Greed is NOT good

Lessons from the financial meltdown

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InfoChange Quick Reads

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Cover: Gordon Gekko, who symbolised a generational philosophy when he said, in Oliver Stone's 1987 film Wall Street, *that "greed is good"*

'Greed is right, greed works': *Wall Street* revisited

"The point is, ladies and gentlemen, that greed, for lack of a better word, is good. Greed is right, greed works. Greed clarifies, cuts through, and captures the essence of the evolutionary spirit. Greed, in all of its forms; greed for life, for money, for love, knowledge, has marked the upward surge of mankind. And greed, you mark my words, will not only save Teldar Paper, but that other malfunctioning corporation called the USA. Thank you very much."

These are the words of Gordon Gekko (Michael Douglas) in Oliver Stone's 1987 movie *Wall Street.*

Recently, the movie's co-writer, Stanley Weiser, complained in an *LA Times* article that, "thinking back upon writing the screenplay of *Wall Street*, I never could have imagined that this persona and his battle cry would become part of the public consciousness, and that the core message of *Wall Street* — remember, he goes to jail in the end — would be so misunderstood by so many… As the years have gone by, it's heartening to see how popular the film has remained. But what I find strange and oddly disturbing is that Gordon Gekko has been mythologised and elevated from the role of villain to that of hero".

I remember this feeling. I was only 13 then, but the spirit of the time was Gekko's, and continued to be. But no more. I've just finished watching the movie again. And I must say that those and these words — *"The richest 1% of this country owns half our country's wealth, 5 trillion dollars. One-third of that comes from hard work, two-thirds comes from inheritance, interest on interest accumulating to widows and idiot sons, and what I do, stock and real estate speculation. It's bullshit. You got 90% of the American public out there with little or no net worth. I create nothing. I own. We make the rules, pal. The news, war, peace, famine, upheaval, the price per paper clip. We pick that rabbit out of the hat while everybody sits out there wondering how the hell we did it. Now you're not naive enough to think we're living in a democracy, are you buddy? It's the free market. And you're a part of it. You've got that killer instinct. Stick around pal, I've still got a lot to teach you."* — sound somehow different today. This crisis is changing all. It will change even more. Though we still have to put the real Gekkos in prison. They are wandering around, getting their parachutes, and protected by their political friends, those who accepted their money to fund their political enterprises for years.

Blogger Alejandro in his blog http://www.blogofchange.com/?p=405, November 2008

Death of a dogma

by John Samuel

“It is over.” That's a succinct way of describing the death of neoliberal capitalism as we have known it. And that is how one Wall Street analyst described the fall of Lehman Brothers on September 15, 2008. The fall of Lehman was a visible signifier of the tsunami that has hit Wall Street and the world of high-profile financial trade and investment.

It was the story of a disaster foretold.

That morning, a painter called Geoffrey Raynold landed up in Manhattan and unveiled a large canvas titled *The Annotated Fuld*, showing Richard Fuld, the beaten chairman and CEO of Lehman Brothers, with sunken eyes. The painter invited Lehman employees and others to scrawl their message on the canvas. Someone scribbled, “This sucks”. The next day the painting was sold for 100,000 dollars.

The rise and fall of Lehman Brothers is symbolic of the rise and fall of the neoliberal economic policy paradigm. When the financial market roared, speculators, traders and typical financial intermediaries played in the global casino as if the good days would never end. The rich laughed their way to the bank. They dined, wined and partied with perpetual cheer as the stock market index climbed to the sky. Many were seduced into the red-hot stock market. The percentage of Americans owning stock rose from 16% in the 1970s to more than 50% by 2005. Everyone wanted a piece of the cake.

It's true that Lehman Brothers is a 158-year-old brand. However, it is actually a 14-year-old company that was spun off by American Express in 1994. In 1994, Lehman Brothers

had a relatively small capital base. But the ambitious captains of Lehman were thirsty for profit and capital. To make more profits, they borrowed huge sums in relation to their real size. Lehman's debt became 35 times more than its capital — surely an unsustainable ratio. But they were making profits and they jumped into the lucrative real estate market with new financial instruments — derivatives — to make more quick money.

Credit-rating agencies too played the casino game. The top credit-rating agencies Moody's and Standard and Poor gave top AAA-ratings to the greedy nexus. It was a clear conflict of interest when the bankers themselves paid Moody's and S&P to give their respective banks a good credit rating. It was a lie waiting to explode in the scandal of sub-prime lending — easy mortgage given away to anyone ready to buy real estate, unmindful of their economic capacity to repay the loans. These intermediaries were betting someone else's money — if they gained, they made a huge bonus. If they lost, it was someone else's loss. No wonder Richard Fuld made US$490 million as the CEO of Lehman Brothers, making the best use of stock options. Those whiz kids called investment bankers went for risky deals and quickie profits as they too made their millions through stock options and moved on.

While everyone was singing songs of "robust" growth, the health of the US economy actually went from bad to worse. Household debt rose from 50% of GDP in 1980 to 100% of GDP in 2006. Much of the new debt was invested in real estate and sub-prime lending to anyone and everyone buying a house — without any credit rating — creating a housing bubble which saw an annual appreciation of almost 20%. This gambling was simply not sustainable as the price of houses went through the roof — far removed from their real value. By 2007, the debt of the financial sector was about 116% of GDP, compared with a mere 21% in 1980. During the last few years, the top five investment banks freaked out in the market

and speculators and investors laughed their way to the bank almost every day.

Now the party is over. More than a trillion dollars worth of stock market wealth vanished in a single day. They call it a financial meltdown. It was the beginning of the end.

Dogmas are authoritarian doctrines. Neoliberalism emerged in the early-1980s, and became a dogma over a period of 10 years. The dogma was that *the market knows best*. Neoliberalism consisted of tax cuts for the rich, more indirect taxes (which affect ordinary people), deregulated financial markets, easy money with low interest rates, and free markets with forced liberalisation of economies, markets and financial sectors across the world. Anyone who questioned the dogma was marginalised as a heretic.

In fact, by the late-1970s, markets were saturated in the US and Europe. They required new markets for the movement of finance capital as well as manufactured goods. Unless the market was expanded to the emerging economies and unless there was a free flow of capital, Anglo-Saxon capitalism in the early-1980s would have faced a deep crisis. The State too was saturated and fat. That is how the neoliberal agenda, along with the neo-conservative politics of the Reagan era, entered the scene.

