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EDITORIAL

Reducing Deficit to Make Things Easier for Private Sector

- Piyush Pant

In the Indian ruling echelons, the continuous chant for achieving nine to ten per cent 'Growth' has now been replaced by the chant for reducing the 'Fiscal Deficit'. This obsession to reduce the deficit is so strong that, from Prime Minister to Finance Minister to Chambers of Commerce, everybody is talking about one thing only - Fiscal Deficit. In the resultant cacophony, the one segment which is being held responsible and now being made a victim is 'Government Subsidies', both for agriculture and petroleum products. So much so that ultimately the government control on petroleum products was lifted and they are now left at the mercy of the market. Based on the recommendations of the Kirit Parikh Committee, the Government of India on 25th June 2010 announced the full deregulation of the prices of two crucial petroleum products: petrol and diesel. The plea put forward was to "rationalize" prices and to neutralize the losses to the tune of Rs. 22,000 crore of state-run Oil Marketing Companies (OMCs). In its report submitted in February 2010, the Kirit Parikh Committee had recommended full liberalization of petrol and diesel prices so that it gets linked to the global prices. No doubt, this would enable the private companies to reap huge benefits from retail trade of petro products. Earlier, with the same intention, the urea and phosphate subsidy was withdrawn in the Budget proposals for 2010-11, aiming at cutting the subsidy bill by 3000 crore rupees. The reason offered was that the government is switching over to 'Nutrient Based Subsidy' but the real aim was to decontrol the fertilizer price and create a playing ground for the multinational fertilizer companies. In fact, for the last few years, the government was trying to decontrol oil prices despite the volatility in these prices. That's why in 2005 Rangrajan Committee was set up to study the pricing and taxation of petroleum products. But the Committee did not oblige the government. It did not recommend decontrolling the petroleum sector. Thus the clamour against Fiscal deficit is being raised not so much out of concern for the health of the Indian economy as for opening up those profit making sectors for the private players which, till now, were under the control of the government. With this intention in mind, a false scenario was continuously being created in which it was stated that due to continuous rise in international oil prices the public sector oil companies were losing heavily and so to sustain them hefty subsidy was being given which, in turn, was increasing the deficit of the government.

The fallacy involved in this argument is revealed the moment you look at the observations made by the Rangrajan Committee in 2006. The committee found that there was indeed an adequate buffer to shield domestic consumers from the effects of increase in international prices. Facts further reveal that there is 35% surplus refining capacity over the domestic demand in our country. Similarly Rangrajan Committee Report 2006 observes that "the price at which domestic refineries can supply petroleum products (export parity price) is less than the import parity price. The difference is about 1.71 rupees per liter of diesel in April-September 2005." It is therefore suggested

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that a better formula to determine the price would be to use export parity price as the benchmark. Whereas using import parity price inflates the notional concept of 'under recovery' which, then, is projected by the media as state-owned OMC losses. In this context it is also mentioned that the under recoveries are only notional and are different from the actual profits and losses of the oil companies as per their published results in that, as Rangrajan Committee Report says, "{t}he latter take into account other income streams like dividend income, pipeline income, inventory changes, profits from freely priced products and refining margins in the case of integrated companies." Thus the claim of huge subsidy burden and bleeding oil companies seems to be somewhat exaggerated. The planning commission in its appraisal of the oil sector for the 10th Five Year Plan has been critical of the pricing methodology based on import parity which provides higher margins to the refiners thereby resulting in large profits. The balance sheets of oil PSUs and the annual reports of Petroleum Ministry say that these PSUs are running on huge profits ranging between Rs. 10,000 and Rs. 25,000 crores. These companies have very big reserves and surpluses. This is to be noted that all these documents are placed before the parliament.

Targeting only subsidies for reducing government expenditure is a step ill thought of. The fiscal deficit is the difference between government's total expenditure and its total receipts (excluding borrowing). There are two ways in which reduction can be made in fiscal deficit - by raising revenues or by reducing the expenditures. It must be understood that managing Fiscal Deficit is not about reducing the expenditure alone. It is also about raising the revenues. And this can be done by increasing the industrial output, raising the efficiency of service sector and taxing the rich. But the government wants to reduce the deficit by cutting down the subsidies which are aimed at giving relief to the poor and lower middle classes while the rich and the corporates are being given hefty subsidies in the form of tax-reduction and relief in various duties. On the other, the revenue is being raised through disinvestment of profit making public sector undertakings, thereby paving the way for their takeover by the private sector.

This script for the road map of private take over was written in advance by the International Financial Institutions. Way back in September 2003, former World bank vice-president Mark Baired said in New Delhi-"The Government should reduce primary deficit at the centre and the states by carrying out tax-reforms, reducing power sector losses and phasing out petroleum subsidies." Releasing the World Bank's economic report, "India: Sustaining reforms, reducing poverty" at ASSOCHAM-NCAER forum, Dr. Baird had said that India should reduce financial sector risks by implementing the securitization law, linking returns on PFs and small savings to market benchmarks and establishing a clear framework for managing state guarantees. The report emphasizes on the elimination of exemptions, bringing of services into the service net and implementation of a uniform state value-added tax as some of the important fiscal measures. This is to be noted that all these recommendations are being religiously implemented budget after budget by the Government of India.

The World Bank, in the report, goes a step further and says that the government should improve the composition of the public expenditures by reducing the share spent on wages, pensions, interest payments and agricultural subsidies.

Similarly as recent as February 2010, the International Monetary Fund (IMF) had this to say- 'India does need to reduce the deficit in order to make space for essential spending. And, yes, we do believe its time to unwind the stimulus measures that were put in place last year.'

The Eurozone Crisis: Macroeconomics and Class

By: Deepankar Basu

Introduction

The Eurozone seems to have temporarily averted a serious sovereign debt crisis in its periphery. This sovereign debt crisis had the potential to quickly spread from Greece to Portugal, Spain and possibly even wider afield while morphing into a full-blown banking and financial crisis – with a nearly 750 billion euro bail-out plan. The plan requires European governments to commit about 500 billion euros for emergency loans through a special purpose vehicle (SPV), the IMF to promise another 250 billion euros if the need arises, countries receiving emergency loans to agree to harsh "austerity measures" and the European Central Bank to agree to purchase bonds of member countries. With the real fear of contagion spreading across the Atlantic, the US Federal Reserve has reopened swap lines to provide dollar funding to European banks, again, if needed.

Will these extraordinary set of measures be adequate to the task of dealing with the crisis? The answer is not at all clear. There are reports that credit markets in Europe have started tightening up, especially in the periphery, with small businesses taking the first hit. The average cost of borrowing dollars in Europe (usually done by banks) has started inching up; the spread between the three month dollar LIBOR (London Interbank Offered Rate) and the Overnight Indexed Swap (OIS) rate has also risen over the last few weeks, providing tell tale signs of growing stress in financial markets. Financial markets around the world tumbled on May 20 amid fears that not only will the Eurozone debt crisis not be "solved" by the bail-out package but will instead spread to the US and halt the fragile recovery currently underway. Things are moving fast and it is difficult to arrive at a conclusive answer at this point, but the debt crisis in Europe might very well be the start of the next phase of the global structural crisis of capitalism that started in 2007 in the US.

While it would be interesting, and possibly even useful, to speculate on the the future path of the European, and US, economies, in this article I would like to focus on some other, but related, questions. How did the sovereign debt crisis in the Eurozone area come to pass? What are the underlying causes of the crisis? What are the possible exit routes? Who bears the costs of adjustment?

Crucial Sequence of Events

To set the ball rolling, let us quickly go over the sequence of crucial events. The sovereign debt crisis in the European periphery started in October 2009 when it came to light that the budget deficit of the Greek government was much higher than what had been previously reported, both in the press and in government documents. Figures for the Greek budget deficit were rapidly revised upwards to about 13 percent of GDP, much higher than the 3.7 percent figure released earlier in the year. By the beginning of 2010 it became clear that government statistics were highly unreliable and that there had been deliberate attempts to massage the books, drawing inspiration perhaps from the now infamous examples of Enron and Lehman Brothers. What was especially striking was the heavy involvement of sophisticated Wall Street investment banks like Goldman Sachs in assisting the Greece government to fudge its accounts with the use of complex financial instruments.

With a large budget deficit and a mounting sovereign debt, ratings agencies like Standard & Poor's downgraded Greek government debt, first in late 2009 and then in April 2010 to junk bond status. The yield and credit default swap (CDS) rates on Greek government bonds increased rapidly, reflecting financial market participants' expectations of an increased probability of default. Interest rates increased, increasing the debt burden even further, thereby worsening matters for Greece. Because of the complex web of financial interdependence among the countries in the Eurozone area, and especially the countries in the so-called European periphery, real fears of contagion spread rapidly through European financial markets. Bond markets in Portugal, Spain, Ireland and even Italy were badly hit, with Spain's government debt downgraded.

Underlying Causes

What caused this crisis in the European periphery? From a macroeconomic perspective, there seems to have been two major causes behind the current build-up of sovereign debt in the European periphery: (a) the dynamics of Germany's growth process in the 2000s, and (b) the loss of policy options, for the countries in the European periphery, resulting from participation in the European Monetary Union (EMU). Let us investigate each of these in turn.

Germany is the largest economy in the EMU – accounting for about a quarter of its GDP – and its growth process is bound to have profound impacts on the European periphery. In the 2000s, Germany's growth was fueled not by internal demand but by running persistent trade surpluses with the rest of the

world, including countries in the European periphery. Sluggish or non-existent real wage growth, enforced by a strong German neoliberal regime, hampered growth of aggregate demand and kept inflation rates low. Low inflation in the context of a monetary union meant high real interest rates in Germany and, going hand in hand with low aggregate demand growth, had a negative impact on private investment expenditure. But, the slow real wage growth relative to countries in the European periphery, at the same time, gave Germany a competitive advantage in the internal markets of the periphery countries. Recall that the raison d'etre of the monetary union was the closer integration of the economies through the unfettered cross-border movement of goods, services, capital and labour. German firms took full advantage of this integration; building on the advantage of lower wage growth, German firms moved in to capture markets in the periphery; the persistent trade surplus of the German economy largely drove its GDP growth through the 2000s.

But persistent German trade surpluses meant persistent trade deficits for its trading partners, including some of the countries of the European periphery. This feature of the German growth process gave rise to severe and persistent imbalances in the countries of the Eurozone. Right through the 2000s, countries like Greece, Portugal, Spain, and Italy were forced to accept huge and growing current account deficits

Current account deficits entail net borrowing from the rest of the world and can show up either as private or public sector debts. If the difference between private sector savings and investment remains more or less stable, as seems to have happened in several Eurozone countries during the 2000s, persistent current account deficits would entail deficits of the public sector. This is what seems to have happened in several countries of the periphery, where persistent current account deficits fed already ballooning government budget deficits, leading, in the case of Greece, to a historically high build-up of sovereign debt.

