

Sand in the Wheels

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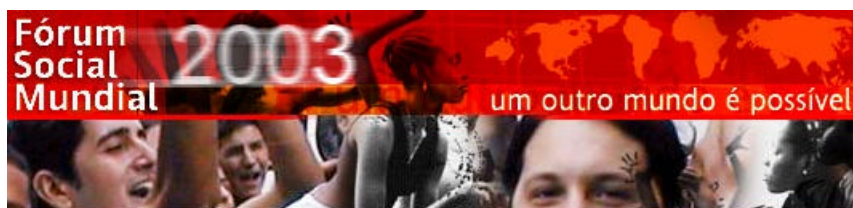


GANGSTERS VS HOPE

Content

1. Do not miss it! (By attac.info)

Live from Porto Alegre WSF on www.attac.info/poa2003 Follow the debates, conferences, the events from 23 January to 28 January. Put also do not miss the little gift we have prepared for you as a happy new year message. Do not miss it and enjoy it now... at home or on the road to Porto Alegre. You'll find also documents and information to prepare your travel and your stay.



2. After the Asian Social Forum (By Asian Social Forum)

We are meeting in Hyderabad, the city that is claimed to be a symbol of cyber-world in India. But it is also the capital of the state known for tragic suicides by hundreds of farmers and weavers, besides starvation deaths, due to the impact of neo-liberal globalization in recent years. The real history of the state is one of valiant peoples' struggles.

3. Drop your gat! (By Susan George)

Austere, bespectacled, rail-thin European trade commissioner Pascal Lamy hardly looks the part of the 1930s gangland movie bad guy. And yet he's got a hold of your future and is doing all he can to hand it over to the transnational corporations. The vehicle for Lamy's villainy is an obscure trade agreement called GATS, or the General Agreement on Trade in Services.

4. The Free Rider Principle: how privilege is subsidised (By Jamie Morgan)

In the business world, tax evasion is a way of life. Multinational firms leech onto poor countries' economies and cause them to run up debts to build the infrastructures needed by the company. In Western economies too, a 'business friendly' policy means less tax for the corporations and the business elite, while for the labour force it signifies more tax, longer working hours and an end to job security. An old working-class refrain used to go, "It's the rich wot gets the gravy, and the poor wot gets the blame." This article shows in non-specialist language how, on a world scale, the poor now also subsidize the gravy.

5. America's corporate boards separated by just four handshakes (By Bernie DeGroat)

Much like the Hollywood association game "Six Degrees of Kevin Bacon," corporate America is an interlocking network of company board directorships separated by just a few handshakes, say researchers at the Business School.

6. Foreign Debt and Civil Rights (By Martín Lozada)

An international seminar about foreign debt and civil rights has just taken place in Amsterdam, Holland. Experts from different juridical cultures have come together. During this seminar the question of foreign debt was looked at from different viewpoints, from international law as well as from national laws. This relatively new approach facilitates a deeper analysis of these perspectives.

Meeting ATTAC Worldwide

All the events, conferences, debates organized by an ATTAC somewhere this week.

Illustrated version only in PDF format.

« Um outro mundo é possível » (by Luisa) www.attac.info/poa2003

Do not miss it!

By attac.info

www.attac.info/poa2003

The third World Social Forum will start 23 January in Porto Alegre. Organized around 5 axis: "Democratic

Sustainable Development - Principles and values, human rights, diversity and equality - Media, culture and counter-hegemony - Political power, civil society and democracy - Democratic world order, fight against militarism and promoting peace" it will allow ten of thousands of participants to participate to conferences, seminars and workshops, to exchange ideas and

proposals, to find out strategies. Other events and initiatives will happen until 28 January.

After Florence ESF attac.info every day will inform you live during the Forum. Around forty persons from diverse ATTACs: Argentina, Austria, Germany, Finland, France and Italy will daily produce photo reportages, articles, videos, audio reportages. Thanks to volunteers in several countries and to translators, we will be able to publish information in 6 languages.

The Sand in the Wheels subscribers will receive a daily synthesis of the the website contents.

Already published: preparatory documents, information concerning the programme, the ATTAC meetings, the location of the different events.