Many developing and poor countries were in a debt trap resulting from the oil price shock of the 1970s. So the USA and its allies used the World Bank and IMF as strategic institutions to force many debt-driven countries to open up their markets and deregulate their economies. By the early-1990s, it came to be called the Washington Consensus, a neat packaging of neoliberal dogma, pushed across the world by the World Bank and IMF. The charismatic face of Bill Clinton and the glib talk of Tony Blair gave the neoliberal dogma a "human face".

This was a time when investment bankers

looked like sexy guys with lots of money. Globalisation became a fashion statement for many countries. The World Economic Forum became an extension of Wall Street. Political leaders and corporate executives went there for their annual pilgrimage. The deadly dogma preached growth and growth, and toasted the new billionaires. Newspapers told the rags-to-riches stories of the new billionaires. Billions of poor were swept under the carpet. Poverty and inequality did not make it to the front page. Bill Gates, Warren Buffet and Laxmi Mittal smiled at us from the TV. The upwardly mobile, upper-caste and urban classes in India's metros celebrated their new world with a saffron glow — India Shining. Governments competed to show how much they were committed to the neoliberal dogma. Any sceptics were dumped as relics of the past or the residue of a Left in disarray.

While neoliberal finance capitalism, initiated by the Reagan-Thatcher combine, pushed towards us the new order of the day, their wholesale agents, the World Bank and IMF, pedalled neoliberal policies as the medicine for all ills in all countries. By the early-'90s, neoliberal globalisation and deregulation became the mantra of the day. Politicians wanted to be in the good books of Uncle Sam and bureaucrats wanted to be in the good books of the Bretton Woods institutions. When the Soviet model too collapsed, the neo-conservative intellectuals began to pedal old wine in new bottles — the End of History, the Clash of Civilisations, and There are no Alternatives. There emerged a deep nexus between Wall Street and the US treasury. It is not a mere accident that Hank Paulson, the treasury secretary, was the former chief executive of Goldman Sachs. Many of the top executives in government and the World Bank came from Wall Street. Money-driven corporate politics and the agents of investment banks in the corridors of power, and their media minions, created the myth of the growth engine — driven by unbridled finance capital.

During the last 25 years, politics in many

countries was corporatised, driven by money, media, fund managers and agents of big corporations. Policymaking too was subcontracted to the votaries of neoliberal dogma. Though many of them talked about "freedom" they were actually in the business of denying dignity and fudging freedom. Meanwhile *Forbes* magazine kept celebrating the increasing number of billionaires — never mind the billion who went to bed hungry every day.

Many warned that the wolf was at the door. George Soros, one of the original gurus of financial capital markets, warned about "market fundamentalism". Warren Buffet, an old hand at Wall Street, called derivatives "financial weapons of mass destruction". But who listened in the midst of the party?

In an ethical liberal democratic system, the State is expected to determine the boundaries of the market, and citizens are expected to determine the boundaries of the State. But the dogma reiterated that "Markets know best". Thus the market began to determine the boundaries of the State, and the State began to determine the boundaries of citizens. Then markets were captured by speculative finance capitalists and investment banks. Finance markets were increasingly detached from real people, real wealth and the real economy. The market was driving governments.

Ironically, now government is forced to bail out and nationalise the losses, while the rich get away with their fat profits. The US federal government had to take on the huge burden of two of the biggest mortgage companies, and dumped more than USD 5 trillion of the debt of the companies into the lap of taxpayers — almost doubling the amount that the US owes to its lenders. This is termed the biggest transfer of debt in the history of money. Almost a couple of trillion has been pumped into the economic system to keep those sinking ships afloat.

Ultimately it is the people who end up paying for the indulgent excesses of the rich and powerful in the global casino of the so-

called free market. The free market was never free, and now the toxic burden is being dumped on the people.

The dogma is dead, buried under the debris of the famed investment banks. There is no more consensus in Washington. Karl Marx must be laughing in his grave in London.

(John Samuel is Editor of InfoChange, and International Director of ActionAid. This article is based on his keynote speech delivered at the Asian Meet on Solidarity Economy and Socially Responsible Business)

InfoChange News & Features, November 2008

The end of the 'free market' reign?

by Aseem Shrivastava

Finance capitalism is in possibly mortal trouble, though perhaps not before extracting larger pounds of flesh.

There has been an earthquake in the world of big league investment banking over the last few months of 2008. And the tremors refuse to die down. News of bankruptcies and insolvencies arrive virtually every day. In the wake of a historic series of banking disasters, the US government has conducted the largest ever financial bailout of private banks in history — involving no less than $700,000,000,000 (70% of the annual GDP of India). This comes on the heels of two other recent bailouts, of the mortgage corporations Fannie Mae and Freddie Mac and of the insurance giant AIG, involving an additional sum of $285,000,000,000. In other words, the State has undertaken to infuse up to a trillion dollars into the financial system in order to prevent it from perishing. And further infusions may become necessary in the future. "The centre of gravity of the economic universe," in the words of a sceptical senator, has moved to Washington. Free markets could not have failed in a more emphatic fashion.

The earthquake has shaken loose the financial pillars of the US economy and, by extension, of the world economy, since so much of the world's savings are invested in the US, other than the fact that the American consumer is the lynchpin of demand in the global economy.

Not many months ago, after the investment banking firm Bear Stearns collapsed,

Clinton's economic advisor and ex-chief economist of the World Bank, Larry Summers, wrote in London's *Financial Times,* in typical expert-speak: “It is not unreasonable to hope that in the US at least, the financial crisis will remain in remission.” Recent events have shown up the myopic follies of the pundits, whose predictions rest on that brittle, vanishing, ever-scarce commodity nowadays: confidence.

The fall of the giants

Let's examine the damage so far. The five largest investment banks (unregulated by the Federal Reserve, the US central bank) in the US — Goldman Sachs, Morgan Stanley, Lehman Brothers, Merrill Lynch, and Bear Stearns — have all vanished from the landscape during the past six months. During the spring, Bear Stearns had to be bought out by JP Morgan (with backing from the Fed) for something under $30 billion. Recently, Lehman has gone bust altogether. Insolvent Merrill Lynch has sold itself to Bank of America. Anticipating similar big trouble, Goldman Sachs and Morgan Stanley have stepped into the noose of (much more regulated) holding banks voluntarily, in order to cut their costs.

There are bailouts and then there are cop-outs. The chairman and CEO of Goldman Sachs puts a smiley face on what is a cop-out: “Becoming a bank holding company is part of our tradition of quick and effective response to market conditions,” he announced to his clients on the homepage of the firm. A confidence-building statement in desperate times, one might say.

