LOK SAMVAD

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EDITORIAL

Fiscal Consolidation

Jaitly's Fixation is IMF's Prescription

- Piyush Pant

Shrugging aside demands for digressing from his fiscal consolidation road map, Finance minister Arun Jaitley, presenting his budget (Third) 2016-17, stuck to the fiscal deficit target of 3.5% of gross domestic product (GDP) for 2016-17, after achieving the 3.9% of GDP target in 2015-16.

A day earlier, however, the Economic Survey had advocated a review of the medium-term fiscal consolidation framework and recommended that the government "purchase insurance" against downside risks to the economy by increasing public investment rather than reducing the fiscal deficit significantly. Arvind Subramanian, chief economic adviser in the finance ministry, in his mid-year economic review also advocated digressing from the fiscal consolidation road map to boost public investment.

The Indian Finance Minister's obsession to reduce the fiscal deficit is not new. In fact, almost all the finance ministers before Jaitley have also been obsessed with substantially reducing the fiscal deficit. During the earlier regime of NDA, its finance minister Yaswant Sinha had not merely manipulated a remarkably low fiscal deficit of 4 per cent of GDP in his Budget for 1999-2000, but promised to do away with the revenue deficit and bring the fiscal deficit down to less than 2 per cent in three years' time. As he reportedly informed a post-Budget meeting with representatives of the Federation of Indian Chambers of Commerce and Industry (FICCI), the principal aim of his second Budget was to cut the huge fiscal deficit.

Jaitly, in his previous budget (2015-16), had announced that fiscal deficit was to be brought down to 3.9 per cent in current fiscal and further to 3.5 per cent by 2016-17. The deficit was to be lowered to 3 per cent by 2017-18.

Similarly Jaitaly's predecessor P. Chidambaram of UPA-II, in his budget for 2013-14, had set up task of reducing the fiscal deficit to 4.1 per cent of GDP. Chidambaram said that the government was committed to a path of fiscal consolidation and it would keep the deficit at 4.8 per cent of GDP in 2013-14 and bring this down to 4.2 per cent in the next year. In the following years, it would be brought down to 3.6 per cent and in 2016-17, it will come down to 3 per cent of GDP.
Now the question is why this obsession with 3 per cent fiscal deficit?

This particular digit does not seem to be devised keeping in mind the motive to spur the growth in Indian economy but rather to follow the diktat of International financial institutions. It is said that *it was the* International Monetary Fund (IMF), in the aftermath of the Latin American debt crisis in the 1980s, which invented this level. Before that it was generally agreed that government debt must not be "excessive". But no number was put on the ratio. The pressure probably came from American banks, which had been doing a lot of short-term lending to developing countries. They had burnt their fingers in Latin America. They realised then that they needed a benchmark figure that their loan officers could use. India accepted this number because it was facing a severe economic crisis in 1991.

One should remember that the ''Washington consensus' talked about 'fiscal discipline', the need for a reduction in budget deficit, and the danger of public debt in 1989. However, John Williamson, who originally formulated this, himself wrote that "it was not written as a policy prescription for development, it was a list of policies that I claimed were

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widely held in Washington to be widely desirable in Latin America as of the date the list was compiled, namely the second half of 1989". Thus, we can see a clear reflection of so called 'Washington consensus' on policy implementations in developing countries including India. As far as policy perspective is concerned, the governments of the developing economies, saddled with unemployment and poverty, are found to undertake contractionary policy to keep the fiscal deficit - GDP ratio low for the sake of longer-term debt sustainability. Likewise in India too, following 'Maastricht Treaty' of European Union, a Fiscal Responsibility and Budget Management Act (FRBM Act, 2003) was passed by parliament in August 2003 to restrict the fiscal deficit at 3% of GDP. The Act was brought into force on 5th July 2004.

This obsession with the fiscal deficit, even in a year in which persisting recession in the industrial sector has set off demands for higher government expenditure, is merely a continuation of a tendency that has characterised fiscal policy since the launch of International Monetary Fund-style reform.

Now the question arises why Modi-led present NDA government is so obsessed with reducing the deficit even when under the earlier NDA regime led by Atal Bihari Vajpayee, the Centre's fiscal deficit, from 2000-01 to 2002-03, averaged 5.7 per cent of GDP.

It seems that Modi government's fears about fiscal deficit are not of its own making but rather have been manufactured by the fears of global investors and rating agencies. And a global investor always fears a higher fiscal deficit because of the assumption that it impacts inflation, interest rates and the domestic currency. The investor feels that higher government expenditure will drive up interest rates by squeezing the availability of funds for private investors, which is called the 'crowding out' effect, As an equity investor — and there is more foreign money coming into equities than debt — he would be worried about the impact of high interest rates on profitability. The second fear is of public spending directly causing inflation by injecting money without the matching output, leading not only to an erosion in real returns in the present but also the fear of further erosion in the future. The latter is seen to impact 'business confidence'. The third fear is of inflation and general chaos due to a chain effect: higher public spending driving up demand for imported goods and services, widening the current account deficit and depreciating the currency — impacting dollar returns on every rupee invested. Therefore, a steep fall in the rupee hurts the equity market, as foreign institutional investors expecting a further fall pull out, raising prospects of currency panic as in mid-2013. On the real economy side, inelastic energy imports add to the trade imbalance. In sum, we might be left with a negative spiral in both the real economy and the financial sector. This is called the twin deficit hypothesis — a higher fiscal deficit leads to a higher current account deficit and higher costs for the economy as a whole, besides a sense of uncertainty.

But one should try to understand that whether public spending leads to 'crowding out' or actually spurs private spending ('crowding in') depends on the nature of such spending. It is said that public spending in infrastructure will spur private investment. This, in turn, could relieve inflation caused by supply constraint.

Bharat Jhunjhunwala, the economist and former professor at IIM, Bengluru, says-"The global development mantra today is that low fiscal deficit signals good governance and can help attract large foreign investments. However, it also limits the capacity of the government to make investments in ports, highways and e-governance which in turn hurts both domestic and foreign investment. More importantly, low fiscal deficit means fewer jobs. Economists have found that there is direct relationship between inflation and employment. More inflation means more jobs and vice versa. "

Moreover, it is said that the control of fiscal deficit, has two consequences simultaneously. On the one hand it helps attract private investment. On the other hand, it leads to loss of jobs. The latter negative impact of fiscal deficit is ignored by mainstream economists who peddle the views of the World Bank and the IMF. They ignore that a lower fiscal deficit may not bring in more investment. They also ignore the fact that this increase in investment may not translate into creation of jobs. It is being observed that the NDA Government's policy of controlling the fiscal deficit is not bringing in investments but is leading to loss of jobs. This is why wage rates of daily labourers are stagnant and businesses are down today.

It should also be pointed out that sticking to fiscal discipline not only hurts growth in the short-term, it also risks antagonizing the electorate because it will mean cuts in subsidies, on spending on the social sector and, perhaps, even on the government's flagship programme, MNREGA. It may also spell higher indirect taxes and no change in incentives for household savings. And this is what is happening during two years of Modi government's rule. Without hesitation it can be said that the Indian economy is today caught in a vicious circle. There is reduced production, reduced revenues, reduced government expenditures, reduced demand, and, as a result further reduced production. This is happening because control of fiscal deficit is not actually leading to an increase in private investment.

It seems that finance Minister Arun Jaitley is obsessed with reducing the fiscal deficit in order to control the inflation. But he forgets that there is a danger of our slipping into a regressive cycle that American President Truman had led America into. A better approach could have been to let the fiscal deficit rise but, at the same time, ensuring that expenditures are made in productive assets. Good sense demands that Jaitley should take this approach so that the economy can be pulled out of the continuing slowdown quickly.

In the Right Direction

By: S. Mahendra Dev

Indian agriculture as well as the rural sector have been in distress in the last two years due to deficit rainfall and the decline in global commodity prices. The rural non-agriculture sector, too, has been under stress due to the lack of demand for manufacturing and services. It is well known that India's progress in the social sector has been much slower than the country's GDP growth. India's rank on the Human Development Index was a lowly 130 out of 188 countries in 2015. As such, apart from focusing on physical infrastructure, India has to invest in a big way in human capital in order to improve human development and accelerate economic growth.

How far did Budget 2016 address the concerns of the rural areas and the social sector? Can it revive Bharat and improve social sector outcomes? On the face of it, the measures announced for agriculture, rural infrastructure and the social sector are in the right direction, but the devil lies in the detail.

First, doubling the incomes of farmers by 2022 is unrealistic. Second, although everyone thought there was a big increase of 94 per cent in the budget allocation for agriculture, if one removes the amount for interest subsidy of short-term credit to farmers, the increase in annual allocation is only around 27 per cent. This increase is not low by itself but lower than what it appears to be.

Compared to this government's two previous budgets, the latest one gives greater importance to agriculture and rural areas. The proposals on irrigation, soil health, pulses and the move towards giving fertiliser subsidies directly to farmers are good moves. One expected a higher allocation to the Rashtriya Krishi Vikas Yojana (RKVY). Also, the focus should have been on research and extension of services in order to improve technology-use and promote climate-resilient agricultural practices. Both these areas are important for ensuring the sustainability of agriculture.

The budget's focus on rural infrastructure can revive both demand and incomes in rural areas. Rural development, as a whole, was allocated Rs 87,765 crore. The MGNREGA allocation is Rs 38,500 crore, although one expected an even higher allocation due to recent droughts. The allocation for the Pradhan Mantri Gram Sadak Yojana (PMGSY) was raised to around Rs 19,000 crore. There has been some discussion in recent years that the PMGSY is doing well compared to the performance of the MGNREGA. But these two programmes, instead of being substitutes, complement each other.

Measures on rural electrification, Swachh Bharat, self-help groups, rurban clusters, education, and skill development are expected to boost rural demand. Moreover, Rs 2.87 lakh crore have been provided to the local bodies. Spending by panchayats will increase demand in rural areas. However, the impact of investment on infrastructure may take more time because of the long gestation period of such projects. Moreover, the impact also depends on the efficacy of implementation.

Turning to the social sector, there was a significant decline in social-sector spending in last year's budget. One expected higher expenditure in this sector, given the need for improving human development. But, the allocations under different heads in the social sector show that there was either a marginal increase or, indeed, a decline over the already low allocations in last year's budget. For example, the projected funding for the Integrated Child Development Scheme (ICDS) showed only a marginal increase.

In the budget speech, the finance minister said, "catastrophic health events are the single-most important cause of unforeseen out-of-pocket expenditure which pushes lakhs of households below the poverty line every year". In this context, the new health protection scheme, which will provide a health cover of upto Rs 1 lakh per family, is a good proposal. Of course, Rs 1 lakh is not enough for catastrophic health events. The approach on health seems to be limited to providing insurance coverage and access to medicines. The "universal health for all" approach seems to have been forgotten.

Similarly, the education sector needs improvement. Here, too, allocations to programmes , such as the Sarva Siksha Abhiyan, have not improved. Apart from allocations, measures to improve the quality of education are also required. The Economic Survey quotes the findings from the Annual Status of Education Report (ASER). There is only a marginal improvement in the percentage of children in Class 5 who are able to read a Class 2-level text. The percentage of Class 3 children able to solve simple two-digit subtraction problems fell from 26.1 per cent in 2013 to 25.3 per cent in 2014.

The trends in social-sector allocations show that the share of social services expenditure in the GDP fell from 7 per cent in 2014-15 (revised estimates) to 6.7 per cent in 2015-16 (budget estimates). Similarly, the shares of expenditures on education and health were respectively stagnant at 3 per cent and 1.3 per cent of the GDP in the last few years. The need for a significant increase in the social sector expenditure is obvious. In particular, the expenditure on the health sector needs to increase from the present 1.3 per cent of the GDP to 2-2.5 per cent.

One of the explanations for providing lower allocations to agriculture and the social sector is that these are state subjects. The 14th Finance Commission increased the states' share of Central tax revenues from 32 per cent to 42 per cent. Therefore, states are supposed to spend the shortfall created by the decline in Central allocations to these sectors. As several studies show, states will have enough money to invest in the social sector. But this assumption may be unrealistic, given the fiscal challenges facing the states in the next few years. The Centre may have to continue to fund these crucial areas.

However, in the social sector, outcomes are more important than allocations. The challenge is improving the efficiency of delivery systems. In the past, outlays have not fully translated into outcomes due to poor delivery systems. Using modern technology for the efficient delivery of programmes, simplifying procedures and greater participation of the beneficiaries can help in creating a better delivery mechanism. The use of Aadhaar would be helpful.

India, which is aspiring to be a global power, should achieve higher in human development. There are significant costs to ignoring human capital. Some estimates indicate that there is a 2 to 3 per cent (GDP) loss due to malnutrition-related low productivity. Research shows that every dollar spent on interventions to reduce malnutrition among children generates about $20-$30 in economic returns. The government should understand the intrinsic value of people's health and the instrumental value of human capital in terms of GDP gain and returns on investment.

To conclude, the budget is a good start for Bharat, but it is a mixed bag for the social sector. Given the problems in these sectors, one expected a bigger push and bolder measures than those proposed in the budget.

