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Amidst a global slowdown...

Euro turmoil threatens to sink world economy

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Editor's Note

A SUMMIT, a soothing communiqué. This has been the pattern of response of European Union (EU) leaders to every fresh upsurge in the eurozone crisis that has been roiling the world economy for the past two years.

The crisis has already adversely affected the emerging markets, many of which had been experiencing a slowdown even before this impact. Ominously, commodity prices have been on the decline since late February. Once key emerging economies such as China and India start flagging, this is bound to reinforce the economic downturn in Europe and elsewhere. When account is taken of the fragile state of the US economy, the danger of a mutually reinforcing descent into a global depression is real.

When the euro was launched in 1999, some analysts did point to deep structural faults in the design of the currency union which could yet undermine it. Encompassing countries at different stages of development, with a broad North-South differentiation mimicking the global divide, it had the trappings of a monetary union without fiscal powers to underpin it.

When the 2008 financial crisis erupted in the US and spread beyond its borders, it soon exposed the flimsy foundations on which the union was built. From 2010 when it first manifested itself as a sovereign debt crisis afflicting Greece, the contagion has engulfed far larger economies such as Spain and Italy.

But the problem of debtor nations in the EU (as elsewhere) is inextricably linked to the problem of 'broken' banks. If the countries facing a sovereign debt crisis today such as Portugal, Ireland, Italy, Greece and Spain (the so-called PIIGS debtor nations) were guilty of binge borrowing, they were only able to indulge in such irresponsible behaviour because of the reckless lending practices of banks. In the process, the banks not only fuelled the sovereign debt crisis but also got themselves in deep financial trouble. Europe's crisis is thus not only a sovereign debt crisis but a banking crisis as well.

It is instructive to note the difference in approach adopted by the EU leadership towards these two different crises. While it has imposed the harshest possible austerity measures on the debtor nations seeking a bailout (Greece being the leading example), it has been mollycoddling the banks with trillions of euros in interest-free loans to keep them afloat.

The effects of these policies have been devastating. The austerity drive has involved savage cuts in social spending, privatisation of public services and massive layoffs to reduce budget deficits. Such tight fiscal policies were supposed to kickstart the flagging economies but instead have stifled economic growth and pushed many of these countries into recession. Nor has the provision of massive liquidity to the banks helped to stimulate the economy. The banks have evidently failed to make these funds available to customers seeking capital for their productive enterprises; instead, they have used them for speculative activities which are apparently more profitable.

What is significant about the latest EU summit in June – the 19th since the crisis started – is that it reveals that at last there has been a reaction against these policies, particularly the unrelenting drive for austerity. Thus the adoption by the summit, at the insistence of Francois Hollande, the new Socialist President of France, of a 'Compact for Growth and Jobs', rather than policy measures targeting only budget cuts and deficit reduction. However, the actual amount allocated for job creation is pretty modest and unlikely to have a significant impact.

Equally notable is the decision to provide bailout funds in a 'flexible' manner, i.e., to use such monies to buy member-state bonds – a move designed to keep borrowing costs down for distressed member states which otherwise would be at the mercy of the financial markets.

A decision has also been taken to allow direct recapitalisation of distressed banks, rather than channelling the bailout funds through the affected state. While this move will relieve the state from assuming the burden of the debt, the decision will only come into effect once a single banking supervisory mechanism for the euro area has been established.

While both these alternative modes of funding may not be exactly free from conditionality, once they kick in, they may spell the end of the current debilitating IMF-modelled austerity programmes imposed on Greece, Portugal and Ireland.

Finally, in addition to these short-term measures, the EU is developing a 'road map' for the achievement of 'a genuine Economic and Monetary Union', one that will incorporate the essential financial and budgetary frameworks that were missing in the original design.

While all this appears impressive, the question is whether the measures are sufficient. The problem is that the key long-term goal of 'a genuine Economic and Monetary Union' will take years to realise, and in the interim, in the absence of capital controls, there will be nothing to curb the activities of financial speculators. On the agenda for future discussion is a proposal for a financial transaction tax, which civil society groups have long advocated for curbing financial speculation. But the tax is being strongly opposed by Britain and a number of other countries, and as a result, even if the proposal is adopted it will not be comprehensively and effectively enforced.

For this reason, the short-term measures adopted by the summit can at best mitigate the losses speculators may inflict. In short, the EU leaders may have bought some time, but little else.

This issue's cover story highlights the threat to the world economy posed by the deepening eurozone crisis. In analysing the crisis, we attempt to show that the misguided emphasis on austerity – the staple policy prescription of almost every EU summit – is threatening to plunge the global economy into another recession. We also focus on the key role of banks in this crisis and the danger of a looming global banking crisis.

– The Editors

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The continuing eurozone crisis is threatening to destabilise the world economy and drag developing countries into a global recession. Picture shows a protest against unjust financial structures in front of the European Central Bank building in Frankfurt, Germany. 8

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Explosive matter

Great hopes are linked to the resource extraction policy of Bolivian President Evo Morales. His renationalisation of the natural gas sector has contributed to generating funds for ambitious social programmes. At the same time, the policy is fraught with risks, triggering domestic controversies. The immediately affected people frequently belong to indigenous communities from whose land natural gas is to be extracted.

Almut Schilling-Vacaflor, Annegret Mähler and Gabriele Neusser

FOR some time, Bolivia has been considering exploiting natural gas and oil not just from traditional extraction areas but also from previously unexploited ones. In April, the Bolivian government raised the number of areas from which it plans to extract gas and oil from 56 to 98. In many cases, this policy will affect protected areas and land that belongs to indigenous people. The government is also issuing permits for the extraction of gas and oil in some natural reserves.

The state-owned oil and gas company Yacimientos Petrolíferos Fiscales Bolivianos (YPFB) is promoting the current drive to expand extraction. Its role was strengthened by the renationalisation of the natural gas sector in 2006. The administration of President Evo Morales used this policy to nearly triple state revenues in the natural gas sector.

There are three reasons for this increase. First of all, considerably higher tax rates now apply to private companies operating in Bolivia. Second, prices for fossil fuels have risen substantially since 2004. Finally, absolute numbers for natural gas production have also gone up significantly. The share of natural gas in the country's total export revenue rose from 13% in the year 2000 to 40% in 2010. One drawback is that the Bolivian economy now depends heavily on the export of energy resources.

Current budgetary pressures explain the government's interest in the energy sector. Just like other progressive leftist governments in the Andean region, the Morales administration must live up to social-reform promises. It needs funds for ambitious social programmes and development schemes. Indeed, Bolivia's government managed to reduce extreme poverty substantially in recent years.

To bolster this trend, Bolivia's public sector will need to keep growing in the future. The government policy is to accept some serious problems, including inflation and massive environmental damage, in order to benefit from the profitable resources sector. Investments in renewable energy have been relatively low so far because the short-term economic and political gains would be fairly limited in view of high world market prices for natural gas and oil.

In general, the Bolivian government is implementing a new natural resources policy, which is similar to the policies of other progressive governments in the region. Compared with the neoliberal resource policies of previous governments, this 'new extractivism' is evident in the high share of the stateholdings in the natural resource sector as well as in the use of the revenues to fight poverty and promote social development.

Dispute over natural reserve

Protection of the environment and of the livelihoods of indigenous communities are centrepieces of Bolivia's new constitution (see box). The question today is whether – and if so, to what extent – that approach can be reconciled with a development model based on the exploitation of natural resources.

The ongoing controversy over the construction of a highway that would cut through a natural reserve illustrates the complexity of the matter. The Territorio Indígena y Parque Nacional Isiboro Sécure (TIPNIS) is located between the eastern foothills of the Andes and the edge of the Amazon rainforest. TIPNIS was declared a natural reserve in 1965. This area is rich in biodiversity and also serves as a reservation for indigenous peoples of the Yuracaré, Chimán and Moxeño Trinitarios communities.

Following protests in 1990, TIPNIS was officially proclaimed indigenous territory. In recent years, however, a growing number of internal migrants have moved to the area. The newly arrived families primarily make their living from coca production in the south of TIPNIS. Many belong to the indigenous Quechua and Aymara communities from the Andes, and they tend to back the highway project. This issue shows that Bolivia is not only experiencing a dispute over state-led and indigenous ideas of development. There is also disagreement among the various indigenous communities.

The conflict reached a high point in autumn 2011. The highway project was stayed. Before, the Plurinational Legislative Assembly of Bolivia, the national parliament, had approved a line of credit from Brazil's development bank BNDES (Banco Nacional de Desenvolvimento Econômico e Social), and equipment to build the road was already in place. However, no one had consulted with the inhabitants of the national park – even though the new constitution guarantees such consultation on all matters that directly affect indigenous people. Moreover, the laws require an environmental impact assessment, but no such assessment was carried out.

The link between future resource exploitation and the highway project is not immediately obvious. The road plan is part of IIRSA, a set of infrastructure projects designed to serve regional integration in South America. The idea is to link the Amazon lowlands to the Andes. Furthermore, the government issued natural gas concessions in 2007 and 2008 in TIPNIS. One of them was for a joint venture between Bolivia's YPFB and Petrobras, Brazil's oil giant.

In September 2011, security forces repressed protests very harshly. As a response, a law was passed that declared TIPNIS off-limits. Nonetheless, the government has recently started a consultation process with local indigenous communities, presumably in the hope of restarting the construction project – and, ultimately, exploiting oil and gas too.

Prior consultation

The indigenous peoples' right to consultation is not implemented in a universal manner in Andean nations. The International Labour Organisation (ILO)'s Indigenous and Tribal Peoples Convention 169 spells out those rights. For implementation, however, more specific national legislation could be helpful, but has not been passed in most Latin American countries.

Peru was the first Latin American country to publicly proclaim a consultation law. Bolivia has yet to pass such national legislation. As is the case for other Latin American countries such as Colombia and Mexico, Bolivia's legislature is still drafting its own law on prior consultation. However, the government introduced a decree on consultation procedures in the hydrocarbon sector in 2007.

Since then, 27 consultation processes have been completed in Bolivia. In many cases, they led to additional measures to improve environmental protection and more stringent monitoring of the ecological consequences of existing schemes.

Nonetheless, the consultations were often deficient. Information tended to be incomplete and time spans too short for serious dialogue. Moreover, there were no provisos for far-reaching changes to projects, let alone some kind of veto right for the local people. It would make sense to consider stronger regulations, especially relating to projects that are likely to have significant socio-cultural impacts that might undermine the cultural integrity of indigenous communities.

The question of whether wide-scale exploitation of natural resources can be made compatible with both the practical and constitutional requirements that are summarised in the term '*vivir bien*' ('living well') will remain at the centre of social and political debates and conflicts in Bolivia in the future. ◆

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The plurinational state

AS president, Evo Morales has been quite successful. He prevailed in several elections and referendums. His social programmes have stabilised a country with stark social disparities and a conflict-prone colonial legacy in a way that was unimaginable before he took office. For example, the new constitution, which was approved in a popular referendum in 2009, is a major achievement.

The vote was preceded by severe conflicts between impoverished indigenous farmers and trade unions on the one side and members of the urban middle class and the oligarchy on the other. The clashes nearly split the country in two, but the Morales administration managed to re-establish social peace.

The new constitution states several central goals. It states that the nationalised natural gas sector is of strategic importance, and thus supports an economic model based upon primary goods. At the same time, the constitution emphasises environmental protection. The most important constitutional aspiration, however, is to guarantee '*vivir bien*' ('living well') to all Bolivian people.

In contrast to the development policies of previous governments – most notably the free-market approach of President Gonzalo Sánchez de Lozada – this new notion underscores a harmonious relationship between society and a healthy environment. Ensuring a dignified life for every individual is the core issue. Achieving this depends on the fulfilment of social and political human rights – as well as the right to the self-determined development of indigenous peoples.

The constitution defines Bolivia as a 'plurinational state'. It thus explicitly appreciates the country's multi-ethnic and multi-cultural reality. Indigenous people are granted special rights – for example, a quota system in the parliament. According to the census of 2001, indigenous communities make up about 62% of Bolivia's people. Resource issues matter to them very much. They tend to live in squalor, and they know that colonial oppression was driven by an interest in raw materials. They have never forgotten that their ancestors became the victims of the ruthless imperial hunt for resources 500 years ago. ◆

The unresolved question of Egypt's economy

In the recently concluded Egyptian presidential elections, the Muslim Brotherhood candidate Mohamed Mursi secured victory by defeating Ahmed Shafiq, a former prime minister under the Mubarak regime. *Ramzy Baroud* highlights an oddity: despite their vastly different ideas on the future of their country, both candidates were united by their advocacy of the free-market economy, the guiding model for the discredited Mubarak regime.

A NEW Egypt demands a new constitution and president. Many pressing questions also need to be addressed, including the religious-secular divide, the value of Sharia in the making of law, citizenship, minority rights, the role of civil society, foreign policy, and much more.

One issue that requires urgent attention in the current discussion is that of Egypt's shattered economy. In the first round of elections on 23 May, Egypt's presidential candidates appeared to hold vastly different ideas regarding their vision for the future. With the elimination of independent candidate Hamdeen Sabahy before the final round on 16-17 June, the economic programme for the two remaining candidates seemed oddly similar and suspiciously familiar.

The oddity stems from the fact that the two contenders – Freedom and Justice Party candidate Mohamed Mursi and former Prime Minister Ahmed Shafiq – are supposed to represent the two extremes defining Egypt after the 2011 revolution. Mursi is a Muslim Brotherhood figure, long oppressed by the very regime that Shafiq dutifully served.

The 'run-off in Egypt's presidential elections between the two most polarising candidates has escalated investor concerns of renewed unrest,' claimed Arabia Monitor, a market research company. However, both candidates are united by their advocacy of the same free-market economy, the guiding model for the discredited Mubarak regime. The news is hardly shocking in the case of Shafiq, an establishment man who would not be expected to challenge Egypt's chronic inequality; Mursi's position is bewildering.

While 'rivals portray the Brotherhood as a nebulous organisation obsessed with religion', according to Patrick Werr, 'its wide-ranging plan, details of which were revealed during the buildup to last month's first-round presidential vote, projects a pragmatism that puts rapid economic growth ahead of ideology'. The Brotherhood 'pragmatism' is only commended here because it promotes 'a strongly free-market economic plan' and a pledge to move quickly to secure a loan from the International Monetary Fund (IMF).

Mohamed Mursi *(pic)* **emerged victorious in the Egyptian presidential elections in June. Mursi and his opponent in the final round of the elections, Ahmed Shafiq, both pushed similar market-driven economic programmes.**

Economic woes

Some estimates put Egypt's current debt at close to $190 billion. The Egyptian revolution, which in part sought economic justice and equitable distribution of wealth, is yet to produce a new economic reality. Under Mubarak, the economy operated through a selective interpretation of free-market economy marred by extreme corruption in favour of the ruling elite. Over 15 months of haggling between the Supreme Council of the Armed Forces (SCAF), angry masses, a new elected parliament and other forces have now wreaked havoc on an already-struggling economy. The Egyptian pound is facing the prospect of 'disorderly devaluation'. The IMF's original loan offer of $3.2 billion, rejected by Egypt at the time, would not be enough to rectify the damage. Per Egyptian government and IMF estimates, the country requires $10-12 billion to secure the pound.

Currency devaluation is only a small aspect of Egypt's current economic woes. *The Economist* (19-25 May) reported that Egypt's foreign exchange reserves are now down to a third of the value of 15 months ago and the budget deficit has surged to 10% of GDP. 'The budget shortfall could be resolved by a stroke of scrapping energy subsidies, but in a country where 40% of people live in poverty, this is a sizzling political potato.'

It is actually much more than a 'sizzling political potato'. The handling of the economy will ultimately make or break the relationship between Egypt's new rulers and its people – most of whom are not only politically disenfranchised, but economically marginalised as well.

Supporters of Muslim Brotherhood figure Mohamed Mursi celebrate his victory in the presidential vote. The Muslim Brotherhood has promoted 'a strongly free-market economic plan'.

Austerity and misery

Although most Egyptians now frown at Mubarak's legacy, the country's economic indicators were for years perceived favourably by Western financial institutions. After all Egypt recorded steady growth. Its 'economic reforms' post-1991 were largely celebrated for further liberalising trade and investment, cutting subsidies (thus forcing the poor to continue teetering at the edge of poverty and utter desolation) and dismantling the public sector. The IMF and other Western lending institutions do not settle for anything but more austerity measures – regardless of whether Egypt's new president is a bearded Muslim or an avowed liberal. The only ideology that matters for the IMF is the free-market economy.

So what must be done for the almost 14.2 million people who live on less than $1 a day? 1.5 million Egyptians currently live in a large graveyard on the outskirts of Cairo. Austerity and further cuts could only lead to the kind of misery that instigated last year's revolution.

Egypt's remaining candidates promise to revive the economy while keeping social justice on the agenda. While Shafiq has promised an abundance of perks to various sectors of society, the Brotherhood has been promoting a detailed programme called Al-Nahda, or The Renaissance. Enlisting the help of internationally renowned economists such as Peru's Hernando de Soto Polar, Al-Nahda is reportedly a study of many economic models around the world, including Turkey, Malaysia and South Africa.

The Brotherhood's initial presidential candidate, Khairat al-Shater, was the 'driving force behind the project', according to the *Daily Beast* (7 June). In an interview last April, he laid down the basic premise of his plan: 'The Egyptian economy must rely to a very, very large degree on the private sector. The priority is for Egyptian investors, then Arab then foreign.'

Deeply flawed

It is expected that Egypt's intense public discussions in the current phase will be fixed on foundational issues such as the formation of a constitutional assembly and a redefinition of the role of the SCAF. But Egypt's economy is deeply flawed. An IMF-style free-market economy is of no use to millions of Egyptians when they lack proper education and the most basic rights and opportunities. For an Egyptian day labourer to have a better life in a country with a huge and growing income gap between rich and poor, something fundamental needs to take place.

Referencing 'social justice' while negotiating IMF loans suggests a precarious start for any truly fundamental economic reforms. While Hamdeen Sabahy is no longer in the race to challenge the free-market wisdom of his contenders, the debate must not end here. ◆

'The handling of the economy will ultimately make or break the relationship between Egypt's new rulers and its people – most of whom are not only politically disenfranchised, but economically marginalised as well.'