But if you are staying or going to Porto Alegre, if you are participating to the event from afar or from closer do not miss it! Please see the "On the road" section and enjoy.

www.attac.info/poa2003

After the Asian Social Forum

STATEMENT OF THE ASIAN SOCIAL MASS & PEOPLES' MOVEMENTS & ORGANISATIONS

7 January 2003

We, the social, mass and peoples' movements and organisations of Asia and the Pacific from diverse social, cultural and political backgrounds have gathered together on 2-7, January 2003 at the Asian Social Forum in Hyderabad, India. We are gathered here in the ASF to exchange our experiences and raise our voices against neo-liberal globalisation, imperialism, militarism, patriarchy and fundamentalism.

We are meeting in Hyderabad, the city that is claimed to be a symbol of cyber-world in India. But it is also the capital of the state known for tragic suicides by hundreds of farmers and weavers, besides starvation deaths, due to the impact of neo-liberal globalization in recent years. The real history of the state is one of valiant peoples' struggles.

In fact, today the whole of Asia is yet again the center of poverty, war and intolerance, with the mass of people facing starvation, impoverishment, displacement, indebtedness, and destruction of livelihoods.

Imperialism targets Asia with its militarist and economic offensives for making strategic gains, including the greed for oil. The looming threat of war on Iraq by the United States of America imperils all of us, who have witnessed the Gulf War, the bombing of Afghanistan, and the continuing occupation of Palestine. US political and military interventions in Asia under its so-called War on Terror - particularly in South, South East and

East Asia - has brought us to the brink of nuclear war. Meanwhile, all over the region, citizens are kept in check by un-democratic and draconian laws imposed by colluding regimes. This has promoted a false discourse on terrorism and security while systematically marginalising and assaulting people's struggles for survival, livelihoods, rights, inclusion and self-determination. All these pressures are generating ever more virulent forms of patriarchy and the oppression of Asian women.

The impact of capitalism and neo-liberal globalization continues to be felt across the region and affects the lives of every woman, man, youth and child. These effects are leading to widespread increases in levels of poverty and widening gaps between the rich and the poor. It has also led to the increasing degradation of the environment and ecology resulting in widespread disease and death threatening the very survival of the planet. Attacks on the economies of all countries in the region have led to total loss of self-reliance, de-industrialization, privatization and destruction of natural resources of land, water and forests, and the retreat of labor protections. Agriculture, village and small scale industries are collapsing due to imports and subsidy cuts. The promotion of capitalist property rights and indiscriminate mechanisation by governments and transnational corporations are destroying people's knowledge, skills and livelihoods. The combined actions of the World Bank, IMF, ADB, export credit agencies, ODAs and WTO are willfully and deliberately undermining our economic and political sovereignty while destroying local and national economies. Debt continues to be used by the international financial institutions and donor countries to keep our countries in financial and economic bondage.

Capitalism and neo-liberal globalization also jeopardize peoples' lives and accentuate multiple forms of exclusions for the marginalised sections. The worse affected are women, children, indigenous peoples, Dalits, ethnic minorities, tribals, unorganised sector and migrant workers and other socially excluded groups. These have led to the depression of wages, mass unemployment and price increases making people more destitute, leading to tragic consequences like increase in child labor and trafficking in women and children. Education, child care, health, transport all get privatised and subsidy cuts result in denial of services and food security for the poor. Meanwhile, instances of exclusions include the withdrawal of safety nets and affirmative action, rise in violence and discrimination against the vulnerable groups, flattening of social diversities that puts greater pressure on the minorities to conform to the dominant view and greater incidence of contrived conflict that pits these groups against one another.

There is a shrinking of democratic space within the nation-states as neo-liberal globalization with the rise of aggressively fundamentalist, intolerant and violent articulations of identities and an increase in the repres

sive powers of the state and the elites, leading to gross violation of civic and human rights.

We, therefore, resolve to carry forward and strengthen the solidarity for resisting imperialist domination. It will be necessary - and we will strive - in the coming days to include many more social movements into this process of resistance and to evolve democratic and transparent processes for coordinating activities and actions.

We believe that not only is Another World Possible but that Another World is Necessary! We affirm our faith in alternatives based on equity, social justice, human rights and socialism!

In particular, we resolve to carry forward the campaigns and struggle and move towards common actions in the following areas:

- * Resist imperialism - the imminent US attack on Iraq, its escalating militarist interventions in the region, as well as, its possible unilateral declaration of war against any country. Specifically, we will organize a common day of protest action against the war in Iraq. We demand the total elimination of all nuclear weapons.

- * Resist the policies and undemocratic structures of neo-liberal globalization. Specifically, derail the next WTO Ministerial Meeting in Cancun.

- * Defend democracy, secular values and people's security.

- * Oppose religious fundamentalism and communal, ethnic, caste and gender-based violence.