Nor is investment banking the only area of finance to be devastated. In early-September 2008, the US government had to bring in special legislation to formally back (to the tune of $200 billion) Fannie Mae and Freddie Mac — the government-created shareholder-owned corporations that buy the majority of US mortgages and sell them as repackaged securities around the world. These are gigantic companies with enormous political influence. They owe

$5.2 trillion (35% of US GDP) in guaranteed debt to their investors. The nagging worry is that their loans in the housing market are largely insolvent. Secretary of the treasury Henry Paulson had the audacity to ask Congress (successfully) for an unlimited credit line to back the failing mortgage giants in addition to the authority to purchase the companies' shares. “Panic legislating,” a member of the House Financial Services Committee called the exercise.

This is not all. The insurance giant AIG had to be rescued. Given its inter-connections with virtually the entirety of the financial system, “it was too big to fail”. It had to be bailed out by the US government for an enormous $85 billion. The government took over 80% of the shares in the failing concern. The biggest insurance business in America has been nationalised at the behest of the very same people who have been the most aggressive advocates of hands-off, free-market economics all along.

To cap the recent financial disasters, Washington Mutual, America's largest savings and loans institution, has also folded up. Its assets have been handed over to JP Morgan Chase. Its stock values declined from $45 to $0.16 in a year! This is the largest bank failure in the history of American finance. The latest to fall is North Carolina-based Wachovia, again one of the largest commercial banks in the US.

These are all big events, with repercussions for one and all both within and outside the US. The import of these disasters will continue to occupy experts for a very long time. Lehman was over 150 years old, after all, having survived two World Wars and the Great Depression. Merrill Lynch too was a century old. Fannie Mae and Freddie Mac are global giants in the mortgage business. AIG was the largest insurance company — and the 18th largest company — in the world, according to the *Forbes* list. Washington Mutual was the fourth largest bank in the US before its collapse.

No one really knows who else is in the queue for further public bailouts. It should, by rights, spell the end of the reign of putatively 'free' markets. But will this happen?

It was predicted

What explains the financial crisis underway in America? The explanation is a long and complex one, at one level. At another level, one could say it is merely the nemesis for greed having been allowed to run amok for the better part of a generation. But for any reasonable post-mortem one needs a somewhat more detailed answer.

There are three main legs to the explanation. First, the sequence of tax cuts issued to America's affluent classes under the George Bush presidency. Second, a policy of “cheap money” (leading to excess liquidity) followed by the Fed under Alan Greenspan, especially during the second half of his tenure. Third, the deregulation of finance since as far back as the early-1970s has been the undoing of the financial system.

Let's take each of these issues in turn.

To begin with, the enormous tax cuts issued to the affluent classes by George W Bush had the consequence of not only transferring resources from the poor to the rich, but also of leaving the latter with surplus cash to play with. The money typically ended up via bank deposits and fund managers in speculative investments in financial markets in the expectation of quick and easy multiplication.

This was compounded by a policy of 'cheap money' — low and falling interest rates — practised by the Fed under Alan Greenspan, in the vain hope of raising the real economy's growth rate. When money was available at ridiculously low rates of interest, financial concerns found it opportune to borrow huge sums for purely speculative purposes and leverage investments in all sorts of areas of the global economy. Recent financial institutions like hedge funds gamble with everything from mortgages and real estate to insurance and

commodities (like oil or foodgrain).

But the factor overarching all these causes has been the deregulation of finance over the past several decades. Something significant happened to the world economy when, in August 1971, the Fed stopped converting dollars into gold (because the Japanese and the Germans had accumulated too much of them, thanks to the success they had in selling their products in America) and the international payments regime moved from one of fixed to floating exchange rates, opening up new possibilities for financial speculation due to new uncertainties in exchange markets, apart from the dollar becoming the reserve currency worldwide. There were successful calls for the deregulation of finance, despite opposition from Keynesian economists like James Tobin, who expressed fears related to future financial instability unless there was a tax placed on purely financial transactions. Needless to say, the sceptics were ignored.

Not only did such advice go unheeded, but, during the ensuing decades, especially during the 1990s, there was a veritable explosion of financial instruments called 'derivatives' — in other words, financial assets not directly linked to any wealth-producing activity, but only *derived* from it indirectly, through the medium of intermediate financial instruments. Thus, a proliferation of new forms of holding wealth took place (such as the mortgage-backed securities which have generated so much mayhem recently), whose risk-return profiles were based on underlying assets, in turn linked to investments on which they themselves were based, and so on.

Investment banks, and later hedge funds, pioneered financial innovations which made portfolios ever more opaque. Not only did clients and buyers rarely understand the risk they were undertaking, even sellers very often did not know the extent of risk underlying the securities and assets they were marketing. There was seriously inadequate information on both sides of the market. This means that even

according to mainstream economic theory, operating under the assumption of perfect information (yielding efficient markets), the experiment was fated to fail from the start.

Financial disaster was predictable, and predicted by many an observer. The problem with financial innovation, it was rightly argued, was financial innovation itself. Dangers were greatly aggravated by the fact that investment banks and hedge funds operated free of supervision by the Fed. Capital markets were no longer performing their traditional function of managing risk and allocating capital in the most efficient way. Instead, they had become avenues for unrestrained speculation and gambling by a new class of upwardly mobile fund managers whose sole obsession was to maximise short-term returns to themselves and their shareholders. For instance, when Bear Stearns was liquidated in March it owed $30 for every dollar that it held as capital. Fannie Mae and Freddie Mac had $80 of debt for every dollar of capital in their control, before their recent nationalisation! (Commercial banks are not allowed such exposure.) If America was generating even a quarter of the real wealth that investors who put their faith in such firms imagined it to be producing, we would have been living in a radically different world from the one we are faced with. The truth is quite different: money has been made not through real growth but by stripping down assets and by artificially causing asset price inflation.

Early warning signals of the financial crises to come had been issued on several occasions in the 1990s. For instance, London's oldest merchant bank Barings collapsed in 1995, thanks to the financial adventurism of a lone trader, Nick Leeson. Likewise, the enormous perils of the hedge fund business had been exposed by the failure of Long Term Capital Management in 1998, a firm which counted a few Nobel laureates on its board of directors.

Anyone in the know, over the past decade or more, of the growth of financial bubbles has been aware of the dangers underlying the

explosion of financial wealth — with such a large purely notional content to it. Reckless investing was encouraged every time laws were relaxed. Financial legislation from earlier times — such as the Glass-Steagull Act of 1933 (prohibiting commercial banks from taking the risks which investment banks were permitted) or the law preventing inter-state bank acquisition — was being undone even in the Clinton years.

