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Neoliberalism on the wane?

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Editor's Note

A RECENT article in the International Monetary Fund (IMF)'s in-house magazine *Finance and Development* (June 2016) created a stir when it appeared to question one of the Fund's sacred cows – neoliberalism.

Written by three economists in the IMF's Research Department and provocatively titled 'Neoliberalism: Oversold?', the article has raised speculation as to whether the Fund is at last fundamentally questioning its central policy prescription for economic development.

For more than three decades the Fund has been pushing crisis-stricken countries which have turned to it for assistance to adopt neoliberal economic policies as a precondition for its loans. The Fund ensures compliance by compelling the debtor countries to implement its 'structural adjustment' programmes based on neoliberal principles before releasing each tranche of its loans.

The evangelical role as the disseminator of neoliberal ideology which the IMF and its sister organisation, the World Bank, have played since the 1980s is something of a historical aberration. The fact is, the 1944 Bretton Woods conference which gave birth to these 'twins' marked a decisive break with the ideology of economic liberalism, the dominant ideology of the prewar years of which neoliberalism is a reincarnation.

Economic liberalism, which rests on the belief that the economy should be left to the operations of the market without interference by the state, had been discredited by the eruption of the 1920-30s Great Depression. It was further discredited when the ideology's dogma of the 'balanced budget' at any cost, including raising taxes during a slowdown (as undertaken in the US by President Hoover), not only failed to overcome the economic downturn but depressed the economy further.

Instead, it became clear that there was a need for state intervention to regulate the market and boost public spending to stimulate a flagging economy. The latter course, undertaken by President Roosevelt's New Deal (which involved state planning to increase public spending), while it did not bring an end to the Depression, was an indication of the appropriate response.

The theoretical underpinning for this course had been provided by British economist John Maynard Keynes, who would go on to become one of the major figures in convening and shaping the outcome of the Bretton Woods conference. Although his ideas had been anticipated by the Polish economist Michal Kalecki, it was Keynes's name that came to embody the postwar economic policies of state intervention to achieve price stability and full employment, and especially the use of deficit spending to overcome recessions.

However, from the late 1970s, when inflation and financial crises threatened the stability of the international system, Keynesianism came under severe attack. Economic liberalism thus made a comeback in the 1980s, this time in the form of neoliberalism (i.e., a 'new' liberalism).

As the IMF was an early convert to this ideology, the claim now by its economists that neoliberalism has been 'oversold' may appear as an act of penitence. But a close reading of their article does not reveal any real crisis of faith. After stressing that 'there is much to cheer in the neoliberal agenda', they then go on to make some exaggerated claims of its success. These include claims that the 'expansion of global trade has rescued millions from abject poverty' (a familiar claim by free-market votaries which has never really been substantiated), that 'foreign direct investment has often been a way to transfer technology and know-how to developing economies' (a claim which goes against the weight of the historical experience of developing countries) and that 'privatisation of state-owned enterprises has in many instances led to more efficient provision of services' (another neoliberal article of faith which rests on … faith!).

In short, they make it clear that their disquiet is not with the broad neoliberal agenda, but only with two tenets of the neoliberal faith – two policies which, apart from their intrinsic shortcoming, are likely to increase income inequality without necessarily contributing to growth.

The first of these is capital account liberalisation, i.e., the removal of restrictions on the movement of capital across borders. But there is nothing new in this scepticism about the IMF's longstanding position of opposition to capital controls, as already in November 2012, the Fund in a paper ('The liberalisation and management of capital flows: An institutional view') had recanted this tenet by admitting that 'in certain circumstances, capital flow management measures can be useful'. All we have here is a reiteration of the Fund's newfound wisdom that capital controls may be necessary to limit short-term capital flows likely to lead to a financial crisis.

The second tenet about which the authors of the *Finance and Development* article express disquiet is 'fiscal consolidation' or 'austerity' policies to reduce fiscal deficits and debt levels. They argue that such policies, apart from exacting a human cost, reduce demand and may not result in growth. Here again, there is nothing new, as studies of the effects of IMF structural adjustment policies in developing countries as far back as the 1980s had revealed that such policies were indeed demand-stifling, growth-retarding and even recession-inducing.

What is surely astonishing is how long it has taken for the IMF to learn from its costly mistakes. Having jettisoned the postwar Bretton Woods consensus and replaced it with a neoliberal alternative, it has had decades to reflect on the failure of this ideology as a policy alternative. Yet all that the Fund and its economists have been prepared to do is tinker with a couple of its tenets in an attempt to salvage a failed ideology.

Unfortunately, this is just too little, too late.

Our cover story offers a selection of the varied responses the IMF article has elicited. It is prefaced by a historical sketch of the origins of neoliberalism. It concludes with a case study of the impact of neoliberalism on India since the country embraced that ideology some 25 years ago.

– The Editors

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The International Monetary Fund (IMF) has long been a fervent proponent of neoliberal economic policies, but the publication of a recent article by three of its researchers has raised speculation of a rethink by policymakers of the neoliberal agenda. 6

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Concern over profit-oriented approach to biodiversity in Latin America

Although the 2010 Nagoya Protocol, a supplementary agreement to the 1992 Convention on Biological Diversity, was designed to ensure the fair and equitable sharing of benefits arising from the utilisation of genetic resources, it still fails to address some of the misgivings of indigenous peoples, say activists from Latin America, the region with the greatest biodiversity in the world. *Emilio Godoy* reports.

IN July 2015, the Mexican government granted a US corporation permission for the use of genetic material obtained in Mexican territory for commercial and non-commercial purposes, in one of the cases that have fuelled concern in Latin America about the profit-oriented approach to biodiversity.

The agreement, which is catalogued with the identifier number Absch-Ircc-Mx-207343-2, was approved by the National Seeds Inspection and Certification Service and benefits the US company Bion2 Inc, about which very little is known.

Prior informed consent from the organisation or individual who holds right of access to the material was purportedly secured. But the file conceals the identity of this rights-holder and of the genetic material that was obtained, because the information is confidential.

This is an example of confidentiality practices that give rise to concern about the proper enforcement of the Nagoya Protocol on Access to Genetic Resources and the Fair and Equitable Sharing of Benefits Arising from Their Utilization, signed in that Japanese city in 2010 and in effect since 2014.

The protocol, a supplementary agreement to the 1992 Convention on Biological Diversity, in force since 1993, seeks to strengthen the conservation and sustainable use of biodiversity and the fair and equitable sharing of benefits arising from the utilisation of genetic resources.

Emilio Godoy/IPS

An indigeous peasant farmer from Chiapas, Mexico, holds native coffee grains. The sharing of benefits generated by genetic resources has become a controversial issue throughout Latin America.

In Latin America and the Caribbean, the protocol has been ratified by Cuba, the Dominican Republic, Guatemala, Guyana, Honduras, Mexico, Panama, Peru and Uruguay.

The protocol stipulates that each state party must adopt measures to ensure access to traditional knowledge associated with genetic resources in the possession of indigenous and local communities. That will be done, it states, through the prior informed consent and the approval and participation of these groups, and the establishment of mutually agreed conditions.

Indigenous peoples' concerns

'The expectations of indigenous people are not well-covered by the protocol,' Lily Rodríguez, a researcher with the Institute for Food and Resource Economics at Germany's Bonn University, told Inter Press Service (IPS).

She stressed that the protocol presents 'the opportunity to recognise traditional knowledge as part of each nation's heritage and to establish mechanisms to respect their decisions with regard to whether or not they want to share their knowledge'.

Latin America and the Caribbean is the region with the greatest biodiversity in the world, as it is home to several mega-diverse countries like Brazil, Colombia, Ecuador and Mexico.

The questions covered by the Nagoya Protocol will form part of the debate at the 13th meeting of the Conference of the Parties to the Convention on Biological Diversity, to be held on 4-17 December in Cancun, Mexico.

Indigenous groups and civil society organisations complain that the protocol recognises intellectual property rights for so-called bioprospectors, research centres or companies hunting for biological information to capitalise on.

Furthermore, the sharing of eventual monetary and non-monetary benefits for indigenous peoples and communities is based on 'mutually agreed terms' reached in contracts with companies and researchers, which can put native people at a disadvantage.

National-level developments

In Guatemala, civil society organisations and indigenous groups have fought their country's inclusion in the Nagoya Protocol, which it signed in 2014. In June, a provisional Constitutional Court ruling suspended the protocol in Guatemala.

'We are opposed because it was approved without the necessary number of votes in Congress; indigenous people were not consulted; and it gives permission for experimentation with and the transfer and consumption of transgenics,' said Rolando Lemus, the head of the Guatemalan umbrella group National Network for the Defence of Food Sovereignty.

The activist, whose NGO emerged in 2004 and groups some 60 local organisations, told IPS, from the Guatemalan department of Chimaltenango, that the use of biodiversity is part of the culture and daily life of indigenous people, whose worldview 'does not allow profiting from ancestral know-how'.

Guatemala had accepted three requests for research using the medicinal plant b'aqche' (*Eupatorium semialatum*), cedar and mahogany. The request for the first, used against stomach problems like worms, was in the process of being studied, and the other two were approved in October 2015 for research by the private University del Valle of Guatemala.

As a subsidiary to the Convention on Biological Diversity, the protocol also covers activities carried out since last decade, regulated by national laws, in different countries of Latin America, which are discussed in a regional study published in 2014.

Brazil, for example, has granted at least 1,000 permits for non-commercial research since 2003 and 90 for commercial research since 2000.

Between 2000 and 2005, Bolivia granted 10 genetic resources access contracts, out of 60 requests filed. Several of them involved quinoa and other Andean highland crops. Two of them were for commercial uses. But since new laws were passed in Bolivia in 2010, ecosystems and the processes that sustain them cannot be treated as commodities and cannot become private property. The legislation amounts to a curb on the country's adherence to the protocol.

In Colombia there are permits to collect samples and to send material abroad. Since 2003, that South American country has granted 90 contracts, out of 199 requests, and has signed a contract for commercial research.

Although Costa Rica has not approved permits for access to traditional knowledge or genetic resources in indigenous territories, it has issued 301 permits for basic research and access to genetic resources and 49 for bioprospecting and access to genetic resources since 2004.

Bioprospecting involves the systematic search for, classification of and research into new elements in genetic material with economic value. The role of the protocol is to ensure that this does not deprive the original guardians of their knowledge and eventual benefits.

Ecuador has received 19 requests since 2011 and in 2013 it negotiated a commercial contract.

For its part, Mexico has authorised 4,238 permits for scientific collection since 1996, and only a small percentage of requests have been denied.

Peru, meanwhile, requires a contract for every kind of access. Since 2009, it has authorised 10 contracts, out of more than 30 requests, and 180 permits for research into biological resources.

Ecuador is a good example in the region of the plunder of genetic material, as officials in that country complain.

The 'First report on biopiracy in Ecuador', released in June by the Secretariat of Higher Education, Science, Technology and Innovation, stated that Australia, Belgium, France, Germany, Israel, the Netherlands, South Korea, the United Kingdom and the United States have improperly exploited their biological wealth.

Of 128 identified patents, companies from the US hold 35, from Germany 33, from the Netherlands 17, from Australia 15, and the rest are held by firms in a number of countries.

'It all depends on how the governments of each country protect indigenous people, in accordance with their own legal frameworks,' said Rodríguez.

'If the legislation says that they will only negotiate prior consent, including clauses on mutually agreed conditions – if they aren't in a position to negotiate, it would be good if the government supported them so the negotiations would be more equitable and favourable for native peoples,' she argued.

Lemus is confident that the suspension in Guatemala will remain in place. 'We are thinking of other actions to engage in. People must have mechanisms to protect themselves from intellectual property claims and genetic contamination.' he said. *– IPS* ◆

China grapples with the problems of healthcare for all

Providing healthcare for a billion citizens is a herculean task, but since the 1990s China has had to confront this challenge while carrying out market reforms. *Michael Woodhead* discusses the attendant problems and the Chinese government's efforts to resolve them.

THE Chinese have a saying, '*Kan bing nan, kan bing gui*', which roughly translates as 'It's difficult and expensive to see a doctor'.

This is evident at 8am in the foyer of a hospital in Kunming, the largest city in Yunnan Province, south-west China. There are lengthy queues to obtain one of the coveted 'registration tickets' necessary to see a doctor, and arguments are breaking out among those who have been lining up for hours.

This is the frontline of healthcare in China because there is no primary care gatekeeper system to filter and triage.

Since the early hours, scores of people with minor ailments have arrived, hoping to claim a place in one of the outpatient clinics. Many of them are from poor families from rural areas, who have come to the city because they have little faith in their primitive township clinics and undertrained barefoot doctors.

To see a doctor at a Chinese hospital, you first have to register and pay a cash deposit. However, the unrest in this morning's hospital queue has been triggered for another reason. Because of the value of the registration tickets, scalpers exploit the economic possibilities and are brazenly working the queue, reselling tickets for many times their face value. And faced with long and often unsuccessful waits to get a clinic appointment, there is no shortage of willing buyers.

This is the reality for China's creaking healthcare system, which, through a mixture of underfunding and half-baked reforms, embodies the worst of both communist and capitalist healthcare models – long waits combined with high cost.

Hospitals are state-owned enterprises that receive meagre funding from government following the market reforms of the 1990s. The basic cost of a medical consultation is pegged by law at around 20 yuan. To cover their operating costs, hospitals resort to a wide range of surcharges that inflate medical bills. They have also come to rely on the commissions they charge on medicines, tests and procedures.

While most Chinese citizens are, in theory, covered by a national health insurance system, in practice, the caps, exclusions and lack of portability of these policies mean that most people still face high out-of-pocket fees. Healthcare in China is strictly user-pays: no cash, no care.

'Infusion room' syndrome

All this can create perverse incentives. For instance, the reliance of hospitals' budgets on drug mark-ups means that there is widespread overprescribing and overtreatment.

This is evident in the 'infusion parlour' of the general medical outpatients clinic of the Kunming hospital. The large room is filled with rows of seats, along which sit patients hooked up to IV drips delivering antibiotics or 'tonics'. This is the routine first-line treatment for any patient with a fever, cough, cold or gastro complaint in China. The hospital charges about 100 yuan per infusion – a healthy profit for them but unhealthy for patients who need only simple analgesics, fluids and rest.

'Hospitals giving infusions for minor illness has become a long-established bad habit, which is one of the important factors for antibiotic drug misuse,' according to Professor Wu Yunming of Xuzhou Medical College in Jiangsu Province. 'Hospitals are businesses, and infusions represent a significant source of revenue for them.'

To be fair to China's doctors, it is not individual greed or ignorance on their part that drives this poor practice. Chinese doctors know antibiotic infusions are not best practice for minor illnesses, but infusions have become embedded in routine care because doctors depend on commissions for about a quarter of their monthly income.

The basic salary of a hospital resident is about 4,000 yuan a month, equivalent to that of an entry-level public servant or teacher. However, their contract includes performance bonuses of a further 1,500 yuan – the so-called 'grey income' – which doctors receive if they meet prescribing quotas in line with the hospital's revenue targets. Senior doctors, especially those working in procedural specialities such as orthopaedics, can make considerably larger sums of money from commissions.

The government is trying to tackle this well-recognised cause of overservicing by banning drug commissions and allowing hospitals to charge higher consultation fees. However, the early signs from pilot programmes carried out in regional and rural healthcare facilities suggest that hospitals simply shift from drug mark-ups to additional fees for services.

Violence against doctors

Unsurprisingly, this mix of

overservicing and overcharging is a source of widespread public distrust of doctors and hospitals. The feelings of being shortchanged extend to the short consultation times.

The 80/20 rule, which prohibits general practitioners (GPs) from billing 80 or more services on 20 or more days a year, is used by Australia's state healthcare scheme Medicare as a benchmark of poor care. But not so in China, where doctors working in clinics routinely see 80-100 patients during a four-hour shift.

'I'm so busy I don't even have time for toilet breaks, let alone lunch. I eat at my desk,' one doctor told me during my visit to the hospital in Kunming last year.

A patient can expect to be with the doctor for about three minutes – six minutes if they are lucky. The perfunctory nature of such medical consultations means some patients resort to verbal and physical aggression to vent their frustration over perceived mistakes or miscommunication. Violent attacks against medical staff are commonplace.

In a survey by the Chinese Medical Doctor Association, more than 60% of doctors said they had been subjected to physical abuse and 13% had been physically assaulted in 2015. That year, there were 115,000 reported disputes in hospitals, with 4,600 serious 'security incidents' leading to 1,425 arrests.

There have also been several widely reported fatal attacks against doctors by disgruntled patients or their family members. The most recent, in early May 2016, saw an emergency surgeon bludgeoned to death at a Hunan hospital by relatives of a traffic accident victim. After they were arrested, the assailants claimed the doctor had 'not been vigorous enough' in treating their relative and had told them to wait their turn, according to Xinhua news agency.

Such attacks have led to walkouts and public demonstrations by medical staff calling for authorities to crack down on violence. On each occasion, the government has vowed to 'strike hard' against offenders, but aside from ordering hospitals to hire more security guards, little has been done in reality. Some doctors have taken to wearing personal protective gear such as stab-proof vests to work.

Primary care the solution?

China's health ministry is well aware of these problems and has two strategies to relieve the burden on hospitals: privatisation and primary care.

One of the key healthcare reforms underway in China at present is a move to bring 'social capital' (namely, private investors) into the hospital sector. To encourage this, the Chinese government has relaxed laws to allow private operators to set up hospitals, with pharmaceutical companies taking a lead in the sector.

Just as importantly, China's health ministry has also eased employment regulations for doctors so that they are no longer tied to state-owned hospitals and have the freedom to work where they please.

In the past year, there has been a rapid increase in the number of 'independent doctor groups' being set up to run private clinic services – the Chinese equivalent of US groupings such as the Mayo Clinic.

China's second major healthcare reform is a plan to boost the primary care system. This is a much tougher challenge. The current 'community clinic' sector is very much an underdeveloped and under-resourced poor cousin to the culturally prestigious hospital system.

Some of the reasons may sound familiar. Few of China's doctors are willing to work in community clinics because the pay is poor, the clinics have little equipment and, unlike in the hospital system, there is little prospect for promotion or career advancement.

China's health ministry has set itself a goal of having one family practitioner for every 2,000 citizens by 2020 [the GP-patient ratio in Australia is around one FTE (full-time equivalent) GP for every 1,080 people]. But to meet this target, China would have to train an additional 400,000 medical practitioners. The scale of this task can be grasped by the fact that there are only 170,000 doctors in training, of whom 13,000 are in the generalist community practitioner training stream.

Primary care pilot projects have been trialled in China's major cities such as Shanghai and Shenzhen, but with mixed results. They are declared a success by their proponents, on the basis of achieving 90% enrolments in their areas. However, there is still a marked reluctance among the Chinese public to actually use community clinics as the first port of call. Most still make a beeline for the major hospitals, which are still seen as the 'centres of excellence' for medical care.

China's health ministry – like so many Australian governments – is nevertheless proclaiming that primary care is the way of the future for healthcare. They have also been mixing carrot-and-stick approaches to encourage the public to use primary care clinics, such as offering free consultations, but also making it mandatory to get a GP referral for a hospital appointment. The ministry has also ordered that GP training pathways be set up and requires medical schools to introduce 'primary care pathway' training quotas.

Meanwhile, the effects of a medical system that has embraced the alleged wonders of hospital-based care can be seen.

Back in the Kunming hospital, by mid-afternoon the corridors are crammed with patients, hanging about at the doors of the clinics in the hope that a doctor will 'squeeze them in' at the end of their official list.

But as one doctor told me, 'It's too much. I'm supposed to finish at 5pm but most days I'm here for an extra hour or more. I am always late for dinner. I studied medicine for eight years and yet I work longer hours and earn less than a hairdresser.'

He adds: 'My parents are doctors but I wouldn't want my child to be a doctor.' ◆

Michael Woodhead is the Editor of the China Medical News website (www.chinesemedicalnews.com) and the Clinical News Editor of Australian Doctor, *where this article was first published (http://www.australiandoctor.com.au/news/news-review/china-seeking-400000-gps).*

The neoliberal counter-revolution in retreat?

Zealously promoted in the developing countries by the International Monetary Fund (and also the World Bank), neoliberalism has been the dominant global economic ideology since the 1980s. In this historical survey of its hegemony, *Jomo Kwame Sundaram* questions whether the recent, more critical analyses of some of the ideology's failings among both the Fund and mainstream economists mark a real weakening of its hold.

THE US Wall Street crash of 1929 was followed by the Great Depression, which in turn engendered two important policy responses in 1933 with lasting consequences for generations to come: President Franklin Roosevelt's New Deal and the Glass-Steagall Act.

While massive spending following American entry into the Second World War was clearly decisive in ending the Depression and for the wartime boom, the New Deal clearly showed the way forward and would have succeeded if more public money had been deployed consistently to revive economic growth.

Although Michal Kalecki and others had anticipated some of his work, it took a few more years before John Maynard Keynes's *General Theory* was published in 1936, offering robust theoretical justification for the counter-cyclical fiscal and other policies already instituted, very much contravening earlier received wisdom.

Somewhat tangentially, rather than in parallel, the academic field which came to be known as development economics from the 1950s was anticipated by Central/Eastern Europeans striving not to be left behind by the earlier ascendance of Western Europe and then the United States after the Civil War.

For about a quarter of a century after the end of the Second World War, the 'Golden Age' saw rapid post-war reconstruction in Western Europe, supported by the generous Marshall Plan, arguably the first, largest and most successful development cooperation programme. Similar economic development policies and assistance were introduced in Japan, Taiwan and South Korea, following the outbreak of the Korean War and the establishment of the People's Republic of China.

The 2008-09 financial crisis, and subsequent protracted slowdown, has not led to profound changes in the conventional economic wisdom or policy prescriptions.

US Secretary of State General George Marshall understood that inclusive economic development would help ensure a cordon sanitaire against the Soviet-led camp. Thus, thanks to the Cold War, Western Europe and Northeast Asia recovered quickly, industrialised rapidly and achieved sustained, rapid growth with interventionist policies which would be widely condemned by today's conventional wisdom. While national economic capacities and capabilities had to be nurtured to ensure sustainable development, Marshall also recognised that aid should be truly developmental, neither piecemeal nor palliative.

Washington Consensus

The 'Washington Consensus' – uniting the American government and the Bretton Woods institutions [viz., the International Monetary Fund (IMF) and the World Bank] located in the US capital city – emerged from the early 1980s to prescribe neoliberal economic policies for developing countries for the 'counter-revolution' against development economics, Keynesian economics and progressive state interventions.

Macroeconomic policies became narrowly focused on balancing annual budgets and attaining predictably low inflation – instead of the earlier post-colonial emphasis on achieving and sustaining growth and full employment without runaway inflation. A neoliberal wave of deregulation, privatisation and economic globalisation followed, supposedly to achieve and boost economic growth. Economic growth was expected to 'trickle down' to reduce poverty, with broader sustainable development and inequality concerns consigned to the garbage bin.

But the Washington Consensus policies largely failed to sustain economic growth. Instead, those developing countries which achieved rapid growth and structural transformation were typically those which defied the conventional wisdom by adopting pragmatic 'heterodox' developmental economic policies appropriate to their respective circumstances. Meanwhile, financial and other economic crises of various types became more frequent and devastating, undermining sustained growth.

Financial crisis

The 2008-09 financial breakdown, precipitated by the US housing mortgage crisis, has triggered a long recession in the developed economies, postponed in much of the developing world by high primary commodity prices until late 2014. Yet, the financial crisis and protracted economic slowdown since, especially in most industrial economies, has not led to profound changes in the conventional wisdom or policy prescriptions, especially at the international level, despite the global economic integration since the 1980s.

To be sure, the spread of the crisis caused the G20 group of (US-selected) major economies to convene for the first time in a mid-November 2008 White House summit instigated by French President Nicolas Sarkozy. Various national initiatives to save their financial sectors were followed by a UK initiative by Prime Minister Gordon Brown to significantly augment IMF resources. But soon, the appearance of supposed 'green shoots of recovery' led to premature abandonment of fiscal recovery efforts, reinforced by eurozone fiscal rules and the powerful influence of financial rentier interests.

The uneven and lacklustre economic recovery and worsening conditions for many in the world since then have been accompanied by a tremendous concentration of new wealth. Meanwhile, there has been a growing realisation in the West that economic conditions for working people, which had been rising for decades, have been slowly but steadily deteriorating in recent decades.

This has been associated in the popular imagination with globalisation and some of its major manifestations, including increased inflows of cheaper goods and migrants. The popular political, social and cultural reactions have been summarily dismissed by establishments as populisms of one kind or another. The dominant tendency has often been xenophobic and racist, often reinforced by terrorists, including those claiming to act in the name of religion. European social democrats have largely joined the consensus of the financial rentiers, discrediting the 'centre-left' and 'centre-right' and strengthening the 'populist extremisms' of right and left.

Despite this vortex of globalisation, financial crisis, stagnation, rising inequality and populism, somewhat reminiscent of the 1930s, there has been no comparable policy or analytical response and, most certainly, no leadership comparable to the likes of Roosevelt. Except for some marginal rediscovery of Hyman Minsky's opus, recognition of Robert Shiller's critique of financial liberalisation, celebration of Thomas Piketty's work on income inequality and the like, most policy and regulatory reform initiatives have been national in scope and deeply compromised by influential rentier interests and their lobbyists.