- * Assert people's right to work, energy, food, water, land, other natural resources, education, health and public transport.

- * Oppose privatization, dis-investment and attack on labor rights.

- * Move away from development based on foreign capital and mobilize national resources to support the sustainable and equitable development of domestic economies and people's lifestyles. Demand the unconditional cancellation of debt.

Drop your gat!

By Susan George. ATTAC France Vice-President.

Austere, bespectacled, rail-thin European trade commissioner Pascal Lamy hardly looks the part of the 1930s gangland movie bad guy. And yet he's got a hold of your future and is doing all he can to hand it over to the transnational corporations. The vehicle for Lamy's villainy is an obscure trade agreement called GATS, or the General Agreement on Trade in Services.

The agreement itself may be a less-than-riveting read, but its significance is relatively easy to grasp. All human activities are to become, in the fullness of time, profit-oriented commodities that can be invested in and traded. And GATS will make this irreversible. GATS is not a finished treaty but an open-ended framework agreement that mandates "successive rounds of negotiations". The goal of these negotiations is to "achieve progressively higher" levels of liberalisation. What's not opened up today will be dealt with tomorrow until, presumably, all services are opened to all comers by all countries in all "modes" of delivery.

Twelve broad categories are covered by GATS.

These are: services to business; communications; construction and engineering; distribution; education; environment; financial services; health and social services; tourism; sports, culture and entertainment; transport; and, in case anything is not covered by the preceding 11, "other". Energy, previously considered a good, comes under "other".

A total of 160 sub-categories cover everything from postal services to scientific research, architecture, publishing and rubbish collection. Sometimes when I'm giving a talk on GATS I read out this list of categories at breakneck speed and ask if anyone in the audience is not worried about how the agreement will affect their lives.

The truth is, "public service" is an alien concept in GATS-world. GATS' only goal is to encourage more trade. Article I of GATS starts with a proclamation that the agreement does not apply to "services supplied in the exercise of governmental authority". This sounds great, except that this exemption is immediately followed by a qualifier: such governmental services must be supplied "neither on a commercial basis nor in competition with one or more service suppliers".

Bought any postage stamps lately? Or tube or train tickets? Seen a private school or clinic anywhere in your neighbourhood? Maybe in North Korea or Cuba there might just be public services that aren't delivered on a commercial basis or in competition with other suppliers, but not anywhere else.

Article VI, 4 is equally alarming. It would give GATS powers to interfere, via the WTO's Dispute Resolution Body (DRB), with government efforts to pass "measures" ("laws, regulations, rules, procedures, decisions, administrative actions or any other forms") that are deemed to constitute "unnecessary barriers to trade in services" or which are considered "more burdensome than necessary to ensure the quality of a service". GATS will develop "disciplines" to keep regulation under strict control and will apply a "necessity test" through which outsiders will determine what's necessary and what's not.

The GATS Working Party on Domestic Regulation, which is responsible for developing these "disciplines", recently targeted "unreasonable environmental and safety standards" in the area of maritime transport. That was three weeks before the Prestige disaster. Subsidies "may have distortive effects on trade in services" so they too will be subject to "disciplines". No one can predict what this may mean for domestic service suppliers that receive preferential treatment from their governments.

Since last year's WTO ministerial meeting in Doha, the GATS negotiations have entered an accelerated phase. In conditions of strict secrecy, all WTO member governments "requested" their counterparts opened up their service sectors to foreign competition. The request phase ended on June 30, 2002. The GATS negotiations are now, until March 31, 2003, in the "offers" phase. Based on the requests received, countries are replying to each other and announcing which service sectors they are prepared to open to foreign suppliers. Once a service is opened to one foreign supplier, it must be opened to all of them.

Thanks to leaks, we know what sectors the EU has asked 29 of its major trading partners to open to EU service suppliers. Among its more prominent demands are the total privatisation of postal services, and the liberalisation of large chunks of environmental services, energy, transport and scientific research.

Would you like to know what services the EU is "offering" in your name? Or what services its trading partners, especially the governments of poorer countries, are "offering" to the EU? So would we all, but we've not been so lucky with leaks in this regard.

Commissioner Lamy says it's "traditional" not to disclose negotiating positions, and that our partners want them kept secret. It's traditional in some societies to stone women, electrocute criminals or mutilate the genitalia of small girls. That doesn't make these practices right.

