

## PERSPECTIVE



## The crisis is not over

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The obvious solution was to suspend the mark-to-market rule until some better idea of the values of the derivative instruments could be established and to prevent the abuse of shorting that was destroying market capitalization.

The crisis will not be over until financial regulation is restored, but Wall Street has been able to block re-regulation. Moreover, the response to the crisis has planted seeds for new crises. Government budget deficits have exploded. In the U.S. the fiscal year 2009 federal budget deficit was \$1.4 trillion, three times higher than the 2008 deficit. President Obama's budget deficits for 2010 and 2011, according to the latest report, will total \$2.9 trillion, and this estimate is based on the assumption that the Great Recession is over. Where is the U.S. Treasury to borrow \$4.3 trillion in three years?

This sum greatly exceeds the combined trade surpluses of America's trading partners, the recycling of which has financed past U.S. budget deficits, and perhaps exceeds total world savings.

It is unclear how the 2009 budget deficit was financed. A likely source was the bank reserves created for financial institutions by the Federal Reserve when it purchased their toxic financial instruments. These reserves were then used to purchase the new Treasury debt. In other words, the budget deficit was financed by deterioration in the balance sheet of the Federal Reserve. How long can such an exchange of assets continue before the Federal Reserve has to finance the government's deficit by creating new money?

Similar deficits and financing problems have affected the EU, particularly its financially weaker members. To conclude: the initial crisis has planted seeds for two new crises: rising government debt and inflation.

A third crisis is also in place. This crisis will occur when confidence is lost in the U.S. dollar as world reserve currency. This crisis will disrupt the international payments mechanism. It will be especially difficult for the U.S. as the country will lose the ability to pay for its imports with its own currency. U.S. living standards will decline as the ability to import declines.

The financial crisis is essentially a U.S. crisis, spread abroad by the sale of toxic financial instruments. The rest of the world got into trouble by trusting Wall Street. The real American crisis is much worse than the financial crisis. The real American crisis is the offshoring of U.S. manufacturing, industrial, and professional service jobs such as software engineering and information technology.

Jobs offshoring was initiated by Wall Street pressures on corporations for higher earnings and by performance-related bonuses becoming the main form of managerial compensation. Corporate executives increased profits and obtained bonuses by substituting cheaper foreign labor for U.S. labor in the production of goods and services marketed in the U.S.

Jobs offshoring is destroying the ladders of upward mobility that made the U.S. an opportunity society and eroding the value of a university education. For the first decade of the 21st century, the U.S. economy has been able to create net new jobs only in domestic nontradable services, such as waitresses, bartenders, sales, health and social assistance and, prior to the real estate collapse, construction. These jobs are lower paid than the jobs were that have been offshored, and these jobs do not produce goods and services for export.

Jobs offshoring has increased the U.S. trade deficit, putting more pressure on the dollar's role as reserve currency. When offshored goods and services return to the U.S., they add to imports, thus worsening the trade imbalance.

The policy of jobs offshoring is insane. It is shifting U.S. GDP growth to the offshored locations, such as China, thus halting growth in U.S. consumer incomes. For the past decade, U.S. households substituted an increase in indebtedness for the lack of growth in income in order to continue increasing their consumption. With their home equity refinanced and spent, real estate values down, and credit card debt at unsustainable levels, it is no longer possible for the U.S. economy to base its growth on a rise in consumer debt. This fact is a brake on U.S. economic recovery.

Stimulus packages cannot substitute for the growth in real income. As so many high value-added, high productivity U.S. jobs have been offshored, there is no way to achieve real growth in U.S. personal incomes. Stimulus spending simply adds to government debt and pressure on the dollar, and sows seeds for high inflation.

The U.S. dollar survives as reserve currency because there is no apparent substitute. The euro has its own problems. Moreover, the euro is the currency of a non-existent political entity. National sovereignty continues despite the existence of a common currency on the continent (but not in Great Britain). If the dollar is abandoned, then the result is likely to be bilateral settlements in countries' own currencies, as Brazil and China now are doing. Alternatively, John Maynard Keynes' bancor scheme could be implemented, as it does not require a reserve currency country. Keynes' plan is designed to maintain a country's trade balance. Only a reserve currency country can get its trade and budget deficits so out of balance as the U.S. has done. The prospect of U.S. default and/or inflation and decline in the dollar's exchange value is a threat to the reserve system.

The threats to the U.S. economy are extreme. Yet, neither the Obama administration, the Republican opposition, economists, Wall Street, nor the media show any awareness. Instead, the public is provided with spin about recovery and with higher spending on pointless wars that are hastening America's economic and financial ruin.

(Source: Vdare.com)

# Iraq vote row to be resolved before campaign starts



Iraqis chant anti-Baathist slogans at a protest in Basra, Iraq's second-largest city, 340 miles (550 kilometers) southeast of Baghdad, Iraq, Sunday, Feb. 7, 2010.