Modest rethinking, modest reforms

Meanwhile, some distinguished mainstream economists have been forced by recent realities to reconsider elements of the conventional wisdom, without requiring abandonment of the creed. To be sure, some of this rethinking is significant, with important policy implications, and could lead to state and collective international intervention mechanisms to rein in the neoliberal paradigm *in extremis*.

First under the leadership of the then IMF Managing Director Dominique Strauss-Kahn, the Fund's Research Department has contributed to such rethinking, especially on financial regulation, fiscal policy and income inequality. The Fund has been re-legitimised in the eyes of many critics elated by its research findings and their policy implications. To be sure, in many instances, the nature and significance of the research findings have been exaggerated by some erstwhile sceptics pleasantly surprised by the researchers' apparently critical turn. Such research results have undoubtedly broadened the scope of what is deemed acceptable economic policy discourse. But in fact, these research findings have rather limited and uneven consequences for the Fund's operations, including its policy advice and conditionalities.

Meanwhile, the Fund has already begun to backpedal on the views expressed in some of its bolder critical publications, e.g., a June 2016 article in its *Finance and Development* magazine on neoliberalism's responsibility for slower growth and greater inequality (see following article). Thus, while there has undoubtedly been a welcome shift in the Fund's research findings, it is important to not exaggerate its actual significance.

Much more remains to be done if economic research and policy advice are to rise to meet the challenges of our times. Unfortunately, for the time being, it is not clear that political conditions and leadership are conducive to such shifts in the near future. ◆

Jomo Kwame Sundaram, a former economics professor, was United Nations Assistant Secretary-General for Economic Development, and received the Wassily Leontief Prize for Advancing the Frontiers of Economic Thought in 2007.

COVER

Can the IMF leopard change its spots?

While a recent article in its in-house magazine appeared to question the neoliberal economic doctrine with which the IMF has long been identified, it has been officially confirmed there has been no fundamental policy change in the core of its approach to developing countries.

AN article, provocatively titled 'Neoliberalism: Oversold?', written by International Monetary Fund (IMF) staff in June's edition of the IMF's in-house magazine *Finance and Development* (*F&D*) appeared to question orthodox macroeconomic policies long associated with the Fund.

Though the authors, including Jonathan Ostry, a deputy director of the IMF Research Department, argued that 'there is much to cheer in the neoliberal agenda', highlighting the benefits to developing countries in particular of global trade expansion, foreign direct investment and privatisation of state-owned enterprises, they conceded that in 'some' aspects neoliberalism 'has not delivered'.

Policies questioned related to 'removing restrictions on the movement of capital' across borders and 'fiscal consolidation, sometimes called austerity'. Focusing on these two 'neoliberal' policy areas, the authors argued that: (i) growth benefits of these policies are not proven; (ii) these policies have 'prominent' costs in terms of inequality; and (iii) increasing inequality in turn diminishes the 'level and sustainability of [economic] growth'.

The article 'caused a considerable stir around the world', according to a June blog by Max Lawson of international NGO Oxfam. Lawson greeted the conclusions as 'very welcome', noting that activists have 'consistently identified' that neoliberalism is a 'leading factor behind the growing gap between rich and poor across the world' and that this has 'opened the door to corruption and political capture by elites'.

IMF headquarters in Washington. Researchers say 'there is a mismatch between what the IMF says and what the IMF actually does' when it comes to the conditions attached to IMF lending.

Neoliberalism's problem policies

In February the IMF published a policy paper reopening the discussion of the potential merits of the use of restrictions on the flow of finance, or capital controls. This followed from the IMF's 2012 'institutional view' paper that conceded that in some cases the use of controls was merited.

The *F&D* article went further still, arguing that the expected benefit of removing capital restrictions has not necessarily materialised while 'costs in terms of increased economic volatility and crisis frequency seem more evident', an argument previously made by civil society. The meeting of finance ministers from the G20 major economies held at the IMF's spring meetings in April had encouraged the Fund to review further its 'policies in dealing with capital flows', adding specifically that they 'welcome plans to … work on capital flow management'.

The authors of the *F&D* article found that removing capital controls contributes to 'raising the odds of a [financial] crash', concluding that the use of capital controls should be considered both 'viable' and sometimes the 'only' tool to use. They noted, however, that countries should only use capital controls when faced with 'an unsustainable credit boom' driven by direct borrowing from abroad. Kevin Gallagher of Boston University remarked that this means that 'on the capital account the IMF has started to put economics over ideology, which is a big step in the right direction'.

The authors also examined the efficacy of encouraging countries to cut spending to reduce debt, often termed austerity, through policies such as privatisation of state-owned enterprises, shrinking the size of the state and reducing public spending. While these reforms are aimed at reducing risks from too much public debt, the authors noted there is little 'guidance' from economic theory to determine the 'optimal public debt' level.

In fact the authors found that 'austerity policies … generate substantial welfare costs … [and] hurt demand', thus undermining overall growth. They questioned the assumption that advocating spending cuts during a crisis could stimulate economic growth and be 'expansionary', given the evidence that this leads to 'drops rather than … expansions in output', though the authors reserved their criticism of austerity for developed countries only.

A public hospital in the Malawian capital Lilongwe. Health experts have demanded that the IMF scrap its imposition of a public sector wage cap in Malawi so that the government can fund salaries for newly trained doctors and other health workers.

No change in IMF approach to developing countries?

The authors of an academic study titled 'IMF conditionality and development policy space, 1985-2014' summarised their findings in a June article in the *Washington Post*. They found that since 2008 'structural conditions have been a growing component of IMF programmes', and concluded that 'there is a mismatch between what the IMF says and what the IMF actually does' when it comes to the conditions attached to IMF lending. These are particularly evident in labour and pension reforms in countries such as the Ivory Coast, Honduras and Moldova, where the IMF required 'ceilings on the government wage bill'.

A June letter from health experts in the UK and Malawi, published in medical science journal *The Lancet*, condemned the IMF's imposition of a salary cap in Malawi. They demanded that the IMF 'reverse its public sector wage cap edicts' so that the government can 'fund salaries for newly trained doctors and other health workers' and meet the 'health-related Sustainable Development Goal targets'.

Clara Osei-Boateng, of NGO Send West Africa in Ghana, said, 'The IMF targets are often inconsistent with expectations of ordinary citizens. Currently, government under the IMF programme is looking to tax anything including pension income. There is a freeze on public sector employment as a means to curtail the wage bill. Such conditions are inappropriate for a country with high levels of unemployment and underemployment. What most Ghanaians would have been happy to see is the IMF strictly monitoring government's expenditure in this election year. Already, there is evidence of politically motivated government projects (such as billboards and television programmes advertising government achievements) as happens every election year. Ghanaians would have expected the IMF to warn government against such expenditure rather than going after their pension income or jobs.'

The self-criticism of IMF policy orthodoxy triggered a backlash, including a late May editorial by the *Financial Times* (*FT*) that condemned the *F&D* article's authors for indulging in 'childish rhetoric'. The editorial admitted to agreeing with their conclusions regarding 'competition, global free trade, privatisation, foreign direct investment and sound public finances' but nevertheless considered the article to be an 'insult … to our intelligence', deriding the use of the term 'neoliberalism' as a criticism used by 'unthinking radicals who lack the skills of empirical argument'.

Professor Robert Wade, of the London School of Economics, challenged the *FT*'s conclusion in a June letter responding that 'we should cheer the evidence that parts of the IMF are doing some rethinking about how best to help real countries in terrible circumstances', but cautioned that 'these papers … may have little effect in the [IMF's] operational parts'.

Matthew Martin, of non-profit research group Development Finance International, said that the IMF 'needs to make sure that this change of policy is implemented at country level – especially by fighting inequality through social sector spending, progressive taxation and increased labour rights'.

A June *F&D* interview with the head of the IMF's Research Department, Maurice Obstfeld, clarified that the original article's discussion of policy represented 'evolution not revolution', affirming that the IMF had 'not fundamentally changed the core of our approach' and that the article's criticism of austerity policies had 'been widely misinterpreted'. ◆

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IMF economists discover some of the big failures of neoliberalism – about time

The overall failure of the neoliberal agenda has been evident since the turn of the century, for anyone who cared to look at the data, says *Mark Weisbrot*.

Anti-austerity protesters. Even IMF researchers now concede that austerity policies cause inequality and may not deliver growth.

THE International Monetary Fund (IMF) has gotten some attention for the publication of an unusual article in its quarterly magazine, *Finance and Development*. The article's title, 'Neoliberalism: Oversold?' itself is a shocker, since the institution has been the most influential proponent of neoliberalism in the world for more than four decades. It's kind of like an op-ed from Donald Trump titled 'Insulting Your Opponents: Oversold?'

From the authors (Jonathan D Ostry, Prakash Loungani and Davide Furceri):

'[T]here are aspects of the neoliberal agenda that have not delivered as expected. Our assessment of the agenda is confined to the effects of two policies: removing restrictions on the movement of capital across a country's borders (so-called capital account liberalisation); and fiscal consolidation, sometimes called "austerity", which is shorthand for policies to reduce fiscal deficits and debt levels. An assessment of these specific policies (rather than the broad neoliberal agenda) reaches three disquieting conclusions:

• The benefits in terms of increased growth seem fairly difficult to establish when looking at a broad group of countries.

• The costs in terms of increased inequality are prominent. Such costs epitomize the trade-off between the growth and equity effects of some aspects of the neoliberal agenda.

• Increased inequality in turn hurts the level and sustainability of growth. Even if growth is the sole or main purpose of the neoliberal agenda, advocates of that agenda still need to pay attention to the distributional effects.'

Major policy failure

But the overall failure of the neoliberal agenda has been evident since the turn of the century, for anyone who cared to look at the data. The authors note: 'There has been a strong and widespread global trend toward neoliberalism since the 1980s …' So, if an experiment has been conducted in scores of countries over a 20-year period, why not look and see how the average country has done as compared with, e.g., the previous 20-year period?

Of course we would need to control for the problem of 'diminishing returns', i.e., we would not expect countries to achieve the same rates of growth (or improvements in life expectancy, infant mortality and other social indicators) as they reach higher levels of income. But controlling for that is easily done: instead of comparing the same countries' performance from 1960-80 with that of 1980-2000, we can look at all of the countries that started out at a certain level of income (or life expectancy, etc.) in 1960, and see how they did over the ensuing 20 years, as compared with the countries that started out at the same level in 1980.

The graph on the next page shows the result for between 110 and 165 countries, depending on the starting year (for more discussion, see Chapter 3 of my recent book, *Failed: What the 'Experts' Got Wrong About the Global Economy*, Oxford University Press, 2015).

The countries are divided into quintiles on the basis of their per capita GDP (in 2005 dollars) at the start of each period. For example, quintile 2 contains all the countries that started out with GDP between $1,429 and $3,103 per person, in

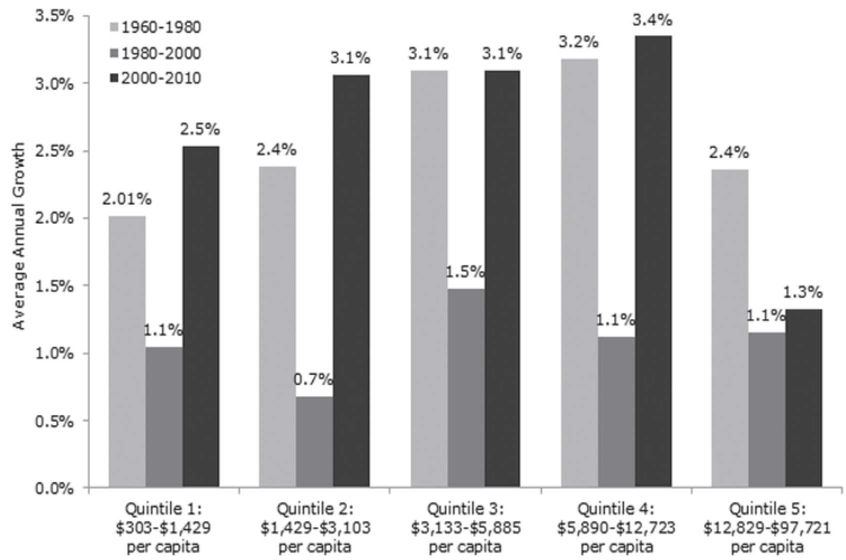
1960, 1980 and 2000.

There is a striking decline in per capita GDP growth from the 1960-80 period to the neoliberal era of 1980-2000. For quintile 2, the difference between 2.4% annual growth and 0.7% growth means that average income grew by 61% from 1960-80 – when the typical developing country was doing everything that neoliberal economists decided was wrong – but by just 15% in the era of neoliberal reforms.

Not surprisingly, the results are similar for life expectancy, infant and child mortality, and other social indicators.

But just looking at the growth of income per capita, it is difficult to explain such an epoch-making decline, in the face of such widespread adoption of a set of policy reforms in so many countries, as anything other than a major policy failure. No one has put forward a plausible alternative explanation. And so it is good to see that, finally, even some economists at the IMF are beginning to point to some of the policy failures, although these are a restricted set of neoliberal policies. (I would include overtly tight monetary policy, the increasing ‘independence’ of central banks, the abandonment of state-led development strategies and industrial policies, and indiscriminate opening to trade, as among the policies that contributed to the slowdown.)

Average Annual Growth of Real GDP per capita (2005 dollars)

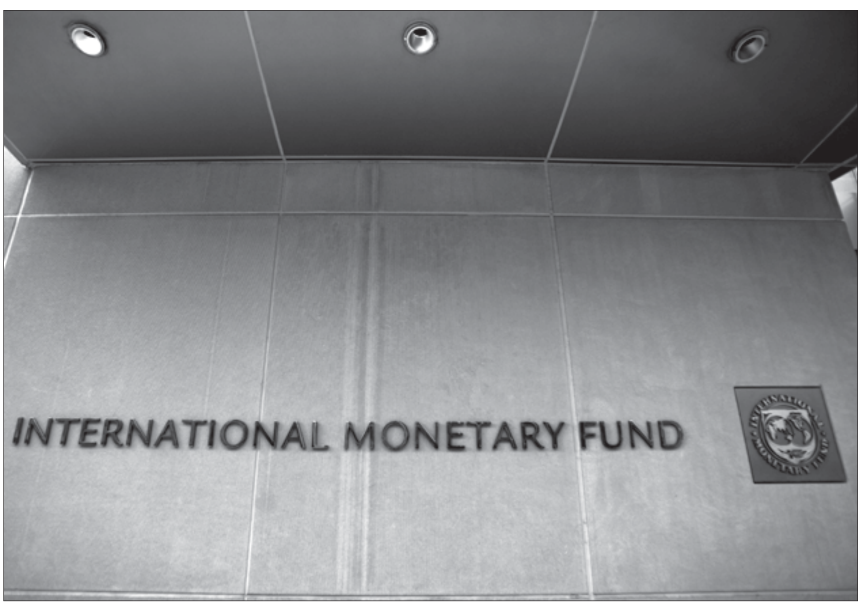


Source: Mark Weisbrot and Rebecca Ray (2011), ‘The Scorecard on Development, 1960-2010: Closing the Gap?’, Center for Economic and Policy Research

The above graph also shows a rebound in the first decade of the 20th century. This is another story (see *Failed* for details), but for now we can just say it was not a case of the neoliberal reforms of yesteryear finally working their delayed magic. On the contrary, part of the rebound was due to much more expansionary macroeconomic policies in response to the world recession, as compared to the recessions of the 1980s. And part of it was down to the impact of China, one of the few large developing countries that did not adopt the neoliberal reforms of the 1980s and 1990s, and was propelled by record growth to become the largest economy in the world. Its imports from low- and middle-income countries grew from just 0.2% of these countries’ GDP in 1980 to 3.1% in 2000, helping to pull dozens of countries out of their long growth slump.

All this should make people rethink a bit about how neoliberalism has changed the world.

These insights from the IMF Research Department should be welcomed. In economics, there are often important phenomena that come to be widely recognised only with a long time lag. However, it appears that the increased diversity of recent years in the IMF Research Department has had little effect on policy, for structural reasons. ◆



The IMF has been the most influential proponent of neoliberalism in the world for more than four decades.

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The retreat of neoliberalism

African nations which are now turning again to the IMF and World Bank for financial assistance following the collapse of commodity prices will not be able to take advantage of the seeming retreat of neoliberalism if they do not come up with quality policies, says *William Gumede*.

FOR decades African countries have been forced by the World Bank and the International Monetary Fund (IMF) to implement neoliberal policies, including opening their markets to foreign competition, reducing the role of the state in providing basic services and abolishing subsidies to the poor.

However, an article in the IMF's own quarterly magazine now admits that the neoliberal reforms prescribed by the Bretton Woods organisations are flawed, have increased inequality and have not necessarily delivered economic growth.

The report, headlined 'Neoliberalism: Oversold?', is written by three leading IMF economists, Jonathan Ostry, Prakash Loungani and Davide Furceri. It says new research on the impact of neoliberal policies on recipient countries has led to 'disquieting conclusions' for the World Bank, IMF and proponents of neoliberalism.

The IMF report specifically looks at two aspects of neoliberal reforms: the removal of barriers to capital flows, called capital account liberalisation; and reducing public spending in order to cut fiscal deficits and public debt, called fiscal consolidation or, more commonly, austerity.

The report makes three devastating conclusions: firstly, that the neoliberal reform programme has not necessarily delivered increased economic growth. Secondly, neoliberal reforms have increased inequality. And thirdly, the increased inequality caused by neoliberal reforms has in turn undermined the level and sustainability of economic growth.

The report states that the removal of barriers to capital flows, or financial openness, has often resulted in short-term speculative, so-called 'hot' inflows in developing countries.

Electricity pylons dominate the landscape along a desert road south of Cairo. A $3 billion World Bank loan to Egypt is conditional on, among other measures, the abolition of energy subsidies to poorer communities and raising electricity prices.

However, such speculative capital inflows are often quickly withdrawn by industrial-country investors as they seek better returns elsewhere, destabilising the African and developing-country economies which were the initial recipients of such 'hot' inflows.

Such speculative inflows neither boost growth nor allow the African or developing country to share the costs of such destabilisation with the industrial countries from which the speculators originate.

The IMF report shows that since 1980, there have been 150 incidents of increased volatility in more than 50 developing countries which pursued financial openness strategies involving sudden inflows and outflows of portfolio capital, with about 20% leading to severe financial crises in these economies.

The report concludes that 'increased capital account openness consistently figures as a risk factor in these cycles'. It reckons that the benefits of growth from short-term capital flows as a result of financial openness are 'difficult to reap', and the risks associated with such reforms, 'in terms of greater volatility and increased risk of crisis, loom large'.

The authors conclude that there was an increased 'acceptance of controls to limit short-term debt flows that are viewed as likely to lead to – or compound – a financial crisis'. They argue that while exchange rates and financial policies could help to alleviate risks of increased financial instability, 'capital controls are a viable, and sometimes the only, option when the source of an unsustainable credit boom is direct borrowing from abroad'.

On the question of austerity, the report says that although high public debt is detrimental to growth and welfare, it would be better for African and developing countries to pay off their public debt over a longer time, rather than cut current productive spending needs.

To lower public debt, proponents of neoliberal reforms have proposed that taxes should be raised or public spending cut, or both. However, the IMF authors argue that the 'costs of the tax increases or expenditure cuts required to bring down the debt may be much larger than the reduced crisis risk engendered by the lower debt'.

Furthermore, the authors argue that 'faced with a choice between living with the higher debt – allowing the debt ratio to decline organically through growth – or deliberately running budget surpluses to reduce the debt, governments with ample fiscal space will do better by living with the debt'.

The IMF report says austerity policies worsen unemployment and increase the cost of welfare through supply-side channels. The IMF authors conclude that the notion that fiscal consolidations could be expansionary – increasing employment and output in the economy, ostensibly by raising private sector investment and confidence – actually leads, in practice, to falls in output.

The report states that 'on average, a [fiscal] consolidation of 1% of GDP increases the long-term unemployment rate by 0.6 percentage point and raises by 1.5% within five years the Gini measure of income inequality'.

Proponents of fiscal consolidation have underplayed the short-run costs of such reforms in terms of lower output and welfare and higher unemployment. Furthermore, the IMF report argues that the 'desirability for countries with ample fiscal space of simply living with high debt and allowing debt ratios to decline organically through growth is underappreciated'.

Jonathan Ostry, the lead author of the report, says he hopes the report would help with a 'broader examination' of the effectiveness of neoliberal economic reform strategies.

In a separate interview in the IMF's in-house *IMF Survey* magazine, the Fund's chief economist Maury Obstfeld says it is important that the IMF 'constantly … re-evaluate our thinking in light of new evidence'.

The neoliberal reform policies pushed in Africa by the IMF and the World Bank, called structural adjustment programmes, essentially consist of two pillars. One, African countries which receive development assistance from these institutions have to open their domestic markets to foreign competition – mostly from firms from the industrial countries and former colonial powers which dominate decision-making in the World Bank and IMF.

Secondly, recipient African countries have to reduce the role of the state in the economy. This includes privatising state-owned companies – often bought again by firms from industrial countries and former colonial powers dominant in the World Bank and IMF. Alternatively, many African governments sell the privatised entities to politically well-connected cronies – often cheaply, supposedly as part of black empowerment or indigenisation programmes. Ironically, in both cases these privatised entities more often than not remain burdens on the state as they, to remain viable after their selloff, often continue to be heavily subsidised by the state.

The neoliberal reforms also include recipients abolishing subsidies to the poor, unemployed and vulnerable. The World Bank and IMF in many cases take over supervision of the monetary and fiscal policies of the recipient country.

African recipients must also accept World Bank and IMF advisers who are often totally clueless about the countries they advise yet are in many cases arrogant, sneering and dismissive of local expertise.

More recently, many African countries have again turned to the IMF and World Bank for assistance, following the end of Africa's decade-long commodity-fuelled economic boom.

The IMF report on the destructive nature of neoliberalism may have come too late for many African countries. The neoliberal structural adjustment programmes have led to economic hardships, political instability and conflict in most African countries where they have been implemented.

These policies may have in some cases lifted economic growth, but brought little equity, jobs or social security; and the irony has been that the structural adjustment often enriches the already well-off African political and economic elites, autocratic regimes and leaders – and impoverishes ordinary citizens.

World Bank- and IMF-inspired economic reforms have often led to political and social instability, as was seen during the 2011 North African youth uprisings, where countries had, before the popular explosions, implemented structural adjustment programmes.

For instance, former Malawian President Joyce Banda was forced to implement structural adjustment programmes in return for development aid from the Bretton Woods institutions. The reforms caused such economic pain, unemployment and popular outrage that she was ousted in the next elections.

Nigeria and Angola, Africa's two biggest oil producers, have more recently turned to the World Bank and IMF to seek help following low oil prices, falling currencies and widening budget deficits. Nigerian Finance Minister Kemi Adeosun said that the country is looking for $5 billion to fund its budget deficit caused by the fall in the oil price.

Christine Lagarde, the IMF's managing director, has already said Nigeria must devalue its currency, introduce a free float exchange rate and abolish capital controls.

Angola is in discussions with the World Bank and IMF for financial aid. Angola needs at least $1.5 billion to cover its budget deficit. It is reckoned that Angola will have a fiscal shortfall equivalent to 7% of GDP in 2016.

Angola in 2015 was asked by the World Bank to cut its budget by 26%. The World Bank wants Angola to cut fuel and other subsidies, strengthen public finance management and find new revenue sources.

In January this year, the World Bank unveiled details of a $3 billion loan to Egypt that is conditional on the country implementing a structural adjustment programme which includes reducing the public service wage bill, abolition of energy subsidies to poorer communities, and raising electricity prices and taxes.

African governments taking loans from the World Bank and IMF must fight to secure their policymaking independence. But African and developing countries must collectively fight for greater representation and influence on decision- and policy-making in the World Bank and IMF. This should be a key part of the agenda of the African Union and developing-country formations such as BRICS (Brazil, Russia, India, China and South Africa).

Nevertheless, it may matter little if the IMF and World Bank are reformed and African countries secure the policy space to come up with independent policies, if they do not manage their fiscal positions prudently or borrow responsibly.

As a case in point, during the past decade-long 'Africa Rising' economic boom, African countries often did not maintain fiscal discipline, reduce budget deficits or keep public debt at bay. Many have also not cleaned up their public finances and cut wasteful spending, duplication and inefficiencies.

Many African countries during the boom times also rarely saved surpluses for a rainy day. Moreover, many growing African economies did not diversify quickly enough to bring in new streams of income beyond exporting raw materials.

Similarly put, if African countries do not come up with quality policies, or if they do but the policies are captured by corrupt elements or half-heartedly implemented or not implemented at all, they won't be able to take advantage of the seeming retreat of the four-decade-long globally dominant 'neoliberalism'. ◆

William Gumede is Chairman of the Democracy Works Foundation based in South Africa. His latest book is South Africa in BRICS – Salvation or Ruination? *(Tafelberg, www.amazon.com/Tafelberg-Short-Africa-Salvation-ruination-ebook/dp/B00FRHV7LC). The above article is reproduced from* Pambazuka News *(Issue 784, www.pambazuka.org).*

The IMF's autocritique of neoliberalism?

A glaring omission in the IMF's critique of some aspects of neoliberalism is its failure to recognise the ecological implications of capitalist economic growth, says *Pritam Singh*.