Anti-GATS activists will be delivering "presents for Lamy" from all over Europe on December 11. They'll be decorated with lobbying materials local groups have produced against GATS, and will be accompanied to Lamy's office by MEPs who have signed a call for transparency of the GATS negotiations. Public sector workers will also be represented. In the UK, the World Development Movement has produced some outstanding resources about GATS. Visit the WDM's website to find out more.

<http://www.wdm.org.uk/>

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The Free Rider Principle: how privilege is subsidised

By Jamie Morgan

In the West we have a cult of celebrity and a culture of blaming the victim. We marvel at the conspicuous consumption of the continually narrated lives of people who exist in a permanent state of fantasy and privilege. At the same time we are encouraged to denigrate those who live on the state. Perversely, their meagre lot as a permanent underclass is referred to as 'benefits' and 'welfare'. The real question is who benefits from our obsession with fame and blame? Real wealth and power tends to be inconspicuous. Business is faceless but we are encouraged to think of it as benign – the source of our employment, of our products, of our lifestyles. As such we tend not to notice how we actually subsidise business to the detriment of society. Business should be our obsession when it is an example of what economists call the 'free rider principle'. Two examples introduce the principle: how we subsidise multinationals, and how we subsidise the business elite.

How we subsidise multinationals

The 4 major accountancy firms charge about £500 an hour to provide business with advice on how to limit their 'exposure' to tax. By its very nature, nobody knows exactly how much tax is avoided by business. Estimates for the UK vary from the Inland Revenue's figure of £20 billion to £85 billion per year. Either sum would more than plug Gordon Brown's expenditure gap in his pursuit of a better health system. According to Oxfam, developing countries lose out on about £33 billion per year in tax revenues. This is around three quarters of the total Western development aid budget for a typical year. How does this happen?

Multinational corporations often pursue a policy of 'vertical integration'. This means that they merge or take over other firms that provide the products that they sell or that go into their own production process. A coffee factory in Britain, for example, buys a plantation in Brazil. This provides the corporation with the opportunity to engage in Transfer Pricing, which makes it possible to minimise tax liabilities in both countries. The subsidiary's product is sold cheaply to an intermediary shell company in a 'tax efficient location' such as the Cayman Isles. The low price means that reported profit on sales in country A are therefore negligible (reducing corporation tax). The shell company then sells the product on to the main firm at a high cost. High prices mean that the apparent profit on the sale of the final product in country B is therefore low reducing corporate tax liability there also. There is of course little or no tax to pay in the Cayman Isles.

It is worth remembering that the corporation isn't just providing a product for consumers. It is also a consumer of the infrastructure of the industrialised nations where it sells its wares. But it is, wherever it can, avoiding contributing to the upkeep of that infrastructure – to the transport network, the health system that maintains a productive workforce, to the

education system that produces a productive workforce. A greater proportion of your wage is therefore required to make up some of the difference (as we know it is never all made up). You are poorer because they are greedy. Not only that, your society is denied better service provision because they are greedy.

Since that greed disguises itself it actually becomes a way of undermining all aspects of your life. Nation states argue that globalisation prevents them from holding multinationals to account - higher corporation taxes, more stringent regulation of tax avoidance, more labour rights etc. will simply make firms relocate. Firms meanwhile, argue that global competition forces them to demand lower corporation tax, fewer labour rights etc. (which they call 'a level playing field of business friendly policy'). Both ends of the argument work against you and in the direction of everything organisations like the WTO stand for. Less tax for them is more tax for you, a business friendly policy means longer hours for you, means job insecurity and the possibility of a whole host of problems – stress, ill health, less time with one's family, family dysfunction and ultimately social dysfunction. Both ends of the argument are essentially justified by the credo that it is an aggressively competitive world. Part of the proof of that is that firms can post lower profits at both ends of their production process. The accounts show that the firm can't 'afford' more. Perversely, not paying tax in the UK can lend authority to the argument that business is unable to contribute more to society and treat you better and that nation states could do something about it. The transformation of you from human to hamster on a corporate wheel is a by-product of this perversion. As is the argument that firms can no longer afford your pension, though they are taking more and more of your life. These changes are rather banally termed the reapportioning of risk.