This is not to suggest that government expenditure and revenue, and hence the government budget deficit, has no autonomy; it does. While governments can increase their budget deficits for countercyclical policy action, as seems necessary during recessions, the existence and persistence of trade (and current account) deficits might add to the growth of the government's budget deficit in the following way. Persistent trade deficits negatively impact on aggregate demand, all else constant, and reduce aggregate output and income through the multiplier effect. While countercyclical government welfare spending increases as a result, the fall in aggregate output reduces tax revenues. While aggregate savings decline with the fall in aggregate income so does private sector investment expenditures, keeping the saving-investment gap more or less unchanged; the net result, therefore, is a widening budget deficit. Apart from Spain, trade deficits, for the most part, were contributing to high budget deficits.

But how were the persistent deficits financed? Along expected lines and following the logic of financial integration entailed by a monetary union, a large part of the government budget deficit in the periphery was financed by capital outflows from Germany (and France); large financial institutions emerged as major players in the market for government debt in the European periphery. The structural imbalance at the heart of the monetary union, whereby Germany's growth is supported by persistent trade surpluses, which in turn finances persistent trade deficits in the periphery, therefore seems to be one of the most basic causes of the sovereign debt crisis in Europe.

The second cause of the crisis is the severe loss of policy options of the countries in the periphery due to their participation in the EMU. Being part of a monetary union with a common currency, countries in the periphery have lost two crucial policy tools: (a) exchange rate policy, and (b) monetary policy (understood either as the ability to set key short-term interest rates or to control some measure of the quantity of money, however measured, in the aggregate economy). Thus, faced with a growing trade deficit, countries like Greece, Portugal, Ireland, Italy and Spain could neither devalue to stem the tide nor could they tamper with interest rates to deal with the recession and high official unemployment rates that came with the global economic crisis of 2007.

Thus, while the export-oriented German growth process, leading to a severe and persistent trade imbalance in the countries of the EMU, contributed to the build-up of sovereign debt in the European periphery, participation in the EMU by these same countries severely restricted their ability to deal with the imbalance. Thus when the global economic crisis of 2007 hit these economies as massive negative demand shocks, leading to precipitous fall in export earnings, the underlying decade-long structural imbalance was rapidly augmented by an accelerating trade deficit. Attempts by the government's in the peripheral countries to counter some of the adverse impacts of the global recession with stimulus spending and falling tax revenues due to the recession, increased the already high deficits even further. The result was the build-up towards the sovereign debt crisis that Europe is currently reeling under.

Which Way Out?

How could the current crisis be resolved? Without dismantling the monetary union, there are two broad ways to deal with the crisis. One way imposes the lion's share of the cost of adjustment on the working class of the European periphery, and the other that ensures that part of the cost is borne by European finance capital as well. It is therefore obvious, given the differential distribution of the costs of adjustment across social classes, that the balance of class forces will ultimately decide which is chosen.

The first option, the one favored by European finance capital, is to advance emergency loans to Greece, and if necessary to the other countries too, and enforce Structural Adjustment Program (SAP)-type conditionalities. The logic behind this option – roughly what has been adopted with the 750 billion euro bail-out package – is as follows. Loans will allow Greece to continue to service its debts (most of which is owed to banks and other financial institutions in Germany, France, and other other advanced capitalist countries) so that bondholders do not incur any losses. The conditionalities include reduction of government spending on social sectors, freezing of public sector jobs, reduction in wages, privatization of the pensions sector, labour market reform, tax increases, and other such measures. These will serve two related purposes. First, it will severely contract the level of aggregate demand in the Greek economy and thereby push it into a prolonged and deep recession; this will ensure a disinflation or even a deflation in the Greek economy relative to Germany, leading to a possible reduction in the Greek trade deficit. This is how, in this option, the basic imbalance in the EMU will be addressed.

Second, since a crisis always opens up channels to alter the balance of class forces, this occasion will be used to weaken the European working class further by pushing up unemployment rates to historically unprecedented levels and pushing through a slew of neoliberal reforms like privatization of pensions, education, health care and insurance. All in all, this option will bail-out financial interests and impose the costs of adjustment on the working people. It is not clear whether this option will work even on its own terms. Most realistic assessments of the situation assert the necessity of debt-restructuring; the question is not whether it will take place but when and at what terms. Additionally, the deeply recessionary implications of the "austerity measures" will, in all probability, slow down the whole eurozone economy and militate against efforts to get the core countries of global capitalism growing again.

The second option, the one that should be favored by the working class in Greece and other countries, including Germany, is to work out a sensible debt-restructuring program with bondholders and force the German economy to reflate. The logic behind this option is as follows: debt-restructuring would ensure that some of the cost of re-adjustment is borne by finance capital, the same finance capital that had recklessly lent to the periphery when profits were flowing, the same finance capital which helped the Greek government massage its books. Increasing aggregate demand in the German economy through a mix of fiscal and monetary policy would revive aggregate demand, push up inflation, drive down real interest rates and thereby boost private investment expenditures; through the multiplier, this would lead to robust output growth. The resultant inflation, in the German economy, relative to the countries in the periphery, would increase the German real exchange rate, reducing its trade surplus thereby addressing the basic imbalance in the EMU. The growth is aggregate demand and output can, in turn, allow real wage growth, something in the interests of the German working class reeling under the burden of neoliberalism. This option, therefore, has the potential to forge an alliance between the working classes of the European periphery and the center.

Thus, while the first option addresses the basic cause of the crisis – the persistent trade imbalances in the countries of the European periphery – by forcing a painful deflation in the periphery, the second option addresses the same issue by enforcing, instead, a reflation of the German economy, the largest constituent of the EMU. The secondary problem of sovereign debt is addressed, in the second option, by a sensible re-structuring program to avoid financial chaos and contagion, while in the first option that problem is ignored altogether. On both counts, the second option is, therefore, what the working class should push for even when the first is presented, with a 750 billion euro bail-out package and adequate media support, as a fait accompli. Of course, other options will open up if Greece and other countries in the periphery decide to opt out of the eurozone altogether.

(Courtesy: Radical Notes)

G-20 Orders U-Turn: From Stimulus to Austerity

By: Nick Beams

Finance ministers from the world's leading economies have responded to the intensification of the global financial crisis by making a U-turn on fiscal policy.

The communiqué from the meeting of G-20 finance ministers held in Busan, South Korea, on June 4-5 made clear that the fiscal stimulus packages, initiated after the collapse of Lehman Brothers in September 2008, should be ended and a new austerity program initiated.

When the finance ministers came together last April the communiqué from their meeting concluded: "In economies where growth is still highly dependent on policy support with sustainable public finances, it should be maintained until the recovery is firmly driven by the private sector and becomes more entrenched."

Today, the language is very different: "The recent events highlight the importance of sustainable public finances and the need for our countries to put in place credible, growth-friendly measures, to deliver fiscal sustainability, differentiated for and tailored to national circumstances. Those countries with serious fiscal challenges need to accelerate the pace of consolidation."

According to newly installed British chancellor George Osborne, who tried to claim credit for the change, the new words were a "significant success" in getting endorsement from the G-20 for "a significant change in tone in the language on fiscal sustainability."

The policy switch is an expression of the enormous power of financial markets and the control they exercise over government programs. The meeting received a sharp reminder of that power on the opening day, when Hungary's markets tumbled after its prime minister warned that the country was headed for a Greek-style crisis.

The eruption of the Greek sovereign debt crisis and the subsequent financial turbulence in the eurozone were the clearest signal by global finance capital that the time had come to end fiscal stimulus packages and institute a program of deepening cuts to all government social spending programs.

While the communiqué contained the obligatory reference to the "importance of international cooperation", the fiscal stimulus reversal, as well as other decisions, signified widening divisions within the G-20.

So far as government stimulus is concerned, one country's economy is another country's export market. Accordingly, on the eve of the meeting, US Treasury Secretary Tim Geithner wrote to G-20 finance ministers expressing concern that withdrawal of stimulus measures could weaken any economic recovery.

"Fiscal reforms are necessary for growth," he wrote, "but they will not succeed unless we are able to strengthen confidence in the global recovery. The challenge is to demonstrate the capacity to deliver fiscal sustainability over the medium term without creating the perception that this will require a generalized, undifferentiated, move to pull forward consolidation plans. The necessary and inevitable withdrawal of fiscal and monetary stimulus needs to be calibrated to proceed in step with the strengthening of the private sector recovery in our economies."

In other words, while fiscal stimulus needs to be reduced in the long term, if all governments simultaneously embark on such a program, it could cause a significant downturn in the world economy, under conditions where private sector demand is not sufficient to maintain growth rates.

In his letter, Geithner warned that due to the fall in US consumer demand, the American economy could not continue to absorb world exports and that "without further progress on rebalancing global demand, global growth rates will fall short of potential. In this context we are concerned by the projected weakness in domestic demand in Europe and Japan."

Other concerns were also voiced. South African official, Trevor Manuel, a former finance minister, told a press conference on the sidelines of the meeting that it was important to understand "how fragile the world recovery is." World leaders had the opportunity to "prevent the world going into a fresh recession", and he insisted that "countries that have tended to take sovereign decisions ignoring their multilateral responsibilities" start listening to outside views.

Chinese finance minister Xie Xuren urged G-20 countries to exercise caution when exiting fiscal stimulus programs. China would maintain "proactive" fiscal policies and pursue a "moderately loose" monetary policy, he said, in a statement posted on the web site of China's central bank.

There were also signs of divisions over proposed reforms to international banking regulations. The US and UK have been pushing for the introduction of regulations to increase the capital and liquidity that banks will be required to hold. But European powers have been seeking to water down or delay their introduction, for fear it would force a recapitalisation by European banks, leading to a cut in their lending and thereby opening the way for intervention by

American and British banks into their markets.

French finance minister Christine Lagarde denied that France was trying to delay the process and insisted that she wanted to see it completed on schedule by the end of 2012. But in an indication of her concerns, she added: "We have to do a quality technical appraisal on the subject and that is too complicated to be rushed through."

A report by Nicolas Vernon of the Brussels-based Bruegel think tank claimed that national banking officials in Europe had been covering up the "sorry state" of some major European banks, afraid that any revelation of their real position would make them takeover targets.

The G-20 meeting appears to have killed off a proposal for an international levy on banks. This had been met with strenuous opposition from Japan, Canada and Australia, on the basis that since their banks had received no direct bailouts they should not be required to contribute to a levy.

The G-20 communiqué expressed agreement that the financial sector should make a contribution to the costs of government interventions, but added that such measures should be developed by "taking into account individual country's circumstances and options". As the Financial Times noted, this was typical communiqué jargon used to announce the death of a proposal.

(Courtesy: WSWS.org)

Stimulus or Austerity: The People Vs the Banks

By: Shamus Cooke

The most powerful nations in the world met at the G-20 in Toronto and managed to agree on only one thing of significance: the need to reduce deficits, "half by 2013." Implied by the statement is the need to lower deficits via "austerity," meaning eliminating or reducing social programs.

Why does every mainstream political pundit or corporate CEO fanatically agree that reducing deficits is the most important thing to do now? Let Obama explain:

"… if financial markets are skittish and don't have confidence in a country's fiscal soundness, that is also going to undermine our recovery."

Apparently, the most important policy for the world economy cannot be said in plain English. **What does Obama mean? Essentially, he is saying that "financial markets" should determine how wealth is distributed and how the economy is directed.**

What are financial markets? And why must every country be at their mercy?

