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**Joint written statement submitted by the Europe Third World Centre (CETIM),
a non-governmental organization in general consultative status,
Women’s International League for Peace and Freedom (WILPF),
a non-governmental organizations in special consultative status,
International Federation of Rural Adult Catholic Movements (FIMARC) and
Mouvement contre le racisme et pour l’amitié entre les peuples (MRAP),
non-governmental organizations on the Roster**

**Policies of struggle against the Financial Crisis should go hand-in-hand with the
exercise of the right to development¹**

1. The grave financial crisis currently affecting the United States and the other countries of the North did not suddenly happen overnight. If it is difficult to determine exactly when it began, the fact is that it first hit the South – and the East – on the periphery of the world capitalist system: Mexico in 1994, then in 1997-98, “emerging” Asia (South Korea, Thailand, Taiwan, Malaysia...), then Brazil and Russia, finally Argentina in 2001. Africa itself was hit, with the collapse of the Ivory Coast’s economy, dependent, deregulated, extroverted, the continent’s “neo-liberal model” according to the experts at the World Bank. The conditions of this global crisis have been at work since the acceleration of the financial markets’ deregulation² -- begun in the 1970s, following the dismantling of the Bretton Woods system and the establishing of floating exchange rates. While the turbulence observed in the real estate sector has its own dynamics of a self-sustaining bubble, it should be interpreted as the continuation of unresolved problems arising from this deregulation – one of the episodes of which was the 2001 implosion of the previous bubble, that of the “new economy” with multiple repercussions on a global scale.

¹ This statement was developed in collaboration with M. Rémy HERRERA, Chercheur au CNRS – UMR 8174 Centre d’Économie de la Sorbonne, Université de Paris 1, France, et M. Paulo NAKATANI, Professeur au Département d’Économie à l’Université fédérale de Espírito Santo à Vitória, Brésil.

² Capital markets where transactions of negotiable, interest-bearing financial assets are carried on.

2. At the beginning of August 2007, in barely five days, the central banks of the European Union, the United States and Japan injected some \$350 billion of new credit into the international banking system. The purpose of these interventions was to avoid a shortage of liquidities and to stop the fall of the stock markets after the suspension of trading of speculative funds (of the BNP Paribas Bank) that were involved in risky real estate ventures. During the second half of the year, the financial markets remained very volatile, reacting to every announcement of losses reported by the big banks (such as Citigroup). At the end of January 2008, a new wind of panic shook world finance after the record fraud of Société générale. On 21 January, the stock markets fell. The next day, the Federal Reserve Bank of the United States (the “Fed”)³ reduced its interest rate from 4.25% to 3.5%, and shortly thereafter to 3%. As the various rescue plans proposed by the economic advisors of President George W. Bush could not meet the challenge, the crisis could only worsen. At the beginning of September 2008, the deterioration of the situation in the financial markets was such that the nationalization of the two principle insurers (semi-public) of mortgages in the United States, keystones in the arch of the system, became inevitable. One of the turning points of the crisis was, on 15 September, the non-intervention of the monetary authorities – in keeping with neo-liberal orthodoxy – in the bankruptcy of Lehman Brothers. Surely, nobody has yet measured the consequences of this inertia in terms of the proliferation of the risks of destabilization of the entire system of finance, including the public debt (in particular via the credit default swaps). In several days, the Treasury (Paulson) and the Fed (Bernanke) radically changed position: the AIG insurance company was nationalized; short selling was (temporarily) suspended; special credit lines were opened at the Fed for Morgan Stanley and Goldman Sachs; J.P. Morgan’s takeover of the country’s biggest savings bank (Washington Mutual, originally the biggest bankruptcy in history) was directly facilitated by the government; the “bailout fund” (of some \$700 billion) was set up; the United States monetary authorities, on a large scale, bought into the capital of a selection of the most powerful banking oligopolies all in extreme difficulty...

