

South Policy Responses to the Financial Crisis

This paper argues that the contemporary crisis is fundamentally civilizational. Capitalism is in crisis too; it has been for a long time. But it is Western civilization (much older than capitalism) that is in deeper crisis. It is argued also that the crisis is fundamentally political, rather than “financial” or even just economic, and therefore its resolution has to be political.

SOUTH POLICY RESPONSES TO THE FINANCIAL CRISIS

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Introduction

This paper focuses on the present so-called financial crisis and how countries of the South might deal with it. However, it is important to relate this to the theme of the First International Conference on: "Sustainable Development Alternatives: how to change the social paradigm focused on human being and nature". The first part of the paper therefore is my brief reflection, as somebody from Africa, on the concept of “Buen Vivir” which provides the context of this conference. There are striking parallels between the principles of “Buen Vivir” and some aspects of Africa’s past and present. In the second part I get into the root causes of the "financial" crisis and an analysis of failed attempts to reform a failed system. And in the third and fourth parts I present some ideas on how might the South respond to the "financial" crisis. Readers might want to go directly to the final two parts only.

Argument:

I argue in this paper that the contemporary crisis is fundamentally civilizational.¹ Capitalism is in crisis too; it has been for a long time. But it is Western civilization (much older than

¹ Of course, I’m not the only one to say this. See, “Reflections of Fidel Castro on the XI International Conference on Globalization and Problems of Development held in Havana Cuba”, 2-6 March 2009. The Conference, attended by over 1,500 participants from 52 countries, heard that the crisis is more than financial or economic, but 'an overall crisis of a model of civilization that is economically, politically, environmentally and socially unsustainable'.

capitalism) that is in deeper crisis. I argue that the crisis is fundamentally political, rather than “financial” or even just economic, and therefore its resolution has to be political. I have therefore slightly altered the subject of my paper from “Economic Policies' response to the financial crisis” to simply “South Policy responses to the financial crisis”.

Part I: “Buen Vivir” and the crisis of contemporary civilisation

What is the nature of the global crisis?

The Western economic and political system (capitalism) has been going through a deepening crisis over the last 120+ years – to be precise since around mid-1880s. Europe managed to get out of this particular crisis created by the “limit of growth” within Europe by colonising Africa (*the “Berlin epoch”*). However, the colonisation of Africa was part of a longer process that goes back to nearly 500 years (*the “Columbus epoch”*) when the economic and political system of that time (the feudal system) had reached its “limit of growth”, and the Europe managed to get out that crisis by the colonisation of the “south” starting with Amerindian territories– the first real phase of “globalisation”.

The expression “limit of growth” took a Malthusian turn around the 1970s when it was used (first by the Club of Rome in 1972) in a broadly ecological sense to refer to the limit that the world’s finite resources were facing against unchecked economic and population growth. But what we are facing in our own times, however, is much bigger and more catastrophic than the “limits of growth” of the 1970s or the 1880s. It is a “civilizational” limit – a limit to Western civilisation. What we are facing is not simply an ecological crises (pace Club of Rome), nor just a capitalist crisis (pace Marx), but a compounded crisis at various inter-related levels - environmental, economic, political, ideological, moral and philosophical, and above all, civilizational.

Western civilization has reached its historical limits, its “limit of growth”. Unfortunately, the Western political classes do not understand that this is what they are facing ... or else they are in a state of denial. During the feudal crisis (500 years ago) and the more recent capitalist crisis (post 1880s), the West resorted to aggressive and extremely destructive process of colonisation. That option does not exist any longer. The *recolonisation option*, a repeat of the “Columbus epoch” or the “Berlin epoch” does not look promising for the future of the West. The only country that is still engaged in the old-type colonialism is Israel in relation to its neighbouring territory of Palestine. Apart from Israel, the process of colonisation has ended. What has taken its place is *neo-colonialism*, the attempt to hold on to the former colonies by means of economic, political, ideological and, yes, religious tools. Neo-colonialism is not about to end any time soon; but, now, it too is meeting with stiff resistance from the South.

And so the real danger is that the West might (indeed is likely to, unless checked) resort to war on a grand scale (like the two world wars it unleashed in the last century) and/or multiple wars (such as in Iraq, Afghanistan, Libya, and Somalia). To the themes of “human being and nature” of this conference, I would therefore like to add the theme of “peace”. In an earlier conference in Quito in March 2012, I presented a paper on “Common Goods and Common Good of Humanity”

I made a distinction between the “tangible commons” and the “*intangible* commons”. Tangible commons referred mainly to the depleting (or finite) resources, such as oil. (In this context I find the Ecuadorian “Yasuni Project” an innovative plan). There is no excuse for the wanton exploitation of finite resources for “unlimited growth” by privately owned profit-motivated corporations, or, for that matter, by state-owned enterprises. As for the *intangible* “commons”, I made a short list of three:

- At the individual level: human dignity
- At the collective or national level: national self determination
- At the global level: global peace and knowledge

Elaborating on the last one, in our own times, there is ample evidence that the United States and the countries of the North Atlantic Treaty Organisation (NATO) are making preparations for possible war (or threat of war) against what they perceive as the looming danger of China emerging as a “global power”. So peace, in my view – shared by an increasing number of people – is the prime “intangible common good” of our times. There are serious dangers of increasing militarism, fascism and racism in the West, possibly aggressive wars in the name of fighting “terrorism” or “failed states”, or “human rights violations. Whatever needs to be done to ventilate peoples opposition to this war preparation by the “dying but not yet dead” Empire must be done.

