TELLS THE FACTS AND NAMES THE NAMES

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Intellectual on the Make

By Alexander Cockburn

Fareed Zakaria, *The Post-American World*. W.W. Norton, 2008: 292 pp.

Fareed Zakaria works for the *Washington Post* empire, controlled by the Graham family. His current roost is as editor of *Newsweek International*, with which credential he appears regularly on panels, dispensing wisdom and prophesy about the shape of the world. Zakaria has what economists would call the comparative advantage in the cutthroat world of think-tank "policy formation" of being a youngish Indian transplant, thus putatively better attuned than U.S.-born palefaces to describe what he calls "the post-American world."

Zakaria's global assessment goes as follows: Americans should stop feeling so gloomy and fearful. By broad historical standards, they live in a peaceful era. The problem of "terrorism" is vastly overblown: al Qaeda and the antics of "rogue states" are minor perturbations amid steadily increasing world prosperity, induced by globalization and free trade. Realism is the antidote to panic and, if rational, Americans should accept that the nation's economic and hence strategic dominance in world affairs is over. China and India, endowed with vast territory and huge populations, are the new heroes of this next chapter. America should discard the vestments of imperial arrogance and self-centered ignorance about the rest of the planet. Its prime problem is political gridlock, which prevents enduring problems – which Zakaria fleetingly identifies as "health care, Social Security, tax reform" – from being addressed in a spirit of bipartisanship.

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No Newspaper has run the headline, "Bush to American Drivers and Suburbanites: Drop Dead."

How Bush has Pushed up Oil Prices

By Michael Hudson

The American people are being misled about the cause of soaring oil prices, and deceived about how easily the Bush administration could cut the oil price in half simply by following the policy that Bush Sr. did at the outset of the First Iraq War.

First, with regard to the oil price hikes, I find it amazing that the media are not connecting the rise in oil prices with the Iraq War (which was supposed to lower them, not raise them) and to the contribution of U.S. overseas military spending to the balance-of-payments deficit, and hence to the plunging dollar on world markets. Instead, the media have blamed the foreigner – and, specifically, increased consumption from China, India and other economies that have taken off by rejecting the IMF and World Bank "Washington Consensus" that has stifled more U.S.-centered economies with neoliberal anti-labor policies.

Let us listen to how OPEC leaders explain their policy. Last November in Riyadh, Saudia Arabia, an OPEC summit released an announcement that "it would study further the effect of the falling U.S. dollar on its economies following calls for it to price oil in currencies other than the greenback." Oil jumped to $95 a barrel. In April, Algeria's energy chief Chakib Khelil warned, "Each time the dollar falls 1 per cent, the price of the barrel rises by $4 and of course vice versa." If the dollar continued to decline at the present rate, he pointed out, oil prices might well rise to $200 a barrel. In June, this formula was still being used when oil passed $145 a barrel. OPEC spokesmen explained that the raise was intended to enable OPEC countries to keep their hard-currency oil receipts stable.

The dollar's plunge against the euro and sterling means that Europeans do not have to suffer anywhere near the price rise that U.S. consumers are paying. (To be sure, they have much higher fuel taxes to encourage more conservation. But this has led them to need much less oil per capita.) The Federal Reserve has held U.S. interest rates at only 2 per cent in order to help prevent a financial meltdown of the banking system and the mortgage market. It, thus, has put bailing out U.S. financial institutions and markets above the objective of stabilizing the dollar in the old-fashioned way of raising interest rates. So, the dollar continues to fall. Economists are now discussing the prospects of an exchange rate of $2 for the euro (presently $1.60) and even $3 a euro. If you do the math, you'll see that the latter translates into about $16 a gallon gasoline at the pump, if OPEC's pricing strategy is followed.

Even before the dollar continues on its plunge toward these levels, an attack on Iran would have an equivalent effect by throwing the Middle Eastern oil-producing and shipping region into turmoil. U.S. consumers would be squeezed, but the U.S. oil majors would end up the world's richest companies from this windfall.