Things really came to a crunch only when the housing bubble in the US burst in August 2007, with the massive insolvency of sub-prime loans. The housing bubble, to be sure, had been fed and pampered by a Federal Reserve desperate to get the economy to grow fast. Under Alan Greenspan it kept low and falling interest rates in order to keep money cheap and spur investment. However, most of the investment that was forthcoming was in speculative areas, rather than in production. Being the best historical indicator of consumer confidence, it was the American housing market which gave hope to gallantly optimistic policymakers.

Till August 2007, year-on-year growth in home prices was of the order of 7-17% per annum. The bubble burst after that, exposing the slew of rash home loans that had been made to 'sub-prime' borrowers, with low credit ratings. Since then home prices have continued to fall month by month, at 5-16% per annum compared to the corresponding month in the previous year.

What should have been a limited, low-impact financial disaster under a duly regulated financial system has, however, turned into a contagion which threatens the financial stability of the world capitalist economy no less than the American one. The reason for this is the fact that mortgage giants like Fannie Mae and Freddie Mac have been buying mortgages, packaging and reselling them as asset-backed securities (based on the home loans) the world over. At this point in time, it is estimated that at least 20% of the money owed to these two large firms belongs ultimately to foreigners.

The Chinese Central Bank, for instance, is heavily invested in these companies. So the stakes are high not just for the US economy but for the rest of the world as well.

Times must be very odd indeed if they are considering breaking down houses (*The Wall Street Journal*, September 25, 2008) in Florida in order to revive confidence in mortgage companies! By reducing the supply of housing artificially, they hope to lift the housing market (and thereby the hopes and stocks of the mortgage corporations whose money lies trapped in them, in 'sub-prime' loans). The housing market has been at the root of recent troubles in the portals of high finance. Has capitalism ever been this irrational in the past?

The Paulson plan: Markets on life support

"The key here is about protecting the system." — Secretary of the US Treasury, Henry Paulson, quoted in *USA Today*, September 21, 2008

It is not about protecting indebted homeowners and helping them with adjusted mortgages.

The crisis managers of the system, led by secretary of the treasury Henry Paulson and chairman of the Fed Ben Bernanke, have been arguing aggressively for massive government intervention in the markets ever since the Bear Stearns bailout in March 2008. Hastily passed legislation has given Paulson unprecedented powers. This includes, for instance, a blank cheque from Congress, which can be used any time till the end of 2009, and that allows him (or his successor) to bail out or take over (by buying their shares) Fannie Mae and Freddie Mac, the all-but-insolvent corporations which are funding the bulk of American mortgage loans. There is every chance that this window will be accessed, given the extent of sub-prime exposure of the two falling giants. Paulson defends his plan thus: "The more flexibility I have, the more confidence that gives to the market…" (*Time*, August 8, 2008) What happened

to market magic?

Recently, Paulson and Bernanke succeeded in convincing Congress to pass a bill which obliges the US government (and by default the taxpayer) to buy a huge pile of useless mortgage debt, adding up to $700 billion — so far. The money could have funded decades of social security for all Americans. It could have provided health to everyone in the world's richest country. Welfare moms can't be spared a thousandth part of $700 billion — because they need market discipline, otherwise they lose the incentive to work. But finance captains need to be helped out of the mess for which they alone are responsible. Why not let them bleed to death, as true market logic dictates?

Wall Street has to be saved from itself. And it is an ignorant public that is being asked yet again to foot the bill. It was Franklin Roosevelt, in the midst of the Great Depression in 1933, who had spoken of "throwing the money-changers out of the temple". How was he to realise that it was always going to be difficult to throw them out if they were also the key financiers of temple-construction? Paulson, like his predecessors (John Snow and Paul O'Neill), was the chairman of Goldman Sachs in his previous job. He is known to have been a generous contributor to Republican Party funds when he led Goldman Sachs.

When the public seeks some light from the aspirants to the White House, they encounter plenty of silence, baseless optimism or just vacuous rationalisation, which betrays a lack of understanding of the dimensions of the crisis. For McCain "the option of doing nothing is simply not an acceptable option". (Free markets, in other words, can't be trusted.) Obama, for his part, backs the Paulson plan "because Main Street is now at stake". The largest contributor to Obama's campaign is Goldman Sachs. Merrill Lynch heads the list of donors for McCain. Both have made for the exits.

Tweedledum and Tweedledee.

“The Wall Street politbureau”

The Americans have obviously perfected the revolving door system between private and public offices, with executives from the financial world typically occupying key positions in the executive branch of the US government. Both the Clinton and the Bush administrations have had treasury secretaries who ran Goldman Sachs.

It is this which makes them exempt the giants from market discipline — because it is ultimately they themselves that they are exempting. When it comes to developing nations, the IMF and the World Bank never tire of hypocritically insisting on “market discipline”, balanced budgets and “austerity”. Meanwhile, the money managers in New York and Washington are allowed to practise “Goldman Sachs socialism”. Their task is to privatise profits and gains and socialise costs, losses and risks. And they are enormously successful at pulling off the trick before a gullible electorate.

For this is what the Paulson plan is all about. It is about the public bailing out financial adventurers who took catastrophic risks for the pure lure of lucre. It generates what economists call “moral hazard”. Why, after all, would a fund manager learn the hard lesson of financial prudence, when the State is willing to come to his rescue every time he crosses the line and fails to recover his loans, thanks to his own excesses? To be sure, the government did try somewhat to send a signal to the markets by allowing Lehman to fail. But then Lehman is not the only piece of mischief in town, and the exposure of others poses even bigger “systemic risk”. Three days after the Lehman failure, the government bailed out AIG. The giant had feet of clay: the insurer was not insured. Of course not.

The interests of the captains of finance have to be protected at all costs. Here is one paragraph from the legislation recently pushed through Congress:

"*Section 8. Review. Decisions by the*

Secretary pursuant to the authority of this Act are non-reviewable and committed to agency discretion, and may not be reviewed by any court of law or any administrative agency."

In other words, finance will now be entirely above the law or the publicly accountable executive, and no one, howsoever aggrieved, might bring lawsuits against the government.

This is the formalisation of the dictatorship of finance.

Will the plan work?

It is most unlikely, if not impossible. The government's rescue act can only work if by some miracle the housing market picks up sharply again, restoring confidence all around in mortgage-backed securities, enabling Fannie Mae, Freddie Mac and other holders of bad mortgages to breathe, lightening the load on the federal budget. But the data continues to show continuing sharp declines in home prices. Credit Suisse now expects over 10 million foreclosures of home mortgages in the next few years.