A financial market is anyplace the super-rich invest their money. It can be done through a bank, hedge fund, or a private equity firm, etc. The rich demand that their investments are safe and therefore are especially "skittish" at the slightest hint of inflation or other economic distress.

The rich who dominate financial markets advocate only one solution to balancing budgets: reducing or eliminating social programs. They ignore the other solution— a massive public works project— because it directly affects them in a negative way: raising taxes on the wealthy.

This raises another issue. The investors who control financial markets know that a day of reckoning is coming: the massive debt that was pushing forward the world economy for years needs to be paid back, and those who own the banks don't want the responsibility. Better for millions of workers to sacrifice social services, pensions, wages, etc., than for thousands of rich investors to be taxed.

Some people will argue that it is counterproductive to tax the rich, since they will then choose not to invest their money, causing further harm to the economy. But this is already happening and happens every time a recession hits.

The New York Times describes one example of the rich hoarding their money, until better, profitable times return:

"Only on Wall Street, in the rarefied realm of buyout moguls, could you actually have too much money…. Private equity firms, where corporate takeovers are planned and plotted, today sit atop [are hoarding] an estimated $500 billion. But the deal makers are desperate to find deals worth doing…" (June 24, 2010).

Rich investors are not investing in companies because consumers are not buying the products that corporations produce. And where mainstream economists blame "consumer confidence" for this problem, the real issue remains "consumer

impoverishment."

It is the rich investor that lacks the "confidence" that the unemployed or low-waged worker can buy enough of the products produced by corporations. This is the problem that will continue to haunt the establishment economists, who will incessantly preach that the economy is on a perpetual verge of recovery.

This illusion of recovery is being instituted into government policy. The Obama administration has argued that federal stimulus money is only needed in small doses to put the economy back on track. With politicians agreeing that the recession is "basically over," less stimulus money is being offered.

Indeed, Congress has had a terrible time passing the tiniest stimulus bill, which would extend unemployment benefits and help states with Medicaid costs. Because Obama insists that "reducing deficits" is the new governmental priority, the stimulus faucet will quickly dry up (since government stimulus is financed through deficit spending).

But for millions of U.S. workers, the debate over stimulus spending is not theoretical, but a matter of life and death. If no federal stimulus is passed— and the current one has virtually died in Congress— millions of unemployed people will have zero income. Meanwhile, the states budget crises will worsen, shutting off state-run health care, social services and education, while slashing public sector jobs by the thousands.

Both Democrats and Republicans agree that "financial markets" should dictate the economic policy of the U.S. The two parties disagree only to what degree and how quickly to implement the same policy.

The American labor movement must find an independent voice to demand that a stimulus bill be passed. Labor — especially public sector workers — must ally themselves with the unemployed, students and teachers, and other victims of the states' budget crises who will suffer real tragedies unless a federal stimulus bill is passed.

(Courtesy: Counter Currents.org)

The Fiscal Deficit

What exactly is the Fiscal Deficit?

The fiscal deficit is the difference between the government's total expenditure and its total receipts (excluding borrowing). The elements of the fiscal deficit are (a) the revenue deficit, which is the difference between the government's current (or revenue) expenditure and total current receipts (that is, excluding borrowing) and (b) capital expenditure. The fiscal deficit can be financed by borrowing from the Reserve Bank of India (which is also called deficit financing or money creation) and market borrowing (from the money market, that is mainly from banks).

Does a Fiscal Deficit Necessarily Lead to Inflation?

No. Two arguments are generally given in order to link a high fiscal deficit to inflation. The first argument is based on the fact that the part of the fiscal deficit which is financed by borrowing from the RBI leads to an increase in the money stock. Some people hold the unsubstantiated belief that a higher money stock automatically leads to inflation since "more money chases the same goods". There are, however, two flaws in this argument. Firstly, it is not the "same goods" which the new money stock chases since output of goods may increase because of the increased fiscal deficit. In an economy with unutilized resources, output is held in check by the lack of demand and a high fiscal deficit may be accompanied by greater demand and greater output. Secondly, the speed with which money "chases" goods is not constant and varies as a result of changes in other economic variables. Hence even if a part of the fiscal deficit translates into a larger money stock, it need not lead to inflation.

The second argument linking fiscal deficits and inflation is that in an economy in which the output of some essential commodities cannot be increased, the increase in demand caused by a larger fiscal deficit will raise prices. There are several problems with this argument as well. Firstly, this argument is evidently irrelevant for the Indian economy in 2002 which is in the midst of an industrial recession and which has abundant supplies of foodgrains and foreign exchange. Secondly, even if some particular commodities are in short supply, rationing and similar strategies can check a price increase. Finally, if the economy is in a state which the proponents of this argument believe it to be in, that is, with output constrained by supply rather than demand, then not just fiscal deficits but any way of increasing demand (such as private investment) is inflationary.

Doesn't a Greater Fiscal Deficit Lead to a Greater Drain on the Exchequer in terms of Interest Outlay?

Yes and no. Certainly, for a given interest rate a larger fiscal deficit by raising the accumulated debt of the government raises the interest burden. However, in the particular case of our economy since liberalization, a large part of the increasing interest burden is because of the rise in the interest rates in the post '91 period. This itself is related to the process of liberalization since the rate of interest has to be kept high in a liberalized economy to prevent capital outflow. Moreover, a growing domestic debt is not a problem for a government in the same way in which growing debt is a problem for a family since the government can always raise its receipts through taxation and by printing money. Some would say that printing money would lead to inflation, but as we have shown above, this is not necessarily the case.

Is it a Good Idea to Reduce Fiscal Deficits Through Disinvestment?

No. The PSUs that the government has been disinvesting in are the profit making ones. Thus, while the government earns a lump-sum amount in one year, it loses the profits that the PSU would have contributed to the exchequer in the future. Therefore, it is not a good idea even if the objective is to reduce the fiscal deficit.

Does increased government expenditure necessarily lead to a greater fiscal deficit?

Not necessarily. Suppose the government spends more on an electricity project for which the contract is given to a PSU like BHEL. Then the money that the government spends comes back to it in the form of BHEL's earnings. Similarly, suppose that the government spends on food-for-work programmes. Then a significant part of the expenditure allocation would consist of foodgrain from the Public Distribution System which would account for part of the wages of workers employed in such schemes. This in turn means that the losses of the Food Corporation of India (which also includes the cost of holding stocks) would go down and hence the money would find its way back to the government. In both cases, the increased expenditure has further multiplier effects because of the subsequent spending of those whose incomes go up because of the initial expenditure. The overall rise in economic activity in turn means that the government's tax revenues also increase. Therefore there is no increase in the fiscal deficit in such cases.

What is the Impact of the Government's Policy of Decreasing the Fiscal Deficit?

Logically, there are two ways in which the fiscal deficit can be reduced — by raising revenues or by reducing expenditure. However given the character of our State and the constraints of a liberalized economy, the government has not increased revenues. In fact, in budget after budget the government has actually given away tax cuts to the rich. Even when it has tried to raise revenues, it has been through counterproductive means like disinvestment.

The main impact of the policy of reduced fiscal deficits has therefore been on the government's expenditure. This has had a number of effects. First, government investment in sectors such as agriculture has been cut. Secondly, expenditure on social sectors like education, health and poverty alleviation has been reduced leading to greater hardship for the poor already bearing the brunt of liberalization. Perhaps most importantly, in an economy going through a recession the government is not allowed to play any role in boosting demand.

Is a Fiscal Deficit Inherently Bad?

Answer: In the late twenties the British Treasury (because of which this view came to be known as the "Treasury View") that in all circumstances the government's balancing its expenditure with its income, i.e. not resorting to any fiscal deficit, is the most desirable policy for an economy. The British colonial government in India, it may be recalled, had used precisely this argument for pursuing deflationary policies even during the years of the Great Depression because of the fall in its tax revenue. This had succeeded in worsening the impact of the Depression on our economy, had thwarted the industrialisation prospects which the policy of protection of the inter-war period had opened up, and had resulted in a wholesale running down of the economy's infrastructure. This view in short was pervasive in the pre-Keynesian era. A slight variation of this view is that the fiscal deficit must under all circumstances never be allowed to exceed a certain small limit.

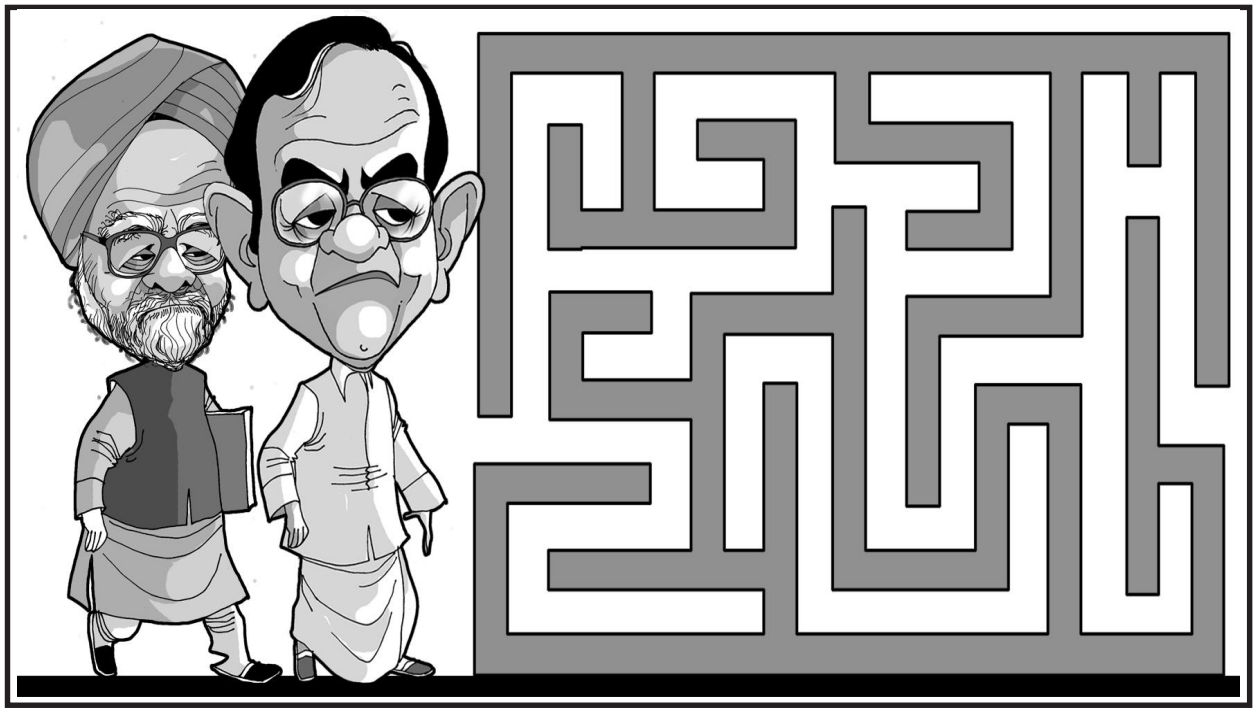
The theoretical articulation of the Treasury view was contained in a White Paper of the British Treasury in 1929, called "Memorandum On Certain Proposals Relating to Unemployment", and written in response to Lloyd George's suggestion that Britain should undertake public works for reducing unemployment which at that time stood at 10 percent (it was to reach 20 percent later). The White Paper argued that in any economy there is at any time only a certain pool of savings, and that if more of it is used for home investment then less becomes available for foreign investment, or if more of it is used for public works financed by government borrowing, then less is left over for private investment and foreign investment. It follows then that public works can never increase total employment in an economy since the increase in employment brought about by public works would be exactly counterbalanced by the reduction in employment arising from reduced private and foreign

investment.