Most amazing of all, however, is the media's silence with regard to how the Bush administration has been pushing oil prices up by its purchases for the Naval Petroleum Reserve. When Bush Sr. waged his attack on Iraq, oil prices hardly moved. The reason was simple supply and demand: Bush Sr's administration

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which might actually discomfit his core audience of corporate titans clustering at Aspen, Davos, or Ditchley and kindred watering holes, not to mention employers – current or prospective – in the communications industry, think tanks, or the apparat of "national security." History rattles by at the brisk clip of a TV documentary, trundling its usual cargo of clichés. "It was not the Great Depression that brought Hitler to power in Germany, but rather hyperinflation, which destroyed the middle class by making its savings worthless." Actually, the hyperinflation of 1923 stimulated the German economy by wiping out savings, thus accelerating consumption. In contrast to the bouncing Weimar economy (between 1923 and 1929, it was the third most vibrant in the world after the U.S. and Canada), Britain limped its way through the 1920s, shackled by a return to the gold standard and an overvalued pound. What brought Hitler to power was deflation, falling prices and an unemployment rate of 40 per cent.

The error is telling, because it presages Zakaria's mythmaking – so agreeable to the above-mentioned titans and employers – that the neoliberal precepts, which became dominant in the 1970s, have been an unqualified success. Anything that might slow down or inhibit "market forces" or "market driven industrialization" elicits a reproving finger wag from Zakaria, nowhere more so than in his chapter on India, a paean to the "reforms" that began in the 1990s. Zakaria does acknowledge that there are still a great many desperately poor people in India, but "even if the picture of an India of poverty and disease is the familiar India, the moving picture is more telling than the snapshot. India is changing. Mass poverty persists, but the new economic vigor is stirring things up everywhere."

Zakaria's book never strays into the perilous embrace of an original idea, which might actually discomfit his core audience of corporate titans, employers – current or prospective – in the communications industry, think tanks, or the "national security" apparat.

Of about 1.13 billion Indians, 836 million live on less than 50 cents a day, and for many of them, the era of "reforms" has worsened their condition. In 2007, the same year India's billionaire rating went to 4, behind the U.S., Germany and Russia, the country slipped from 126 to 128 in the "human development index" set by the U.N. Zakaria devotes many paragraphs to what he claims to have been the failed Nehru model of quasi-socialist state supervision. But economic advance benefited the many, not the few. As an Indian cabinet minister, Mani Shankar Aiyar, wrote last year, in the pre-"reform" era "the growth of that abstraction called 'the economy' might have been sluggish but the exponential rise in the welfare of the poor was spectacular."

Though he manages a quick mention of subprime mortgages, presumably squeezed in at the last minute, Zakaria wrote this book before the economic agitations that have prompted George Soros and Alan Greenspan to declare that the U.S.A. is facing the greatest economic crisis since the Depression. Panglossian cantatas to market forces are no longer in vogue, or are now set in the more speculative mode of "hope," touted by Barack Obama. So, Zakaria's book has a slightly dated feel, even if there are corrections in political outlook from the Bush years, such as the demure footnote on page 223 conceding that the author was wrong in his full-throated support of the attack on Iraq, an enterprise for which he now concedes "the costs have been ruinously high." Though, he doesn't prudently doesn't metnion it, in the pre-war phase, Zakaria was part of an informal, unpublicized group of hawks advising Defense Secretary Donald Rumsfeld.

If Zakaria wants to reposition himself for the new era, he will have to go far beyond the usual mantras about "reforming" Medicare and Social Security, which many beleaguered Americans see as the frail guard rails preventing them from sliding into utter destitution in their later years. In the U.S.A., as in France and Spain and India, life is getting harder for most people, albeit more flush for the thin tier at the top. Former U.S. treasury secretary, Lawrence Summers, recently reversed the famous 1953 dictum, "what's good for General Motors is good for the country," admitting that there was "a growing recognition by workers that what was good for the global economy and its business champions was not necessarily good for them".

