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Focus on Trade is a regular electronic bulletin providing updates and analysis of trends in regional and world trade and finance, the political economy of globalisation and peoples resistance, and alternatives to global capitalism. Your contributions and comments are welcome. Write to n.bullard@focusweb.org

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ON Saturday 24 September, two significant and intimately related events took place in Washington DC: more than 100,000 people rallied demanding the end to the war in Iraq and an end to the IMF and World Bank “war on the poor”; just a few blocks away former US deputy secretary of defence and a chief architect of the invasion of Iraq, Paul Wolfowitz, made his first speech as President of the World Bank Group at its annual meeting. Not since Robert McNamara has one person so perfectly captured the US’ seamless merging of its military, political and economic interests. This is the topic of this issue of Focus on Trade.

The following three articles capture, in different ways, the continuities and paradoxes of US foreign policy. Shalamli Guttal expands on an earlier article (Focus on Trade #107, February 2005) which showed how the emerging “reconstruction paradigm” is used to further and consolidate US interests. Here, she highlights the role of the World Bank and the IMF in propagating the reconstruction paradigm, and shows why Paul Wolfowitz is the right man for the job. In a two part article, Soren Ambrose provides a line by line analysis of the July G8 declaration on debt and reviews the reactions to the declaration from civil society. He then challenges campaigners to maximise the political gains symbolised by the G8 pledge and suggests ways of using it to further deepen, radicalise and localise campaigns for debt cancellation and repudiation. Further he shows how US self-interest can sometimes create new political spaces which could be exploited. Finally, Tom Reifer provides a fascinating interweaving of Hurricane Katrina, the war in Iraq, and decades of military expansion and corporate welfare funded by massive public debt and budget cuts; strands which came together with tragic consequences in New Orleans.

A SUITABLE BOY: PAUL WOLFOWITZ AND THE WORLD BANK

Shalmali Guttal*

When the Bush Administration nominated its Deputy Defense Secretary Paul Wolfowitz for the presidency of the World Bank in March this year, many World Bank watchers reacted with shock. Outrage against Wolfowitz's nomination was certainly to be expected from the left and the global peace and justice movement. But this was beyond the pale for even liberal academics, the international press and much of the leadership of "old Europe" (with the exception of Tony Blair), who found it inexplicable that the US would take the bold step of nominating one of the chief architects of the US war on Iraq as the head of the world's largest development financier.

The disqualifying marks against Wolfowitz's ability to lead the World Bank were many and included his reputation as a belligerent Pentagon hawk, his central roles in planning and overseeing the Gulf War and the invasion of Afghanistan and Iraq, his disregard for internationalism, human rights and democracy, and his proclivity to reward loyalty to the US' invasion of Iraq with lucrative commercial opportunities. His support for the military dictatorships of Marcos in the Philippines, Chun Doo Hwan in South Korea and Suharto in Indonesia is no secret. Renowned economists such as Joseph Stiglitz, Jeffrey Winters and even Jeffrey Sachs joined Bank watchers in decrying Wolfowitz's lack of training and experience in economic and financial policy, development planning, financial markets, trade, and social issues such as health, HIV-AIDS, education, water and sanitation, all of which are upheld by the Bank as central to the global fight against extreme poverty.

Widely regarded as one of the core members of the US neo-conservative intelligentsia and one of the most hawkish members of the Bush administration, Wolfowitz served in key political positions under the Reagan, Bush Senior and Bush Junior Administrations. Many voiced the concern that under Wolfowitz's watch, the World Bank would become an explicit instrument of US foreign policy and that it was only a matter of time before Wolfowitz started to steer the Bank in the direction of US interests through Bank policies, staff deployment and financing.

Amid the blaze of attention on how unsuitable Wolfowitz was for the job, a few voices pointed to a more fundamental issue: the fact that developing countries, who borrow from the World Bank and who have to bear the brunt of Bank policies and condi-

tionalties, have absolutely no say in who heads up the institution. As the World Bank's largest shareholder, the US traditionally chooses the World Bank President while it allows the Europeans to nominate the head of the International Monetary Fund (IMF). Dismaying as the choice of Wolfowitz was, it came as no surprise to most Southern analysts that the Bush Administration would exert its muscle to ensure that the Bank more increasingly and compliantly carry out American dictates.

The international press drew parallels between Wolfowitz and Robert McNamara, another erstwhile Pentagon hawk, who was forced by the Johnson Administration in 1968 to relinquish his post as US Secretary of Defense and put in charge of the World Bank. McNamara's transfer was widely regarded as a diplomatic manoeuvre by a beleaguered US President to deflect national and world attention away from McNamara's role in planning and leading the US' disastrous and unpopular war on Vietnam.