What perspective should the people of the South take in the present situation?

There are many possible answers depending on one’s political and human perspectives. The following is my perspective. It comes from my background and my experience. I believe that we have to face the challenge that the entire humanity is now facing from three levels.

One is at the civilisation level. Some people in the South are likely to take an aggressive and combative view against the West in a revengeful spirit. This, in my view, would be utterly wrong. An eye-for-eye spirit will destroy the entire civilization. I believe that the peoples of the South must take the high moral ground and work towards a joint strategy to save the earth and its multiple culturality, its natural resources, and the environment. In other words, the peoples of the South must engage in two processes - which appear at first sight to be contradictory. On the one hand, the South must resist its recolonisation or neo-colonisation by the West. They must struggle for social justice and the right to self-determine their own destinies without interference from the North; they must demand a fair share of the world’s resources whilst ensuring the survival of Nature and the Planet. However (and here some of my friends in the south might disagree with me) the peoples of the South should also show understanding and compassion to the peoples of the North -- despite history. By 2099 the white races will be swamped by the non-whites whether they like it or not, even in their own countries. (This is a demographic prediction not a racist statement). Fear has become a major factor in the West. The bizarre killings of innocent children by a white racist in the island of Utoya in Norway on 22 July 2011 in the name of fighting against Islamisation was its most lurid expression.² But this was only the most

² I have written on the subject under the title “Reflections on the Norwegian tragedy”, Pambazuka News, 2011-08-11, Issue 544, <http://pambazuka.org/en/category/features/75606>

extreme instance of a generalised fear that has gripped the West – the fear of “barbarians at the gate”.

How do we handle this? How do we help the Western world to get them out of their paranoia about us, the “barbarians”? Well, we will need to assure the West that we have no intention of “counter-colonising” their lands (through emigration). Our preference is that we develop our own economies and provide our people with means of good life (“Buen Vivir”) so that they do not have to emigrate to the US or to Europe. The West must understand at the same time that their pillage of our countries under the present system of capitalism and dispossession of our lands and resources is the underlying cause of the impoverishment of our people and their migration to the North. The South has generally assured the peoples of Europe, America, Australia, Canada, and New Zealand a comfortable living in the countries of the South. However, there is serious deficit in a reciprocal civilized behaviour on the part of the North. Non-White, non-Christian, populations living in the North (as immigrant citizens, short term workers, or as refugees) must fight for their rights, of course, and they must integrate or merge (depending on the circumstances of each country) with their host nations. But also the West must tolerate multiculturalism (a major principle “Buen Vivir”). All this racist banter about banning head scarves and other cultural practices is utter nonsense. It is totally short-sighted and self-destructive.

This is what we must do at the most general and global level. This is a long-term vision, and there is no suggestion here that it is going to be an easy struggle.

The South must offer more humane alternatives to the last 500 years history

At the second level, the South must offer progressive and imaginative alternatives to the impending collapse of the Western system. Not everything that happened in the last 500 years was wrong. We must recognise that there were some positive and progressive aspects of Western civilization. The enlightenment brought ideas of liberation and science, although the West cannot claim exclusive credit for this: one must recognise not only the contribution by the early Islamic period to modernity, but also the contributions from more ancient cultures, such as the Chinese, the Egyptian, the Hindu, and the Caral civilizations. There were positive aspects of early capitalism too, especially the meteoric rise in the development of the world’s productive forces including technology and the organisation of production.

But the “enlightenment” led to the five Christian crusades and the pillage of the Mediterranean wealth then under Islamic dominance; the pre-capitalist primitive accumulation was achieved at enormous cost to the indigenous peoples of the Americas; the capitalist accumulation was achieved at an enormous cost to the working classes in Europe and the colonised people of the South. And what we see now is the accumulated price paid by the rest of humanity and Nature in return for West’s contribution to our civilization. It is for this reason that time has come for a new global civilization that is multicultural, more humane, kinder to Nature, and a social system that is more just, fair and peaceful.

And this is where the Ecuadorian option, among others, provides an innovative, if challenging, scenario. During my first visit to Ecuador in March 2012, I got my first glimpse of the vision of “Buen Vivir”. The 12 objectives for “good living” do embody some of the best principles of

humanity. For me, the two most appealing aspects of “Buen Vivir” are one, its inclusive philosophy of “plurinationalism and interculturalism”, and the second, the recognition of the “Rights of Nature” (as provided for in Chapter VII of the Constitution). I found the following acknowledgment of the contribution of the indigenous people: “The Adean indigenous peoples have contributed to this debate by applying other epistemologies and cosmovisions. One of the greatest contributions is the notion of *sumak kawsay*, ‘life is the fullest... In the Andean cosmovision, the past is in front of us; we see it, we know it, it is ours, and we walk with it. Our ancestors are with us on the road; they join us.’”³ The reference to the “ancestors” reminded me of the contribution made by the “spirit mediums” in the Zambezi Valley in Zimbabwe (where I worked for some 15 years in the 1980s and 90s) towards the liberation of the country from the colonialists. The spirit mediums communicated with the ancestors and led the people of Zimbabwe towards their liberation for the sake of the living and the unborn. So the past, the present and the future were all united in the wisdom of the spirit mediums.