We've been through thirty years of onslaughts here, in the U.S., on the living standards of working people. This decline has been the consequence of political choices of the sort promoted by Zakaria's core constituency. For this constituency, talk about the need to strengthen the negotiating power and hence the living standards and purchasing power of working people through unions or progressive political movements is as subversive as it was fifty years ago, which is why Zakaria steers firmly clear of any new idea. Genuinely new ideas can be very dangerous. **CP**

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announced that it was releasing oil from the Naval Petroleum Reserve, which was set up to stabilize oil prices in case of disruption (and, indeed, to support prices when they fell too low for U.S. producers to make the kind of profits to which they had become accustomed). There naturally was fear that the fighting in Iraq would bid up oil prices. But a judicious use of the petroleum reserve held prices stable.

Now compare this to Bush Jr. today. Until quite recently, the naval reserve was still buying over 750,000 barrels of oil weekly to put into storage. This is not what it was supposed to do. Instead of stabilizing oil prices, it bid them up.

So, the second remarkable fact in today's oil markets is the absence of discussion as to how easy it would be for the United States to roll back oil prices. At the just-ended 10th Post-Keynesian Economic Conference at the University of Missouri in Kansas City, my friend Paul Davidson (who, like me, used to work for Continental Oil and has a long oil background) pointed out that if the Bush administration did want to lower oil prices, all it would have to do is sell 10 per cent of the oil reserve on the forward oil market. Right now, he points out, the forward price of oil is higher than the spot price. This means that buyers and sellers think the price will rise, and hence that it pays to hold onto oil to sell later rather than sell now. But if the U.S. Naval Petroleum Reserve would start selling the oil it has been buying since the start of the Iraq War, this supply would abruptly stop the price rise. Speculators would dump their positions, and, in prof. Davidson's estimate, oil prices would fall back to about $90.

We found ourselves in agreement. Both he and I have been trying to get Congress to direct the Bush administration to sell U.S. oil to bring down the price. But the majority of representatives and senators evidently want to see oil prices continue to soar – richly rewarding domestic oil companies with windfall gains, which Congress refrains from taxing.

Problem: How do you finance the U.S. federal budget deficit without having Americans bear the cost?

Answer: Raise oil prices, so that OPEC will have more money to buy U.S. Treasury bonds.

The Bush administration and Congress seem to be in agreement that it is "worth the price" to make American motorists and homeowners pay more for heating oil and electricity in order to "hurt their enemy more." After all, they point out, Chinese and Indian businesses (and consumers) also must pay much more for their oil – unless they raise their exchange rates and, thus, make their exports less competitive with Dollar Area exports. If they hold down their exchange rates, they do so by using their export surpluses to buy U.S. securities. This means that they and other central banks will continue to fund most of the U.S. domestic budget deficit (including the cost of the present Oil War). Americans will be freed from having to finance the deficit. Indeed, not only will foreign export earnings end up back in the United States, but the government will continue to lean on Saudi Arabia, Bahrain and other sheikdoms to continue bailing out Citibank and other troubled U.S. financial institutions, with these governments buying special issues of the shares of these institutions, at great cost to themselves as they continue to take losses on these bad investments. This has become a cost of being a "friend of the United States." It doesn't tend to build long-term friendship.

But if the U.S. Naval Petroleum Reserve would start selling the oil it has been buying since the start of the Iraq War, this supply would abruptly stop the price rise. Speculators would dump their positions, and, in prof. Davidson's estimate, oil prices would fall back to about $90.

The moral is that neither the Federal Reserve, nor the Treasury, nor any other government agencies are seeking to promote the domestic consumer market. Yet, no newspaper has run the headline, "Bush to American drivers and suburbanites: Drop Dead." The government's propaganda machine is not blaming the subprime mortgage crisis and the Wall Street financial fraud that has driven foreign investors to dump their U.S. holdings and weakened the dollar. Nor is there any blame on (or explanation for) the deindustrialization of America that has led to rising import dependency. The Oil War's foreign-exchange costs on military account go unmentioned.

Instead, China and India are blamed for daring to grow rather than to impose the austerity programs demanded by U.S. neoliberals. The anger of Americans at their shrinking living standards, thus, is being turned toward foreigners, not toward the Fed and Treasury putting Wall Street before Main Street. Not toward U.S. military adventurism in the Middle East. And not toward the Bush Administration's decision to refrain from using the Naval Petroleum Reserve to bring down prices.