(The writer is acting chairman of the National Statistical Commission and the director of IGIDR)

(Courtesy: Indian Ezpress.com)

Hype is All

By: Prabhat Patnaik

The Union budget for the year 2016-17 presented to parliament by Finance Minister Arun Jaitley on February 29, has been termed "pro-poor" and "pro-farmer" by the media. Nothing alas could be further from the truth. The total expenditure of the government in 2016-17 is supposed to increase by 10.6 percent over the revised estimates for 2015-16, compared to a GDP growth-rate of 11 percent, which means that the budget if anything is deflationary in overall terms even in the midst of a world economic crisis that was alluded to by Jaitley himself. It may of course be argued that despite this macro appearance, the composition of expenditure has been so altered that employment and people's welfare will still increase because of this budget. But this too is not true. Even in the case of the muchhyped welfare provisions, the proposed increase in expenditure is so paltry that they would hardly make much difference. For the MGNREGS for instance the provision is a mere Rs.38500 crores. In the year 2014-15 while the budget had provided Rs. 34000 crores, the actual scale of operation of the scheme had been larger and arrears of at least Rs. 6000 cores had built up. If the same scale of operation had to be preserved, then, even assuming zero inflation, a sum of Rs. 46000 crores should have been provided last year. Instead the budget had provided the same amount as in 2014-15, which means the scale of operation had been much truncated during last year itself. The current provision carries this truncation further forward. To achieve even the scale of 2014-15, on the assumption of zero inflation and a minimum of Rs.6000 crores of arrears, the budget should have provided at least Rs. 46000 crores. By providing only Rs.38500 crores it has ensured that the scheme cannot generate employment even on the scale achieved in 2014-15, let alone provide the 100 days of employment that is statutorily assured in this "Rights-based programme". Let us next consider the Health Insurance Scheme that appears so striking at first glance, since, unlike its predecessor the RSBY, it seeks to cover Rs.1 lakh of health expenditure per household per year. While the exact number of households to be brought under this scheme is not clear, Jaitley mentioned the figure of about one-third of the total households in the country, which constitute

BPL households. Their number would be around 8 crore households. While it has been argued, very rightly, that the insurance route for providing healthcare support is itself merely a way of putting money in the hands of private healthcare facilities, rather than of providing any genuine support to the needy, which can be done only through a European-style National Health Service, the numbers proposed to be covered under the scheme are nonetheless very large. Are they really going to get some benefit out of it? And if so, how much? The total allocation under the RSSY for 2016-17 is Rs.19000 crores in round figures. Let us assume that the government is going to spend this much entirely on paying insurance premia. Now, insurance companies are not in the business to make losses; they would insist that the expenditure they incur in paying to hospitals must be 2 matched at the very least (even ignoring their other expenses) by the premia they get. The total premium amount just mentioned, when divided by 8 crore households, comes to roughly Rs.2500 per household per year, which would cover at the most just five visits to the out-patients departments (OPDs) of the hospitals that would to be empanelled under the scheme. To be sure, if government healthcare facilities were also thriving, and the proposed Rs.1 lakh was purely additional to the free or inexpensive treatment that the poor should have access to at these facilities, then matters would be quite different; but precisely because of the insurance scheme the government runs down its own healthcare facilities. Even in the current budget where the Insurance scheme is announced with much fanfare, the actual increase in the health budget is a mere 9-10 percent, which means a reduction in its ratio to the GDP. Put differently, the insurance route not only puts money in the pockets of private hospitals; it actually lowers the availability of healthcare to the very people whom it is supposed to benefit. Let us now take the third major scheme announced by Jaitley, which is the provision of cooking gas connections to rural households. The total amount earmarked for it is a paltry Rs.2000 crores, and the scheme is supposed to take three years to complete. Now, a question arises: if, with such paltry allocations spread over three years, 5 crore households can be covered at the end of this period, then why did the Finance Minister not just set aside Rs.6000 crores during this year itself to cover this entire segment? But consider the scheme as it stands. Assuming that the annual expenditure on gas cylinders alone per household would be about Rs.8000 per annum, the claim of this item on the total annual expenditure of the household would be around a sixth; and if the government wanted to alleviate this burden it should have subsidized gas connections to these households massively. Instead it allocated a sum of only Rs.2000 crores. If this sum is divided by the number of beneficiaries, namely 1.5 crore households, then we get a figure of Rs.1300 per household which comes to every such household. This still leaves these families with the onerous task of having to spend almost a seventh of their current expenditure on gas cylinders. And because of this, many of the intended beneficiaries will not even be in a position to move to cooking gas. The government's succour in short is too paltry to improve the lives of the poor households in this sphere. This can in fact be said of every single welfare measure announced in the budget. With paltry provisions the government is using a lot of hype to give the impression that it has produced a "pro-poor" budget. On the contrary, compared even to 2014-15, there has been a decline in the 2016-17 budget in the share of GDP going as budgetary allocation for several major social sectors: health, primary education, midday meals, and Integrated Child Development Services. Let us now come to the agricultural sector. Here a reclassification of heads in the 2016-17 budget has given an exaggerated impression of the increase in outlay over the previous year. But on a proper classification, i.e. after including "interest subsidy on short-term credit to farmers" within the allocation for "Agriculture, Co-operation and Farmers' Welfare" for 2015-16 too, as it has been for 2016-17, we find an increase in the nominal allocation for this entire sector of 33 percent. How farmers' 3 incomes can be doubled over a five-year period with allocation on such a meager scale remains a mystery. Jaitley however made two important announcements with regard to this sector. One was a "decentralization" of procurement, which basically means that over large tracts of the country the FCI would withdraw from procurement, and that either state governments or private entities authorized by the state governments would take over. This is a reversion to what the central government was trying to do almost a decade ago; but the sharp rise in food prices that had suddenly occurred at that time had forced it to change track. But now we are back again to a dismantling of the food procurement and distribution system built up so assiduously over the years. What it would do to the public distribution system is clear. The FCI will perhaps continue to maintain, at least for a while, a skeletal arrangement for some minimum amount of foodgrains to be distributed to the deficit states. But if a deficit state needs more than this minimum, then it would either have to go to the free market to buy the requisite amount, where it will have to pay exorbitant prices which it can ill-afford; or run from pillar to post

approaching other state governments, those belonging to the surplus states, who may or may not be willing to sell it the grains it needs. This measure in short constitutes a blow to the public distribution system in this most essential commodity. But that is not all. There are many states like West Bengal for example where no agency currently exists for government procurement. In such states there will simply have to be private purchase as in the colonial days, which means that the insulation of the peasantry from price-crashes will cease to operate. Instead of a doubling of farm incomes in five years as the NDA government promises, there would be an increase in agrarian distress, affecting even foodgrain producers who till now had enjoyed some degree of immunity from price crashes. Jaitley's second announcement relates to allowing100 percent foreign-owned firms to the market for agricultural products. This again means two things: first, the peasantry would now be thrown to the mercy of MNCs even in the sphere of marketing; and second, the domestic market would get "disarticulated", with shortages in one part of the country co-existing with exports from another part, and the even more absurd situation of MNCs buying cheap from one part of the country (where the peasants are desperate to sell) to sell in another part at skyrocketing prices because scarcity happens to prevail there. These two announcements are in fact interlinked. Agro-marketing MNCs have made no secret of the fact that they have largely kept away from the Indian market because of the existence of the FCI. That impediment is now being removed. And if Jaitley and the NDA think this is going to raise peasant incomes, then they know little about the world, or even about the Indian economy under colonial rule. Thus, behind all the hype about a "pro-poor" and "pro-farmer" budget, we are seeing a major dismantling of a system, which on the whole gave assured remunerative prices to producers, and protected consumers from situations like the infamous Bengal famine of 1943. 4 The budget figures have been seriously questioned, though I shall not enter into that issue here. The estimate of revenue from excise duty is so high that one can only presume that it is based on the assumption of a further fall in oil prices. Indeed, all Jaitley's boasts about the economy's performance last year, such as the current account deficit and inflation being under control, arose simply from the fall in oil prices and not on anything that the NDA did. Correspondingly, however, any rise in oil prices in the coming year would entirely undermine the budget. What is striking about the 2016-17 budget is the opportunity that has been missed. Even if a fiscal deficit of 3.9 percent of GDP would have been maintained for 2016- 17, as it has been for 2015-16 with no apparent additional damage to the economy, a sum of Rs.60,000 crores could have been obtained from this source alone; and in that case, some of the welfare measures that Jaitley talked about could have actually been implemented. But then what can one expect from the NDA?

(Courtesy: People's Democracy)

Budget at a Glance: Key Figures

(Figures in ₹ crore)	2014-15 Actuals	2015-16 Budget Estimates	2015-16 Revised Estimates	2016-17 Budget Estimates
Revenue Receipts	11,01,472	11,41,575	12,06,084	**13,77,022**
Capital Receipts	5,62,201	6,35,902	5,79,307	**6,01,038**
Total Receipts	16,63,673	17,77,477	17,85,391	**19,78,060**
Non-Plan Expenditure	12,01,029	13,12,200	13,08,194	**14,28,050**
Plan Expenditure	4,62,644	4,65,277	4,77,197	**5,50,010**
Total Expenditure	16,63,673	17,77,477	17,85,391	**19,78,060**
Revenue Deficit	3,65,519	3,94,472	3,41,589	**3,54,015**
Effective Revenue Deficit	2,34,759	2,68,000	2,09,585	**1,87,175**
Fiscal Deficit	5,10,725	5,55,649	5,35,090	**5,33,904**
Primary Deficit	1,08,281	99,504	92,469	**41,234**

Source: Budget 2016-17 documents

PIB/KBK

Signs of Paralysis

By: C.P. Chandrasekhar

When the numbers underlying Budget 2016-17 are unpacked the unavoidable conclusion is that any claims of direction in the budget, let alone of a redirection of policy, was just empty rhetoric. The government had clearly failed to put any money where its mouth was. This was especially true of the Finance Minister's claim that his Budget provides "additional resources for vulnerable sections, rural areas and social and physical infrastructure."

As part of this new thrust, the Budget speech reiterated a recent promise by the Prime Minister that it would double the income of farmers by 2022. In pursuit of that goal the Finance Minister has provided a total allocation for Agriculture, Cooperation and Farmers' Welfare (ACFW) of Rs. 35,984 crore for 2016-17. On the surface this seems to be a huge increase in the allocation for this sector when compared to the revised estimate of Rs. 15,809.54 crore for 2015-16. But it emerges that this increase is the result of a change in classification. The budget estimate (BE) for 2016-17 includes Rs. 15,000 crore under the head "interest subsidy for short term credit to farmers". This head earlier appeared as part of the demand for grants of the Finance Ministry, and its inclusion hugely inflates the ACFW figure for 2016-17. Adjusting for that, the nominal increase in allocation to "farmers", even if realized, is far smaller than the impressive 128 per cent implied by the Finance Minster's claim.

This dichotomy between rhetoric and intent as reflected in even budgeted allocations is visible in other areas that impact on India's precariat. One is the Mahatma Gandhi National Rural Employment Guarantee Scheme (MGNREGS), which the NDA government has had to reluctantly declare as being a "flagship" programme for the poor, despite its origins and expansion under the UPA. Even before Budget 2016-17, it was clear that in practice the NDA government was starving this programme of funds, though it was legally a demand-driven programme with the government committed to providing employment claimed irrespective of the allocation required. This neglect had resulted in a fall in the average number of man-days of work provided to households under the programme to 40, as opposed to the promised 100.

The Finance Minister's Budget Speech declares that the allocation for the programme has been set at Rs. 38,500 crore and there have been attempts made to portray this as substantial. As activist Nikhil Dey has pointed out, the fact is that even by the time the Budget was presented, actual spending on the programme in 2015-16 had touched Rs. 37,000 crore and there were arrears to the tune of Rs. 6,000 crore that needed to be cleared. By the end of March this Rs. 43,000 crore is likely to have risen even more. So the allocation proposed in the budget is a huge decline even in nominal terms, without accounting for inflation.

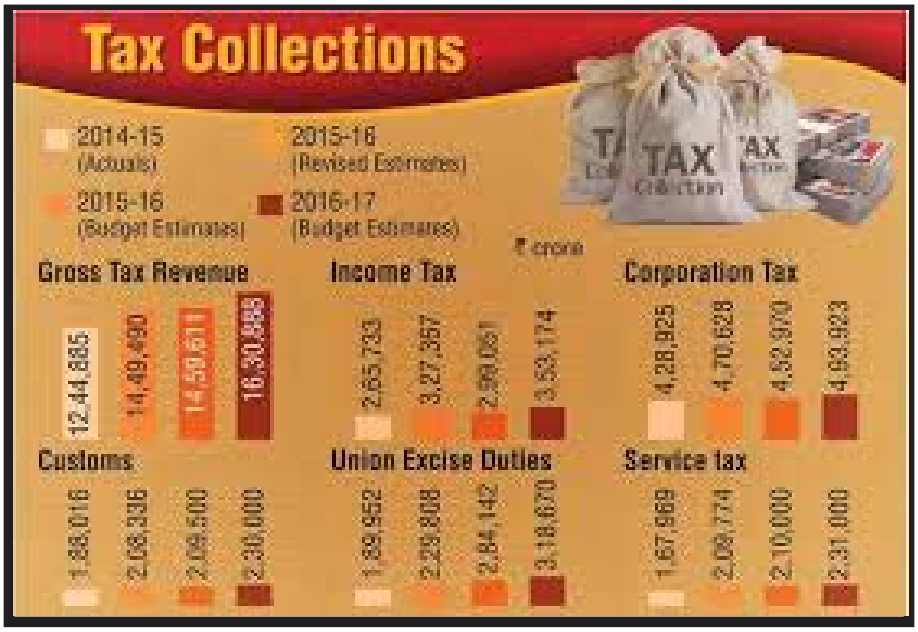
Such examples can be multiplied as has been done by different commentators on the Budget. The relevant question is why there is this divergence between the rhetoric of the NDA and its actual allocations. Numerically, the explanation is obvious. The Finance Minister has chosen not to increase government expenditure when measured as a ratio of GDP. The ratio of total expenditure to GDP is in fact projected to fall marginally from 13.2 per cent in 2015-16 to 13.1 per cent in 2016-17. This in a year when the government has to make substantially increased allocations for its wage and salary bill, given its obligation to implement the award of the 7th Pay Commission. This paralysis with respect to spending has its roots in two tendencies that have come to characterise the fiscal stance adopted by successive governments since the mid- 1990s, and has intensified under the current NDA regime. The first is conscious forbearance when it comes to imposing corporate, wealth and capital gains taxes in the name of strengthening private initiative. The second, is an increased emphasis on realizing the revised fiscal and revenue deficit targets that are expected to brought down to 3 and zero per cent respectively even if with a lag relative to dates set in the Fiscal Responsibility and Budget Management Act. This pursuit with renewed vigour of self-imposed targets has meant that the fiscal deficit for 2015-16 has been brought down to 3.9 per cent and that for 2016-17 have been set at 3.5 per cent of GDP.

With the government having decided to restrict itself on both the direct tax and borrowing fronts, what happens to expenditure depends on what happens to any residual direct tax initiative, indirect taxes, non-tax revenues and what are called "non-debt capital receipts", which really is the sale of assets to finance current expenditures. Budget 2016-17 makes an effort to push the boundaries on all of these funds. It has chosen to tax the retirement savings of middle and lower-middle class households, by making 60 per cent of the withdrawals from Provident Funds of those under the older pre-NPS system taxable. That is while corporations are to be given the benefit of reduced

rates in the coming years, workers in different categories are to be subject to a new tax on savings.

Second there are a variety of surcharges and cesses that the government has chosen to impose, which are in the nature of inflationary indirect taxe, the revenues from which need not be shared with the states. One area in which this strategy has yielded the government large revenues even in 2015-16, is petroleum and products, enhanced indirect taxes on which have been used to skim off much of the benefits of the sharp decline in international oil prices that would have otherwise acquired to the consumer. Against the budgeted figure of Rs. 186787 crore from duties on petroleum and products, the government actually collected Rs. 263172 crore in 2015-16. Expecting that oil prices will remain low and continuing with this practice the government is expecting to mobilise an additional Rs. 280464 from this source 2016-17, depriving the population of the benefits of this windfall gain. Given the fact that oil products are universal intermediates, all sections will have to share this burden, making it regressive.

Third, the government has chosen to flog to the very end the benefits to be derived from the use of spectrum, which is a limited resource. According to the budget, receipts from "other communication services" rose from Rs. 30,624 crore in 2014-15 to Rs. 56,034.35 crore in 2015-16, and are estimated at Rs. 98,995 crore in the budget for 2016-17. According to the detailed receipts budget, these resources are derived from one-time spectrum charges, auction of 1800 MHz and 900 MHz spectrum and receipts from 800 MHz spectrum.