The fallacy of this argument was exposed by a young Cambridge economist and pupil of Keynes, Richard Kahn, in a classic paper published in 1931. The argument was simple: total savings in an economy depend, among other things, on its total income. There is therefore no fixed pool of savings, unless we assume that income cannot be augmented, i.e. the economy is already at full employment, in which case the need for public works does not arise. The Treasury View in other words was arguing against proposals for reducing unemployment on the basis of a theory that implicitly assumed that unemployment did not exist at all. In an economy in which there is unemployment, in the sense of resources lying idle owing to lack of aggregate demand, if investment increases then these resources start getting used up directly and indirectly, through various rounds of the "multiplier". As a result, income rises and so do savings. Indeed, Kahn showed, the whole process of increase in income and employment would go on and on, until an amount of savings had been generated which exactly equalled the increase in home and foreign investment. Far from there being a predetermined pool of savings above which investment cannot increase, it is the total investment that determines the total savings: the direction of causation in other words is precisely the opposite of what pre-Keynesian theory believed. A corollary of Kahn's theorem was that if the government expanded public works for generating employment and financed these by borrowing, i.e. by enlarging the fiscal deficit, then an exactly equivalent amount of savings would accrue in private hands. A fiscal deficit in other words finances itself.

The argument advanced by Kahn in 1931 was central to Keynes' opus The General Theory of Employment, Interest and Money published in 1936. Keynes argued in a similar manner that in a situation of "involuntary unemployment", or "demand constraint", the government can enlarge employment and output by increasing its fiscal deficit; far from there being any adverse effects of this on any other stream of expenditure, such government action in fact would stimulate the total expenditure from these other streams via the "multiplier", and not even generate any significant inflationary pressures. Moreover, since the government can successfully pursue such a policy, it must do so, because, as Keynes put it, "it is certain that the world will not much longer tolerate the unemployment which, apart from brief intervals of excitement, is associated -- and, in my opinion, inevitably associated -- with present day capitalistic individualism." Even if the government used the fiscal deficit for no worthier purpose than "to dig holes in the ground", that is still preferable to letting unemployment persist, since "'to dig holes in the ground' paid for out of savings, will increase, not only employment, but the real national dividend of useful goods and services" (again because of the "multiplier"). To argue against the mitigation to human suffering that an increased fiscal deficit can provide is therefore bad theory, the sheer "humbug of finance".

(Courtesy: Macroscan.org)



The Wall Street Rip Off: Fees and Consequences

An Interview with John Bogle

John Bogle is founder and retired CEO of the Vanguard Group — one of the two largest mutual funds in the world. Fortune magazine named him as one of the four "Investment Giants" of the 20th century; he was named one of the world's 100 most powerful and influential people by Time magazine; and Institutional Investor presented him with its Lifetime Achievement Award. He is the author of seven books, most recently Enough: True Measures of Money, Business, and Life.

Multinational Monitor: What's your complaint with the way the mutual fund industry operates?

John Bogle: It's a very simple complaint. Fund managers are in the business of gathering assets, all the better to maximize fees. It's a marketing business. It should not be a marketing business. It should be a business of stewardship. **I've often said that we've let marketing triumph over management and salesmanship triumph over stewardship.**

Stewardship means that the fund investor — not the manager — comes first, and that's not a principle we're really observing.

This is not to say that all fund managers are not trying to earn the best returns they can for their shareholders. Of course they are. But they're also trying to earn the best returns for other interests they represent, which is their management company.

Particularly in recent years, we've developed a whole new problem about management companies. Something like 40 of the largest 50 management companies are publicly held — either directly by the public or by giant financial conglomerates. And it doesn't take some leap of cynicism to realize that when a big international financial conglomerate buys a mutual fund management company for a couple billion dollars, they're interested in increasing the return on their capital, not the return on your capital. Those two interests are in direct conflict.

As a group, all investors inevitably capture the total market return. These investors are trading with one another — competing with one another — and if one wins, the other loses. So they all capture the market return before costs [fees and trading expenses] and lose the market return after costs.

To me, it is a tragedy that we can't recognize that taking cost out of the system is absolutely essential.

MM: What's the difference between the mutual fund and the management company? How do they interrelate?

Bogle: Typically, and this has not always been the case, an entrepreneur gets together some capital and starts a line of mutual funds. He picks their directors, he keeps them in compliance, and he gets paid an annual fee for doing that. Usually that fee is specified as a percentage of assets — maybe 1.5 percent of assets, maybe 0.75 percent of assets, sometimes the fee scales down as assets rise. At the outset of this industry, we had small asset management companies managed by professional investors and owned by private individuals.

This gradually developed into an industry where that same management company has been bought from its original owners, maybe by an international financial conglomerate, maybe a U.S. bank, maybe a Canadian insurance company. They're not investment professionals by and large; they are large institutions looking for high returns.

The problem is a very simple one, and it's written in the Holy Bible: No man can serve two masters. The directors of the funds are pretty much chosen by the management companies. They're trying to serve the interests of the fund shareholders — people who have invested in the mutual fund — but their prime interest is to serve the shareholders in the management company. They have a fiduciary duty to both of these groups. So which one has the high priority?

If the fees were reduced sharply, the beneficiary would be the mutual fund investor — the shareholder. If they were increased or left at too high levels, the beneficiary would be the public owners of that management company.

MM: Presumably the management company that's charging a high fee argues that they're bringing some high value added, that they've got some special insights into the way the market works, and they're going to give the mutual fund investors a greater return.

Bogle: Yes, and that's absurd when you examine the historical record. And it's absurd to think it could happen in the future even if it has happened in the past. We all think we're smarter than the average, we all think we're better drivers than the average, I've often observed that we probably all think we're better lovers than the average. But as a group, we're all average. And these managers are all average, until you take out their costs. If a manager has a little hot streak, he's going to claim, "I can beat the market." But the fact of the matter is, over time, mutual fund managers as a group lose to the market. And the other fact of the matter is, if you beat the market for a while, the odds are very powerful you'll revert to the market mean, less costs. So, you'll fall below the market.

We know — we know, we don't guess — that an index fund that invests in all stocks, let's say in this

case all U.S. stocks, and holds them forever, will have a huge advantage over the average actively managed fund largely because of costs. The index fund has maybe a tenth of 1 percent total costs. It has almost no transaction costs — it's not trading all the time like other mutual funds do. It is very cash efficient because it pays very little in the way of capital gains taxes because it's a non-trader. The actively managed funds, compared to that tenth of 1 percent, probably have an average fee of somewhere between 0.8 percent and 1.2 percent. Add to that transaction costs — hidden and undisclosed, but clearly existing — of somewhere between 0.5 percent and 1 percent a year, because they turn over fund portfolios almost 100 percent a year. And three, if you have a sales load in your mutual fund of 5 percent and investors hold it for five years, which is the average holding period for an equity fund investor, there's another 1 percent a year. And even if they hold it for 10 years, that's another 0.5 percent a year. So you can easily get costs in the range of 2.5 percent, compared to a no-load, low-cost, no-trading index fund of a tenth of 1 percent. That's 25 times as much cost. So, of course, the low cost funds win. In addition, the record shows quite clearly — we don't know so much about the future here, but we can measure the past — that actively managed mutual funds have about a 2 percent tax disadvantage relative to indexed funds.

MM: For people who are not investors, or even for people who are, you're saying the numbers are 10, 20 times more expensive, but they hear the number 2 percent and ask, what's the big deal? So, what is the big deal?

Bogle: The big deal is this: If you look at the issue short-term, 2.5 percent costs, in, say, a 7 percent market, is consuming one third of your return. And if the market is at 10 percent return, 2.5 will be consuming 25 percent of it.

What seems inconsequential over the short term becomes profoundly important over the long term. Let's assume we have a market return of 8 percent, and you reinvest all of your earnings. At the end of 50 years, the dollar you invested is worth $46.90. Now, let's assume we take 2.5 percent in fees out of the 8 percent return. Your return drops to 5.5 percent. At the end of 50 years that dollar grows to $14.54. So, if you can get costs out of the system, you can turn $14.54 into $46.90. Just imagine that. What we're talking about is with all of the expenses, you, the investor, put 100 percent of the capital up, you're taking 100 percent of the risk, and you're capturing, in very round numbers, 30 percent of the return. The financial system puts up none of the capital, takes none of the risk, and still captures 70 percent of the return that's there for the taking.

If everyone understood that, there would be an investment revolution in this country. It's a fact. There's no arguing it. We all know about the miracle of compounding returns. Just think of it: a dollar growing to $46.90. But none of us, or almost none of us unless they're Bogle-heads, are aware of the fact that the miracle of compounding returns over the long-term is overwhelmed by the tyranny of compounding cost over the long term. That's why that $46.90 dwindles down to $14.54.

It's short-term thinking, it's economic illiteracy, and it's also information asymmetry. This is an industry that depends on marketing and sales. We advertise high performing funds — this is really the disgraceful part that gets me angry just to think about it — knowing full well that the records we are advertising will not be repeated. That's a disgrace. We advertise, and we have a little footnote that says this may or may not be a reliable indicator of the future, or something like that, and we think we're relieved of responsibility for pumping up performance. But I don't believe that. I think it's unethical.

MM: You make a related point about the social consequences of speculation versus long-term investing.

Bogle: I'll give you a simple example to make it clear. There are 500 stocks in the S&P 500 today. Let's say that half of those stocks are held by investors who don't trade, and the other half of all those shares are held by speculators who trade, but inevitably trade only with each other. So the investors capture the market return as a group. The speculators capture the market return as a group because they own the same stocks, but they lose because they and their intermediaries are trading back and forth with one another. The speculators capture that S&P return less all those costs. So there is a social cost to that. It greatly damages the retirement savings of Americans. That's cost number one.

Cost number two is, when you have lower returns, the great temptation is to swing for the fences to get higher returns, which is one of the worst things you can do, because you're loading up on risk.

The third cost is the social costs of the mutual fund industry being a rent-a-stock industry rather than an own-a-stock industry. Because if you're renting a stock for a while — and that's one way to look at this speculative market — you don't care how the company is governed, you don't care what the directors are doing about executive compensation. If you're a speculator, you only care about short-term changes in the price of the stock.

If you're a long-term investor, you want to know what's going on in that company. You care about how it's governed, you want to be sure those directors are

forcing the management of the companies to put the interests of the shareholders before their own personal and pecuniary interests. You're not in favor of some merger that will hike earnings over a short period of time, but hurt in the long run. You're not in favor of putting a lot less money in the pension plan so your earnings go up this year, leaving your successor in five or 10 years in a deep hole with an underfunded pension plan. You want to look at the investment as a long-term investment.

