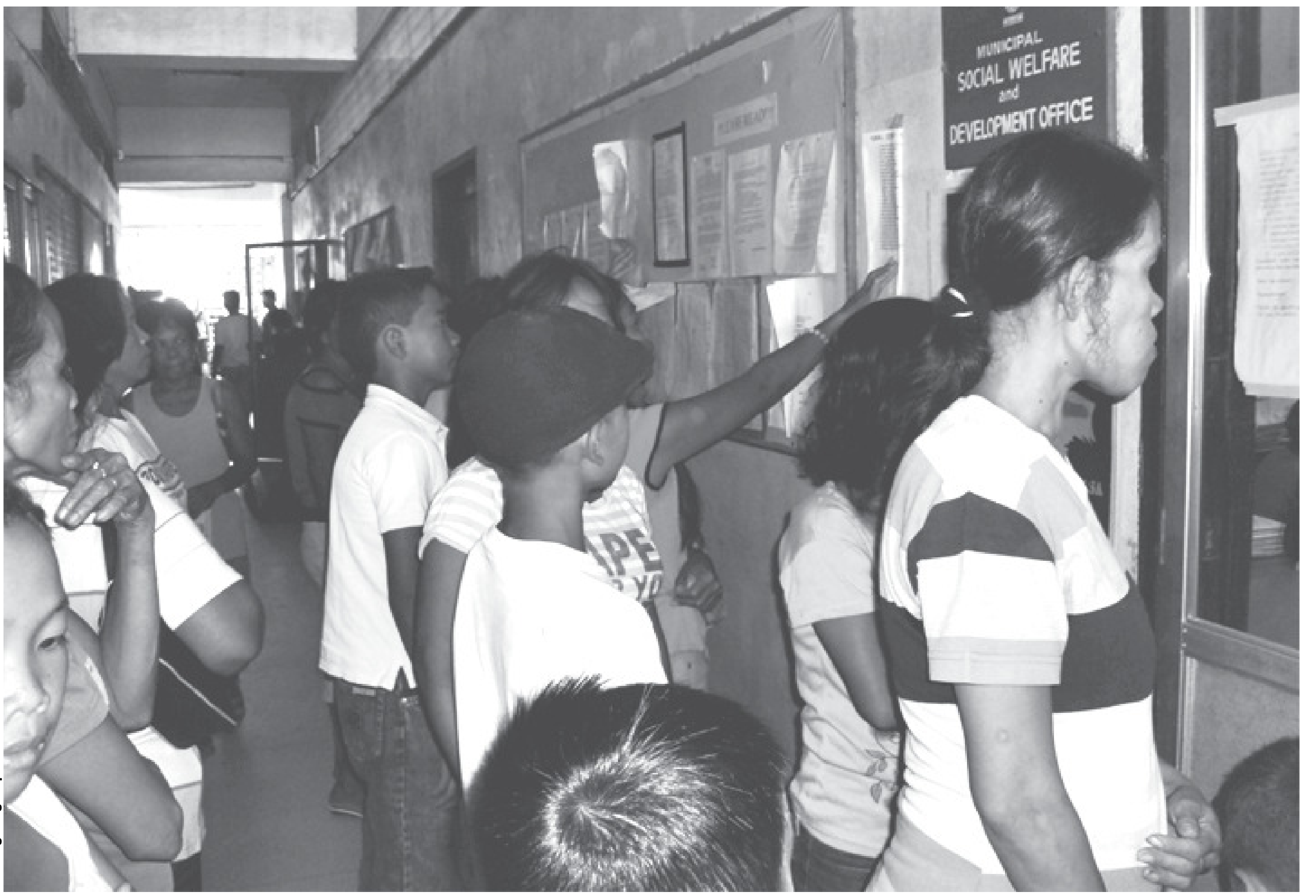
There is no way out of this crisis without democratizing wealth and power. And that means working people would have to win the class war.

Paul Quintos is a policy officer with IBON International and coordinator of RESIST! network.