And finally, despite repeated disappointments, the government is hoping to sell large volumes of equity in public sector corporations and undertake strategic sales of some units to garner substantial receipts from privatization. Given the state of the market for asset sales this is not a fail-free source. In the budget for the current financial year 3 2015-16, for example, receipts from disinvestment and strategic sale were set at Rs. 69,500 crore. The revised estimate indicates that the government managed to mobilize only Rs. 25,312 crore. Yet the receipts from this source in 2016-17 have been set at a still ambitious Rs. 56,500 crore.

Even if an odd and regressive set of interventions to mobilize additional resources, it could be expected that these measures should give the Finance Minister some space for manoeuvre. Surprisingly, it does not seem to have delivered that. As opposed to expectations that the budget would raise expenditures to give the slowing economy a much-needed stimulus, projected spending in 2016-17 is just about keeping pace with nominal GDP growth.

What the government has chosen to do is to reorient expenditures a bit so that it can devote more to infrastructure spending, especially on roads and the railways. Even this may not materialize since revenues may fall short of the optimistic projections in the budget, as happened in 2015-16. In any case, with aggregate expenditure not buoyant, the marginal infrastructure thrust has meant that the Finance Minister has had to make tall claims of what he intends to do for farmers and the poor, without allocating the resources needed to realize them.

In sum, despite the pressures created by impending elections in a number of states, which possibly explains the Finance Minister's rhetoric, the ruling party has not been able to use the fiscal lever to push for growth and some improvement in welfare. The source of this paralysis is the adherence to the twin pillars of direct tax forbearance and fiscal deficit reduction. These principles are clearly meant to appease domestic and foreign investors, especially the latter. But they are unlikely to enthuse the majority of voters. That possibly explains why a party and government wooing foreign capital is trying to create a new discourse on nationalism to build a vote bank.

(Courtesy: Frontline)

A Budget for Bharat

By: Krishnamurthy Subramanian

Given the fact that the global economy is tottering, there is a definite need to foster domestic demand to accelerate economic growth. At the same time, it is politically and economically imperative that jobs are created in the formal sector to avoid the demographic dividend becoming a demographic liability. Given these twin objectives for the country, I find this year's budget to be an admirable exercise. Overall, this is an excellent budget for rural India that I would give 9/10.

While the budget may not gladden the stock market, it is an excellent budget because it is a budget for Bharat. The emphasis on agriculture and farmer welfare, rural employment, social sector spending, in particular in the healthcare sector, and education, skills and job creation, would definitely foster demand in rural areas.

Nearly 65 per cent of small farmers in this country depend on rain-fed irrigation. More than 75 per cent of Indian farmers are not covered by crop insurance. Since shocks, such as bad weather or bad health, affect the poor significantly more than the average citizen in the country, allocations provided for irrigation, crop insurance and health insurance will significantly impact the rural population's ability to withstand negative economic shocks. In particular, farm insurance, health insurance and cooking gas connections for BPL (below poverty line) families are superb initiatives that will focus government spending on those sections of the population that need the government's attention the most — the poor and the downtrodden.

Another key measure in the budget relates to providing a legal framework for the Aadhaar platform, which will help to ensure that subsidies are directed to the needy. More than Rs 40,000 crore of subsidies are provided for fertilisers. Similarly, another Rs 40,000 crore of subsidies are provided in the electricity sector. Fertiliser and electricity subsidies together amount to 1.6 per cent of the GDP, much of which leaks abroad or to non-agricultural uses, or goes to inefficient producers, or to firms given the exclusive privilege to import. But precisely for these reasons it has proved politically impossible to close the inefficient firms or eliminate the canalisation of imports. By providing a legal framework for the Aadhaar platform, the "JAM trinity" of Jan Dhan, Aadhaar and Mobile would be strengthened considerably. This will help to rationalise the regime of subsidies and lead to better targeting. Again, better targeting of subsidies to deserving beneficiaries would help to foster domestic demand, particularly in the rural sector.

The worry for me in the current budget is about the banking sector. The Rs 25,000 crore provided for the capitalisation of public-sector banks in this financial year is woefully inadequate. In the next five years, PSBs will require several multiples of this amount to be able to meet the capital requirements of Basel III. Another key announcement that is worrisome in this context relates to the consolidation of PSBs. As we have witnessed with the merger of Indian Airlines and Air India, bunching up two large and struggling PSUs only serves to exacerbate problems for the merged entity. Consolidating PSBs without first empowering the boards of these banks would create more costs for the financial system than benefits.

PSB boards focus on tactical issues rather than discussing issues relating to strategy/ risk. Board deliberations are driven from the vantage point of compliance rather than business and economics. Monitoring of measurable disaggregated business goals in relation to targets is nominal. Scenario analysis through stress-testing is conspicuous by its absence, and specific plans for meeting worst-case scenarios find no mention. Little attention is devoted to the design of risk-mitigation mechanisms, including whether the risk function should be invested with greater autonomy, including in matters of credit risk. The lack of quality in board deliberations of PSBs stems from the quality of the bank boards themselves. Before fixing these issues pertaining to PSB boards, consolidation will only exacerbate matters. Existing boards have struggled to manage the banks well. These would now be forced to manage even bigger banks.

On the whole, while there are concerns regarding the budget's ill effects on the banking sector, it is an excellent budget because it helps to foster rural demand and attempts to fix risks in the rural economy.

(The writer is an associate professor of finance at the Indian School of Business, Hyderabad).

The Hype and Reality

By: Jayati Ghosh

In India now, there appears to be an inverse relationship between the time finance ministers spend talking about a particular issue in their budget speeches and the amount of money they actually allocate to deal with it. This was true of former Finance Minister P. Chidambaram's budget speeches, but incumbent FM Arun Jaitley seems to have gone even further in his florid prose and self-congratulatory tone when declaring measures that ultimately amount to very little.

Consider agriculture. The good news is that the NDA government — after spending more than a year in denial — finally seems to have woken up to the ongoing agrarian crisis and the worsening financial conditions of cultivators. So there was much talk of many measures (most of them simply renaming earlier and existing schemes and programmes) that would be directed at the farming community. But in terms of actual spending, the finance minister essentially resorted to a sleight of hand rather than real increases in allocations. Thus, while the documents show a significant increase in the ministry of agriculture's allocation from Rs 22,959 crore to Rs 44,486 crore, a significant chunk of that (Rs 15,000 crore) is because the interest subsidy for loans given to farmers, which was earlier under the ministry of finance, has simply been moved to the ministry of agriculture. If that is subtracted (as it should be) the increase is much less impressive, as the total spending only increases from 0.17 per cent of the GDP to 0.19 per cent — so minor as to have little impact on the actual conditions of farmers.

Similarly, the MGNREGA, which until very recently was unloved and much derided by PM Narendra Modi, has now been rehabilitated to the point that Jaitley declared he was providing the highest allocation ever to this programme, at Rs 38,500 crore. But this proud claim ignores three important facts. First, the MGNREGA is by law a demand-driven scheme, so the government is duty-bound to provide whatever funds are necessary according to the demand for work. Announcing a higher allocation makes it appear that this is the largesse of the minister and the government, which is the opposite of what the law states. Second, the government has been miserly and tardy in providing the funds to the state governments as required, so that at present there are more than 14 states in deficit, to whom the government owes several thousand crore. If this is taken into account, the actual amount of the allocation is much less. Third, even this declared amount falls well short of levels achieved earlier under the UPA, amounting to only 0.25 per cent of the GDP compared to 0.59 per cent of the GDP in 2009-10.

Other social spending has fared even worse. The BJP's electoral manifesto had declared the goal of health for all, but the extremely limited attempt at health insurance for BPL families and senior citizens comes nowhere near that. Indeed, total health spending continues to stagnate, such that the budget of the ministry of health and family welfare will remain at the embarrassingly low figure of 0.24 per cent of the GDP. This implies even lower levels of spending for the National Health Mission, and hardly any increase in funds available to the systems of public hospitals across the country.

Meanwhile, women and the young continue to be not just neglected but even pushed aside. The ICDS has taken a hit, with the allocation for the coming fiscal year actually lower (at only Rs 14,000 crore) than the Rs 15,394 crore that would be spent this year. How this crucial system will survive when anganwadi workers and helpers across the country are suffering from late payment and even non-payment of their pathetically small remuneration, is anybody's guess.

The Centre's answer would be that now states have more money because of the Finance Commission's award, and so they can take up the slack. But here too, the Centre has proved adept at clawing back some of this by creating more cesses and surcharges that do not have to be shared with the states, rather than increasing tax rates. Already in the current year, the share of states has declined from the projected 36.3 per cent of tax revenues to 34.8 per cent. The proposed budget also introduces a variety of cess and surcharges, all of which will be retained by the Centre.

It could also be argued that these limits on spending are necessary to maintain "fiscal discipline". But, in fact, the economy is actually not doing as well as the hype suggests. The rural economy is down, investment rates have been falling, and employment, especially in formal jobs, is simply not picking up. The massive windfall gains to the Indian economy coming from low oil prices appear to have been wasted as the people still have to suffer high food inflation, even as wholesale prices fall.

Clearly, there is need for measures to increase domestic demand by improving wage incomes and possibilities of employment. More real spending on agriculture, on social sectors and on employment schemes can do this directly — and indirectly through very large multiplier effects. Putting more money on roads and railways (which is in itself desirable as long as it is not frittered away on high-speed rail links and other trophy projects) is not an effective substitute, and will not generate the much-promised and desperately needed employment. Sadly for all of us, the government has yet to learn this.

(The writer is professor of economics at Jawaharlal Nehru University, Delhi)

(Courtesy: Macro Scan)

The Triumph of Centrism

By: Pratap Bhanu Mehta

The Union Budget 2016 has been crafted under the most extraordinarily challenging economic environments India has seen. The external environment is both uncertain and volatile, the inherited logjam caused by stressed banks and the stressed private sector has yet to be broken, poor monsoons have caused immense rural distress, and demand, a central pillar of growth, has been tepid. Many of the measures needed to face up to this challenge are not, strictly speaking, budgetary. Nevertheless, the budget is of political interest on three counts. The government's previous budgets were rightly criticised for the lack of a clear framework. Does this budget break new ground? Second, does the budget signal any appetite for political boldness? Third, which constituencies does the budget address?

This budget is certainly a huge improvement over Finance Minister Arun Jaitley's previous budgets. It has a much greater sense of purpose and direction. It signals macroeconomic credibility by adhering to fiscal deficit targets. In an age when politicians are derided, the reluctance to recklessly spend our way out of trouble requires political acknowledgement. In many ways, this budget is rich in ideas; but also ones that make it hard to assess. It embodies in muted form what the Economic Survey calls "persistent creative encompassing incrementalism". But one corollary will be that the judgement will also be incremental, as the various promissory notes on which the success of this budget rests unfold. The budget represents what might be called the abiding centrism of Indian economic policy. Heated debates may spin from left to right; but governance finds its centrist measure in several ways. The budget continues a greater reliance on indirect taxes as opposed to a concerted effort to expand the direct tax net. This is politically expedient, even if regressive. But no political party will transform the citizen-taxpayer relationship by a move to more direct taxes. Second, there is a deep consensus on the welfare state. On that front, the continuity between this government and the previous one is remarkable: From the continuation of MGNREGA and health insurance to a package of interest subsidies. The potentially most far-reaching change is the promise of giving Aadhaar statutory status and making it the basis for direct benefit transfers; but that is for the future. Subsidy reform, if any, will be incremental in the meantime. Third, even the most muscular of governments cannot sustain an aggressive defence build-up. Fourth, there is no appetite for a massive roll-back of the state where it is not needed. There will be some crisis-driven disinvestment but no radical reimagining of the state.

The budget will buttress the sense that the government has been practically sensible in small steps, but not bold. It continues on the path of fiscal devolution set by the Finance Commission. The ambitious provision of LPG connections to all is quite revolutionary, for its health, gender justice and aspirational effects, though its political-economy effects on the subsidy bill will become clear over the next few years. It is bringing the poor front and centre in unexpected ways. It goes to great lengths to reverse the government's pro-corporate image. The increased outlay on infrastructure, particularly the Pradhan Mantri Gram Sadak Yojana, is a no-brainer. Rural connectivity is great for growth; and power and logistics are key to India's competitiveness. Symbolically, this budget speaks to the government's potential strengths: Power, infrastructure, railways, and petroleum and gas. This government is investing in four ministers: Piyush Goyal, Nitin Gadkari, Suresh Prabhu and Dharmendra Pradhan. A lot will hang on their capacity to implement.

The budget also speaks to the government's weaknesses. Despite the promise of new insurance schemes, it is hard to avoid the conclusion that health and education still remain blackholes for this government. The allocations in education are up only

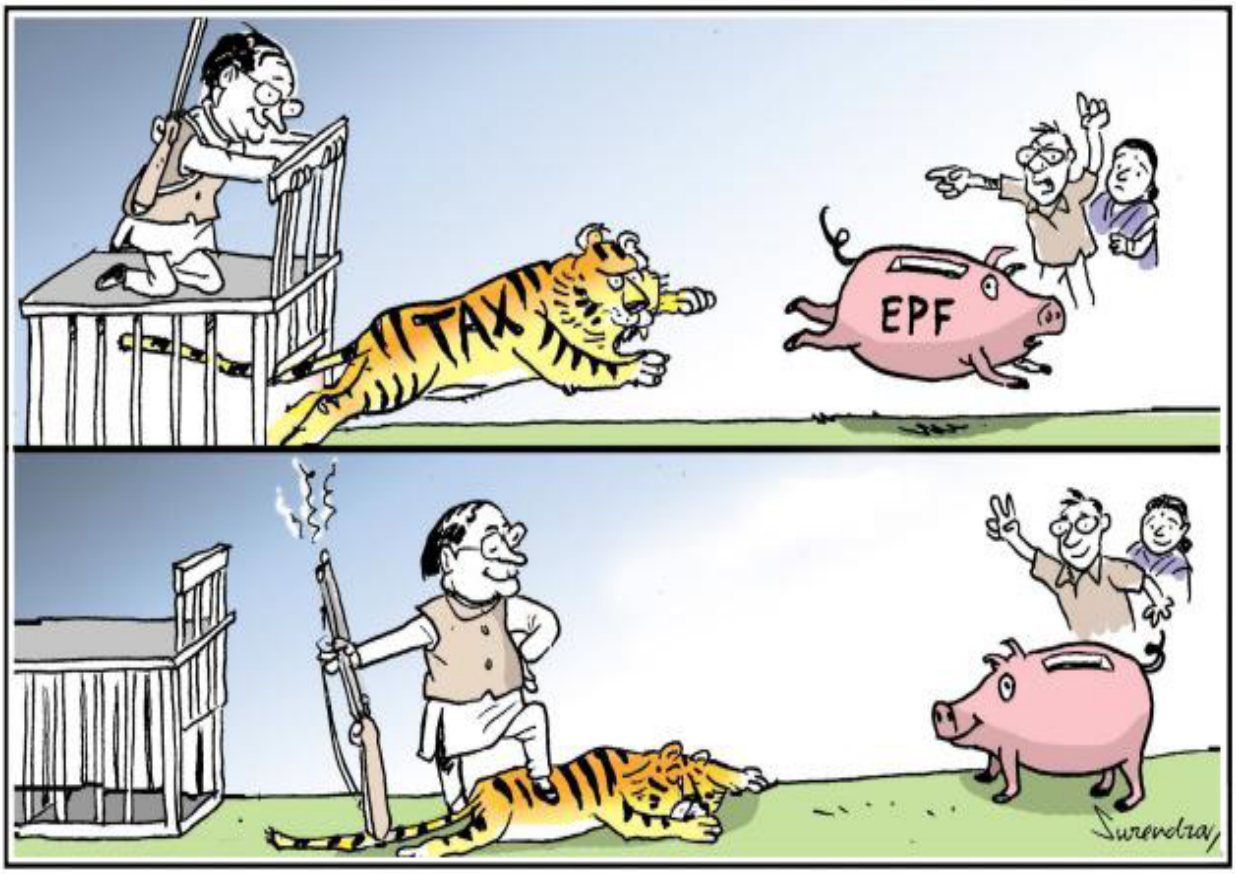
marginally; there are no new ideas except the half-baked one of facilitating some "special universities" to escape regulation. Despite the fleeting appearance of the middle class as a political force, the focus on rural and the urbanising rural is back. Politically, the budget was expected to signal a shift in priorities. The odd changes in taxation provisions for future provident fund withdrawals make it a budget hostile to the middle class. This will have interesting political repercussions. Arguably, the boost to the real estate sector might benefit some sections of the middle class. But its intent is clearly to revive a collapsing real estate sector. There is no question that rural India needs a lot of investment. The real issue is whether the scale of support promised will be enough to stimulate rural demand in the short run and transform agriculture in the long run. There is reason to believe the outlays will fall seriously short of both objectives. So it will leave the question of rural support for the government up in the air.