We all know, or should know, that there's one fundamental truth in investing: The value of any investment today is the discounted value of its cash flow in the future. Put another way: You may think a company is going to grow at 10 or 12 percent for a few years and gradually dwindle down for the rest of its existence, to maybe a 6 percent return on capital. You put that all in a formula and you discount it back to the current cost of capital, let's say 4 percent, and that's the value of the company. So, if you sell a stock, you sell because you want to capitalize on the value of that future cash flow. If you buy a stock, you want to own the right to that future cash flow. That's what securities markets are about: to enable those buyers and sellers to meet on reasonable terms. But future cash flow seems to be something we rarely look at, if ever, and that's a big oversight because we're so focused on the short term.

To make matters amusing, the speculators are not really first order speculators, they're second order speculators. If you see bad news in the market and the market tumbles, that's because a whole lot of speculators are selling. However, these early sellers aren't selling because they think the news will cause stocks to go down. They're selling because they think the news will cause other investors to think stocks will go down. They're trying to anticipate expectations.

Does all of this make you think about Las Vegas? With people swapping money back and forth and the house winning? Of course it does. Does it remind you of the race track where all that money comes in from the betters and goes out at the end of each race, except that the race track keeps itself a handle? Or does it remind you of a state lottery? The numbers are enormous if you win. The odds against winning are enormous. But the real winner is the state.

Wall Street has become casino capitalism in which the croupiers are getting too damn much money. Last time we calculated this, it's less now, the croupiers were taking something like $520 billion a year out of the financial markets with all this trading and money management. That's right out of our pocket.

MM: Is that the figure just from trading, or the overall financial sector profits?

Bogle: We actually didn't try and do it that way. What we did was make calculations based on the assets of mutual funds and the fee structure of mutual funds. Total expenses turn out to be around $75 billion or $85 billion. We then go to brokerage or trading firms — investment banking firms — and we look at their revenues. When you take out the interest they pay back and forth to each other, that turns out to be a number around $300 billion a year. And we take hedge fund managers, who are probably making about 4 percent on hedge funds, maybe 3 percent. If they're running around $4 trillion, just 3 percent of that would be $120 million. Annuities are another cost. We just aggregate those costs. It's not my job, I don't think, to do this scientifically. We should get some good academic to do it, but I haven't been able to find anyone to do it yet.

It's a good estimate of costs. I'd be happy if someone comes up with another estimate and says, "Look, Bogle, you're wrong. It's 'only' $400 billion." Costs are going down now. Fees are going down in this down market. We don't really know how much it will come down, but $520 billion or $530 billion is simply unsustainable.

Think about this: The stock market is valued now at about $9 trillion, down from $18 trillion. Let's say that expenses are $400 billion a year for the equity portion of the money management trading casino. Over 10 years, that's $4 trillion in expenses in a stock market that's worth $9 trillion. It's just plain shocking that that much wealth is confiscated by those who are taking advantage of those who are putting up the capital.

MM: You talked about finance being too big. What's your perspective on the size of the financial sector to the rest of the economy?

Bogle: In 2007, the financial industry's share of overall corporate profits rose to 27 percent, up from 5 percent 10 to 15 years earlier. It was much more than that because we didn't count the financial arms of General Motors, Ford and Chrysler, or General Electric, even though over half of General Electric's revenues came from its financial group. So it's easy to say in 2007 something around a third of the profitability of American business came out of finance, up from 5 percent or 6 percent a decade or 15 years before.

This business that detracts value from our society was the fastest growing and largest sector of our society. The financial sector made more than two of the most profitable sectors in our society together — healthcare and technology — and many times as much as our manufacturing companies.

MM: One of the chapters in your book is "Too much complexity, not enough simplicity." What does simplicity mean in the financial context and why is it important?

Bogle: With the example I gave you of half the people owning stocks and trading them, that would be a complexity. The half of the investors owning the total market in an index fund and not trading them represents simplicity — and it's quite clear that simplicity wins.

Part of the problem with complexity is it costs money, and part of the virtue of simplicity is it doesn't cost money.

Complexity also leads to uninformed investors because of information asymmetry. The seller always knows more than the buyer. Some fast-talking investment banker comes in with some new credit default swap, some new structured investment vehicle, some new way of breaking the link between borrower and lender, some securitization, some collateralized debt obligations, and he shows you how to get an extra return without any extra risk. First of all, anyone who believes you can get extra return without any extra risk is a damn fool because that's part of the package. But they don't need to tell you that and they don't tell you that. So, we have a much larger share of the market that can't understand what they're doing.

You might think as a logical person, they'd say, "If I can't understand it, I'm not going to buy it." In fact, that was my unfailing rule when I ran Vanguard. When people came in to propose all kinds of new types of funds to us, that was my definitive answer: If I can't understand it, we're not going to do it. Happily, I don't have a giant brain, so that means I've really got to focus on simplicity. I think that saved our shareholders an awful lot of money.

Sellers have a huge financial incentive to sell these new things because they get paid a lot of money. The buyer doesn't really know how much the seller is getting, but the seller sure does. If you combine a seller with an information advantage and a substantial financial incentive, you can see why selling pressure overwhelms the buyers' understanding. You might say people shouldn't accept that, but somehow they do.

Let me give you one example out of the Madoff case. There's a firm called Fairfield Greenwich. Apparently, without disclosing who was managing the money, Fairfield Greenwich put an awful lot of their clients' money into the Madoff Ponzi scheme. Between 2005 and 2008, Fairfield Greenwich was paid $400 million in fees for investing that money with Madoff. They pointed their finger and said, "You're money is going here," and that was worth $400 million. Nearly a half a billion dollars in a short period for just saying, "Let him do the work." How could they resist putting their money with Madoff?

MM: In light of this analysis, do you think that tighter restrictions on leverage — the use of borrowed money — are appropriate?

Bogle: Absolutely. Of course, we now mix banks and investment banks because of the stupid vote to repeal the Glass-Steagall Act. But investment banking firms were once private partnerships, and those partnerships were the ones who put up the capital; it was their money. They had unlimited personal liability, and believe me, they would make sure the quality of assets in their balance sheets was high. They wouldn't have a 40-to-1 leverage ratio because their own money was at stake. We've lost the link between investing people's money the way that one would invest one's own. You see the results everywhere.

MM: Do you have any thoughts about a new regulatory regime for financial derivatives?

Bogle: First, we have to have disclosure. We've got to have transaction disclosure, we've got to have counterparty disclosure, we've got to have volume disclosure, regulated by the SEC. How anyone can say that the S&P future has more in common with pork bellies [futures of which are regulated by the Commodities Futures Trading Commission] than it does with the S&P 500 index, has got to be the stupidest thing that you've ever heard. It turns out, by the way, at least by recent data, that while the value of the S&P is now $9 trillion, there are probably $18 trillion of S&P futures stocks that are outstanding. The tail is larger than the dog by a factor of two. Imagine how grotesque your pet would look.

MM: Besides transparency, do you think some of these instruments should be prohibited or require prior approval?

Bogle: I think we ought to go about that very carefully. I think there are some instruments that are so dangerous that their risks cannot be disclosed away. But failing that, I think sunlight is almost always the best remedy. I'm not an inherent believer in more regulation. I'm really a believer in less regulation, although we've got to have more regulation now. I never realized human behavior would be so bad. We do need some kind of limitations.

In our society and in our economy, we think of innovation as an almost unmixed blessing. Innovation brought us bar codes, EZ passes, the Internet, on and on. The unfettered price competition you get through the Internet has certainly been terrific for consumers. But in the financial field, I wonder if we haven't had enough innovation, because innovation takes place basically to benefit the innovator, not the buyer or user of the innovation. People make a lot of commission on CDSs, on CDOs, and other obscure financial instruments. And the users of them lost a lot of money. That strikes me as not a very good credential for an ethical system that ultimately has to be based on trust. We can't say, there will be no more innovation here.

But we can say that it ought to be demonstrated somewhere along the way that this innovation will benefit the persons that use the innovation and not just the marketer of the innovation.

Warren Buffett has this wonderful saying that every new idea goes through three stages: first the innovator, second the imitator, and third the idiot. So this thing spreads like a virus around the land and the last people that get in really lose money.

MM: What do you think about a financial transactions tax to slow speculation?

Bogle: I love it. It's going to be very hard to get, but I love it. The financial institutions that control 75 percent of all stocks are tax free. Pension funds are tax free. Mutual funds are about half tax-deferred, but the other half is run by managers who pay no attention to taxes. So we've got these two giant industries basically operating without any frictional costs when they trade stocks back and forth. The tax costs to traders are basically zero, and the commission costs are half a penny a share or something like that. So we've taken the frictional costs out and that helps explain why we've had this orgy of speculation. No question about that.

So I like the idea of a transaction cost.

I also like the idea of a capital gains tax on very short-term capital gains, applied whether you're a tax exempt institution or not. In other words, a pension fund would be subject to that tax just like an individual investor.

In 1929, the turnover was about 145 percent in the stock exchange. It was about 25 percent, believe it or not, my first 15 or 20 years in this business. Last year, it was 350 percent. That's an orgy of speculation we've never seen before. If the idea of a transaction cost or a tax on short term capital gains is to cut back on that transaction volume, then it wouldn't produce much revenue, but it would succeed in its primary goal of reducing those costs.

When you think about it, we have an industry whose raison d'être is to sic one investor on another and say, "You can take advantage of that guy." That's what the market is. If you sell, you're trying to take advantage of the buyer. You think you're smarter than he is and vice versa. By pitting one investor against another and having that croupier in the middle, which is apparently necessary for the transaction to take place, you ensure that investing is a loser's game. If investors acted in the community interest, that is, by owning the market, which they own anyway, and not trading, it would be a winner's game. So by doing what is best for society, our investors would end up being winners rather than losers.

MM: You talk at some length about executive compensation and how that's gone awry and creates wrong incentives. Do you feel that "say on pay" is an adequate solution or would you like to see a mandatory overall cap on executive compensation or maybe, especially in the financial sector, some requirement that incentive compensation be linked to long-term performance?

Bogle: The conversation about executive pay is just absurd. Going back to 1980 in five year increments, executives have been predicting earnings growth of 11 percent a year and delivering 6 percent. We know that executives as a group shouldn't get any incentives for failing. There has to be some accomplishment above average before you get paid a bonus. It has to be based on performance and not peers. We've been handed a real bill of goods by our compensation consultants who put everybody in quartiles. It's the nature of the system that the directors of companies whose executives are paid in the lowest quartile say that "our man or woman is good so we're going to move him or her up to the second quartile." And guess what happens? Somebody else falls into the fourth quartile. There's no way around it. So then the process goes on again.

What is value for shareholders? Let's start with what it is not: It is not the price of your stock. It may look like it, but over the long run your price of stock gets way ahead of the intrinsic value of the company — which is good for sellers and bad for buyers — or the price of the stock gets well below the intrinsic value of the company, which is good for buyers and bad for sellers. There's no way around that, just read the great Buffett on that point. It's just the totality again.