Band Aid Solution
Conditional Cash Transfers in the Philippines

By Algely Bayhon Comia

In the Philippines, the new government's "reformist" fiscal program for 2011displays some signs of a renewed push to reduce poverty and meet the country's Millennium Summit commitments. President Benigno Aquino III approved an astounding PhP1.64 trillion (US$37.7 billion) budget for 2011. The budget earmarks P29.2 bn ($671 mn) for the Department of Social Welfare and Development's Pantawid Pamilyang Pilipino Program (4Ps). [1]



catbalogan.gov.ph

The government's 4Ps program is the Philippines' version of the conditional cash transfer (CCT) program. The long term goal it claims is to reduce poverty through enhancement of capabilities obtained by the conditioning of the cash transfer, and reducing poverty in the short run through cash transfers. Some 300,000 households in the country is hoped to meet certain human development goals as CCTs provide money to extremely poor households. [2]

Under the 4Ps program, beneficiary households will receive P500 ($11.5) per month upon complying with the health conditions, and P300 ($6.9) per child per month, up to a maximum three children, for the education conditions. A household with three qualified children can potentially receive P1,400 ($32) per month during the school year or as much as P15,000 ($344) annually.

The 4Ps program drew significant media attention of late due to opposition from many progressive groups criticizing the effort as no more than government dole-outs. Among those who have thrown their weight behind the program is celebrated anti-globalization activist and member of Philippine Congress Walden Bello, who defended Mr. Aquino's 4Ps in a recent polemic against critics. [3]

The concept of cash transfers is not new. According to the Asian Development Bank, similar programs are operating in 20 countries, including Brazil, Columbia, Mexico and Turkey.[4] In these countries, relative success has been achieved including increased nutrition rates among infants, improved health status across age groups, and increased school enrolment. According to the World Bank, CCTs are programs designed to give out cash to poor households as these households comply with a set of conditionalities, most notably school attendance of children, regular visits to health centers and maternal care. However, what works in other countries does not necessarily mean that it would work here because context matters. Features across countries vary and these include social and economic policy settings in which CCTs are embedded in.

It is hard to imagine a family not accepting cash transfers since even a small amount augments their monthly income greatly. The poorest Filipinos are undoubtedly in need of immediate financial relief. According to the latest Family Income and Expenditure Survey (FIES) of the National Statistics Office, the poorest 10% of Filipino families earn a monthly income of P2,700 ($60); the next poorest 10% earn about P4,200 ($96), and the next earn P5,400 ($124). P1,400 from the 4Ps program could increase monthly incomes of the poorest families by as much as 52% or more.

Cash isn't a bad thing considering the circumstances most Filipinos face. Transfers of cash to the poorest may indeed increase income and lifted people above the poverty line. But it forces us to question both how this government is going to address poverty sustainably.

According to IBON, there are currently 4.6 million unemployed Filipinos. Among them, 87% are reasonably educated –44% are high school undergraduates or graduates and 43% are college undergraduates or graduates.[5] Such a high rate of unemployment even among the country's educated suggests in the context of a foundering economy that is unable to grow at a pace and manner that can provide appropriate and remunerative jobs for a growing and skilled workforce, higher school or hospital attendance are unlikely to translate to improved living standards for the poor.

Moreover, while the CCTs infuse income to the poorest to expand their access to public services, there appears to be no equivalent effort from the government to improve the country's decrepit and underfunded public services system. Philippine public investment in education and health is low and even declined between 2000 and 2006.[6] According to the National Union of Students of the Philippines, the government spends the equivalent of 2.7% of the country's GDP on education, which pales in comparison to other developing countries in the region,[7] and far short of the UN target of 6%.[8] Recently the proposed budget cuts to education amounting to 1.7% lower from that of 2010 in President Aquino's program to "reduce the subsidy of SUCs (state colleges and universities) to push them toward becoming self-sufficient and financially independent;" defeating the logic of having publicly accessible education as even the country's national university faces its largest budget cut in history of 1.39 billion pesos ($270 mn).[9]

This routine disregard of public services puts into question the government's commitment to address poverty. Against the backdrop of a social policy that is demonstrably weak and wanting in pro-poor character, the government's cash grants program appears less a part of a strategy to pursue poverty reduction and long-term development, and more like a dole-out or a band aid solution.