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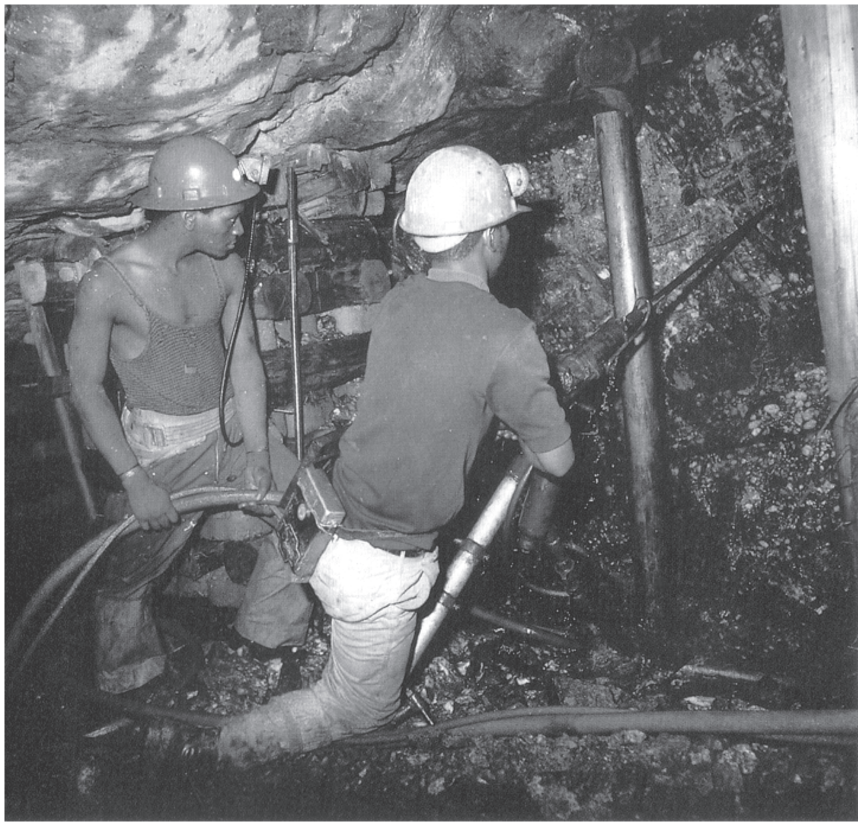
TB: Miners hardest hit

Mineworkers in South Africa are believed to be the population worst affected by tuberculosis in the world. *Wilma Stassen* explains why.

MUSA Ernest Nkoko is a 52-year-old ex-miner with multi-drug-resistant (MDR) tuberculosis. He lives in KaShoba in the Lubombo region of Swaziland with his wife and five children aged between 9 and 27 years. Co-infected with HIV, Nkoko says he has been on treatment for MDR-TB for the last four years. The disease has diminished Nkoko's lung capacity and rendered him too weak to do any work, and he and his family rely on his wife's income as a part-time cleaner.

In the early 1980s, Nkoko boarded a train to South Africa to work in the mines. He was employed as a general labourer in the old Vaal Reef gold mine, now known as Anglo Ashanti Gold. After nearly 16 years of working in the stopes – the frontline where the actual gold reef is mined – Nkoko developed lung problems, and shortly after he was retrenched and repatriated to Swaziland. Since his return home, Nkoko suffered with lung problems that made it difficult for him to find and retain work to provide for his family. Eventually he was diagnosed with MDR-TB in 2008 and has been on treatment ever since.

Apart from the normal retrenchment package owed to workers, Nkoko hasn't received any compensation or support from the mine for the lung disease he contracted during his time there.



Drilling for gold at a mine in South Africa. It is believed that up to 7,000 of every 100,000 South African mineworkers develop tuberculosis.

Why miners are at increased risk

Mineworkers in South Africa are believed to be the population worst affected by TB in the world. According to the Chamber of Mines, 2,984 of every 100,000 mineworkers develop TB, although others believe the number to be as high as 7,000 per 100,000. To put the numbers into perspective, in Swaziland – which is considered to have the highest TB-infection rate in the world by the World Health Organisation – only 1,200 per 100,000 population are infected.

There are various explanations for the high rate of infection among mineworkers. The most important of these is HIV, which makes a person more susceptible to developing TB. Mineworkers are at a higher-than-normal risk for acquiring HIV due to the fact that they are often separated from their wives and families and may therefore partake in risky sexual activities.

A second big risk factor adding to the high rate of TB among miners is silicosis. This lung disease is caused by the inhalation of silica dust, which is commonly expelled during gold-mining processes. Silica damages the lungs' defence mechanisms, increasing the risk of TB infection 10-fold. Silicosis is irreversible and a person is at heightened risk of TB for the rest of his life, even after leaving the mines.

Another important factor adding to mineworkers' increased risk for TB is their migration pattern. Treatment for TB and other diseases is often interrupted or stopped when migrant mineworkers leave South Africa to return home to neighbouring countries.

'There is believed to be as much as $2.5 trillion under the ground [in mineral wealth] in South Africa – which is good news for the country's economy, but bad news for mineworkers,' said Joel Spicer of the Stop TB partnership at a recent media briefing. The 'bad news' he was referring to is the high rate at which mineworkers are suffering and dying


A former mineworker who has contracted the lung disease silicosis. A person with silicosis is at heightened risk of TB for the rest of his life.

from TB, a preventable and curable disease.

'Fatalities from TB in mines are much higher than those of mine accidents, yet the media gives much more coverage to mine accidents,' said Dr David Mametja from the National TB Programme in South Africa. Peter Baily from the National Union of Mineworkers (NUM) concurred, saying that for every fatal accident, five mineworkers die from occupational disease.

Professor Jill Murray of the National Institute of Occupational Health pointed out that although all accidents in mines are investigated, there are no enquiries into TB deaths, which far outnumber accidental deaths, 'although it is provided for in the [Occupational Health] Act'.

Although there are regulations in place to manage silica dust exposure among mineworkers, few mines uphold the necessary standards as the regulations are not enforced. 'And if one considers the state-of-the-art machinery used to mine for gold, the mining companies should really be doing a lot more to control silica dust exposure,' said Murray.

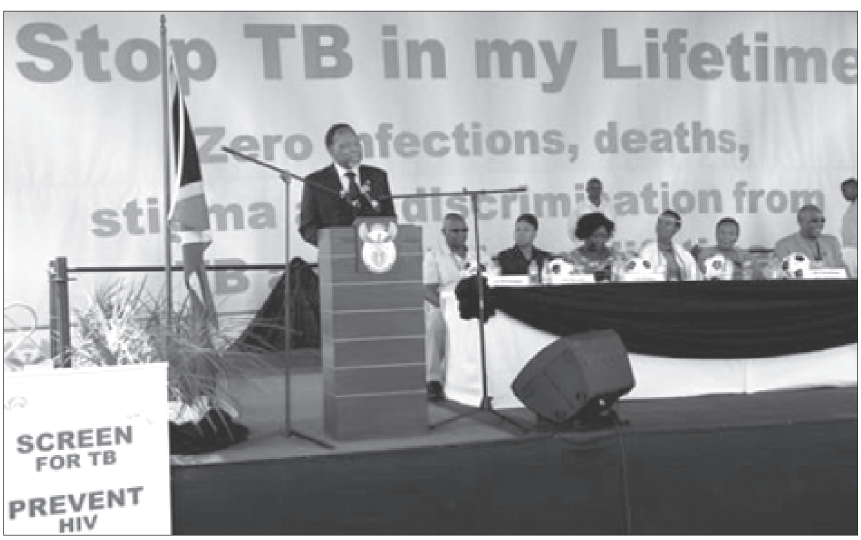
'Exporting' TB

Mametja pointed out that TB among the mining population is about more than just the individual's health – it also affects the health of the mineworkers' family and community, often crossing international borders. According to a position paper by the South African Department of Health, the migrant workers employed in South African mines have established a pattern of 'oscillating migration', where they move between urban and rural areas and across borders. As a result, the TB acquired in the mines has the potential to fuel TB transmission in the workers' home region.

Oscillating migration in South African mines has been shown to perpetuate the TB epidemic in Lesotho. A recent study showed that close to 40% of adult male TB patients in three of Maseru's main hospitals were working, or had formerly worked, in South African mines. Furthermore, at least 25% of drug-resistant TB cases treated in Lesotho since August 2007 had a history of work in the mines or were referred directly from the mines in South Africa.

This 'export' of TB from South African mines has led to efforts by the South African ministries of health and minerals to join forces with other Southern African countries, especially Lesotho, Swaziland and Mozambique, to collaborate on patient monitoring and treatment efforts in the region.

The South African government also recently showed its commitment to fighting TB when President Jacob Zuma announced the goals of the National Strategic Plan on World AIDS Day last year to achieve zero TB and HIV deaths. Furthermore the South African Ministry of Health commemorated World TB Day on 24 March in a mine complex to highlight the severity of this issue among the population of mineworkers. – *Health-e news service (www.health-e.org.za)* ◆



South Africa's Deputy President Kgalema Motlanthe speaking at an event to commemorate World TB Day on 24 March. The event was held in a mine complex in Gauteng province to highlight the severity of the TB scourge among mineworkers.

Europe and the global crisis

While the eurozone crisis may well prove to be the trigger for another global recession, what makes such a prospect even more likely is the bleak outlook of the other major economies, says *Jayati Ghosh*.

A woman at a branch of troubled Spanish bank Bankia. Spain has been forced to bail out its struggling banks – a move which led to a large increase in Spanish government debt.

THE epicentre of the global economic crisis is now Europe. As the world watches each move in that continent with bated breath, it is evident that whatever happens, the current economic structure and trajectory in the region are no longer viable. But any change – whether in the form of a break-up of the currency union or a revision of its structure towards greater fiscal union or just a lingering slow-motion death marked by massive social and political tension – will have huge implications not only for Europe but for all of global capitalism.

The combination of inflexibility, denial and lethargy that has characterised economic strategy in the European Union bodes ill for the prospects of any immediate resolution. And despite some recent moves that at least recognise the intensifying urgency of the situation, the proposals that are being officially considered are nowhere near meeting the requirements for even a partial solution.

For a while the talk was all about Greece, and the uncertainty generated by the recent elections in which the Greek people comprehensively rejected the parties that have supported the severe and counterproductive austerity measures being imposed on them by the European Union in return for halting, niggardly and ineffective bailouts. Before the 17 June repeat elections in Greece, other European leaders (including not just Germany's Merkel but Cameron of the UK whose own country stayed out of the monetary union) openly bullied the Greek electorate, threatening them with the most dire consequences if they voted for the parties that are demanding a revision of the austerity.

But immediately after the repeat elections in which the pro-austerity party New Democracy scored a narrow victory over the left group Syriza to form a government, it became clear that this was just a smokescreen to hide the systemic problems, which would not go away. Spain became the new frontline, with its state forced to bail out its struggling banks using a 100-billion-euro credit line from the European Central Bank (ECB). This rapidly proved to be counterproductive, as the move led to a large increase in Spanish government debt, leading to yet another hammering in the sovereign bond markets. So Spain, which had a relatively low public-debt-to-GDP ratio of around 55% that is well within European official limits, faces a huge problem of debt unsustainability. There is no doubt that Italy – a huge economy and the second largest exporter in the region after Germany – is next in the firing line.

The negative feedback loops between private and public debt in the eurozone are rapidly becoming the most recent cause for concern. Incidentally, this exposes yet another design flaw in the eurozone: a monetary union in which the member states still retain supervisory and regulatory power over national banks, instead of a system in which the common central bank is responsible not just for issuing the money but also supervising all the banks in the system. This is what created unsustainable debt burdens for Ireland and now Spain, for example.

Self-defeating austerity

In any case, the perception that popular resistance to austerity measures is responsible for the current crisis is wrong, because the drive for fiscal austerity is completely misplaced in the first place. The point that sensible economists have been making for a while – that fiscal tightening in this context is self-defeating because it reduces GDP growth and thereby fiscal revenues, and so makes the fiscal consolidation targets even harder to reach – is finally being accepted by many governments, even though Germany continues to resist.

Greece's national income is already nearly 30% lower than it was four years ago, and it cannot hope to recover (and therefore be in a position to repay debts) with the current strategy that is only making output fall further. And Greece is just a small but extreme case of the strategy that is being imposed on all the 'peripheral' countries in the eurozone that have debt problems. Ireland, which was seen as a star performer because it has rigorously fulfilled all the draconian austerity measures, is still struggling to grow, as is Portugal. Spain's huge economy is being pushed into a downward spiral as the asset deflation of the collapse of the construction boom

Job seekers waiting outside the venue of a career fair in New Jersey in the US. The number of unemployed in the US remains high and job creation is slowing down.

combines with reductions in public spending to throw more people out of employment and cause incomes to fall further. Italy is set to join that group, with massive implications for all of Europe.

Obviously, with this trajectory, it is only a matter of time before one or more of these countries defaults on at least part of its debt and/or leaves the currency union. Indeed, the likelihood is that this is what financial markets and even individual investors are now expecting.

This can only be averted if the union itself becomes more like a real currency union, with a common bond across all countries, common deposit insurance for all banks within the zone, and fiscal transfers to assist regions in distress. This is being opposed to the teeth by Germany and some other North European countries, so the question is who will blink first. At the moment, without significant policy change, it seems that we are headed for the endgame.

The costs of exit

The idea that European policy makers are prepared for or that financial markets have now 'priced in' the possibility of Greek default and exit from the common currency, is laughable – not least because the full implications are impossible to predict. It is foolish to believe that the costs of exit are bad only (or dominantly) for Greece: they are actually likely to be even worse for the eurozone, indeed for the European Union as a whole, including the non-euro member countries.

There is no formal mechanism for a member country to leave the eurozone – there is no legal or procedural framework in the European Union treaties. So what exactly it involves in terms of legal issues and the continued membership of the country in the European Union is also unclear. In any case, even a limited exit of a single relatively small country from the currency union is unlikely to be orderly or manageable. Despite all claims to the contrary, it is impossible for the European Union to create an effective 'firewall' between Greece and other peripheral economies of Europe that are currently under pressure. This is because the exit of any one member creates a fundamental uncertainty with respect to other members. Once it is revealed that membership of the eurozone need not be permanent, financial markets will inevitably turn to other economies that may be next in line.

All money is essentially about trust, and when this trust is shaken, it has repercussions. Once the genie of possible exit from the currency union is out of the bottle, it cannot simply be shoved back into it. So other 'weaker' economies will immediately face the pressure on their domestic banking systems, as investors both large and small begin to doubt whether their deposits will really continue to be denominated in euros in future. Negative expectations very rapidly become self-fulfilling in such situations, as we know from the classic pattern of a run on a bank. Even Mervyn King, governor of the Bank of England, has accepted that while it may not be rational to start a bank run, it is rational to participate in one. Indeed, it would be individually stupid not to do so, in such conditions.

As it happens, bank runs (or at the very least, bank walks or jogs) have already started in Europe. So far they have been rather slow, but such processes can very quickly accelerate and precipitate a crisis. (All financial crises are usually associated with bank runs.) Deposits in Greek banks have fallen by more than one-third since the beginning of the crisis, and around 0.5 billion euros per day was withdrawn in the days just before the latest election. But banking systems in other countries that do not have such political instability are already experiencing similar slow runs. Deposits held in Spanish and Italian banks have also fallen by more than 350 billion euros since the start of 2012. The 'flight to safety' of Europeans has led to increases in German bank deposits of approximately an equivalent amount. But since the banks of North European countries are also deeply implicated in lending to the peripheral countries, they are not really safe either. (Incidentally, US banks will also be affected.)

If the crisis has not yet exploded, it is because Greek and other banks are being propped up by funds transferred in the form of 'emergency liquidity assistance' from the ECB. The terms and amount of such funds are kept secret, but are estimated to be around 500 billion euros so far, with 100 billion euros going to Greece alone. This is happening even as the ECB has officially excluded four Greek banks from ordinary liquidity operations because of the ongoing political uncertainty – forcing them to rely on such secret emergency liquidity. Ireland has also been the recipient of fairly prolonged 'emergency' assistance of this nature. But such quiet transfers, which have been critical in allowing the monetary system to continue at all, would have to reach stratospheric proportions if the bank runs intensify. Without explicit fiscal transfers or immediate creation of eurobonds that transfer the burden, disorderly defaults are inevitable.

The doomsday scenario has been summarised by Martin Wolf of the *Financial Times* (17 May 2012): 'The mechanisms at work would be powerful: runs; the imposition of (illegal) exchange controls; legal uncertainties; asset price collapses; unpredictable shifts in balance sheets; freezing of the financial system; disruption of central banking; collapse in spending and trade; and enormous shifts in the exchange rates of new currencies. Further government bailouts of financial systems would surely be needed, at great cost. Big recessions would also worsen already damaged fiscal positions.'

There is no doubt that Europe has more to lose than Greece from such a disorderly default. Europe is now facing a banking crisis of potentially enormous proportions. The only way to prevent havoc is to create a common deposit insurance and bank resolution regime that covers the entire eurozone, as well as the issue of jointly held eurozone bonds. These are now seen as more acceptable: France under Hollande has already declared its support, but there is continued (though increasingly inexplicable) German opposition.

It is still not clear how this will play out, but the prognosis is not encouraging. Part of the problem is the lack of recognition in surplus countries that they have been huge beneficiaries of the monetary union. Far from subsidising the profligacy of the periphery at their own cost, they have been able to preserve employment through export surpluses and then used these to finance investments (mostly in private non-tradable activities like real estate and some public spending like arms purchases in Greece) that provided their banks with high returns for a while and also further benefited their own industries. In such a context, non-symmetric adjustment, by making only the debtors suffer and pay, is not just unfair – in Europe today it is also simply not possible. This sentiment was also voiced by many leaders at the recent meeting of the G20 major economies grouping in Los Cabos, Mexico.

Without greater, more forceful and immediate expressions of political solidarity and will to preserve the monetary union on the part of surplus countries like Germany, the euro is unlikely to survive for long in its current form.

Regional outlooks

So the trigger of this latest round of fierce instability in the ongoing global crisis is likely to be Europe. But that does not mean that other regions of the capitalist world order are in good shape economically. The perception of successful 'decoupling' was at first interrogated and then somehow reinforced by the Great Recession of 2008-09 and its aftermath. The latter was because several emerging economies – notably China, but also India, Brazil, Argentina and a number of other economies – not only experienced less severe downswings but also recovered faster and more strongly to exhibit GDP growth rates similar to those of the previous decade. But the past year has suggested that both internal trends within regions and the closer integration of regions will make it harder to reproduce such differential performance in the coming recession.

The world's largest economy, the United States, is currently perceived to be on a path of recovery. There is much talk of the slight increase in output in the past year, the fall in the unemployment rate, and the fact that some industries are beginning to relocate factories back in the US. But this is a halting, uncertain and easily reversible recovery. Indeed, reverse is almost inevitable, because the basic forces underlying the crisis have not been addressed or dealt with.

The current rate of growth of US output – at 2.2% per annum – is sluggish at best. The unemployment rate has fallen only because more people are leaving the labour force (the 'discouraged worker' effect) since the number of unemployed remains high at more than 5 million and job creation is slowing down. Businesses are cutting back on investment, which will affect future growth. Worse, previous legislation means that at the end of 2012 the government will automatically be forced to implement sweeping spending cuts and tax increases that are estimated to reduce consumer spending by at least 4%. Headwinds from Europe will intensify the likely downswing. So, despite a very loose monetary policy and the most expansionary fiscal policy of all the large economies other than Japan, prospects for the US economy are brittle at best.