Origins of the crisis

3. Economic crisis is a “normal” operational mode of the capitalist system, even if, each time, the factors that trigger it and its mechanisms may vary. Since the dismantling of the Bretton Woods framework during the 1970s, the credit system has undergone widespread transformation, notably in the creation of derivatives, instruments taking the form of firm or optional contracts that set the financial flows of the future as derived from those of a parallel product (raw materials, stock shares, exchange rates, interest rates...). The integration of the stock markets and the banks into the deregulated global markets has displaced the center of gravity of power toward finance, whose dictates have imposed themselves on economic logic. The credit system, which includes banks and stock markets, but also insurance companies, pension funds,⁴ speculative investments⁵ and

³ The United States central bank, which acts as a lender of last resort within the international financial system.

⁴ Investment bodies that manage the retirement savings.

other institutions of a similar nature, constituted the source of “fictive capital”. The forms this fictive capital can take on are primarily bank capital, real estate (property titles or mortgages) and public debt. One might add the combinations of derivatives used in speculative strategy. After the “coup” of the Fed in October 1979, a brutal and unilateral increase of interest rates that marked the return to power of big finance – to wit the owners of dominant world capital, with its institutions – the expansion of this capital was at the origin of the debt crisis of the 1980s, starting with Mexico in 1982.

4. One of the attempts to resolve the crisis was financial deregulation. The total of foreign debt of all the countries of the world was estimated in 2005 as being \$5,260 billion. The accumulated reserves of the BRICS (Brazil, Russia, India, China, and South Africa) plus South Korea and Mexico were almost \$3,500 billion in 2007. Most of the debt had been transformed into fictive capital and sold, whereas the reserves were converted into loans that flowed toward the United States to cover its abysmal balance of payments deficit. Each day, the amounts exchanged in the currency sector of the derivatives market were in the vicinity of \$4,200. In comparison, the world’s gross domestic product in 2007 was \$65,820 billion, and total imports and exports were, respectively, \$13,720 billion and \$13,640 billion. A large part of the fictive capital became parasitic: its total largely surpassed that intended to reproduce productive capital. In spite of its non-contribution to production, this capital benefited from a redistribution of value-added and fed the creation of further fictive capital as a means of its own remuneration. The financial crisis should thus devalue a gigantic amount of this parasitic capital, launching a new cycle of capital accumulation. However, the contradictions of the world system are so great that such a devaluation would risk pushing it to collapse.

5. In fact, the international monetary and financial system is today imbued with deep paradoxes. One of them is the illusion that it is possible to find solutions by pursuing a neo-liberal management of the crisis. One speculative bubble bursts only to generate another, even more dangerous. The proposed solutions suppose confidence in markets, without wanting to impose any limits to the logic of maximizing of profits. A second paradox is the appearance of liquidity crises, as during 2007, in a world economy awash in liquidity. The substitution of a negotiated sharing of the value-added between wages and profits through a spiral of over-consumption/over-indebtedness of households makes it impossible to reabsorb the structural imbalances without breaking the motor of growth. Third paradox: the “independent” central banks refuse all government intervention, but intervene themselves, on a colossal scale, as soon as the system is threatened. The Bank of England recapitalized the Northern Rock Bank, a mortgage institution that risked a bank run⁶ – the first in a country of the North in almost a century – before deciding to nationalize it in February 2008.

Effects on the countries of the South

⁵ Institutions taking risks to operate on huge amounts based on limited sums of money (hedge funds)

⁶ Panic during which a bank’s clients, fearing the bank’s collapse, mass-withdraw their money.

6. The crises are times when certain fractions of capital, generally less productive and/or innovative and representing the most risky loans, fail and are incorporated into a more concentrated structure of property. Thus, the dominant classes can come out stronger than they were – even if a part of them falls into the middle class. In the 20th century, during each reorganization of capital domination, the perfecting of macro-economic policies has allowed the system to equip itself with more efficient institutions and instruments in order to attenuate the devastating effects of the crises... but never to avoid an aggravation of its contradictions. In the United States, the worst effects of the current crisis will be borne by the poorest. Millions of families will lose their homes in the next months. Unemployment and poverty will increase, while the purchasing power of wages will tend to drop. Without a generalized health system and a system of unemployment compensation, living conditions will become even more difficult.