President Aquino ran for the presidency on a message of change. The son of two of the country's democracy and anti-dictatorship icons—Corazon and Ninoy Aquino–Mr. Aquino rose to power riding public disdain over the corrupt and pro-globalization Arroyo administration. However the very evident neglect of major social services as manifested in his budget proposals, alongside his choice of economic advisers and many pro-FDI policy pronouncements, suggest that neo-liberal forces are still in play.

The unequalled reduction to education among others has put the 4Ps in context of a flagrant disguise for public support. The 4Ps act as a smokescreen to keep the message of change intact while the administration is free to pursue the same type of anti-poor programs of the past.

In a manifesto signed by thirty-seven lawmakers, most of whom allies of the president, they expressed formal opposition to the budget allocation that meant a two- fold increase from P10 billion to the same program in 2010 and asserted a realignment of funds towards construction of schools, health centers, housing programs, agriculture and other long term strategies that addresses the root causes of poverty through asset redistribution and job generation.[10]

In an interview with Bayan Muna (People First) Representative Teddy Casino, one of the thirty-seven lawmakers who opposed the CCTs budget allocation, he reiterated that

> *"CCT is not sustainable. Its own evaluation report (from DSWD - done by Ateneo for World Bank) shows that besides the money given, "their (beneficiaries) sources and level of income have not changed." Even studies in different countries point out that "increased school attendance did not lead to higher academic performance, and there have been mixed results in terms of overall public health." They are just playing up the increase in statistics (increased education and health utility) but disregard the fact that it does not bring about substantial change in the quality of health and education. It is also not sustainable because it does not give livelihood. Basically, a dole out because it does not teach people to be self-reliant."*[11]

NOTES

[1] "House Starts Plenary Deliberations on 2010 Budget," Dateline, retrieved from www.dateline.ph.

[2] "The Benefits of Conditional Cash Transfers," Business World Online, retrieved from www.bwordonline.com

[3] Walden Bello, "The Conditional Cash Transfer and the Coalition Against the Poor," 2 November 2010, retrieved from http://www.focusweb.org/content/conditional-cash-transfer-debate-and-coalition-against-poor

[4] Bloom, Karen Schelzig. 2010. Teaching people to fish: Conditional cash transfers in the Philippines. Asian Development Bank. Philippine Star. www.philstar.com (accessed 10/12/10)

[5] IBON Foundation, Inc. "Conditional Cash Transfers and the Persistence of Poverty," 25 October 2010.

[6] Social Watch Philippines. Position paper on the Pantawid Pamilyang Pilipino Program (4Ps). Manila: IBON Foundation, Inc. October 7, 2010

[7] Malaysia allots 6.2%, Thailand has 4.2% and even Laos has 3%.

[8] National Union of Students in the Philippines. Briefer/ Discussion Guide on Education Situation 2010.Diliman, Quezon City May 23, 2010

[9] Crisostomo, Vencer. Cutting Through The Lines:Examining Aquino's Statement on Education Budget Cuts.13 November 2010.. retrieved from www.kabataanpartylist.com

[10] "37 Solons Oppose Aquino's Cash Transfer Program,"GMA News, retrieved from www.GMANews.TV.

[11] Teddy Casino. October 12, 2010. Interview.

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Wall Street Revisited
Greed is Good and Dull

By Richard Schickel, Truthdig

The best moment in "Wall Street: Money Never Sleeps" occurs in its opening sequence. The notorious Gordon Gekko is retrieving his personal property as he checks out of the slammer after much too long a stay. Among the items handed over to the onetime Wolf of Wall Street is a cell phone that is roughly the size and shape of an orthopedic shoe. The times, we quickly, humorously perceive, have been a-changing. Gekko is soon flogging a memoir the title of which turns his most famous saying into an interrogative: "Is Greed Good?" Yes, he answers, "it's even legal." Which turns out to be what this astonishingly inert sequel has as a moral.