A GROUP of three economists in the International Monetary Fund (IMF)'s Research Department have written a joint paper criticising some key aspects of the IMF's creed of neoliberalism. Since it is only 'some' aspects that are criticised, it may be more appropriate to call it a semi-autocritique. However, the significance of this even less than full-fledged criticism cannot be overstated. It is as significant as it would be if one day, a group of Rashtriya Swayamsevak Sangh ideologues were to write in *Organiser* that some aspects of Hindutva politics are harmful for the Hindus, or a group of Chinese Communist Party leaders were to write in *People's Daily* that some aspects of the party's programme had harmed the cause of communism.

A protest in Jakarta against the IMF and World Bank. The word 'neoliberalism' has been used pejoratively mainly by left-wing critics of the Fund and Bank's free-market policy paradigm.

Titled 'Neoliberalism: Oversold?', the paper by Jonathan Ostry, Prakash Loungani and Davide Furceri, published in the June 2016 issue of the IMF's official magazine *Finance and Development*, brings out for the first time the flavour of the internal debates raging at the IMF, and builds upon many well-known criticisms of the IMF's policy paradigm of market fundamentalism that advocates privatisation, deregulation, market liberalisation and austerity policies.

The acceptance and use of the word 'neoliberalism' by IMF economists is remarkable in itself. The word has been used pejoratively mainly by left-wing critics of the IMF's and World Bank's policy paradigm known as the 'Washington Consensus' (so named because both organisations are based in Washington and share the ideological framework of free-market capitalism). It proves the point that if a criticism is robust and is carried on consistently, it may be brushed aside as uncomfortable in the beginning but it tends to have a lasting impact in the long run.

The authors of the paper, in subtitling it as 'oversold', seem to be aiming at suggesting that not everything in the IMF policy package is wrong. The abstract of the paper sums up their intent of criticising the overselling of the IMF policy package by referring to only 'some' aspects of neoliberalism: 'Instead of delivering growth, some neoliberal policies have increased inequality, in turn jeopardising durable expansion' (Ostry et al., 2016).

The paper praises the role of increased international trade in reducing poverty and that of increased foreign direct investment in increasing competition and efficiency. The paper then focuses on criticism of the neoliberal agenda on three aspects. One, that the evidence from a broad range of countries suggests that the claim that neoliberalism always contributes to economic growth is difficult to sustain; two, that even if growth takes place in some countries, it leads to an increase in inequality; and third, that continuing inequality is harmful for sustainable (or more appropriately, continuing) growth. All these three self-criticisms from the horse's mouth, so to say, deal a severe blow to the apologists of the neoliberal agenda.

On the face of it, it might seem like a contradiction that if one aspect of the neoliberal policy framework, namely, increased international trade, reduces poverty, how can another aspect, namely of economic growth, lead to an increase in inequality? The confusion over this apparent contradiction – reduction in the absolute level of poverty coexisting with in-

Global climate change has underlined the ecological limits to economic growth.

creased inequality – sometimes reaches the top echelons of the decision-making process.

A few years ago, the then president of the World Bank, James Wolfensohn, came for a lecture to Oxford, where anti-World Bank students staged a protest against his visit and lecture. One brave young woman even managed to enter the lecture hall in disguise and harangued him by saying that the World Bank was contributing to Third World poverty, an accusation that he stubbornly denied. During question time, I told him that I would be willing to accept his claim that the World Bank and IMF might be genuinely interested in reducing poverty, but that does not invalidate the argument that their policy framework contributes to an increase in inequality. My acceptance of the World Bank/IMF claim in being genuinely interested in poverty reduction was based on the understanding that a reduction in poverty, by expanding the market for capitalism, is in the interests of capitalism.

In his reply, Wolfensohn said that he was baffled by my argument that a reduction in poverty does not necessarily lead to a reduction in inequality, and suggested that we resolve this matter after the lecture. During the private conversation later on, I clarified that if, while absolute poverty is being reduced, the income of the rich is going up at a rate higher than the rate of poverty reduction, then both phenomena, i.e., poverty reduction and increase in inequality, can coexist. He promised to do more thinking on this and the matter was left at that.

It seems that this new confession by IMF economists, that the kind of growth promoted by neoliberalism promotes inequality, is a step forward in recognising the dialectic of modern capitalism where massive increases in the income of the richest strata of society coexist with some modest improvements in the living conditions of the very poor.

That the state needs to intervene through welfare measures to reduce poverty and inequality is also conceded in the IMF paper. Also, unrestrained privatisation promoted by neoliberalism is criticised and austerity policies pursued by many governments in the countries of both advanced and developing capitalism are considered counterproductive.

The counterproductive role of austerity and increasing inequality is recognised purely from the angle of their adverse consequences for economic growth. That having more equal societies might be intrinsically more desirable from a moral point of view is of no concern to the IMF economists. One might conjecture that if empirical evidence were to show that inequalities of various kinds, but especially income and wealth inequalities, were actually conducive to economic growth, the worshippers of economic growth might even argue in favour of increasing inequalities. Additionally, there is no evidence of any rethinking that in this era of global climate change and global warming, there are ecological limits to economic growth if humanity is to be saved.

The positive role of the state in putting restrictions on the easy flow of short-term capital has been generously appreciated in the paper as contributing to a reduction in economic volatility and instability. The experience of China and India which suffered less shocks than the United States and European economies during the financial crisis of 2008 onwards seems to have been recognised as a positive outcome of the limited capital account liberalisation in China and India.

Some Keynesians might jump at this semi-official IMF critique of austerity policies as a confirmation of their criticism of neoclassical economics and an indirect endorsement of their stimulus-oriented policies for sustaining economic growth. However, any such celebration by ecologically uninformed Keynesians would be as misguided as the uncritical approach to economic growth by the ecologically uninformed neoliberal supporters of austerity (for a further elaboration of this argument, see Singh and Bhusal, 2014).

A glaring weakness of this otherwise praiseworthy IMF paper on many points remains the absence of recognition of the ecological implication of capitalist economic growth. Another set of sustained criticisms is perhaps necessary to make the IMF policymakers or other uncritical supporters of economic growth aware of the historic need to embed ecological sustainability into any model of economic growth if humanity is to avoid the threatening implications of global warming for our planet. ◆

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Neoliberalism and growing inequality

The IMF's admission that the neoliberal agenda has increased inequality has thrown the spotlight on one of the most serious problems of our time. *Mah-Hui Lim* explains how this inequality has come about and the threat it poses to financial stability and economic growth.

INEQUALITY in most societies, both developed and less developed, has been rising with the onslaught of neoliberalism since the 1970s. After decades of either neglect or denial by mainstream economists, almost everyone now, including the super-rich and high establishment, has recognised this worrying trend. For example, Li Ka-shing, Asia's wealthiest man, said widening inequality keeps him awake at night. US Federal Reserve chief Janet Yellen weighed in on this issue and was admonished by conservatives for straying from the Fed's mandate. Rising inequality has also captured attention in the World Economic Forum meetings of the global elite.

According to a report by the international NGO Oxfam, just 62 individuals owned as much wealth as 3.6 billion people in 2015, down from 388 in 2010. The wealth of these 62 rose 44% in five years while that of the bottom half of the world's population dropped 41% (Figure 1).

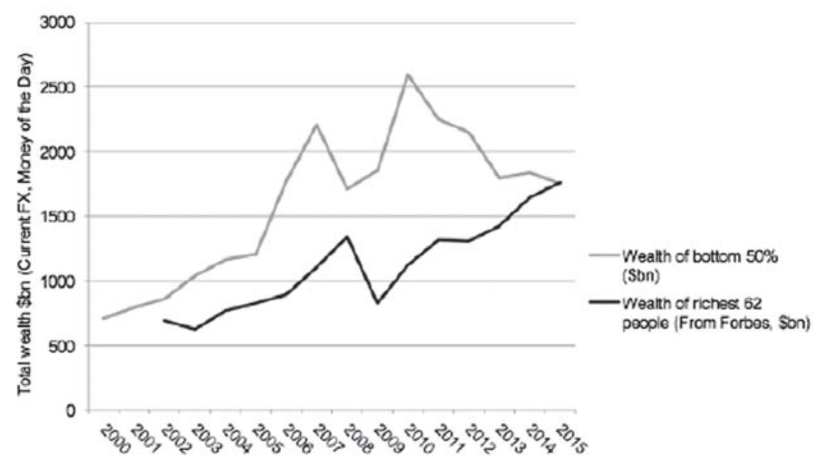
In the US, inequality is reported to have reached its highest level since such records were kept in the 1910s. The income of the top 1% exceeded 25% of total income for the whole society.

Taking a long historical view, economist Thomas Piketty, in his path-breaking book *Capital in the Twenty-First Century*, showed that inequality, as measured by a country's ratio of stock of wealth to national income, was extremely high in 19th-century Europe, took a dip in the period between the two world wars of the 20th century, and started to rise again after the 1970s. Figure 2 shows the U-shaped inequality (wealth/income) ratio. The basic driver for this, Piketty explains, is that, as the rate of return to capital is greater than the rate of economic growth, more and more income accrues to those who own capital unless there are stronger countervailing forces against this trend.

Causes of inequality

For a long time, mainstream economists were fixated on growth, ignoring the issue of distribution, believing in the theories of trickle-down growth and that 'a rising tide lifts all boats'.[1] Faced with irrefutable evi-

Figure 1: Wealth of 62 richest individuals and of poorest half of world population



Source: Oxfam (2016)

Figure 2: The capital/income ratio in Europe, 1870-2010

Inequality in most societies has been rising with the onslaught of neoliberalism.

dence to the contrary, they, except for the die-hards, now admit inequality has been rising.

Their focus, however, is on distribution of personal income as measured conventionally by the Gini coefficient. Inequality is seen mainly as inequality of opportunities in education, health and other endowments. Technological causes are also given prominence; people with skills and ability who take advantage of technology reap the benefits of higher productivity. The theory of marginal productivity features centrally in their explanation of inequality: people with higher marginal productivity are accorded higher income.

However, this theory of marginal productivity has encountered an anomaly, as was admitted by Alan Greenspan, a former chairman of the US Federal Reserve. Noting the significant and stubborn divergence between growth of labour productivity and growth of labour compensation (Figure 3), he admitted that profits are much higher than they should be in a competitive world. He said that from an accounting perspective, he understood this divergence, but that he did not know in an economic sense what the processes are that cause this divergence. He professed concern that if wages for the average US worker do not start to rise more quickly, political support for free markets may be undermined (cited in Guha, 2007).

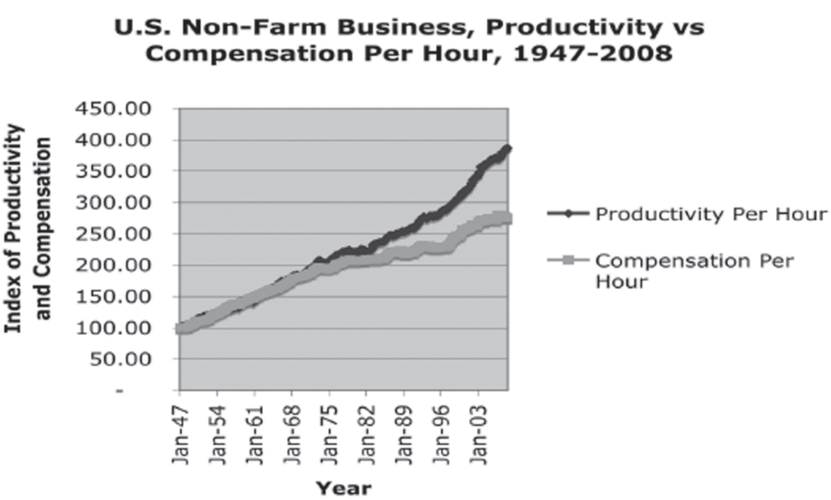
While heterodox economists would agree that inequality of opportunities and skills contributes to inequality, they devote more focus to macro-structural, political and economic factors that worsen inequality. Central to this is the unequal distribution of economic resources and political power, their shifting realignment, and the redistribution of profits and rents versus labour income. Are wages determined more by marginal productivity or by political and economic forces that influence the bargaining power of capital over labour? What are the global and national forces that influence this realignment of bargaining power? How does technology factor in this process?

At the top of the agenda is globalisation – the increasing movement and integration of goods, capital, labour and technology at a global level that has brought higher growth but also greater inequality, resulting in winners and losers. Associated with globalisation are two related processes – financialisation and the international relocation of production – that weakened the bargaining power of labour in developed and less developed countries.

With the collapse of the Bretton Woods Agreement in 1971, the international monetary system went off the US dollar-gold standard, and from a fixed to a floating exchange rate system. With the latter, banks started to trade in foreign exchange in a big way such that, for many banks, trading income soon exceeded income from lending.

Financial liberalisation, the economic counterpart of political neoliberalism, also ushered in an era of free international capital flow. Capital can now flow freely, without political constraints, in search of the highest profit. Together with significant changes in technology and business organisation, multinational corporations can now freely invest and relocate production to any part of the world, pitting one country against another. Economic liberalisation in Asia, the introduction of economic reforms in China, and the collapse of the Berlin Wall unleashed billions of unemployed or underemployed workers from these regions into the global workforce,

Figure 3: Productivity vs wage growth in the US (1947-2008)

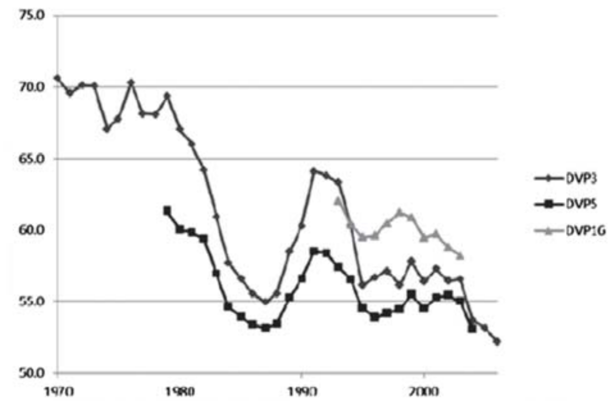


Source: Lim and Lim (2010)

Figure 4: Declining wage share in developed countries

Source: Stockhammer (2013)

Figure 5: Declining wage share in developing countries



Source: Stockhammer (2013)

making possible the global arbitrage of labour. That is, capital is now able to move freely in search of countries with the lowest costs.

This, aided by national policies that repressed labour, reduced labour's bargaining power in both developed and developing countries. In the US and the UK, the Reagan and Thatcher regimes broke the back of organised labour. Governments in many Asian countries openly repressed labour and wages in order to compete for foreign direct investments. All these put a brake on wage rise in both poor and richer countries.

It is no coincidence that this period saw a decline in labour's share of gross domestic product (GDP) and a rise in inequality. Figures 4 and 5 show the declining labour share of GDP in developed and developing countries.

Another way of looking at this is by considering the divergence between wage and productivity growth alluded to by Greenspan. Wage growth lagged behind productivity growth not because of marginal productivity but because capital was able to claim a greater share of the income growth due to the weaker bargaining power of labour.

Financial crises are periods when capital and labour contest for the distribution of income. Such crises often offer opportunities for capital to restructure to its advantage, as in the case of South Korea. Prior to 1998, economic growth in South Korea was accompanied by declining inequality where not only the Gini coefficient fell but the wage share of GDP also rose. This trend reversed following the Asian financial crisis that hit the country in 1997-98 after a decade of financial liberalisation. The International Monetary Fund (IMF) stepped in to rescue the economy and major structural changes were introduced that, among other things, increased 'labour market flexibility' (read: reduced labour's bargaining power). There was massive retrenchment of workers, a surge in part-time and temporary employment, and greater wage restraint.

Economic globalisation has weakened the bargaining power of labour in both developed and developing countries.

Consequences of inequality

Public health researcher Richard Wilkinson has explained at length the social and political consequences of inequality, which include social tension, rise in crime rates, mental illness, suicides and social exclusion. Greenspan has alluded to the political alienation and risks of rising inequality.

Beyond political and social instability, rising inequality is also not good for financial stability and economic growth. A recent IMF study (Ostry et al., 2016) shows that inequality is not good for long-term growth. While it is possible to produce growth spells irrespective of inequality, the study finds that income distribution is one of the most robust predictors of sustained growth. Furthermore, extreme inequality misallocates human resource development and is often associated with weak institutions and governance. The study also concludes that redistribution of income does not negatively affect growth.

Finally, inequality is related to financial instability. The recent global financial crisis is not simply the result of greedy bankers, poor corporate governance and lax banking regulation, although these problems must be addressed. There are even more serious underlying structural causes for the crisis, one of which is rising inequality (see Lim and Khor, 2011).

It is widely recognised that global trade imbalances contributed to the crisis, i.e., China and other Asian countries have enormous trade surpluses that funded the US' huge trade deficit. But behind this trade imbalance lies wealth and income imbalance. China's declining wage share of GDP is reflected in its drastic drop in personal consumption (from over 50% to 35% of GDP in the last four decades) and the concomitant rise in its savings rate (from about 30% to 50% of GDP). This excess of savings over investment, which is the current account surplus, is recycled through the international financial system to fund consumption in the US, which reached 72% of GDP in 2007.

How was it possible for consumption in the US to rise when real wages were either stagnating or even declining? Essentially consumption was supported by debt rather than income. Between 1960 and 2006, the US GDP rose 26 times but household debt 64 times, reaching close to 100% of GDP in 2006. Much of this was housing debt that eventually imploded in 2007.

Wages are not simply a cost factor; they are also an important factor driving aggregate demand. If wages are repressed, then aggregate demand and economic growth are negatively affected unless there are compensating mechanisms to prop up aggregate demand. Debt is one such mechanism. However, there are risks and limits to pumping up consumption through debt, as was amply demonstrated in the US and global financial crisis in 2007.

With real wages in the US stagnating or even declining, consumption was supported by debt – much of it housing debt that eventually imploded in 2007.

A number of Asian countries are exhibiting similar tendencies. In South Korea and Malaysia, where the wage share is declining due to wages falling behind productivity growth, household consumption and debt have been climbing to dangerously high levels. The ratio of household debt to GDP reached 89% in South Korea in 2010 and 89% in Malaysia in 2015. Even more alarmingly, the ratio of household debt to disposable income is 164% in South Korea (2012) and 140% in Malaysia (2010). The lesson from the US debt-driven consumption and financial crisis because of rising inequality and declining wage share should serve as a warning to these countries.

Quantitative easing and inequality

Governments in the US and elsewhere unleashed massive fiscal and monetary stimulus programmes to contain the 2007 global financial crisis. Trillions of dollars were pumped into the economy, much of it from government borrowing which pushed public debt to even higher levels. Since 2008, total public and private debt in major economies reached $200 trillion or about 300% of global GDP, an increase of 20%.

On the monetary front, central banks all over the world not only reduced interest rates. Those of major economies the US, the European Union and Japan embarked on rounds of quantitative easing (QE). This consists of central banks buying long-dated securities to bring down long-term interest rates, pumping liquidity into banks and financial institutions

Table 1: Ownership of stocks in the UK before and after the global financial crisis

	Percentage share of total stock wealth	
	2006-08	**2010-12**
Top 1%	32.1	53.1
Top 10%	77.0	86.2
Bottom 80%	12.7	7.0

Source: Standard & Poor's (2016)

to boost lending, and encouraging higher financial risk appetite and investments in financial markets.

There are three main ways by which QE can impact on inequality – through portfolio rebalancing and asset prices, employment creation and mortgage financing. The first exacerbates inequality, while the latter two are said to be countervailing factors. Ben Bernanke, former chairman of the US Federal Reserve, argues that the latter two work to contain the inequality effect of QE, but two other former Fed members differ.

Employment creation spreads income more widely. However, this effect has been weak as many of the jobs created are low-paying and, moreover, the structural factors explained above work against wage increases. Thus it has been dubbed a job-rich but pay-poor recovery.

Theoretically QE and excess liquidity should translate into availability of cheaper mortgage financing. However, people who are able to take advantage of this are the better off, while the poor and those whose house equity is under the water are unable to get refinancing and those with low incomes are unable to get new loans as banks become more cautious of lending after the global financial crisis.

As for the first factor above, when central banks buy securities and financial assets, they inject liquidity into banks and financial institutions. The objective is for them to lend the money for productive investment and to boost economic activities. However, much of it is used for buying equities, bonds and for speculative purposes. Financial institutions and fund managers are now able to borrow at near-zero interest rates to invest in the financial markets. There was also a surge in corporate borrowing; instead of investing in production, much was ploughed into share buybacks and mergers and acquisitions.

The upshot of this was a huge run-up in financial asset prices. The prices in bond, stock and property markets have exceeded the levels in the pre-crisis period. As pointed out, ownership of wealth is highly unequal and concentrated, even more so than income distribution. Hence the people who are best placed to take advantage and reap the benefits of this financial asset repricing are the rich.

As Table 1 shows, taking the example of the UK, the share of stocks directly owned by the top 1% of households rose from 32% to 53% between the pre- and post-financial crisis periods, while that of the bottom 80% dropped from 13% to 7%.

Unlike the conventional monetary policy of cutting interest rates, which works through the 'credit channel', QE as a policy, according to former US Federal Reserve Board member Kevin Warsh, works purely through an 'asset price channel', enriching the few who own stocks or other financial products (and not the 96% of Americans who receive the majority of their income through labour).

Another former Fed Board member, Richard Fisher, put it in stronger terms, describing QE as a 'massive gift' to the elite of the financial world (Soni, 2014). In another article, he called this the 'Everything Boom' and stated: 'I believe the root cause is the hyper-accommodative monetary policy of the Federal Reserve and other central banks' (Fisher, 2014). With interest rates forced down, fund managers and investors were encouraged to invest in other financial assets, pushing up prices, and the purchase of these made them richer.

Conclusion

The rising inequality generated by neoliberalism is among the root causes of the recent global financial crisis. Aggressive loose monetary policies and quantitative easing were seen as the cure to resuscitate the economy. These policies have pushed interest rates near zero and, in some places, to negative levels. But like pushing on a string, the real economy has not recovered to pre-crisis levels. Growth is desultory and patchy, but inequality has worsened because of quantitative easing.

The pill that was supposed to be the cure has not only not been effective but also produced unintended consequences of rising inequality. Will this add fuel to the fire? Time will tell. ◆

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Endnote

1. Robert Lucas, a Nobel laureate in economics, wrote, 'Of the tendencies that are harmful to sound economics, the most seductive, and in my opinion the most poisonous, is to focus on questions of distribution.'

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India and the myth of growth

It is 25 years since India adopted the neoliberal model of development. Despite the early hype about a new era of soaring growth, it is now clear that the high rates of growth of the early years were simply not sustainable. More importantly, the claim that such growth would wipe out the mass poverty and deprivation that dogs the country has proved illusory. *C P Chandrasekhar* comments.

JULY 1991 is widely seen as a watershed month in Indian economic policymaking. That was when the Indian government declared that it was unwinding the interventionist regime which had been in place since Independence, involving controls on economic agents, regulation of markets, a large public sector and an *a priori* plan as to how economic resources should be allocated. In the period to follow, policy, it was then argued, would dismantle this excessively interventionist framework and establish and support a system driven by private initiative and relatively unfettered markets, with minimal regulation and control. The state was to transform itself from being a regulator of the market economy to being a facilitator of the functioning of the market mechanism.

Bank credit to private (or public-private partnership) infrastructure projects like roads was a major stimulus to growth in India, which was riding on a credit bubble.

Stated thus, this transition appears to be void of any social or political substance. However, there was a reason why post-Independence India, steeped in poverty, made the choice of pursuing development within a highly regulated mixed economy. According to the framers of post-Independence policy, experience and the understanding distilled from it showed that reliance on market signals to allocate resources would neither help then-backward, post-colonial India diversify its economic activity to close the gap between itself and developed countries, nor make much difference to the extreme poverty and deprivation that afflicted the majority of the population. Regulation and disciplining of industrialists and landlords, to prevent them from pursuing private profit at the expense of social benefit, and the redistribution of assets and income (through land reforms and curbs on monopoly, for example) were necessary to launch a growth strategy that made sense of freedom and preserved the unity of the country.

Seen from that perspective, the decision in 1991 (and even earlier) to dismantle that interventionist regime was a major turning point. In the name of growth, the government was declaring its willingness to favour private capital at the expense of the rest of society. The latter were to be compensated with 'social expenditures' that would, in the long run, reintegrate those marginalised by the strategy while supporting them with transfers that ensured minimal benefits in the short run.

Elite consensus

Twenty-five years down the line, there seems to be a sense of complacence about the experience with the pursuit of this strategy. The Congress Party, which, under Rajiv Gandhi and subsequently under P V Narasimha Rao, launched India on the trajectory of liberalisation and neoliberal reform, seems proud of that achievement and is pushing to take credit for it. Regrets, if any, relate to the fact that more was not done faster. The Bharatiya Janata Party seems comfortable taking over the legacy of reform handed over to it by the Congress and claims that it is moving faster with more far-reaching policy changes. With much of the media convinced that there is no alternative to the neoliberal path, the elite consensus in India is that the task ahead is to prevent the reversal of reform and keep messy politicians, who, after all, are accountable and subject to pressure from 'special' interests, from meddling too much with economic policy.