There are other reasons why the plan is likely to fail. Highly leveraged institutions (far exceeding the ratio of 12:1 that was the norm till 2004) are not being forced to adhere to stronger disclosure standards, tighter lending norms or to more stringent capital adequacy standards. There is still no discussion of derivatives being regulated through monitored exchanges. In other words, there is yet no bar on reckless lending. (Banks in any case have not, for some time now, been making the most money from lending for the creation of new physical capital. They have found it far more profitable to strip down existing assets or to inflate their prices artificially.) Nor are there new controls on the interest and charges that finance companies levy from consumers, who will continue to be fleeced even as the culprits-in-chief of the present impasse “earn their way out of debt”. If consumer confidence falls further in the future as a consequence, it should come as

no surprise.

If the government represented the interests of citizens — as against bankers — it would have bailed out homeowners (rather than the financial system), adjusting *their* debt burden downwards to conform better to their ability to pay. It should have been the US government's first priority to awaken the financial classes (much more so than the homeowners) to economic reality. Debts needed to be written down to what homeowners can *actually* pay. Instead, it has chosen to promote the illusion that the debts are solvent, after all. There is only a problem with the cash flow; once confidence is restored and credit begins to move again, the fundamentals of the economy are strong and growth will resume in due course. Such is the vain hope. How can the plan work on such myths?

Breaking ranks, the Dallas Federal Reserve Bank president Richard Fisher says that the bailout "would plunge the US government deeper into a fiscal abyss". He is looking at the other end of things. Where will the money for the bailout come from? There are only two possibilities. Taxes are raised from already severely debt-strapped consumers, aggravating the recession in the real economy and worsening, among other things, the housing market itself (thereby contributing to a vicious cycle). The other alternative is for the government to borrow abroad — since no one is willing to lend at home. But do lenders abroad have confidence in the US economy? Here is a report from Reuters:

"Chinese regulators have asked domestic banks to stop lending to US financial institutions in the inter-bank money markets to prevent possible losses during the financial crisis, the South China Morning Post *reported Thursday."*

If, in another desperate move, the US government starts offering higher interest on their bonds (thereby raising the long-term burden on the taxpayer), it will make the domestic financial crisis much worse —

by raising further the cost of borrowing.

The truth is that the policy elite of America has actually run out of options — certainly patriotic ones, which would involve due punishment for those whose excesses have precipitated the present crisis, and economic justice for those ordinary citizens who are suffering. Dominated as it is at this point by big investors and financial executives it can do no better than to serve the interests of its own class, making the most of the money-making opportunities presented by the crisis.

And if temporary nationalisation is needed for bigger gains in the future, they are willing to punctuate the rhetoric of free markets for a while.

We are seeing a new chapter in the privatisation of politics being written.

End of neo-liberalism?

The more things change, the more they remain the same. Towards the end of a period of history, some of its hidden truths have to emerge into the light of day. This is what has happened during the past few weeks with repeated taxpayer-backed government bailouts of profit-seeking, loss-avoiding financial companies. It has become very clear that finance capitalism cannot breathe without the State not merely standing close by as the underwriter of last resort, but also having to intervene frequently with infusions of cash in order to buoy up investor confidence and keep credit channels moving — in an economy in which real wealth is actually not being created.

We have arrived at the end of an era in which neoliberalism — a renewed, unquestioned faith in the magic of free markets — reigned supreme over policymaking the world over. What we notice now is that in the very heartland of global capitalism, free markets have failed resoundingly, that too in the very sphere they were meant to be most efficient in: the allocation of capital and the management of risk. We are also seeing how the

prodigiously wealthy investor class, never too tired to make even more money, is planning and plotting to capitalise on all the many financial opportunities that the crisis is providing.

The lesson is a simple one: all capitalism is ultimately State capitalism. The corporate market economy and the State need each other. Quite distinct from the circular flow of income those undergraduate students learn in macroeconomics classes — in which workers spend in consumer markets the income they earn for their labour — there is a different kind of circular flow that seems to be getting institutionalised between two big American cities. In this far thicker flow, huge sums of money travel in the form of campaign funds to politicians in Washington and return to Manhattan in the shape of even handsomer bailouts whenever the need arises.

The more serious lesson is the one that most economists have forgotten today, that the internal dynamics of a free market capitalist economy do not typically enable it to find an equilibrium ensuring full employment of labour and other resources. In particular, the dynamics of financial markets are such that serious crises periodically arise, giving rise to indefinite periods of "liquidity preference," when no one has the confidence that a loan that they extend has any chance of coming back. In such situations, the State has to intervene in the economy in various forms. It has to engage in public spending, generating employment and demand in the system. It might also have to take charge of banking. The speedy nationalisation of so many banks and insurance companies in the US calls back from memory the following advice which an economist who has been in unjust disrepute over the past generation had given during the last time that capitalism was in such a tortured condition, in the 1930s:

"Let goods be homespun whenever it is reasonably and conveniently possible, and, above all, let finance be primarily national."

John Maynard Keynes, a pariah in the economics profession today, pointed this out in the 1930s. For having failed to heed such advice, the managers of the system may have exposed capitalism to terminal crisis, even as they make new room for reaping greater private benefits.

Countries like India must at least learn to stand up to Washington's so-called multilateral institutions — the IMF and the World Bank — and refuse any lecturing on 'free markets' any more. There must be a limit to public hypocrisies.

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InfoChange News & Features, October 2008

Paying for the past

by Aseem Shrivastava

The past will repeat itself unless its lessons are duly digested and a new, imaginative framework for economic policy is collectively forged.

If one could reduce the staggering complexities of the burgeoning financial and economic crisis engulfing the globe to one underlying cause, it is this: by pushing State policies which have shifted the distribution of income and wealth in their own favour over the past several decades, the world's elites inadvertently dug their own economic graves in the long run.

In the US and in many rich countries, financial deregulation, the many tax cuts, investment credits, cheap money and a whole assembly of similar "incentives" (in the guise of "trickle-down" hopes), not to forget the time-tested means of upward redistribution of income and wealth via inflation (and, in India, such ultimately self-defeating measures as forced land acquisition from poor peasants) ensured that purchasing power would be increasingly concentrated in fewer and fewer hands.

The rich became super-rich, ostensibly in order to reduce poverty in the world through their investments. They consumed a part of their greater wealth. They *did* invest the rest, but most of it inevitably in speculative activities, given the limitations of the consumer market.