Part II: The root causes of the "financial" crisis and failed attempts to reform a failed system

The root causes of the “financial” crisis

Wide consensus that the financial crisis is systemic – an outcome of present phase of financialised capitalism

There is a widely shared consensus amongst at least the left on the fundamental causes of the “financial” crisis, including the argument that the “financial” manifestation obscures a deeper systemic crisis. It is important to reiterate this point because it implies that any effort to deal with the crisis from a purely financial perspective is bound to fail, as I shall show.

There is agreement not only among the left but significant sections of the right too that the “financial” crisis is a specific outcome of the present phase of financialised capitalism when financial markets are privileged over production; when home mortgages, consumer spending, the commodity market, the oil market, the food market, etc, are all subject to asset securitisation and speculation in the uncontrollable futures market; and when profit maximisation by mostly Western banks and corporations, sometimes in collaboration with Southern large corporations, have disemboweled and weakened the resilience of smaller enterprises in the South and thrown them out of their domestic markets. The sub-prime housing crisis which started with the U.S. and then became globalised (to a greater degree in Europe than in Asia, Africa and Latin America) through inter-bank collateralised securities was not a product of ‘severe market disruption’ as the mainstream economists argue, but endemic to the present system of capitalism.

At a United Nations General Assembly “Interactive Dialogue” on 26 March 2009, on “World Financial and Economic Crisis and Its Impact on Development”, the United Nations Conference on Trade and Development (UNCTAD) presented an excellent report. It argued, essentially, that the U.S. sub-prime mortgage crisis was just ‘the tipping point’. The absence of a coherent global

³ Secretariat, National Planning Council, “Building a Plurinational and Intercultural State”, Summarized version, SENPLADES, 2010, p.18

financial monitoring system to check the economic imbalances had helped to create the crisis. Optimism grew around an asset and its value increased, with even sceptical people buying into the asset. Then, its value crashed. The current system helped generate high returns, but created negative social returns. The credit default swaps, or so-called insurance contracts, were really a type of speculation that did not provide insurance. Market-based financial regulation could not solve the problems or deal with market failure. The report opposed the creation of a common regulatory standard, as countries with different development levels needed different standards. It urged developing countries to accumulate reserves during good times and be careful of overdependence on any regulatory system.

Mission IMF-ossible ⁴

Also, furthermore, the South must not forget that most of the present woes of many countries in the South stem from the conditionalities (such as the Structural Adjustment Programme - SAPs) imposed on the countries that borrowed from the IMF and the World Bank. The IMF ‘bailouts’ were not aimed at protecting the economies of the South. IMF bailouts were a kind of fraud. The objective, in essence, was to bail out hard-pressed Western financial and banking interests and to create conditions for their further control of the national economies of the developing countries in distress. This is what is happening today to Greece. It has been the scourge of many countries of the South subjected to IMF’s draconian, and yes fascist, SAPs.

In a study undertaken by a group of researchers from both the North and the South in 2002–03, initially with the World Bank blessing (later the bank withdrew), found that the effects of SAPs on the economies of Bangladesh, Ecuador, El Salvador, Ghana, Hungary, Mexico, the Philippines, Uganda and Zimbabwe were ‘disastrous’. It led to loss of policy space, privatisation of public assets (the reverse of what the Western governments are now doing in nationalising private banks and other assets), fiscal discipline (as opposed to fiscal leniency now adopted by Western governments when their own economies are in distress), deindustrialisation, unemployment, poverty, the collapse of social safety nets, food importation, and the creation of economic refugees and emigration.

These developing countries were placed in distress through the debt burden, trade liberalisation and other conditionalities of donor funding – and then to get them out of the distress, the IMF moved in and cleared the way for American–European–Japanese capital to take over. This, at least, is what evidence showed on the ground. Even the London-based *Economist* had to admit that IMF’s Korea foray after the financial crisis of 1997/98 proved that the IMF had become an ‘adjunct to US foreign policy’. ⁵ It went on to say that the US also had a ‘big hand’ in dictating IMF conditions for bailing out Mexico and Indonesia. In the IMF, *The Economist* concluded, it is ‘politics in command’. Larry Summers, the intellectual power behind US economic foreign affairs then, said: ‘In some ways the IMF has done more in these past months to liberalize these

⁴ I have borrowed this apt phrase from a media title whose source I cannot recall

⁵ *The Economist* (1997) 13 December, p. 80

economies and open their markets to US goods and services than has been achieved in rounds of trade negotiations in the region.’⁶

Mad Mahathir and Nobel laureates Robert Merton and Myron Scholes

In 1997 during the Asian financial crisis, Mahathir Mohamed, then prime minister of Malaysia, called for greater international control of the speculation of hedge funds such as George Soros' Quantum Fund. Northern ‘experts’ pronounced him ‘mad’. But Mahathir saved his country from the prescriptions of the IMF, which brought the economies of Thailand, Indonesia and South Korea crashing down.