But the most pleasant surprise is the direction in which we want to go on the environment. An additional cess on coal and taxes on cars are signals of a long-overdue resolve that the environment is no longer a luxury. There are small administrative victories like the abolition of the distinction between plan and non-plan expenditure. But equally, it is disappointing the budget does not invest enough in the state itself. The state has serious capacity constraints, and some of them will require a great deal of investment. The state has also signalled a much greater resolve on reforming tax administration. The devil is in the detail, though a lot of the detail for small enterprises is encouraging.

The politics of the budget will, in the final analysis, depend on whether India's animal spirits are revived. Following the candid lead of the Economic Survey, the budget acknowledges the deep institutional quagmire that has stymied the economy. The provisions for bank capitalisation seem, by some accounts, low. If it turns out not enough to restore credibility to banking, we could still be in trouble. There is a promissory note of a lot of new regulatory institutions or the emendation of existing ones. The state is moving ahead. We don't know if Indian capital is ready to play by the new rules. But for the time being, it could be said that this is an artful budget. It displays a cautious prudence. But it also confuses the government's more rabid economic rightwing supporters more than it annoys its opponents. In that sense, it represents the triumph of a sensible democracy.

(The writer is president, Centre for Policy Research, Delhi,)

(Courtesy: The Indian Ezpress.com)



Through a Prism of the Poor

By: Brinda Karat

Gamlina Soren, an elected panchayat member in Jharkhand, sounded upset. She had been told by a local BJP functionary that gas cylinders were going to be "gifted" to poor women by the Centre but that they must have a BPL card. "But most poor Adivasi women here don't have BPL cards," she said. I told her that the cylinder was not free but would be sold at less than market rates. "Is that a gift?" she asked. "At present, the subsidised cylinder here costs more than Rs 600; we don't have that kind of money to spend every month. They should bring down the price if they want to really save us from the chulha smoke." Gamlina's response is just one example of how distant this government is from the lives of the poor and how tokenistic its schemes are.

Budget speeches, notoriously, conceal more than they reveal. This year, political compulsions of forthcoming electoral battles forced the finance minister to adopt a camouflage technique, which seems to have been quite successful, going by the headlines: Pro-farmer, pro-poor, pro-women and even a left-of-centre budget.

A major claim is of a 128-per cent increase in allocations to the department of agriculture. Several analysts have pointed out that Rs 15,000 crore of the Rs 35,000 crore allocated is actually just a shift from the earlier head under the finance ministry to the department of agriculture for subsidy for crop insurance. The actual increase is around 25 per cent. Why stoop to such deception?

The government has hit farmers hard by a Rs 2,000 crore cut in fertiliser subsidy. It has refused to address the major problem of high input costs and low MSPs. On the contrary, by emphasising the importance of APMC reforms, it is signalling its commitment to handing over the agricultural market, including procurement, to the private sector. This is not pro-farmer and is at variance with the interests of the majority of India's farmers who have small landholdings.

The MGNREGA allocation of Rs 38,500 crore is not the highest ever, which was Rs 41,000 crore in 2010-11. At a time when India's rural poor were desperately looking for work, this government starved the act of funds, which led to an average of just 38 days of work created last year. A "new system" restricts advanced fund transfers to the states. The lack of funds has converted a demand-driven programme to one based on "quotas", besides resulting in a huge backlog of wages. The allocation is far below what is required.

The same is true for most social sector allocations, which are either stagnant in real terms or have decreased as a proportion of the GDP. There has been a savage cut of close to Rs 5,000 crore in food subsidy at a time when food prices are high. The ICDS has seen a cut of over Rs 1,000 crore compared to the revised estimates. There's nothing pro-poor about compromising with malnutrition.

Look at the callous approach to Dalits and tribals. Once again, the guideline to make allocations to the SCs and STs equivalent to their proportion in the population were violated. Instead of 25 per cent of total plan expenditure, the allocation was just 11 per cent, a shortfall of Rs 74,000 crore to the SC special component plan and the tribal sub-plan. A law is urgently required to make the allocation norms mandatory.

For the minorities, the "sabka saath" slogan translates into stagnant allocations. For women, the gender budget remains at just 4.5 per cent or so of total expenditure. The whole concept has been reduced to that of accounting, with no transparency or monitoring as to whether the actual expenditures directly benefit women, or how and where the money is spent. The biggest example of this is the Nirbhaya fund, for which there is no increase. But there is no record even of what happened to the Rs 653 crore given to the road transport ministry for a women's security scheme. So casual is the approach that money from this fund was used to pay for India's

contribution to Unicef. There is no increase for pensions for widows, senior citizens and the disabled.

Instead of using the opportunity provided by a low current account deficit and availability of food stocks to increase capital expenditure and create jobs, the government stuck to the neoliberal framework of fiscal fundamentalism. As a proportion of the GDP, capex has actually declined. Nor have the benefits of low global oil prices been passed on to consumers.

The FM spoke of nine pillars. The only pillar that determined the fate of this budget was not mentioned by him. The pillar of corporate interests and India's wealthy. The budget papers reveal that in the last year, the revenue foregone in tax concessions was a high of Rs 6.11 lakh crore, an increase of 7 per cent. Of this, corporate tax concessions amounted to Rs 68,711 crore. Taken together with concessions on income tax, the generosity to the top 1 per cent amounted to Rs 1.28 lakh crore. But this is not all. Undisputed tax arrears (as opposed to those under litigation) add up to Rs 5.6 lakh crore, of which half is owed by corporates. The arrears mount up year after year, but governments don't act. The UPA did not.

Nor is it different with the Modi government. In fact, as far as black money is concerned, far from bringing it back, the Modi government is actually promising the guilty yet another amnesty.

In contrast, the main thrust for revenue mobilisation has been on indirect taxes, including a new cess introduced in the name of the kisan, of 0.5 per cent on all services, which common people, including kisans, will have to pay. In further contrast is the attack on the savings of the working people through the proposal of levying a tax on 60 per cent of the amount withdrawn from the employees provident fund.

The outrage and protest against this has now led to the government issuing contradictory explanations.

Think of how much could have been done with the money the government refused to collect from the rich. Think of women like Gamlina, think of Rohith Vemula, and the consequences of such policies.

(The writer is a member of the CPM politburo)

(Courtesy: The Indian Ezpress.com)

The IMF in Pakistan

By: C.P. Chandrasekhar

On February 4, after meetings held at Dubai for security reasons, an IMF team arrived at an agreement with officials from Islamabad, which would permit the release of the last-but-one tranche of $497 million out of an SDR 4.393 billion loan package (around $6.64 billion in exchange rates prevailing at time of sanction) under its Extended Finance Facility (EFF). The agreement came after the 10th review of economic performance and policy undertaken as part of the 3-year arrangement approved by the IMF Executive Board in September 2013.

The IMF in its press release has chosen to be complimentary. Besides stating that "economic activity remains robust," the statement also said that the "mission welcomed the authorities' strong program performance in the second quarter of FY2015/16. All end-December 2015 quantitative performance criteria, including the budget deficit target and the floor on the SBP's (State Bank of Pakistan's) net international reserves, have been met." The only areas of mild disappointment seem to be that "measures pertaining to the energy sector reform and restructuring of loss making public enterprises are yet to be implemented."

Overall, the IMF presents a positive picture of economic performance. According to it, growth improved marginally from 4 per cent in 2014 to 4.15 per cent in 2015 and would rise to 4.5 per cent in 2016. Inflation is down from 8.6 per cent to 6 per cent and would fall further to 4.5 per cent. Foreign exchange reserves, which were down to the equivalent of six weeks' imports or less, have now risen to the 3-month level.

What is remarkable is that a number of senior Pakistani economists, varying from Hafiz Pasha (a former Finance Minister) to Mohsin Khan (a former IMF hand), with an international track record and who might not always disagree with the IMF's policies disagree with this assessment. According to the former, actual growth is closer to 3.5 per cent and official estimates are an exaggeration. Inflation is down only because of the fall in international oil prices, which the government has been unable to exploit to accelerate growth. And accumulation of foreign exchange reserves is the result of excess borrowing from abroad that has led to unsustainable debt levels.

Significantly, economists like Pasha even question the official figure of 5 per cent of GDP for the fiscal deficit on the government's budget, saying that it is likely to be closer to 8.5 per cent. The official figure, they argue, has been kept low by treating privatization receipts and grants as revenue, by keeping off-budget energy arrears payable to private power generators, placed at over $6 billion in 2015, and by delaying tax refunds and requiring prepayment of certain taxes.

In sum, the charge is that the IMF is being "lenient" with the government of Pakistan. This differential attitude, when compared to what the IMF demands in many other contexts, is not new. In fact, Pakistan is a country that IMF has been keen to have as borrower. Pakistan received its first EFF loan in 1988, just two years after the facility was created. Starting with that, Pakistan has had the "benefit" of access to financing under 12 IMF programmes, as compared with one for India, three for Bangladesh and two for Sri Lanka. This is despite the fact that in almost all those instances the government in power has failed to deliver on crucial targets set by the Fund, especially with respect to reducing the fiscal deficit. As a result 11 out of these 12 programmes were stalled midway, ostensibly because consecutive Pakistani governments were not intent on realising IMF targets with regards to revenue generation and deficit reduction. Yet each time, after a short gap and when Pakistan was in need of more funding to stave off a balance of payments and/or growth crisis, the IMF was back at the table, negotiating a new facility.

Analysts have for long seen a US hand behind this unusual behaviour. A December 2012 working paper from the Asia Research Centre of the London School of Economics authored by two erstwhile IMF hands from Pakistan (Ehtisham Ahmad and Azizali Mohammed, "Pakistan, the United States and the IMF: Great game or a curious case of Dutch Disease without the oil?") argues that: "A history of Pakistan's relations with the IMF (and the Bretton Woods Institutions in general) cannot be told without reference to the complex and changing role played by the United States, especially since the mid-1980s when the Reagan administration stepped up responses to the Soviet Union in Afghanistan." Whenever expenditures on strategic grounds were needed they flowed in the form of bilateral commitments by the US government. But when political considerations led to the cessation of bilateral assistance, the IMF stepped in, even if temporarily.

This political (mis)use of a multilateral institution meant that Pakistan benefited from "exceptionally favourable

conditionality and flexibility in giving waivers, on not meeting even soft conditionality standards." This led in turn to successive Pakistani governments avoiding demands to raise the woefully inadequate level of its tax revenue to GDP ratio, which was below 11 per cent in all but one year since 2000 and as low as 8.7 per cent in one. It also meant a kind of dependence on American and/or multilateral support that affected the growth process, given the volatility of such support for political and other reasons.

Not that the US and the IMF got nothing in return. They have managed to persuade domestic elites in Pakistan to put the country firmly on a path of neoliberal development path with an emphasis on liberalization of trade and foreign investment rules, domestic deregulation, and large scale privatization of public assets. Dependence on foreign financing has led to a convergence in thinking between domestic elites in Pakistan and the US and multilateral policy establishments on the need for a neoliberal policy environment, so that the IMF is not criticised for achieving nothing out of its long and close engagement with that country.

The implications of that policy regime for objectives like employment generation and poverty reduction, besides health and education, hardly need emphasizing. Given preexisting inequalities, including in land ownership, a market driven strategy can hardly be inclusive. Human development advance, if any, must be ensured through enhanced public spending. With the government strapped for resources, social expenditures in the budget have been too little to make any difference.

Neoliberalism has worsened the fiscal problem and affected growth directly as well. To start with, since it relies on private initiative to raise investment and growth, the government is committed to a tax regime that is lenient and incentivises private sector activity. Revenues are expected to come from widening the tax base and improving compliance—as elsewhere that has not worked. Second, the weighted average tariffs imposed on manufactured imports fell from 44 per cent in 1998 to 12 per cent a decade later, undermining domestic manufacturing in Pakistan. Third, revenues from taxes on international trade have shrunk from as much as 28 per cent of total revenues 3 in the early 1990s to an average 7-8 per cent currently. That loss has obviously not been compensated with revenues from direct taxes, affecting the spending power of the state adversely. With the tax-GDP ratio low, and some pressure to keep deficits from registering explosive increases, the state's ability to stimulate growth has been eroded, but alternative drivers of demand such as exports have not emerged.

As a result, the expenditures that capital flows helped sustain proved crucial for raising demand and driving growth. With Pakistan being a beneficiary of such flows, it is not surprising that the GDP growth rate in Pakistan has averaged close to a creditable 5 per cent in the whole period since 1947. Low rates of growth in some years have been compensated by higher rates in others, especially when US-directed flows of foreign investment, foreign debt and grants have been abundant. The problem is that since capital flows have been volatile, annual growth rates have also been extremely volatile in Pakistan.

Given that history, the current economic situation is disturbing because despite the most recent IMF loan and despite a substantial step up of US expenditures to address the perceived threat from terrorism originating in the region, growth has slowed since 2008. After recording a compound annual GDP growth rate of 3.9 per cent over 1991- 2003, Pakistan experienced a mini-boom with growth over 2003-07 being as high as 7.9 per cent. But between 2008 and 2014 the growth rate has come down to around 3 per cent per annum.