In China, the authorities had sought to slow growth because of fears of 'overheating' as evidenced by high inflation rates. But the slowdown has been sharper than expected, already leading to calls for renewed state stimulation of the economy. However, there are problems in trying to recreate the real estate and construction boom that has already spiralled out of control, while falls in real estate prices continue to have unpleasant implications for bad loans of the banking sector and for employment in construction, which had been an important part of the increased employment since 2008. There are growing fears that a further slowdown in exports can create a 'hard landing' for China's economy. The political instability generated by the power struggle within the elite after the fall of Bo Xilai is also likely to have economic implications, though these can still only be guessed at.

In general, given the uncertainties and negative outlook of these major economies, there is no doubt that the world must brace itself for another recession, possibly greater than the recent one – Act II of the ongoing drama. The performance of individual countries in this will depend on the extent to which they are able to insulate themselves by boosting domestic demand in sustainable ways, without further reliance on financial mechanisms that are already too fragile and volatile to last for long. ◆

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Are central banks preparing for a global banking crisis?

Europe's sovereign debt crisis is revealing itself with each passing week as a fundamental banking crisis as well. Recent moves by central banks all over the world to inject liquidity into their banks reflect a growing fear of an impending global banking crisis.

Jack Rasmus

NEARLY four years after the 2008 banking crash, and more than $11 trillion in liquidity injections in the US and the eurozone-UK-Japan, the global banking system is again showing clear signs of growing unstable. Notwithstanding several rounds of bank 'stress tests' on both sides of the Atlantic since 2009, what has been improperly identified as a sovereign debt crisis in Europe is revealing itself, with each passing week, as a more fundamental banking crisis as well.

A series of recent reports and events strongly suggest that below the surface the global banking system is not in particularly good shape, and is getting worse.

The most recent indication was the 21 June announcement by the rating agency Moody's Inc. downgrading 15 banks across the globe. Included were the two big US banks, Bank of America and Citigroup, which have been in effect technically insolvent since the 2008 bank crash but which have been kept afloat by various measures supported by the US Federal Reserve. Under pressure by the US government, both have been selling off their best assets at near-firesale prices in order to raise capital. Not much better has been the US investment bank, Morgan Stanley, which recently hosted the bungled Facebook initial public offering. French and UK banks fared no better, however. HSBC, Royal Bank of Scotland, Societe Generale, and even the Swiss Credit Suisse were all downgraded. This kind of widespread, global downgrading does not occur randomly. It is reflective of something systemic at work.

The Federal Reserve signals QE3

A day before the Moody's bank downgrades, the US Federal Reserve announced a further $267 billion liquidity injection into the US system, in an extension of its 'Quantitative Easing 2.5' programme called 'Operation Twist' announced last fall. That $267 billion was in addition to the original 'Twist' QE2.5 of $400 billion, which followed a prior QE2 of $600 billion in 2010 and a QE1 of $1.75 trillion in 2009. The 'markets' in the US – which means banks, various financial institutions, and very high net worth individual investors –responded to the Fed's latest extension of QE2.5 with a thud. Stock markets in the US the following day had their worst decline in months. Expect more of the same soon to come.

On 21 June, credit rating agency Moody's downgraded 15 banks across the globe, including Citigroup.

Investors had expected on 20 June that the Fed would introduce a bona fide QE3. Translated, that means expectations of hundreds of billions more of Fed direct liquidity injection into the markets, buying up not only US Treasuries but mortgages and other bonds and securities. After all, QE2.5 was coming to an end at the close of June, and the Fed for the past four years has always followed the concluding of a QE programme with still another QE liquidity injection. Indeed, a good argument can be made that the 'markets' in the US are becoming increasingly dependent upon – even addicted to – continuing massive Fed liquidity injections.

The correlation between announcements and anticipation of new QE programmes and the take-off of stock markets, and the declining of stock market indices as QEs reach the end of their course, has been very high (see table).

While QEs have been a boon to stocks and other speculators, QEs to date as a group have accomplished very little in terms of helping generate a sustained economic recovery in

Dow Jones Industrial Average & QE Correlation

QE Programme	Dow Low & Date	QE Intro Date	QE Conclusion Date	Dow High & Date
QE1	7,062 (27 February 2009)	3 March 2009	4 April 2010	11,204 (23 April 2010)
QE2	9,686 (2 July 2010)	4 November 2010	30 June 2011	12,657 (8 July 2011)
QE2.5	10,992 (9 September 2011)	21 September 2011	30 June 2012	12,837 (19 June 2012)

Source: Dow Jones Industrial Average (DJIA) History, online at nyse.tv/dow-jones-industrial-average-history-djia.htm.

the US. In that respect they have done no more than the additional trillions of dollars in liquidity injections by the Fed in the form of near-zero interest rates for almost four years now. Like QEs, near-zero interest rates were supposed to provide virtually 'free money' to financial institutions that were, in turn, supposed to lend to stimulate investment and jobs. But that didn't happen.

Following QE1 and zero rates, after the official end of the recession in June 2009 bank lending fell for 15 consecutive months. To whatever extent bank lending rose in 2010 it went mostly to hedge funds and the largest corporations. Small and medium-sized companies continued to starve for bank loans. And now, in recent months, lending is in retreat once again. So if anything is proven by the past four years, it is that monetary and Fed policies (QE, zero rates, etc) have had little to no effect on the real economy and economic recovery in the US. What they have achieved is a return to speculative lending practices by banks (called euphemistically 'trading') – i.e., banks lending to hedge funds and other institutional investors that then speculate in foreign currencies, commodities, oil futures, stocks, junk bonds, and, of course, derivatives of various sorts including credit default swaps on Greek sovereign bond debt.

The ECB follows the Fed's lead

What the US Federal Reserve has been doing since 2008 the European Central Bank (ECB) has begun to mimic increasingly as well. For the EU banks, the ECB since late 2010 has been the only game in town when it comes to bailouts. The two Euro-wide bailout funds, the European Financial Stability Facility (EFSF) and the more recent European Stability Mechanism (ESM), are targeted mainly for bailing out sovereign debt, from Greece to Spain and beyond. And the International Monetary Fund's smaller cash hoard is being held in reserve, uncommitted, as the IMF tries desperately to line up China and other emerging economies' contributions to its fund. But now the Euro banks, not just the governments, are in deepening crisis, confirming what this writer has been saying and publishing for more than a year – namely, what's developing in the EU is not simply a sovereign debt crisis and contagion but, more fundamentally, a growing banking crisis and contagion. It is a dual debt crisis growing in scope and intensity, and the two poles of the crisis – sovereign and banking system – are exacerbating each other.

Following the lead of the US central bank, the Federal Reserve, since 2010 the ECB has injected the equivalent of trillions of dollars into the Euro banks, including hundreds of billions of dollars in late 2011 plus another $125 billion earlier in June in what is only an initial tranche required to bail out Spanish banks. An eventual full bailout of Spain's banks will cost, per this writer's estimate, at least $300 billion. (And that doesn't include future bailouts of more hundreds of billions of dollars to rescue Spain's regional and central governments that the EFSF and/or ESM bailout funds will have to address.)

The eurozone banking crisis is so severe that in recent months cross-border bank-to-bank lending in the eurozone has been drying up. As ECB President Mario Draghi reportedly said in mid-June, the inter-bank lending system is 'dysfunctional' and 'simply not working'. And as inter-bank lending has begun to dry up, so too has lending to EU non-bank businesses. Together the two developments signal a sure sign of a general banking crisis in early stages of development.

Much of the growing EU banking crisis can be laid at the feet of the general solution to the sovereign debt crisis that EU governments, banks, and investors have been attempting to implement for two years now: austerity. Austerity solutions imposed in Greece, Spain and now the UK result in less government revenue generation and further rising government debt. Repeated and prolonged recessions result in revenue falling off faster than cuts in spending (austerity) can make up for the revenue losses. Budgets consequently continue to fall deeper into the red and government bond yields escalate further. Speculators in credit default swaps on government debt then accelerate the process, making it worse. Government debt then has to be restructured, often at a greater cost. Austerity solutions also have a simultaneous negative impact on the private sector as well: The deficit-cutting at the heart of austerity solutions results in less consumption by households and subsequently less business spending in turn as household income drops. Banks thus generate less income from loans to businesses and households, while they simultaneously have to put aside more capital in anticipation of sovereign debt losses. Bank lending freezes up, as is now increasingly the case in the eurozone, just as it has been in the US.

The Bank of England

Like the US Federal Reserve and the ECB, the Bank of England (BoE) has also implemented a near-zero interest rate policy and successive QEs. To date nearly $500 billion has been committed to QE bond and securities buying by the BoE. But that hasn't prevented the UK from falling into a double-dip recession recently, as the government simultaneously embarked on a major austerity, deficit-cutting policy. QE by the central bank may have temporarily kept the UK banking system afloat, but not so the economy now in a bona fide double-dip.

In the week of 11 June the BoE's monetary policy committee met to discuss increasing the amount of liquidity into the banks in yet another QE round. It postponed that decision, however, until early July, waiting on events in the eurozone and further ECB and US Federal Reserve actions. Another $120 billion QE by the BoE therefore will likely soon occur.

The Bank of Japan

The Bank of Japan also launched its own QE in a surprise move this past February-March 2012. It is projected to further that injection of liquidity sometime later this year.

Global central bank crisis coordination

What appears to be in development is an attempt on a global scale to coordinate central bank interventions in the form of QE liquidity injections, not only in the eurozone but elsewhere as well. This appears to be in response at least in part to the big private banks globally demanding such coordinated action. In other words, they expect another banking crunch soon and are demanding another bailout in anticipation and before it happens.

The US Federal Reserve building in Washington. '[A] good argument can be made that the "markets" in the US are becoming increasingly dependent upon – even addicted to – continuing massive Fed liquidity injections.'

The eurozone debt crisis is only one of the main drivers of this, however. The sovereign debt crisis represents a squeeze on banks' income as a result of borrowers' inability to repay principal and interest on past debt. Austerity is about getting someone else, the taxpayer and populace, to pay the bill. QE, zero interest rates, and monetary policy represent the equivalent of a massive, short-term 'bridge' loan (often free of charge) to the banks via printing money or government-subsidised bonds. But all that's 'past' payment revenue. The deepening recession represents the inability of banks to earn 'future' revenue.

And recession and future revenue shortfalls are the even greater, imminent threat to banks' solvency. Not only is the eurozone rapidly descending, country by country, into recession across the continent, but the UK is already there. Meanwhile, the US economy is now clearly on track in recent months to its third 'relapse' this summer. Economic indicators across the board are flashing red, from jobs to housing to business spending to manufacturing activity to consumer and business sentiment. And should US policymakers decide in November immediately after the elections to cut spending by an additional $2-4 trillion, on top of the $2.2 trillion to start taking effect in January 2013 – as this writer has repeatedly predicted will be the case – then a US double-dip recession is etched in stone. At the same time it is becoming abundantly clear, as this writer also predicted last year, that China and the other BRICS economies (Brazil, Russia, India, South Africa) are destined for a 'hard landing' in 2012-13. All that said, a global double-dip possibility is rising significantly.

The banks know this and are demanding pre-emptive action by their respective central banks in order to buffer their cash and liquidity up front. A coordinated global QE action may buy global banks some additional time, but it won't solve the bigger problem of a global economy slouching toward a synchronised double-dip. Bankers may indeed get their pre-emptive bailout. But the rest of the economy will likely be left to fend for itself in 2013-14, just as it was in 2009-11. Only this time, this 'second dip' may be worse, much worse, than the first. ◆

Jack Rasmus is the author of Obama's Economy: Recovery for the Few *(April 2012, published by Pluto Books and Palgrave Macmillan). This article is reproduced from his jackrasmus.com blog. His website is www.kyklosproductions.com, where his articles and radio and TV interviews are available.*

A rotten apple or an infected garden?

It is now becoming clear that international banks have, in the pursuit of profit, been involved not only in reckless financial transactions but also in outright fraud. The manipulation of the London interbank lending rate (Libor), arguably the largest financial scam ever attempted, was not the handiwork of a few individuals operating within Barclays bank. It was a systemic fraud involving an international cartel of banks.

Roberto Bissio

MARCUS Agius is a gardener. His passion for plants led him to the presidency of the Royal Botanic Gardens, Kew, which was founded in 1759 by Princess Augusta, mother of King George III, and which currently has over eight million specimens in its herbarium in London.

Agius was appointed in 2006 as the first non-executive director of the BBC, a keeper of the integrity of British broadcasting. That same year Agius was called to manage the rescue of Barclays bank, which was on the verge of bankruptcy due to irresponsible financial bets. Continuing the tradition of his father-in-law, Edmund de Rothschild, also a horticulture enthusiast and a prominent member of the family of financiers who made the City of London the reference point of global banking, Agius combined business management with philanthropy and moral preaching.

Barclays chairman Marcus Agius resigned over the bank's role in the Libor rate-fixing scandal.

Held as a model of elegance and good manners, Agius often changed his tailored suits for khaki pants and a wicker hat to be photographed shaking hands with beneficiaries of Barclays' assistance programmes in slums around the world, thereby promoting 'corporate social responsibility'.

When the global financial crisis erupted in 2008, Barclays was one of the few banks that did not need an official bailout, because Agius negotiated its partial sale to several Arab emirs. Explaining the causes of the global crisis, Agius said that 'they saw so much money being made in investment banking and trading, they said: "I must have some of that," and they just didn't have the historical experience or the deep-down culture'.

'Unacceptable behaviour'

On 2 July, the City woke up to the news of Agius' resignation from all his public and private offices. 'Unacceptable behaviour within the bank,' he explained, had been penalised with a record fine of $455 million and resulted in 'a devastating blow to its reputation'.

The 'unacceptable behaviour' is nothing less than the largest financial fraud ever attempted: the manipulation of the Libor interest rate, a white-collar theft of billions of dollars that has duped governments around the world and ultimately impoverished millions of people who had never heard of Agius, Barclays or the City of London and just happened to have borrowed money from a bank.

After years of detective work, both in London and in New York, involving not just the financial regulators but also the FBI, Barclays became the first bank to be fined for its wrongdoings, but a dozen other big financial institutions are also being investigated. On top of the bulky fines, which in the case of Barclays amounted to around 10% of its profits of 2011, once the fraud is proven the participating banks are likely to be sued by their victims, which can mean huge class actions.

Bob Diamond, the chief executive of Barclays, could not claim ignorance of the illegal operations and was forced to resign and forfeit 20 million pounds in bonus payments. In spite of his resignation, Agius will lead the board in search of a replacement.

Libor, which stands for 'London interbank offered rate', is the average rate at which major banks in the British capital lend money to each other. Financial transactions worth over $800 trillion, from governmental bonds to simple house mortgages, all are contracted regularly with interest rates based on Libor. A small variation up or down makes the balance between debtors and creditors oscillate in the millions. The euro area has its Euribor and Japanese finance its own index, but six decades after the end of the British Empire, Libor continues as the global benchmark.

The Libor manipulation makes the Madoff fraud on Wall Street or the manipulation of deficit numbers by the Greek government appear like minor misdemeanours, and some analysts are already talking about 'the biggest scam in history'. The cheating happened over several years and the modus operandi was surprisingly simple.

Libor is calculated every day by order (and under the supervision) of the British Bankers' Association, which was coincidentally chaired by Agius, until the scandal exploded. The daily number is averaged by the Thomson Reuters news agency, and it is not based on the actual operations of banks lending and borrowing to each other, but on the answers given by big banks to the question of what rate they would pay if they were to borrow money today.

Together with several similarly indebted big banks, Barclays manipu-

The international dimensions of the Libor scandal

LIBOR and Euribor (euro interbank offered rate) are two of the crucial mechanisms for setting interest rates on a vast array of financial products. Libor is the largest and most variable rate, covering 10 currencies. It even helps determine the rate of the US dollar in the form of eurodollars.

Traders in London, New York, Japan and elsewhere colluded to manipulate the Libor rate so as to make massive profits or conceal losses, at the direct expense of pension funds and mortgage and loan holders. These practices, involving what the British Financial Services Authority (FSA) admits were 'a significant number of employees', played a major role in determining the extent of the global financial crash of 2008.

A former Barclays executive who was close to the bank's Libor-setting operation told *The Mail on Sunday* that the Libor misquotes 'gave an illusion of stability and [were] a key factor in masking the severity of the crisis'.

A legal case in the United States is seeking damages of $110 billion from Barclays and almost $126 billion from the UK government-owned Royal Bank of Scotland (RBS) – figures far in excess of the bank's market valuations. This alone would make it the financial crime of the century. Yet after investigations going back to 2007 in at least three countries, no one has been prosecuted. Instead, those responsible have earned millions upon millions. It was not until early July that the two leading figures in Barclays, Chairman Marcus Agius and Chief Executive Bob Diamond, reluctantly resigned. Both can expect handsome severance packages.

Meanwhile, the British Conservative/Liberal Democrat government has done nothing other than promise yet another toothless parliamentary inquiry – the standard mechanism for burying every crime of the ruling elite from the Iraq war to the *News of the World* phone-hacking scandal.

The reasons are obvious. Far more than a few dozen traders are involved. The 16 banks cited in the class action taken by the City of Baltimore, Charles Schwab Corp. and others include:

- Bank of America
- Bank of Tokyo-Mitsubishi
- Barclays
- Citibank
- Credit Suisse
- Deutsche Bank
- HBOS (holding company for Bank of Scotland of the Lloyds Banking Group)
- HSBC (Hongkong and Shanghai Banking Corporation)
- JPMorgan Chase
- Lloyds TSB Bank
- Rabobank
- Royal Bank of Canada
- The Norinchukin Bank
- Royal Bank of Scotland
- UBS (Union Bank of Switzerland)
- WestLB (LB stands for Landesbanken which is no longer part of WestLB)

Their respective heads will all claim ignorance of the practices conducted by their traders, despite some of those directly involved saying they were acting under orders.