As this was happening, curiously but not surprisingly, two hedge fund economists, Robert Merton and Myron Scholes, were awarded the Nobel Prize for their ‘sterling work’ in risk-free financial management. The Black-Scholes model was eagerly lapped up in university MBA curricula and commodity and currency exchanges. In 1998, tragedy struck. Long Term Capital Management (LTCM), of which Scholes and Merton were partners, crashed. At the time, LTCM had capital of \$4.8 billion, a portfolio of \$200 billion built from credit lines with all the major US and European banks, and derivatives with a notional value of \$1,250 billion. Its CEO was the legendary hedge fund trader, John Meriwether, who when asked if he believed in efficient markets, replied, ‘I make them efficient.’

Failed attempts to reform a failed system

The crisis erupted in 2007-08. However, it was not until late 2008 and early 2009 that the “international community” seized the matter seriously. The following gives an account of some of the main highlights of the failed attempts to reform a failed system.

The G20 Declaration of 15 November 2008

In the early days of the crisis the plenoxist (see below for definition) richer countries of the South joined the North to try and find a “solution” to the “financial crisis”. On 15 November 2008 at the G20 meeting at the White House they issued a declaration on ‘Financial Markets and the World Economy’. The declaration made a commitment to free market principles, including the rule of law, respect for private property, open trade and investment, competitive markets, and efficient, effectively regulated financial systems. Its analysis of the ‘Root Causes of the Current Crisis’ boiled down to blaming ‘market participants’ for seeking higher yields ‘without appreciation of the risks’; in a world of ‘increasingly complex and opaque financial products’; ‘inconsistent and insufficiently coordinated macroeconomic policies’; and ‘inadequate structural reforms’ – all of which, it argued, contributed to ‘excesses and ultimately resulted in severe market disruption.’

Accordingly, the G20 leaders agreed to take some ‘immediate steps’ to stabilize the financial system, unfreeze credit markets, and ensure that the IMF, the World Bank and the multilateral development banks (MDBs) had sufficient resources. Also, they agreed on five ‘common principles’: transparency, sound regulation, promoting financial integrity, international

⁶ Summers, Larry (1998) *American Farmers: Their Stakes in Asia, Their Stake in IMF*, Washington DC, Office of Public Affairs, US Treasury Department.

cooperation and reforming international financial institutions. These were followed by an ‘action plan’ aimed at removing existing weaknesses in the accounting and disclosure procedures, credit rating agencies, pro-cyclical regulatory policies, etc.; and the shortcomings of the Bretton Woods institutions including the IMF, the World Bank, the Basel Committee, and the Financial Stability Forum.

The G20 communiqué of 29 March, 2009

On 29 March, 2009, G20 put out a communiqué on the financial crisis. It repeated the dogma:

‘We believe that an open world economy based on market principles, effective regulation, and strong global institutions will ensure a sustainable globalisation with rising prosperity for all’.

It repeated an illusionary set of “solutions”:

‘Emerging and developing countries, which have been the engine of recent world growth, are now facing shocks which threaten stability and jeopardise the global economy. It is imperative that capital continues to flow to them. We have therefore agreed to make [\$x] of resources available through the international financial institutions. This will finance counter-cyclical spending, bank recapitalization, infrastructure, trade finance, debt rollover, and social support’.

And it made a pledge that nobody was committed to keep, as later events were to show:

‘We reaffirm our commitment to address the threat of irreversible climate change and to reach agreement at the UN Climate Change conference in Copenhagen in December’.

The United Nations Stiglitz Commission, September 21, 2009

At the 63rd session of General Assembly of the United Nations, its chairman, Father Miguel d’Escoto Brockmann from Nicaragua, took a bold step (a step that from hindsight looks as “mad” as Mahathir’s action in 1997-98). He set up a “Commission of Experts”, headed by Joseph Stiglitz, to study the crisis in depth and make recommendations. It was an important commission and so I summarise its main recommendations.⁷ The Stiglitz Commission recommended an ‘Agenda for Systemic Reforms’ essential for ‘immediate global recovery’. This consisted of 10 items for immediate action. These are:

1. A New Global Reserve System (GRS) - as a greatly expanded SDR system.
2. Reforms of the Governance of the International Financial Institutions - BAIs, BIS. FSF (Bretton Woods Institutions, Bank for International Settlements, Financial Stability Forum)
3. A Global Economic Coordination Council - GECC & Global Representative Forum to replace the G20 (‘At a level equivalent with the General Assembly and the Security Council, such a Global Economic Council should meet annually at the Heads of State and Government level to

⁷ see http://www.un.org/ga/econcrisissummit/docs/FinalReport_CoE.pdf

assess developments and provide leadership in economic, social and ecologic issues' 'It could thus provide a democratically representative alternative to the G-20')

4. The surveillance of economic policies focused on 'systemically significant countries'. It should focus not just on inflation, but also on 'unemployment, financial stability, systemic stability ...and systems of social protection'.

5. Reform of Central Banks. Their aim should be '...to ensure price stability in the context of delivering long-term sustainable growth, while being sensitive to the risks to financial stability, capital flows and exchange rates'

6. Financial Market Policies at both national and global level, including:

(a) Financial Product Safety, including through the creation of a Financial Products Safety Commission.