An important explanation seems to be a collapse of foreign investment inflows from a high of $7 billion in 2007 to $760 million in 2012 and $2.3 billion in 2014. The fact that the IMF most often turned a blind eye to violations of fiscal deficit targets did not help. A higher fiscal deficit does not mean considerably higher expenditure, if the tax to GDP ratio is low or falling.

Privatization and the absence of public investment have affected growth from the supply side as well. Nothing illustrates this better than Pakistan's electricity crisis with major shutdowns that hold back production and infuriate consumers. Starting in the 1990s the government decided to encourage private investors to set up capacities to generate electricity. To encourage them the government entered into power purchase agreements at lucrative prices. But this implied that the price at which the government required the public distributor to sell power to its clients would result in large losses unless subsidies make up the difference. Unable to finance those subsidies, a government strapped for cash could not meet payments due to the power producers. The latter have cut back production aggravating the power shortages created by inadequate capacity creation. Power producers in turn have delayed payments to the fuel procuring agencies that supply them their principal input.

The result has been a combination of severe power

shortages and a circle of debt that is estimated at $6 billion or more. With new investments not forthcoming and utilization of existing capacity at 40 to 50 per cent, power shutdowns last up to 20 hours in some areas. This has led to riots. It also results in production disruptions and lower growth. Spending is crucial to relax this supply constraint.

Thus, what the Pakistan government needs to do is to raise tax rates and tax revenues, which can finance enhanced public expenditure, especially public capital formation. The government is, however, seeking to borrow itself out of the problem and is looking for new credit to pay off the debt it owes power producers and the fuel 4 companies. But for a country that has built up a huge debt burden by doing that more than once in the past, that is not even a short term solution.

To conclude, Pakistan's role as an on-and-off strategic partner of the US and its allies has undermined its ability to find an independently funded and driven growth strategy. This is what the IMF, given its own role in this triangular relationship, conceals in its optimistic assessments of the performance of the Pakistan economy. Meanwhile, in Pakistan, the government waits for another round of strategic funding from the US and the proposed "game-changing" $46 billion investment by China in the Pakistan-China Economic Corridor to materialize and resolve its current crisis.

(Courtesy: Macro Scan)

How America's Superrich Are Draining the Poor of a Longer Life Span

By: Les Leopold

A new study shows that runaway inequality also is creating a more deadly gap—a growing life expectancy gap between the rich and the poor.

The American people have a deep sense of fairness. We are angry about the growing pay gap between the top 100 CEOs and the average worker — a gap that has widened from $45 to $1 in 1970, to a staggering $844 to $1 today.

Just as with inequality, there always has been a gap in life expectancy based on income. But something new and disturbing is now underway: The life expectancy gap is accelerating. Runaway inequality is robbing lower income groups of the longevity they deserve.

This was not expected. On the contrary, as our country grew richer and richer, we believed the gap would narrow. Advances in medicine, health education and our overall standard of living should have increased the life-spans for every group, regardless of income, race or ethnicity.

Unfortunately, the picture is quite bleak for the bottom 10%. Among low-income women the average life expectancy has not budged over the last generation, holding steady at 80.4 years. Low income men saw a slight increase from 74.3 years to 76.0 years.

Meanwhile, if you're the beneficiary of runaway inequality, break out the Champagne and birthday candles. Your average life expectancy has jumped from 84.1 to 90.5 years of age for wealthy women, and from 79.3 to 88 years for well-off men.

Instead of narrowing, the longevity gap between rich and poor has actually increased by 7 long years during the reign of runaway inequality!

The Longevity Gap is Colour Coded

While this is a tragedy for all low-income Americans, it is of special importance to people of colour.

- Blacks households comprise 24% of those earning less than15,000 year but only 5% of those households earning more than200,000 per year.
- Hispanic families comprise 15% of the poorest households and 5% of the richest.
- Meanwhile white households comprise 56% of the those in the lowest income brackets and 80% of the highest brackets. (Percentages derived from data found here)

A Focus on Class is a Focus on Race

Sanders campaign is being criticized for concentrating too much on class and not enough on race — that he is a single issue candidate who is insensitive to racial disparities.

But if you care about the gross unfairness of the longevity gap, a focus on class is very much a focus on race. In addition, such a focus could produce powerful alliances, since 56% of the poor are white. There's a rainbow coalition for economic and racial justice to be formed.

It is critically important to understand that those who prosper from runaway inequality are willing to accommodate a demand that removes racial

disparities among the poor. However, establishment elites are not willing to reverse runaway inequality.

But our progressive goal must be to close the obscene wealth and income gap, while also eliminating poverty entirely. That requires a redistribution of income and wealth from financial and corporate elites to the rest of us, something those elites will fiercely resist.

Neoliberalism and the Drive for Austerity

Reversing runaway inequality and the gruesome longevity gap requires that we understand how we got here.

In the late 1970s a new political-economic philosophy captured both political parties — academics call it neoliberalism— Bernie calls it the establishment. These new policies consisted of cuts in taxes, cuts in regulations, cuts in the social safety net and a reduction of the power of labor unions.

This was supposed to lead to a massive profit and investment boom that would make all boats rise. Unfortunately, these policies, especially the deregulation of Wall Street, unleashed the forces of runaway inequality. The result: prosperity and longevity for the rich, austerity for the rest of us.

With the new economic philosophy came a new social philosophy. You are on your own. If you're poor, do something about it. If you're unemployed, go find a job. If you want to go to college, take out loans. If you want a poverty program, go to jail.

The entire notion of public job creation, especially for young people of colour and the poor, was off the table. Instead, many of those at the bottom of the income ladder were vacuumed up into the criminal justice system. As inequality grew, so did the prison population. We now have the most prisoners in the world, both in total number and as a percentage of the population.

For more than 40 years this neoliberal consensus went unchallenged. Yes, there were differences between the parties. The liberal establishment supported more diversity on race, gender and sexual orientation, and slightly less austerity. But neither party interfered with runway inequality as they competed for campaign contributions from economic elites, (as well as fat speaking fees and lucrative financial jobs after leaving political office.)

Then came the financial crash and the Great Recession. All that financial deregulation, so forcefully promoted by Reagan, Bush, Clinton and Bush came home to roost. But Wall Street used its enormous political muscle within the neoliberal establishment to get the bailouts it needed. The rest of American took the hit.

Since then, the largest banks have grown even bigger while 95% of all the new income generated by the economy has gone to the top 1%.

Occupy, Warren and Sanders

Neoliberalism was so deeply embedded in Congress that by the summer of 2010, President Obama called for more austerity. Not only did he succeed in cutting government jobs (among the most important middle class jobs for people of colour) but he wanted a "grand bargain" with the Republicans that included cuts in Social Security. But a bunch of kids beat it back. In the fall of 2011, Occupy Wall Street completely changed the subject from austerity to inequality as "We are the 99%" captured the political discourse.

The 900 Occupy encampments around the world tapped into our anger towards Wall Street and the politicians who coddled the rich and powerful. But Occupy couldn't build sustainable organizational and political structures.

Elizabeth Warren picked up the banner. Like no other Democrat she took Wall Street to task again and again. She became a national phenomena as she successfully ran for the Senate.

And now Bernie.

The Sanders campaign is a direct assault on the neo-liberal establishment. Hillary, however, is part of it. Her donors, her advisors, her media contacts, and her family are a part of the top one percent. They represent the liberal wing of the neoliberal establishment.

Hillary claims that her positions are the same as Bernie's, but they are not.

- He wants a15 minimum wage, She wants12, a big difference if you are poor.
- He wants a financial transaction tax to pay for free higher education. She wants neither.
- He wants to break up the big banks. She only wants more oversight.
- He wants single-payer universal health care. She wants to keep the private insurance companies in play.

Every one of Bernie's policies is an attack on runaway inequality and the neoliberal establishment. Hillary's positions can be accommodated within that establishment. It is not an accident that Wall Street paid so much to hear Hillary speak. It is not an

accident that they are contributing millions to her Super-Pac.

But it is short-sighted to think that Wall Street is buying Hillary's votes. Rather, they are re-cementing her into the neoliberal framework. She can be for change, but not enough to reverse runaway inequality.

The Shameless Embrace of Obama

Since Hillary can not directly attack her own backers and advisors — the elite establishment that profits from runaway inequality and poverty — her racial justice strategy is to wrap herself around President Obama.

It's not a racial dog whistle — it's a bullhorn.

Any critique of her neoliberalism, or her health care position, or her Wall Street speaking fees and Super-Pac contributions is instantly reframed as an attack on the first Black President. "He did it too!"

But the American people are not stupid. After 40 years of neoliberal disaster unfairness and austerity, we have had enough. We don't want a growing longevity gap, a growing income gap, a growing wealth gap, and a growing racial gap. We don't want the most prisoners in the world, the most child poverty and the most expensive health care system.

We no longer want to live in a country torn apart by runaway inequality and we want someone who is willing to fight the rigged economic system, political corruption and "the billionaire class."

Bernie's doing just that and that is precisely what worries Team Hillary.

{Les Leopold is the executive director of the Labor Institute in New York, and author of How to Make a Million Dollars an Hour: Why Hedge Funds Get Away with Siphoning Off America's Wealth (J. Wiley and Sons, 2013)}.

(Courtesy: Alternet.org)

Interview

'The "Pro-Business" Model of Capitalism is Broken and Getting Worse' - Les Leopold

By Elias Isquith

While the fate of the presidential campaign that talks about the issue more than any other remains uncertain, this much is clear: Despite the general public's mounting anxiety and awareness, the economic inequality that's done so much to change American society over the past 40 years has not abated. It may, in fact, be getting worse.

*For this reason alone, **"Runaway Inequality: An Activist's Guide to Economic Justice,"** the new book from Labor Institute executive director and president **Les Leopold**, would be worth reading. Thankfully, however, the book has many virtues besides its timeliness. And more than most of the other high-profile books on inequality in recent years, "Runaway Inequality" doesn't just explain where the U.S. economy went wrong; it also explains how American citizens can organize to get it back on track.*

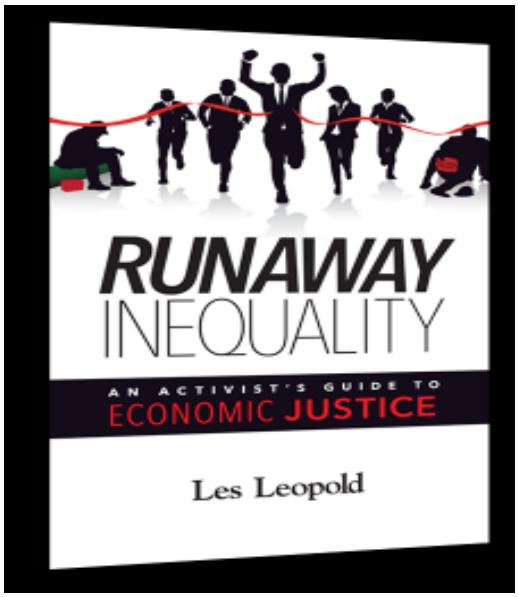
*Recently, **Elias Isquith** of **Salon** spoke with **Leopold** over the phone about the book and economic inequality in general. The conversation has been edited for clarity and length.*

There are a lot of books about inequality out there now, especially in the past five or so years. What does your book bring to the conversation that was otherwise lacking?

I think there were three things that I thought would differ from the ongoing conversation. The first one was that runaway inequality was accelerating. It isn't just there, it's growing. The fact that 95 percent of all the new income in the current so-called recovery is going to the top 1 percent is indicative of what's happening. I don't think that's ever happened before in American economic history that I can find. There's no recovery at the bottom, it just keeps going to the top.

The second one, which I think is even more important, was that I saw runaway inequality as a core issue that linked so many diverse issues. I think it's kind of funny when someone says, "Well, Bernie Sanders is just interested in inequality or Wall Street. It's just one issue." I see it quite differently. I see it as the issue that connects so many other issues, and therefore that leads to the third reason.

I thought that connective tissue could be the basis for building an analysis that could help foster a broad-based progressive-populist movement. That if people could see that their issue silos were actually connected to inequality, it could build bridges amongst various progressive groups that have gotten siloed. Much of the last generation's worth of progressive action has been within an issue category, be it identity politics or education or housing or environment or so on. There has been a fracturing of what could be a more coherent movement, and I thought "Runaway Inequality," with its focus on Wall Street and the financialization of the economy, could provide that connective tissue. I didn't see that anywhere else.



How does your analysis differ from some of the other recent work on inequality?

The slant on Runaway Inequality was different from Piketty and others. There tends to be a story that goes something like this: "American workers kind of got lost in the global shuffle. They don't have the skills that the more elite people have and we don't need the manual labor, et cetera. It's kind of a skill problem, a mismatch between skills and jobs." I just don't think that's true. I think, in fact, the deregulation of the financial system is the driving force of runaway inequality.

I think the way to build a coherent, broad-based populist movement is to focus on runway inequality and Wall Street. That's what I'm hoping to contribute to.

Why is it that so much of the recovery has gone to those at the top?

That's the question that takes us to the core analysis. In the late '70s, roughly, a new economic philosophy really caught hold in both political parties. It originally came from the right, from Milton Friedman and the free marketeers. Academics call it neoliberalism; in the book, we call it the "Better Business Climate."

It basically was kind of a simple model. Cut taxes, cut regulations, cut back social spending so people will be more eager to find work and be less dependent on the government, and basically undermine the power of labor unions so the economy would run more on market principles and have less inefficiencies in it. There would be more investment and profits, and therefore, all boats would rise. It would lead to kind of a boom economy. That was the theory. I was in graduate school when that was going on, and it was pretty strong, even more liberal economists were sort of giving up on Keynesianism and going in this direction.

What they didn't teach us and what they never discussed is that it's one thing to deregulate trucking or airlines or telecommunications, but it's quite another thing to deregulate the financial sector. When they started deregulating the financial sector, it put in motion something that we refer to as "financial strip mining." It's an incredible, insidious process. It started with a lot of corporate raids – we know call them hedge funds, takeovers, private equity companies – financiers who use a little bit of their own money, borrow a huge amount of money, and start buying up companies. In the deregulated atmosphere they bought up thousands of them over time. The debt that was accumulated to do that was basically put on the company. It's a little bit like if you went out and bought a car with a loan, instead of you paying back the loan the car pays back the loan. That's what they were doing.

How did this practice change the way those companies were run?