In poorer nations, reapportioning is part of the justification of globalisation. The Kuznet thesis in economics argues for 'trickle down'. As the rich get richer the poor benefit as wealth moves down through the system. If a poor country opens itself up to international competition and to foreign direct investment it will eventually become wealthier. Transfer Pricing undermines this argument. Whilst in the West, multinationals avoid contributing to the maintenance of the infrastructure of society in the rest of the world they avoid contributing to the construction of the kind of infrastructure they need for a complex industrial economy. This is what tax avoidance means. Who takes up the slack? Organisations precisely created to generate infrastructure financing - mainly the World Bank and state budgeted overseas aid departments such as Claire Short's in the UK. Who pays? In the case of the World Bank the host nation itself. Not only is it denied tax revenue from the multinationals, it borrows in lieu of the revenue it is denied in order to create the conditions the firm needs to produce. In doing so it becomes subject to the governance conditions of the loans, limiting its capacity to put its people before profit.

Balanced budgets and business friendly flexible working conditions prevail. Tax avoidance therefore creates the conditions that tie poorer nations into a situation of debt that creates a dependency on the very firms that avoid paying any tax they can. Without what they do pay default would become more of a possibility. Multinationals therefore gain greater leverage in how they operate in poorer nations precisely by avoiding tax in a way that generates debt. No conspiracy is required for such an outcome, simply an economic structure that tends in this direction.

Then of course there is the case of Western government 'aid'. This is typically tied to bilateral trade agreements. Since firms are avoiding tax contributions in the West, it is financed to a disproportionate degree by the ordinary worker's taxes in the West. The trade itself is also guaranteed in a way that makes a mockery of risk for the firms that benefit from these trade agreements. The UK Export Credit Guarantee Department (ECGD) effectively insures firms against defaults on trade payments. Ethics is rarely an issue here. The ECGD backed £117m worth of trade with Zimbabwe last year. It also backs arms and 'defence' contracts. In 2001, British Aerospace sold a \$40m military air traffic control system to Tanzania that it didn't need and couldn't afford – whatever its non-democratic government might think. \$40 million is a third of the nations health budget. One in three is also the proportion of malnourished children in Tanzania. When firms default, the UK government picks up the bill. Contractors know that your taxes insulate them from harm whilst their practices continue to be harmful.

Ultimately, multinationals are subsidised at both ends of a system that they gain from. They don't pay their fair share of tax in the West or the rest of the world. Your taxes make up some of what they don't pay in the West. Your taxes make up some of what they don't pay in the rest of the world through 'aid'. The host ('developing') nation accounts for the rest of it. And the logic of the system is to justify the oppressive face of globalisation. In the West that logic is expressed as inevitability – blind economic forces of competition. Elsewhere it is about tying new countries into the imperatives of the system making them subject to those same 'blind economic forces.'

What privilege really looks like

Wealth and power tend to hide in plain sight. Publicly listed companies must publish their accounts, and shareholders can attend annual general meetings and put questions to the board. What firms do, who and how they pay for what they do are always potentially accessible. Neo-liberal economics conditions us to think of wages in terms of labour markets. We are told that people are paid what the market says they are worth. The theoretical justification of this is the concept of diminishing marginal revenue product. This simply means that each new employee adds a certain amount to the total output of the firm. This is their productivity.

Each product can be sold at the market price. If the amount they produce multiplied by the price it is sold at (i.e. the revenue they bring into the firm) is higher than the cost of employing them, hiring them adds to total profit. It is assumed that adding more labour to a fixed amount of factory (or capital) will cause, after a certain amount of employment, the productivity of each successive employee to fall or diminish (there are only so many people who can reasonably work on the machines or at the desks). According to neo-liberal economics, therefore, one can only logically employ up to the point where the revenue generated by the last employee equals the cost of employing them. Otherwise the firm would make a loss. In economic theory wages can never be higher than this level, which is effectively set by how productive labour is. The more productive labour is the higher wages can be with more employment. When a firm sheds labour the inverse argument is made – they are unproductive and employing them is not cost effective. An unproductive unit of labour is a loss and the competitive pressure to make a profit demands that they be 'rationalised'. This is the 'discipline' of the market. Whatever else one thinks about this theory (and critiques abound), it has been ideologically powerful in pushing through the kind of flexible labour market reforms that have contributed to the reapportioning of risk. But on top of this labour market sits another one, a privileged labour market with quite different rules.