There is no longer room for free-spirited buccaneers in the world's money markets. Their appalling and amusing ways have been co-opted, institutionalized and dulled down by the banks, brokerages and insurance companies that we all know were responsible for our current Great Recession. In its vague way, Oliver Stone's film, written by Allan Loeb and Stephen Schiff, aspires to explain how that came to pass, but quickly throws up its hands. There are, someone says, only about 25 people in the world who fully understand things like credit default swaps—none of whom has come within hailing distance of this film, the chief business of which is to enlist our sympathy for Gekko.

This is not as hard to do as Stone and company think it is. Michael Douglas' Gekko was always a charming and ironic rogue, who had a way of speaking cheeky truth to power while more or less cheerfully lining his own pockets. He dubiously insists that back in the day his crimes

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Michael Douglas and Shia LaBeouf in "Wall Street: Money Never Sleeps"

were victimless. Now, however, entire nations can be brought near to ruin by the free range of much vaster speculation (and peculation) not so much managed as ridden by people as faceless as they are feckless.

That leaves Gekko—his family ruined, a son and a wife lost, his only daughter deeply estranged while he is himself pretty much down to his last, slightly encumbered $100 million—as the movie's sole point of interest. He wants to make up with his daughter (Carey Mulligan), an idealistic Internet entrepreneur, who is engaged to Jake (Shia LaBeouf), a Wall Street trader heavily (and also idealistically) invested in an alternative energy start-up. Along the way, young Jake wishes to gain revenge on a powerful, charmless Wall Streeter (Josh Brolin) who ruined Jake's kindly old mentor (Frank Langella).

As you can see, there's a ton of plot in this picture—the family aspects of which we have experienced in many previous movies and TV shows, the financial aspects of which are murky and unfocused. Feel free to consult your mental cheat sheets in order to stay a couple of jumps ahead of Gekko and his get. Feel equally free to try to "follow the money" as Deep Throat so wisely advised us a few centuries ago. But mostly what we do is follow expensively tailored men into boardrooms where they threaten to crush one another with incomprehensible financial blather, angry outbursts and nasty sneers. As an alternative, they are often discovered wandering through Manhattan's streets and parks (or riding its subways)—it's called "opening up" the picture—murmuring threats and speaking of schemes so veiled they sound like invitations to the office Christmas party.

The inherent problem with this film is that it does not have the courage of its own nastiest convictions. In some part of their souls—or in the souls of the actors playing them —leading characters like Gordon Gekko want to be liked. No actor this side of Klaus Kinsky really wants to be fully loathed, and we in the audience are complicit in this desire. We want to confine flat-out villainy to the edges of the picture, where the character actors live their colorful half-lives. But if we cannot understand what is moving these people, if their plots and counterplots are not clear to us, the film dwindles in our eyes. This was a problem in the first "Wall Street" and it reaches crisis proportion here. The more a rather weary Gordon Gekko comes to resemble his namesake, that cute, earnest little lizard in the Geico commercials, the less entertaining he is. He occasionally smirks knowingly, but really he's just another sad dad suing everyone for favor.