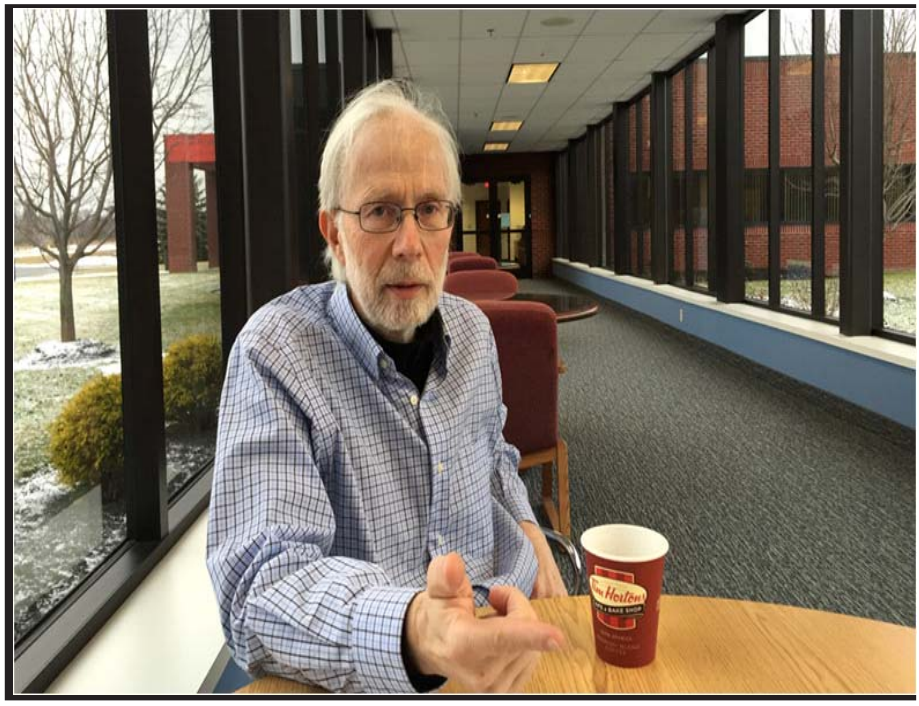
They changed the way the CEOs were paid, so that the CEO acted in behalf of the Wall Street investors. This was really powerful. In 1980, 95 percent of the CEOs' pay was salary and bonuses, and five percent was stock incentives. Today, it's virtually reversed. About 85 to 95 percent is stock incentives, and only five percent is salaries and bonuses. So that means the price of the stock is all that matters to the CEO, and of course that's all that matters to the investors – the hedge funds, the private equity companies. They want to see the stock go up.

It's a huge change in corporate culture. Now the CEO cares only about raising the stock. What's the best way to do that? In workshops, we ask working people and community activists this question, and they start talking about, "Well, you've got to create a better

product, you want to get more market share," all of the things you would think would lead in that direction. In fact, they did something else.

There was a rule change in 1982, under Reagan. A guy who was the former Head of E.F. Hutton became head of the Securities and Exchange Commission, and he changed the rule about companies buying back their own shares. Before 1982, it was virtually illegal to do that because it was considered stock manipulation. When a company buys back its own shares, it reduces the number of share owners, and therefore every share is worth a little bit more. If you do this, all things being equal, you're going to boost the share and manipulate the price. The free market's not doing it, you're doing it. This guy thought, "Well that's very efficient. Anyway, competition will even all of that out."

CEOs and their corporate raider Wall Street partners are thinking, "Oh, this is fantastic. Let's use the company's money to raise the price of the share, and then we can cash in on our stock incentives. The outside investors can cash in and leave, 'pump and dump.' This is great."



How prevalent have stock buybacks become, and what are the implications of that?

In 1980, about two percent of a company's profits were used for stock buybacks. By 2007, 75 percent of all corporate profits were used to buy back their own shares. Forget about R&D, forget about workers' wages, forget about all that kind of stuff. All that matters to a CEO today is raising the prices of the shares through stock buybacks.

Yesterday, I was at a United Steelworkers meeting and they were very concerned about Carrier moving to Mexico. They're negotiating and they've been making concessions and they still can't get a deal. It's a really bad situation. Donald Trump has actually been talking about it as well.

The difference between the negotiations, things are $10 million, $20 million, $30 million dollars. So I quickly go to Google and look up United Technologies, which owns Carrier. In October, United Technologies bought back $9 billion of their own shares. So they're strip mining the company, and they're using the worker contracts and the moving to Mexico as a way to generate more cash flow so that they can buy back their own shares. This financial strip mining is phenomenal. The net result is, in 1970 the ratio between a top-100 CEO's pay and an average worker was 45-to-1. Which is a lot if you think about it this way: if an average worker could afford one car, the CEO could afford 45 cars. Or one home versus 45 homes, or one home that's 45 times the size of an average worker's home. We just crunched the numbers again for 2014: it's 844-to-1. You can't even conceive of how big that gap is, and it's a direct result of financial strip mining.

That's what leads to that acceleration. There's nothing to stop it now. This is just what they do. When they run out of cash flow to buy back their own shares, they go deeper into debt. They'll go to the debt market and try to get more money and then turn around and buy back their own shares. This has an incredible effect on virtually every other issue.

How so?

I can just give you one example that really galls me, but it says a lot and shows how many different issues are connected. The Obama administration bailed out the auto industry, and it's great that they did. The industry was going under due to the Wall Street crash and there was no other reason at all at the time. It

was a financial crunch that was taking General Motors under. The guy who negotiated that deal, one of the key negotiators for the Obama administration, left and went to a hedge fund. GM built up a cash cushion because it's doing better now. I think all of the American people, at the very least, hoped that when GM built up its cash reserves it would do what needed to be done, which is build the best, highest quality, most efficient cars they possibly could for the future generations. This is what we all needed. I think that was the hope.

Well, this guy goes to a hedge fund and takes a position, buys a bunch of shares of GM. And what does it do? It demands that instead of that cash going to R&D, that it goes to the investors through stock buybacks. And about three weeks ago, GM also announced a $9 billion stock buyback plan. It's shameless financial strip-mining. It does nothing whatsoever for society, but it undermines other goals.

What the book then does is show how this process has huge impact on the public sector. This whole Better Business Climate has a direct connection to the rise of the prison population. So we show how issue after issue is deeply connected to this process of financial strip mining and runaway inequality.

Capitalism has never been particularly warm and fuzzy towards workers, but there was a time before this Better Business Climate concept when businesses were seen as part of communities and were perceived as having obligations to society. They weren't just doing financial strip mining — even if it made economic sense, hypothetically.

That's a very good point. Our story kind of starts there. I personally think that this is a transformation of capitalism. Capitalism was still capitalism from World War II to the late 1970s, but the productivity, which is output per worker hour, basically has risen every year except five from 1947 to today. The line just goes up on a 45-degree angle. Average worker wages, taking into account inflation, also grows from 1947 to around 1977. Rose every single year. When we were in grad school, they taught us this was the iron law – that corporations needed to do this. In other words, being more community minded was part of what made a corporation a corporation, and supply and demand led them, if they wanted to keep that productivity going, to pay their workers reasonably well.

The philosophy at that point was basically "retain and reinvest." CEOs viewed stakeholders as labor, community and their shareholders. It wasn't that shareholders were somehow in there for the share price over everything else. Once this Better Business Climate model hit, you look at these same two lines and they just split apart. Worker wages actually go down in terms of real buying power. The gap between the two lines today is so large that if worker wages stayed on that productivity line that they taught us was an iron law, which of course they then repealed as soon as I graduated, if the two lines kept going up together the average weekly wage would be double what it is today. That's how big a gap took place. Something really big changed.

Where else can we see evidence of that change?

You can see the change most clearly if you look at financial sector wages and non-financial sector wages. From 1947 to 1980, the two lines go up together. There was no premium for working on Wall Street. You could work for Chase Manhattan Bank or Manufacturers Hanover or whatever, or General Motors or Ford, and given your general level of skill, education, experience and so on, you'd earn about the same. There was no premium. And then basically the lines split apart again. Financial sector wages go through the roof after deregulation takes hold, so you get a different kind of capitalism.

Piketty, I think, doesn't really emphasize that. I think very few people have really stressed what a huge change that is – to have the financial sector draw so much money to itself. By 2006, 40 percent of all corporate profits were going to the financial sector. They only have five percent of the workforce, but they've got 40 percent of the profits. The strip mining of wealth was being collected there, going from everybody else to them. I think that's different than the Robber Baron era, where the industrialists were getting a lot of money, but there was a rising standard of living for everybody else. That has stopped.

The average American worker knows about inequality, but they may also wonder why it should matter to them so long as their own standard of living is improving. How do you reach people who think inequality is more of a problem in the abstract than in their daily lives?

Basically there are two competing narratives. "Who cares about inequality if everybody is doing better in America?" and the narrative that's in the book, which is, "It's happening at your expense." We have a couple of chapters that do nothing else but compare the United States to other countries around the world, indicator after indicator after indicator, and just show how far we've fallen. We do lead the world in inequality, military spending and number and percent of prisoners. Of all the developed countries, we are

second-to-last in child poverty. Romania is the only country behind us.

They did a nice study of seven countries, according to upward mobility, what are the odds that you would be in an income bracket higher than your parents', and it turned out in the United States it was about 50-50. We were at the bottom of the list. Number one was Denmark, where the odds were seven-to-one that you would do better than your parents. So even upward mobility, our most cherished dream. It goes on and on. Education – in terms of what we pay our teachers, it's low. The amount of money we invest in 3-year-old and 4-year-old education, we're near the bottom of the list. An indicator like longevity, we actually showed a decline in comparison to other countries.

So there's something really going on. Of course, if you were in the top one-percent, this is the greatest country on earth, I'm sure, because you live in your own world. You have your gated community, your private schools, virtually a private healthcare system. You pay very little tax because your money is offshore, and so on. So there's this breaking apart of America. American exceptionalism, the American dream is sort of collapsing.

How does this financial strip mining impact the public sector?

Two things are very important to realize about this financialization of corporations. The first is that the interest payment on debt is not taxable, just like the interest payment on the mortgage on someone's home is tax deductible. There was virtually no corporate debt up until about 1980; corporations used their own resources to fund what they needed. Then, through this corporate raiding process debt became the rage and now there's like $12 trillion in corporate debt. And as corporate debt goes up, tax payments go down.

For example, corporate tax contributions to state and local government have virtually fallen in half since 1980, which puts more pressure on individual tax receipts. But the wealthy have moved so much money offshore that their taxes have also gone down. So we now have, when it comes to state and local government, a perfectly regressive tax system. The top one percent pay about half the tax rate as the bottom 20 percent. As you go down the brackets, the tax rate actually goes up and up – the actual percentage that people pay gets higher and higher.

And that decline in overall revenue leads to deficits and calls to cut safety net programs.

That leads to a fiscal crisis. You have this great squeeze on the public sector, because you've got workers who haven't had a raise in a generation in terms of real buying power and you've got the wealthy not paying their share. We estimate there's something like $21 trillion offshore, and we're losing at least $150 billion in tax revenues on money that should be taxed but isn't. Now you have corporate inversions, which are putting more downward pressure on corporate taxes.

So the people in the middle that are paying most of the taxes are tapped out. They're easy prey to a politician who says, "We want to cut the public sector. Teachers are getting paid too much, we can't afford their pensions."

Why are programs like education such an easy target for spending cuts?

We've got a new philosophy that comes with the Better Business Climate, and it's total individual responsibility — the idea of a Great Society or a New Deal taking care of people goes out the window. If you want a job, go find it. If you're poor, it's your fault. If you want to go to school, take out a loan. The idea of the government providing anything is greatly diminished.

Ask yourself when the last time a politician was said, "I want to create more public sector jobs so we can create jobs for inner-city youth, where unemployment is high." I don't think there's a politician in the country that directly would say that anymore, yet that was common in the '60s and early '70s because we knew there was a crisis of employment in rural places and inner cities. There were lots of experiments to figure out how to get employment in those areas, and the public sector grew. It was the track of upward mobility for African Americans, especially African American women, that was their ticket into the middle class: public employment.

Since then, the number of government jobs as a percentage of the U.S. population has gone down as the Better Business Climate model took hold. As runaway inequality accelerated, it put more and more pressure on the public sector, and we basically gave up on the idea of a poverty program.

(Elias Isquith is a daily columnist at Salon who focuses on politics and inequality.)

(Courtesy: Alternet.org)

NGO-Corporate Partnership: Does it Challenge Business?

By: Peter Jacobs

This article is an insider's account of a multinational corporation and its 'partnership' with an international non-governmental organisation (NGO). The organisations involved are anonymised. Naming them would be counter-productive to the argument, as our intention is to examine the processes involved in NGO-corporate partnership. It is useful to name the organisations involved in specific case studies where the aim is to target these specific organisations. The focus of this article is on general principles. In addition, the author had agreed with the corporation in question not to reveal its identity.

If you think about how an NGO actually relates to a corporation in a 'partnership', the question immediately arises: how would an NGO matter to a corporation if it could not be present at all times?

Partnership

First, I will introduce the corporation and the NGO, then I will outline the history and the rationale of their engagement. I will then focus on a variety of instances of how the NGO was present in the everyday workings of the Corporate Social Responsibility (CSR) unit of the corporation. I shall conclude by questioning the usefulness of NGO engagement with corporations.

The players

The corporation in question is a multinational company in the financial services market, employing over 10,000 people and 'serving' tens of thousands of customers in more than 50 countries. In a recent year, its profits were over 7,000 million USD.

The NGO, also multinational, focuses on environmental conservation. Relative to other NGOs, it is as important and powerful as the corporation. It draws resources from a supporting base of several million people in many countries - almost comparable to the number of countries that the corporation operates in.

The game

How did the corporation's and NGO's engagement with each other originally start? Here is the story I was told in a café on a sunny Thursday morning by one of its initiators, a public relations (PR) specialist working for the corporation.

During a 'stakeholder dialogue', the corporation invited a variety of not-for-profit organisations to learn about its internal processes and suggest changes. One of these was our conservation NGO. The corporation had been interested in developing a partnership through which it could establish institutional access to expert knowledge on how to deal with climate change issues. This NGO was preferred over both academic partners, which were perceived as 'not quite so flexible', and consultants, who were part of their economic territory anyway. In contrast, a partnership with the NGO promised access to a part of society that the multinational was less involved with, i.e. green clientèle. At the same time, the conservation organisation was quite a moderate voice compared to other environmental NGOs.

To make this partnership profitable, the corporation was specifically interested in the NGO's understanding of green markets. The NGO would be able to recognise whether the multinational's environmental conduct was scaring consumers off. At the same time, the PR specialist thought of the relationship as providing a source of perspective for his employer: to see the corporation through the eyes of the NGO. In this sense, the partnership established an early warning system on reputational risks with respect to the green image of the corporation.

The engagement process took, and takes, form through meetings, phone calls, workshops, letters of intent, memorandums, commonly commissioned studies, shiny brochures and the transfer of millions of dollars into the NGO's accounts (the NGO received a contracted amount of 'donations' from the corporation). Additionally, the corporation was to 'green itself' and lobby for the 'greening' of public policies that governed several industrial sectors. These political aims were in line with the NGO's own aims. Thus, through the partnership, the NGO would enlist the power of the corporation to some degree to fight for its political agenda, at least in theory. I cannot report on the effectiveness of this grand idea of political lobbying. I can, however, outline how this specific partnership manifested itself in everyday corporate greening activity. Here are three examples:

On the wall: In several of the corporation's offices, a calendar produced by the NGO was put up on the wall. It was a widespread practice within the company to have calendars on the walls; a useful instrument to manage time. Time is a key coordinating dimension for many corporate practices. Even though most date coordination is nowadays done through Microsoft Outlook or a Blackberry phone, it can still be convenient to have a large calendar on the wall to see a whole year at a glance. The NGO's calendar, however, showed single months only. About 90% of the calendar's space was used to show a beautiful natural picture, for example a gorilla. The NGO's logo accompanied the little date row. What can be made of this? While calendars may be a useful object in corporate offices, the NGO one was not quite so apt as a time coordinating device. Rather, it more of an indication, to both visitors and workers, that there was some sort of partnership between the corporation and the NGO.