An elite consensus of this kind does not necessarily represent the truth. Until the 2008 crisis, establishment figures and intellectuals close to power across the world believed that the unfettered expansion of finance and financial markets was good for growth. A crisis that lasted eight years and is still ongoing has made that sound like nonsense. Finally, it was not the market that saved finance and is working to revive growth, but government. Similarly, few within the European establishment believed that the people of Britain, a country which had the best deal possible as a member of the European Union, would see the arrangement as manufactured to suit the elite and vote to leave the club. So, an elite consensus is neither a proof of truth nor a guarantee of irreversibility.

Twenty-five years is a long period in history. Dating the adoption of a regime of development planning to 1951, when India's First Five Year Plan was launched, and treating the 1980s as an interregnum with creeping liberalisation under Rajiv Gandhi as Prime Minister, we have 30 years of experience with the earlier interventionist strategy and 25 years with neoliberalism. So, if definitive statements about the success of import substitution could be made by the end of the 1970s, so can such statements presumably be made about the neoliberal path traversed over the last 25 years. This, however, is not accepted by the advocates of liberalisation, who still see it as an unfinished agenda, the full benefits of which are yet to come. But that need not hold us back here.

So, let us turn to the yardsticks most used by the advocates of liberalisation to proclaim its success. The first is economic growth. India, it is argued, has not merely managed to escape from the low-growth trap it was caught in until the 1980s but has managed to sustain and improve on that growth rate. The numbers do seem to support that argument. From annual rates of 4.8% from 1950-51 to 1964-65, 3.4% from 1964-65 to 1974-75 and 4.2% from 1974-75 to 1984-85, the rate of growth of the gross domestic product (GDP) rose to 5.9% from 1984-85 to 1994-95, 7.1% from 1994-95 to 2004-05 and 8.3% from 2004-05 to 2013-14. Although the rate of growth seems to have stabilised at a slightly lower level subsequently, that issue is mired in controversy because of the many voices that have expressed disbelief at the rates of growth thrown up by the drastically revised new series of National Accounts Statistics with 2011-12 as the base. But even leaving that aside, the figures do show a definite improvement in the last 25 years compared with the post-Independence period prior to that.

Substantially on the basis of that, it is held that the policy changes that began in the 1980s and were pursued more intensively after 1991 helped India escape the low 'Hindu rate of growth' in which it had been trapped until then. Discounting this achievement by referring to persisting poverty and deprivation is, in this view, unwarranted because only with growth delivering surpluses can the resources be found to adequately address these problems. While welfare measures and safety nets might have a role in the interim, in the final analysis, it is growth that would offer a sustainable solution to those problems. Needless to say, it is not just welfare that the GDP-based argument ignores but other factors such as the appallingly poor state of physical and social infrastructure in the country.

The second oft-quoted indicator of success is India's large foreign exchange reserves, currently placed at \$360 billion or the equivalent of imports over more than 11 months by current standards. That a country which had seen its reserves fall to the equivalent of the value of its imports over two weeks in 1991 and had to pledge its gold reserves to obtain temporary balance-of-payments financing from the International Monetary Fund (IMF) has recorded this turnaround is seen as remarkable.

Both these claims have to be read with caution. There are a couple of features of the GDP growth record that need noting. To start with, agriculture, now steeped in a crisis by all accounts, has been languishing in terms of growth, and even manufacturing showed some buoyancy only in the years after 2004-05. So, much of the growth was on account of construction and services. Given this pattern of growth, it was not exports that supported the buoyancy experienced under the new regime, as was claimed would be the case by the advocates of liberalisation.

Moreover, much of the expansion of output was unevenly distributed over time. Growth in the 1990s was concentrated over 1994-95 to 1996-97, and it was only during 2004-05 to 2013-14 that the economy witnessed a relatively long boom (with the exception of post-crisis year 2008-09). If liberalisation is regarded as a success on the basis of the growth that it has delivered, then the argument is crucially dependent on how growth during the post-2004 period is assessed, to which we return later.

The use of foreign reserves as an indicator of success is even more knotty. In the 25 years since 1991, India has recorded a current account deficit on its balance of payments in all but three years. In other words, as a country, it has been spending more foreign exchange on imports of goods and services than it has earned through the export of goods and services. So, there was no foreign exchange surplus that was being earned.

If India has accumulated a large volume of foreign reserves, it is only because foreign investors and lenders have pumped into the country much more foreign exchange than was needed to finance annual current account deficits. It hardly bears stating that the inflows are liabilities and have associated with them payment commitments in future in the form of interest or earnings, and in the form of the value of the asset held by the investor if she decides to sell and exit. In sum, India's reserves are borrowed and not earned, and the more the stock of such liabilities it accumulates, the more externally vulnerable the country becomes.

Misplaced assumptions

When assessing these claims, it may also be appropriate to ask how liberalisation was expected to accelerate growth. A reading of the case for liberalisation made by its advocates sees its primary purpose as that of unleashing the competition (domestic and foreign) that had been suppressed by the interventionist regime. The result of the absence of competition, it was argued, was the emergence of a high-cost economy, with plants of uneconomic scales employing dated technologies and incapable of competing in international markets. That deprived India of the possible benefits of an export stimulus to growth and prevented it from earning the foreign exchange needed to pay for the imports of even essentials of various kinds. Liberalising imports, freeing entry for domestic and foreign players, and removing restrictions on capacity creation and expansion were expected to redress these weaknesses. It was expected to result in a restructuring of domestic industry, which would be forced by the cutting edge of competition to establish internationally competitive capacities. Liberalisation was also expected to attract foreign direct investors who, whether in collaboration with domestic partners or through investment in subsidiaries, would establish similar internationally competitive capacities, giving India an edge in international markets.

There are two features of this argument that need noting. First, it implicitly assumes that industry will be the leading sector in the growth process. Liberalisation, it was being argued, would help fulfil the promise India showed as a potential industrial power. Second, it presumes that there will be a shift away from the inward-oriented nature of economic activity in the interventionist years to a more outward-oriented regime. The resulting foothold in international markets would not only spur growth but ensure that India does not remain externally vulnerable and suffer the debilitating balance-of-payments difficulties it faced in 1991.

Neither of these features is true of India's record over the last three decades. Despite brief periods of buoyancy, manufacturing has not been the driver of growth in the country. In fact, the relative share of manufacturing in India's GDP falls far short of what it is in similarly placed countries. In 2010, industry's contribution to GDP stood at 47% in China, 47% in Indonesia, 39% in South Korea, 44% in Malaysia, and 45% in Thailand. In India that contribution was only 27%. India has also failed to raise its market share even in the case of traditional exports, let alone manage a diversification of commodity composition of its exports. More recently, exports have been falling in absolute dollar values, for reasons going beyond just the slowdown of the world economy. The benefits that liberalisation was supposed to deliver have not been garnered, forcing the government to shrink and rebrand the manufacturing-first strategy to a 'Make in India' push, where the attempt is to link as a subordinate supplier to global value chains with the help of foreign investment. That is what small, even island, economies normally attempt.

Destination for foreign investors

How then do we explain the performance of the economy during the high-growth era starting 2004, which, by all accounts (excepting the new series of National Accounts), is losing steam? Central to this story is the discovery of India as a favoured destination for foreign investors looking for quick returns in the form of capital gains (not long-run profits). Foreign investment inflows that averaged \$8-15 billion before 2004-05 rose to more than \$60 billion in 2007-08 and, despite the crisis of 2008-09, recovered to more than \$70 billion in 2014-15.

It does appear that the combination of financial liberalisation and the large financial inflows that accompanied it did create a new regime of accumulation in India. Over these years, India was receiving far more capital inflows than it needed. The inflow of foreign exchange had as its counterpart an increase in the overhang of liquidity in the domestic economy. On the basis of that overhang, a liberalised banking system has been creating new credit assets at a rapid rate. The ratio of bank credit outstanding to GDP, which had remained at around 22% for a decade starting 1989-90, began to rise after 1999-2000, doubled by 2005-06 and is currently well above 50%. India has been witnessing a credit boom during its high-growth years.

There were also significant changes in the sectoral distribution of credit. Overall, there were two sets of sectors that gained in share. The first comprised retail advances, covering housing loans, loans for automobile and consumer durable purchases, educational loans, and the like. The share of personal loans increased from slightly more than 9% of total outstanding commercial bank credit at the end of March 1996 to close to a quarter of the total more recently.

The second area of change was the distribution of credit going to industry, which, at around 40% of total bank credit outstanding, was still substantial. The share of infrastructural lending in the total advances of scheduled commercial banks to the industrial sector rose sharply, from less than 2% at the end of March 1998 to 16.4% at the end of March 2004 and as much as 35% at the end of March 2015. That is, even as the volume (though not share) of lending to industry in the total advances of the banking system has risen, the importance of lending to infrastructure within industry has increased hugely. Sectors like power, roads and ports, and telecommunications have been the most important beneficiaries. For commercial banks, which are known to prefer lending for short-term purposes, this turn to lending to infrastructure was a high-risk strategy.

The transition here needs to be understood. Until the 1990s, debt-financed public expenditure played an important role in sustaining growth in India. Even the 1980s were years when large fiscal and revenue deficits on the government's budget shored up demand and drove growth. That came to an end as the government, in return for support from the IMF in 1991, agreed to launch on a trajectory of fiscal consolidation, by limiting the fiscal deficit or the extent of debt-financed spending.

This would have proved a major constraint on growth. The liquidity accumulation that financial liberalisation ensured provided a solution to this problem by taking the stimulus to growth off-budget. Now, debt-financed private expenditure and bank credit to private (or public-private partnership) infrastructure projects proved to be the principal stimulus to growth. Since just offering credit to private players is inadequate to stimulate investment in areas such as infrastructure which have long gestation lags and higher risks, the government had to find innumerable ways to incentivise such investment. The corporate sector was implicitly being subsidised to undertake what a government, limited by its own fiscal deficit targets, could not carry out.

But, as soon became clear, sudden spurts in credit to private agents inevitably increase lending to less creditworthy borrowers. Such borrowers can default on their payments, and that could bring the whole process to a halt, besides threatening the viability of the banking system itself.

In sum, growth during the 2000s was riding on a credit bubble, which had to give. That process seems to have begun. The exposure of the banking system to stressed assets (including both non-performing assets and restructured assets) increased from 5.9% of gross advances at end-March 2011 to 11.5% by end-March 2016. The engine driving growth has begun to sputter.

Thus, even the kind of growth that liberalisation actually delivered is proving unsustainable. So the belief that growth would remain high for years to come, delivering benefits even to those at the bottom of the income pyramid and those steeped in poverty and deprivation, has revealed itself to be a myth.

Even setting aside issues like the agrarian crisis, the persisting and appalling poverty and deprivation in the country, and increasing loss of economic sovereignty in the face of a literal invasion by foreign capital, neoliberal reform has not delivered. Meanwhile, the government waits for another fortuitous bubble to drive another episode of growth. But, as of now, there are no signs of those air-filled monsters. ◆

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The Book of Paul

At a time when economists at the IMF appear to be experiencing some heartburns about neoliberalism, the World Bank has appointed Paul Romer as its chief economist, thus dispelling any notion that the Bank has in recent years been moving away from neoliberalism. In this piece, written two years ago, *Sam Wetherell* explains the ideas that animate the man.

The 'charter city' concept promoted by Paul Romer *(pic)* envisions the creation of vast neocolonial cities within the territory of developing countries, paid for, built and governed by wealthy liberal democracies.

PAUL Romer, the inventor of the charter city, is the closest this century has to a real-life character from a Joseph Conrad novel. Since quitting his job as a Stanford economist and tech CEO, Romer has dedicated himself to realising a vision: the creation of vast neocolonial cities within the territory of developing countries, paid for, built and governed by wealthy liberal democracies.

Romer, who describes his office as the local Peet's café down the road, fills his calendar with meetings with corrupt local leaders and trips to survey remote coastal hinterlands where he fantasises about the creation of cities of millions. You can imagine arriving at a tavern in some distant tropical port only to find him, wearing khakis and a Panama hat, with a cellphone, a map and a giant red marker pen, talking about 'win-win solutions' to global poverty.

Romer's charter cities are pitched as a solution to the 'bad governance' – often referring to pesky things like taxes – preventing countries like Uganda from becoming, say, Switzerland. These future metropolises will boast free movement of labour in and out of their borders. Trading their citizenship for jobs, residents would not be allowed to vote in any traditional sense other than with their feet.

Romer imagines a world in which the United States, tiring of its now-toxic ownership of Cuba's Guantánamo Bay, cedes the territory to Canada. With Castro's permission, the Canadians use private contractors to erect a vast, ten-million-strong city there. While the land would be in Canadian hands, residents of the city would still be Cubans. They would have almost no say in the administration of the city, which would be managed by technocrats and business leaders. According to Romer, such a city-state would have a profound effect on Cuba's economy, enabling the transfer of ideas, jobs, capital and people.

While this sounds fantastical, Romer rightly notes that this is an idea with a historical precedent. In 1842, representatives of the ruling Qing dynasty were marched aboard a British gunboat anchored off the coast of China and forced to sign the Treaty of Nanking, the outcome of a messy imperial war from which Britain had just emerged as the victor. Among other things, the treaty ceded Hong Kong, a small but strategically located peninsula, to British control. Hong Kong stayed in British hands until 1997, becoming a dynamic port fuelled by free trade, low taxation and sweatshop industrial production.

When Deng Xiaoping began transforming the Chinese economy in the late 1970s, the special economic zones created along China's Pacific coast were apparently inspired by Hong Kong's example. Romer's imaginary city in Guantánamo would be to Cuba as Hong Kong was to China in the 1980s.

The sociologist Aihwa Ong has argued that in the late 20th century citizenship is becoming increasingly decoupled from geographic space. Romer's cities are a perfect fit for this new state of affairs. Residents of charter cities will be consumers rather than stakeholders, able to come and go but unable to vote on how their city is run. Indeed, the idea that people have the knowledge, material resources and inclination to uproot and leave their charter city as soon as things start going downhill – and that these decisions can be substituted for traditional forms of political action – is perhaps the most fantastical and terrifying part of Romer's vision.

His idea recalls Italo Calvino's fictional city of Eutropia, whose residents, tiring of their mundane existence, move en masse to a different city, which is waiting 'empty and good as new', a city where they will receive new jobs, friends and pastimes.

Romer first pitched his idea to the government of Madagascar in 2008. After repeated attempts to secure a meeting with then-president Marc Ravalomanana, Romer turned up uninvited in Antananarivo and staked out the presidential palace. When he was eventually granted an audience, Romer convinced Ravalomanana to agree to the creation of two charter cities, each run by a different Western power. Ravalomanana, a wealthy self-made man, was himself an evangelist for neoliberal development and had spent the better part of the last decade privatising much of his country's infrastructure.

Malagasy charter cities were shipwrecked, however, by events in 2009. When Ravalomanana's presidential guard opened fire on demonstrators protesting high food prices in Antananarivo, a chain of events was initiated that ended in Ravalomanana's deposition by military coup and the termination of his partnership with Romer.

Romer's next stop was Honduras. He hoped that a charter city there would reduce the influence of the country's powerful criminal networks. However, while described as 'unpopulated', the two zones selected for the cities were home to large numbers of the Garifuna community, who would be displaced were the plan to go forward.

When an initial attempt to create a charter city was struck down by the Honduran Supreme Court in 2012, the government promptly fired the four judges who had voted against the plan and invited Romer to sit on a transparency committee advising the creation of two charter cities. But in the wake of news that those in charge of the cities had signed a memorandum of understanding with a mysterious business consortium called Grupo MGK that had alleged links to libertarian Whole Foods founder John Mackey, Romer resigned from the transparency committee, claiming he wasn't being included in major decisions regarding the project.

Events in Madagascar and Honduras saw a return of the realpolitik that Romer's breezy *Freakonomics*-style rhetoric tries so hard to repress. While his ideas seemed convincing in the air-conditioned hum of a TED Talks lecture theatre, in practice the trading of democracy for untrammelled free-market capitalism turned out, to Romer's surprise, not to be conducive to human rights, political stability and the flourishing of a million bright-eyed tech entrepreneurs.

Thatcher's Paris Commune

Although charter cities are presented by Romer as a technocratic conjuring trick, the geopolitical equivalent of a lifehack, similar ideas have been at the forefront of New Right thinking for more than a generation. The privatisation and deregulation of small pieces of urban land to showcase the success of free-market capitalism in its purest form has been the strategy behind enterprise zones, special economic zones and free ports. These policies have arguably been neoliberalism's most successful legislative pushes.

The story of these ideas begins with a group of maverick urban planners writing in Britain in the late 1960s. Led by the urban planning guru and later government adviser Peter Hall, the group set out their vision in what became known as the 'Non-Plan' manifesto. The non-planners called for large county-sized regions of the UK to be freed from all state planning restrictions. Critiquing what they saw as a frustrating and ossified government bureaucracy, the authors imagined that a new world of social and aesthetic freedom would emerge in these regions.

They envisioned thatched British villages connected by vast Los Angeles-style freeways and houseboats sailing to 'row-in movie theatres', and outlined a radical vision of democratic urban planning. 'Why not let people shape their own environment?' the non-planners asked. At times playful, at times fiercely passionate, the Non-Plan did not quite amount to an ideology, but it was a sentiment, a primordial soup from which a new ideology would soon evolve.

Despite these libertarian fantasies, Peter Hall remained at first a reliable, though at times reluctant, member of Britain's left-wing intelligentsia, advising a key Labour Party planning committee and participating enthusiastically in campus upheavals in Berkeley during a 1960s stint at the university. In 1973, Hall chaired the Fabian Society, Britain's most influential left-wing think-tank.

His allegiances were overturned, however, during the economic crises of the 1970s. During that decade, Hall made repeated visits to Hong Kong, where, like Romer, he fell in love with the British colony's sweatshop dynamism and grew convinced that deregulation was the only solution to Britain's growing urban crisis. In a high-profile speech in 1977, Hall first suggested the enterprise zone as a solution to Britain's urban decay (though he didn't use the term). The idea was seized on by Margaret Thatcher's government-in-waiting.

Enterprise zones were to be small inner-city areas exempt from certain elements of state regulation (and, crucially, from taxation). Gone were the anti-authoritarian impulses and aesthetic hedonism of the Non-Plan; the freedom that remained was to be the freedom of the market. The enterprise zones were designed to pave the way for top-down, financial-services-led gentrification.

The original vision called for passport checks along the borders of the zones, which would be designated as 'Crown Colonies' (the formal name for many British colonial territories, including Hong Kong). The zones would be totally exempt from all fire and building code regulations and laws forbidding workplace discrimination. While the final implementation of the zones was somewhat diluted, it was the enterprise zone, rather than the Non-Plan region, that became British policy in 1981.

Twenty years later, Hall would acknowledge the irony of this story, writing that the transition from Non-Plan area to enterprise zone marked a moment where 'right and left met around the back of the stage'.

The idea took off. The same year that enterprise zone legislation was being drawn up by Thatcher's new government, it crossed the Atlantic, supported and further honed by libertarian think-tanks like the Cato Institute. Today, there are thousands of enterprise zones in the United States, 79 in the UK, 85 in France and 22 in Italy. There are plans to set up zones in South Africa, Australia and even

Sweden.

The first 11 zones created in the United Kingdom by Thatcher were presented to local residents as means of bringing back jobs and prosperity. Secret government memos from the time, however, told a different story: Keith Joseph, a senior adviser to Thatcher, noted that the zones would be 'demonstration areas … where conditions more encouraging to enterprise might be established – to show what would then result'.

Indeed, Paul Ferrara, the Cato Institute apparatchik who brought the policy to the US, wrote in 1982, 'The creation of islands of economic freedom in America's major central cities will hopefully serve as useful demonstrations of the success of free markets.'

Unlike Romer, who has attempted to steam ideology out of his charter city idea, the early evangelists for enterprise zones were clear about the effects of their policy. It was designed to achieve ideological ends with administrative means. One newspaper even joked that the streets of East London's enterprise zone would be renamed after right-wing economists – Friedrich Hayek Boulevard, Milton Friedman Avenue, maybe even Ludwig von Mises Lane.

Like Romer, Hall and Thatcher's chancellor Geoffrey Howe repeatedly and favourably cited Hong Kong as a role model for their ideas. While Britain developed a Keynesian welfare state in the postwar period, Hong Kong perfected its policy of 'positive non-interventionism' and became a laissez-faire carnival of sweated migrant labour.

Praised by Milton Friedman, Hong Kong became something of an urban fantasy for the British new right – the Thatcherite equivalent of the Paris Commune. During a state visit to the city in 1980, for example, Thatcher's trade minister could not resist mentioning in his speech that the British right 'shares your profound belief in free enterprise and we shall strive to come as close to your achievements as we can'.

The proliferation of extrajudicial deregulated zones crafted to the needs of capital has occurred at the national as well as the local level. Introduced in 1980, Chinese Special Economic Zones (SEZs) are vast macroeconomic exceptions designed to link Chinese manufacturing to the developed world without fully jettisoning protectionist trade policy.

There are now more than a dozen SEZs scattered along the length of the country's Pacific coast, where exceptional laws have favoured the production of export-oriented commodities with minimal regulation or redistributive measures. There are also over 30 state-level economic development zones, more than 50 industrial development zones and 15 free-trade zones scattered throughout China.

To the extent that these zones proliferate and overlap, it is increasingly difficult to talk of a single Chinese political economy. The result is something like political economy à la carte, a system that allows neoliberalism to live alongside state-planned communes seemingly without contradiction.

The fragmentation of the global economy into competing exceptional zones continued into the late 1980s and 1990s, with new zones in Latin America, Eastern Europe and the Middle East. A 2008 World Bank report noted that there were more than 2,000 such zones scattered across the world, and that 62% were entirely developed and operated by the private sector.

The Dominican Republic, for example, has created 31 privately run special economic zones around Santo Domingo in which private contractors are responsible for the provision of almost all of the zone's infrastructure. Romer's plan for charter cities is little more than the intensification of a process that has been underway for more than a generation.

One big zone

The enormous global transformations of the last few decades – away from both state socialism and Keynesianism – have been described as a coup by business elites, a structural shift in the economic base, or the outcome of an increasing loss of solidarity and social totality in the wake of globalisation. Looking at these geographically based policies, however, we can see neoliberalism not as a discrete set of national policies or strategies of accumulation, but instead as a network of different zones crafted to the needs of capital – zones that are increasingly becoming the rule, rather than the exception.

In 1944, Karl Polanyi argued that a series of early 19th-century upheavals ushered in, for the first time, integrated national markets which stretched taut across states like fitted sheets. Non-Plan areas, enterprise zones, special economic zones and export processing zones have pierced holes in these national economic fabrics.

Historically, from worker-cooperative towns like Robert Owen's New Lanark to the Occupy movement, the creation of utopian communities has been the preserve of the political left. The perfection of exemplary social relations within a tightly bounded geographic space has often been seen as the first step in making a new world free from the ravages of industrial capitalism. With enterprise zones and charter cities, neoliberals are discovering the powerful political possibilities of their own utopias.

A decade after the policy was proposed in Britain, Thatcher's finance minister, Geoffrey Howe, returned to the first enterprise zone in London to give a speech among the forest of skyscrapers and shopping malls that had mushroomed within its borders. The need for the zones, he claimed, was now redundant, as his government had 'turned Britain into one giant enterprise zone'.

As Paul Romer continues his mission, setting forth like Conrad's Marlow to far-flung corners of the world with a map and an imperial spark, it might not be long before we are all living in charter cities, one way or another. ◆

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UNCTAD's roles reaffirmed, but only after significant wrangling

The difficulties which UNCTAD – the UN's premier economic development organisation which has consistently championed the cause of the developing countries – faced recently in securing a renewal of its mandate are a reflection of the frosty state of North-South relations, says *Martin Khor*.

The 14th session of UNCTAD's quadrennial conference, held in Nairobi in July, adopted a declaration on global economic issues after difficult negotiations split along North-South lines.

THE United Nations' leading development organisation UNCTAD recently obtained a renewed mandate for its work, but not without difficulty.

This is because the developed countries are now much more reluctant to give concessions to the developing countries, thus showing up the present shaky state of North-South relations and of development cooperation.

The 14th session of the United Nations Conference on Trade and Development (dubbed UNCTAD 14) concluded in Nairobi on 22 July with an agreed declaration on global economic issues. It also gave UNCTAD another four-year mandate for its activities of research, intergovernmental meetings and technical assistance.

Reaching this consensus was hailed as a success in multilateral cooperation on trade, development and related issues. However, an agreement was reached, on what should have been non-controversial issues, only after a lot of difficult wrangling between the developed and developing countries.

Formed in 1964, UNCTAD is the UN's premier economic development organisation. In its heyday from the 1960s to the 1980s, it was the world's most important negotiating forum on trade issues, specialising in global commodity agreements. It helped lead the developing countries' initiative for a 'new international economic order'. It was also designated the UN's focal point for the integrated treatment of trade and development and with areas of finance, technology and investment.

For over half a century, UNCTAD has championed the cause of developing countries. But in recent decades, under the influence of developed countries, its role was downgraded. Many of its important issues were passed on to other organisations, over which the developed countries have more control, such as the Organisation for Economic Cooperation and Development (OECD), World Trade Organisation (WTO), International Monetary Fund (IMF) and World Bank.

The developing countries have had to fight continuously to slow down or stop the decline of UNCTAD and the UN in general.