What matters for shareholders is creating intrinsic value over the long run. It's intrinsic value as compared to stock prices, and it's the long run instead of the short run. That kind of a rule — based on long-term accomplishment, if you leave the company you keep your shares, you don't get paid all at once every year, you don't get paid for short-term earnings — would help deliver real value for shareholders. Executives certainly should not get paid for stock prices — which is how every option plan in America is built. Stock prices are a terrible indication of corporate value in the short run, but as I mentioned, a perfect indicator of the long run, if you're around for the long run.

(Courtesy: Multinatinal Monitor)

If laws are meant to protect the people, then the only thing illegal in India must be the Government.

Only a morally bankrupt, democratically inept and humanistically regressive group of parasites can sustain corruptible power through twisted legal clauses organically designed to crush collective aspirations.

It is only logical that a group of vandals in active collaborations with their masters stationed abroad get united to use the name of a country to misappropriate authorities, subjugate millions of informed as well as ignorant people, and repress dissent as though indifferent silence on part of the people were a virtue, enforced cowardice a boon and act of their withdrawal from organized solidarity movement a progress.

Only a perniciously evil group of power-wielders can fantasize about their achievements through stamping out the radical roots deeply embedded within the humanity. Using the shield of a country and the notions of sovereign indivisibility can the ruling class throttle the dissent of its subjects.

MacMohan Singh regime's control over the Republic of India and Naveen Patnaik's monopoly over Orissa's fortunes are instances of despotic tendencies masquerading as democratic setups. When fraudulent acquisitions of natural resources are forbidden even by laws of nature, then governments such as the above are instituted to play debased brokers. And when proscribed negotiations over what is entitled to the indigenous are maneuvered for private profits, legal injunctions are recreated by the State powers to arrogate the land, and assault the people.

Recent interventions by the Government of India to clamp down on the democratic rights of the dispossessed by prescribing 10 years imprisonment for any person who supports whoever the ruling classes feel free to declare as terrorists, is an incursion into a historical territory that must serve as a warning to the rulers and as a weapon for the ruled.

Indian government's frontal assaults on a freethinking people's ability to challenge administrative and police atrocities in their own lands is not of recent origin. Throughout its history, Indian subcontinent has been subjected to arbitrary rules by opportunistic royalists, colonialists and democrats. And all throughout, the majority of people have suffered immensely, dispossessed for the most part as they had been rendered.

The biggest sufferers of organized State assaults have been the indigenous. From the days of the Aryan invaders, to the trickery of the British traders, to electoral victories of the domestic capitalist class in cohort with Western imperialistic powers – the idea of India has triumphed at the expense of the Indians.

The indigenous tillers and cultivators, the forest dwellers, the river worshippers, the upholders of matriarchy, the huge majority of Indian population have been constantly harassed by their feudal lords – of various colors and races. And yet, never have the poorest section of the society suffered silently. Through rebellions and revolutions, through armed struggles and insurgencies, they have fought back against the perpetrators.

The peasants and the factory workers of India, the landless and the dispossessed of the biggest so-called democracy in the world, those that are the refugees in their own lands, who cultivate and yet never benefit, who withstand the worst natural calamities and yet commit suicides to avoid corporate banking penalties, those that consider their children as their only treasures and yet have to put them up on sale so the children can survive the bureaucratic assaults, those that tend to the forests and the rivers only to witness them being snatched away by the agents of the government at the behest of multinational firms – these are the people who have always known that they shall lose the battles against the mammoth militia, sponsored by unaudited parliamentary budgets. And yet, these are the people, the working poor that constitute the unfortunate majority of Indians, who have never given up in their resolution to fight the power.

They fight the power braving the scorching sun, bringing along bows and arrows, organizing in hand-weaved red flags, lining up to raise their voices, dry and hungry, with babies in arms, soiled towels to wipe away the sweats off the forehead. They miss several meals, several more working days in protesting against the encroachment of their lands. The lands that are their own, are the only thing they call their own. Without their lands, they are landless in settlements and statistics in slums. Just as India's sovereignty is supreme with the states and union territories intact and untouched by foreign powers, their sovereignty is equally a matter of pride and dignity. After all, they are the majority Indians.

They are the Indians that weakened the feudal structures, fought the exploitative kings, organized the movements against the British, and finally led India to a new awakening in 1947. **And yet, the majority Indians are the unfree Indians. Little did they know that the concept of freedom is not**

universally applicable. That, equality and liberty do not distribute as democratically as the electoral promises of the free Indians.

The free Indians are different species altogether, forever exulting in their personal achievements, in career growths and televised glories. The free Indians are forever expanding their ambitions and territorial profit schemes. The free Indians are represented by political parties that actually work for them to set up engineering colleges and international airports. The free Indians read newspapers and watch television channels that reward the industrialists, update dinner minutes between Singh and Obama, immortalize Ratan Tata, interviews Anil Agarwal and manufactures opinion polls among urban youths that reestablishes the credibilities of Naveen Patnaik.

The free Indians are the ones for whom the country exists, the law and order system exists, the educational infrastructure exists, the collaborative business model exists. Even the official political parties – right, left and centrists – exist. The conversation about the country is an exclusive conversation among the free Indians.

During one such exclusive conversation among the free Indians, it has been decided that the long standing demands of indigenous peoples in Orissa and elsewhere should no more be ignored. Breaking all conventions in the past, it has now been decided that the demands of the poorest sections be heard. In fact, the demands be recorded well. Not only their demands, but also of those people who extend any amount of overt or covert support to them. For once, the free India has decided in favour of listening to the captive people, so that, for once and for all, they can all be forcibly silenced. 10 years or fine, or both – for all people who express solidarity with the majority Indians. At long last, the majority Indians are going to be recorded.

For most people, the corporate houses are faces of terror because it is they that expand their profiteering bases without consideration towards the inhabitants, especially the poor and destitute class. But the Indian government finds it otherwise. It paints the victims as the terrorists. And those that support the victims then are branded as sympathizers of terrorism.

History repeats itself. In India's history, several times over. As in the past, the illusions of permanent freedom are once again fading away. For, one can use a transient administrative machinery to cowardly assassinate the revolutionaries, but no one can ever eliminate the historical inevitabilities of revolutions.

Arrest us all, if you must. Every person that cries in despair at the state of subjugation that is called India today, is guilty of supporting the victims in the class war waged against the expansionist politico-corporate nexus. Perhaps those of you that enjoy the power corridors and make way for the billionaires to spread their empires are enjoying the freedom of trickled down bribes. However, for the rest of us, our freedom is not conditional upon the success of the ruling class structures and your economic masters.

Our freedom is not about piecemeal compensations as agreed upon by corporate giants of South Korea, Japan and the United States. Our freedom is not open to half-hearted round table negotiations. We are yet to attain the freedom we have been dying for since generations. And we are yet to give up the hope that one day, we shall collectively inhabit the planet, without submitting any portion thereof to any greedy private capitalistic interests, irrespective of geographical territories.

You can call us unacceptable names, attribute us with political stigmas, categorize us into one way or the other for your divisive ruling habits. But the working people of the world demand immediate withdrawal of profiteering interests from common lands. From Orissa to Chiapas, we are united by our belief in formation of a world, devoid of imperialistic intents. And this collective conviction for human freedom is not up for demise within next 10 years, or anytime thereafter.

(Courtesy: Radical Notes)

Grassroots Power and Non-Market Economies

An Interview with Beverly Bell

Beverly Bell is program coordinator for Other Worlds, an international multimedia education and organizing collaborative. She is the author of Walking on Fire: Haitian Women's Stories of Survival and Resistance. She most recently wrote the report, "Who Says You Can't Change the World? Just Economics and Societies on an Unjust Planet."

Multinational Monitor: You write in a recent report that there are historically unparalleled levels of people's mobilization. What do you mean by that?

Beverly Bell: There are primarily two factors behind the current spike in people's mobilization. One is the level of crisis that people around the world are facing, economically and environmentally. Second is the Internet, through which movements have been able to communicate and unite to a degree that is historically unprecedented.

Some of the qualitative changes are, now there are people organized across many sectors that have never chosen to step out into the popular movement before. For example, indigenous peoples in the last 10 years or so, in Latin America especially but in many parts of the world, have made a determination that they could no longer organize just as indigenous — itself a remarkable achievement — but had to become part of the so-called anti-globalization movement.

People guarding traditional societies are realizing now that they have to actively defend their traditions. There are now extraordinary levels of organizing to save non-market economies, to preserve traditional ways of living, healing, community values, agriculture.

And people are making links and connections that have never before even been imagined, offering new possibilities to build popular power. My reigning favorite example of unsuspected allies comes from the anti-incinerator movement, which is uniting with garbage pickers, who effectively salvage reusable garbage, and Teamsters, who see better job opportunities in recycling than incinerating.

MM: You referenced the protection of traditional lifestyles and communities and resources. Protection against what?

Bell: Globalization is challenging in very devastating ways people's livelihoods and lives. They're losing their land and the natural riches that reside in and on those lands. People are losing traditional agriculture because their lands are being taken over by multinational plantations and being turned into mono-crops. Traditional people are finding their communities destroyed as they are pushed off their land, often for development projects, or they are forced into the cities for jobs because of worsening poverty in rural areas. Many societies that exist outside of market structures, that have never been penetrated by cash economies, are suddenly finding themselves under threat by the so-called free market.

To give one example: in Mali, West Africa, communities who have relied on gifting — a cultural practice based on giving without expectation of receiving back, as a way to take care of each other for the survival of all — are suddenly finding that they need cash in ways they never did before, or they perceive they need cash to purchase things they never felt they needed before. This is thanks to advertising and thanks to cost-recovery requirements to pay for health and education, part of World Bank policies. This is eroding their ability to live through gifting; suddenly gifting is coming into competition with the need to hoard cash. Increasingly, people in many societies are realizing that they need to organize to protect what they once had assumed would always be theirs.

MM: A lot of what you describe are traditional ways of doing things outside of the market. What innovations are occurring in non-market spaces for interaction and economic production?

Bell: Here's a case where tradition meets a globalized world: The food sovereignty movement is a movement largely comprised of small-family, peasant and landless farmers. A lot of what they are doing is fighting the World Trade Organization and its role in agriculture, and the World Bank and International Monetary Fund and their role in destroying local agriculture through the spread of corporate production. But small producers are also realizing that seeds — for them, a fundament of life that they could rely on from one year to another to grow the food that they needed — must be not just saved, but shared. Seed-sharing is now an element of most international peasant gatherings. You will not go to a gathering of Via Campesina — which is a coalition of more than 100 small producer organizations from around the world — without finding a seed-sharing, where you give your ancient corn for the seed of my ancient bean. Together, people are protecting those seeds against Monsanto patents and against genetic modification. In the process, there has grown a beautiful reverence and organized guarding of something that maybe 30 years ago was completely taken for granted as a non-market good in the community.

MM: To what extent are communities doing this kind of organizing self-consciously trying to protect space or create space outside of the market?

Bell: In the case of most indigenous movements, and in the case of organized small producers, fisher folk, pastoralists and campesinos, people are typically extremely explicit in their intentions. They see the threat of corporate-dominated markets coming upon them with the force of a Category 5 hurricane. They know that if they don't act, their potential to survive is going to be quickly wiped out.

Courtesy: Multinational Monitor)

By: Bill Quigley

US law officially proclaims Memorial Day "as a day of prayer for permanent peace."