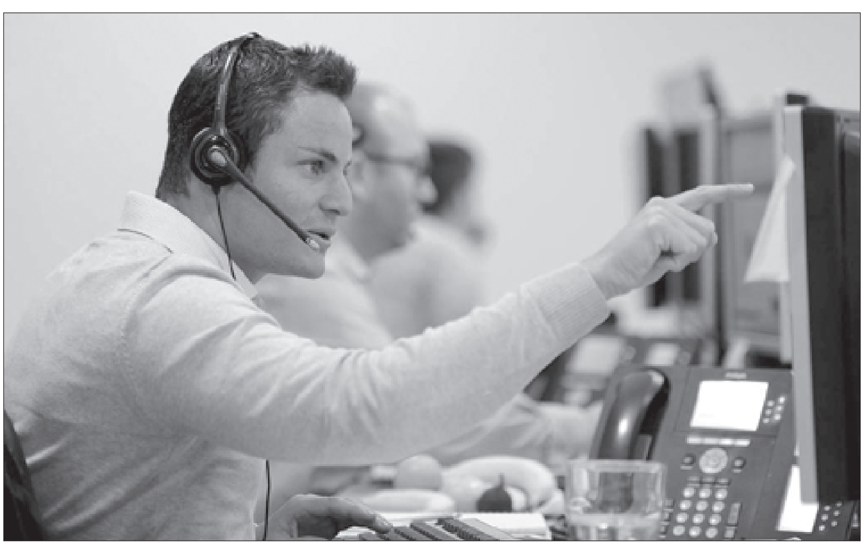
The majority of the Libor-setting banks have either failed, been on the verge of failure or are participating in government programmes to prevent their failure. Because the setting of Libor is 'judgmental' rather than 'objective', I believe the 'feelings' and 'confidence' of the individuals at these 16 banks have a lot to do with the level of Libor. Issues in the London market such as job security, real estate prices, 2008 bonus compensation, layoffs and falling personal net worth have a lot to do with the psychology of the Libor panel. Behavioural science has become more important to understanding Libor than monetary policy and market measures.

The door just opened for the US government (Treasury, Department of Justice, and Securities and Exchange Commission) and the Federal Reserve to go after these criminals, recover half a trillion or more, and break up these multi-headed snakes once and for all. ◆

The above is extracted from the article 'Here we go again – the Libor/Liemore banking scandal' written by cobaltbay on the Daily Kos website (www.dailykos.com).

Barclays was the first bank to be fined for its wrongdoings in the Libor scandal, but a dozen other big financial institutions are also being investigated.

Former Barclays CEO Bob Diamond testifying at the British parliamentary inquiry into the Libor scandal. Diamond could not claim ignorance of the illegal operations at Barclays and was forced to resign.



A trader at work in the City financial district of London. Libor is the average rate at which major banks in the British capital lend money to each other.

lated Libor down with bogus offers. In some cases this was done to favour traders in the derivatives markets: 'Dude. I owe you big time! Come over one day after work and I am opening a bottle of Bollinger [champagne],' says one of the interbank e-mails now offered as evidence. Most of the time Barclays artificially lowered the Libor rate to avoid having to pay high rates for its enormous debts. The British Parliament is now investigating how this fraud could be carried out unnoticed for several years, jeopardising the credibility of British banking.

The manipulation helped hide the real financial situation of Barclays and other heavily indebted large banks, making them appear more solid than they really are and easing the pressure for reform.

A week before the scandal, the Bank for International Settlements warned in its annual report that 'banks must adjust their balance sheets to reflect the real value of their assets and ensure a rapid recapitalisation' (an honest assessment which can be fatal for many institutions). The BIS, which is the central bank of central banks around the world, argues that 'governments must reform the banking system and limit its size and importance' to ensure that in future the bankruptcy of a bank does not trigger a new financial crisis.

Chakravarthi Raghavan, Editor Emeritus of the *SUNS* bulletin in Geneva, sees nothing new here: the BIS 'has identified these problems in the past and proposed remedies'. However, the medicine is never implemented because 'the financial sector has captured the political process'.

The British Parliament must decide now if the Libor case is explained by the traditional metaphor of the rotten apple present in every basket, or is more like a fungus that has infected greenhouses massively... carried around by the gardeners. ◆

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Elites lose the 'mandate of heaven'

The failure of the G20 leaders, when they recently met in Los Cabos, Mexico, to agree on an alternative to the current suicidal economic course is just one more indication that the ruling elites are not able to hold the system together, says *Gerald Epstein*.

The G20 summit of major economies in Los Cabos, Mexico in June. Most of the G20 policy leaders rail against the negative impacts of austerity even as they mostly continue to implement it.

EXPECTATIONS were low to non-existent for the G20 summit meeting of developed and leading developing economies held on 18-19 June in the sun-drenched resort of Los Cabos, Mexico. Policy analysts and business leaders have decried 'policy paralysis' and the 'loss of credibility' as most of the G20 policy leaders rail against the negative impacts of austerity, even as they mostly continue to implement it.

The most immediate expression of this 'paralysis' is the euro crisis, which took centrestage in Los Cabos. Even as the G20 leaders let out a sigh of relief that the anti-austerity Syriza party and its charismatic leader Alexis Tsipras lost the 17 June Greek election, they were far from whooping it up over their margaritas and mojitos. More likely, they were crying in their Dos Equis, knowing that the Greek bullet they just dodged will be followed by volleys of heavy-duty speculative attacks from the banks, hedge funds and the actions of desperate elites trying to move their money 'someplace safe' like Germany, Switzerland, or the US. But if the euro collapses, this search for safety is likely to be futile.

The Europeans have no viable visible plan for solving the euro crisis. Meanwhile, President Obama, the leader of the presumptive global economic 'hegemon' that theoretically should be leading the global economy out of the crisis, is hobbled by a tenuous electoral position in the face of a financially flush, austerity-crazy Republican Party. And the emerging developing countries of China, India, and Brazil do not yet have the economic or political power, or perhaps even the economic vision, to implement an alternative pole of genuine leadership. As a result, austerity buzzards have pushed the global economy into stagnation and the brink of crisis: as the Brookings Institution tracking index of the global economy shows, the recovery in most of the world peaked in 2010.

The elite interests driving the system have brought it to its knees.

Analysts rightly point to many specific structural flaws in the financial and economic order of the global economy that caused the crisis, including the non-regulation of finance and financial flows and complex financial products, leverage and asset bubbles that resulted; the financialisation of non-finanical corporations that led US CEOs to garner massive pay packages while disinvesting in their workers, communities and even in their own companies; the related massive increase in inequality in the US and elsewhere driven by business and government attacks on labour and their organisations that made it difficult to keep the economy growing without massive debt; and the theory and practice of mainstream economics itself that obscures these crucial, costly dynamics.

Paul Krugman, among others, has detailed the technical flaws in the eurozone structure that have contributed to this impasse, including a fixed exchange rate that makes it impossible for less competitive countries to compete without having to impose austerity, and no central fiscal mechanism to give financial relief to regions (nations) undergoing temporary declines without forcing them to incur massive debts which build up on the balance sheets of their banks.

But this focus on technical issues, while important and necessary, nonetheless underemphasises the worldview and the political interests motivating the entire system, which have brought it to its knees: it is a system driven by elite interests which fosters financial, labour and trade liberalisation when it pushes income and wealth to the top, and supports subsidies (such as the bank bailouts, and aid for the oil industry) and protection (such as patents on pharmaceuticals) when these are necessary to protect the income of the bankers and CEOs. This is all done under the guise of the 'magic of the market' as defended by many economists.

According to this narrow analysis of the euro crisis, the US supposedly has the appropriately structured currency union: national financial regulation; fiscal transfers among states; completely free migration across states; balanced budget rules in most states. But, go tout the beauty of the American monetary union to the people of Detroit, or to the thousands of firefighters, teachers and police officers being fired as austerity dominates US economic policy; a properly structured fiscal union is not saving them from a political-economic system run by an elite focused on maximising their short-term profits underwritten by public money.

The failure of the G20 meeting is just one more indication that the elites are not able to hold the system together. Perhaps the resulting chaos is a sign that the capitalist elites have lost, in terms of ancient Chinese teaching, the 'mandate of heaven' which identified the legitimate regime of leaders. Signs that the heavens were revoking the leaders' mandate included natural disasters like the Great Tangshen Earthquake in 1976 that killed at the least 240,000 people and called into question the political hegemony of the Gang of Four who were operating under the cover of Mao Tse Tung's authority; or massive poverty and economic despair that the rulers could not or would not alleviate.

If the unforgiving dynamics of the global financial crisis are finally revoking the capitalist elite's 'mandate of heaven', who is next in line to receive it? In France, Greece and a few other countries, the left has become more unified and has achieved some gains. But overall, those who have a vision and practical ideas to implement a more egalitarian and sustainable economy are not strong enough to take over – yet. It is necessary to contest the demonstrably false visions of an elite that has lost control with clear and workable ideas of alternatives, and do this in every venue and at every local, state and federal election, if progressive forces, rather than those on the far right, are to inherit the mantle of legitimate governance that the capitalist elite has now definitively lost. ◆

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More austerity won't solve European crisis

A new UN report has warned that the fiscal austerity policies pursued by the EU are fuelling a global economic downturn.

Carlota Cortes

THE increasingly precarious financial situation in Europe remains the biggest threat to the world economy, warns a recent UN report.

The *World Economic Situation and Prospects* (*WESP*) 2012 mid-year update report released on 7 June focuses on the need to avoid austerity measures and promote growth and job creation.

Rob Vos, director of the Development Policy and Analysis Division of the UN Department of Economic and Social Affairs, told Inter Press Service (IPS), 'The debt problems and financial sector fragility in Europe, but also in the United States, continue to be a source of "de-leveraging" whereby businesses, households and banks are trying to restore their balance sheets, but this is holding back consumption and investment demand as well as normal credit flows.'

Vos told reporters that Europe is struggling with a 'vicious circle' based on high unemployment, banks' exposure to sovereign debts and fiscal austerity. 'The situation is very fragile and we could fairly easily fall into a trap,' he said.

On 9 June, Spain accepted a $125 billion bailout from the European Union to rescue the failed banking system. It is the fourth country in Europe to accept emergency assistance, after Portugal, Greece and Ireland. In March, Spain's unemployment rate was a whopping 24.1%.

However, Europe is not the only region facing these challenges. Although there has been some economic improvement in the US, the world's biggest economy, the unemployment rate remains over 8%, according to the report.

A protest in Barcelona, Spain against government spending cuts. The fiscal austerity programmes implemented in several European countries are ineffective to help the economy emerge from crisis, says a UN report.

'Developing countries are already being affected through slower trade and more volatile capital and commodity markets,' Vos told IPS.

The 48 least developed countries (LDCs) grew almost 2 percentage points less than originally projected in the *WESP* report of January 2012, making the growth rate 4.1%.

Emerging nations are affected by the weakening of international trade not only from developed countries but also among developing countries.

'World trade growth already started slowing in 2011 and this slowdown has continued this year. Manufacturing production in China is already showing signs of stagnation over the past few months and this is also bringing trade among developing countries to a halt,' Vos said.

To all of this is added uncertainty in markets and political instability in areas such as the Middle East, which creates a risky world economic situation.

The report concludes that the current policies chosen by the developed countries, especially Europe, are heading in the 'wrong direction'. The fiscal austerity programmes implemented in several European countries are ineffective to help the economy emerge from crisis, it said.

Jomo Kwame Sundaram, UN assistant secretary-general of the Department of Economic and Social Affairs, told reporters on 7 June, 'There is a strong recognition all over the world that fiscal austerity pursued by many governments has been the main cause for the protracted economic downturn.'

The updated report recommends avoiding fiscal austerity measures and encourages policies that help to create direct jobs and promote green growth. – *IPS* ◆

EU summit: Some good progress, but any game changers?

When EU leaders met in Brussels on 28-29 June for their 19th summit since the eurozone crisis began two years ago, there were, understandably, low expectations. But while they surprised the world by taking some significant decisions, as *Megan Greene* explains in this analysis, the measures taken may not be sufficient to quell the financial storm.

The Council of the European Union

EU leaders attending a 28-29 June summit pose for a group photograph. The summit agreed on some important measures to address the eurozone crisis, 'but none of them game changers'.

THIS EU summit marked many firsts for eurozone crisis-era EU summits: it was the first time Greece hasn't been discussed in years, it was the first time Italy and Spain bonded together and it was the first time French President Francois Hollande attended an EU summit.

By dinner time on 28 June, the summit seemed a colossal failure, with Spain and Italy refusing to sign off on a growth initiative without some short-term measures to alleviate pressure on those two countries in the bond markets. Eurozone leaders went back to the negotiating chambers and emerged around 4am on 29 June with a deal. The measures agreed exceeded market expectations, though based on German Chancellor Angela Merkel's pre-summit assertion that Germany would not be signing up to anything significant, expectations were not difficult to beat.

The markets rallied, but was investor euphoria justified, or was this just another EU summit fudge? Some important steps were taken at this summit, but none of them game changers and a number of details have yet to be hashed out.

Short-term measures to benefit Spain, Ireland and Italy

While Italy's Prime Minister Mario Monti left the EU summit grinning and declaring a victory (both in football and at the heads-of-government powwow), the short-term measures stand to benefit Spain and Ireland much more than Italy. Most of these measures were to do with the Spanish bank bailout.

The EU bailout funds will now provide a direct capital injection to the banks, contingent on the European Central Bank (ECB) becoming the joint eurozone bank supervisor (see below) on 1 January 2013. The European Financial Stability Facility (EFSF)/European Stability Mechanism (ESM) loans will go through the state up until then, but Spain's public finances will be adjusted come 1 January so that the bank bailout circumvents the sovereign. A second measure was agreed for the Spanish bank bailout: the EFSF loans for Spanish banks will not gain preferred creditor status when they are rolled into the ESM.

Will either of these changes be a game changer for Spain? I doubt it. Spanish public debt will reach around 100% of GDP by the end of this year if all of the off-balance-sheet liabilities are included. Given Spain's primary deficit and growth outlook over the next few years as the country implements austerity measures and structural reforms, this debt burden is unsustainable. This is the case whether the 100-billion-euro bank bailout is routed through the state or not. The change in seniority of the ESM loans, in my view, is a complete fudge. Seniority is only really an issue for sovereign bond markets if the loans are going through the sovereign, which will only be the case before 1 January. If there is a sovereign debt restructuring before 1 January – highly unlikely – it is doubtful the ESM will accept a loss on its loans. Just as the EFSF and ECB did not have preferred creditor status yet were de facto senior in the Greek PSI deal, so would the ESM be in a PSI deal for Spain.

In the official communiqué, eurozone policymakers indicated that the direct EFSF/ESM capital injection for Spanish banks may be applied retroactively to the Irish case. The Irish government immediately hailed this as a seismic shift, and Irish long-term bond yields fell sharply. Is this a game changer for Ireland? It is hard to say, given that we have virtually no details on how they plan to parse out bank and sovereign debt in Ireland. We can expect that it is going to be extremely difficult to take the model applied to the Spanish bank bailout and transfer it over to Ireland, where the bank bailout for zombie and solvent banks was funded by the national pension reserve, promissory notes/Exceptional Liquidity Assistance (ELA) and bailout cash. Separating bank and sovereign debt in Ireland is a bit like trying to unscramble an omelette.

While the reduction in public debt as a result of this may mean Ireland can return to the markets on time in early 2014, I expect those who bought the government's rhetoric on this being a colossal victory for Ireland will be underwhelmed. Furthermore, it is rumoured Germany will only allow direct capital injections to banks from EU bailout funds in those countries that have signed up to a financial transactions tax (FTT). With the UK rejecting an FTT, Ireland is keen to also avoid it in order to protect its financial services industry; if Ireland is subject to an FTT and the UK is not, business could easily move to London. If this German-supported piece of conditionality is imposed, Ireland will potentially have to choose between getting immediate relief from the ESM to reduce its public debt burden or supporting one of its biggest industries.


The Council of the European Union

Italian Prime Minister Mario Monti speaking with German Chancellor Angela Merkel at the EU summit. The summit adopted some short-term measures that could benefit the troubled Spanish, Irish and Italian economies.


cc Yann

The headquarters of the European Central Bank in Frankfurt. Eurozone leaders have agreed that the ECB will serve as a eurozone bank supervisor.

The measure announced that might be most useful to Italy is a vague commitment to using the EFSF and ESM more flexibly in the bond markets to reduce borrowing costs for weaker countries without full troika reviews. The idea that there will not be troika reviews is hardly a victory, given that both Spain and Italy are already subject to the excessive deficit procedure with built-in fiscal targets and to IMF visits. Could EFSF/ESM bond buying help Spain or Italy? Whether in the secondary or the primary markets, I'm sceptical.

Long-term measures

Two long-term measures were also agreed at the summit. First, eurozone leaders agreed a growth initiative, which will see around 130 billion euros used for job creation and investment in the region. This might help on the margins, but is more likely to slightly mitigate the recession than actually stimulate growth. Second, the leaders agreed that the ECB will serve as a eurozone bank supervisor. This is potentially the first of many steps towards a banking union in the eurozone and was the easiest step to agree. The other two steps necessary for a full banking union are a deposit guarantee scheme and a bank resolution scheme. They will be much more contentious and will surely be discussed at future summits.

While most analysts expected eurozone leaders to discuss the long-term vision of the eurozone at this summit – including a banking and fiscal union – policymakers focused more on immediate crisis-fighting mechanisms. All of the measures agreed will likely help on the margins, which has not always been the case at previous EU summits, and some of the measures could be important first steps towards a fiscal and banking union. However, next steps towards a banking and fiscal union will be extremely difficult – and in some cases impossible – to agree, so expect the eurozone rollercoaster to continue this summer. ◆

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Euro summit: 'Not as long as I live'?

While the euro area summit of 28-29 June witnessed a shift away from the deficit-cutting austerity policies strongly advocated by Germany's Angela Merkel, financial stability is far from assured.

Michael Roberts

SO, under huge pressure from Italy, Spain and France, German Chancellor Angela Merkel capitulated. Spain and Italy got the right to ask for money from the European funding mechanisms, the European Financial Stability Facility (EFSF) and the upcoming European Stability Mechanism (ESM), to recapitalise their banks and support their government bonds without having to enter a dreaded Troika programme of austerity like the ones that have already been imposed on Greece, Portugal and Ireland.

Germany did not want to allow this, but Merkel eventually agreed because, as Italian Prime Minister Mario Monti probably put it to Merkel in the small hours: if you don't agree to provide funding now, Italian and Spanish bond rates will rocket; we won't be able to fund our debt in financial markets; and at the next meeting, you will be talking again to Silvio Berlusconi and he'll be saying that either Italy will leave the euro or Germany must!

Of course, what has been dragged out of Germany only provides debt and bank funding for the year ahead. The EFSF/ESM has about 700 billion euros in the kitty and if the bank recapitalisation in Spain is to cost 100 billion euros and sovereign debt support is to cost another 1 trillion euros, all these funds will soon be gone. The Euro leaders also agreed to set up a single European banking supervisor of all eurozone banks by the end of the year. If that happens, Germany could then agree to allow the ESM to have a banking licence. It would mean that the European Central Bank (ECB) could lend the ESM money just like it does for any other bank, for up to three years. The door would be open to fund Italy and Spain infinitely and indefinitely, and not in dribs and drabs as under the Troika programmes. We shall see how that prospect goes down in the German parliament, the German constitutional court and with the German electorate over the next few months.