(b) Comprehensive Application of Financial Regulation, including automatic countercyclical capital provisions

(c) Regulation of derivatives trading, including regulated exchanges for trading standardized contracts of systemically significant derivative contracts

(d) Regulation of Credit Rating Agencies – (rules for which were provided in an appendix)

(e) Towards a Global Financial Regulatory Authority (GFRA) to limit the size of banks to avoid systemic risk by including supervision by 'Global Competition Authority' (GCA) and a 'College of Supervisors'

(f) Financial control of companies based on the host country (not home country) regulation, and may entail requiring the establishment of subsidiaries rather branches.

(g) Reforms in regulatory structures... 'The weaker is the system of global regulation, the more segmented will financial markets have to be to ensure global stability'

7. Support for Financial Innovations to Enhance Risk Mitigation. It is the developing countries that bear brunt of exchange interest rate fluctuations. 'IFI lending in (possibly baskets of) local currencies and the provision of exchange and interest rate cover might be important steps in improving international risk markets'.

8. Mechanisms for handling Sovereign Debt Restructuring and Cross-border bankruptcies, including harmonization of national legislation on cross border disputes dealing with trade in financial services.

9. Completion of a truly 'Development-Oriented Trade Round'.

10 More Stable and Sustainable Development Finance, including 'receipts' to support 'the developing countries costs of reducing greenhouse gas emissions in the context of their national policies to promote sustainable development'.

An assessment of the Stiglitz Report and lessons to learn from its failure

There are some good ideas in all these. For example, a Global Economic Coordination Council – at a level equivalent with the Security Council – could have provided some “muscle” to the other recommendations of the Commission. But of course, this, and many other ideas were a bit too “radical” not only for the G7 but also for the “South” members of the G20. These did not want too radical a perspective to come out of the Commission under the flag of the United Nations. The Commission had some excellent members – including Pedro Páez, Jan Kregel and Francois Houtart are among those whom I know personally. But at the end, the neo-Keynesian thinking, especially of Stiglitz himself, prevailed.

The Report came out in September 2009. It is now almost three years. Nothing is heard of it any more. Probably not a single recommendation has been followed up. It is of course too facile to say that the “implementation deficit” is because of lack of “political will” on the part of the ruling classes of the biggest countries of the “international community”. But that itself begs the question: why is such a political will lacking? A simple, quick answer is that the ruling classes – and the entire paraphernalia of the capitalist system controlled by an un-regulateable “mafia” of bankocrats, kleptocrats, speculators, and state bureaucrats – have absolutely no interest in reforming a system of which they are the principal beneficiaries.

I have taken time to summarise the recommendations of the Stiglitz Commission, and I have offered a (rather mild) critique of it for two reasons.

One is that it was probably the most ambitious and comprehensive effort made to reform the financial system so far, and therefore one has to take it seriously.

The second - a more significant reason - is to warn against further expenditure of time, energy and wasted expectations going over the same ground already covered extensively by the Stiglitz Commission. I can give any number of instances of wasted effort -- in 2009, 2010, 2011 and 2012 -- exercises in futility. None of these measures would have resolved the inherent contradictions of capitalism and its inevitable outcome – imperialism and neo-colonialism. The problem is not economic or financial; it is political.

Chasing the rainbow of reformism is an exercise in futility

Samir Amin - the Director of the Third World Forum in Dakar, Senegal –probably summarised it best when he said: ‘Conventional economists have remained persistently deaf to any questioning of their own dogma - so much so that they were unable to foresee the financial collapse of 2008. Those whom the media have portrayed as "critical" hardly deserve this description. Even Joseph Stiglitz remains convinced that the system as it stands - globalized and financialized liberalism - can be fixed by means of some corrections. Amartya Sen preaches morality without daring to see "really existing" capitalism as it is’.⁸ Amin might have been a bit too harsh in his judgment; but let us face it, Amin is correct in exposing the weakness of the reformist paradigm to address a problem that is deeper and more stubborn than the neo-liberals and the neo-Keynesian reformists make it out.

⁸ Pambazuka News, September 17, 2009,
<http://www.pambazuka.org/en/category/features/58806>.

Part III: How might the South respond to the "financial" crisis?

It should be clear that the kinds of “solutions” proposed by, among others, the UN “Commission of Experts” are exercises in futility. There have to be other alternatives. Fortunately, there are.

A summary of proposals made by Pedro Páez

A year before the Stiglitz Commission, Pedro Páez, then Ecuador’s Minister of economic policy coordination, made a proposal at the Interactive Panel of the United Nations General Assembly on 31 October 2008 that, in my view, still (four years later) presents some of the best ideas on the subject of tackling the financial crisis. (When I first read it, I was still the Executive Director of the South Centre, and I was struck by the similarity between his views and my own on a slightly different subject of “development aid” that I argued in my *“Ending Aid Dependence”*. Páez’s proposals were published in the South Bulletin ⁹.)

Some of Páez’s ideas are not new, for example, that of decoupling from the US dollar, but he gave these ideas coherence and also he made some doable concrete suggestions. I summarise Páez’s main argument.