However, the US is much closer to permanent war than permanent peace. Corporations are profiting from wars and lobbying politicians for more. The US, and the rest of the world, cannot afford the rising personal and financial costs of permanent war.

Number One in War

No doubt, the USA is number one in war. This coming year the US will spend 708 billion dollars on war and another $125 billion for Veterans Affairs — over $830 billion. In a distant second place is China which spent about $84 billion on its military in 2008.

The US also leads the world in the sale of lethal weapons to others, selling about one of every three weapons worldwide. The USA's major clients? South Korea, Israel and United Arab Emirates.

Our country has 5 percent of the world's population but accounts for more than 40% of the military spending for the whole world.

Harm

Our nation does not respect our soldiers by engaging in permanent war. War is grinding up our children. The wars in Afghanistan and Iraq have cost over 5000 US lives and tens of thousands more lives of people in those countries. Over 20% of those in our military who served in these two wars, 320,000 people, have war-related traumatic brain injuries. Suicide rates are up by 26 percent among 18 to 29 year old male veterans in the latest Veterans Administration study. Mental health hospitalizations are now the leading cause of hospital admissions for the military, higher than injuries. On any given night, over 100,000 veterans are homeless and living on our nation's streets.

Rising Costs of War

Since 2001, the US has spent over $6 trillion (a trillion is a million millions) on war and preparations for war. That is about $20,000 for every woman, man and child in the US. Iraq and Afghanistan alone have cost the US taxpayer over a trillion dollars since 2001.

No End in Sight

Earlier, Marine General James Cartwright, the Vice-Chair of the military Joint Chiefs of Staff, told the Army Times that the US can expect continuing war "for as far as the eye can see."

In the name of this perpetual war against terrorism the US still jails hundreds without trial in Guantanamo, holds hundreds more in prisons on bases and in secret detention world-wide, tries to avoid constitutional trials for anyone accused of terrorism, admits it is trying to assassinate an American citizen Muslim cleric in Yemen, and launches deadly drone strikes in Iraq, Afghanistan, Pakistan, and Yemen killing civilians and suspects whenever we decide.

Who benefits from permanent war?

One support for permanent war is that there are corporations in the US which openly lobby for more and more money to be invested in war. Why? Because they profit enormously from government contracts.

President Dwight Eisenhower, who believed in a strong military, warned the US about just this in his farewell address to the nation in 1961.

"In the councils of government, we must guard against the acquisition of unwarranted influence, whether sought or unsought, by the military-industrial complex. The potential for the disastrous rise of misplaced power exists and will persist. We must never let the weight of this combination endanger our liberties or democratic processes."

War is Big Business

War is very big business. People know that private companies are doing much more in war. In January 2010, the Congressional Research Service reported that there are at least 55,000 private armed security contractors in Iraq and Afghanistan, and maybe many more — as many as 70,000 in Afghanistan alone.

But much bigger money is available to defense contractors. In 2008 alone, the top ten defense contractors received nearly $150 billion in federal contracts. These corporations spent millions to lobby for billions more in federal funds and hired ex-military leaders and ex-officials to help them profit off war.

For example, look at the top three defense contractors, Lockheed Martin, Boeing and Northrop Grumman. They demonstrate why perpetual war is profitable and part of the reason it continues.

Lockheed Martin

Lockheed Martin is the largest military contractor in the world with 140,000 employees, taking in over $40 billion annually, over $35 billion of which comes from the US government. Lockheed Martin boasts that they have increased their dividend payments by more than 10 percent for the seventh consecutive year — perfectly in line with the increase in war spending by the US. Its chairman, Robert Stevens, received over $72 million in compensation over the past three years.

Lockheed's board of directors includes a former Under Secretary of Defense, a former US Air Force Commander of the U.S. Strategic Command, a former Deputy Director of Homeland Security, and a former Supreme Allied Commander of Europe. These board members receive over $200,000 a year in compensation. Its political action committee gave over a million dollars a year to federal candidates in 2009, and is consistently one of the top spending PACs in the US. They appeal to all members of Congress because they strategically have operations in all fifty states. And, since 1998, Lockheed has spent over $125 million to

lobby Congress.

Northrop Grumman

Northrop Grumman is a $33 billion company with 120,000 employees. In 2008, it received nearly $25 billion in federal contracts. Its chairman, Ronald Sugar, received over $54 million in compensation over the past three years.

Northrop's Board includes a former Admiral of the Navy, a former 20 year member of Congress, a former chair of the Joint Chiefs of Staff, a former commissioner of the Security and Exchange Commission and a former U.S. Naval officer. The members of its board of directors received over $200,000 each in 2009. Its Pac is listed as making over $700,000 in federal campaign donations in 2009. Since 1998, it has spent over $147 million lobbying Congress.

Boeing

Boeing has 150,000 employees and took in over $23 billion in federal contracts in 2008. With revenues of $68 billion in 2009, its chair, James McNerney, was paid over $51 million over the past three years. Its board members are paid well over $200,000 a year. Boeing's directors include a former U.S. Secretary of Commerce, a former White House chief of staff, a former vice chair of the U.S. Joint Chiefs of Staff, and a former U.S. Ambassador and U.S. Trade Representative. It hosts the 10th largest political action committee, giving away more than one million dollars to federal candidates in 2009. Since 1998, it has spent $125 million lobbying Congress.

Time to Terminate the Permanent War

These corporations take billions from the government and profit from our perpetual state of war. They recycle some of that money back into lobbying the same people who gave it to them, and hire ex-military and government officials to help smooth the process. Their leaders make tens of millions off this work.

The trillions of dollars that it costs to wage permanent war are taxing the US economy. Yet where are the voices in Congress, Democrat or Republican, that talk seriously of dramatically reducing our military spending? President Obama and the Democrats are effectively continuing the permanent war policies of the Bush years. It is past time for change.

Remember this Memorial Day that, while thousands have been laid in their graves and hundreds of thousands wounded, private military contractors are prospering and profiting as the business of war booms.

The US should not only remember its dead but work to reverse the profitable permanent war that promises to add more names to the dead and disabled in this country and around the world.

(Bill Quigley is Legal Director at the Centre for Constitutional Rights and a law Professor at Loyola University, New Orleans)

(Courtesy: Counter Currents.org)

Rich Getting Richer in India

NEW DELHI: Last year may have been a cruel year for much of the country with slow growth and double-digit food inflation, but India's high net worth individuals (HNWIs) prospered — just over 120,000 in number, or 0.01% of the population, their combined worth is close to one-third of India's Gross National Income (GNI).

HNWIs, in this context, are defined as those having investable assets of $1 million or more, excluding primary residence, collectibles, consumables, and consumer durables. According to the 2009 Asia-Pacific Wealth Report, brought out by financial services firms Capgemini and Merrill Lynch Wealth Management, at the peak of the recession in 2008, India had 84,000 HNWIs with a combined net worth of $310 billion. To put that figure in perspective, it was just under a third of India's market capitalization, that is, the total value of all companies listed on the Bombay Stock Exchange — as of end-March 2008. The average worth of each HNWI was Rs 16.6 crore.

To get a fix on just how rarefied a level it puts them in, we did some simple calculations that threw up stunning numbers. It would take an average urban Indian 2,238 years, based on the monthly per capita expenditure estimates in the 2007-8 National Sample Survey, to achieve a net worth equal to that of the average HNWI. And that's assuming that this average urban Indian just accumulates all his income without consuming anything. A similar calculation shows that an average rural Indian would have to wait a fair bit longer — 3,814 years!

According to the firms' 2010 World Wealth Report, India now has 126,700 HNWIs, an increase of more than 50% over the 2008 number. While the figure for combined net worth is not available, it seems safe to assume that as a class not only have India's super-rich recouped their 2008 losses, they have even made gains over their pre-crisis (2007) positions. In 2007, 123,000 HNWIs were worth a combined $437 million.

Meanwhile, in 2009 alone, an estimated 13.6 million more people in India became poor or remained in poverty than would have been the case had the 2008 growth rates continued, according to the United Nations Department of Economic and Social Affairs (UNDESA). Also, an estimated 33.6 million more people in India became poor or remained in poverty over 2008 and 2009 than would have been poor had the pre-crisis (2004-7) growth rates been maintained over these two years.

The 2009 Asia-Pacific Wealth Report notes that the HNWI population in India is also expected to be more than three times its 2008 size by the year 2018, with emergent wealth playing a key role. Like China, relatively few among the current HNWI population (13%, compared to 22% in Japan) have inherited their wealth and even fewer (9%) are over the age of 66.

(Courtesy: Times of India)

Collapse in Living Standards in America: More Poverty By Any Measure

By: Christine Vestal

More than 15 million Americans are unemployed, homelessness has increased by 50 percent in some cities, and 38 million people are receiving food stamps, more than at any time in the program's almost 50-year history.

Evidence of rising economic hardship is ample. There's one commonly used standard for measuring it: the U.S. Census Bureau's poverty rate. It guides much of federal and state spending aimed at helping those unable to make a decent living.

But a number of states have become convinced that the federal figures actually understate poverty, and have begun using different criteria in operating state-based social programs. At the same time, conservative economists are warning that a change in the formula to a threshold that counts more people as poor could lead to an unacceptable increase in the cost of federal and state social service programs.

When Census publishes new numbers for 2009 in September, experts predict they'll show a steep rise in the poverty rate. One independent researcher estimates the data will show the biggest year-to-year increase in recorded history.

According to Richard Bavier, a former analyst for the federal Office of Management and Budget, already available data about employment rates, wages, and food stamp enrollment suggest that an additional 5.7 million people were officially poor in 2009. That would bring the total number of people with incomes below the federal poverty threshold to more than 45 million. The poverty rate, Bavier expects, will hit 15 percent — up from 13.2 percent in 2008, when the Great Recession first started to take its toll.

Still, the U.S. Census Bureau's new numbers will offer only a partial picture of how the nation's sputtering economy is affecting the poorest Americans — a problem state officials and the Obama administration want to address.

Overestimating food costs

The current formula for setting the federal poverty line — unchanged since 1963 — takes the cost of food for an individual or family and multiplies the number by three, under the assumption that people spend one-third of their incomes putting meals on the table. While the formula may have been a good way to estimate a subsistence cost of living in the early 1960s, experts say food now represents only one-eighth of a typical household budget, with expenses such as housing and child care putting increasing pressure on struggling families.

In addition, the official measure fails to account for regional differences in the cost of housing, it doesn't include medical expenses or transportation, and at $22,000 for a family of four, the poverty line is considered by many to be simply too low.

Equally worrisome for policy makers is the Census Bureau's failure to consider in-kind federal and state aid in calculating income. The existing formula counts only pre-tax cash income, leaving out such benefits as food stamps, housing vouchers and child-care subsidies, as well as federal and state tax credits for the working poor.

As a result, the nation's official poverty count is unaffected by the billions spent on safety-net programs. Yet it remains by far the most frequently used measurement of how well governments are taking care of their most vulnerable citizens.

Conservatives have consistently argued that if safety-net programs were taken into account, the poverty rate would be much lower. At the same time, advocates for the poor have argued that poverty counts would be much higher if the cost of housing, child care and other expenses were factored in.