But it is possible that ECB funding for the eurozone's government debt is on its way. This is not proper mutualisation of all eurozone debt, i.e., sharing out the burden of each country's public debt among all states (as happens in federal USA, federal Canada or federal Australia). But, in effect, with the ECB taking on the burden, it would soon amount to the same thing – something Merkel told us would 'not happen in her lifetime'.

This deal does nothing to restore economic growth, jobs and real incomes for the majority in Europe.

And what does this mean for the small eurozone capitalist states which were forced into vicious Troika programmes that have reinforced the collapse of their economies? The new pro-bailout Greek government is looking for a relaxation of its fiscal targets and cheaper terms for loans, and so will Portugal and Ireland. They will argue: why should just the big boys who would have brought about the breakup of the euro get easy money funding and not us?

The planned moves to 'more Europe', with tighter fiscal controls and eventual 'fiscal union', have been put off for discussion until later in the year. Instead, pressure and panic have forced Germany to relent and allow money to be transferred via the current emergency mechanisms and probably through the monetary tap being opened by the ECB. This means that Merkel still wants to save the euro and just hopes that the cost to Germany can be minimised.

This deal does nothing to restore economic growth, jobs and real incomes for the majority in Europe. The proposed 'growth package' of 120 billion euros, or about 1% of EU GDP, is a joke. Most of these funds were already in the EU budget, but just not used. The European Investment Bank will be able to raise more debt to fund infrastructure projects, but this is not going to happen overnight and will be subject to all kinds of typical banking conditions. In the meantime, Greece's economy is contracting at a 9% rate, Spain's at 4% and Italy's at nearly 3%. Unemployment is now near 20%, with youth unemployment close to 50% in all three countries. The depression in Europe is intensifying.

All this deal does is to give more taxpayer's money to failing banks in Spain and reduce somewhat the cost of servicing public sector debt. The ultimate question of whether the eurozone can move towards a proper fiscal and monetary union, or will break up under the pressure of debt and depression, remains open. ◆

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Europe dithering on Tobin tax

Despite the withering financial turbulence facing the continent, only 10 of the 27 European Union member states have so far agreed to a European Commission proposal for a financial transaction tax (the so-called Tobin tax) to stem volatility in the financial markets.

Julio Godoy

The Frankfurt stock exchange. It is estimated that a financial transactions tax could generate some 11.2 billion euros in revenues in Germany alone.

DESPITE the grave financial and sovereign debt crisis sweeping the region, the European Union has once again failed to reach unanimous approval of a proposition made by its executive body, the European Commission (EC), to tax financial transactions in order to reduce speculation and increase state revenues.

British and Swedish rejection of the EC proposal once again condemned the so-called Tobin tax, named after its first advocate, the late US economist James Tobin, to remain a theoretical project with little hope of being enacted.

But under pressure from the French and Austrian governments, and the leading German opposition Social Democratic Party (SPD), 10 EU countries agreed to consider the application of the Tobin tax starting in 2014.

The preliminary agreement was reached during a European financial summit in late June, and includes Austria, Belgium, France, Germany, Greece, Italy, Portugal, Slovenia, Spain and Cyprus, all of whom pledged to levy a small tax – between 0.01% and 0.2% – on all financial transactions, starting in 2014.

The government of Finland also indicated that it might approve the Tobin tax.

Years after a global financial crisis of epic proportions, and following over a decade of debate around the issue, the EU's inability to pass a common tax on speculation shows the enormous influence the international finance sector continues to enjoy.

James Tobin, who was honoured in 1981 with the Nobel memorial prize for economic sciences, first published his proposal for a small levy on speculative financial transactions in 1972.

In 1997, in the aftermath of the Mexican and Asian financial crises, the French Association for the Taxation of Financial Transactions and Citizens' Action (ATTAC) rescued the Tobin tax from oblivion and put it at the top of the agenda to regulate financial markets.

Since then, the tax has been a central theme in academic and political debates, particularly in Europe, so far without any substantial success.

Cautious approval by 10 European governments does not mean that the tax will actually be introduced, given that the EU process of approval is extremely cumbersome and time-consuming.

'The Tobin tax in Europe is not for tomorrow,' Margrethe Vestager, Danish minister of finance and head of the European council of finance ministers, said at the end of the summit late June.

Germany conflicted

Ahead of the June summit, the German SPD had put forth an ultimatum: unless the German government agreed to tax financial transactions, the SPD would not approve the proposed fiscal pact – conceived by the conservative government of Angela Merkel to enforce 'common' austerity measures across Europe – in parliament.

Under this pressure, the German government finally relaxed its opposition to the Tobin tax, but warned that it would take at least two years to put it into practice.

'The tax won't be approved in this legislative period,' which ends in late 2013, German finance minister Wolfgang Schaeuble said in a press conference. However, he added that the German government has already budgeted for two billion euros in expected revenue from the Tobin tax for the fiscal year 2014.

Without the SPD support in the

Bundestag, the lower house of parliament, the German government would have failed to legalise its blueprint for strict budgetary discipline that it wants to see implemented across Europe in the coming years, in a supposed effort to reduce state deficits and thus solve the sovereign debt crisis.

Failure to pass the corresponding law for the fiscal pact would have meant a tremendous setback for the 'austerity regime' conceived in Berlin, which the German government describes as fundamental to restore financial stability across the continent.

'We know that the approval of the Tobin tax in Europe won't be easy,' according to Andrea Nahles, general secretary of the SPD. 'But if the governments of Germany and France, the two strongest economies in the continent, cooperate on this question, they would surely convince those governments still opposing the tax.'

Several new studies suggest that the Tobin tax would not only boost economic growth in Europe, but also substantially increase state revenues.

According to a study by the German Institute for Economic Research, released in early July, the tax could generate some 11.2 billion euros in revenues in Germany alone. The study takes into consideration the fact that many banks and investment funds would relocate some of the taxed transactions out of the German financial market.

Another study, undertaken by the renowned economists Stephany Griffith-Jones, a professor at Columbia University, and Avinash Persaud, senior fellow with the Caribbean Policy Research Institute, estimated that introducing the Tobin tax in Europe would boost gross domestic product (GDP) in the region by at least 0.25% annually.

'Our analysis suggests that the overall positive impact on GDP level could be even higher, as we identify a number of channels through which the tax could encourage a higher level of GDP,' the two economists noted in their paper.

Griffith-Jones told Inter Press Service (IPS) that the tax 'would also contribute to reducing the risk of a future crisis. When this is taken into account, you obtain a substantial positive effect on economic growth'.

Additionally, she rejected the repeated argument that such a tax would not be feasible because of evasion or due to its limited application in Europe. 'In the past, the same was said about income tax, which is indeed avoided but which still raises a lot of money,' Griffith-Jones stressed.

In the study, the two economists recalled that 'one of the oldest and largest financial transaction taxes successfully functions on its own without global imitation' – the so-called stamp duty reserve tax applied in Britain.

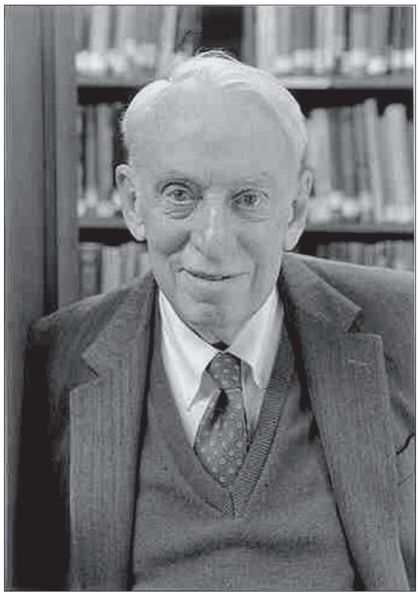
Griffith-Jones told IPS, 'Since 1986, and before in other guises, the British government has unilaterally, without waiting on others, levied a tax of 0.50% on transactions in British equities.'

This tax raises some $5 billion per year.

According to the EC's estimates, released last March, total savings resulting from the introduction of the Tobin tax would amount to 81 billion euros for the period 2014-20.

European Commissioner for financial programming and budget, Janusz Lewandoski, stressed, 'The financial sector does not pay value-added tax (VAT), but has received massive support from taxpayer's money.'

Therefore, he added, 'Taxing the transactions of all financial institutions at rates as low as 0.01% is only fair. Furthermore, the estimated revenue that the tax would generate by 2020 can only be welcomed by cash-strapped governments across the EU.' – *IPS* ◆



The late US economist James Tobin *(pic)* **first published his proposal for a small levy on speculative financial transactions in 1972.**

At work on the trading floor in the London stock exchange. The British government levies a stamp duty reserve tax of 0.5% on transactions in British equities.

The state of the world economy

With Europe in the grip of the euro crisis and US economic growth faltering, the world economy faces an uncertain future. *Yılmaz Akyüz* warns that developing countries must strive to strengthen their fundamentals and reduce their dependence on foreign markets, capital and commodities if they are to weather the coming storm.

GLOBAL economic conditions continue to have a strong bearing on production, trade and investment in developing economies (DEs). In this respect the current landscape is not very encouraging. After three years of recovery the world economy still remains highly fragile. The short-term outlook is for contraction in several advanced economies (AEs) in Europe. Growth in others, including the US, is weak and erratic. But more importantly, medium-term prospects are bleak almost everywhere.

There is considerable uncertainty in global financial markets. Asset and commodity prices, risk spreads, capital flows and exchange rates are highly susceptible to sudden swings with devastating consequences for growth and employment. While growing public deficits and debt are an ongoing source of economic stress in several major AEs, currently the Achilles heel of the international economy is the eurozone (EZ). Consequently, the way the EZ crisis is handled is a major concern for DEs.

Deconstructing 'decoupling'

At first glance, the recent record looks very promising for DEs. The new millennium has witnessed a staggering rise of the South. During 2003-08, the average growth of DEs exceeded that of AEs by some 5 percentage points, compared to around one point in the 1980s and 1990s. The difference widened during 2008-11 as most DEs proved resilient to the crisis while AEs collapsed.

This growth divergence has widely been interpreted as the South 'decoupling' from the North. However, the evidence does not show the desynchronisation of cycles between DEs and AEs, and deviations of economic activity from underlying trends continue to be highly correlated. The more significant question is whether there has been a durable shift in the trend growth of the South relative to the North. A closer look suggests that the growth surge in DEs owes more to exceptionally favourable international economic conditions than improvements in their underlying fundamentals.

Until the financial crisis, the credit, consumption and property bubbles in AEs generated a highly favourable global economic environment for DEs in trade and investment, capital flows and commodity prices. At least one-third of pre-crisis growth in China was due to exports, mostly to AEs, and the ratio is even higher for smaller Asian export-led economies. China's accession to the World Trade Organisation (WTO) also gave a major impetus to outsourcing and exports to AEs by removing uncertainties surrounding its access to the US market.

From the early years of the 2000s, low interest rates and rapid expansion of liquidity in the US, Europe and Japan triggered a boom in capital flows to DEs. This was supplemented by a surge in workers' remittances, which exceeded 3% of GDP in India and reached double-digit figures in some smaller DEs. Commodity prices rose strongly, largely thanks to rapid growth in China. On some estimates, Latin America would not have seen much growth had terms of trade, dollar interest rates and capital flows remained at the levels of the late 1990s.

With the financial crisis the global economic environment deteriorated in all areas that had previously supported expansion in DEs. AEs contracted, capital flows were reversed and commodity prices declined sharply. However, DEs showed resilience and were able to rebound quickly, particularly where a strong countercyclical response was made possible by favourable payments, reserves and fiscal positions built up during the preceding expansion. As a result, the growth impulse in some leading Southern economies has shifted to domestic demand, including in countries which had previously been export-led.

China has played a key role in the recovery of the South. It launched a massive stimulus package in infrastructure and property investment. Because of its high commodity intensity, this investment-led growth has given an even stronger boost to commodity prices than the pre-crisis export-led growth.

At the same time, short-term, speculative capital inflows surged with sharp cuts in interest rates and quantitative easing in AEs in response to the crisis. These have been more than sufficient to meet growing deficits in several major DEs including India, Brazil, Turkey and South Africa. But they have also widened deficits by leading to currency appreciations.

This rapid domestic-demand-led growth has now come to an end. China cannot maintain investment-led growth indefinitely. But it also faces hurdles in shifting rapidly to consumption-led growth. Even a moderate slowdown in China, towards 7%, could bring an end to the boom in a broad range of commodities. This can be aggravated by a rapid exit of investors and traders in commodity derivatives as happened in 2008 after the collapse of Lehman Brothers.

DEs also face significant

downside risks from AEs, including dampened export prospects and unstable capital flows. As noted by the International Monetary Fund (IMF), 'even absent another European crisis, most advanced economies still face major brakes on growth. And the risk of another crisis is still very much present and could well affect both advanced and emerging economies'.

Policy shortcomings

There can be little doubt that the crisis has posed difficult policy challenges for AEs. But there have also been shortcomings in the policy response. First, there is a failure to maintain adequate demand by reconciling the need for short-term fiscal stimulus with a credible programme for long-term consolidation, leading to a return to self-defeating fiscal orthodoxy and austerity in the eurozone, the UK and even the US.

Second, public interventions have failed to alleviate the debt overhang and deleveraging and retrenchment at the expense of employment and growth. The US Troubled Asset Relief Programme (TARP) has rescued big banks without preventing foreclosures or increasing lending to support employment. In the EZ long-term refinancing operations have provided little relief to debtors. Banks remain highly fragile. Last summer the EC resisted mandatory capitalisation despite calls from the IMF, but it is now finding them undercapitalised. They are shrinking their balance sheets by selling assets and cutting credit, impairing the access of DEs to trade financing.

Third, deep cuts in interest rates and quantitative easing have not been very effective in addressing over-indebtedness and reversing spending cuts, but have led to 'currency tsunami' and problems for DEs in macroeconomic and exchange rate management. The surge in short-term capital flows has shifted exchange rates and trade not only between the North and the South but also among DEs, creating tensions in the trading system. The matter was taken to the WTO by one of the most affected DEs for discussion in a seminar held at the end of March. Questions have been raised on the coherence between international trading and financial systems, the impact of exchange rates on trade concessions and the rationale and scope to deploy WTO disciplines, reaffirming once again the urgent need to reform the international monetary system in order to avoid beggar-my-neighbour policies and protectionism.

The IMF lacks effective surveillance to bring discipline and elicit responsible behaviour on the part of reserve-issuing countries. With the surge in destabilising capital flows, it has abandoned willy-nilly its orthodoxy and has offered a framework to DEs for managing inflows, including capital controls as a last resort and temporary measure. This is rightly rejected by DEs, in an effort to retain their policy autonomy in managing capital flows and avoid new obligations. The Fund has paid no attention to policies in source countries, including measures to stem speculative outflows of the kind that the US used in the 1960s when it suited them.

Eurozone threat

The risk-return configuration that has sustained short-term capital flows to DEs cannot last indefinitely. They are subject to sudden stops and reversals and they have already shown a high degree of volatility since last summer. The immediate threat is not a hike in interest rates in AEs, but the deepening of the EZ crisis, triggering a flight to safety, very much like the collapse of Lehman Brothers.

Default by Greece has been averted for the moment, but now Italy and Spain are facing similar pressures. Bailouts for these would require much larger funds and their austerity would create a much bigger impact. Spain is the epicentre. Its problems have little to do with fiscal irresponsibility, but excessive private debt built during the housing bubble, financed by core banks. Wrong diagnosis and recipes by the EC and ECB are now worrying even the IMF. With unemployment at 25%, foreclosures rising and the economy shrinking, Spain is not expected to succeed in meeting deficit targets and financial obligations.

This is the main reason for the recent initiative to double IMF resources. This makes the Fund highly leveraged, particularly because of the failure to review quotas in time. The 2009 UN Conference on the World Financial and Economic Crisis and Its Impact on Development agreed that the next quota review should 'be completed no later than January 2011'. An agreement was reached in the IMF in 2010 to shift votes and two seats to DEs and double the quotas, to become effective by October 2012. Less than half of the members of the G20 group of major economies have ratified it so far. The US, Germany and the current chair of the G20, Mexico, are not among them. The package is unlikely to be ratified on time by the required percentage of votes and members.

In any case there is no justification for the EZ to draw on the IMF. Unlike DEs the EZ can issue unlimited international liquidity. The 'moral hazard' argument used against intra-EZ bailouts also applies to IMF bailouts. More importantly, the financial integrity of the IMF may be put at risk by large-scale lending. In the event of a default by its borrowers, the IMF has no *de jure* preferential creditor status. By lending to the IMF to lend to the EZ periphery rather than lending to the periphery directly, the EZ is effectively shifting the default risk to IMF shareholders, including its poor members. Thus, the IMF should lend to the EZ periphery subject to significantly increased efforts by the EZ to bail in private creditors and to supplement and use its own rescue fund.

Finally, despite recurrent sovereign debt difficulties, the international community has not been able to introduce orderly debt workout mechanisms. The attempt made at the IMF in the early years of the 2000s to establish a Sovereign Debt Restructuring Mechanism was blocked by some major AEs. The 2009 UN Conference agreed 'to explore the need and feasibility of a more structured framework' for debt workouts. It has since then gained further importance with the EZ crisis. The Financial Stability Board has included bail-in as one of the key attributes of effective resolution regimes and the EC has formulated a bail-in proposal, but the issue is not placed squarely on the IMF agenda.

Unfinished task

In conclusion, the world economy is no less fragile today than it was on the eve of the 2009 Conference. And DEs are just as exposed to downside risks from AEs as they were then, but their policy space has narrowed in the interim. There can be little doubt that there is a lot DEs could do to strengthen their own fundamentals and reduce dependence on foreign markets, capital and commodities to gain greater autonomy. But they cannot be expected to put their house in order when AEs falter and the global financial architecture continues to suffer from systemic shortcomings.

These difficulties continue unabated despite agreements reached at the 2009 Conference on the crisis on 'decisive and coordinated action to address its causes, mitigate its impact', to 'avoid possible adverse impacts' of stimulus measures on DEs, and to 'reform and strengthen the international financial system and architecture'. The task remains unfinished. The UN is often said to have no competence in these matters. However, the international financial institutions and the groupings such as the G7, G8 or G20 have proved to be totally ineffective in resolving these matters. Thus, they need to be pursued with greater determination and commitment in the UN and linked to a process of assessment and monitoring. ◆

Yılmaz Akyüz is Chief Economist of the South Centre. The above first appeared as a South Centre Policy Brief (No. 10, June 2012). It is based on his presentation to the United Nations General Assembly High Level Thematic Debate on 'The State of the World Economy and Finance in 2012' in New York on 18 May 2012.