For over a generation, American employers have been getting away by paying workers all too little. Living standards had risen historically all the way from the 1820s to the early-1970s. However, real wages in the US have stagnated for over three decades now,

though the work-week has become longer, not shorter. All the gains in productivity have been reaped by corporate managers and shareholders. Executive pay and compensation continue to be at astronomical levels.

What rising inequality does to an economy could have been (and was) foretold long ago. Every economy needs a wide base of demand for consumer goods and services if it is to grow in a balanced, sustainable manner. But the growth of economies during the past few decades has happened on a very narrow base.

How did employers get away with rapidly worsening income inequality? Where did the demand for their products come from? The answer, in one word, is *debt*. Two out of three dollars spent in the US has come from the pocket of the American consumer. Or has it? The answer is "no". It *ought* to have come from that source. In fact, it has come from the enormous growth in lending by various kinds of banks, credit card companies and other financial institutions which have exploded over the past few decades. This, in turn, was backed by the Federal Reserve's monetary policies, attempting to pump up the US economy with cheap money.

They have had the effect of channelling the surplus generated by the growth in overall labour productivity back to workers — but in the form of lending. Perhaps no scam in US economic history compares with this one for sheer ingenuity. For, notice that employers have gained twice over in the bargain: once, by ripping off workers by paying them too little, and a second time over, by asking them to repay the consumption loans!

Hence the sub-prime crisis. Hence the financial crisis. Hence the economic crisis. It is now global in scope because of the sheer magnitude of American consumer spending in the overall global equation. The debt-based US economy is fast collapsing now, taking much of the world economy with it:

about one out of six dollars spent in the world economy has been spent by the American consumer so far. China, till recently regarded as a saviour of the world economy, is going to be perhaps the leading victim of the growing mess.

Redistribution-led growth

Most economists separate the goal of economic growth from the distribution of the benefits the growth will bring. First we must expand the pie, so the wisdom goes. Then one can consider ways of distributing it equitably. It is this idea that justified the "trickle-down" economics of the past several decades. In the short run, we were warned, "efficiency" would come at the cost of equity. This could then be corrected "later on", through appropriate government policies, once investment by the rich has created the wealth.

Now we can see the serious flaw in such a view. It is precisely the growth of inequalities over the past several decades that is ultimately responsible for the collapse of markets today. Bad income and wealth distribution ultimately put a stop to economic growth itself.

We are now learning that every growth strategy has underlying it an implicit model for the distribution of wealth and income. One simply cannot separate issues of growth and distribution, not after the present crisis. Growth numbers can be artificially buoyed up in an era of cheap money. But when the limits of the underlying distribution of wealth, income, and demand kick in, reality sets in to end the hype about growth.

By doctoring or understating the relevant data, governments and international financial institutions have fooled themselves and the world that the middle class was expanding everywhere. If this was really the case, for instance in the US, the bottom would never have fallen out of the housing market in the first place. There would have been no sub-prime crisis. In India, right now, we would have felt safe from the world's

troubles by relying on the huge home market instead of on exports. The middle class may have grown somewhat in places like China. But its future is quite uncertain, especially given huge layoffs and job insecurities taking place now. Exports constitute 45% of its GDP, most of it directed to falling markets in the West.

Thanks to financial globalisation, every bank, every financial institution, every business enterprise everywhere feels the threat of the "contagion" which is overtaking markets around the world today. All semblance of economic security is gone. Many believed till recently that since the crisis is American in origin it will remain confined to their shores. How such illusions could be entertained in a globalised economy is a mystery. Financial markets are so intricately networked across the world, and the lure of quick and high returns so universal, that it came as no surprise when banks cutting across countries in the EU were panicked into seeking (and getting) massive State support. It was as foreseeable that the Japanese, Chinese and other Asian economies, relying largely on export-led growth over the past several decades, will have to take the fall of the western economies on their chins. Shipping, transport, automobiles, energy, steel, real estate, construction, machinery and all other major sectors of these economies are winding down rapidly. Where the bottom lies, no one can say.

There has never been such uncertainty in the world in living memory. Globalisation as we have known it is fast approaching an end, threatening to plunge the world into an unprecedented depression.

Much can be done. But time is short, and if the problems are not to recur in more vicious form later, fundamental changes are called for. Among other things, what is required is rapid redistribution, which would quickly put purchasing power in the hands of the deprived and bring optimism to the wider economy.

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Selective globalisation

by Aseem Shrivastava

Old nostrums are failing these days, with reason.

Pumping more money into the banking system will actually make the problems much worse. When the outlook is gloomy, lenders simply absorb any cash they get. No one wishes to lend today. Liquidity is at a premium. Monetary policy has become impotent to tackle what it itself is largely responsible for.

The clue to the right approach may lie in the primary cause of the crisis as outlined in the earlier article. Massive redistribution needs to be done through a wide range of fiscal programmes by governments around the world — in order to expand the base of overall demand. The way is the old Keynesian one of stimulating demand in the economy. When expectations are gloomy, businesses and consumers cut back on spending. Governments alone are in a position to do anything. China has already announced a stimulus package of $586 billion for the next two years.

The road ahead for India

Where will public resources come from, when the fiscal deficit is already significant? It is important to first rule out any taxation of the poor, especially via indirect taxes. In a recession, nothing could be more suicidal.

There are no short-cuts anymore. Business elites must cooperate and allow themselves to be taxed — if only in their own long-term interest. Unlike what sceptics may think, this can ultimately only have a salutary effect on overall investment. Funds from off-shore banking and other tax havens around the

world somehow have to be mobilised to enable governments to carry out the kind of spending programmes that are needed.

Over the past two decades, Indian policy elites have adopted a 'do-as-they-say' approach to the management of the Indian economy. Our entire attitude to globalisation has been indiscriminate. The 'free market' was meant to solve all problems, just as the doctors from the IMF and the World Bank advised. Most of our indoctrinated economists nodded in approval.

Government was asked to stay away from the economy. Its budgetary hands were tied behind its back by things like the FRBM Act (2003). We were asked to liberalise financial markets and make the rupee convertible on the capital account (though this has mercifully not been done — yet).

The events of the past few months should make it obvious that this is the wrong road to be on, and any movement forward on it will lead to catastrophe in India as well.

It may perhaps still not be too late for India to avert disaster if our elites are willing to have a far more selective engagement with globalisation. We have to adopt a much more imaginative 'do-as-the-needs-of-the-people-dictate' approach, which has been on the shelf for far too long. This is now necessary not just for the survival of the poor but for the survival of the system itself.