At UNCTAD 14, the delegations spent hectic days and sleepless nights on thrashing out hundreds of disputed paragraphs of the conference declaration, which could not be agreed on even after many months of negotiations in Geneva.

Principles or even phrases that have long been agreed to as part of global cooperation are now challenged or even made taboo by the developed countries. They had previously been amenable to placing on record the need to transfer technology and provide financial resources and special treatment to developing countries. Now it is considered almost too sensitive to propose language on 'additional financial resources' and 'technology transfer', while big battles have to be waged to reaffirm the long-accepted principles of 'common but differentiated responsibilities' and 'special and differential treatment' for developing countries.

The developed countries have become less secure in their domination over the global economy and thus are no longer willing to recognise many of the rights of and concessions to the developing countries that are embedded in the global development system.

It was thus a big challenge for the developing countries, led by their umbrella group, the Group of 77 and China, to get their developed-country partners to reach a consensus at UNCTAD 14, as illustrated by the following examples.

First, the developing countries fought to reaffirm the need for countries to have 'policy space'. This concept, agreed to at an earlier UNCTAD conference, implies that developing countries should be given the right to make use of policies and instruments required for their development. Many trade and investment agreements have been identified as containing provisions that restrict or even eliminate the ability of developing countries to pursue pro-development policies.

The developing countries proposed language on policy space in many parts of the declaration, but they faced resistance. Eventually only a mild and conditioned reference was accepted, as follows: '... and respecting each country's policy space while remaining consistent with relevant international rules and its commitments' (paragraph 3 of the declaration).

Second, the developing countries wanted an expanded mandate for UNCTAD's important work on external debt issues. UNCTAD has been the UN system's main organisation on debt; it has championed debt relief for poor countries and the need for an international debt restructuring mechanism to resolve debt crises.

Developing countries wanted to stress that UNCTAD has a role in the prevention and resolution of debt crises and not just debt management, but this faced objections.

Further, language was introduced to narrow the scope of UNCTAD's debt work to one of complementing the work of the IMF and World Bank, which would have curbed its independence.

At the last minute, developing countries managed to add 'as appropriate', implying that the 'complementing' function would be used only at UNCTAD's own discretion.

Third, the developing countries wanted to mention the need to rapidly conclude the Doha Round of trade negotiations at the WTO. This is hardly a radical idea since the need to conclude the Doha talks has been a longstanding mantra for many years in international discussions and many declarations on development.

However, the developed countries have recently decided to give up on the Doha Round altogether, to the frustration of developing countries. Thus, at their insistence, work on the Round was not even mentioned in the UNCTAD 14 outcome.

UNCTAD has championed debt relief for poor countries and the need for an international debt restructuring mechanism to resolve debt crises.

Fourth, in many other fora, including the UN climate change negotiations, 'technology transfer' has become a taboo phrase, with even its mention being opposed, especially by the US.

It is to the credit of developing countries that this term appears several times in the UNCTAD 14 declaration, including that UNCTAD should assist developing countries to identify ways to operationalise technology transfer [paragraph 40(f)].

Fifth, the need for international cooperation on tax issues (including how to deal with tax evasion, tax avoidance and tax havens) has become a hot topic recently.

Most developing countries have been excluded from the international discussions on these issues as they are mainly held at the OECD (the club of developed countries), of which they are not members.

They asked during the UNCTAD negotiations for the setting up of a UN committee on tax issues at which all countries could discuss and make decisions, but this was not acceptable to the developed countries.

However, the final document does mention taxation a number of times, thus providing UNCTAD a mandate, though a limited one, in pursuing the issue.

There were other positive elements too at UNCTAD 14.

The role of UNCTAD as the focal point in the UN system dealing in an integrated manner with trade and development and interrelated areas of finance, technology and investment was reaffirmed.

Also reaffirmed is the importance of UNCTAD's 'independent development oriented analytical work'. And the conference gave a fresh mandate for UNCTAD's work in the next four years.

These reaffirmations of UNCTAD's roles and mandates were hailed as a victory, for it had been uncertain until the last hours of the conference whether an overall agreement could be reached on the declaration.

This situation depicts the underlying conflicting positions, with the South desiring that UNCTAD expand its mission to champion the cause of development and the North attempting to restrict the role of UNCTAD to a bare minimum.

As UNCTAD 14 neared conclusion, UNCTAD Secretary-General Mukhisa Kituyi remarked: 'I'm delighted that our 194 member states have been able to reach this consensus, giving a central role to UNCTAD in delivering the sustainable development goals.'

It is to the credit of the developing countries and the G77 and China that they succeeded in having many of their main points, although in diluted form, included in the UNCTAD 14 outcome.

Although it may not have the same clout as during its high years some decades ago, UNCTAD lives on to fight another day. – *IPS* ◆

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Illicit financial flows threaten Africa's growth, says UNECA

Africa is being drained of resources for development as a result of the illegal movement of money and capital, say officials from a UN body concerned with the continent's development.

Collins Mwai

ILLICIT financial flows across the continent continue to be the biggest avenue of losses of revenue across Africa, officials from the United Nations Economic Commission for Africa (UNECA) have said.

Officials from the commission say that Africa continues to lose a significant amount of revenue, which has had grave consequences on the development of the continent.

Illicit financial flows are illegal movements of money or capital from one country to another, especially to safe havens, without paying necessary taxes and appropriate revenues in countries where they are earned. This in turn reduces domestic resources and tax revenue needed to fund development.

A 2015 report by the Africa Progress Panel led by former South African president Thabo Mbeki had put the value of illicit financial flows at $50 billion, but UNECA puts it at over $80 billion.

Abdalla Hamdok, Deputy Executive Secretary and Chief Economist at UNECA, said that the illicit flows mostly stem from capacity deficits of some countries to deal with tax evasion as well as inadequacies in tax collection.

'The illicit financial flows also arise due to legal capacities in governments' negotiation with multinationals which at times see countries getting raw deals,' Hamdok told *The New Times* in an interview.

He added that only a small portion of the illicit financial flows were due to corruption as most people assume, with most being related to the nature of agreements and capacities.

The UN Economic Commission for Africa's Abdalla Hamdok: 'The total value of revenue lost through illicit financial flows is more than what Africa gets in foreign aid each year.'

Of all the illicit financial flows across the continent, about 60% are linked to commercial activities of multinationals while about 35% are linked to criminal activities.

Hamdok said that by addressing illicit financial flows, African governments would collect revenue that would enable them to not only finance their development but also rid themselves of development assistance.

'The total value of revenue lost through illicit financial flows is more than what Africa gets in foreign aid each year. By taking quick action to curb the financial flows, the continent can easily fund its development agenda,' he said.

Among interventions proposed by UNECA to curb the illicit financial flows are reforms that will tackle tax evasion as well as capacities to administer the reforms. The commission also proposes the boosting of capacities in litigation and contract negotiations of governments when dealing with firms.

'Multinationals operating across the continent should adopt a country-by-country reporting system that will give clear insights to the performances and expected tax revenues,' Hamdok said.

He also called for increased awareness and sensitisation for countries to be more aware of such activities.

The African Union Commission says that by curbing illicit financial flows, Africa stands a high chance of self-financing and ridding itself of donor dependence.

African Union Commissioner of Economic Affairs Anthony Mothae in a separate interview said curbing illicit financial flows is one of the much-sought avenues to fund high-cost development projects. He said that governments should not be afraid of putting in place measures to curb the trend for fear that they will scare away multinationals with interest in investing on the continent.

'We have no interest in dealing with rogue investors and firms. As a continent we want to do business [with] and engage serious and "clean" investors,' he said.

He noted that going forward, a consortium composed of African Union officials, African finance ministers and UNECA was working in partnership with global financial institutions, including the World Bank and International Monetary Fund, to try to address the issue. ◆

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Thailand's great leap backwards

Although the military junta which seized power in Thailand in 2014 has now managed to secure public approval for its draft constitution, this was hardly a real exercise of the people's will. As *Tom Fawthrop* explains, this move has effectively jettisoned the great democratic strides made by the country since the promulgation of the 1997 constitution.

THE country once known as Siam has been promoted by tourism authorities as 'Amazing Thailand' and the 'Land of Smiles', but for most Thai people, there has been little to smile about since the 2014 military coup and all the political mayhem, corruption and mass unrest that preceded it.

This is a coup-prone country. Thailand is living under the harshest repression since the 1976 coup that unleashed a storm of ultra-right vigilante groups backed by the military that forced more than 10,000 students and labour activists into the jungle.

Thai junta leader and prime minister Prayuth Chan-ocha casting his vote in the 7 August referendum on a draft constitution.

The 2014 coup was not steeped in bloodshed, but the ruling military regime's draconian imposition of censorship and its prosecuting zeal have reached Orwellian 'Big Brother' levels for its unceasing campaign to clamp down on even the smallest gestures of anti-coup sentiment. General Prayuth Chan-ocha, the leader of the military junta and prime minister, has said that individuals who oppose him are in need of 'attitude adjustment', now a basis for arbitrary detention by the army.

On 7 August the junta proffered their draft constitution for public approval in a referendum, as a first step to garner some gloss of legitimacy since their dramatic seizure of power over two years ago. Key points that were to be decided in the referendum included:

• The constitution would allow for an unelected prime minister in the event of political deadlock and an unelected senate appointed by the junta, with seats reserved for military commanders to check the powers of elected lawmakers during a five-year transition period.

• Provisions in the charter would legally oblige any future government to follow the military's 20-year national development plan and allow military allies to take legal action against any government which does not adhere to the plan.

This would be a huge step backwards from the democratic provisions of the 1997 and 2006 constitutions in which the prime minister was required to be an elected member of parliament and the senate was also based on election.

Far from relaxing the state of repression so that a real debate could take place, the military set about framing the referendum campaign as a 'Yes only' campaign. A draconian Referendum Act that carried potential 10-year prison sentences for misrepresenting the draft, criticising its content or disrupting the vote was imposed on the process.

Prime Minister Prayuth brazenly declared that the Thai people 'have no rights to say that they disagree' with him: 'I don't allow anyone to debate or hold a press conference about the draft constitution. Yet they still disobey my orders. They will be arrested and jailed for 10 years. No one will be exempted, not even the media.'

Human Rights Watch reported the arrest of at least 120 people for violating the campaign restrictions. The organisation's senior researcher for Thailand, Sunai Phasuk, said the draft constitution 'essentially enshrines the abuse of power and impunity'.

In June, the United Nations expressed its concerns about the restrictions. These were ignored by the regime, which apparently released comments to the local press saying the UN was not concerned. A surprised UN reiterated that on the contrary, it was deeply concerned and that the restrictions compromised the credibility of the plebiscite.

Very few Thais were exposed to arguments about the charter's flaws and merits: few even saw a copy, and the small number who did were hardly likely to wade through its 279 articles. They were clearly not expected to read it. Most voters went to the polling stations with little idea of what was in the charter. They had only frequently heard the drafters' argument that it would address political corruption and help reform the country.

It was rare for an opposing view to leak out through the thick curtain of censorship. The blanket ban on expressing opposition meant that the dissenting voices of political parties, human rights activists and most of civil society could not be heard by the general public.

Not surprisingly, there was only a 59% turnout for the referendum. Some 61% of voters approved the draft constitution.

Paul Chambers, an expert on the Thai military at Chiang Mai University, expounded on the lack of any meaningful choice being offered the Thai people. 'The referendum was run by and for the military. The voters were pressured to legitimise the junta with a "yes" vote. The turnout was not high, and voters seeking a way forward for democracy were given little choice between a junta-preferred path to democracy or continued direct military rule.'

The Puea Thai party aligned to exiled former prime minister Thaksin Shinawatra had won the last freely contested election prior to the coup, backed by its legions of 'Red Shirt' supporters. Its northeastern stronghold was the only region to deliver a majority No vote (51%), demonstrating that the silent anger and frustration over the coup had not subsided, despite the detentions of many key cadres and despite the one-sided referendum campaign.

In the end, the Yes vote won the day for a variety of reasons. Most of Bangkok's middle class have never come to terms with the repeated electoral victories of pro-Thaksin parties since 2001, which were based on massive rural support especially in the vote-rich northeast. After a previous military coup in 2006, the country was returned to democracy a year later and again the pro-Thaksin party was able to sweep back into power thanks to its stronghold of rural poor.

What is very obvious is the 2014 coup leaders' determination that this will not happen again. Hence the new constitution is carefully tailored in the name of 'guided democracy' to block the rural vote from repeating their previous triumphs at the ballot box.

The junta has made various promises about elections only to postpone the date. Now the polls are maybe set for 2018, but then again it is all up to the generals as to when, and if, there will be any election at all.

Thailand's perpetual crisis

Senior researcher at the Centre de Recherches Internationales (CERI) in Paris, David Camroux has traced the chaotic path of Thai politics from the end of the absolute monarchy in 1932 to the May 2014 coup – the sixth in this period. He says that each military coup tears up the old constitution and draws up a new one, which leads inexorably to 'the vicious circles of coups, interim constitutions, permanent (sic) constitutions, elections and protests leading to further coups … The draft constitution [approved] in the referendum [on 7 August] will be the 21st or 22nd since 1932 – something of a world record.'

Prime Minister Prayuth claims that his coup regime has ushered in an era of stability and ended the mass demonstrations and sporadic violence of recent years between rival political movements. But, former cabinet minister Chaturon Chaisang has warned, refusing to allow people to choose their path is a recipe for future conflict.

Millions of voters, especially in northeast Thailand, who previously elected 'Red Shirt' governments will increasingly feel cheated and disenfranchised by the new rules of a 'guided democracy'. Little has been done to advance national reconciliation between the urban elites and the rural poor, a fundamental faultline of Thai politics. Until some consensus is forged to bridge this great political and social divide, the political deadlock that engulfs Thailand will continue to cripple democratic socio-economic development.

Campaigners display stickers calling for a 'No' vote prior to the referendum. The military had set about framing the referendum campaign as a 'Yes only' campaign.

After the democratic 1997 constitution, Thailand enjoyed a high degree of press freedom and a very active civil society, with the rights of non-governmental organisations (NGOs) enshrined as part of good governance. While Thai society advanced during this period, its neighbour Myanmar was still marooned in decades-long military rule.

Ironically, while Myanmar is now fast changing and has a vibrant civil society, Thailand appears to have been pushed down the path of regression. Myanmar, once a pariah state, has gone forwards towards a democratic transition. In contrast, after the August referendum there is no clear roadmap for Thailand to change course with a return to democracy. The dark uncertainty of a future without any guarantees of human rights or checks on the power of the state speaks volumes about how Myanmar and Thailand have sailed in opposite directions since the Thai coup of 2014. ◆

Tom Fawthrop is a writer, journalist and filmmaker who has reported on Thailand and South-East Asia since the 1980s. His latest documentary, The Last Undammed River, *on the threat of megadams on the Salween River, was broadcast on Democratic Voice of Burma TV. He has written for* The Economist *and* The Ecologist, *among other publications.*

The age of disintegration

In the Middle East and North Africa, nation states are enfeebled or collapsing under the impact of mounting external and internal pressures. While it is Western intervention that has precipitated this crisis, the internal, largely Islamic armed resistance that has emerged has proved 'too weak to win, but too strong to lose'. All this, says *Patrick Cockburn,* is a recipe for an endless cycle of indecisive wars and instability.

WE live in an age of disintegration. Nowhere is this more evident than in the Greater Middle East and Africa. Across the vast swath of territory between Pakistan and Nigeria, there are at least seven ongoing wars – in Afghanistan, Iraq, Syria, Yemen, Libya, Somalia and South Sudan. These conflicts are extraordinarily destructive. They are tearing apart the countries in which they are taking place in ways that make it doubtful they will ever recover. Cities like Aleppo in Syria, Ramadi in Iraq, Taiz in Yemen, and Benghazi in Libya have been partly or entirely reduced to ruins. There are also at least three other serious insurgencies: in southeast Turkey, where Kurdish guerillas are fighting the Turkish army; in Egypt's Sinai Peninsula where a little-reported but ferocious guerilla conflict is underway; and in northeast Nigeria and neighbouring countries where Boko Haram continues to launch murderous attacks.

All of these have a number of things in common: they are endless and seem never to produce definitive winners or losers. (Afghanistan has effectively been at war since 1979, Somalia since 1991.) They involve the destruction or dismemberment of unified nations, their de facto partition amid mass population movements and upheavals – well publicised in the case of Syria and Iraq, less so in places like South Sudan where more than 2.4 million people have been displaced in recent years.

Add in one more similarity, no less crucial for being obvious: in most of these countries, where Islam is the dominant religion, extreme Salafi-Jihadi movements, including the Islamic State (IS), al-Qaeda and the Taliban, are essentially the only available vehicles for protest and rebellion. By now, they have completely replaced the socialist and nationalist movements that predominated in the 20th century. These years have, that is, seen a remarkable reversion to religious, ethnic and tribal identity, to movements that seek to establish their own exclusive territory by the persecution and expulsion of minorities.

In the process and under the pressure of outside military intervention, a vast region of the planet seems to be cracking open. Yet there is very little understanding of these processes in Washington. This was recently well illustrated by the protest of 51 US State Department diplomats against President Barack Obama's Syria policy and their suggestion that air strikes be launched targeting Syrian regime forces in the belief that President Bashar al-Assad would then abide by a ceasefire. The diplomats' approach remains typically simple-minded in this most complex of conflicts, assuming as it does that the Syrian government's barrel-bombing of civilians and other grim acts are the 'root cause of the instability that continues to grip Syria and the broader region'.

It is as if the minds of these diplomats were still in the Cold War era, as if they were still fighting the Soviet Union and its allies. Against all the evidence of the last five years, there is an assumption that a barely extant moderate Syrian opposition would benefit from the fall of Assad, and a lack of understanding that the armed opposition in Syria is entirely dominated by the Islamic State and al-Qaeda clones.

Though the invasion of Iraq in 2003 is now widely admitted to have been a mistake (even by those who supported it at the time), no real lessons have been learnt about why direct or indirect military interventions by the US and its allies in the Middle East over the last quarter-century have all only exacerbated violence and accelerated state failure.

A mass extinction of independent states

The Islamic State, just celebrating its second anniversary, is the grotesque outcome of this era of chaos and conflict. That such a monstrous cult exists at all is a symptom of the deep dislocation societies throughout that region, ruled by corrupt and discredited elites, have suffered. Its rise – and that of various Taliban and al-Qaeda-style clones – is a measure of the weakness of its opponents.

The Iraqi army and security forces, for example, had 350,000 soldiers and 660,000 police on the books in June 2014 when a few thousand Islamic State fighters captured Mosul, the country's second largest city, which they still hold. Today the Iraqi army, security services and about 20,000 Shia paramilitaries backed by the massive firepower of the United States and allied air forces have fought their way into the city of Fallujah, 40 miles west of Baghdad, against the resistance of IS fighters who may have numbered as few as 900. In Afghanistan, the resurgence of the Taliban, supposedly decisively defeated in 2001, came about less because of the popularity of that movement than the contempt with which Afghans came to regard their corrupt government in Kabul.

Everywhere nation states are enfeebled or collapsing, as authoritarian leaders battle for survival in the face of mounting external and internal pressures. This is hardly the way the region was expected to develop. Countries that had escaped from colonial rule in the second half of the 20th century were supposed to become more, not less, unified as time passed.

Between 1950 and 1975, nationalist leaders came to power in much of the previously colonised world. They promised to achieve national self-determination by creating powerful independent states through the concentration of whatever political, military and economic resources were at hand. Instead, over the decades, many of these regimes transmuted into police states controlled by small numbers of staggeringly wealthy families and a coterie of businessmen dependent on their connections to such leaders as Hosni Mubarak in Egypt or Bashar al-Assad in Syria.

In recent years, such countries were also opened up to the economic whirlwind of neoliberalism, which destroyed any crude social contract that existed between rulers and ruled. Take Syria. There, rural towns and villages that had once supported the Baathist regime of the Assad family because it provided jobs and kept the prices of necessities low were, after 2000, abandoned to market forces skewed in favour of those in power. These places would become the backbone of the post-2011 uprising. At the same time, institutions like the Organisation of the Petroleum Exporting Countries (OPEC) that had done so much to enhance the wealth and power of regional oil producers in the 1970s have lost their capacity for united action.

The question for our moment: Why is a 'mass extinction' of independent states taking place in the Middle East, North Africa and beyond? Western politicians and media often refer to such countries as 'failed states'. The implication embedded in that term is that the process is a self-destructive one. But several of the states now labelled 'failed', like Libya, only became so after Western-backed opposition movements seized power with the support and military intervention of Washington and NATO, and proved too weak to impose their own central governments and so a monopoly of violence within the national territory.

In many ways, this process began with the intervention of a US-led coalition in Iraq in 2003 leading to the overthrow of Saddam Hussein, the shutting down of his Baath Party and the disbanding of his military. Whatever their faults, Saddam and Libya's autocratic ruler Muammar Gaddafi were clearly demonised and blamed for all ethnic, sectarian and regional differences in the countries they ruled, forces that were, in fact, set loose in grim ways upon their deaths.

A question remains, however: Why did the opposition to autocracy and to Western intervention take on an Islamic form and why were the Islamic movements that came to dominate the armed resistance in Iraq and Syria in particular so violent, regressive and sectarian? Put another way, how could such groups find so many people willing to die for their causes, while their opponents found so few? When IS battle groups were sweeping through northern Iraq in the summer of 2014, soldiers who had thrown aside their uniforms and weapons and deserted that country's northern cities would justify their flight by saying derisively: 'Die for [then-Prime Minister Nouri] al-Maliki? Never!'

A common explanation for the rise of Islamic resistance movements is that the socialist, secularist and nationalist opposition had been crushed by the old regimes' security forces, while the Islamists were not. In countries like Libya and Syria, however, Islamists were savagely persecuted, too, and they still came to dominate the opposition. And yet, while these religious movements were strong enough to oppose governments, they generally have not proven strong enough to replace them.

Too weak to win, but too strong to lose

Though there are clearly many reasons for the present disintegration of states and they differ somewhat from place to place, one thing is beyond question: the phenomenon itself is becoming the norm across vast reaches of the planet.

If you're looking for the causes of state failure in our time, the place to start is undoubtedly with the end of the Cold War a quarter-century ago. Once it was over, neither the US nor the new Russia that emerged from the Soviet Union's implosion had a significant interest in continuing to prop up 'failed states', as each had for so long, fearing that the rival superpower and its local proxies would otherwise take over. Previously, national leaders in places like the Greater Middle East had been able to maintain a degree of independence for their countries by balancing between Moscow and Washington. With the break-up of the Soviet Union, this was no longer feasible.

In addition, the triumph of neoliberal free-market economics in the wake of the Soviet Union's collapse added a critical element to the mix. It would prove far more destabilising than it looked at the time.

Again, consider Syria. The expansion of the free market in a country where there was neither democratic accountability nor the rule of law meant one thing above all: plutocrats linked to the nation's ruling family took anything that seemed potentially profitable. In the process, they grew staggeringly wealthy, while the denizens of Syria's impoverished villages, country towns and city slums, who had once looked to the state for jobs and cheap food, suffered. It should have surprised no one that those places became the strongholds of the Syrian uprising after 2011. In the capital, Damascus, as the reign of neoliberalism spread, even the lesser members of the *mukhabarat*, or secret police, found themselves living on only

$200-300 a month, while the state became a machine for thievery.

This sort of thievery and the auctioning off of the nation's patrimony spread across the region in these years. The new Egyptian ruler, General Abdel Fattah al-Sisi, merciless towards any sign of domestic dissent, was typical. In a country that once had been a standard bearer for nationalist regimes the world over, he didn't hesitate this April to try to hand over two islands in the Red Sea to Saudi Arabia, on whose funding and aid his regime is dependent. (To the surprise of everyone, an Egyptian court recently overruled Sisi's decision.)

That gesture, deeply unpopular among increasingly impoverished Egyptians, was symbolic of a larger change in the balance of power in the Middle East: once the most powerful states in the region – Egypt, Syria and Iraq – had been secular nationalists and a genuine counterbalance to Saudi Arabia and the Persian Gulf monarchies. As those secular autocracies weakened, however, the power and influence of the Sunni fundamentalist monarchies only increased. If 2011 saw rebellion and revolution spread across the Greater Middle East as the Arab Spring briefly blossomed, it also saw counterrevolution spread, funded by those oil-rich absolute Gulf monarchies, which were never going to tolerate democratic secular regime change in Syria or Libya.

Add in one more process at work making such states ever more fragile: the production and sale of natural resources – oil, gas and minerals – and the kleptomania that goes with it. Such countries often suffer from what has become known as 'the resource curse': states increasingly dependent for revenues on the sale of their natural resources – enough to theoretically provide the whole population with a reasonably decent standard of living – turn instead into grotesquely corrupt dictatorships. In them, the yachts of local billionaires with crucial connections to the regime of the moment bob in harbours surrounded by slums running with raw sewage. In such nations, politics tends to focus on elites battling and manoeuvring to steal state revenues and transfer them as rapidly as possible out of the country.

This has been the pattern of economic and political life in much of sub-Saharan Africa from Angola to Nigeria. In the Middle East and North Africa, however, a somewhat different system exists, one usually misunderstood by the outside world. There is similarly great inequality in Iraq or Saudi Arabia with similarly kleptocratic elites. They have, however, ruled over patronage states in which a significant part of the population is offered jobs in the public sector in return for political passivity or support for the kleptocrats.