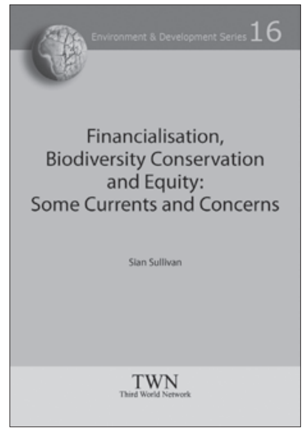
Financialisation, Biodiversity Conservation and Equity: Some Currents and Concerns

Sian Sullivan

Present high rates of biodiversity loss have directed attention towards market-based mechanisms that seek to create tradable financial assets out of species and ecosystems. This 'financialisation' is said to encourage biodiversity conservation by incorporating monetised ecological values into economic decision-making.

This paper explores how financialisation of conservation is made possible through the monetisation of nature and the establishment of environmental markets. It surveys the latest developments in this field, which encompass esoteric financial instruments such as forest bonds, species credits and biodiversity offsets.

The paper cautions that these innovations should not blind conservation advocates to the dangers of financialisation, which include perverse incentives for ecological harm. More fundamentally, the value of biodiversity, and the complexity of nature, cannot be conserved simply by conveying and incorporating these in monetary terms, although this indeed may facilitate their inequitable capture as 'natural capital'. Instead, as the author suggests, both ecology and ethics call for recognition and restitution of 'the diverse other ways of knowing and living with "biodiversity" embodied by peoples who value things differently'.



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Euro crisis impacts China and beyond

The turmoil in Europe is intensifying the deceleration of the economies of China and emerging markets which were already grappling with an economic slowdown.

Chee Yoke Heong

THE June election results in Greece may have given the world a reprieve but the crisis in the eurozone is far from over.

This appears to be the view of China's policymakers and the members of its business community.

'The European sovereign debt crisis won't end in the short term, though the winning Greek party now supports the bailout plan. Countries in the eurozone directly beset by the crisis are likely to suffer weak economic growth in the next decade,' said Wang Haifeng, director of international economics at the Institute for International Economic Research in China, in a *China Daily* report dated 19 June.

While the new government is open to continued bailouts and implementing austerity measures, 'the possibility of a Greek exit has not yet been eliminated as the crisis may deepen in the next two or three years' with the possibility that other countries may also potentially quit the eurozone, thus putting the global economy at risk, adds Wang.

A senior researcher at the Institute of World Economics and Politics, Chinese Academy of Social Sciences, Song Hong, concurred, saying that while the election results 'soothed the anxiety and panic of investors and the public… it's impossible that the debt crisis will come to an end in the short term'. He was cited in the *China Daily* report as saying that austerity measures will not solve the debt problem and what is required is economic growth.

China, the world's second largest economy, has much to be worried about over the European sovereign debt crisis, given that about one-fifth of its exports goes to Europe. It has already felt the impact from the European crisis, having posted a decline of 2% for the first four months of 2012 compared to the same period a year ago.

Workers at a textiles factory in Shenzhen in Guangdong province going on strike to demand higher wages. Last year saw a wave of labour unrest in factories across Guangdong, China's manufacturing heartland, as the European debt crisis hit export-oriented Chinese companies.

Meanwhile, foreign direct investment from Europe fell 27.9% in the same reporting period due largely to the European debt crisis. A survey by the European Chamber of Commerce found that about 22% of European companies in China are considering moving their investments out of the country, according to another *China Daily* report of 15 June.

The turmoil in Europe is expected to impact the broader slowdown in China, where growth is expected to taper off at about 8% this year compared to recent years' growth of around 10%.

While the European crisis has hit China through international trade and investment, the immediate impact on Chinese banking was limited as Chinese bank exposure to European sovereign debt was limited. But prolonged depressed growth in Europe would affect the Chinese economy (i.e., reduced exports) and that will affect banks, said Banny Lam, Associate Director and economist at CCBI Securities, in a comment dated 29 May.

However, some believe China would be spared a severe beating from the European debt crisis given that the country has been reducing its dependence on external demand.

Chinese economist Li Daokui said that the eurozone debt crisis will have a limited short-term effect on China, pointing out that the trade surplus fell to 2% of GDP in 2011 from about 8% in 2007. It may fall to about 1% in 2012 and subsequently turn to zero in the coming years, he was quoted as saying in a *China Daily* report of 11 January.

This view was similarly shared

by Jing Ulrich, JPMorgan's managing director and chairman of Global Markets, China, who said that a breakdown of China's quarterly growth showed domestic consumption had taken over as the main driver of the economy, contributing roughly three-fourths of the 8.1% growth in the first quarter of this year.

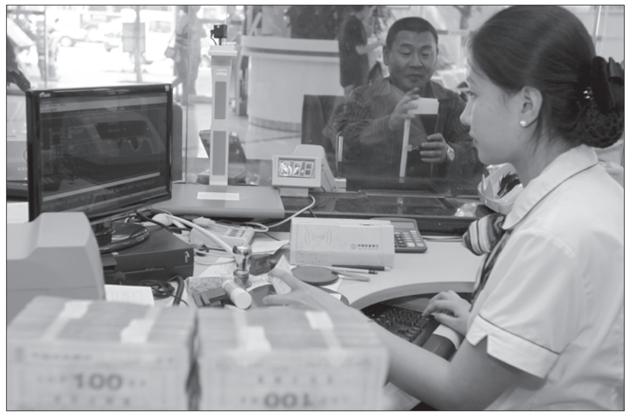
This showed China had reduced its reliance on exports for its economic growth, Ulrich told Xinhua news agency on 13 June.

'Even if the eurozone does not recover in future years, China will not feel the chill as it had before,' she said.

But export-oriented companies will be badly affected and many may have to lay off employees or shut down, warned Zhang Xiaoji, senior researcher at the economic relations department of the Development Research Center of the State Council, in the *China Daily* of 29 May.

And that has already happened. Last year saw a wave of labour unrest in factories across Guangdong province, the country's manufacturing heartland, as thousands of workers protested over the loss of their jobs, pay cuts or non-payment of salaries.

Though the strikes were triggered by specific grievances, they were broadly linked to the slowdown in the world economy, specifically the ongoing crisis in Europe which caused deep cuts in exports. As overseas orders shrank, many small and medium-sized companies, unable to survive, had to close down or downsized.


Prolonged depressed growth in Europe would affect the Chinese economy and that will affect Chinese banks.

'The euro debt crisis and the slow recovery of the US economy caused the strikes,' Lin Yanling of the China Institute of Industrial Relations told the *Washington Post* in a report dated 27 November 2011.

'Right now, this is just the beginning,' she said. 'More labour unrest and bankruptcies of small factories in coastal areas of China are inevitable if the world economic crisis doesn't end soon.'

At the time of writing, China has announced that its growth rate for the second quarter was 7.6%, down from 8.1% in the previous three months. This was the lowest rate since the 2008 global financial crisis and the country's sixth straight quarterly slowdown. While this slowdown was due mainly to internal measures taken to cool down an overheated property sector, there can be little doubt that the European crisis played a contributory role.

Responding to this situation, Premier Wen Jiabao has warned that China's job situation will become more 'severe' and 'complex'. The Bloomberg news agency report which quoted Wen also noted that the Federation of Hong Kong Industries warned that more than 2,000 Hong Kong-owned factories in China's Pearl River Delta may close down this year as a result of a fall in export orders and wage rises.

Besides China, other major Asian economies are also not spared the fallout from the eurozone crisis. India's growth in the first three months of 2012 was at its slowest pace for nine years.

Elsewhere in Asia, countries such as India and South Korea are not spared. India's growth in the first three months of 2012 was at its slowest pace for nine years, at 5.3% compared to the same quarter a year ago, a far cry from the 8% growth of recent years, the *Wall Street Journal* (*WSJ*) said on 31 May. South Korea said its exports unexpectedly contracted for a third consecutive month in May compared to a year ago.

The *WSJ* report also pointed out that what happens in China will also have broad effects on the rest of Asia, if not the world. For instance, China is a major export destination for commodity producers such as Indonesia, Malaysia and India. And the growing middle class in China is increasingly an important market for Japanese cars and luxury goods. Many large Asian companies also have invested in the Chinese markets, which are expected to grow at a slower pace.

At company level, Asian corporations are already feeling the heat from the eurozone crisis. Taipei-based Compal Electronics, the world's second largest contract maker of laptop computers, has become more conservative. 'Compared to three months ago we're not as optimistic toward the second half because market conditions are not as strong,' Chairman Rock Hsu was quoted as saying in a Bloomberg report of 26 June. 'We didn't originally expect any growth from Europe, yet we're now worried that conditions there will flow through to impact Asia,' he adds. ◆

Chee Yoke Heong is a researcher with the Third World Network.

Breaking vicious circle of instability and crises

The current financial instability in the eurozone which threatens to plunge the world into an economic depression is the product of finance-led globalisation. A key feature of such globalisation is inequality but inequality in turn contributes to macroeconomic instability and crises. Only by pursuing policies which promote a more balanced, inclusive and stable pattern of growth can this vicious circle be broken.

Kanaga Raja

The financial sector's share of national income has grown almost everywhere, channelling larger profits and ever more generous compensation packages to the wealthy.

FINANCE-driven globalisation, whose defining features include unfettered capital movements, deregulation of financial markets, regressive taxation and retrenchment of social programmes, has contributed to rising income inequality in both rich and poor countries over the past 30 years, the UN Conference on Trade and Development (UNCTAD) has observed.

In its latest policy brief (No. 5, June 2012, titled 'Breaking the cycle of exclusion and crisis'), UNCTAD said: 'Even leaving aside basic issues of social justice, experience shows that inequality often goes hand in hand with macroeconomic instability and crises, undermining growth prospects and, significantly, further augmenting inequality.'

According to UNCTAD, breaking this vicious circle will entail a concerted effort to foster inclusive and sustainable growth. Policy changes will be needed at national and international levels, together with strengthened multilateral support and coordination, it added.

The policy brief notes that even before the 2008 financial crisis triggered the worst recession since the 1930s, it had become clear that the prevailing pattern of economic growth was deeply unbalanced.

The share of profits and interest in national income had been increasing everywhere over the preceding decades, and the Gini coefficient (measuring inequality) had tended to rise in developed, developing and transition economies, albeit with some variations, especially in recent years.

By 2007, says the brief, the richest 20% of the world's population was receiving 70% of global income, while the bottom 20% was receiving only 2%.

'Trade openness and technological changes have been offered as possible causes, but these are, at best, partial explanations, because they ignore the dominant role of finance in shaping economic outcomes over recent decades.'

Several features of finance-driven globalisation (FDG) have contributed to growing inequality.

Firstly, said UNCTAD, the financial sector's share of national income has grown almost everywhere, channelling larger profits and ever more generous compensation packages to the wealthy. This helps to account for the increasing proportion of income going to the top 1% of the population and, even more markedly, to the top 0.1%.

Secondly, as returns on capital have grown, the share of wages in national income has declined in most developed countries and has shown significant volatility in the developing world.

Wages have lagged behind productivity growth almost everywhere, reflecting greater competition in labour markets, weaker employment protection legislation, and the weakening of labour unions. This has made it harder to sustain the expansion of domestic demand and, consequently, stable economic growth.

Thirdly, stressed UNCTAD, there have been huge increases in speculative financial flows in search of quick gains. These have been fuelled by rising debts contracted by governments, firms and individuals, and by the liberalisation of finance, capital movements and exchange rates in most countries under FDG, which signalled policy support for a financial free-for-all.

According to the policy brief, the features of FDG often reduced governments' policy space, particularly regarding taxation and distributive measures. In part to prevent capital flight through liberalised financial markets, many governments have cut tax rates on high earners and on capital gains, while relying on regressive measures, such as taxes on consumption, to make up the shortfall.

'The growth of finance, the concentration of income and wealth, and the movement of capital within and across borders have also been linked to the increasing frequency of crises and shocks.'

The policy brief notes that financial, balance-of-payments and exchange-rate crises were common in developing countries in the 1980s and 1990s, particularly in Latin America and East Asia. In all these cases, the rapid liberalisation of financial markets was an important trigger.

The pattern of accumulation under FDG, including declining investment, weak demand, and boom-and-bust cycles, helps to explain the uneven and generally slow economic growth rates in many countries over the past 30 years, especially in those most firmly committed to FDG, said UNCTAD, underscoring that the contrast with much faster and more stable growth rates achieved in some countries, especially in Asia, can be traced to the different development strategies pursued in the latter.

Several channels establish a two-way causal relationship between FDG and inequality. After years of stagnating or slow-growing incomes, those at the middle and lower end of the income spectrum increasingly turned to 'easy credit' to meet their aspirations for better housing and improved living standards, fuelling a credit bubble based on sub-prime loans, especially in the United States and the United Kingdom but also in parts of the eurozone.

'This was facilitated by the rising incomes of the well-off, whose frantic search for yield swelled the size of the financial sector and provided the liquidity for loans to those on lower incomes. In recent years, and principally in the advanced economies, these processes were accompanied by the proliferation of opaque financial instruments, such as mortgage-backed securities, which set up the conditions for the 2008 crisis.'

Inequality had tended to rise in developed, developing and transition economics even before the 2008 financial crisis.

UNCTAD said that a significant body of evidence indicates that, since those higher up the income ladder have a relatively low propensity to consume, the skewing of income distribution can reduce aggregate demand even as their spending habits prompt those on lower incomes to increase their own spending, thereby reinforcing the pattern of debt-driven growth. This, in turn, adds to the fragility of the financial system.

It underlined that when financial crises spread to the wider economy, the inevitable rise in joblessness can also serve to aggravate inequality. For example, rapid deleveraging by companies and households reduces tax receipts and consumption and fuels the public debt, and, in recent experience, triggers regressive shifts both in taxation and in social provision, further widening income inequality.

'The outcome of these overlapping processes is a vicious circle in which FDG fosters inequality, which contributes to crises which, in turn, perpetuate or even heighten inequalities,' it cautioned.

Income gaps can also widen across regions within countries, as is evident in the growing rural-urban split in several fast-growing developing countries and in many developed countries, where the recession has widened regional inequalities.

'Given the proven track record of public policies in reducing regional disparities across countries and over time, today's austerity policies do not bode well for convergence within countries.'

These vicious circles of financial instability, inequality and crisis have long-term implications and may store up difficult challenges for the future.

UNCTAD pointed out that slow wage growth and insufficient aggregate demand increase the risk that the global economy will suffer a prolonged stagnation and deflation. Persistently low investment and employment creation, especially of full-time, permanent and decent jobs, wastes human resources and risks excluding many people, especially the young and women, from the benefits of economic growth.

Finally, and despite the marginal tightening of financial regulations after the global crisis, if the disproportionate flow of income to the top is maintained, the conditions that triggered the crisis could be recreated.

'It is possible to break these cycles of inequality, economic instability and under-performance through a coordinated drive within and across countries to promote inclusive development. There is an important role for multilateral institutions in providing policy advice supporting these efforts to ensure that national policies are mutually reinforcing and driven by those countries with stronger fiscal and balance-of-payments positions, rather than conflicting with each other or burdening the weakest countries disproportionately,' says the brief.

A more balanced, inclusive and stable pattern of growth will require boosting demand in a sustainable manner, through real wage increases and improved social security provision, rather than through speculation or bubbles in credit and asset markets. This should be the bedrock sustaining a virtuous circle of long-term sustainable investment, rising productivity, higher wages and consumption, and job creation, it adds.

While no single policy prescription can secure the transition onto this trajectory, several economic and social policies can work together to make growth more sustainable and inclusive, fostering a form of globalisation that is development-centred rather than finance-driven.

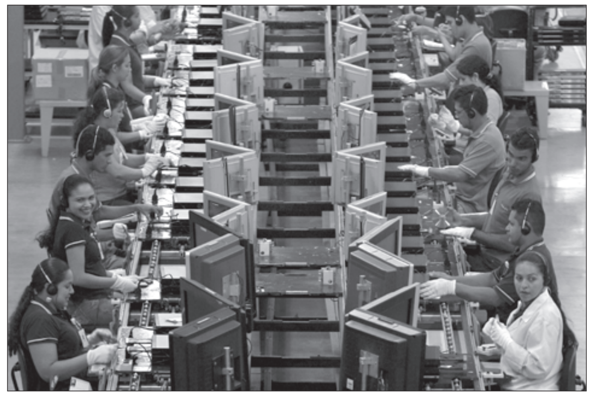
'This policy shift will require paying as much attention to employment, income distribution, social protection and environmental sustainability as to inflation, efficiency, and the interests of creditors. In this respect, the experience in Latin America during the last decade is encouraging.'

Since the start of the new millennium, several countries have managed to reduce inequality and sustain faster and more inclusive growth through the deployment of more equitable social, taxation and economic policies.

These include counter-cyclical fiscal policies, lower interest rates, and higher public investment and social spending, supported by more progressive taxation, and labour-market policies that help to raise wages and improve social protection.

In turn, says the brief, enhanced income support, higher pensions and improved healthcare have helped to ensure that disposable income is channelled back into the economy, especially in poorer regions, alleviating poverty and boosting regional convergence.

In Brazil, for example, inequality has declined sharply since the new millennium, with the Gini index falling by more than 5 points since 2000. This has been associated with a significant reduction in poverty and in the share of income going to the wealthiest 1%. Between 2000 and 2009, average annual GDP growth accelerated by two percentage points compared with the previous decade.



Several countries in Latin America have managed to reduce inequality and sustain faster and more inclusive growth through the deployment of more equitable social and economic policies. Picture shows manufacturing workers in Brazil, which has seen substantial growth in the minimum wage.

'This break with the past reflects a policy mix that has included substantial growth in the minimum wage, increased spending on education and a range of innovative social programmes, the best known of which is Bolsa Familia (family allowance, a Brazilian social welfare programme), and a rising share of taxes as a percentage of GDP, which are subsequently channelled back into the economy,' said UNCTAD.

Experiences of wage-led growth in Latin America can offer important lessons for those developing economies where creeping financialisation and precarious social protection have driven household savings to excessive levels, fostering a distorted and, ultimately, unsustainable modality of growth.

According to UNCTAD, efforts are also needed to encourage investment in fixed capital, developing and incorporating sustainable technologies, and to strengthen the employment component of growth. Linked to these priorities is the need to address the failure of wages to grow in tandem with productivity.

Several policy instruments are available in this regard, including industrial policies, income and labour-market policies, and public-sector investment. Other structural and self-reinforcing aspects of inequality must also be addressed, including unequal access to education and technology, and exclusion due to gender, ethnicity and age.

'Without such policies, and a decisive break with FDG, developing countries risk replicating the regressive and destabilising growth pattern of the developed countries,' the brief stresses, adding that this danger is especially evident in fast-growing Asia, where income inequality has widened markedly in the last 20 years.

A recent report by the Asian Development Bank estimates that, if inequality had remained stable in those Asian economies where it has increased, the growth rates achieved in 1990-2010 would have taken 240 million more people out of poverty.