7. But this crisis is systemic and will strike the peripheral countries and their work forces with its repercussions, given the general slow-down of economic growth in the North and, even more so, throughout the chains of dependence in the South. And the various forms of transfer of the surplus from the South to the North will continue to operate through their various channels: repayment of the foreign debt, repatriation of profits from foreign direct investment, profits from valorisation of bonds registered in portfolio investments in balance of payments, illegal trade, overcharging of imported agricultural products... The upward orientation of agricultural prices must not mean a push to a reinforcement of export crop specialization, especially bio-fuels, but must offer the resources to sustain life-giving agriculture and to improve living and working conditions in small-scale farming communities.

8. The current situation is complicated by the fact that certain powerful countries of the South - above all China and Brazil - possess large reserves, thanks to which they assist de facto the US government in avoiding collapse of its economy, rather than devoting resources to satisfy needs in terms of social policies. Depreciation of the dollar would lead to devaluation of their own official reserves. Several countries of the South - including the Gulf emirates - have also already come to the assistance of banks of the North in difficulties, through their sovereign funds⁷. But the external debt of the South countries continues to grow, while this grouping of countries (145 economies) has already paid some 7674 billion dollars in debt service between 1980 and 2006 to the North. This enormous ponction of resources however has not changed the nature of these dependent countries, nor that of their relations with the North. Its accentuation, resulting from the crisis contributes, on the contrary, to the further concentration of riches, within countries on the one hand, in favour of dominant classes of the South and on the other hand, at international level in favour of countries of the North. Unless the movement of capital is regulated and financial speculation confronted, we can expect to see poverty increasing over the next years. These trends will exert pressure towards even greater exploitation of the work force in peripheral economies and will set in motion self-perpetuating mechanisms blocking development in the South.

7 National savings of a country managed by government held investment funds.

Reaffirm the right to development in the struggle against the crisis

9. It is indispensable that economic, monetary and financial relations between the periphery (South and East) and the center (North) of the global capitalist system be reorganized, thoroughly and according to new principles. These principles should, through the intervention of sovereign governments, impose strict standards and limitations on the mechanisms of capital accumulation and promote solidarity and cooperation among partners. This is a condition *sine qua non* for the construction of a more just and equitable international economic order. Among the necessary measures, one might mention:

- the modification of rules of access to markets and international financial systems;
- the setting up of regional monetary zones of exchange-rate stabilization;
- the control and taxation of capital movements;
- the suppression of speculation and tax havens.

10. It is urgent to construct credible alternatives and to support popular processes of transition toward social progress and democracy. At a time when policies combating the effects of the financial crisis can open very different perspectives, progressive as well as reactionary, it is fundamental to reaffirm the importance of the universal implementation of the peoples' right to self determination as enshrined in the first common article of the two International Covenants on human rights. It is also important to reaffirm the importance of the contents of the Declaration on the Right to Development adopted by the United Nations General Assembly on 4 December 1986 and the necessity of its unfettered implementation. Development is conceived therein as *“a comprehensive economic, social, cultural and political process, which aims at the constant improvement of the well-being of the entire population and of all individuals on the basis of their active, free and meaningful participation in development and in the fair distribution of benefits resulting therefrom.”*

11. The NGOs signatory to this statement consider that counting on exports, direct investment or economic growth in order to resolve the crisis – as envisioned in the draft resolution of the Human Rights Council now under consultation⁸ – can only lead to an aggravation of the crisis and to new bubbles if – at least – four of the above mentioned measures are not taken into account.

⁸ “The Impact of the Global Economic and Financial Crises on the Universal Realization and Effective Enjoyment of Human Rights”, Draft resolution, A/HRC/S-10/L.1, dated 11 February 2009, especially provisions 2 and 5.