What would this involve in practice?

What *not* to do should be clear. Markets are an everyday reality, even a necessity. But current events teach us that they are good servants but awful tyrants. Therefore, they must subserve society, not subjugate it. In a globalised, liberalised, privatised world, they will normally serve the rich rather well, and treat the poor with indifference. We are also learning from the events unfolding in America that when the latter happens, the volume of demand in the economy comes into question, threatening its very viability

— unless private debt is used as an instrument to compensate for the deficit in overall demand. Seeing what has happened, we would be downright foolish to go down that road.

Further, it would be suicidal to carry on with the agenda of liberalisation — of banking and insurance, for instance — as if nothing has happened. This is a time to protect Indian savings from a global finance hungry for liquidity, something which capital account convertibility of the rupee will put paid to. The exchange rate for the rupee is already falling because of capital outflows in a climate of global uncertainty.

India has a number of advantages which the West does not have today. One of them is that we have a lot less to *undo*. For instance, thanks to a historically prudent Reserve Bank, the sort of lending practices that have brought down the American financial system have not yet got institutionalised — though cheap consumer loans had started becoming the norm till the crisis began to unfold. A lot less 'de-leveraging' is needed here.

Participatory ecological democracy: A survival imperative

The idea is not as remotely romantic as it sounds at first sight. India and other developing countries are called upon not to follow suit and mimic the West in all its economic ills and vices, aggravating the problems that the latter has created for the world — in the shape of such monsters as climate change and peak oil. In fact, judging from what the environmentally-touchy West says it wants from the rest of the world, we must *reduce* our emissions and our ecological footprint.

Could this have anything to do with the crisis at hand? There isn't just one way to grow if you are a poor country. We have reached the end of one road, the one the West has already exhausted. It is time to make a new path. This one must go *through* the woods, without chopping them down. This can only

be done if we use human hands, rather than earth-moving machinery.

The government needs to vastly expand mass employment programmes like the National Rural Employment Guarantee Scheme (NREGS). Similar schemes for mass employment need to be launched in urban areas, to absorb the massive labour pool in the informal sector. These things can be done if business elites cooperate and the methods outlined above are used to mobilise public resources. So far, because of an externally oriented policy framework, India's focus has been on the export market. It has thus failed to build the enormous home market that could be harnessed with a different set of policies. Markets are not guaranteed simply by the size of the population. People have to have the purchasing power for it to have an impact.

Restoring groundwater, soil quality and forests are only some of the priority environmental projects to be undertaken. China is right now busy creating jobs in the countryside, given that the outlook for urban employment has become very bleak and political unrest is growing fast.

There are a thousand details to work out. But the writing on the wall is clear: if growth and development are not made participatory and environmentally sensitive they will not be sustainable, even in the medium term. Purchasing power has to be put in the hands of the masses even as they work to rescue us from ecological peril and earn far more autonomy over local decisions on matters like resource-use and technological choices.

Also clear should be the fact that if our young men are not made busy by an economy that needs their work, they will continue to flock in the tens of thousands to ideologically bankrupt political parties and fascist outfits, with all the attendant consequences for the survival of this increasingly desperate, violent and

imperilled country.

A well-executed mass employment programme, undertaken speedily on a war footing, will create jobs, improve the distribution of income, revive demand, output and growth, address urgent environmental problems, and strengthen local democracy by making it more participatory.

If there was ever a moment in which good ethics and sound politics went hand-in-hand with environmental management and good economics, this is it.

Time is short. It is now do or die as far as our policy elites and leaders are concerned.

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Economics with ethics

by John Samuel

Ethics is what makes the economy humane — an enabling force for exchanges among people, societies and countries. Devoid of ethics, the economy can perpetuate predatory forces of dehumanisation, commodification, violence and war. The economy needs to be an enabling process that helps human beings and the environment to sustain and thrive. Economics devoid of ethics can be extractive, exploitative and imperialistic. In fact, both Adam Smith and Karl Marx began their search for a viable economy from strong ethical premises.

Solidarity is an act of identifying with other human beings who have a shared sense of destiny, dignity and responsibility. Solidarity is based on the principles of mutual empathy, mutual support and the greater common good. Solidarity helps us go beyond the greed of the self to the need of other people, societies and countries. Solidarity does not depend on the principle of 'survival of the fittest'. It seeks to promote the sustainability of human beings and the environment.

Economy signifies an interface among human beings and societies that facilitates the link between natural and social resources to meet human needs and comforts. Economy also signifies the dominant modes of production and distribution. The notion of the market represents the dynamics of demand and supply of goods and services among human beings, societies and countries.

However, the marketplace is not a neutral space for such exchanges based on demand and supply. Any mode of exchange among

human beings and societies is driven by power relationships and value assumptions. Hence, the marketplace is inherently political. The key question is whether the dominant power relationships and political processes within the market shape the choices and values of human beings, or whether a universal framework of human values and sense of solidarity drives power relations within the market.

The assumption behind the free market economy is that the *invisible hand* of the market is capable of dealing with all human demands and needs in an efficient way. However, the so-called free market economy is driven and controlled by a few very rich companies and a few powerful countries. Most of the poor countries and poor people are at the receiving end of the so-called free market economy. The Solidarity Economy is a critique of the extractive economic paradigm of the free market variety and, at the same time, it is an effort to build an alternative vision of an ethical economy. The search for an alternative Solidarity Economy seeks, on the one hand, to promote an ethical normative framework for a people-centred economy, and, on the other hand, to learn from the various practices of enterprises and businesses based on the principles of solidarity.

The Solidarity Economy is an effort to reiterate and rediscover the ethical basis of a viable, sustainable and socially and ecologically responsible economy. Here are some perspectives on the Solidarity Economy:

- The ethical basis for a Solidarity Economy needs to be based on the values of cooperative solidarity, economic and ecological sustainability, accountability, human rights, democratisation, diversity and justice — social, economic and ecological.

- It seeks to promote alternative practices and thinking to challenge monopoly capitalism and an exploitative economic paradigm. The market is too important to be

left to the fancies of finance capitalists in search of perennial profits, and their subservient policymakers.

- It seeks to democratise the economy, knowledge and technology.

- It seeks to promote fair profit in a vibrant and enabling marketplace. It places people and environment before profit.

- It promotes local economies that are accessible and affordable to poor and marginalised people.

- It advocates trade justice and national and international public policies to promote fair trade across the world.

- It anticipates the long-term social and environmental consequences of economic behaviour.

- It proactively seeks to engage with stakeholders to promote accountability and to make them realise the consequences of their actions in the marketplace, society and the world.