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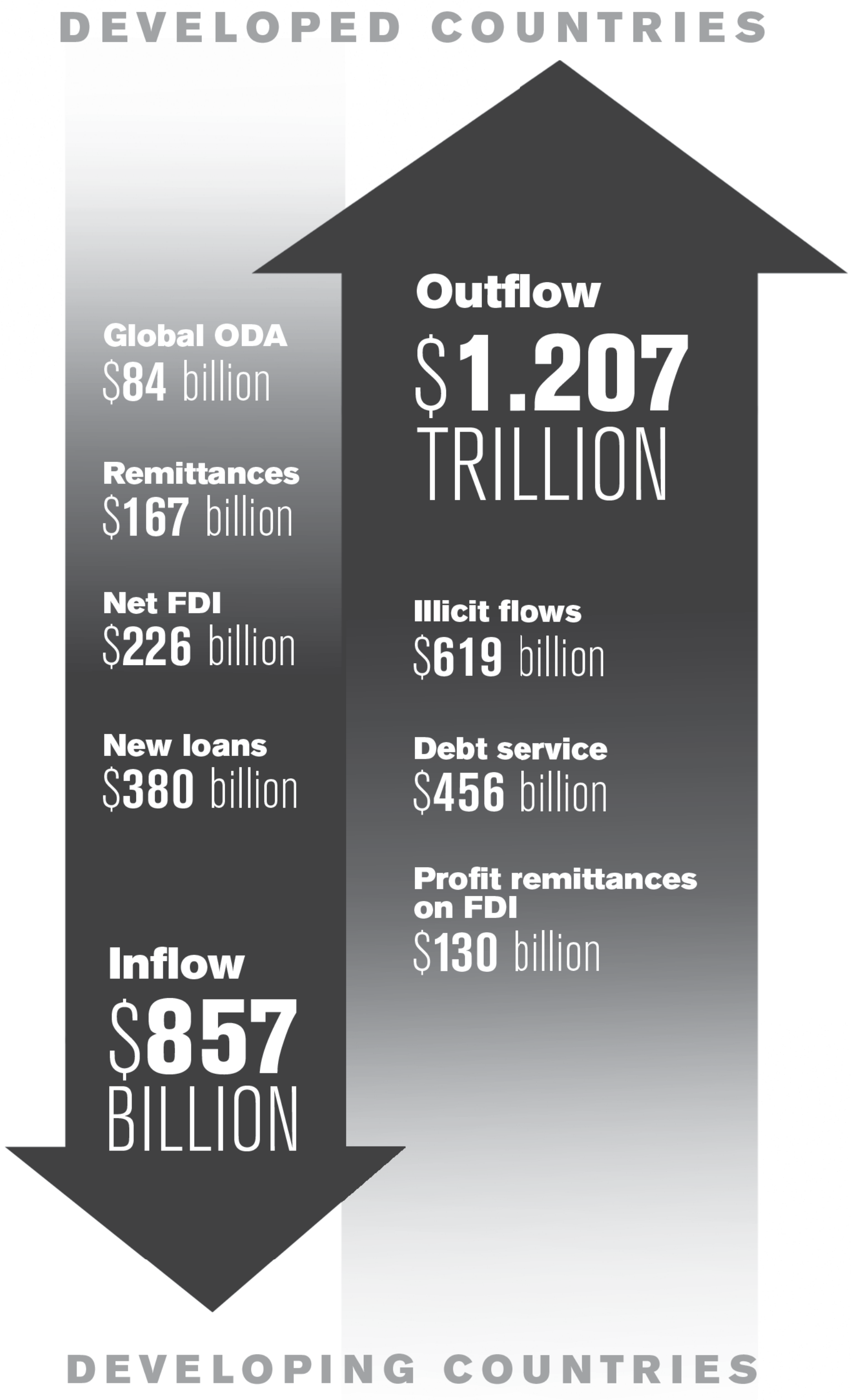
The film speaks from time to time about "moral hazard," a concept people keep fruitlessly trying to explain to me. But what about "amoral hazard"—the idea that the big money has became so nimble, and faceless, that it is beyond anyone's ability to understand, regulate or convincingly dramatize? I guess that, by default—that impotence—is finally, subtextually, what this film is about. But if some financial institutions are too big to fail, the current state of the financial world is too vaguely defined to succeed narratively. As this movie's subtitle would have it, "money never sleeps." But movie audiences are frequently on the cusp of that state. And this is a movie that perversely grants them their need—a few blissful moments in the Land of Nod.

Richard Schickel has been the film critic for Time and Life magazines, has written more than 20 books and has produced, written and directed numerous documentaries. This article is published in 24 September 2010 on Truthdig.com, where Richard is a contributor.

Who Aids Whom?

South–North Financial Transfers



Data: 2002-2006 average Source: **EURODAD**, "Capital flight diverts development finance," 2008

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