In contrast to the globalised integration model advocated by the G20 and the Stiglitz Commission, Páez advocated a regional model, including ‘decoupling from the dollar’s crisis logic’. ‘Today’, he says, ‘the commercial dependency (and intra-firm trade) with the North is sky high.’ Páez carefully went through the political and technical arguments for creating regional monetary agreements (RMAs), including flexible regional bloc exchange rate regimes (ERR), and the creation of regional currencies. With these, the South can, he argued, reduce ‘the artificial need for dollars in the regional trade, financial markets, and therefore, the technical need for reserves through the deployment of intra-continental system of settlements’.¹⁰ Such measures, Páez argued, would converge towards ‘a sense of regional identity, responsibility and community of interests ... and breaking out of the “prisoner’s dilemma” of unilateral decision making.’

In relation to Latin America, Páez advocated building on the ‘New Regional Financial Architecture’ agreed upon by the seven ministers of finance (Argentina, Bolivia, Brazil, Ecuador, Paraguay, Uruguay and Venezuela) in the Quito Declaration of 3 May 2008. He went on to urge ‘an international diplomatic campaign to launch, in parallel, similar accords in other regions of the world (Chiang Mai, Africa, Arab countries, etc.)’

⁹ *South Bulletin* (2008) no. 27, 16 November.

¹⁰ In Africa, the Preferential Trade Area (now COMESA) countries set up the PTA Bank with capitalisation of US\$360 million including a US\$130 million reserve fund to support the operations of the Unit of Account for PTA (UAPTA) Clearing House. The UAPTA was created in August 1988 as a common trading currency. It was a mechanism for minimizing the use of hard currencies, such as the U.S. dollar and pound sterling. It also enabled Member States’ citizens to travel within the region without having to use foreign currency. The UAPTA was then equivalent to 1 Special Drawing Right (SDR) of the IMF. Unfortunately, because of internal contradictions and external pressure, including neo-liberal policies, the UAPTA was discontinued in June 1997. In a paper I wrote in 2009 which I optimistically titled “The Twenty-first century will be an African century”, I suggested the resurrection of UAPTA, and the creation of an African regional currency called the “Nilo”.

Páez's proposals deserve serious study and consideration by the leaders of the South, big and small. These proposals are in line with what I have been suggesting for some time in the *South Bulletin*. We have argued that it is imperative that the South decouples itself from the crisis-prone system of the North. A serious debate is urgently needed in the South itself – between its political leaders, its academic and intellectual community, its civil society and above all, between all of these and the movements of the people on the ground who are at the receiving end of all ill-conceived policies done in their name. This is the democratic transparency that is needed, not the top-down financial and banking “transparency” of the G8, the G20, the IMF, the World Bank, the European Union, and the OECD.

Obstacles and Opportunities

The above is not to underestimate the gravity of the problems that face the South in trying to work out an alternative model of a monetary and financial system. Let us look at the obstacles first before we discuss how to overcome them and the opportunities that can be availed in the present circumstances.

Plenoxia and anorexia: economic division in the South

The first obstacle is the division in the South. An interesting paradox stalks the South. While a large number of countries in the South are getting deeper into the mire of poverty and marginalisation, there are some that are now engaged in recapitalising Northern economies which are in the throes of a deepening credit squeeze. The implications of this paradox have not been fully understood let alone analysed. *Plenoxia* – the desire to have more and more, in this case of wealth – has seized the psychology of the newly rich in the rich countries of the South as well as the rich in the older countries of the North. One of its consequences is the forced *anorexia* of the poorer nations and, worse, the poorest people within the poor nations. Should not the relationship between countries of the South (South-South relations) be built on a different model from the greed and profit-driven model of the North-South relations?

We have seen above how the plenoxist members of the South have reacted to the financial crisis, at least within the G20 “economic coalition” starting with the G20 Declaration of 15 November 2008 followed by the G20 communiqué of 29 March, 2009.

This is not a blanket condemnation of their efforts, for some of their initiatives outside the framework of the G20, especially within the G77, have been quite innovative, and to G77 I shall return later.

Political-strategic divisions among the “South”

The economic disparity between the rich and the poor countries within the South is nothing in comparison to the more serious political-strategic divisions amongst them.

The following story is illustrative. On March 31, 2009, President Hugo Chavez of Venezuela sought Arab support for a proposed oil-backed currency to challenge the U.S. dollar. "A new world is being born. Empires fall. There is a world crisis of capitalism. It's shaking the planet," Chavez told the media. But, there was a problem: the principal oil-producing members of the Arab League, such as Saudi Arabia and the Gulf states, have close strategic-military ties with the USA. Qatar was a wrong place for Chavez to talk about the “world crisis of capitalism.” Furthermore, although Chavez is quite popular in the Arab world because of his sympathy for the

cause of Palestine, he did not endear himself to the Arabs by later going to Iran and hugging President Ahmadinejad.

There is no need to belabour the point. There are literally hundreds of conflicts within as well as between countries of the South (India-Pakistan; Colombia-Venezuela; Kenya-Somalia).