- It promotes the public policy perspective that those who have greater economic resources at their disposal have a greater responsibility towards society and the environment.

An economy that creates monopoly of power — through monopoly capitalism and imperialism — will undermine the values of democracy and human rights and perpetuate violence and war. Wherever there are human beings, and wherever they exchange goods and services, there will be a market. But the questions are: what are the guiding principles of such exchanges, and who controls the modes and manner of those exchanges? When markets and the economy are captured by the smaller forces of monopoly and those who have an unbridled thirst for profit and power, ordinary human beings become victims of the market without any sense of agency or bargaining power.

The Solidarity Economy perspective is not

against the creation of wealth. It supports ethical entrepreneurship and human creativity and efforts to create wealth. Competition is not a bad word. But exploitation is an obscene act. Profit is necessary to sustain any vibrant economy, as profit helps people create enough surpluses for the greater good. But profit becomes obscene when it is based on extracting and exploiting people, nature, countries and continents.

The Solidarity Economy is based on the four ethical pillars of ethical production, ethical investment, ethical markets, and ethical consumption. The solidarity perspective seeks to reiterate that human beings are capable of cooperative solidarity and ethical business. The Solidarity Economy is for fair profit and a viable and sustainable economic paradigm that sustains the environment, people and societies.

The Solidarity Economy perspective seeks to encourage people and communities to enter the market and assert their capacity to negotiate and bargain in the market. Such a perspective promotes a vibrant local economy — including production and exchanges of services at the grassroots level. Democratisation of the economy and transparency and accountability of investors, producers, the market and consumers are the defining forces of the Solidarity Economy.

Ethical production

Human beings will have to produce both goods and services for their survival and comfort. Ethical production will be guided by the basic values of human dignity, fair wages and conditions of work, and environmental and social responsibility. The Solidarity Economy perspective seeks to support small and medium-scale enterprises, and sufficiently decentralised production practices. Most poor people are producers as well as consumers.

It may not always be possible to have small or medium-level production modes to serve

the needs of growing economies and demand. So it may also be necessary to have big production facilities of goods and services. This is where it is important to ensure corporate accountability to workers, communities, shareholders and consumers. It is important to move beyond the usual public relations rhetoric of "corporate social responsibility" to "corporate accountability".

However, the fact of the matter is that most big multinational corporations, while subscribing to the rhetoric of corporate social responsibility, tend to have scant regard for any accountability mechanism. Many of them tend to violate the statutory regulations, perpetuate corruption of politics and economy, and tend to maximise profits at the cost of workers, communities and the environment. The Solidarity Economy perspective seeks to demand strong ethical guidelines such as corporate accountability, ecological sustainability, human rights, and fair wages.

While the value of their labour does not increase, the prices of consumer goods keep increasing. Most small and medium-level farmers who produce agricultural commodities have hardly any bargaining power in the marketplace, as most of the time it is the middlemen who tend to control and influence the market. The producers often do not get any opportunity to bargain with the value chain and get fair returns for their labour.

Ethical investment

In ethical investment, the investment is not merely a means to maximise profits but also a means to serve the larger society in terms of generating gainful employment, protecting the environment, promoting human rights, and democratisation. Ethical investment puts people ahead of profit. While ethical investment, too, seeks to make profit, it will challenge the unbridled and unethical thirst for profit. Ethical investment requires transparency, accountability and social responsibility in the process of seeking

a fair return on investment.

Ethical investment is not merely about finance. It involves investment in terms of time, resources, ideas and processes for the greater common good of humanity and the environment. It would actively discourage investment in those industries that perpetuate environmental pollution, unbridled greed, violence and war. Ethical investment is both about the choice of values and the manner of investment.

Ethical markets

The market is a means for the exchange of goods and services. The ethical market is a means to serve the larger society in a fair, predictable, efficient, effective and sustainable manner. The market is necessary for all our social and economic sustenance. However, when the market becomes God, power tends to get accumulated in the hands of a few who would use the market as a means to amass wealth and power at the cost of basic values.

An ethical market is an important link between the investor, producer and consumer. The so-called 'free market' has never been free. Hence, it is important to have optimum regulations by the State and society to make sure that the market is a means to serve and exchange. It is often the middlemen who control the market. Traders tend to control market forces through influencing the finance market, commodities market and consumer market. The principles of an ethical market should ensure that producers and workers get fair returns, and consumers get quality services and goods.

While the State should encourage and enable the ethical market mechanism, it is not the business of the State to control the market. It is important to have optimal regulatory mechanisms to protect the local and national economy from predatory financial and speculative capitalism.

Ethical consumption

One of the reasons for environmental

degradation, increasing inequality and increasing morbidity is unethical consumption. When market and money become God, they are means of desire. Modern markets tend to demands by selling desires. Advertisements are a means of selling new desires, creating new demand for products and services. As a result, people tend to derive their sense of worth not through creativity but through consumption. When people become less creative and more productive, consumption becomes a mode of life itself. The rich countries and people waste huge amounts of precious resources — including non-renewable energy — through unethical consumption. Unethical consumption focuses more on the self than on society; more on the status of the consumer rather than sustainability of the environment.

Ethical consumption needs to be based on the values of need, environmental sustainability and social responsibility. Ethical consumers will ask the question whether the products and services that they consume harm human beings and the environment. An ethical consumer will always discourage wasting resources, particularly food and energy, and will seek to share and maximise the use of consumer goods and services.

The resources of the earth are not limitless. It is increasingly clear that exponential growth of human activity and market forces damages the ecology of the planet. A relatively small minority of people and countries tend to get more and more rich, while a large majority of people are impoverished every day. This is unethical. This is what the Solidarity Economy seeks to challenge and change. The Solidarity Economy seeks to humanise production, investment, the market, and consumption. It seeks to challenge commodification and dehumanisation at all levels. It is based on the principle of creativity, community and communion. The Solidarity Economy is local and global at the same time, where every consumer is a citizen who can claim his/her right and seek to enlarge the

freedom of others.

The Solidarity Economy seeks to enhance and enlarge human freedoms to enjoy and sustain life and the environment. It seeks economic and political empowerment of all people across continents, cultures, gender and colour. It seeks to challenge imperialist economy and politics — an economy of violence and war. It is the search for an enabling economy and empathetic market that will help us to expand our choices in a sustainable, responsible and just manner. As Gandhi said, we have everything to meet everyone's need, but not greed. The Solidarity Economy is one more step for us and the next generation to reiterate that "another world is possible".

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