The rising trend in inequality under FDG, and its economic and social implications, is increasingly of concern to policymakers, researchers and international bodies. Growing realisation of the dangers of inequality should elicit policy analyses and recommendations tailored to the needs of individual countries, said UNCTAD.

'However, if such policies are to succeed in breaking the cycle of inequality and creating inclusive development, they must be part of an integrated approach combining economic and social goals, with effective support and coordination at the international level,' the policy brief concludes. ◆

Kanaga Raja is Editor of the South-North Development Monitor (SUNS)*, which is published by the Third World Network. This article is reproduced from* SUNS *(No. 7388, 13 June 2012).*

The right path for Washington in Syria

Before getting further militarily embroiled in Syria, the question Washington should consider is: will adding fuel to the violence make matters worse?

Saul Landau

US Secretary of State Hillary Clinton addressing the media after a 'Friends of Syria' conference in Tunis in February. Clinton has pressed for more intervention in Syria.

THE Syrian conflict continued to boil – or boil over – when Syrian troops fired across the Turkish border on 9 April, apparently killing either fleeing refugees or armed combatants. However, despite continued words of caution from the Pentagon and White House about getting into another messy Middle East war, Secretary of State Hillary Clinton pressed for more intervention.

The Syrian Accountability Act of 2003 began the formal US attempt to bring down Bashar al-Assad, but Clinton, the imperial princess, now demands the Syrian President resign in favour of the Syrian National Council (SNC). This hastily formed group composed of exiled Syrian Muslim Brotherhood members, and other groupings, many in exile, would magically transform Syria via fair elections into a good democracy – and sheep will fly.

Washington's 'humanitarian' assistance fund for Syria escalated into 'non-lethal' aid – sophisticated satellite communications equipment, and night-vision goggles so 'rebels' could 'evade' Syrian government assaults. US and Western media have underscored Assad's butchery, but offered little of substance on the opposition and its often savage behaviour.

Lopsided view

Just weeks after the first March 2011 protests – Arab Springtime – the media disregarded eyewitness evidence of armed groups shooting at and killing members of Syria's security forces as well as civilians. Reporter Pepe Escobar witnessed 'the shooting deaths of nine Syrian soldiers in Banyas' as early as 10 April 2011 (*Asia Times*, 6 April 2012). By focusing only on Assad's violence, Western leaders could promote a lopsided view of the conflict. In recent weeks, however, the media could not ignore all 'photos and video footage of armed men with heavy weapons proudly declaring their stripes – some of them religious extremists advocating the killing of civilians based on sectarian differences'.

Suicide bombings took place in Damascus and Aleppo, and al-Qaeda called its minions 'to battle'. The US government ignored al-Qaeda's role and refers only to the 'good' SNC. At a March meeting in Istanbul, sponsored by Turkey and Qatar, however, an unlikely source of dissent emerged. Iraqi Prime Minister Nouri al-Maliki said: 'We reject any arming [of Syrian rebels] and the process to overthrow the [Assad] regime, because this will leave a greater crisis in the region.'

Maliki questioned the motives of Qatar and Saudi Arabia who 'are calling for sending arms instead of working on putting out the fire'. Iraq, he continued, opposed 'arming' the Free Syrian Army and he feared 'those countries that are interfering in Syria's internal affairs will interfere in the internal affairs of any country'. Maliki, who governs Iraq as a result of the US invasion and devastation of that country, questioned equating a cause backed by Saudi funding with freedom. 'What's wrong with the Free Syrian Army getting funding from Saudi Arabia? Or, when did Saudi Arabia ever support freedom?' he asked (Suadad al-Salhy, Reuters, 1 April 2012).

These remarks were not featured in headlined stories, nor did TV or radio news provide coverage of Maliki's statement. Until recently, we might have depended on Al Jazeera, whose Iraq war coverage won it praise from journalists. However, the network's Syria reports led some reporters to resign over its biased reporting. Hassan Shaaban, the Beirut bureau's managing director, resigned in March, 'after leaked emails revealed his frustration over the channel's coverage'.

Shaaban had filed a story showing armed men fighting with the Syrian army in Wadi Khalid. Al Jazeera dropped the story. Two other Al Jazeera staff quit for the same reasons. Al Akhbar claimed Qatar's foreign policy influenced the reporting on Syria. Al Jazeera maintains headquarters in Qatar and the royal family helped establish the network.

The question in Washington should be: will adding fuel to the violence make matters worse? Assad's forces have defeated – with huge civilian casualties – the formal rebel uprisings, but the SNC could sponsor a prolonged terrorist war, which would increase civilian casualties, and not succeed in removing Assad or his party (the Baath Party) from power.

Leaders of the opposition Syrian National Council at a press conference in June. Washington has thrown its support behind the SNC.

Logic and reason dictate that Obama should follow the Syrian majority. A February 2012 poll showed '55% of Syrians want Assad to stay', NOT motivated by fondness for his government, but 'by fear of civil war'. The poll also ascertained that 'half the Syrians who accept him staying in power believe he must usher in free elections in the near future' (YouGov Siraj poll on Syria commissioned by The Doha Debates, funded by the Qatar Foundation, connected to the royal family. The family has taken a hawkish position on Syria. See Jonathan Steele, *The Guardian*, 17 January).

Iraqi Prime Minister Nouri al-Maliki: 'We reject any arming [of Syrian rebels] and the process to overthrow the [Assad] regime, because this will leave a greater crisis in the region.'

These facts have not oozed into State Department consciousness, where the rush for US entanglement appears contagious. Good sense should command Secretary Clinton to help save the process former UN Secretary-General Kofi Annan set in motion for a negotiated ceasefire. The opposition and the Assad side negated the 10 April deadline. This means Syrians will pay a higher human toll. The suffering is already immense.

On 14 April, the UN Security Council backed a deployment of the first wave of UN military observers to monitor the tentative ceasefire between the Syrian government and opposition combatants. Before the arrangements become final, Washington should weigh in now with Russia, China and the Western powers – not Saudi Arabia and Qatar – to pressure both sides to stop shooting and start serious talking. ◆

Al Jazeera newsroom. Al Jazeera's Syria reports led some reporters to resign over the network's biased reporting.

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Mali: Political stalemate overshadows massive food crisis

As world attention is riveted on the takeover of northern Mali by militant radical groups, it is easy to forget that some 1.3 million people in the region are facing a serious food crisis.

Celeste Hicks

WHILE all eyes are on the ongoing political stalemate in Bamako, and the growing radicalism of groups such as Ansar Dine, Al-Qaeda in the Islamic Maghreb and MUJAO (Movement for Unity and Jihad in West Africa) in the north of Mali, it's easy to forget that 1.3 million Malians are facing drastic food shortages this year.

It's a silent crisis, mostly because the legions of humanitarian workers and journalists – who have worked hard to highlight the terrible effects of hunger and increased market prices of food in neighbouring countries such as Niger and Chad – are struggling to even get to northern Mali. Since the takeover of the north by the rebel Tuareg MNLA group, and the subsequent rise of the Islamist groups, approximately half of the country's territory has become off-limits. While a small number of aid agencies such as Medecins Sans Frontieres (MSF) and Action Against Hunger (AAH) are still operating, activities and travel are restricted and staff are working under difficult conditions.

The malnutrition figures are striking, and could potentially be worse than in other parts of the Sahel region. Action Against Hunger, which is working in the north-eastern town of Gao, says that 60% of children there are showing signs of malnutrition; 30% of those are 'global acute malnutrition' and may need medical care. This is twice the level which would ordinarily trigger an emergency response by the aid community – 'amazingly high', as AAH put it to me.

What's more, prices on the local market have shot up since the rebels and Islamist groups took over the area, mostly because trade has been disrupted and banks and shops are closed. In Gao, for example, there are severe problems of cash flow, which means many poor families are having to barter their possessions in exchange for food. Residents of Timbuktu have told me how food stocks have been pillaged and warehouses burned. This has caused the price of a sack of millet to rise from 17,500 CFA to over 30,000 CFA since April.

The crisis is compounded by the fact that 144,000 people have been displaced inside Mali by the fighting, according to the UN Office for the Coordination of Humanitarian Affairs (OCHA). Many of them have headed towards urban areas, but others have moved into the bush; with travel restrictions and insecurity outside of the main towns, it's almost impossible for aid agencies to reach them to assess the situation. What's missing is an overall picture of exactly where the needs are greatest.

In some cases, it has proved challenging to negotiate access with the number of groups that run these areas, particularly as the precise territories they control have been constantly shifting. Most international staff working for agencies such as MSF and AAH have been pulled out and even national staff are cautious of moving around. As the International Committee of the Red Cross (ICRC) put it to me, negotiations for access for aid convoys are often with groups who have no clear leader, and little experience of dealing with humanitarian agencies. On top of that, most former Malian government officials have fled to the south, and there are believed to be armed bandit groups roaming the main roads. UN flights to the north have stopped.

Some help is starting to get through though. The UN World Food Programme (WFP) – the main organisation distributing food in the country – says that access is limited, but that they have been able to send three convoys from Mopti since May. The most recent is due to arrive in the coming days, and will distribute 100 tonnes of pulses and 30 tonnes of oil in Gao, Timbuktu and Kidal. It's not an easy job though; WFP can only work through two local partners – the High Islamic Council and Action Against Hunger – in an area that makes up half the country's territory.

AAH and MSF Belgium and Switzerland are still running emergency medical centres for the worst-affected children, albeit only with local staff. But the supply of medicines, equipment and resources is also affected. The ICRC told me that they've recently secured the delivery of fuel to the main hospital in Gao to keep the generators running.

The small hope is that the food situation may improve as the next harvest approaches – the 'lean season' reaches its peak in July as the annual rainy season ensures new crops can grow. The rains have already started across the Sahel, even in the extreme northern Malian region of Adrar Des Iforghas, and there are reports of fresh vegetation springing up.

However, this potential is overshadowed by a warning from the UN's Food and Agriculture Organisation (FAO) that the region could suffer a locust attack, as pest control methods usually employed in southern Libya have been disrupted by the civil conflict there.

There is no sign of an end to the political stalemate in Bamako, and efforts by neighbouring countries to send in a military stabilisation force were dealt a blow in mid-June when the UN Security Council said it needed more information before it could authorise such a move. The silent crisis in northern Mali shows no sign of easing soon. ◆

Celeste Hicks is a freelance journalist with a focus on African issues. She has a particular interest in the Sahel. This article is reproduced from the African Arguments website (africanarguments.org).

Israel's anti-migrant violence fuelled by racial and economic segregation

African migrants to Israel, who were cogs in a wheel to marginalise Palestinian workers, have now become the latest victims of racist paranoia in a nation built by refugees of war and genocide.

Michelle Chen

ActiveStills.org

In May, Tel Aviv was the site of attacks on shops and residents in African migrant communities. Picture shows rioters damaging an Ethiopian bar in Tel Aviv's Hatikva neighbourhood.

ISRAEL has always had issues with space, displacing Palestinian populations and carving out new settlements. Now, a growing migrant population has evoked a fresh wave of xenophobic rage. In May, Tel Aviv was the site of rabid attacks on shops and residents in African migrant communities.

CNN reported: 'Israeli protesters chanted slogans such as "infiltrators get out" and "Tel Aviv: A refugee camp". Three members of the right-wing Likud party – part of the governing coalition – were among the politicians who attended. One of them, Miri Regev, was quoted as saying that "the Sudanese are like a cancer in society".'

Amin, an Eritrean migrant whose business, a local bar, was destroyed by rioters, told the *Jerusalem Post* in bewilderment, 'They just smashed the place up. They destroyed everything. Why? What for? What have we done to them?'

In this nation built by refugees of war and genocide, the protesters seemed oblivious to the historical refraction of this display of mob terror and smashed glass. If anything, their hatred for migrants living and working among them resonated with bigotry overseas, particularly anti-Latino jingoist campaigns in the United States.

Haaretz quoted a shoe seller in the Hatikva neighbourhood who seemed inspired by America's legacy of racism: '"It will become Harlem here," Kuzarov warned. "You walk here on Shabbat and you don't see anyone our colour. This was the happiest place in the world; now it's become a black grave".'

For besieged migrant communities, the state of Israel has become a dead-end for human rights. Since citizenship is linked to racialised religious identity, the typical migrant is the ultimate Other, to be vilified as pariahs, or exploited for cheap labour. Like other immigrants to richer nations, Israel's migrants often work in low-wage sectors with minimal protection from abuse. Meanwhile, many refugees from Sudan and Eritrea are trapped in a legal limbo and technically barred from working. The recent anti-migrant violence also appears to be partly incited by sexual assault accusations involving African migrants.

Michal Schwartz of Workers Advice Center, a Tel Aviv-based independent trade union, said via email that the recent influx of African migrants are fleeing war and poverty only to encounter more crippling oppression in a nation that refuses to recognise their humanity: 'Most of them just seek work, escaping areas that are subject to famine and tyrannical regimes. Because Israel does not know what to do with them, some are thrown to detention camps, the rest are picked up by Israeli police or border police, and then put on a bus to Tel Aviv and dumped in poor Jewish neighbourhoods, living in extremely poor conditions and without … the right to work.'

Schwartz added, 'The problem here is not that the African immigrants compete with the natives who attacked them for work.' While the attackers may have been poor, she argued, they 'are not part of the labour movement. They throw their frustration on those weaker than them, with darker skins, after being incited by "professional" racists. Those same people could easily attack Palestinians if they had a chance to.'

The backdrop to the anti-migrant attacks is a social and legal structure based on segregation, despite the veneer of liberal democracy. The exclusion policies targeting migrant 'infiltrators' derive from the apartheid regime buttressing the state's foundation.

Even those migrants who enter legally as guestworkers suffer deep discrimination. According to a Human Rights Watch (HRW) commentary, workers who are 'bound' to their employers are exposed to extreme coercion:

'As with the "sponsorship" or kifala system of many other Middle Eastern countries, Israeli policies make foreign workers extremely vulnerable to exploitation. In 2006, Israel's Supreme Court found that the "binding" policy "has created quasi, modern-version slavery" where "the foreign worker had become a serf of this employer", and gave the government six months to cancel it.

'Four years on, it hasn't.

'Other policies, purportedly to discourage foreign workers from any activity that could strengthen their claims to Israeli residency, make it impossible for many foreign workers to have any form of family life.'

Yet these migrants are cogs in a broader campaign to marginalise Palestinian workers, HRW noted. Foreign workers were recruited 'as Israel has sought to replace the Palestinian work force since the second intifada, or uprising, began in 2000'.

African migrant workers seeking medical treatment at an NGO-operated clinic in Tel Aviv. Israel's migrants often work in low-wage sectors with minimal protection from abuse.

Israeli Prime Minister Benjamin Netanyahu recently complemented the street violence with a brutal decree to deport some 25,000 'infiltrators', stating that 'Whoever can be sent away should be sent away from here as quickly as possible.' The measure will immediately affect migrants from countries with which Israel has diplomatic relations that allow for repatriation. A larger number of migrants hail from Eritrea and Sudan, to where deportation is impossible due to humanitarian concerns.

The government's reaction to the immigration crisis mirrors its approach to 'managing' Palestinians: military patrols and border walls – recently embodied in the planned construction of a massive steel fence to enforce the Egypt-Israel border.

Though fears about economic competition are coloured by racist paranoia, immigration is fundamentally an economic justice issue, for the migrants and for all of Israel's fractured society. Israeli law has linked together African migrants, Arab Israelis and Palestinians in the Occupied Territories in a permanent underclass – branded as criminal infiltrators, security threats or enemies in their own homeland. Meanwhile, neoliberal economic policies exacerbate entrenched racial and class inequalities, including underlying economic instability among Israeli citizens.

'As long as Israel continues to sanctify the principle of a Jewish majority,' Schwartz said, 'its policy remains racist both to the Palestinians in the occupied territories, to the Arab citizens in Israel, and to the migrants.'

Amid fences and checkpoints, Israel is infused with an explosive amalgam of economic stratification and race nationalism. The violence unleashed against migrants in May was just one of many sparks dancing around a short fuse with a long history. ◆

Arab residents shopping at the market in the Israeli city of Nazareth. 'Israeli law has linked together African migrants, Arab Israelis and Palestinians in the Occupied Territories in a permanent underclass.'

Michelle Chen is a contributing editor at In These Times, *an editor at CultureStrike and a contributor to the Working In These Times blog (www.inthesetimes.com/working), from which this article is reproduced.*

South Africa's 'Traditional Courts Bill' impairs rights of 12 million rural women

The South African parliament has decided to adjourn the passage of the Traditional Courts Bill after strong protests from women's groups. The bill threatens to undermine the basic rights of some of the country's most vulnerable inhabitants: the 12 million women living in remote rural communities across the country.

Sabine Clappaert

THE aim of South Africa's Traditional Courts Bill was to 'provide more South Africans improved access to justice' by recognising traditional authorities and laws. Through it, traditional leaders in remote areas would be given unilateral power to create and enforce customary law.

The bill sparked an outcry in 2008 when it was first tabled in the National Assembly. But with it due to come into effect at the end of 2012, civil rights groups became increasingly vocal in their demand to have it declared unconstitutional.

The bill will allow traditional leaders to hear civil cases including disputes surrounding contract breach, damage to property, theft and *crimen injuria* or 'unlawfully, intentionally and seriously impairing the dignity of another', if such assault does not result in grievous bodily harm.

But many civil rights groups have slammed the proposed bill. According to Jennifer Williams, director of the Women's Legal Centre in Cape Town, South Africa, the bill would 'place all power in the hands of a single individual – in almost all cases a man – and effectively make him judge, jury and implementer'.

Not only does the proposed bill give a single individual the power to interpret custom in a particular community, it also forbids defendants from having an attorney – even in criminal cases. Furthermore, it does not allow the option of trying the case in a mainstream court.

'The bill simply does not include any checks on the power of traditional leaders, nor does it hold them accountable,' says Williams.

Women in particular will be affected by the bill. And it has sparked a nationwide debate. Rights activist Siyasanga Mazinyo of the Rural People's Movement in Grahamstown, South Africa, told local newspaper the *New Age* on 2 May that the bill violated women's rights.

'In the past these traditional court processes were heard near the kraal (cattle enclosure) and according to our traditions, women are not supposed to sit near kraals.'

Many similar traditions are still in place today, Williams says.

'According to tribal traditions, women are not allowed to attend hearings while they are menstruating, neither are widows allowed to attend traditional courts when in mourning.

'In reality this means that a man will represent her during the court hearing and she will have no impact on the hearing whatsoever. She will know her fate only once the judge has made his decision.'

Williams says that the Traditional Courts Bill is 'clearly rooted in a patriarchal system'.

'Although it tries to use equal language by allowing men to represent women and women to represent men in the courts, it goes on to stipulate that this should be permitted only according to existing custom. Exactly herein lies the problem: custom in most places prevents women from appearing in courts and certainly does not permit them to represent men.'