The solution to high oil prices is in U.S. hands. It is not being used. And Congress has brought no pressure on the Bush administration to use it. Instead, they are playing a "hurt my economic rival" game – while rewarding the oil companies that have proven to be so generous in funding Republican politicians willing to play along with this game against American consumers. **CP**

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Copper Colony in the Congo

Mining Multinationals Get Deals of the Century

By Colette Braeckman

Lubumbashi is the capital of Katanga, the southernmost state of the Democratic Republic of Congo (DRC). Day and night, huge trucks roar through its streets, making for the nearby Zambian border with cargoes of copper and cobalt on their way, via the Tanzanian port of Dar es Salaam, to Asia. Every month new stores open: fast food joints with American names and shops where the locals stare in wonder at Chinese consumer goods, finally within their reach.

As prospectors and investors from all over the world grasp Katanga's enormous potential, the local authorities boast of its liberal mining regulations. It has estimated reserves of 5 million metric tons of cobalt and 6m metric tons of zinc. Its estimated 70m metric tons of copper put it behind Chile, which has reserves of 88m metric tons, but the DRC's deposits are of superior quality, yielding an average 3.5 per cent copper, compared with Chile's 0.5 per cent.

It is two years since Joseph Kabila was elected president, with 58 per cent of votes, and although other provinces have yet to see the benefits of peace and democracy, Katanga is enjoying a spectacular economic boom. Over the past 10 years, the price of copper has risen from $500 to $8,000 per ton. In April of 2008, the DRC's first major reconstruction project began at Kasumbalesa, a frontier post 100 km southeast of Lubumbashi. Dozens of bulldozers and loaders belonging to the China Railway Engineering Corporation (CREC) are carving out a four-lane highway whose completion in 2011 will allow the more rapid transport of copper to Zambia. When the project began, the CREC promised to train 1,500 local workers.

But is the boom sustainable? In Lubumbashi's working-class Kenia district, contaminated water has caused a cholera epidemic. Beside cheap Chinese goods, mobile phones and DVDs, stalls offer adulterated alcohol for less than the price of a beer. The air is polluted and choking with dust. Since the authorities banned the export of raw materials to refining plants in Zambia, small units lie hidden behind high brick walls and small furnaces have sprung up in backyards. Their owners, from China, India and the Gulf, bribe local officials to get round the regulations, and local ecologists complain about the pollution of the groundwater.

The euphoria hides many threats, economic as well as ecological. The central government has been slow to pay Katanga its 40 per cent share of the receipts, generated by the local economy and export duties. The provincial governor, who has already bought lorries, ambulances and tractors and initiated various projects, suspects officials in the national capital, Kinshasa, of deliberately sabotaging Katanga's economic dynamism. The government, fearful of secession (for three years, after Congo secured its independence from Belgium in 1960, Katanga seceded, destabilizing the new state), seeks to prevent the copper province from getting too far ahead of the rest of the country.

There is enormous mineral wealth in the province of Katanga. The potential for ecological disaster, social exploitation and corruption is almost limitless.

And there is a third, social threat. The small-scale exploitation of mineral deposits is coming to an end as the big multinationals move in, driving out independent miners. Until a few months ago the Étoile mine at Ruashi, a few kilometers outside Lubumbashi, was just an open pit where men worked unprotected. Children scurried through unsupported tunnels, pulling out rocks striated with green copper or yellow cobalt and cramming them into jute sacks. Cave-ins and fatalities were so frequent that the miners had their own mutual insurance scheme to cover hospital or funeral expenses.

A South African company, Ruashi Mining, has now ended all that. Fences and private security guards protect the site; bulldozers are flattening the honeycombed mounds; day and night, mechanical diggers bite vast craters out of the red earth.

The people of Ruashi, who drew their living from small-scale mining, were given $200 per family and told to clear out, and 400 children were sent to school. Eight-year-old André, sitting at the back of the classroom, admits that he prefers studying. He still coughs from the dust that got into his lungs and remembers his brother, killed by a cave-in. But he also remembers proudly that both of them used to bring in $60 a day for their family. In the hope of earning a few dollars, his mother is in another classroom studying dressmaking, an income-generating activity recommended by the Belgian association Group One. Meanwhile, his father has gone to work in the mines at Luisha, which are still open to independents, although not for long.