Since the share price peak of 1999 about £650 billion has been wiped off the value of shares in the UK. In 2002 alone, the share value average measured by the FTSE 100 fell by about 25%. As anyone with a pension or an endowment mortgage will tell you, this kind of falling (bear) stock market is deeply worrying. The stock market is the main site of investment by the funds that hold your money. A bear market makes you poorer. But what about the fund managers? During the good times (a bull market) City workers are renowned for their large earnings. How are they paid when their productivity is effectively negative i.e. the value of your ISA, your pension fund, your endowment investments are falling? In these circumstances they use a system called the benchmark. If the FTSE falls by 25% but your fund by only 24% your fund manager has beaten the benchmark. What does this mean? In terms of his six figure basic salary as a fund manager it means nothing at all. His basic wage is not related to productivity. But it does entail an annual bonus. To be sure, it will be smaller than in a bear market, he may not be buying quite so much property this year but then we all have to economise. In 2000 over 1,000 UK City investment bankers 'earned' over £1 million in bonuses. The numbers receiving such bonuses in 2002 has fallen to around 250 (typically with 60% locked in shares). Bonuses for others have declined to around £280,000. Where does the money come from? Out of the fees charged to the transactions made on your behalf. During a recession you are subsidising their failure. In years when you have become poorer they are rewarded out of your diminished assets. Flying in the face of

economic theory, their negative productivity does not result in their wages falling to zero (because at these times their concept of productivity is making money off you not money for you). It simply reduces their bonus. If one followed the logic of neo-liberal economics there would surely be no need for such an incentive to retain a job with a £100,000 salary during a recession but apparently, despite there being more analysts than jobs, such an incentive remains an imperative. A famous economist, J. K Galbraith, nicely summarises this split between how labour markets treat the rich and poor – if you want the poor to work harder, you pay them less, and motivate through desperation, if you want the rich to work harder, you pay them more and motivate through avarice.

Privileged labour markets reward failure because the mark of privilege is the power to set one's own conditions of employment. One sees this also in the phenomenon of the 'golden goodbye'. In a recession most firms do badly because demand for most products tends to fall. But some firms do spectacularly badly in a way that requires fault to be apportioned amongst those who devised the firm's market strategy. Essentially, this is the board of directors. The price of failure for senior executives, however, is quite different than the cost of the firm's failure to its ordinary employees. The collapse of Enron denied ordinary employees severance pay and, since they had previously been encouraged to retain stock in the firm, devastated their savings. In November 2001 just prior to filing for bankruptcy, senior staff awarded themselves \$55m in retention bonuses from the diminishing resources of a firm already finding it difficult to generate credit that would allow it to continue trading in the face of its losses.

In April 2000 five third generation (3G) mobile phone network licenses were sold in the UK for £22.5b. This kind of level of investment just for infrastructure rights was extremely unlikely to ever be recouped and must count as a spectacularly poor piece of business strategy by the firms. For this and other reasons Marconi has become a byword for corporate failure in the telecoms industry. Lord Simpson of Dunkeld, its CEO presided over a collapse in Marconi's value from £35b to £150m. If this does not count as negative productivity it is difficult to see what does. Lord Simpson's reward (whilst mass redundancies were being handed out) was a golden goodbye of £1m. John Mayo, Marconi's finance director received £2.8m. Assuming an average annual wage of £20,000, the opportunity cost of this combined £3.8m was 190 jobs.

Failure, however, is simply a high profile indication of the split between labour markets in the real world. When adjusted for inflation (for a fair comparison) between 1970 and 1999 the average annual salary in the US increased from \$32,522 to \$35,864. That's about 10%. During the same period, the annual remuneration of the top 100 CEOs rose from \$1.3m to \$37.5m. Divide \$35,864 into \$37.5m and we find that CEO's earn 1046 times more than the average

American worker today. In terms of the neo-liberal justification of wages in labour markets this implies they are 1046 times more productive. One wonders quite what a CEO can be doing to generate revenue at quite that rate. One might look at it as a reward for taking the 'tough decision' to work you harder and pay you less implying that the CEO's productivity is in fact a measure of the productivity squeeze he can place on each worker. In which case, to earn 1046 times the average he must be squeezing an extra \$35,864 out of 1046 workers a year or some derivative of the combination of these two figures. Put another way, his reward is some portion of what he extracts from the value of what you earn for the firm that you do not receive. Your income may be growing because the firm is more productive but his is growing because the rate at which yours grows, as a proportion of the growth of the revenue of the firm, is lower than it might be i.e. their income growth is being subsidised by slower income growth for others (irrespective of whether the size of the pie is growing). In effect, if the CEO's income is growing faster than the average worker, one is subsidising his income in a successful firm but in a different way than one subsidises his incompetence in a failing firm.