In Iraq with a population of 33 million people, for instance, no less than seven million of them are on the government payroll, thanks to salaries or pensions that cost the government $4 billion a month. This crude way of distributing oil revenues to the people has often been denounced by Western commentators and economists as corruption. They, in turn, generally recommend cutting the number of these jobs, but this would mean that all, rather than just part, of the state's resource revenues would be stolen by the elite. This, in fact, is increasingly the case in such lands as oil prices bottom out and even the Saudi royals begin to cut back on state support for the populace.

Neoliberalism was once believed to be the path to secular democracy and free-market economies. In practice, it has been anything but. Instead, in conjunction with the resource curse, as well as repeated military interventions by Washington and its allies, free-market economics has profoundly destabilised the Greater Middle East. Encouraged by Washington and Brussels, 21st-century neoliberalism has made unequal societies ever more unequal and helped transform already corrupt regimes into looting machines. This is also, of course, a formula for the success of the Islamic State or any other radical alternative to the status quo. Such movements are bound to find support in impoverished or neglected regions like eastern Syria or eastern Libya.

Note, however, that this process of destabilisation is by no means confined to the Greater Middle East and North Africa. We are indeed in the age of destabilisation, a phenomenon that is on the rise globally and at present spreading into the Balkans and Eastern Europe (with the European Union ever less able to influence events there). People no longer speak of European integration, but of how to prevent the complete break-up of the European Union in the wake of the British vote to leave.

The reasons a narrow majority of Britons voted for Brexit have parallels with the Middle East: the free-market economic policies pursued by governments since Margaret Thatcher was prime minister have widened the gap between rich and poor and between wealthy cities and much of the rest of the country. Britain might be doing well, but millions of Britons did not share in the prosperity. The referendum about continued membership in the European Union, the option almost universally advocated by the British establishment, became the catalyst for protest against the status quo. The anger of the 'Leave' voters has much in common with that of Donald Trump supporters in the United States.

The US remains a superpower, but is no longer as powerful as it once was. It, too, is feeling the strains of this global moment, in which it and its local allies are powerful enough to imagine they can get rid of regimes they do not like, but either they do not quite succeed, as in Syria, or succeed but cannot replace what they have destroyed, as in Libya. An Iraqi politician once said that the problem in his country was that parties and movements were 'too weak to win, but too strong to lose'. This is increasingly the pattern for the whole region and is spreading elsewhere. It carries with it the possibility of an endless cycle of indecisive wars and an era of instability that has already begun.◆

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Turkey in a tailspin

A troubling feature of the 15 July failed military coup in Turkey is the absence of solid information on what actually happened. This has naturally given rise to a host of conspiracy theories. While there is relief that the coup was foiled, Turkey's democrats are legitimately concerned that the government is using the foiled coup as a pretext to eliminate due process, rights and freedoms, diversity and plurality. *Ümit Cizre* comments.

THE epic blunder of the military coup attempt on 15 July has sent Turkey into a tailspin. President Recep Tayyip Erdogan, the prime minister and cabinet, the parliament, the top military brass, the intelligence community and the police all became aware of the plot at the same time as ordinary Turkish citizens – after it got underway. The president and his team have conceded a massive intelligence failure.

Unable to reach the head of the armed forces or the chief of the National Intelligence Agency, Turkey's political leaders were spared death or arrest thanks purely to the gross incompetence of the would-be coup makers. The plotters failed to shut down broadcast media, Internet and social media, so that Erdogan was able to get a message out to his supporters using FaceTime. And the putschists lacked widespread support inside the armed forces or among the public. All three of the major opposition parties denounced the coup immediately.

There are conflicting rumours as to whether the National Intelligence Agency chief, Hakan Fidan, a confidant of the president, abysmally failed or, as some have suggested, helped to foil the coup by compelling the plotters to stage their effort prematurely. Ironically, Fidan's position was strengthened in 2012 as part of Erdogan's attempt to beef up the Agency so as not to be caught off-guard by a military coup.

For his part, Erdogan has pointed a finger of ferocious blame at a group of mid-ranking officers loyal to US-based cleric Fethullah Gülen's conservative-nationalist transnational movement, which is called Hizmet (Service) by its adherents. Since 2013 the president and top officials of the ruling Justice and Development Party (AKP) have labelled their former friends, the Gülenists, as a 'parallel state', 'parallelists' (*paralelciler*) and the 'Gülenist terror organisation'. Since 15 July, the AKP luminaries have come up with an array of additional insults to sling at their fellow Islamists – a 'malignant cancer', a 'greater terror threat than ISIS', 'infidels', 'traitors', 'hypocrites', 'brainless creatures', 'robots' and a 'virus' that must be exterminated at all costs.

Without precedent

In the past, when confronted with liberal-secular demonstrations like the 2013 Gezi Park protests, Erdogan insinuated that he could appeal to his followers to take to the streets but would refrain from doing so since he was mindful of their overwhelming numbers. This time, with the coup attempt underway, he asked his conservative Muslim supporters to mount rallies and stand in the path of tanks. Moreover, in what was no small feat, he persuaded the Directorate of Religious Affairs, a state agency, to ask its preachers to recite prayers from loudspeakers of mosques urging the faithful to join the marches against the coup attempt and affirm their support for the government.

Such events have never happened before in Turkey. Neither has a democratic popular resistance risen up against a coup, nor have religious leaders urged on a popular mobilisation with resort to religious referents, not even under a government with religious leanings like the AKP's.

What is more historic still is that never before have a coup attempt and the popular protests against it been turned into vehicles for a mean-spirited revanchism of inconceivable dimensions – a revanchism that aims not just to root out the 'virus' that allegedly caused a terribly botched coup attempt costing 246 innocent lives, but also to crush all perceived opposition and critical thinking coming from liberal, left-wing, right-wing and democratic platforms.

The staggering official figures tell the unprecedented story: According to the Ministry of Interior, the death toll of the coup attempt includes 246 citizens and 24 coup planners. On 30 July Erdogan stated that a total of 18,699 people, 10,000 of them military personnel, have been detained on suspicion of involvement. In addition, 47,188 civilian employees have been fired from a wide range of jobs in various government departments, including agencies that bear no relevance to coup planning, such as Turkish Airlines, the City Theatre of Istanbul, the Tobacco and Alcohol Regulation Agency, the Directorate of Statistics, the Directorate of Religious Affairs and the Ministry of Family. The thousands sacked include prosecutors, judges, policemen, journalists and academics – it is difficult to imagine them having an inkling of the plot, either. Add the closure of 1,000 schools, 15 universities, 35 hospitals, 1,200 foundations and media outlets funded by Gülenists, and the sheer scale of Turkey's political tsunami becomes clear.

Fourteen days after the coup, the general staff of the armed forces announced that 44% of all 358 active-duty generals and 157 admirals had been expelled; and that out of 32,189 active officers in four force commands, 1,099 officers and 436 non-commissioned officers had been jailed and 1,500 dishonourably discharged. Those dismissed from public employment and residing in publicly subsidised housing were ordered to move out within two weeks.

In the meantime, a troubling feature of the coup attempt is the lack of solid information: Three weeks and counting since 15 July, neither the events that unfolded on the night of the putsch nor the identity of the instigators and their collaborators has been satisfactorily clarified. Not surprisingly, conspiracy theories have found fertile soil in which to grow. The government uniformly promotes one such theory – that the Gülenists hatched the plot with the backing of the US Central Intelligence Agency (CIA) and the Obama administration.

In the absence of free media, the AKP's accusations hinder any effort to establish the true forces and agendas behind the coup attempt. Instead, the government rhetoric lends respectability to an ongoing push for recrimination. The general outcry at all levels of politics and society demonising the 'terrorist organisation' has made it seem as if the case against the Gülenists were open and shut.

In other quarters, including Gülenists themselves, Erdogan's own description of the coup attempt as 'a gift from God', in the sense that it enabled him to identify and persecute Gülenists in the military, has been taken to mean that the president may have masterminded the plot himself. Selahattin Demirtas, the leader of the pro-Kurdish People's Democratic Party (HDP), who spoke out against the coup while it was underway, has now made the striking observation that 'the discourse that the coup makers have lost and democracy has won is false'.[1] He also broached the possibility that the aborted coup attempt was supported by a disgruntled coterie inside the AKP.

What is clear is that the government's pervasive campaign of disinformation masks an unhinged clampdown on a wide spectrum of Erdogan's opponents.

There is a huge historical irony here: When the tanks were in the streets, Turkey's democrats – liberals, leftists, HDP members and others – shared the joy of protesting against a coup with fellow citizens from all walks of life (despite the religious chants and disapproving looks that disturbed some secular democrats and stylishly dressed young people). Now the democrats are shocked to discover that a normal judicial process to prosecute and convict the coup makers has metamorphosed into something almost out of control. A state of emergency was declared, allowing the government to act speedily against the members of the 'Gülen terrorist organisation', and which opened up the possibility of suspending basic rights and freedoms by decree. Erdogan has already started to talk about reinstating the death penalty.

Turkey's democrats are legitimately concerned that the government is using the foiled coup as a pretext to eliminate whatever is left of due process, rights and freedoms, diversity and plurality. The president, meanwhile, is using the guise of post-coup restructuring to consolidate his own power even further without political backlash.

Turkey's critical mass

A major issue that needs to be factored into any analysis of 15 July is the unequivocal acceptance by the Turkish masses of the Erdogan regime's utter contempt for the Gülen movement, including the campaign to label it a 'terror organisation', and the official claim that the CIA supported a Gülenist coup. It seems that the government's strategy of repeatedly disparaging the Gülenists has worked perfectly. All Gülenists are now seen as a threat to national unity and integrity, justifying the mass purge that is taking place.

The popular acceptance of the AKP narrative is also driven by Erdogan's genuine appeal and his record of improving the political, social and economic status of his conservative, Islam-friendly followers, who historically have been excluded from positions of prestige, prominence and wealth within the secular state. He was able to deliver jobs, housing, education, healthcare and higher living standards to his constituents, thanks to a fast-growing economy.

Erdogan's genre of divisive politics also played a role in cementing the loyalty of his pious supporters, playing on their insecurity about their newfound middle-class position and the need to guard it from 'the others', whoever they may be. Erdogan's politics, in other words, operates very well in conditions of profound division between his loyalists and the rest of society. The fact that his followers lack empathy for 'the others' being subjected to unjust treatment at present is a symptom of that insecurity and the fear of returning to a repressive secular state. The unflinching support for the leader is also a remedy for the impotence many must feel trying to 'defend' their precarious status under conditions of constant instability.

This lack of real power intersects with the pervasive absence of either institutionalised checks and balances or a 'critical' democratic political culture in Turkish society in general, but particularly among Turkey's historically excluded conservative-nationalist critical mass. That is why it has been fairly easy for the masses to turn a blind eye to the injustices that followed 15 July, from tens of thousands losing their livelihood to the lynching of an innocent soldier on the Bosphorus Bridge.

Moreover, opinion leaders in more powerful positions seem to have succumbed as well. The post-coup behaviour of the secular-modernist TÜSIAD, the Turkish Association of Industrialists and Businessmen, is indicative of a strategy for coping with Erdogan's divisive leadership style. According to press reports, TÜSIAD, which made and unmade governments in the 1990s, supported the post-coup AKP propaganda machine by funding advertising in four international newspapers that romanticised the role of the street in thwarting the 15 July coup. Gülenists are now presumed by TÜSIAD to embody a new Islamist existential threat, one that overshadows the extrajudicial purges.

It appears that the government is content to withhold information that would clarify the details of what occurred. So many questions remain as of this writing: How many of those detained or arrested officers and civilians were truly involved in the coup attempt? What were their affiliations? How could the coup-making streak in the armed forces reassert itself at a time when the political muscle of the military was widely considered to have weakened? What was the role of the high command in the incident? Were they aware of the coup preparations? If so, why did they not act? If not, then why not? How is it possible that the government produced long lists of thousands of names to be detained and sacked the very next day after the plot failed? How could Turkey's patriotic officer corps, known to be fiercely against demands for Kurdish independence, which they regard a national security threat, implode at a time when there is a deadly war between security forces and the Kurdistan Workers' Party (PKK)?

A fractured past

On five occasions in the Turkish republic's past, different echelons of the military have intervened in politics in different ways. Six of the 11 presidents who served before Erdogan came from military backgrounds. The Turkish general staff has never been as subordinate to civilian rule as its counterparts in Western democracies. The de facto and de jure positions the officers have enjoyed derive from an ideology (Kemalism, so named after the founder of the republic, Mustafa Kemal Atatürk) which euphemistically defines the military's role as 'guardian', a 'ballast' keeping the country on an even keel when it confronts what the armed forces define as threats – communism, 'Islamism', 'Kurdish nationalism' or an 'overbearing parliament'. This last supposed peril is an expression of the army's intense anti-political sentiment, aroused easily by demonstrations of popular will.

The president is using the guise of post-coup restructuring to consolidate his own power even further without political backlash.

Mid-ranking officers seem to have dominated the 15 July attempt, something for which there are a number of unfortunate precedents. The first military intervention of the 20th century in 1960 was orchestrated by the lower ranks of the officer corps, responding to the last self-defined threat mentioned above, abuses of power by a parliamentary majority. Afterward, however, the military hierarchy was so undermined and the officer corps so intensely politicised that the putsch was followed by two abortive efforts in 1962 and 1963 led by Col. Talat Aydemir, mobilising almost exclusively the cadets of the war college that he commanded. The first time Aydemir was granted a pardon; the second time he was executed.

The second set of precedents are two alleged attempts to overthrow the AKP government that were revealed by the media in 2007, nipped in the bud and taken to civilian courts in 2008 and 2010. These coup conspiracy cases are called Ergenekon and Balyoz, respectively. Involving the arrest of more than 10% of generals and admirals, the prosecution of the two cases included defendants who ranged from top brass (including a former chief of general staff, a former secretary general of the National Security Council and force commanders) to active-duty and retired junior officers, Kemalist journalists and professors. The accused conspirators received heavy penalties, including life sentences. As on 15 July, the two purported coups were planned outside the chain of command, but by an ironic stroke of fate, according to the current widespread consensus, it was the Gülenist members of the police and military, the officially declared culprits of today, who helped to reveal the plots and reinforce the AKP's authority against the Kemalist factions in the military.

The camaraderie between Gülen and Erdogan ran so deep at the time that the AKP itself placed Gülenists highly in the police, judiciary, government bureaucracies, military schools and intelligence agencies.[2] Today's poisonous divide emerged after 17 December 2013, when Gülen's supporters in the police and judiciary instigated an anti-corruption operation against Erdogan, then prime minister, as well as his family members and some of his cabinet ministers. On 24 February of the next year, someone posted to YouTube audio recordings in which voices identified as those of Erdogan and his son are clearly heard talking about how to hide large sums of money. Erdogan admitted his phone was tapped, but insisted the tapes were a doctored montage. He must have felt betrayed by his erstwhile friend Fethullah Gülen on a very personal level: At that point, Turkish politics plunged off the deep end, with Erdogan vowing to cleanse the government of the 'parallel' elements of the 'Gülenist terror organisation' and commencing his tenacious pursuit of an 'imperial presidency' after stepping down as prime minister.

The collapse of the AKP-Gülen alignment paved the way for the acquittal and release of hundreds of Ergenekon-Balyoz defendants in 2015 and 2016. Erdogan and AKP officials, after having defended the investigations, trials and convictions, now claimed that Gülen's followers had framed these officers and shifted towards a more nationalist, anti-Kurdish and statist policy fully aligned with the army.

The AKP's understanding of control of the military

The 1960 coup, Talat Aydemir's coup attempt and the Ergenekon-Balyoz cases all reveal a durable reality about the Turkish military: The apparent unity and coherence of the command structure disguises considerable insubordination and internal hostility. The chief of staff, Gen. Hulusi Akar, embarrassingly misjudged the rank and file when he said three months prior to 15 July that there would be no illegal actions in the armed forces outside his chain of command.[3]

Historically, what has shaped the high command's behaviour has been the model of civil-military interaction chosen by the elected civilian authority. The model chosen by the AKP governments has suffered a severe blow.

During the AKP's first years in office, the military evinced great animosity for the party. It was abundantly clear to party leaders that the officer corps had to be brought under civilian control. The European Union's decision to extend candidate status to Turkey provided the opportunity. Its accession conditions required Turkey to bring its military affairs and security culture into line with EU best practices. The AKP initiated a series of reforms, beginning with the 'democracy package' of 7 August 2003, a distinct legislative accomplishment. This legislation converted the National Security Council to an advisory body, repealing its executive powers, which had overlapped with or even superseded those of the prime minister and cabinet. Then the Ergenekon-Balyoz cases helped the government to clear a psychological threshold in standing up to the military's heavy-handedness. More landmark legislation was passed, and the armed forces finally seemed subordinate to the civilian government. Civilian authorities got involved in appointments, promotions and dismissals of officers; officers no longer visibly perceived themselves as above the law; and the chances of a coup seemed to evaporate.

Or so it seemed, until the initial euphoria about the prospects for EU membership gave way to gloom. The EU was airing complaints about the AKP's weakening resolve to reform as early as 2005, in annual progress reports pointing at problem areas like human rights. Increasing European reluctance to go ahead with accession talks bolstered an inward-looking conservative nationalism within the AKP long before the current problems with the EU related to the Syrian war and refugee crisis emerged. It became clear that Ergenekon-Balyoz would cut both ways, producing on the one hand a positive impetus for reform, and on the other hand a policy shift so negative that it created the underlying conditions for the abortive 15 July coup.

Single-party model of control

For the Ergenekon-Balyoz trials also convinced the government that the only sure way to establish workable control over the officer corps was to appoint a 'personally loyal' top brass that would call the shots. In light of this belief, the military reform process became tenuous and partial. Institutional reforms were shelved, including plans to make the general staff responsible to the minister of defence, to staff the ministry with civilians, to establish parliamentary scrutiny of arms spending and the military's budget, extra-budgetary funds and educational autonomy, and to empower the parliament and civilian bureaucracy in defence-related planning.

The slowdown made sense to the AKP in the zeitgeist of 2011, when the party had just won its third consecutive general election with 49% of the popular vote. Ebullient after its string of victories, and soured on the EU, the government shifted its policies further right, working to consolidate power, to tamper with institutions of checks and balances, and to eliminate sources of dissent. The new rapprochement between Erdogan and the highest military ranks after the falling-out with the Gülenists was another factor making the government overconfident that the army was under control. I myself wrote in 2014 that 'much of what goes on under the name of normalising civil-military relations in Turkey is actually a strategy to sate the growing appetite of the ruling class for power without having to live in the shadows of a power-hungry military'.[4]

Non-democratic regimes often try to coopt the top brass as a method of civilian control – a golden reminder that while all forms of democratic control over the military are civilian, not all forms of civilian control are democratic. Erdogan's system of civil-military relations turns back the clock to Turkey's single-party era, when presidents Mustafa Kemal Atatürk and Ismet Inönü entrusted the position of chief of general staff to Marshal Fevzi Çakmak, a loyal colleague, much respected and feared in the army, to rule other officers with an iron fist for 23 years. Gens. Necdet Özel (2011-15) and Hulusi Akar (2015-present) have seemed willing to play the same role for the AKP. In return, the government gave carte blanche to the high command to manage its internal affairs free from civilian oversight, paid good salaries and increased the fringe benefits of army personnel.

But interviews with former generals and admirals who were either involved in the Ergenekon trials or resigned in protest of the prosecution show that both Gens. Özel and Akar are deeply disliked because their appointments were based on closeness to Erdogan rather than merit. These harsh critics point to Akar's controversial participation in Erdogan's daughter's wedding and his son-in-law's business dealings.[5] There are reports that an aide-de-camp who served both Erdogan and Akar and a former air force commander confessed to involvement in the aborted coup (though their battered faces seen in the media obviously call into question the credibility of any such confession). These accounts nonetheless lend support to the claim made by Ilker Basbug, another former chief of general staff and Ergenekon convict, that the high command has a 'competence' problem and that the government's trust in Akar to keep the rank and file 'quiet' is misplaced.[6]

Perhaps the only silver lining in the cloud of Erdogan's system of 'control by cooptation' is the seeming inability of scheming junior and mid-level officers to win over senior officers who are happy with the favours the government has meted out to the army.

Three cliques

Those who have, in the middle of the post-coup havoc, found the time to study the backgrounds of the generals and admirals allegedly involved in the 15 July attempt have come to the conclusion that the coup plotters are made up of three cliques: a dominant faction of mid-ranking officers loyal to Gülen; a group of commanders wavering between active or passive support; and a third opportunistic group that jumped in at the last minute.[7] It seems that about half of the brigadier generals and rear admirals purged after 15 July were promoted to their ranks after the Ergenekon-Balyoz conspiracies between 2007 and 2010, a period when the Gülen-Erdogan ties were thicker than blood. Add the claim of Basbug that not a single Gülenist officer was dismissed from the army between 2002 and 2010,[8] and it seems logical to finger Gülen supporters as the ringleaders.

But is not something amiss in this picture? It is true that the force of Kemalist ideology in society and the military has declined, as it lost its bastions of traditional allies in the judiciary and civilian bureaucracy. The question nonetheless remains whether the 'usual suspects' – Kemalist officers – pitched in to aid an operation that the whole country is made to believe is Gülenist-led. The prime minister, who for obvious reasons wants to reduce the number of fronts on which the government is fighting, categorically rejected the notion of Kemalist involvement in the foiled coup.[9] There are, however, independent researchers on Turkey who propose that 'the coup may have been carried out by an unholy alliance between a faction of old-school Kemalists and Gülenist officers'.[10] The facts about what happened are still elusive.

The future

Moving quickly and unpredictably, the government has already started a radical revamping of the military's institutional bases. There is no doubt that the government wants to shift the civil-military balance in its favour. It is normal, of course, for a constitutionally elected government to establish the principle of civilian supremacy. But there is little to suggest that, in this regard, the AKP government intends to restart the EU-inspired reforms it abandoned in the wake of Ergenekon-Balyoz.

Rather, Erdogan is using the crisis as a justification for taking direct control over the general staff and National Intelligence Agency; closing military academies; bringing the gendarmerie under fuller civilian control; and equipping police with heavy weaponry (along the militarised model of major US cities), as the minister of interior promised on 28 July. It seems that the president's heart is in a project of transforming the military into a source of personal power as he resumes pursuing his goal of an executive presidency by, if necessary, calling for new elections to solidify the AKP's parliamentary majority.

On the military's side, the turbulent aftermath of 15 July represents a major setback for the internal cohesion, professionalism, self-esteem and social prestige of the armed forces, not to mention their operational capabilities. It is not clear at all that Turkey's civil-military relations can be normalised.

In the wake of the coup attempt, the US likely believes its main interest lies in ensuring that the alliance between the two nations' militaries through NATO remains workable. Ankara's engagement with its neighbours to the south and east, including Syria, Iran and the Kurds; the refugee crisis; the fight against ISIS; and Erdogan's parley with Russia all figure in a calculus by which strong ties with Turkey mean silence about its domestic travails.

But the rules of the political game in Ankara tell a different story to those whose understanding of democracy is more comprehensive than just opposing coups. Consumed with despair that the 15 July incident is evolving into something more profound than a contest with an 'enemy', these observers think that Turkey's stability and regional role ultimately depend on the quality of the country's own political principles and the democratic character of its regime. There is too much unharnessed power in Turkey, too fierce a glint in the ruling party's eyes and too much acquiescence on the part of the populace. It is a dangerous combination. ◆

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Endnotes

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Hillary Clinton's not-so-strange right-wing bedfellows

The fact that Republican presidential candidate Donald Trump is so personally and politically odious should not blind us to the reality that Hillary Clinton, the Democratic alternative, is anything but a progressive. *Paul Street* explains.

HILLARY Clinton supporters got churlish when they heard media reports last spring that Clinton was favoured over Donald Trump by the right-wing billionaire Charles Koch and by leading arch-imperial foreign policy neoconservatives like Robert Kagan, Max Boot and Eliot Cohen. But unpleasant as many mainstream corporate and Clintonite Democrats might find such 'strange bedfellow' right-wing backing to be, an honest look at Hillary's record should make the support she is getting from such noxious, arch-authoritarian 'elites' as Koch, Kagan et al. less than surprising.

How outlandish is it, really, that some on the business and imperial right might prefer Clinton over Trump? In campaigning for the Republican Party's presidential nomination, Trump ran off the elite capitalist and imperial leash. He channelled some nasty things that have long been part of the Republican Party playbook: frustrated white nationalism, racism, nativism and male chauvinism. At the same time, however, he often sounded remarkably populist in ways that white working-class voters appreciated. He was critical of things that elite Republicans (and elite corporate Democrats) hold dear, including corporate globalisation, 'free trade' (investor rights) deals, global capital mobility and cheap labour immigration. He questioned imperialist adventures like the invasion of Iraq, the bombing of Libya, the destabilisation of Syria and the provocation of Russia. He's been a largely self-funded lone wolf and wild card who cannot be counted on to reliably make policy in accord with the nation's unelected and interrelated dictatorships of money and empire. And he seized the nomination of a political organisation that may have ceased to be a functioning national political party.