She says that one of South Africa's main challenges is how to harmonise custom with its current legal dispensation, and the bill fails to do this.

'It will take us back to a position where men will make and interpret custom in courts in a way that may not be consistent, clear or certain. Women and children (and other men) will be compelled to submit to the jurisdiction of these courts, regardless of choice. This will in effect create a second class of citizens,' Williams says.

The South African Commission for Gender Equality (CGE), an independent statutory body mandated to promote and protect the attainment of gender equality in South Africa, rejected the bill, saying it is fatally flawed.

'Numerous provisions within the bill are unconstitutional, and we have raised our concerns over issues relating to women's representation and participation in traditional courts, and the impact this is likely to have on their constitutional rights to equality,' says Janice Hicks, acting chairwoman of the CGE.

The reality of tribal law would be harsh, as illustrated by the case of M*, a young woman from the country's Xhosa ethnic group who approached the Women's Legal Centre for assistance. The young woman was married when she was 14 to an older man who lived with his girlfriend and worked in Johannesburg.

However, M* was forced to live with her husband's parents in a remote rural area, where she was expected to assist in the family home. Unhappy that she was unable to live with her husband or attend school, she fled to her parents' home more than 500 kilometres away.

Angered by her departure, her

husband brought legal action in the local Magistrate's Court demanding the return of his wife, as well as the *lobola* (bride price) he had paid and legal costs. After an intervention by the Women's Legal Centre, this claim was dismissed with an order that the plaintiff pay the defendant's costs.

If, however, the case were to be decided under the Traditional Courts Bill – as the remote rural area where she lived with her parents-in-law falls under such jurisdiction – things would have turned out vastly different.

'Firstly, under Xhosa customary law, when a wife separates from her husband and returns to her father, the husband is required to fetch her,' states Williams. 'The father and husband may then also negotiate the terms of the wife's return without consulting the wife.'

Customary law also considers the marriage of a 14-year-old legal, while under civil law the marriage would be considered invalid and the husband would be found guilty of statutory rape. The traditional court would also have requested the return of the bride price.

How could custom and constitution best be reconciled in the new South Africa? This remains a burning question to which the country's leaders must find an answer.

The CGE recently met with Minister of Women, Children and People with Disabilities Lulu Xingwana, to raise concerns regarding the bill.

'She stated that the bill does not have a place in a democratic South Africa, and has publicly called for it to be withdrawn,' Hicks says.

As Jennifer Johnny of the South African Law Reform Commission stated in an interview on 9 May with Independent Newspapers: 'If there is such a desire to regulate customary law, should we rather not have specialist courts which deal specifically with customary law, like the courts we have now that deal with maintenance and domestic violence?'

If the Traditional Courts Bill does get passed into law, Williams says, the Women's Legal Centre will take the matter to court to have it declared unconstitutional. – *IPS* ◆

**Name withheld to protect identity of source.*

VIEWPOINT

The Syrian cauldron

What is being played out in the Middle East is one of the greatest power games since the end of the First World War, says *Jeremy Salt*. Behind the cover of the 'Arab spring', the obstacles to renewed Western domination of the region are being removed one by one. The destabilisation of Syria is bringing the region close to a war with potentially catastrophic global repercussions.

TENSION between Turkey and Syria along their border is edging closer to flashpoint. On 22 June a Turkish air force jet was shot down after violating Syrian airspace. The Syrian government said the plane was hit while inside Syrian airspace. Turkey says it had already left Syrian airspace and was hit in international airspace.

What the plane was doing inside Syrian airspace is another matter. Turkey's President, Abdullah Gul, said it had 'strayed' off course. Other accounts suggest that it was there to 'light up' Syria's radar system or test its missile defences. Turkey immediately sent troops and armour to the border and invoked Article 4 of the NATO Charter, calling for consultation with its partners in the alliance. They immediately endorsed the Turkish version. Hillary Clinton called the shooting down of the plane 'brazen' while William Hague thought it was 'outrageous', words, one cannot help noting, that they have never used to describe the missile attacks by their armed forces that have killed civilians in Afghanistan, Pakistan, Yemen, Somalia and Libya. Another 'incident' might lead to Turkey invoking Article 5, the common defence article of the NATO Charter, which regards an attack on one member as an attack on all. War between Syria and Turkey would then become war between Syria and all NATO members, leading in turn to confrontation between the NATO/Gulf state bloc on one hand and Russia, China, Iran and their allies on the other.

There is nothing accidental or unwilled about what is happening in Syria. The government in Damascus has been deliberately locked into a cycle of violence fed from the outside by the self-styled 'Friends of Syria'. Both sides are implicated in the killing of civilians yet the mainstream media has created a narrative in which virtually all the killing is the work of the army or the 'regime loyalists' known as the *shabiha*.

A Damascus resident casting his vote for the parliamentary elections in May. The elections 'were hardly perfect' but remain a clear indication of general support amongst Syrians for a political solution to the crisis gripping their country.

'Activists' routinely blame every murder, bombing and act of sabotage on the government even when the victims have been Baath loyalists (as was the professor murdered by armed men in her home on the outskirts of Homs in late June, along with her three children and parents). The suffering of families whose menfolk have been killed after taking up arms against the government is reported in the media, but not the suffering of families who have lost members to the armed groups. The jury remains out on the Hula massacre. While the UN Human Rights Council says in its latest report that 'many' of the killings 'may' have been the work of regime loyalists, other evidence points to the massacre having been the handiwork of *jihadis*, reportedly including the Faruq Brigade of the so-called Free Syrian Army. As the Human Rights Council admits that it has no conclusive evidence as to who was behind this massacre, it might have been more responsible for it to say nothing unless and until it did have such evidence.

This unbalanced narrative feeds into the war strategies being framed by the 'Friends of Syria'. These 'friends' insist that the armed campaign they are sponsoring is directed against the government and not the people. What 'the people' – by any measure the majority of Syrians – want is hard to gauge amidst such chaos but evidence suggests they see these 'friends' as their enemies. The referendum in February and the elections in May were hardly perfect but remain the clearest indications yet of general support amongst Syrians for a political solution to the crisis gripping their country. Outside the enclaves dominated by the armed groups, the people are strongly opposed to these groups and their external backers, knowing that but for the obstruction of Russia and China, NATO warplanes would have been bombing their country long ago.

Outside governments have fastened on Syria's problems with the tenacity of leeches. The 'Arab spring' created the opportunity to reshape the Middle East at its political and geographical centre and they have seized it. Although paying lip service to Kofi Annan's ceasefire plan, they are prolonging the violence in the hope that the army will eventually disintegrate and the government implode. While the destruction of the government in Damascus is an end in itself, Syria must also be seen as a way station on the road to Iran.

If the Baath government can be brought down, the strategic alliance between Iran, Syria and Hizbullah will collapse at the centre. Even if the government is not dislodged, Syria will be in such chaos that it would be unable to respond if Iran is attacked. Hizbullah would be similarly immobilised. Israel would be able to attack without having to worry about a second front opening up across its northern armistice lines. President Putin's assurance while on an apparently unscheduled visit to Israel that Iran will not develop a nuclear weapon may have been a last-ditch attempt to ward off an attack on Iran. Perhaps Russian intelligence has found out that a decision has finally been taken and the date and time set.

Turkey's initial response to the 'Arab spring' was sluggish. The Tunisian president was gone before the government had time to react. It waited almost until the end before calling on Mubarak to step down. Prime Minister Erdogan spoke strongly against military intervention anywhere in the region before coming in behind the armed attack on Libya. On Syria he and his Foreign Minister claimed to have given President Bashar al-Assad good advice which he refused to take before deciding that he had to go. In late summer they threw their government weight behind the establishment both of the 'Syrian National Council' (SNC) and the 'Free Syrian Army' (FSA), giving the first a home in Istanbul and the second sanctuary in southeastern Turkey.

For the first time in Turkey's republican history a government had committed itself to 'regime change' in a neighbouring country; for the first time a government had sponsored an armed group operating across its border to kill the citizens of a neighbouring country. Even now the moral and legal implications of this policy have scarcely been touched upon in the Turkish media.

For a country which has a long history of other governments meddling in its affairs, the Turkish position is almost surreal. This is not just because of the parallel between the PKK and the FSA, both crossing the borders of neighbouring countries to kill the citizens of their own country; both claiming to be fighting in the name of human rights and freedom; and both regarded as terrorist organisations by the governments of the countries in which they are operating. The history of external meddling and support for rebels by outside governments goes deep into the history of Turkey and the Ottoman Empire, from the support for the Greek rebels in the 1820s, to support for the Bulgarian rebels in the 1870s and Macedonian and Armenian rebels in the 1890s. Intervention in the name of civilisation was replaced in the 20th century by intervention in the name of democracy and freedom, and now we have intervention in the name of humanitarian concern – a continuing theme through these two centuries – and the 'responsibility to protect'. In a paradoxical play on history, Turkey is now intervening in Syria as the imperial powers once intervened in the Ottoman Empire and as they are still intervening in the affairs of other countries.

Other agendas are easy to see. Saudi Arabia wanted the US to attack Iran during the George W Bush presidency and 'cut off the head of the snake'. Its interests are partly ideological, directed against Shiism in general as well as Iran in particular, while also arising from the traditional Saudi fear of its large northern neighbour. The US put the Syrian government on its list of states that support terrorism in 1979 and since the introduction of SALSA (Syrian Accountability and Lebanese Sovereignty Act of 2003) has gradually tightened economic sanctions in an effort to bring the government to its knees. For Israel Syria has always been the visceral Arab enemy and of course, what Israel wants, any US administration will do its best to deliver. Turmoil in the Arab world suits Israel down to the ground, literally. It is tightening its hold on all the territories occupied in 1967 all the time without the world paying any attention because of the drama of the 'Arab spring'. Not that the world has ever paid much attention, but for the moment Israel is having a dream run.

The one agenda that is difficult to determine is Turkey's. It has the approval of its partners inside NATO and the collective known as the 'Friends of Syria' but this has come at a heavy price. Cross-border trade in the southeast has all but collapsed. Relations with Iran, Iraq and Russia have been undermined. Perceptions of government sympathy for a Muslim Brotherhood-type government in Syria have aroused the suspicions of Turkish Alevis, especially in the border province of Hatay, where the population is about 50% Alevi. The region was severed from Syria by the French in 1938 and handed to Turkey. Both Alevis and Christians still have family ties across the border and both see the Assad government as an effective guarantor of minority rights. They certainly do not share their own government's perspective.

What is being played out is one of the greatest power games since the end of the First World War. Behind the cover of the 'Arab spring' the obstacles to renewed Western domination of the region are being removed one by one. The destabilisation of Syria is bringing the region close to a war with potentially catastrophic global repercussions but the rewards are so great that the Western coalition cannot help itself from pressing against all red lines.

Turkey's involvement is central to Western strategic planning and if war does come either through accident or design Turkey will be right on the frontline. A recent poll carried out by the Centre for Economic and Foreign Policy Research shows strong opposition to any deeper involvement in the Syrian crisis. The majority of those polled (56%) do not support military intervention in Syria and only a small number (less than 8%) support the arming of the Syrian opposition. The question here is whether the Turkish people realise how deeply their government is already involved. The ruling party dominates parliament but Syria might yet prove to be its Achilles heel. ◆

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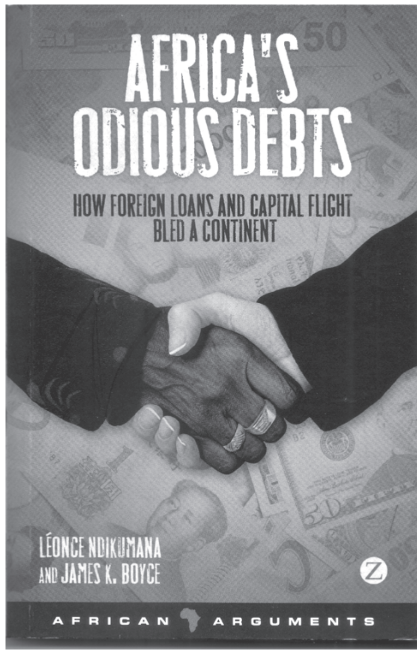
Why Africa stays poor

Africa's Odious Debts: How Foreign Loans and Capital Flight Bled a Continent

by Léonce Ndikumana and James K Boyce

Published in association with the International African Institute, the Royal African Society and the Social Science Research Council in 2011 by Zed Books, London and New York

Review by Peter Gillespie



IN June 1989, Mobutu Sésé Seko, dictator of Zaire, flew to Washington to meet his old friend George HW Bush, the newly-elected president of the United States. Mobutu had been a valued US ally during the Cold War. Now the Cold War was coming to an end and Mobutu was worried. Zaire was carrying a $9 billion debt and couldn't make its loan payments. Several years previously, the International Monetary Fund (IMF) had reported that corruption by Mobutu and his cronies was so entrenched that there was no chance the country's creditors would ever be repaid.

Nevertheless, Mobutu's visit to Washington was a success. The IMF approved a new loan of $187 million, and the World Bank added $87 million more. By the time Mobutu fled the country in 1997, his personal fortune was estimated to be $5 billion while the country's debt had swollen to $14 billion. Zaire, renamed the Democratic Republic of the Congo, descended into anarchy and war. By the end of the next decade, more than five million people were dead.

The story of Mobutu's kleptocracy is told in *Africa's Odious Debts: How Foreign Loans and Capital Flight Bled a Continent* by Léonce Ndikumana and James Boyce. The authors, economists with the University of Massachusetts, Amherst, have been examining the problem of capital flight from sub-Saharan Africa since the 1990s. Theirs is a story of massive looting at the expense of the people of the region, and the complicity of Western banks that have laundered stolen wealth without questioning its provenance.

Ndikumana and Boyce are particularly interested in the relationship between the money borrowed by African governments and capital flight – money that flows out of these countries. Their findings are staggering. More than half of the money borrowed by African governments departs the continent in the same year, often ending up in private accounts at the same banks that provided the loans in the first place.

In 33 sub-Saharan countries the authors studied, $700 billion fled the continent between 1970 and 2008. If this capital had been invested and earned interest, the accumulated loss for these countries would be $944 billion. What these figures mean is that sub-Saharan Africa is a net creditor to the rest of the world, its foreign assets far exceeding its foreign debts of $175 billion. The problem is that much of these assets are in the hands of private individuals, while the liabilities are public.

Mobutu is only one particularly flamboyant example of a variety of African kleptocrats who converted loans and revenues from oil and minerals into private wealth. Sani Abacha

Zairean leader Mobutu Sésé Seko meeting US President George HW Bush in Washington in June 1989. Several years previously, the IMF had reported that corruption by Mobutu and his cronies was so entrenched that there was no chance Zaire's creditors would ever be repaid.

of Nigeria reportedly ordered the Bank of Nigeria to transfer $15 million a day to his Swiss bank accounts, accumulating a personal fortune estimated at between $2 billion and $5 billion. At the time of his death in 2009, Gabon's Omar Bongo owned 39 luxury properties in France and had more than 60 offshore bank accounts. Last October, the US Department of Justice announced that it was seizing over $70.8 million in corrupt assets, including a $30 million Malibu mansion, from Teodorin Obiang, son of the President of Equatorial Guinea.

Ndikumana and Boyce's findings are corroborated by other studies. In a 2011 report, the Washington-based Global Financial Integrity project (GFI) calculated that, between 1970 and 2008, Africa lost more than $850 billion in illicit financial flows, outpacing official development assistance by at least 2 to 1. GFI noted that this is likely an underestimate and that the magnitude of African illicit outflows during this period could be as high as $1.8 trillion.

It is estimated that every additional dollar in debt service means 29 cents less spending on public health in Africa.

It is impossible to deal with illicit capital flight without addressing the secrecy services provided by the shadow financial system operated largely by mainstream banks in places such as the Cayman Islands *(pic)*.

Corporate outflows

Corrupt African dictators, however, are only a small part of the problem. GFI estimates that falsified accounting practices and tax avoidance by transnational companies account for 60-65% of illicit outflows. These practices include trade mispricing, inflating costs, under-reporting revenues, and the use of tax havens as a base for corporate activity. The outflow of resources from Africa is enabled by a shadow financial system comprised of tax havens, secrecy jurisdictions, shell corporations, anonymous trusts, and bogus foundations.

It is impossible to deal with illicit capital flight without addressing the secrecy services provided by the shadow financial system operated largely by mainstream banks in places such as London, New York, Geneva, the Channel Islands, the Cayman Islands, and various small states.

It would be no exaggeration to assert that these outflows have resulted in the stunting and the deaths of hundreds of thousands of people in Africa. Ndikumana and Boyce estimate that every additional dollar in debt service means 29 cents less spending on public health, and each $40,000 reduction in health expenditure translates into an additional infant death. They calculated that debt service payments on loans that fuelled capital flight have resulted in more than 75,000 additional infant deaths annually in the sub-Saharan region.

The impoverishment of Africa will only end when these outflows are curtailed. Ndikumana and Boyce believe that African countries should repudiate their debts if they are incurred without public consent and benefit, and they support the Norwegian proposal for an international debt settlement court to adjudicate disputes over debt legitimacy.

Equally important is to put an end to the shadow financial system that launders the proceeds of corruption, crime, and commercial tax evasion. This will require coordinated international efforts to curb financial flows to tax havens and secrecy jurisdictions that have facilitated the movement of assets offshore and concealed them from public view.

This has been on the international agenda for a number of years, but little progress has been achieved and it is still business as usual. ◆

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A surgeon by profession, *Lenrie Peters* (1932-2009) was a Gambian poet and novelist. It has often been observed that 'in contrast to the post-colonial optimism of many writers from newly independent African nations, Peters's poems expressed themes that were pessimistic and bleak'.

One long jump

Lenrie Peters

One long jump
From the early days
When the face was like a globe
Round, revolving, limitless
Sharp incisive like a probe
And eyes which could see
With the completeness of a globe – geometrically
A soft film of brown hairs
And a language of birds and flowers.

One long jump
From the early days
When wave upon wave
Of passion merged
Cutting their losses
Preserving their 'gains'
And beauty tingled the flesh
Like a snake
On the surface of the lake
Yielding her store of comfort
Without deceit
Without fictitious powers of support
And no didactic analyses
To know that milk was sweet.

One long jump
And never another
Never quite the same
Because things get mouldy
In the grave
and milk loses its taste
On the coated tongue
Bartered birthrite
Like the chaste membrane
Is lost for good
So we can never arrive
At the beginning
To couch in the blue light
Of the primaeval hive
Except in the dissolution of the flesh
And early strength never returns
To oppose the grinding artificialities
Or to marvel at the rose

One long jump
The first and last
And no progression
So take it well.
Looking back upsets
The balanced wheel
Too tired if we arrive
It is enough
To seek the short cut