Consider also that the trend in direct taxation in Western countries has been to reduce the rate of progression. This means that the rate of increase at which higher earners are taxed compared to the average earner has been reduced. This, referring back to Galbraith, is part of the idea of incentives for the rich to work harder (1046 times harder). Combine this with a greater concentration of wealth at the top at the expense of the average and as any numerate person can tell you tax revenue as a proportion of the total wealth of a nation will fall (especially if you take into account that the wealthy employ highly creative accountants). That is, unless, of course, this loss is compensated by more tax at lower levels of the system. These tend to be hidden stealth taxes – on varieties of consumption. Since the poor spend a greater proportion of their total income than the rich they also pay a greater proportion of their income as tax in this way. What this means is that the substitution of regressive taxes for progressive taxation is yet another way in which the rich are subsidised during their working lives.

As the high profile case of Jack Welch former CEO of General Electric (GE) shows, subsidy does not stop at the end of a CEO's working life. In 2000, his last full year as CEO Welch earned, including stock options, \$123m before retiring in 2001. The publicly available papers from his subsequent divorce have since brought to light the terms of his retirement. GE pay \$80,000 a month for the running of his New York apartment, he has the use of the corporate aircraft (\$291,869 per month) and a limousine service, GE also provide box seats at the opera, Wimbledon, as well as major baseball and basketball games. One might wonder whether he can afford such luxury when one considers that his personal fortune is estimated at \$900m and that

he is held on retainer at GE for 30 days consultancy work per year at a meagre \$86,535.

The free rider principle

It is worth bearing in mind that the ideology of neo-liberal economics is antagonistic to the very idea of subsidy. Subsidies protect the inefficient against the discipline of the market. In international trade they are referred to as protectionism and one argument often used against them is that they perpetuate the privilege of a few against the interests of the many. For example, the lack of competition in agriculture maintains high prices for foodstuffs in a country against the interests of the mass of the population. This is a dubious argument in many ways but it is curious indeed that it is not applied to the various ways in which the truly powerful are subsidised. In economics there is a term for getting something for nothing, for not paying your share and benefiting from the expenditure of others. That term is the free rider principle. It was not developed in the mainstream of neo-liberal economics but for theories of public service provision. The context was how to ensure that everybody paid for mutually beneficial services. The classic examples are lighthouses and street lighting, where if I pay for their creation, you can also consume them, but the principle can be extended in degrees to any kind of infrastructure. Part of the problem is dealing with what is termed non-excludability. Once an educated workforce exists it can be tempting to exploit it whilst seeking to avoid paying to reproduce it. The important conclusion reached in welfare economics was that there was no solution to this problem without regulation. The state (and citizens placing informed pressure on the state) has to start taking responsibility for what is a political economy issue of justice and what kind of society we want to live in.

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America's corporate boards separated by just four handshakes

An article from the December 16,2002 issue of the University Record, published at the University of Michigan. Please note: The study referred to was done at the University of Michigan Business School.

By Bernie DeGroat. News Service U Michigan.

Much like the Hollywood association game "Six Degrees of Kevin Bacon," corporate America is an interlocking network of company board directorships separated by just a few handshakes, say researchers at the Business School.

In a study of the connectedness of nearly 7,700 board directors at Fortune 1,000 companies, the researchers found that each director, on average, can reach every other director through 4.6 intermediaries and that each board can contact every other board in 3.7 steps.

"What our findings reveal is that at the apex of the corporate economy is a group of highly influential people who often either know each other or have acquaintances in common," says Gerald F. Davis, professor of organizational behavior and human resource management at the Business School. "The Bush Cabinet, whose members have served on the boards of leading corporations -- including Alcoa, Halliburton and Reader's Digest -- is a good example of how these powerful connections can work in high places."

(In their study forthcoming in the journal Strategic Organization, Davis and Business School colleagues Wayne E. Baker and Mina Yoo found that the "neighborhood" of the corporate elite is an interlocking network created when boards are connected to each other by sharing one or more directors, who, in turn, are connected to other directors by serving on one or more boards together.

Board members may have face-to-face contact several times a year, or even monthly, contributing to an intricate, ever-growing grapevine in which information and innovation travel rapidly, the researchers say.

"small worldliness," according to the study, is not limited to just the business sector, however. It is part and parcel of all networks, whether the members belong to an alumni association, civic organization or country club.

However, the researchers say, the influence wielded by corporate boards is far greater and more likely to impact high-level policies, such as corporate governance, financial; disclosure, and shareholder rights.