Things are different with Clinton. She's a tried-and-true operative on behalf of the nation's capitalist and imperialist ruling class who sits atop the United States' only remaining fully effective national and major party, the Democrats. She's a deeply conservative right-winger on both the domestic and foreign policy fronts, consistent with the rightward drift of the Democratic Party (and the entire US party system) – a drift that she and her husband helped trailblaze back in the 1970s and 1980s.

'The conservatism that I was raised with'

In 1964, when Clinton was 18, she worked for the arch-conservative Republican Barry Goldwater's presidential campaign. Asked about that high school episode on National Public Radio (NPR) in 1996, then First Lady Hillary said, 'That's right. And I feel like my political beliefs are rooted in the conservatism that I was raised with. I don't recognise this new brand of Republicanism that is afoot now, which I consider to be very reactionary, not conservative in many respects. I am very proud that I was a Goldwater girl.'

It was a telling reflection. Clinton acknowledged that her ideological worldview was still rooted in the conservatism of her family of origin. Her problem with the reactionary Republicanism afoot in the US during the mid-1990s was that it was 'not conservative in many respects'. She spoke the language not of a liberal Democrat, but of a moderate Republican in the mode of Dwight Eisenhower or Richard Nixon.

The language was a perfect match for Hillary and Bill Clinton's politico-ideological history and trajectory. After graduating from Yale Law School, the Clintons went to Bill's home state of Arkansas. There they helped 'lay … the groundwork for what would eventually hit the national stage as the New Democrat movement, which took institutional form as the Democratic Leadership Council (DLC)' (Doug Henwood). The essence of the DLC was dismal, dollar-drenched 'neoliberal' abandonment of the Democratic Party's last lingering commitments to labour unions, social justice, civil rights, racial equality, the poor and environmental protection, and abject service to the 'competitive' bottomline concerns of Big Business.

The Clintons helped launch the New Democrat juggernaut by assaulting Arkansas' teacher unions (Hillary led the attack) and refusing to back the repeal of the state's anti-union 'right to work' law – this while Hillary began working for the Rose Law Firm, which 'represented the moneyed interests of Arkansas' (Henwood). When the Arkansas-based community-organising group ACORN passed a ballot measure lowering electrical rates for residential users and raising them for commercial businesses in the state's capital Little Rock, Rose deployed Hillary to shoot down the new rate schedule as an unconstitutional 'taking of property'.

During the Clintons' time in the White House, Bill advanced the neoliberal agenda beneath fake-progressive cover, in ways that no Republican president could have pulled off. Channelling Ronald Reagan by declaring that 'the era of big government is over', Bill collaborated with the right-wing Congress of his time to end poor families' entitlement to basic minimal family cash assistance. Hillary backed this vicious welfare 'reform' which has proved disastrous for millions of disadvantaged Americans. Bill earned the gratitude of Wall Street and corporate America by passing the arch-global-corporatist North American Free Trade Agreement (NAFTA), by repealing the Glass-Steagall Act (which had mandated a necessary separation between commercial deposit and investment banking), and by deregulating the burgeoning super-risky and high-stakes financial derivatives sector. Hillary took the lead role in White House efforts to pass a corporate-friendly version of health reform. The Clintons decided from the start to exclude the popular healthcare alternative – single payer – from the national healthcare 'discussion'. (Obama would do the same thing in 2009.)

The Clinton White House's hostility to 'big government' did not extend, however, to the United States' giant and globally unmatched mass incarceration state or to its vast global military empire. Bill's 1994 crime bill helped expand the nation's mostly Black and Latino prison population. He kept the nation's 'defence' (empire) budget – a giant welfare programme for high-tech military corporations – at Cold War levels despite the disappearance of the US' Cold War rival, the Soviet Union.

'Populist rhetoric is good politics'

Hillary's service to the rich and powerful has continued into the current millennium. As a Senator, she did the bidding of the financial industry by voting for a bill designed to make it more difficult for consumers to use bankruptcy laws to get out from crushing debt. As Secretary of State (2009-12), she repeatedly voiced strong support for the Trans-Pacific Partnership (TPP), a secretive, richly corporatist 12-nation Pacific 'free trade' agreement that promises to badly undermine wages, job security, environmental protections and popular governance at home and abroad. In Australia in November 2012, she said that the TPP 'sets the gold standard in trade agreements for open, free, transparent, [and] fair trade'.

Bernie Sanders supporters like to claim that they've been moving the eventual Democratic nominee Hillary 'to the left'. But nobody actually moves a dyed-in-the-wool Goldman Sachs-neoliberal-top-of-the Ivy League-Council of Foreign Relations-Eisenhower Democrat like Hillary or Bill Clinton or Barack Obama to the left. All that might shift somewhat to the portside is their purposely deceptive campaign rhetoric.

The US Chamber of Commerce knows this very well. A top Chamber lobbyist calmly observed last January that Hillary will be on board with the unpopular TPP after the 2016 election.

Nobody grasps the Machiavellian nature of her campaign rhetoric better than Hillary's Wall Street funders. A report in the widely read online insider Washington political journal *Politico* last year was titled 'Hillary's Wall Street Backers: "We Get It".' One Democrat at a top Wall Street firm even told *Politico* that Hillary's politically unavoidable populist rhetoric 'is a Rorschach test for how politically sophisticated [rich] people are … If someone is upset by this it's because they have no idea how populist the mood of the country still is'.

It's nothing new. In his bitter and acerbic book on and against the Clintons, *No One Left to Lie to* (2000), the then still-left Christopher Hitchens usefully described 'the essence of American politics' as 'the manipulation of populism by elitism'. It's a story that goes back as far as the 1820s but nobody has perfected the game more insidiously and effectively in the neoliberal era than the Clinton machine.

Partisan liberal Democrats don't like to hear it, but there's nothing all that surprising about the Koch brothers turning to Hillary over Trump. It's not at all difficult to believe that Bill Clinton will succeed in his recently reported efforts to court support from other Republican billionaires. It's not at all surprising that Wall Street and corporate America prefer the good friend they know.

There's also nothing all that strange or surprising about the support Hillary is getting from foreign policy neoconservatives. Let us turn now to her foreign policy history, showing why it makes perfect sense that top imperial neocons prefer Hillary to the at least outwardly 'isolationist' and anti-interventionist Trump.

Madeleine Albright: The first entry on Hillary's neocon foreign policy résumé is Madeleine Albright. As First Lady, Hillary successfully lobbied her husband Bill to appoint Albright – a right-wing, Russia-hating Czech emigre dedicated to the provocative, ever-eastward expansion of NATO – as Secretary of State in 1997. Albright had already achieved notoriety as US Ambassador to the United Nations in May 1996 by telling CBS News reporter Leslie Stahl that the death of half a million Iraqi children due to US-led 'economic sanctions' was 'a price worth paying' for the advance of US goals in the Middle East. Even the legendarily blood-soaked US-imperial strategist Henry Kissinger (a good friend and backer of Hillary) was taken aback by Albright's determination to concoct an 'excuse to start bombing'.

Serbia: Another line on Hillary's neocon résumé is Serbia. She urged an initially reluctant Bill Clinton to launch what became a two-and-a-half-month bombing campaign that killed many thousands of Serb civilians. In urging this carnage on the president, she used the false claim that lethal military force was required to stop Hitler-like 'genocide' in Yugoslavia.

This would become a leading Clinton war theme: the disingenuous and cynical assertion that foreign governments had to be targeted and overthrown by the world's only military superpower and its top European allies (claiming together to represent 'the international community') so as to protect innocents against modern-day Holocausts (like the one the Clinton administration unmentionably aided and abetted in Rwanda in 1994). It was a first and successful run for the thoroughly disingenuous Western principle of 'R2P: Responsibility to Protect'. The Clintons' assault on Serbia helped create the corrupt and criminal state of Kosovo, where a massive US military base stands guard over a nation that leads the world in the murderous harvesting of human organs.

Iraq: The third entry is Hillary's vote as a US Senator in October 2002 on behalf of a Congressional measure authorising the neocon-stocked George W Bush administration to criminally and mass-murderously invade Iraq on criminally false pretexts. Hillary did not admit that she'd 'gotten it wrong' on Iraq until 2014 (in her tedious memoir *Hard Choices*). The Clintons, it should be remembered, were on board with Republican necocons calling for Saddam Hussein's removal from power by the late 1990s, prior to the 9/11 attacks that Hillary helped Bush criminally connect to Iraq.

Honduras: The fourth line on Hillary's neocon résumé is Honduras. With her appointment as Obama's Secretary of State (of all things), Hillary's first test on the foreign policy meaning of 'change' came in late June 2009. That was when a right-wing business and military coup overthrew Honduras' democratically elected and populist Hugo Chavez-admiring president, Manuel Zelaya. 'It is easy,' the veteran left journalist and author Diana Johnstone notes, 'to see what real change would have meant. The US could have vigorously condemned the coup and demanded that the legitimate President be reinstated. Considering US influence in Honduras, especially its powerful military bases there, US "resolve" would have given teeth to anti-coup protest.' Instead, Secretary Clinton played along with the coup regime's bogus claims that Zelaya had been trying to establish a dictatorship and that Hondurans had, after the coup, experienced 'free and fair elections' that restored 'democratic and constitutional government' in Honduras. The nation has been mired in corruption, poverty, misery, repression and extreme inequality ever since.

Libya: The fifth line is the destruction of Libya in the spring of 2011. As with Serbia and Iraq, the US targeted a self-designated 'dictator' for regime change, spreading false-flag propaganda about his supposed plans to 'kill his own people' with air attacks and foreign mercenaries. The removal of Muammar Gaddafi – 'a hero to black Africa' (Johnstone) because of his efforts to create a progressive pan-African Union and his decent treatment of Black Libyans – through US-led Western force turned Libya into a jihadist nightmare zone. It discredited 'R2P' across most of the world (though not in the heavily indoctrinated US).

Syria: Hillary stood in the vanguard of the Obama administration's R2P Libya policy. The same is true for the disastrous US-led destabilisation of Syria, which fuelled a civil war that has killed more than 350,000 people while helping create the barbaric Islamic State. Bleeding Syria (whose jihadists received weapons illegally transferred by the CIA through Libya with the criminal assistance of Secretary Clinton) is the sixth line on Hillary's neocon résumé.

Russia and Ukraine: The seventh line is Russia. Hillary has consistently sought to demonise and isolate Moscow, absurdly blaming the bloody Ukraine crisis on '[Russian President Vladimir] Putin's imperialism' and endlessly justifying Washington's relentless provocation of Russia. Hillary's close ally Victoria Nuland (a top member of Hillary's State Department team) is Obama's Assistant Secretary of State for European and Eurasian Affairs and is married to the top imperial neocon Robert Kagan. Nuland played a central role in engineering a bloody right-wing coup that installed an anti-Russian and significantly fascist, neo-Nazi regime (in the name of 'democracy') in Ukraine in early 2014.

The coup reflected longstanding Clinton-led US efforts to absorb Russia's immediate western neighbour into the NATO orbit. The leading Russian historian Stephen Cohen explained the development of the broader US policy behind the Ukraine coup during a talk organised last year by the American Committee for East West Accord: 'This [Ukraine] problem began in the 1990s, when the Clinton Administration adopted a winner-take-all policy toward post-Soviet Russia … Russia gives, we take … This policy was adopted by the Clinton Administration but is pursued by every major US political party [all two of them – P.S.], every President, every American Congress, since President Clinton, to President Obama. This meant that the United States was entitled to a sphere or zone of influence as large as it wished, right up to Russia's borders, and Russia was entitled to no sphere of influence, at all, not even in Georgia … or in Ukraine (with which Russia had been intermarried for centuries).'

It's not for nothing that top right-wing Ukrainian oligarchs like Victor Pinchuk have contributed many millions of dollars (more than any other nation or national elite) to the global Clinton Foundation – a so-called charity that advances the global neoliberal agenda (including the European integration of the resource-rich Ukraine) of the US ruling class. Several 'training' graduates of the Global Clinton Initiative (a wing of the Clinton Foundation) currently sit in the right-wing Ukrainian Parliament.

Hillary's aggressive New Cold War-mongering contempt for Putin and Russia poses a significant threat of global nuclear war if she becomes president.

Israel, Iran and Saudi Arabia: The eighth line is Hillary's chilling speech at the annual convention of the super-powerful Zionist lobbying group the American Israel Public Affairs Committee (AIPAC) last March. In her address, she condemned Palestinian terrorism without making any reference to the vicious and arch-criminal poverty, displacement, apartheid, mass murder and repression that racist Israel imposes on its Palestinian subjects. She promised to invite her good friend, Israel's blood-drenched Prime Minister Benjamin Netanyahu, to visit the White House (a swipe at Obama's testy relationship with Netanyahu) and slanderously accused what she called 'the alarming boycott, divestment and sanctions movement known as BDS' (the anti-apartheid/anti-racist boycott Israel movement) of 'antisemitism'.

Hillary has long and absurdly echoed Israeli propaganda by calling Iran a dangerous terrorist state (even preposterously calling it 'the world's chief sponsor of terrorism') and ridiculously describing it (also in accord with Israeli doctrine) as 'an existential threat to Israel'. Such ugly embrace of Israel and dismissal of Palestinian concerns is a longstanding and key part of the neocon playbook. It's nothing new for Hillary, who published a position paper in 2007 arguing that Israel's right to exist as a 'Jewish state' with 'an undivided Jerusalem as its capital … must never be questioned'.

In 2008, then Senator Clinton told AIPAC that 'Iran threatens to destroy Israel', called the Iranian Revolutionary Guard 'a terrorist organisation' and backed 'massive retaliation' if Iran attacked. 'I want the Iranians to know,' she said, 'that if I'm president, we will attack Iran. In the next 10 years, during which they might foolishly consider launching an attack on Israel, we would be able to totally obliterate them.'

'Dirty War' files show how Clinton ally Kissinger backed regime of terror

Nadia Prupis

NEWLY declassified papers on the US government's role in Argentina's 1976-83 'Dirty War' have been released, detailing – among other things – how former Secretary of State Henry Kissinger stymied attempts to end mass killings of dissidents.

The files were published just after *Politico* reported that Democratic presidential nominee Hillary Clinton is courting the support of Kissinger, among other Republican elites.

Kissinger lauded Argentina's military dictatorship for its 'campaign against terrorism', which included the imprisonment, torture and killings of tens of thousands of leftist activists and students, the files reveal.

'His praise for the Argentine government in its campaign against terrorism was the music the Argentine government was longing to hear,' one document states.

During a private meeting with the conservative diplomat group Argentinian Council of International Relations (CARI), Kissinger said that 'in his opinion the government of Argentina had done an outstanding job in wiping out terrorist forces'.

The US ambassador to Buenos Aires, Raúl Castro, warned that Kissinger's praise for the military dictatorship 'may have gone to some considerable extent to his hosts' heads'.

'There is some danger that Argentines may use Kissinger's laudatory statements as justification for hardening their human rights stance,' Castro said.

Clinton herself has come under considerable scrutiny for her role in other US-backed coups in Latin America, such as in Honduras.

Further, during a presidential debate with then-rival Bernie Sanders in February, Clinton cited Kissinger as someone she looks to for advice and approval on foreign policy. Sanders called that reference 'rather amazing', stating, 'I happen to believe that Henry Kissinger was one of the most destructive secretaries of state in the modern history of this country. I am proud to say that Henry Kissinger is not my friend. I will not take advice from Kissinger.'

On 9 August, following *Politico*'s report, progressives called on Sanders and his surrogates to withdraw their support of Clinton if she allies with Kissinger.

As Greg Grandin wrote at *The Nation*: 'If Sanders stands for anything, it is the promise of decency and civil equality, qualities that he has worked hard to bestow on Clinton since the Democratic National Convention. By accepting Kissinger's endorsement, Clinton wouldn't just be mocking that gift. She'd be sending the clearest signal yet to grassroots peace and social-justice Democrats that her presidency wouldn't be a "popular front" against Trumpian fascism. It would be bloody business as usual.'

Elsewhere in the documents – released on President Barack Obama's order in a gesture of goodwill towards Argentina – US diplomats and officials can be seen wondering whether their foreign policies had gotten out of control.

The National Security Council's Latin America director, Robert Pastor, wrote in a dispatch to then-President Jimmy Carter's national security adviser Zbigniew Brzezinski, 'Have we gone too far? Have we pushed our policy beyond its effectiveness? Are we pushing the Argentines over the edge and jeopardizing our future relationship? Does the terror justify the repression?'

'I, myself, believe that we may have ... pushed too far,' Pastor wrote. ◆

Nadia Prupis is a staff writer with CommonDreams.org, from which this article is reproduced under a Creative Commons licence.

Meanwhile, Hillary has long been a close friend of absolutist, monarchical Saudi Arabia – the actual leading sponsor of global terrorism after its chief sponsor the US. She's long advanced close US relations with the deeply reactionary, jihad-fuelling Saudis, who have donated at least $10 million to the Clinton Foundation.

This, too, is straight out of the neocon playbook, as is her embrace of cluster bombs, toxic agents and nuclear weapons as 'deterrents' that 'keep the peace'.

Curious ironies

Numerous liberals, progressives and leftists are understandably perturbed by the violence, racism, white nationalism, nativism and misogyny that exude from the rhetoric and persona of Republican presidential candidate Trump. But when it comes to the actual infliction of real violence primarily against non-white people (with all due respect for Serbs and Russian-speaking Ukrainians targeted by Hillary's allies and agents) and including many women, Hillary has the Donald trumped, of course.

Another irony deserves mention: the streams of refugees and migrants that Trump wants to build giant nationalist walls against are fed in no small part by the chaos Hillary has done so much to help the US Empire generate in Latin America, Africa and the Middle East.

None of which is to deny that a climate change-denying, white nationalist and nativist Trump presidency would be certain to inflict significant murder and mayhem at home and abroad. You get your once-every-four-years 'input' this November with a choice between two of the most widely and justly loathed people in the nation and world, my fellow Americans. Ain't US 'democracy' grand? ◆

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Israel's stolen babies remains the state's darkest secret

Settler colonies have always had problems with all that is indigenous. In the case of Israel, this included not only the Palestinians, but also Jews from Middle Eastern countries. *Jonathan Cook* explains the recently officially confirmed scandal of Israel's stolen babies.

IT is Israel's darkest secret – or so argues one Israeli journalist – in a country whose short history is replete with dark episodes.

In July Tzachi Hanegbi, minister for national security, became the first government official to admit that hundreds of babies had been stolen from their mothers in the years immediately following Israel's creation in 1948. In truth, the number is more likely to be in the thousands.

For nearly seven decades, successive governments – and three public inquiries – denied there had been any wrongdoing. They concluded that almost all the missing babies had died, victims of a chaotic time when Israel was absorbing tens of thousands of new Jewish immigrants.

Yemen-born Israeli Yona Josef weeps as she holds a photograph of herself as a teenager with her father. After arriving in Israel as a 17-year-old, she was asked to leave her 4-year-old sister Saadia in a clinic for a routine checkup; when she returned, she was told her sister had died, with no further details given.

But as more and more families came forward – lately aided by social media – to reveal their suffering, the official story sounded increasingly implausible.

Although many mothers were told their babies had died during or shortly after delivery, they were never shown a body or grave, and no death certificate was ever issued. Others had their babies snatched from their arms by nurses who berated them for having more children than they could properly care for.

According to campaigners, as many as 8,000 babies were seized from their families in the state's first years and either sold or handed over to childless Jewish couples in Israel and abroad. To many, it sounds suspiciously like child trafficking.

A few of the children have been reunited with their biological families, but the vast majority are simply unaware they were ever taken. Strict Israeli privacy laws mean it is near-impossible for them to see official files that might reveal their clandestine adoption.

Did Israeli hospitals and welfare organisations act on their own or connive with state bodies? It is unclear. But it is hard to imagine such mass abductions could have occurred without officials at the very least turning a blind eye.

Testimonies indicate that lawmakers, health ministry staff and senior judges knew of these practices at the time. And the decision to place all documents relating to the children under lock until 2071 hints at a cover-up.

Hanegbi, who was given the task of re-examining the classified material by prime minister Benjamin Netanyahu, has been evasive on the question of official involvement. 'We may never know,' he has said.

By now, Israel's critics are mostly inured to the well-known litany of atrocities associated with the state's founding. Not least, hundreds of thousands of Palestinians were expelled from their homeland in 1948 to make way for Israel and its new Jewish immigrants.

The story of the stolen babies, however, offers the shock of the unexpected. These crimes were committed not against Palestinians but other Jews. The parents whose babies were abducted had arrived in the new state lured by promises that they would find in Israel a permanent sanctuary from persecution.

But the kidnapping of the children and the mass expulsion of Palestinians at much the same time are not unrelated events. In fact, the babies scandal sheds light not only on Israel's past but on its present.

The stolen babies were not randomly seized. A very specific group was targeted: Jews who had just immigrated from the Middle East. Most

Nurses with Yemenite women and their babies in Rosh Ayin, Israel, 1949. According to campaigners, as many as 8,000 babies were seized from their families in the state's first years and either sold or handed over to childless Jewish couples in Israel and abroad.

were from Yemen, with others from Iraq, Morocco and Tunisia.

The Arabness of these Jews was viewed as a direct threat to the Jewish state's survival, and one almost as serious as the presence of Palestinians. Israel set about 'de-Arabising' these Middle Eastern Jews with the same steely determination with which it had just driven out most of the area's Palestinians.

Like most of Israel's founding generation, David Ben Gurion, the first prime minister, was from Eastern Europe. He accepted the racist, colonial notions dominant in Europe. He regarded European Jews as a civilised people coming to a primitive, barbarous region.

But the early European Zionists were not simply colonists. They were unlike the British in India, for example, who were interested chiefly in subduing the natives and exploiting their resources. If Britain found 'taming' the Indians too onerous, as it eventually did, it could pack up and leave.

That was never a possibility for Ben Gurion and his followers. They were coming not only to defeat the indigenous people, but to replace them. They were going to build their Jewish state on the ruins of Arab society in Palestine.

Scholars label such enterprises – those intending to create a permanent homeland on another people's land – as 'settler colonialism'. Famously, European settlers took over the lands of North America, Australia and South Africa.

The Israeli historian Ilan Pappe has observed that settler colonial movements are distinguished from ordinary colonialism by what he terms the 'logic of elimination' that propels them.

Such groups have to adopt strategies of extreme violence towards the indigenous population. They may commit genocide, as happened to the Native American peoples and to the Australian Aborigines. If genocide is not possible, they may instead forcefully impose segregation based on racial criteria, as happened in apartheid South Africa. Or they may commit large-scale ethnic cleansing, as Israel did in 1948. They may adopt more than one strategy.

Ben Gurion needed not only to destroy Palestinian society, but to ensure that 'Arabness' did not creep into his new Jewish state through the back door.

The large numbers of Arab Jews who arrived in the first decade were needed in his demographic war against the Palestinians and as a labour force, but they posed a danger too. Ben Gurion feared that, whatever their religion, they might 'corrupt' his Jewish state culturally by importing what he called the 'spirit of the Levant'.

Adult Jews from the region, he believed, could not be schooled out of their 'primitiveness'. But the Zionist leadership hoped the next generation – their offspring – could. They would be reformed through education and the cultivation of a loathing for everything Arab. The task would be made easier still if they were first detached from their biological families.

Israeli campaigners seeking justice for the families of the stolen babies point out that the forcible transfer of children from one ethnic group to another satisfies the United Nations' definition of genocide.

Certainly, the theft of the Arab Jewish children and their reallocation to European Jews chimed neatly with settler colonialism's logic of elimination. Such abductions were not unique to Israel. Australia and Canada, for example, seized babies from their surviving native populations in a bid to 'civilise' them.

The 're-education' of Israel's Arab Jews has been largely a success. Netanyahu's virulently anti-Palestinian Likud party draws heavily on this group's backing. In fact, it was only because he dares not alienate such supporters that Netanyahu agreed to a fresh examination of the evidence concerning the stolen babies.

But if there is a lesson to be drawn from the government's partial admission about the abductions, it is not that Netanyahu and Israel's European elite are now ready to change their ways. Rather, it should alert Israel's Arab Jews to the fact that they face the same enemy as the Palestinians: a European Jewish establishment that remains resolutely resistant to the idea of living in peace and respect with either Arabs or the region. ◆

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'Death is our life'

The shockingly high rate of Aboriginal suicides in Australia is a national disgrace, say activists.

Kathy Fairfax

Aboriginal children at play. Suicide is the second leading cause of death for Aboriginal children aged 14 years and under.

SUICIDE was unknown to the Aboriginal people prior to invasion. There was no word for suicide in the ancient Yolngu language and, up to the 1980s, suicide was rare among Aboriginal people.

But now 95% of Aboriginal people have been affected by a suicide and Aboriginal people are six times more likely to commit suicide than non-Aboriginal people.

In the Northern Territory, 50% of suicides in 2010 were by Aboriginal people, up from just 5% in 1991. Suicides in the Kimberley region of Western Australia have doubled in the past decade – 71% of them young people – giving it one of the highest suicide rates in the world.

These appalling statistics have prompted the National Aboriginal Community Controlled Health Care Organisation to call on the federal government to launch a royal commission into why so many Aboriginal people, particularly young people, are committing suicide.

Matthew Cooke, its chairperson, said suicide accounted for as many as one in every 10 Aboriginal deaths and that this is a national disgrace. In any other country these statistics would be a cause of national shame and soul-searching.

'It's time there was a full royal commission into failings in the system that are driving so many people in our communities to such levels of despair that suicide is the only answer,' he said.