Two sides of a complex and dynamic relationship between North and South

And yet, it is too easy to be one-sided and get overwhelmed by the differences within the South. These differences are products of 500 years of colonialism and neo-colonialism; their different histories and experiences; the multiple identities amongst the people of the south – from race, class, nationality to religion, language and culture. However, in spite of these differences, they share the experience of colonisation in common; they are all still aspiring to fuller realisation of national self-determination; and they often display a remarkable level of solidarity – for example, on the question of Agenda 21 of the United Nations on Environment and Development; and even on some single issues such as Palestine. Indeed, it is not even necessary for the South to get rid of their differences ... for in their plurality lies their richness.

What they require is a sense of *common identity* as “the South”, and a *spirit of solidarity* (not necessarily unanimity) on specific issues. When President Ahmadinejad greeted Chavez in Teheran saying the two nations were ‘united like a single fist’, he was being hyperbolic, of course, but a similar expression is unlikely to be used between say India and the United Kingdom; or between Brazil and the United States; let alone between Cuba, Venezuela or Malaysia in relation to the U.K. or the U.S.A. In other words, there is indeed a qualitative difference in the expressions of solidarity between countries of the South, and between them and the North.

Also, times change. Nothing is forever. Alliances that cut across North and South – such as the “coalition of the willing” in the fight against the Taliban in Afghanistan -- can change “in no time”. The underlying tension between for example Pakistan and the USA and potentially between an “independent” Afghanistan and the USA is palpable, even explosive (as indeed, is more obviously the case in Iraq). The West may enter into marriages of convenience with individual countries (or groups of them) in the South, but these are exactly what they are – “marriages of convenience”. Indeed, the present “strategic partnership” between for example Saudi Arabia and the U.S. or the “enmity” between Saudi Arabia and Iran may not be as lasting as it might appear. Let us not forget that the two founding fathers of the Organisation of Petroleum Exporting Countries (OPEC) were Juan Pablo Perez Alfonso of Venezuela and Prince Abdallah Tariki of Saudi Arabia, later joined by Iran. For the U.S. Israel is a moral reliable ally than Saudi Arabia or Qatar. As between the U.S. and Israel, their leaders may credibly say that they are (to use Ahmadinejad’s phrase) ‘united like a single fist’.

The new dynamism of Latin America

When it comes to Latin America there is a tendency on the part of some Western scholars to magnify the differences among their countries than the potential for unity. They highlight present differences between, for example, Colombia and Venezuela. Or they say that whilst Cuba is “socialist”, Brazil under Lula and now Rousseff is, at best, a “social democracy”; and so on.

Indeed, even some Marxist scholars tend to differentiate between “pure” and “less pure” brands of “socialism” amongst the countries of Latin America. I find this kind of pigeonholing unhelpful, because we live through extremely volatile political as well as economic times.

As one coming from Africa, what is more exciting is the speed with which Latin America is “decoupling” (to use Pedro Páez’s expression) from the United States. The introduction of a new regional currency, the SUCRE, is a revolutionary step forward. Some Latin American countries have already begun to trade in SUCRE instead of U.S. dollars.

A bigger challenge awaits the maturation of a common vision of the Bolivarian revolution. The ALBA project - the Bolivarian Alliance for the Peoples of Our America – can now count among its members Antigua and Barbuda, Bolivia, Cuba, Dominica, Ecuador, Nicaragua, Saint Vincent and the Grenadines and Venezuela. At its February 2012 summit, Suriname and Saint Lucia were admitted as guest countries. It is important, however, that the concerns of those not part of ALBA - most significantly, Argentina, Brazil, Columbia, Chile and Peru – are addressed over time to enable them to join what can aptly be called “the Bolivarian movement”.

Going beyond Latin America to the southern hemisphere

Presently more than 60 percent of all foreign currency reserves in the world are in U.S. dollars. But increasingly the U.S. dollar is being replaced by other currencies partly as reserve currency and partly to finance ongoing trade. Part of this is fuelled by the extraordinary short-sightedness of the USA and the NATO alliance countries in relation to, for example, Iran -- forcing countries like India and China that need Iranian oil to use either gold or their own currencies. China and Russia are already moving away from the U.S. dollar in their bilateral trade. And so are China and Japan. A new agreement between the BRICS (Brazil, Russia, India, China, South Africa) countries will promote the use of their own national currencies when trading with each other rather than the U.S. dollar.

In recent times, international banks too are realising the need to diversify from over-reliance on the US dollar. Thus, for example, the HSBC rolls out electronic trading of offshore yuan against six currencies including the euro, pound, Mexican peso and the Hong Kong, Singapore, and Canadian dollars . Other banks including Deutsche Bank are expected to launch similar services. The Hong Kong Monetary Authority further eased restrictions on banks' yuan trading by removing limits on banks' bets on the currency's future movement--another small step aimed at boosting liquidity for the offshore yuan market. Absa Capital, an affiliate of Barclays, has launched an electronic facility to enable direct trading in the South African rand against the offshore Chinese yuan on its electronic trading platform.

Part IV: Conclusions: Outlines of a possible way forward

One: It is time to summarise and to bring the various threads together to weave a possible scenario forward. The following five observations are borne out from a close observation of the trends in the global political economy over the last fifty years:

1. The “financial” crisis is a manifestation of a deeper economic crisis, which is itself part of the broader systemic crisis of capitalism.