Explaining the corporation's Environmental Management System: An Environmental Management System (EMS) is a concept used to refer to an organisational scheme that is supposed to help the company to continuously green itself. Our corporation had such a scheme. The head of the EMS explained to me that the NGO had asked the company to organise its greening practices in such a way that an external auditor would be able to verify its EMS. What does this imply? The NGO is rendered as a legitimising resource by invoking its claims. For some corporate actors who had similar relationships with NGOs, the partnership allowed the companies to argue, as in this case, that their greening practices were of a high standard (how effective such standards are is another story). The NGO partnership can also be used rhetorically by some workers to argue for spending more money on greening exercises, like an EMS, and, through that, fighting other employees who do not want to spend resources on 'greening'.

Making decisions about an environmental accounting algorithm: A third way in which the NGO was present within the corporation can be found in the instance of a meeting in which environmental accountants discussed, and had to decide, how to shape an algorithm that was used to reflect the corporation's environmental impact.The environmental impact of any operation, like producing a leaflet, flying from London to Manchester or building a bridge may be represented quantitatively. However, these quantities are not objective; they are generated in specific social and political contexts. For instance, the order and type of steps used to produce algorithms have to be defined by humans, which means qualitative and inherently political decisions are always involved.

In our example, several alternative algorithms were available. The corporate actors decided to involve further actors to legitimise the choice of one option that served the interests of the company. Besides the financial accountants and a global auditing firm, they also considered involving the NGO. However, this was immediately ruled out. What does this tell us? Involving the NGO can provide legitimacy, and this may be politically useful. However, it can also be a risk. After all, the corporation had to ensure that the NGO did not learn more than necessary about a number of management choices, which were better left in the dark.

Conclusions

These instances clearly show that an NGO may be present within a corporation in a variety of ways. An overall evaluation of whether it is useful to support such partnerships depends on your political ideas and how they relate to these kinds of engagements. If you believe in changing society through ideas, then you might be satisfied with spreading symbols into the offices and work places of a corporation. However, if you are more interested in actual material changes of corporate practices, then you need to consider how your engagement affects corporate processes in your physical absence: how will corporate actors use the engagement as a resource for their own benefit? In the absence of immediate control over how the engagement influences corporate practices, employees may exercise their power over how to inform and include the partner NGO.

My observations on how the NGO was present within the everyday operations of the corporation suggest that engaging with the company did not fundamentally challenge its operations. First, the NGO provided the resource for rendering the offices' atmosphere greener. Second, the NGO was used internally as a resource to legitimise those strategies, which some of the managers were following anyway. Third, the NGO was excluded from influencing the substantive decisions, e.g. those about accounting and finances. At the same time, the 'partnership' repositioned the NGO closer to the corporation: As the official partner, the NGO was not to publicly criticise the corporation and has, thus, lost its critical potential.

How are we to link these observations and conclusions to the politics of engaging with

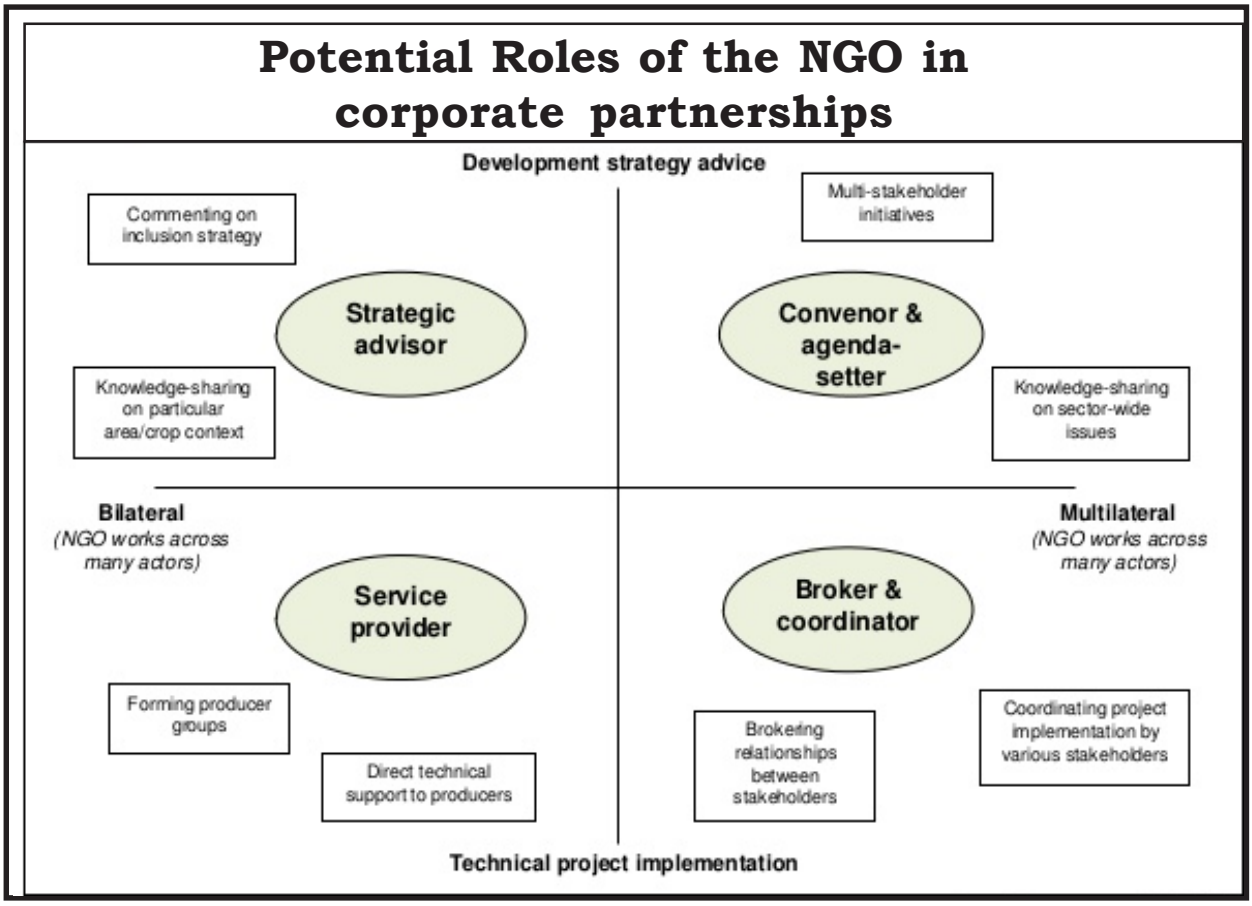
corporations in general? One obvious thing is that the partnership is about money in three ways. Firstly, corporations pay their NGO partners to be allowed to use their labels. This promises higher profits for the corporations, which allows them to continue their profit-driven enterprises, i.e. competing with other corporations where those with the most 'efficient' means of exploiting people and the environment dominate the market and generate more profits.

Secondly, the NGO is able to present itself to its 'customers', i.e. to the masses who provide donations, as being a recognised actor playing on a level playing field with powerful businesses, which promises effectiveness: NGOs engaging in partnerships want to be perceived as being able to influence corporations' practices and politics. If people actually follow the route laid out by those participating in such partnerships, they will provide financial support to these NGOs because the latter can be understood as working on real-world issues, i.e. those phenomena that are construed by advertisement and mainstream media as 'our' problems that 'we all' face. The partnership is even more successful if people start to consume the products and services of the corporation.

Thirdly, if certain businesses are declared by politicians, bankers and other actors as 'green' or 'socially responsible', then they may increase profits. A 'green' corporation is more likely to attract ethical investments; a 'socially responsible' corporation is more likely to win bids in this environmentally concious age. Through such partnerships, corporations gain a green or ethical image, whether or not this is reflected by their actual business. This is known as greenwash.

An NGO seeking to influence the inner workings of a corporation has to invest a lot of time and energy to learn and be part of corporate reality. By doing this, however, the NGO is effectively turning into another service provider for the corporation. At the same time, there is little evidence that this 'investment' in the corporation has any direct influence on the corporation's destructive practices. The results of the engagement process are largely symbolic: the corporation receives a 'green' or 'socially responsible' licence; the NGO portrays or thinks of itself as actively changing business, yet it has to censor itself from publicly challenging its corporate 'partner'. It could be argued that this, in turn, may weaken or hinder more radical interventions by others. Activists should, therefore, challenge such partnerships and show those buying in to them the real effects of these engagements and what kind of ecological, social and political changes they preclude.

(Courtesy: Corporate Watch)



Violence Begets Violence: How Sometimes America Acts Like the Islamic State

By: Chris Hedges

(The United States needs to answer for its own human rights violations.)

Revenge is the psychological engine of war. Victims are the blood currency. Their corpses are used to sanctify acts of indiscriminate murder. Those defined as the enemy and targeted for slaughter are rendered inhuman. They are not worthy of empathy or justice. Pity and grief are felt exclusively for our own. We vow to eradicate a dehumanized mass that embodies absolute evil. The maimed and dead in Brussels or Paris and the maimed and dead in Raqqa or Sirte perpetuate the same dark lusts. We all are Islamic State.

"From violence only violence is born," Primo Levi wrote, "following a pendular action that, as time goes by, rather than dying down, becomes more frenzied."

The tit-for-tat game of killing will not end until exhaustion, until the culture of death breaks us emotionally and physically. We use our drones, warplanes, missiles and artillery to rip apart walls and ceilings, blow out windows and kill or wound those inside. Our enemies pack peroxide-based explosives in suitcases or suicide vests and walk into airport terminals, concert halls, cafes or subways and blow us up, often along with themselves. If they had our technology of death they would do it more efficiently. But they do not. Their tactics are cruder, but morally they are the same as us. T.E. Lawrence called this cycle of violence "the rings of sorrow."

The Christian religion embraces the concept of "holy war" as fanatically as Islam does. Our Crusades are matched by the concept of jihad. Once religion is used to sanctify murder there are no rules. It is a battle between light and dark, good and evil, Satan and God. Rational discourse is banished. And "the sleep of reason," as Goya said, "brings forth monsters."

Flags, patriotic songs, a deification of the warrior and sentimental drivel drown out reality. We communicate in empty clichés and mindless, patriotic absurdities. Mass culture is used to reinforce the lie that we are the true victims. It re-creates the past to conform to the national heroic myth. We alone are said to possess virtue and courage. We alone have the right to revenge. We are hypnotized into a communal somnolence, a state-induced blindness.

Those we fight, lacking our industrial machines of death, kill up close. But killing remotely does not make us less morally deformed. Long-distance killing, epitomized by drone operators at Air Force bases within the United States who go home for dinner, is as depraved. These technicians make the vast machinery of death operate with a terrifying clinical sterility. They depersonalize industrial war. They are the "little Eichmanns." This organized bureaucracy of killing is the most enduring legacy of the Holocaust.

"The mechanized, rational, impersonal, and sustained mass destruction of human beings, organized and administered by states, legitimized and set into motion by scientists and jurists, sanctioned and popularized by academics and intellectuals, has become a staple of our civilization, the last, perilous, and often repressed heritage of the millennium," Omer Bartov wrote in Murder in Our Midst: The Holocaust, Industrial Killing and Representation.

We torture kidnapped captives, many held for years, in black sites. We carry out "targeted assassinations" of so-called high-value targets. We abolish civil liberties. We drive millions of families from their homes. Those who oppose us do the same. They torture and behead—replicating the execution style of the Christian Crusaders—with their own brand of savagery. They rule as despots. Pain for pain. Blood for blood. Horror for horror. There is a fearsome symmetry to the madness. It is justified by the same religious perversion. It is the same abandonment of what it means to be humane and just.

As psychologist Rollo May wrote:

At the outset of every war … we hastily transform our enemy into the image of the daimonic; and then, since it is the devil we are fighting, we can shift onto a war footing without asking ourselves all the troublesome and spiritual questions that the war arouses. We no longer have to face the realization that those we are killing are persons like ourselves.

The killing and torture, the more they endure, contaminate the perpetrators and the society that condones their actions. They sever the professional inquisitors and killers from the capacity to feel. They

feed the death instinct. They expand the moral injury of war.

Twenty-two veterans of U.S. military service commit suicide every day. They do it without an explosives belt. But they share, with suicide bombers, the overpowering urge to be rid of the world and the sordid role they had in it.

"It is better to suffer certain injustices than to commit them," Albert Camus, like Immanuel Kant, understood. But the politicians, pundits and mass culture dismiss such wisdom as weakness. Those who speak with sanity, like Euripides when he produced his anti-war masterpiece The Trojan Women, are reviled and banished.

Who are we to condemn the indiscriminate murder of civilians? Have we forgotten our bombing of German and Japanese cities in World War II that left 800,000 civilian women, children and men dead? What about those families we obliterated in Dresden (135,000 dead), Tokyo (97,000 dead), Hiroshima (80,000 dead) and Nagasaki (66,000 dead)? What about the 3 million civilian dead we left behind in Vietnam?

We dropped 32 tons of bombs per hour on North Vietnam between 1965 and 1968—hundreds of Hiroshimas. And, as Nick Turse writes in his book Kill Anything That Moves: The Real American War in Vietnam, this tonnage does not count the "millions of gallons of chemical defoliants, millions of pounds of chemical gases, and endless canisters of napalm; cluster bombs, high-explosive shells, and daisy-cutter bombs that obliterated everything within a ten-football-field diameter; antipersonnel rockets, high-explosive rockets, incendiary rockets, grenades by the millions, and myriad different kinds of mines."

Have we forgotten the millions who died in our wars and proxy wars in the Philippines, Congo, Laos, Cambodia, Guatemala, Indonesia, El Salvador and Nicaragua? Have we forgotten the 1 million dead in Iraq and the 92,000 dead in Afghanistan? Have we forgotten the nearly 8 million people we have driven from their homes in Iraq, Afghanistan, Pakistan and Syria?

There have been 87,000 coalition sorties over Iraq and Syria since the air campaign against Islamic State began. This is the newest chapter in our endless war against the wretched of the earth.