Luisha is a vast city of tents, clustered around a pit from which foreigners are excluded. Chinese goods, fashionable clothes and alcohol are on sale; a canvas cinema shows kung fu movies. At the end of the track, by the road to Lubumbashi,

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a sign in English, French and Chinese announces that an Asian company will match any price for sacks of ore.

Zacharie Mudimba has a law degree; his friend is a trained accountant. In polished French, they complain about the lack of work for graduates and point out that they can earn more from mining. Older men beside them agree: they used to work for Gécamines, the huge state company that succeeded the Belgian colonial regime's Union Minière du Haut Katanga. Badly managed and milked by the Congolese government, Gécamines saw production plunge from 450,000 metric tons of copper per year to less then 20,000.

President Joseph Mobutu (1965-97) always rejected privatization, out of national pride and personal greed. But shortly before he was overthrown, he authorized a piecemeal selloff. Strangled by debts of over $1 billion, Gécamines had to make a deal with private partners. The World Bank supervised the operation. In 2003, it financed the "voluntary departure" of 6,000 workers, who quickly blew their modest redundancy payoffs and turned, with their entire families, to independent mining.

The investors piling in to Katanga resent their "amateur" competitors. The Belgian industrialist Georges Forrest complained, "They cream off the surface deposits, making deeper exploitation more expensive and difficult." Katanga's governor, Moïse Katumbi, said, "The 140,000 miners who will lose their livelihoods will create a dangerous social problem, since the highly mechanized industry will be unable to absorb more than a tiny proportion of them."

There has already been violence throughout the new concessions. Men wander on to the railways and dig up the ballast in the hope of finding something; when they are chased off, they defend themselves, overturning and burning lorries. Security guards working for the Australian company Anvil Mining were involved in deaths that resulted in a controversial trial.

In a progress report on the extractive industries, presented in Kinshasa in March 2008, the minister for mines, Martin Kabwelulu, revealed that 33.8 per cent of DRC territory had been conceded to mining companies. In the past, foreign investment in mines was banned, and the Bakajika law, introduced by Mobutu in 1973, forbade the sale of Congolese soil. Such protectionist measures ended with his fall in 1997. Two wars (1996-97 and 1998-2002) brought the country to its knees. Rwanda and Uganda, its neighbors, occupied areas and pillaged their wealth. When Zimbabwe came to the assistance of the government in Kinshasa, it took the opportunity to establish itself in the sector.

Mobutu's successor, Laurent-Désiré Kabila, turned against the companies that had secured advantageous contracts by financing the war. He was assassinated in 2001 and succeeded as president by his son, Joseph Kabila, who turned to the West and submitted to the liberalizing precepts of the international financial institutions. Since 2003, the very liberal provisions of a mining code, virtually dictated by the World Bank, have helped squander the country's mineral wealth. It should have come as no surprise to the bank when the unelected leaders of a weak, chaotic state succumbed to the lure of corruption and signed contracts that were to the country's disadvantage.

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Eric Monga, an expert in mining economics with the Congo Business Federation (Fédération des entreprises du Congo), recalls the specific circumstances under which the code was adopted. "The country was just emerging from a bloody war; under the transition agreement the rebel leaders were coming back to Kinshasa and being integrated into government ... The mining code was an attempt to attract investors by offering them a 10-year stability clause with various tax exemptions. When raw material prices soared subsequently, those who had taken a risk and gambled on the Congo won out. Can you blame them for that?" In his view, the legislation is less in need of reform than of rigorous enforcement.