(AP photo)

**BAGHDAD (AFP)** — Prime Minister Nuri al-Maliki said on Monday he has received assurances that judges will resolve a simmering row over who can stand in Iraq's general election before official campaigning starts on February 12.

Around 100 lawmakers had gathered earlier at parliament for an emergency session to debate a contentious decision to allow hundreds of candidates allegedly linked to executed dictator Saddam Hussein's Baath party to stand in the vote.

The meeting was triggered by Maliki after he branded as "illegal" a judicial panel's ruling that around 500 previously barred candidates could compete in the March 7 vote after all, subject to a post-ballot appeals process.

But the parliament meeting was called

off when MPs were told the chamber had received a letter from Maliki that said a judicial panel would complete an appeals process by next Friday, more than three weeks ahead of polling day.

The letter specified that "the panel of judges decided to start immediately the study of the appeals," deputy parliament speaker Khaled al-Attiya told MPs.

A parliamentary official told AFP that the judicial panel had also written to parliament to say it will be able to complete its review of candidates by Friday, when official campaigning is due to start.

The head of the integrity and accountability committee that originally accused the candidates of being Baathists or having other ties to Saddam's fallen regime told AFP separately that only 177 people

have launched appeals.

Ali al-Allami, executive director of the committee, said the number was markedly less than the 511 names originally blacklisted from the vote as many parties had chosen alternative candidates.

The election, the second parliamentary ballot in Iraq since Saddam's ouster, is seen as a test of reconciliation between the Sunni minority dominant under the former dictator and the Shiite majority represented by Maliki's government.

The volatile election environment was underscored late Sunday when a female candidate was gunned down in the restive northern city of Mosul, 350 kilometres (218 miles) from Baghdad, a killing said to be politically motivated.

The judges decided on Wednesday to allow the previously barred candidates to stand, saying they would examine their files after the polls and would eliminate them if they were found to be Baathists.

The blacklist sparked tensions between the country's Shiite majority and its Sunni Arab former elite when it was compiled last month.

It includes -- both Sunni and Shiite -- suspected Baathists and alleged members of Saddam's once deadly Fedayeen (Men of Sacrifice) militia and Mukhabarat intelligence division.

The row over who can take part in the vote, however, has underscored the fragility of Iraq's democracy, alarming Washington which sees the election as a crucial precursor to a complete military withdrawal by the end of 2011.

There are currently 107,000 U.S. troops in Iraq, but the number is scheduled to fall to 50,000 by August when all American combat soldiers are due to pull out.

## UN urges Egypt, Arab League to press Israel on Gaza

(Contd. from p. 1)

Israel launched a 22-day war on Gaza that ended on January 18, 2009 and killed some 1,400 Palestinians. Thirteen Israelis also died during the offensive that devastated the impoverished coastal enclave.

Israel refuses to let construction materials into Gaza.

"We respect Israel's security concerns, they are legitimate concerns, but we have offered very precise guarantees that the material we receive would only be used for our reconstruction projects," Grandi said.

"We have very strict procedures, and we are very scrupulous as far as the use of the resources we receive for our projects," he said.

Grandi, who was appointed Deputy Commissioner for the United Nations Relief and Works Agency for Palestinian refugees on January 20, on Sunday met Arab League chief Amr Mussa and Egyptian Foreign Minister Ahmed Abul Gheit.

## Egypt arrests 3 top Muslim Brotherhood leaders

**CAIRO (AP)** — The No. 2 leader of Egypt's opposition Muslim Brotherhood and two other top figures have been arrested by police in a dawn sweep that also grabbed 10 senior members across five provinces, police and members of the group said Monday.

Police arrested the newly elected deputy leader, Mahmoud Ezzat, and two other members of the top level Guidance Council, Essam el-Erian and Abdul-Rahman el-Bir.

The arrests are the latest move in a wide-ranging crackdown on the group ahead of parliamentary elections this year and appear designed to cripple the organization's leadership.

The group, the country's largest and best organized opposition, had just elected a new supreme guide and deputy.

A police official, speaking on condition of anonymity because he is not allowed to speak to the media, said they were arrested for engaging in banned political activity — a standard government charge used against the group.

The Brotherhood was banned in 1954 but is somewhat tolerated by the state. Its candidates are allowed to run for parliament as independents and in 2005 won 20 percent of the seats, making them Egypt's largest opposition bloc.

## France agrees to sell Russia advanced warship

(Contd. from p. 1)

No details about price were released.

The Mistral can anchor in coastal waters and deploy troops on land, a capacity the Russian navy now lacks. Russia's navy chief said last year that a ship like the Mistral would have allowed the Russian navy to mount a much more efficient action in the Black Sea during the Georgia-Russia war. He said the French ship would take just 40 minutes to do the job that the Russian Black Sea Fleet vessels did in 26 hours.