"With a small--world elite running corporate America, new ideas, norms and even rumors spread as quickly as stomach flu in a day care center," Davis says. "The upside is that positive actions benefiting shareholders, such as corporate board reform and the discontinuation of directors' pensions and options, can be communicated from one board to another in a short period of time. The downside is that negative actions, such as the poison-pill, a takeover defense that shareholders generally hate, also can prove to be highly contagious among boards.

"In all, we cannot argue that the small-world configuration of corporate boards and directors is sufficient to forge a common world view among directors or to generate substantial homogeneity in corporate practice, but it is highly conducive to the spread of information and ideas--whether or not these are acted on in practice."

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Foreign Debt and Civil Rights

By Martín Lozada

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An international seminar about foreign debt and civil rights has just taken place in Amsterdam, Holland. Experts from different juridical cultures have come together. During this seminar the question of foreign debt was looked at from different viewpoints, from international law as well as from national laws. This relatively new approach facilitates a deeper analysis of these perspectives.

Some of the participants applied the theory of void juridical acts to the problem of foreign debt. Especially in cases, where the contracts usurped the rights of the state government in violation of the constitutional order. The theory in question sanctions, by absence of consequences, juridical acts that punctually affect the common interest or disturb the public order. In the international juridical scope it is the Vienna Convention on the Law of Treaties itself, which contains dispositions to render a conventional act void, when it was contracted in error through fraud or corruption. The same circumstances are given, when this act was accomplished by coercion to the state representative.

The relation between the theory of a void juridical act and the process of agreeing to the treaties on foreign debt is not a mere intellectual operation without any practical consequences.

In the case of Latin America, an international financial institution or private financial group has formed many of the juridical acts with established administrations, which lead to foreign debt, by breaking the precedent constitutional order.

According to international law and practice, this circumstances may render these acts void in the international financial-economic field.

As the jurist Hugo Ruiz Díaz Balbuena remarked many of the debt causing liabilities have been contracted hiding the fact that they are actually orders. This deeply violates international law. Therefore the regimes that were born through a coup d'état lacked the necessary legitimation to jeopardize the financial resources of their country.

About this question he reminded that the Court of Paris declared in a sentence concerning the request of creditors to the Bonaparte government, when they claimed the execution of the liabilities from the following government. In respect to the responsibilities of the creditors, the Court declared in its 1847 ruling that "...if the intention of fraud or corruption can be applied to a contract closed voluntarily with a usurping government, this contract is substantially void according to the principles of public rights common to all nations".

The deduction from this sentence is, first of all, that the creditors, when they grant loans to dictatorships or to a usurping government, they grant them at their own risk and take the full responsibility. Consequently they do not possess any legal title to claim the payment of debts promised by this kind of government. Neither is there a "juris et de jure" presumption of the validity of such public debts.

Therefore the burden of proof has to be inverted: It is the creditors who have to prove that the debts were contracted with a legal government, which respected the internal order and pursued a lawful objective. Secondly, we can assume that the creditors who grant loans to a dictatorship can be considered as acting fraudulent and corrupt, which moreover will result in their penal responsibility. The journalist Alejandro Olmos raised a case and demonstrated very clearly this kind of coincidence of fraud and of corruption between creditors and debtors. When the federal judge Ballesteros issued his sentence he revealed very clearly the role played by the IMF in the process of the Argentinean indebtedness. This institution granted financial support to a government, which committed the most acute crimes against humanity, and did it in spite of knowing perfectly well all about the nature of that regime.

[http://www.ceji-iocj.org/English/articles/ArgentinaCourtDebt\(Ag00\).htm](http://www.ceji-iocj.org/English/articles/ArgentinaCourtDebt(Ag00).htm)

This last point was also object of consideration during the seminar. In other words, the economic support by international financial institutions, or by private groups, was granted in a period of time when the local government implemented a policy of serious and systematic violation of human rights.

The fact that Argentina from 1976 to 1983 was under dictatorship makes it a paragon case.

According to the rules of international responsibility, the support granted gave the military dictatorship all the means necessary to continue and aggravate the policy of violating human rights. Beyond the fact that this juridical act is void, it directly affects the responsibility of the financial institutions and of the private groups, and also their responsible management.

The Congress of the Nation has constantly omitted the debate about the foreign debt, but this stands against the clear mandate of our National Constitution, which disposes exactly to do the opposite. This is a regrettable fact that must be remedied rapidly. Meanwhile the juridical arguments about a perverse and evil process of indebtedness go on, jeopardizing the destiny of the country and the fate of its inhabitants.

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