Cooke said a royal commission would examine what systemic changes were needed to reverse this situation.

'Death is our life,' says South Australian elder Tauto Sansbury, describing the mourning and sadness for young lives lost far too often.

Suicide is likely to be the single biggest killer of Aboriginal Australians. Suicide numbers are so high among young Aboriginal children that community leaders speak of a 'normalisation' of suicide among youth. More and more children, who are younger and younger, are committing suicide.

For Aboriginal children aged 14 years and under, suicide is the second leading cause of death. They are eight times more likely to die by suicide than their non-Aboriginal peers. For Aboriginal people aged 15 to 35 years, suicide is the leading cause of death – 30% of deaths in this age group are reported as suicides.

Extreme poverty, ongoing racism, abuse of alcohol and drugs and appalling living conditions all play their part in driving people to suicide. As well, poor levels of education, few jobs, welfare dependency, poor public housing, overcrowded homes and lack of support services sap their resilience.

If you add poor health, lack of self-esteem, loss of cultural identity and spiritual connection to the land, and the cumulative effects of unresolved trauma over generations – frontier massacres, dispossession from traditional lands, abuse in Aboriginal missions, the Stolen Generations – it is a wonder the rate is not higher.

Gerry Georgatos, who has worked to help raise awareness about Aboriginal suicide, says there are ways to improve the wellbeing of Aboriginal people and reduce their risk of suicide.

People with a strong connection to country, who live on or maintain a relationship with traditional lands, rarely take their own lives. Taking young people onto country so they can reconnect with who they are as the basis for building self-belief, self-confidence and self-respect will also reduce the risk of suicide.

Empowering communities to handle their own affairs, create jobs and activities for youth and supporting elders to teach youth their culture will also help.

Reducing suicide and suicidal behaviour among Aboriginal and Torres Strait Islander peoples should be a public health priority for all Australian governments, with or without a royal commission. ◆

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Myanmar: Women continue to suffer due to land grabs and militarisation

Despite the peace process and ceasefire agreements, women in the ethnic minority southeastern regions of Myanmar still continue to suffer human rights abuses stemming from militarisation and land confiscation.

Nyein Nyein

LAND confiscation and rights abuses linked to the continued militarisation of ethnic minority regions in southeastern Burma have had particularly adverse impacts on women, ethnic Karen human rights advocates said at a recent press conference in Rangoon.

While the launching of the peace process in 2011 and a series of bilateral ceasefires with ethnic armed groups have lessened certain abuses, including forced labour and extrajudicial killings, new business opportunities have led to an increase in land seizures, they said.

The Karen Human Rights Group (KHRG) has documented the experiences of women in rural areas of Karen and Mon states and Tenasserim and eastern Pegu divisions, and has compiled four years' worth of findings on the effects of landmines, land confiscation, forced labour, torture and violence against women in a report released on 3 August.

The report, 'Hidden Strengths, Hidden Struggles: Women's Testimonies from Southeast Myanmar', was based on the analysis of 1,048 documents, including 98 interviews with separate women, said KHRG advocacy officer Jasmin, who pointed out a change in the type of abuses suffered by local women since 2012.

2012 was the year the previous government reached a bilateral ceasefire with the Karen National Union, the largest ethnic Karen armed group whose operations span the area of study, and which also signed the Nationwide Ceasefire Agreement in October last year.

Jasmin said, 'In our report 10 years ago ["Dignity in the Shadow of Oppression", published in November 2006], cases of rape and forced porterage [for the Burma Army] were extensively documented. In our report this year, accounts of such abuses have lessened, with a change in the form of rights abuses.'

'Because of the peace process, we now have more business operations, and land confiscation has become the main problem,' Jasmin added. 'They are losing their livelihoods and still being displaced due to that.'

Despite the signing of both bilateral and 'nationwide' ceasefire agreements, the presence of Burma Army troops across rural areas continues to threaten the safety of local people, especially women, said the rights advocates.

They added that a lessening in hostilities has had the side-effect of diminishing the authority of women at the village level. Over 60 years of civil conflict, with the enrolment of men in rebel armies, women have had to step forward and become village leaders. With the return of men over the last few years to their traditional positions of authority in the community, women have lost these roles.

Jasmin said the report aimed to heighten the public's awareness of 'the experiences of women and their changing roles in the southern part of the country'.

However, the KHRG advocates noted that locals in the area of study still fear talking openly about instances of abuse, making it hard to verify and adequately document them.

Justice mechanisms

The KHRG also urged the government, legislators and the Karen National Union to 'improve justice mechanisms' and create secure avenues for women facing gender-based violence and abuses linked to land confiscation to file cases with local authorities, and 'bring perpetrators before independent and impartial civilian courts'.

The KHRG framed these demands with reference to Burma's obligations under the United Nations' Convention on the Elimination of All Forms of Discrimination against Women, which Burma signed in 1997.

Win Mra, chairman of Burma's National Human Rights Commission, attended the press conference and commended the KHRG's report, which he said 'fairly documents human rights violations, the situation since the ceasefires and the [2015] election, and abuses against women'.

He stressed the importance of implementing the recommendations contained in the report, rather than merely continuing to document cases and hold seminars and workshops.

'Our [national human rights commission] is doing the same activities as the KHRG and as the Gender Equality Network. We will not stop with workshops. We will continue working to achieve results,' Win Mra said, with reference to the commission's partnership with UN Women on empowering rural women. – *The Irrawaddy (www.irrawaddy.com)* ◆

Aiding and abetting: The British media and the invasion of Iraq

While the recently released Chilcot Report was a damning indictment of the duplicitous conduct of the Labour government of Tony Blair in the invasion of Iraq, there has been no similar exposure of the British media's shameful role in abetting this illegal act of war. *Pablo Navarrete* comments.

'In 2003, a Cardiff University report found that the BBC "displayed the most 'pro-war' agenda of any broadcaster" on the Iraq invasion.'

ON 6 July, more than 13 years after the British government joined the US, Australia and Poland in invading Iraq with the stated purpose of removing Saddam Hussein's weapons of mass destruction (WMD), the Iraq Inquiry report was finally released, to much media attention. The inquiry, commonly known as the Chilcot Inquiry after its chair Sir John Chilcot, was first announced in 2009 by then British Prime Minister Gordon Brown, and was tasked with considering Britain's involvement in Iraq between 2001 and 2009.

According to a 2015 report by Physicians for Social Responsibility, the March 2003 invasion and occupation of Iraq was followed by the death of around one million Iraqis in the period between the invasion and 2012; that represents around 5% of Iraq's population. In addition, 179 British army personnel were killed in Iraq between 2003 and 2009.

The seven years that it took for the Chilcot report to materialise were characterised by repeated delays in its publication and concerted, often successful, moves by the British government to suppress key information from being included. For example, the Foreign Office appealed successfully against a judge's ruling and blocked the disclosure of extracts of a conversation between US President George W Bush and UK Prime Minister Tony Blair which took place days before the invasion. The reason? According to the British government, revealing what was said would present a 'significant danger' to British-US relations.

Nevertheless, in the end, the report's 2.6 million words still contained a damning indictment of the British government, and Blair in particular. In one passage, Chilcot states, 'By early December [2001], US policy had begun to shift and Mr Blair suggested that the US and the UK should work on what he described as a "clever strategy" for regime change in Iraq, which would build over time.'

Media strategy

While the report's candid exposition of Blair's Iraq deceptions has received significant media coverage, less has been reported on the equally damming revelation contained therein about the British government's efforts to use the media to aid and abet its assault on Iraq. As a recent detailed article on this issue states: 'A letter, sent more than a year before war was declared, sets out the government's media strategy and objectives for ensuring public support for the conflict. Penned by John Williams, the head of news for the Foreign Office, the document was sent to, amongst others, Alastair Campbell at No 10, all ministers and some diplomats.'

The government's media strategy started with a very revealing sentence: 'The process of preparing media and public opinion for possible action in Iraq is under way.' It recommended that the government should 'exploit' interest by 'feeding newspapers and broadcasters with information on WMD, diversion of imports for military use, and human rights abuses'.

The article went on to outline the extent to which the government went to ensure sympathetic media coverage of its plan for regime change in Iraq, and cites the sickening headline in the *Sun* on the first day of the invasion which read: 'Show them no pity … they have stains on their souls.'

Critically, the strategy letter made the point that beyond merely targeting right-wing outlets such as the *Sun* and the *Telegraph*, the government also deemed newspapers such as the *Guardian* to be key components in its war propaganda efforts.

It is fair to say that the British

government succeeded in its efforts. As media watchdog Media Lens has outlined after looking at the *Guardian*'s reporting of Blair's speech to parliament prior to the vote that resulted in MPs authorising war on Iraq: 'When it mattered, the *Guardian* took Blair seriously, respectfully, offering not a word of criticism of anything he had actually said. The *Guardian* could have joined the millions of people in the UK and across the world excoriating Blair for waging a needless, illegal and immoral war of aggression without even the fig leaf of United Nations support. It could have denounced yet another superpower assault on a country already devastated by war and 12 years of US-UK-led sanctions; a country that represented precisely zero threat to the West.'

Sir John Chilcot presents the Iraq Inquiry report, 6 July. The report contains damning revelations about the British government's efforts to use the media to aid and abet its assault on Iraq.

Media Lens also offered a damning analysis of the BBC's reporting, citing the following academic study of its performance: 'In 2003, a Cardiff University report found that the BBC "displayed the most 'pro-war' agenda of any broadcaster" on the Iraq invasion. Over the three weeks of the initial conflict, 11% of the sources quoted by the BBC were of coalition government or military origin, the highest proportion of all the main television broadcasters. The BBC was less likely than Sky, ITV or Channel 4 News to use independent sources, who also tended to be the most sceptical. The BBC also placed least emphasis on Iraqi casualties, which were mentioned in 22% of its stories about the Iraqi people, and it was least likely to report on Iraqi opposition to the invasion.'

And lest we forget, the BBC's Andrew Marr's fawning tribute to Blair on 9 April 2003, the day that Baghdad fell to 'coalition' forces, included the following: '[Blair] said that they would be able to take Baghdad without a bloodbath, and that in the end the Iraqis would be celebrating. And on both of those points he has been proved conclusively right. And it would be entirely ungracious, even for his critics, not to acknowledge that tonight he stands as a larger man and a stronger prime minister as a result.'

Structural bias

It isn't surprising that the British media should wish to suppress the extent to which they parroted government propaganda and helped to soften up public opinion for the subsequent carnage in Iraq. A rare puncturing of the government-friendly line on Iraq found in the mainstream media was the December 2010 airing on ITV of John Pilger's documentary *The War You Don't See* (although it was aired at 10.35pm on a Tuesday night, hardly a prime-time slot).

The film began with shocking images from a 2007 US Apache helicopter attack on Iraqi civilians which first came out via the whistleblowers' website WikiLeaks. During the course of the documentary Pilger built a compelling case against the mainstream media's performance on Iraq. Pilger filmed Mark Curtis, a historian focusing on British foreign policy, who underscored the primacy of the media's role in facilitating the devastation brought on Iraq, arguing that Britain could not have got away with invading Iraq if the media had been doing its job. In an interview with me about the film, Pilger made the broader point that 'the mainstream media will not change until its structure changes'.

When we look at the corporate bias in the ownership structure of the British media, it is perhaps naïve to believe that they would act more responsibly when assessing the claims of the government in matters as serious as waging war on a sovereign country. Until this structure is democratised and the correlation between the interests of the political and media elites becomes less pronounced, it will be difficult to see how official enemies of the British establishment will escape becoming victims of sustained campaigns of vilification. Closer to home, the British media's current treatment of left-wing Labour Party leader Jeremy Corbyn offers another instructive case study in how the established political and media class can savage someone deemed to be a threat to the prevailing order.

In Iraq, the cost of the media's dereliction of duty includes a level of responsibility for the millions of people killed, and those left without fathers, mothers, sons and daughters. Working towards ensuring Tony Blair and other British politicians face war crime charges for their role in Iraq would be a small but important step in breaking the culture of impunity that our political class has been afforded. Similarly, finding ways of holding our media class to account for reckless reporting, as well as creating a media structure that isn't beholden to establishment narratives, should be an urgent priority for all of us. The stakes are too high for inaction. ◆

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'Brexit', or the revenge of the dispossessed

As the British government struggles to come to terms with the consequences of the country's vote to leave the EU, *Jeremy Seabrook* reflects on the long-simmering grievances which found their expression in the 'Brexit' vote.

With the Brexit vote, the working class 'has reasserted itself, and not in a way comfortable for ruing elites'.

OF course David Cameron's referendum on whether Britain should quit or remain in the European Union offered an unappealing choice: continued adherence to a 'market' the neoliberal values of which have visited such ruin on southern Europe, or withdrawal into an insular conviction that Britain can 'go it alone', free of the constraints of an interdependent world.

With a vote of 52% in favour of leaving, we have seen a curious paradox: those who wanted Britain to remain in Europe speak of their sadness and anger at the result of the referendum. They are 'in grief', 'mourning'; even, echoing the expression of their opponents before the campaign, 'having had their country taken from them'.

Many of the defeated Remainers, financially secure, liberal, metropolitan in spirit if not in actual location, were proponents of a diverse and tolerant Britain; unhappily, their tolerance of extreme and growing inequality was also a conspicuous feature of their social liberalism. For those same people had regarded with relative composure the suffering of the unfortunates who, ever since the 1960s, have lamented the decay of industry in Britain, the breakdown of communities, the loss of function and purpose – those people who overwhelmingly voted for exit from the EU. The laying waste of *their* lives was subordinated to the superior interest of 'progress', 'modernisation', 'economic necessity', and all the other justifications for social injustice and the multiple cleavages which scar Britain – North versus South, rich against poor, young against old.

'Brexit' has thrown into confusion the certainties of the most prominent players in the contemporary economy – those in finance, the media, informatics, scientific research, creative industries. Britain appears to be no more in their possession than the derelict estates and empty town centres, with their discount stores, charity shops, tattoo parlours and empty properties, were, which the well-to-do regarded as a fitting habitation for the landless of present-day Britain. Now it is their turn to cry: jubilation is not too strong a word to describe the mood of the winners, the disregarded and excluded.

The ironies do not end there. For the clamour to 'take back control', 'to give us back our country', was aimed at an entity which did not have custody of the United Kingdom. The owners of vast tracts of Britain – property in London, areas of farmland and, increasingly, country estates and institutions – are less Europeans than Gulf 'sovereign' funds, investors from the not-so-far East, South American drug lords, Russian oligarchs, representatives of China's version of Communism. By 2014 54% of the shares on the London Stock Exchange were owned by 'the rest of the world', 46% of these in the US.

There is more. The insurgency of what UK Independence Party (UKIP) politician and Brexit campaigner Nigel Farage calls 'the little people' (which speaks eloquently of his opinion of his supporters), or more tactfully 'real people', against 'the Establishment' was led by a faction of that same Establishment, for none of the principals in the contest – not Johnson or Farage, or Duncan Smith or Gove or Grayling – issued from the 'have-nots', for whom these exalted personages conceived an instrumental and only transient tenderness. Whoever will be advantaged by the outcome of the referendum, it is unlikely to be those who tearfully celebrated the return of their country, a country they could now pass on to their children; as though their children will be the beneficiaries of anything that has happened.

The vote against the EU is proxy

for resentment of much that has occurred in Britain, this less-than-united kingdom, over the past 40 years – not the least of them being the Labour Party's inability, or unwillingness, to protect those it came into existence to defend. Nobody ever voted for the deindustrialisation of Britain (any more than anyone ever voted for satanic mills and the tainted wealth they produced). A world in which 'people knew their place' was, of course, repellent when it was a question of social status; but knowing where you stood in a division of labour and you could see and handle what you produced, having a place and recognising it, was a source of reasonable pride.

Moreover, the country we have 'got back' is nothing like the one we imagined had been taken away; which is why we constantly relive the Blitz, the levelling effects of War, all pulling together and recognising a common cause. There will be no restoration.

The cleavages have been long simmering beneath the careful management of attenuated political debate in recent years. It is perhaps, above all, the revenge of a dispossessed former manufacturing working class against those they perceived as having robbed them of meaning and purpose in a division of labour that was abolished in the twinkling of an eye during the Margaret Thatcher years.

If it is a delayed response, this is because the dissolution of industry in Britain was presented as passage from an era of satanic mills into the sunny pastures of permanent consumerism. Only with time has it appeared that the making of necessary material goods has been replaced by something more ephemeral, insubstantial, without security and which does not enhance the lives of the workers. Talk of perpetual 'improvement', 'advancement', 'moving forward' now appears to have been a mere rhetorical device to persuade people that someone knew where we were being led, while the promise of robotics as an answer to the chores of existence has turned to alarm over the menace of 'artificial intelligence' – a description that would not be misapplied to many present-day world leaders.

Supporters of continued membership in the EU react as the referendum results are announced. 'Many of the defeated Remainers, financially secure, liberal, metropolitan... were proponents of a diverse and tolerant Britain; unhappily, their tolerance of extreme and growing inequality was also a conspicuous feature of their social liberalism.'

It is not that alternative employment was not created. But for a majority these have been not occupations, not work, nor labour, but 'jobs' – unskilled, far from the craft and expertise that had required five years of arduous apprenticeship. And many of these jobs in the service sector, the most low-paid and uncertain, have gone to European migrants, who have shown themselves more efficient baristas, waiters, carers, even tradespeople – plumbers, fitters, builders, construction workers – than their British counterparts.

Why this should be so gives a clue to the resentment that has finally burst through all the chewy political verbiage about 'hardworking families' and 'doing the right thing'. For under the freedom of movement of labour in the European Union, highly motivated, often educated, certainly competent people have come to Britain for a season in their young lives, to gain experience, make some small savings, provide themselves with linguistic expertise which they will take back to their own country to make a better life for themselves and their families. Some have met partners, settled down and made a family in Britain. It is the perfect paradigm of capitalist aspiration. Except that for the Leavers of the EU, they are the wrong people.

It is the speed of their reactions, their adaptability and openness that have made them attractive to both employers and customers. They are not the social equivalent of those who feel they have been displaced by them in the agribusiness of East Anglia, the vegetable farms of Lincolnshire, the stores and cafes of the cities; for such people have remained at home in their small towns and cities of Eastern Romania, Bialystok in Poland, Calabria in Italy or Extremadura in Spain.

It is easy to see now what has happened, although while it was occurring, few appeared to see it for what it was. Compliance with the EU Treaty in the free movement of labour drew people, especially from Eastern Europe, to parts of Britain scarred both by industrialisation and by its loss. The Labour Party was complicit in the social laissez faire which failed to provide adequate housing, healthcare and schooling even for the former industrial workers, let alone for newcomers; and this failure has become the focus of much of the resentment of 'foreigners' which has been a conspicuous feature of the desolate industrial towns, rural centres of agribusiness (especially producing and harvesting vegetables, cabbages, beetroot, potatoes, spinach) and the exurban estates where significant numbers of people depend on benefits.

It is a supreme irony: the more or less successful assimilation of people from the Caribbean and South Asia emboldened our rulers. God knows, there was enough resentment and ill-feeling in the 1950s and 60s, as the race riots and violence of the age showed. But when Enoch Powell enunciated his 'Tiber foaming with blood' speech in the 1960s, the Conservative Party immediately isolated him and contained the poison. This time, intellectuals at the heart of the Party, notably Boris Johnson and Michael Gove, were major players in the spread of xenophobia with more than a hint of racism. It is significant that after the murder of Labour MP Jo Cox, apparently by a crazed ultra-nationalist, both spoke in favour of immigration.

It is sad that it was not so much ethnicity as language which has been a major driver of feeling against European immigrant workers. Boston in Lincolnshire had the highest proportion of people voting Leave – the flashpoint for the incomprehensible tongues which convince people ('locals', as they are disparagingly known by the mainstream media) that it is they who are being talked about, the stuff of social paranoia and alienation. Strangers in our own land. Take back control. Whenever majorities express a sense of victimhood, we can be sure that some form of mischief against minorities is in preparation.

A history of loss

There are also longer-term influences at work. When we survey the history of the people, the working class, 'real people' as defined by the Brexiteers, over the past century, we see violence, impoverishment and loss, with only brief interludes of stability and prosperity. In the First World War, object of centennial commemorations, every community in Britain lost a generation of young men; and those who returned could be seen, absent leg sewn into a blind trouser pouch, offering matches for sale on street corners or singing, with outstretched palms, 'I Dreamt I Dwelt in Marble Halls'.

Then in the land fit for heroes to which they returned, there were long years of Depression and unemployment, when Poor Law officials compelled people to sell the last objects of worth – a gold ring, a piano – before they could receive the most meagre of State benefits. And in an instant, it was war again, this time against the malignant ideology which had tormented the European empires, repatriated this time to what the rulers of Europe liked to think of as the cradle of world civilisation.

The victory in the war was followed by an era of true austerity, rationing, small black market luxuries and stolen pleasures among the rubble and ashes. Only in the 1950s and 60s came an interlude of prosperity, which soon became affluence and mutated into consumerism: a dazzling outpouring of bounty from a capitalism which had spent the previous 150 years justifying the withholding of even daily necessities from those who worked in its service.

This, too, lasted only until the contested 1970s, when labour asserted itself for the last time, in the public service revolt in the so-called 'winter of discontent' and the miners' strike. Thatcher's neoliberal zeal dealt with the 'problem' of labour by abolishing the industrial base itself, and at a stroke obliterated the reason for being of all the industrial towns and cities of Britain. That the pain of this was for a worthwhile cause – international competitiveness – appeared to have been borne out for a time in the 1990s and early 2000s, but with the crash of 2007-08, it was shown to be illusion. The new landscape appearing as the dust clears is hostile to the well-being of the heirs of a working class whose hold on the material world of making things evaporated 30 years ago.

The vote to leave the EU has profound symbolical importance. Politicians have so far failed to understand the depth of alienation undreamed of by 'leaders' whose contact with the people for 50 years has had all the intimacy of a relationship with extra-terrestrials. It has been in the making a long time, this unmaking of the working class. With the rout of the miners in Britain, the fall of the USSR and the elevation to 'middle-class' status of the workers of the USA, it ceased to be fashionable – or of interest – to talk about the working class, or even to acknowledge its existence. Now it has reasserted itself, and not in a way comfortable for ruing elites, least of all those on the Left who had claimed a unique concern for it.

Of course Cameron should never have called a referendum, which in his calculations would silence his Conservatives' own Right wing and neutralise the appeal of UKIP. The reverse of his shallow cunning has been the outcome. In the process, the political landscape is littered with the husks of ruined careers – not only Cameron but George Osborne, the indolent Boris Johnson and the scheming Michael Gove.

The Labour Party, too, is a casualty of the upheaval. Labour may be nearing the end of its time representing the working people of Britain; for while Labour MPs are busy contesting the legitimacy of their elected leader Jeremy Corbyn, the Conservatives have already regrouped around the redoubtable Theresa May, Britain's second female Prime Minister, in whom some have seen the Second Coming of Thatcher.

Disentangling Britain from the European Union will be a costly and complex process. It is almost inevitable that some compromise will be reached – an accommodation or special status for Britain. But something profound has been thrown into relief by this ill-advised consultation with the people – the opposite of what the 'victors' sought; namely, confirmation of the loneliness of a former imperial power reduced to a small chill island, now on the periphery of Europe, as it is of the wider world it once commanded. ◆

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The following poem by *Mahmoud Darwish* (1941-2008), the Palestinian Poet Laureate, whose work has been translated and read around the globe, including in Hebrew, recently became the subject of heated controversy when it was broadcast over Israel Army Radio's *University on the Air* programme.

Identity card

Mahmoud Darwish

Put it on record.
I am an Arab
And the number of my card is fifty thousand
I have eight children
And the ninth is due after summer.
What's there to be angry about?

Put it on record.
I am an Arab
Working with comrades of toil in a quarry.
I have eight children
For them I wrest the loaf of bread,
The clothes and exercise books
From the rocks
And beg for no alms at your door,
Lower not myself at your doorstep.
What's there to be angry about?

Put it on record.
I am an Arab.
I am a name without a title,
Patient in a country where everything
Lives in a whirlpool of anger.
My roots
Took hold before the birth of time
Before the burgeoning of the ages,
Before cypress and olive trees,
Before the proliferation of weeds.

My father is from the family of the plough
Not from highborn nobles.
And my grandfather was a peasant
Without line or genealogy.
My house is a watchman's hut
Made of sticks and reeds.
Does my status satisfy you?
I am a name without a surname.

Put it on record.
I am an Arab.
Colour of hair: jet black.
Colour of eyes: brown.
My distinguishing features:
On my head the '*iqal* cords over a *keffiyeh*
Scratching him who touches it.
My address:
I'm from a village, remote, forgotten,
Its streets without name
And all its men in the fields and quarry.

What's there to be angry about?

Put it on record.
I am an Arab.
You stole my forefathers' vineyards
And land I used to till,
I and all my children,
And you left us and all my grandchildren
Nothing but these rocks.
Will your government be taking them too
As is being said?

So!
Put it on record at the top of page one:
I don't hate people,
I trespass on no one's property.
And yet, if I were to become hungry
I shall eat the flesh of my usurper.
Beware, beware of my hunger
And of my anger!

Translated by Denys Johnson-Davies

Credit: Ron Giling

A paddy field in Bali, Indonesia.