How can we rise up in indignation over Islamic State's destruction of cultural monuments such as Palmyra when we have left so many in ruins? As Frederick Taylor points out in his book Dresden, during the World War II bombing of Germany we destroyed countless "churches, palaces, historic buildings, libraries, museums," including "Goethe's house in Frankfurt" and "the bones of Charlemagne from Aechen cathedral" along with "the irreplaceable contents of the four-hundred-year-old State Library in Munich." Does anyone remember that in a single week of bombing during the Vietnam War we obliterated most of that country's historic My Son temple complex? Have we forgotten that our invasion of Iraq led to the burning of the National Library, the looting of the National Museum and the construction of a military base on the site of the ancient city of Babylon? Thousands of archeological sites have been destroyed because of the wars we spawned in Iraq, Syria, Afghanistan and Libya.We perfected the technique of aerial mass murder and wholesale destruction that we call "carpet bombing," "saturation bombing," "area bombing," "obliteration bombing," "mass bombing" or, in its latest version, "shock and awe." We created, through our national wealth, the managerial systems and technology that the sociologist James William Gibson calls "technowar." What were the attacks of 9/11 but an answer to the explosions and death we inflicted on towns and cities around the globe? Our attackers spoke to us in the demented language we taught them. They, like the attackers in Paris and Brussels, knew exactly how we communicate.

The merchants of death, the arms manufacturers, are among the few who profit. Most of the rest of us are caught in a cycle of violence that will not cease until we end the U.S. occupation of the Middle East, until we learn to speak in a language other than the primitive howl of war, death and annihilation. We will recover a humane language when we have had enough, when there are too many of our own dead for us to sustain the game. The victims will continue to be mostly innocents, trapped between killers that come from the same womb.

(Chris Hedges, a Pulitzer Prize-winning reporter, writes a regular column for Truthdig every Monday. Hedges' most recent book is "Wages of Rebellion: The Moral Imperative of Revolt.")

(Courtesy: Truth .org)

International Arms Companies Make a Killing in Turkey.

Today, Turkey continues its brutality in its war against its Kurdish population. The state is imposing new curfews daily in the south-east of the country. Hundreds of citizens have been killed so far, whilst the western mainstream media and politicians remain largely silent about the massacres.

Anti-militarist activists in the UK, however, are taking action against atrocities carried out by states such as Turkey. Recently, activists occupied the roof and blockaded the DPRTE arms fair in Wales, where several companies that sell weapons to Turkey were exhibiting. In September 2015, DSEI welcomed Turkish officials and military companies, whilst the Turkish government's Defence and Aerospace Industry Exporter's Association was its 'International Partner'. Earlier, a protest was held outside the Home Office against the 'Security and Policing' arms fair, which was being held at an air base in Farnborough. The UK government's arms export body had invited a delegation from Turkey to attend.

There are numerous weapons companies which supply Turkey's police with armoured vehicles, guns, teargas and water cannons, which are used on a daily basis against Kurdish citizens.

As Turkey bombards its Kurdish cities with bullets and mortars and terrorises citizens with its tanks, helicopters and surveillance drones, arms companies are literally making a killing. On March 9, Prime Minister Ahmet Davutoðlu announced that Turkey has approved $5.9 billion in new 'defence' projects.

Turkish Aerospace Industries (TAI) unveiled its new Anka Block A unpiloted drone in February. Turkish Deputy Defense Minister Suay Alpay stated: "We are now engaged in a critical anti-terror fight … These assets built by the local industry will augment our fight."

International arms companies are also making millions from Turkey's desire to arm itself to the teeth. Ten T-129 attack helicopters were delivered to the Turkish military last year. They were produced by British-Italian arms company AgustaWestland (which fully merged with Italian arms giant Finmeccanica this year) and TAI. Seventeen more of these helicopters are due to be delivered this year.

Meanwhile, the Pentagon authorised the selling of smart bombs to Turkey, in a deal worth millions of dollars. "The deal came timely as we are deeply engaged in asymmetrical warfare and need smart bombs," a Turkish military official said. US companies ENF and General Dynamics have been awarded the contracts to provide the BLU-109 bombs.

US giant Lockheed Martin, the world's largest arms company, who brag on their website that they have a "long history of partnership with the Republic of Turkey," is another of the many international arms companies that has a history of profiting from Turkey's aggression against Kurdish populations within Turkey and in neighbouring Iraqi Kurdistan and Rojava (the autonomous, majority Kurdish region in northern Syria). Lockheed provides Turkey with F16 fighter jets, as well as Hellfire missiles, and is producing new F-35 fighter jets for the Turkish military. Lockheed states that their $399 billion F-35 project is the "world's most expensive weapons programme." Turkish arms companies, who are manufacturing components for the F-35, are also making billions from the contract.

In September 2015, Lockheed announced that it was producing and supplying Turkey with a"next-generation, air-to-surface standoff cruise missile for the F-35 fighter jet," partnering with Turkish arms company Roketsan. The companies stated that they would provide "live flight testing on Turkish F-16s."

Meanwhile, Turkish warplanes are continuing their ongoing attacks on Kurdish villages in the Qandil region of Iraqi Kurdistan, where the Kurdistan Worker's Party (PKK) has its main bases. Arms industry website Janes stated that on March 14 "nine Lockheed Martin F-16 Fighting Falcons and two McDonald Douglas F-4 2020 Phantom aircraft were involved in the strikes against the PKK's main headquarters area in the Qandil Mountains." In reality, the fighter jets, accompanied by drones, destroyed Kurdish villagers' houses during the bombardments.

Turkey also continues its provocations and attacks across its border into the majority-Kurdish, autonomous region of Rojava, in northern Syria. Turkey has repeatedly shelled and bombed YPG positions in Rojava. The Turkish goverment has made several threats to launch a ground invasion of Rojava.

Lockheed Martin and the Turkish government's cozy relationship continues, and on the March 15, the two were in talks, discussing the possibility of the arms company providing Turkey with an "urgent" Medium Extended Air Defence System (MEADS).

In London, activist Zelda Jeffers was found guilty of criminal damage for demonstrating at Lockheed Martin's offices. Zelda drew attention to the words of Lockheed Martin's Executive Vice President, Bruce Tanner, who had boasted about Lockheed's "indirect benefits" from the violence in Syria.

(Courtesy: Corporate Watch)

Clinton Foundation Urged to Return Exxon Money by Growing Coalition of Activists and Celebrities

By: Reynard Loki

Coming on the heels of a massive national investigation launched by several state attorneys general into whether ExxonMobil intentionally deceived investors and the public over climate change, activists gathered at the National Press Club in Washington, D.C., on Thursday to release an open letter urging the Clinton Foundation to return more than $1 million it has received from the oil giant.

The letter's signatories include actors Susan Sarandon and Mark Ruffalo and climate activists Tim DeChristopher and Lennox Yearwood, and 15 nonprofit groups, including Food & Water Watch and Chesapeake Climate Action Network.

The letter, which is addressed to the Bill, Hillary and Chelsea Clinton Foundation, states:

> We call upon the Clinton Foundation to publicly disclose the dates and amounts of ExxonMobil donations it has received over the years, and to return that money to the company. Further, the Foundation should announce it will no longer accept donations from ExxonMobil in the future.
>
> Finally, we urge the Foundation to consider doing the same for donations it has received from other fossil fuel corporations. Such steps by a foundation as well-known and impactful as the Clinton Foundation would send a clear and much-needed signal to the world that this is the time, right now, when we must step up and take action in defense of our severely stressed planet, the Earth, our only home.

"ExxonMobil is a company that has been fighting efforts to address the climate crisis for over 25 years," the signatories write. "This includes spending $30 million to support groups whose basic purpose is to encourage doubt and denial about the facts of climate change. Given that [the Clinton Foundation] does work to fight climate change, we are writing to urge you to return the more than $1 million that your foundation has received from ExxonMobil in recent years."

"Our request today is direct, simple, and imminently doable for a philanthropy that gives away hundreds of millions of dollars per year," said Mike Tidwell, director of the Chesapeake Climate Action Network and the CCAN Action Fund. "Returning ExxonMobil's money sends the right signal to American citizens and the world at a time when Antarctic ice is imploding, seas are rising, and extreme weather is battering the four corners of the world."

Environmental and faith leaders gathered at the National Press Club in Washington, D.C., to unveil their letter urging the Clinton Foundation to cut ties with Exxon. (L-R): Lise Van Susteren, Interfaith Moral Action on Climate; Catherine Thomasson, Physicians for Social Responsibility; Wenonah Hauter, Food & Water Watch; and Mike Tidwell, CCAN Action Fund (image: ClintonsDivest.org)

Wenonah Hauter, director of Food & Water Watch and the Food & Water Action Fund, said at the press conference: "When future historians give their verdict on the 21st century, Exxon will be a top contender for committing the worst crimes against the Earth, from the devastating Exxon Valdez spill in Prince William Sound, Alaska to funding a disinformation campaign focused on casting doubt on climate change."

Another letter signer, Lydia Avila, executive director of the Energy Action Coalition, said, "Our coalition works with young people around the country who are deeply concerned about their futures in an increasingly hotter and more unstable world. If the Clinton Foundation gave leadership to the effort to stabilize our climate by cutting all ties with ExxonMobil, youth worldwide would take notice."

The influence the gas, oil and coal industries wield over politicians has come into strong focus in the Democratic primary race, with Vermont senator Bernie Sanders criticizing Clinton for accepting fossil fuel contributions. Last month, Sanders campaign spokesman Michael Briggs issued a statement after the former New York senator said she was "sick of the Sanders campaign lying about" contributions she received from the fossil fuel industry.

(Courtesy: AlterNet)

Europe

The working class in France mobilizes against austerity

By: Alex Lantier

French youth and workers have carried out mass demonstrations to protest Labour Minister Myriam El Khomri's reactionary labour law reform. They have done so in defiance of the state of emergency imposed by the Socialist Party (PS) government after the November 13 Paris terror attacks. These initial mobilizations mark a new stage in the international class struggle, with implications well beyond the borders of France.

The attempt to promote hysteria over terrorism to suppress popular opposition is failing in the face of a growing radicalization of workers and youth. The working class has not been intimidated by the state of emergency and is entering into struggle against the social counter revolution being carried out by the PS government and the European Union as a whole.

University students are organizing on-going protests and meetings, hundreds of high schools are being blockaded by students, and growing sections of workers are taking strike action. Last Thursday, port workers, Air France employees and transit workers struck across France, while workers walked out at steel and auto plants in various cities.

As it enters into struggle, the working class finds itself compelled from the outset to define its aims and interests in opposition to all the forces that for decades have represented official "left" politics. There is deep anger against the PS government of President François Hollande, elected in 2012 with the support of the Left Front and the New Anti-capitalist Party (NPA), as it seeks to destroy social rights won in historic struggles of the working class in the 20th century.

The El Khomri Law would lengthen the workday by up to two hours, increase the precariousness of employment for young workers, and allow the unions, in violation of France's Labour Code, to work out contracts with employers at the level of individual firms.

The fact that this regressive and unpopular proposal would violate existing law testifies to its illegitimate character. That it is being pushed by a supposedly "socialist" party, which depends for the implementation of its attacks on unions whose budgets are 95 percent funded by the state and big business, underlines the fraudulent and anti-working class character of the entire framework of what passes for "left" politics in France.

An explosive political dynamic is developing. Despite the relentless promotion of fear and national chauvinism in connection with the terror attacks, a deeply rooted mood of social militancy is developing among workers and youth. This has taken the PS government by surprise and frightened pseudo-left organizations such as the Left Front and the NPA, which are deeply integrated into the PS.

Something of 1968 is in the air. In the May-June general strike of that year, tens of millions of workers erupted into struggle against the seemingly impregnable government of Charles de Gaulle and in opposition to the Stalinist French Communist Party. What is emerging today is a similar explosion of the class struggle against a discredited PS government and its political allies. The broad popular opposition to PS austerity revealed by the protests has already deeply shaken the Hollande government, France's most unpopular administration since World War II.

On Thursday, as over a million people across France marched against the El Khomri Law, Hollande withdrew a proposed amendment enshrining in the Constitution the state of emergency as well as a policy of depriving terrorists of French nationality. Though the Senate and the National Assembly had both passed versions of the amendment, Hollande did not attempt to reconcile the differences between the two measures.

The reversal provoked consternation in sections of the media close to the PS, which fear that it marks the end of any hope of the PS avoiding a wipeout in next year's presidential election. Le Monde called it a "major political disaster," warning that "after this calamitous episode, Mr Hollande leaves behind him a field of ruins."

Libération wrote: "François Hollande wanted to build national unity above the parties… He succeeded only in earning the opprobrium of his own camp and creating the spectacle of a petty political game, which citizens, even the most favourably disposed, did not understand and in many cases totally rejected."

The entire reactionary strategy pursued by the administration of Prime Minister Manuel Valls since it emerged from the governmental crisis of the autumn of 2014 is threatened with disintegration.

At its heart, this strategy relied on using the terror attacks carried out in Europe by Islamist forces mobilized by French imperialism and its allies for their war in Syria to present Hollande as a "war president" and promote the neo-fascist National Front (FN). The PS responded to each attack by seeking to create a right-wing, nationalist atmosphere and incite Islamophobia to divide the workers and suppress social opposition to its austerity agenda.

After the January 2015 Charlie Hebdo shootings, Hollande invited FN leader Marine Le Pen to the Elysée Presidential Palace. After the November 13 attacks, he promoted two policies linked to the far right: the state of emergency first implemented in 1955 to wage the Algerian war, and deprivation of nationality, forever associated with its use to launch the deportation of Jews from Occupied France during the Holocaust.

This politically criminal strategy encountered no meaningful opposition from pseudo-left forces such as the Left Front and the NPA, both of which have supported the Syrian war. Left Front deputies voted for the state of emergency in the National Assembly.

As the passage of versions of the constitutional amendment by both houses of parliament makes clear, there is no opposition in ruling circles to the rehabilitation of the bloodiest crimes of French imperialism in the 20th century. This is a serious warning to the working class.

In the face of rising social opposition, however, the PS did not feel the current political climate allowed it to proceed with negotiating a compromise version of its reactionary amendment.

These events signify that workers entering into battle against the El Khomri Law are facing a historic struggle. The attempt to rehabilitate the legacy of the French far right and the attack on workers' social rights in the El Khomri Law are rooted not in the personal cynicism and corruption of the PS and its political and trade union accomplices, but in an objective global crisis of capitalism.

Amid an escalating spiral of economic collapse and war, every imperialist power is driven into ruthless competition for profits and strategic advantage. French capitalism, deindustrialized by decades of reactionary governments of all stripes and crumbling under a worn-out infrastructure and a mountain of debt, sees no way out other than wars of plunder from Mali to Syria, and a policy of plunder against workers within France itself. To create a suitable political climate for the economic policies they are driven to carry out, all of the bourgeois parties, including the PS and its satellites, fall in line with the rehabilitation of fascism and militarism.

The only way forward in the struggle against the El Khomri Law is the path of intransigent political struggle by the working class against capitalism, and, in particular, the so-called "left" parties of the bourgeoisie. No confidence can be given to proposals by the student unions and trade unions to negotiate with Prime Minister Valls over token changes to the El Khomri Law. These are simply attempts to impose this reactionary bill with the aid of the pseudo-left parties and their union allies.

Above all, the struggle must be liberated from the national straitjacket these forces seek to impose upon it. In the fight against the reactionary policies of Hollande, the main allies of the French workers and youth are the workers of all other countries, mobilized in a united struggle for socialism in opposition to austerity, war and attacks on democratic rights.

(Courtesy: wsws.org)

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