2. However, capitalism is not about to die any time soon, as it re-creates itself in newly industrialising countries such as BRICS – Brazil, Russia, India, China and South Africa.
3. On the other hand, the older capitalist countries of the West are facing a more serious historical crisis – a crisis of its civilisation that for the last 500 years has dominated the rest of the world.
4. The West has now reached its ‘limit of growth’. However, colonisation is no longer an option, whilst the prospect of neo-colonialism is also reaching its limits as the people of the South are responding strongly to the democratic and nationalist impulse.
5. The only other option open to the West is militarisation of conflicts, and war. There is a real danger that the West will resort to a global war (possibly to pre-empt China), and several regional wars (such as in the Middle East, for example).

Conclusion 1: Global peace must therefore be added to the “Buen Vivir” vision of a new civilisation based on its inclusive philosophy of "plurinationalism and interculturalism"; recognition of the "Rights of Nature"; and the application other epistemologies and Andean cosmovisions including its notion of *sumak kawsay*.

Two: This broader historical and epistemological landscape forms the context in which the question of South’s response to the “financial” crisis must be addressed. A close analysis of how the West has attempted to deal with the financial crisis forms the basis to make the following five observations:

1. There is a wide consensus that the financial crisis is systemic, and an outcome of present phase of financialised capitalism, a phase where unproductive financial and speculative capital has stumped productive capital.
2. It is clear that the whole financial architecture was based on a fraud. For over three decades (since mid-1980s), the countries of the South have been subjected to austerity economics by financial “bail outs” by the IMF and the “donors”. As it turns out, and as the Greek experience further demonstrates, the “bail outs” were for the globalised banking system and not for the people of the South. The IMF’s stabilization project was always a fraud -- a “mission IMF-ossible”.
3. There is an increasing consensus that deficit spending is necessary. The election of a socialist into presidency in France could be a game-changer in the case of Greece, but it is unlikely to shift gears in the case of the South, for France remains part of the Empire and part of the NATO military alliance.
4. The G20 has brought in some of the bigger countries of the South within the fold of the “international community”, but the G20 is still dominated by the USA, Europe and Japan. So it cannot provide the reference group for the majority of the countries of the South. The G20 Declaration of 15 November 2008, and the G20 communiqué of 29 March, 2009, as the first major attempts to address the financial crisis amply illustrate that this group (including its South members) still work within the framework of a failed macro-economic paradigm. Therefore, the South must create its own response to the financial – systemic – crisis outside the G20. The South must use its own creation – the G77 – which has fallen into relative decline since the formation of G20.
5. The United Nations Stiglitz Commission was the most comprehensive attempt to address the financial crisis. Although its report contained some useful ideas, it was essentially within a neo-Keynesian macro-economic framework, and inherently incapable of

addressing the crisis of financialised capitalism. Nonetheless, even a neo-Keynesian reform was not acceptable to the dominant bloc within the system – that of bankocrats, kleptocrats, speculators, and state bureaucrats. Chasing the rainbow of reformism is an exercise in futility.

Conclusion 2: The South must find its own solution to the financial crisis, outside the macro-economic reformist framework.

Three: The outlines of such a road forward was presented by Pedro Páez some four years ago (in 2008), and although some of the ideas were not new, he gave them a coherence and a sense of practicality that might form the basis for action by Ecuador and by ALBA countries. The following form the kernel of Páez’s proposals, to which I have added some of my own.

1. Decoupling from U.S. dollar as a reserve and trading currency.
2. At the global level, the South is better placed to work through the G77 group rather than through the G20.
3. The G 77 might consider establishing a separate commission to look into further steps towards regional integration focusing on creating regional banks, regional reserve funds, regional currencies, and regional steps that might be immediately put in place to safeguard local and regional manufacturing, agriculture, services (such as health, energy and water), and food security.
4. In contrast to a globalised model the South should work towards a regional currencies, regional monetary agreements (RMAs), and flexible regional bloc exchange rate regimes (ERRs).
5. In Latin America, the SUCRE is still in its infancy, but it is gaining currency. In Asia the Chiang Mai initiative might be resurrected (if not so already); in the Arab world, possibly the creation of petro-dinars (a suggestion made by Mahathir Mohammad); and in Africa, possibly the resurrection of UAPTA and the creation of “Nilo” (suggestions that I made in 2009).
6. The South American countries might take further active steps to operationalise the new Regional Financial Architecture as agreed at May 2008 Quito Declaration.
7. The global financial system remains extremely fragile. And so, whilst working towards an alternative system, the South might create a co-ordinating mechanism to monitor the volatility of the financial system, and to create “fire-walls” to “de-couple” from its effects. The use of national currencies (as between China and Iran and some African countries) is an example of de-coupling, but there are other firewall mechanisms that might be put in place.
8. The countries of the South should review all the donor agreements (for example, those with the IMF, the World Bank, USAID and the European Commission), in order to remove from them offending conditions that compromise their policy options and sense of self-respect. The review should be carried out by a process that involves all stakeholders – government, the civil society, the trade unions, and the private sector – without the presence of the so-called “experts” from the North.

Conclusion 3: This is not to underestimate the challenges that face the South in trying to work out an alternative model of a monetary and financial system. These are to be expected. And yet, in spite of divisions among them, the South has often shown a great sense of identity and solidarity.

Also, we live through dynamic times, and today's obstacles might become tomorrow's opportunities.