That is exactly what has happened since Antoine Gizenga, a former colleague of Patrice Lumumba, became prime minister in 2006. (Lumumba, the independent Republic of the Congo's first legally elected prime minister, was deposed in a coup and assassinated by Katangan troops – with U.S. and Belgian complicity – early in 1961.) An intergovernmental commission, supported by experts from the Carter Center, spent eight months discreetly "revisiting" the contracts signed during the transition process and examining how they worked on the ground. Its conclusions were damning. None of the 61 contracts analyzed met the criteria for viability and trustworthiness necessary to reach category A, defined as acceptable to both parties; 39 fell into category B, which requires renegotiation; 22 fell into the irredeemable category C and should be annulled.

The terms granted to private companies associated with Gécamines took the commissioners aback. The investment of external partners was systematically overvalued and that of the Congolese (the value of mineral deposits and existing Gécamines infrastructure) underestimated. Fiscal and parafiscal concessions (such as 30-year tax exemptions) deprived the state of essential revenues. Mining rights were acquired for purely speculative ends (the partners sold the shares on the stock exchange before even starting work on the ground), while social and environmental clauses were ignored, local skills undervalued, local workers underpaid, and concession boundaries extended without authorization.

Finally, the companies began actual mining when they only had permission to explore. The Congolese authorities have established that the mining sector contributed only $27 million to the national budget, compared with the World Bank's estimate of almost $200 million. In neighboring Zambia, revenues from the mining sector amounted to $2 billion.

Economics minister André-Philippe Futa, who studied in the U.S.A., said: "In 2002, during a period of negative growth, the mining sector still made up 30.33 per cent of GDP; in 2007, this figure fell to 6 per cent." This decline is mainly due to tax exemptions granted to the companies but also to fraud and corruption: under-the-table payments and the diversion of money before it reaches the exchequer.

The government should renegotiate some one-sided or misapplied agreements and bring the companies involved before a conciliation commission. So far, 16 companies have been invited to prepare their arguments, and such giants as Anvil Mining, BHP Billiton, Freeport-McMoran and Phelps Dodge are drawing up legal submissions.

As international institutions turn a blind eye to this white-collar predation, the new government, elected in July 2006, finds itself still waiting for promised foreign aid, only 28 per cent of which has been forthcoming. Meanwhile, 33 per cent of the national budget goes to pay off interest on the debts, accumulated during the Mobutu years ($800 million in annual interest on a total debt of $12 billion). The International Monetary Fund continues to place new conditions upon any possible debt relief.

The situation is unraveling. The people resent the government's inability to fund social reform; health, education and infrastructure have all collapsed; promises of aid remain unfulfilled; and international equivocation continues to hinder the re-establishment of government authority in the eastern provinces, where armed groups still hold sway. In September 2007, the Congolese government tried to find an answer by signing what is already being called "the contract of the century."

In exchange for 10 metric tons of copper and 200,000 metric tons of cobalt, China committed to an immediate and ambitious program of infrastructure reconstruction: 3,500 km each of roads and railways, thirty-one 150-bed hospitals, 145 health centers, four universities, schools. The partnership agreement involves $9 billion (a sum that could quickly rise to $14 billion), $6 billion of which will be devoted to infrastructure and $3 billion to reviving the mining sector. It is anticipated that $700 million will be committed this year. To reduce the risk of pilfering and bribes, the deal between Gécamines and a group of Chinese companies is a straight swap: raw materials for infrastructure.

Gécamines' managing director, the Canadian lawyer Paul Fortin, described the deal reached in Beijing after two months of intense negotiations as "irreversible." The court of arbitration in Paris will handle any litigation. In accordance with its doctrine of noninterference, China has not made the contract conditional upon any political reforms or good governance.

Some western governments are using human rights organizations as agents to demand information about the details of these private contracts. Unlike western governments, incapable of releasing the credits necessary for the reconstruction of a country four times the size of France, China has been quick to get down to work: several projects have already begun in Katanga, Kivu and Kinshasa, where 250 km of roads and 1,000 units of social housing are to be built. The people's hopes are undermined by fears that the arrival of Chinese workers and engineers heralds a new wave of colonization. Moreover, the unconcealed displeasure of the West, Belgium especially, could endanger the stability of the government. But the Congolese government is determined to pursue its relationship with China. **CP**

Colette Braeckman is a journalist with *Le Soir* in Brussels. This piece also appears in *Le Monde Diplomatique.*

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