Nearly two decades ago, Congress asked the National Academies of Science (NAS) to revisit the official poverty measure and come up with recommendations for a new measure that would satisfy critics on both ends of the spectrum.

This past March, the Obama administration said it would use the NAS 1995 guidelines to update the federal government's poverty calculation and promised to unveil the first new "supplemental poverty measure" in September of 2011.

"The new supplemental poverty measure will provide an alternative lens to understand poverty and measure the effects of anti-poverty policies," Under Secretary of Commerce Rebecca Blank said. "Moreover, it will be dynamic and will benefit from improvements over time based on new data and new methodologies."

Under the NAS recommendations, Commerce Department expenditure data for food, clothing, shelter and other household expenses would be used to set a poverty threshold for a reference family of four — two adults and two children. Then a family or individual's resources would be compared to that line by including income and in-kind benefits, with taxes and other non-discretionary expenses, such as

medical expenses and child care, excluded.

Because many expect the new calculation will result in a higher poverty count, the March announcement met with fiery criticism from some conservatives who charged the federal government could ill afford to increase its safety-net spending.

State experiments

But state and local policy makers applauded the move because they said it would give them the tools they need to assess the effectiveness of anti-poverty programs.

In New York City, for example, where an NAS-type poverty measure was adopted three years ago, Mayor Michael Bloomberg said the new data would allow the city to pinpoint who needs assistance most and which of the city's social services have been most effective at improving its residents' standard of living.

Using an updated measurement, New York City found that children — the recipients of a broad range of social welfare programs — were less poor than originally thought, while elders, who were struggling with previously unaccounted for medical expenses, were poorer.

As states become increasingly challenged by shrinking revenues and rising numbers of people in need, more than a dozen have set up commissions to help low-income families and many have set poverty reduction goals.

Among them, Minnesota and Connecticut have used NAS-like formulas to assess the effectiveness of current and proposed anti-poverty measures.

With technical assistance from the public policy research group The Urban Institute, both states used the results to support aggressive anti-poverty campaigns. Minnesota has a Legislative Commission to End Poverty in Minnesota by 2020, and Connecticut created a Child Poverty and Prevention Council with the goal of cutting child poverty in half by 2014.

Connecticut found only a slight increase in the number of people living in poverty when using the updated calculation — 21,000 people in 2006, compared to 20,000 using the existing Census measure.

But it got very different results when determining which public assistance programs did the most to reduce poverty. Under previous assumptions, child care subsidies and adult education and job training were seen as the most highly effective at moving people out of poverty over time. But the new formula showed that increasing enrollment in programs such as food stamps, energy assistance and subsidized housing was a more effective way to reduce child poverty in the near term. As a result, the state redoubled its outreach efforts to sign up as many low-income families as possible for these federally-funded programs.

In Minnesota, where the results were similar, a bipartisan legislative committee recommended the state refine its definition of poverty, build public awareness, and carefully monitor the impact of all major legislation on existing anti-poverty programs.

Both states joined 12 others earlier this year in calling on the federal government to adopt an NAS-like formula that would "consider the increased financial burden of housing, child care, and health care on the modern American family while recognizing the benefit of critical work supports such as tax credits, food stamps, and other non-cash subsidies."

The administration's supplemental poverty measure remains controversial, and some leaders on both ends of the political spectrum are urging Congress and the administration not to adopt the new formula for purposes of allocating federal funding or determining individual eligibility anytime soon.

If used to parse federal grants among states, it could radically change the amount of money each state receives. It stands to reason, for example, that a family of four trying to make it on $22,000 would have an easier time in rural Alabama than they would in suburban Massachusetts. And should the new measure be used to set individual eligibility for safety net programs, some are fearful that current recipients would be disqualified if all of their federal and state benefits were counted.

For the Obama administration, the Census Bureau's current measure is problematic because it will fail to show the benefits of at least $100 billion in 2009 stimulus money spent for low-income families. Even so, as those direct subsidies and other job-creating federal funds are phased out, advocates expect the poverty rate will shoot up again next year, when the data is in for 2010.

(Courtesy: Global Research)

INDIA

Protest demonstration against operation Green Hunt in Ranchi

Opposing the violence, anti Maoist operation, atrocities and crime perpetrated by the security forces of both Central and State police in the guise of Operation Green Hunt in the rural areas, hundreds of human rights activists held a demonstration in Ranchi on Jun 26.

"We are against those violence and crime perpetrated by the security forces in the name of Operation Green Hunt. The villagers are unarmed and peaceful by nature. In the face of such serious deprivation, can they be in a position to launch attacks against the state?" said Prabha Lakra, a social activist. Lakra also alleged that the police had virtually blocked the villagers of the region from entering the town to stop them from participating in the demonstration.

"I had gone to a village near Latehar district here, where young women were thrashed and molested by the security forces. There is rampant lawlessness in the region, and crime is thriving across the state," said K N Pandit, a labour union leader.

'Operation Green Hunt' was launched by the government against Maoist in the affected zones of east India in order to flush them out of the jungle bases. Many Maoist rebels in recent months have been active in rural areas of central and eastern India and often attack railway lines and mining operations to cripple activity.

EUROPE

European workers hold anti-austerity protests

LONDON - Greek riot police fired teargas at protesters in Athens during a nationwide strike on June 29, 2010. Unions representing about 2.5 million workers, half the workforce, backed the strike. Trade unions have said they will hold a "European Day of Action" on September 29 to protest against spending cuts. Here are details of some of the major protests in euro zone countries whose economies are saddled with high debt levels.

GREECE: About 10,000 people took part in marches across Athens during a nationwide strike on Tuesday

- The fifth joint strike called by public and private sector unions this year. A group of about 150 black-hooded youths threw petrol bombs at police guarding the parliament building in Athens.
- On June 23 communist trade unionists blocked travelers from boarding ships at Greece's largest port, stranding tourist ferries as part of protests against austerity measures in the debt-choked country. In Athens, 5,000 communists staged a march.
- On June 5 about 3,000 anti-austerity protesters marched peacefully through Athens, far fewer than in the May protests.
- Thousands of strikers marched peacefully to parliament on May 20 in protest against austerity measures.
- Public sector workers held a 48-hour nationwide strike on May 4-5. On May 5, a 50,000-strong protest in Athens led to violence. Demonstrators fought with police and three people were killed in a petrol bomb attack on a bank.

SPAIN: Spanish workers shut down Madrid's metro system on June 29, 2010 in anger at a 5 percent public sector pay cut.

- On June 22, Prime Minister Jose Luis Rodriguez Zapatero's minority government won approval for its labor reform bill in parliament after opposition parties abstained.
- A week earlier, Spain's largest unions announced they would hold a general strike on September 29.
- A one-day protest was called for June 8 and the country's two largest unions said up to 75 percent of the 2.3 million public sector workers did not turn up for work.
- On May 27, the government won parliamentary approval for a 15-billion-euro austerity package by a single vote.

ITALY : The CGIL, Italy's biggest union with 6 million members, held rallies in Rome, Milan and other cities on June 25 to try to force the government to redraft a 25-billion-euro austerity package, which Prime Minister Silvio Berlusconi says is an essential part of European efforts to save the euro.

- Thousands marched in Rome on June 12 to protest against austerity measures that include cuts in funding to local authorities and freezing the salaries of public sector workers.

FRANCE: In a challenge to President Nicolas Sarkozy, French unions held nationwide strikes on June 24 and hundreds of thousands of workers took to the streets to protest against plans to raise the retirement age to 62.

- Bernard Thibault, the head of the CGT, France's largest union, estimated at least 2 million protesters had joined about 200 rallies throughout the country and said this would increase pressure on the government.

- Sarkozy's government has vowed not to back down on the centerpiece of its reform — raising the age of retirement to 62 from 60 by 2018 — saying the move is needed to prevent the pension system from going bust and sinking state finances.

GERMANY: Tens of thousands protested on June 12 against Germany's biggest austerity drive since World War Two.

- On June 7, Chancellor Angela Merkel's cabinet unveiled plans for 80 billion euros ($96.30 billion) in budget cuts and taxes over four years.

PORTUGAL: Tens of thousands marched in Lisbon on May 29 against government austerity measures and the leader of the biggest union vowed to intensify resistance, but stopped short of calling a strike. The rally was the first display of popular discontent since May 13, when the government announced a package including tax rises and cuts in pay and spending.

- The government and opposition agreed to cut the deficit, partly by imposing 5 percent pay cuts on senior public sector staff and politicians. The deficit is targeted to fall from 9.4 percent of gross domestic product in 2009 to 7.3 percent in 2010 and 4.6 percent in 2011.

Sri Lankan protest reveals discontent over wages

22 July 2010, a protest by 250 workers in the Colombo suburb of Ratmalana pointed to the growing unrest among working people in Sri Lanka over rising prices and deteriorating living standards. At the same time, the organisers—ex-lefts of the Nava Sama Samaja Party (NSSP)—demonstrated their determination to block any independent political struggle against the government of President Mahinda Rajapakse, which has suppressed real wages for the past four years.

The picket was limited to just 90 minutes and involved private sector industrial workers from the nearby Bata, Singer, ABM and Acme Aluminium factories, which employ several thousand workers. The four trade unions involved are all NSSP-affiliated—the United Federation of Labour, the Government Federation of Labour, the Corporation, Cooperatives and Mercantile Workers and the Commercial and Industrial Workers Union.

The main demands were a 2,500-rupee ($US22) increase in the monthly wage for public and private sector workers and an 180-rupee allowance for every unit rise in the official cost of living index. Rajapakse promised the 2,500-rupee rise during presidential and parliamentary elections earlier this year but reneged on his pledge after being re-elected.

Rajapakse suppressed wage increases as he renewed the communal war against the Liberation Tigers of Tamil Eelam (LTTE) in mid-2006 and military spending soared. Following the LTTE's defeat in May 2009, the government has continued to impose the burdens of the country's economic crisis and huge debts on working people, opposing any pay rises.

Under the terms of an International Monetary Fund loan, the government has to drastically slash the budget deficit. In the budget announced in June, it imposed a further wage freeze. At the same time, Rajapakse has increased taxes on various essentials, lifting the prices of items such as milk powder and flour. Rajapakse has promised to fulfil his election promise at the next budget in November, but, under pressure from the IMF, is likely to make further inroads into living standards.

Public sector workers received their last wage increase in 2006 and private sector workers in 2005 even though inflation has risen sharply. At the same time, factory owners have been cutting back on other benefits. At the Acme Aluminium factory, for instance, workers lost their cost of living allowance three years ago.

A machine operator working at the ABM factory told that his wage was not enough to live on. "Even the 2,500-rupee demand is not enough. I think workers want an increase of more than 7,000 rupees… It is very good that the war has finished. But what did workers get after the war? Nothing!" Asked about the government's pro-IMF measures, he said: "We oppose the IMF policies. I think all workers have to unite to defeat the austerity measures that are being put on the working class."

A worker from the Singer company said: "I have 18 years' service and I get about 20,000 rupees monthly. We private sector workers do not even get the allowances given to public sector workers." He said public and private sector workers in all the trade unions had to get together and fight to win their demands.

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