The deal is richly symbolic for Russia, seeking to modernize an aging navy reliant on Soviet-era technology and to project its power abroad more effectively — and more impressively. The sale has alarmed some of Russia's former Soviet bloc neighbors, including those now in NATO, especially after the Russia-Georgia war in 2008.

Possessing a Mistral, which can carry 16 attack helicopters and dozens of armored vehicles, would significantly increase the Russian military's capability to mount quick offensives. France sent a Mistral, which weighs 23,700 tons (21,500 metric tons) and is 980 feet (299 meters) long, to visit St. Petersburg last year in a clear sign of interest in a potential sale.

France's Defense Minister Herve Morin, meeting in Paris with U.S. Defense Secretary Robert Gates, said Monday that France hopes to contribute to European stability.

"I understand that for some central and eastern European countries, that the wounds are still there. France wants a new relationship and that means it needs to go through new exchanges," he told reporters.

Gates said he and Morin discussed the French warship sale to Russia and had "a good and thorough exchange of views."

He would not comment further.

NATO members and Russia have had some small, country-to-country technology deals in the past but this would be the first sale of a major piece of equipment by a NATO nation to Moscow.

"The Mistral is packed with electronics, it also serves as a command ship and a communications hub. That will allow the Russia to obtain modern naval technologies," Alexander Golts, an independent Russian military analyst, said in a telephone interview.

"The Mistral would offer a capability to project power to distant areas, something that both France and Russia like to have," Golts said.

Some other analysts have been skeptical that buying Mistral will help the Russian navy modernize because the ship sold to Russia may be stripped of its most sensitive and valuable systems.

"I believe that it's not a good idea to sell such ship to a country that has occupied another nation's territory," Temur Yakobashvili, a Georgian cabinet minister for reintegration who is in charge of issues related to separatist regions, told The Associated Press in a telephone interview after the French announcement.

Russian and NATO officials did not immediately comment Monday on the French announcement.

Among outstanding questions in the deal are where the Mistral would be built, de Lajugie said.

Russian officials have repeatedly said they want the technology, not just the ships. They emphasized that Russia wants to buy the first ship and build more under license, something France has reportedly been hesitant to allow.



## Undiplomatic talk

(Contd. from p. 1)

The long-tense relations between Syria and the U.S. started to improve after Barack Obama took office in January last year. His predecessor George W. Bush first imposed economic and diplomatic sanctions in May 2004. The sanctions were renewed by the Obama administration in May. However, a few months earlier a top American Middle East team visited Syria. Since then, various U.S. government officials have visited Syria, including the Mideast envoy George Mitchell. Lieberman's remarks thus reflect panic within the Israeli government as Syria's relationship with the U.S. improves. Syria's ties with Israel could also have improved. Over the past few years, the Syrians maintained they could make peace if Israel pledges to withdraw from all occupied territories. The Israelis, until recently at least, didn't contest this point concerning the Golan. Indeed, Israeli governments starting with Rabin's in 1993 and including Barak's in 2000 said they would withdraw from the Golan Heights. Unlike Tel Aviv, Washington wants peace in the region, and it is in its best interests to make peace with Damascus first. For the Syrians, too, want a peace, one that leads to Israel's withdrawal from all occupied Arab territories, not Syria's alone. Damascus has made it clear that the peace it seeks should be in keeping with the Arab peace initiative.

The ultranationalist Lieberman has stirred controversy before with statements that Arab-Israeli lawmakers who meet Palestinian activists should be executed and later apologized for a comment directed at Egyptian President Hosni Mubarak. Lieberman is to be reined in after Netanyahu spoke with him about his diatribe, later asking all his ministers to refrain from speaking out about the Syrian issue. Lieberman is now muzzled, at least on Syria.

## Hamas leader holds crucial talks in Moscow

(Contd. from p. 1)

"We know that the U.S. special envoy to the Middle East, George Mitchell, has recently put pressure on Mahmud Abbas and Egyptian officials," he told Russian daily Vremya Novostei.

"If Abbas reconciles with us than the United States will halt aid to the Palestinian administration."

"Russia wants unity in the Palestinian ranks -- the Americans don't care about this," he told the paper.

Russia has maintained official ties with the Islamic resistance movement since it won elections and took power in Gaza.

Meshaal has visited Moscow on two previous occasions, in March 2006 and February 2007. He was scheduled to hold a news conference at 1300 GMT.

## Turkish president: India will be second largest economy by 2020

(Contd. from p. 1)

Meanwhile Reuters reported that Turkey's Celebi will invest \$100 million this year in Indian airports, the ground-handling services company said in a statement on Monday.

Celebi, which has won contracts to service airports in India's capital New Delhi and in financial hub Mumbai, did not provide more details in the statement.