So why was Wolfowitz—the man most associated in the Bush Administration with spinning a phony case against Saddam Hussein and his supposed weapons of mass destruction, manipulating US public opinion, poor judgment about how the Iraqi people would react to the invasion and occupation of their country, political and military failures in Afghanistan and Iraq, and diminishing US credibility overseas—handed such a plum international position? Well, for starters, Wolfowitz's nomination as World Bank President was not a face saving bid by the Bush Administration. Rather, it was a calculated move to ensure that the US is able to continually secure its economic and geopolitical interests even as it plays the game of multilateralism. For what the US wants the World Bank to do, Paul Wolfowitz is an eminently suitable boy for the job

US INTERESTS

Located a few blocks from the White House, the World Bank and IMF have long been Washington's preserves in terms of economic and financial policy, operations, governance and management. US professionals (approved by the US Treasury of course) account for at least a quarter of senior management and higher-level professional staff. Regardless of claims of autonomy and independence, the Bank and Fund have consistently proven themselves to be affiliated to US policies and interests.

Since the early 1990s, these interests have come together in a global project that has been in existence for over 50 years, but has acquired a more identifiable shape since the collapse of the Soviet block at the end of the 1980s: post-war reconstruction.

The US's first official foray into external post-war reconstruction was through the Marshall Plan that came into effect immediately after the Second World War, and which laid out an elaborate plan, replete with financing, for the post World War 2 reconstruction of Europe. Since then, US talent and capacity for defining post-war reconstruction has expanded considerably, perhaps best showcased today in Afghanistan, Iraq and Haiti. The World Bank also got its head-start in post-war reconstruction in relation to World War 2 Europe as the International Bank for Reconstruction and Development (IBRD), charged with channeling the resources for and overseeing the reconstruction of war-torn Europe. Like the US, the Bank has also expanded its talent and capacity for reconstruction through its "post-conflict reconstruction" programme, although the Bank's ambit runs wider and includes countries emerging from and/or in the grips of ongoing wars and violent conflicts (such as Rwanda, Afghanistan, Iraq, Haiti and Cambodia) as well as those "in transition" from communist to market economies (such as the Lao PDR, Vietnam, Kazakhstan and Azerbaijan).

VERTICAL INTEGRATION

The US approach towards post-war reconstruction can be summed up in a single phrase: vertical integration. The US either engineers a coup or invades a country, occupies it literally or by proxy, sets up a government of its choice, makes into law policies that favour US commercial and political interests, and then hands out plum contracts for "rebuilding" and "rehabilitating" the country to its most favoured private corporations. Ground for the vertical integration model is prepared well before invasion. By deploying spin doctors and the media, manipulating intelligence and security briefs, and creating public hype and hysteria against shadowy foes, a case is built to render invasion and occupation inevitable. Everyone comes away with a good chunk of the post-war reconstruction pie, except of course those whose homes, families and lives are destroyed by the endless war that the model results in.

The World Bank has its own version of vertical integration, which complements the US model well.

In that the Bank has always been a proxy institution of the US through which the US imposes economic and financial conditions on capital needy

countries, it flows naturally that when called in to co-ordinate the reconstruction of a war-torn country, the Bank will continue to defend the interests of the US and its allies, rather than respond to the needs of the affected population. The Bank will first lay down the rules and policies under which aid for reconstruction is to be solicited and used, then it will bring in private sector actors to implement these rules/policies while heaping the costs on the occupied, and when things go wrong—as they inevitably would under such circumstances—the Bank will declare the affected country to be a failed state that is in need of even more stringent application of the same rules and policies that keep it a state of continuing failure.

THE AMERICAN WAY

After the collapse of the Soviet Bloc, the US emerged as a relatively unchallenged global power, and sought to secure its economic and political interests throughout the world through whatever means it could garner, whether military, commercial, political or institutional. The US economy is an oil and war economy; oil is necessary to fuel the high consumption that characterizes the American "way of life" and clearly, the US will wage war to ensure control over oil reserves as well as to cement its position of global military and economic primacy. Economic globalization today is essentially American hegemony: over the clothes we wear, the food we eat, the beverages we drink, the machines and chemicals we use in our industries, the appliances we use in our homes, the drugs we need to save lives, the films we watch, and even the social and political values that many in our societies hold up as necessary for progress and modern advancement.

For the US, "reconstruction" involves setting up systems that advance US ideological and material interests. On the ideological end are promoting a market inspired articulation of "freedom and democracy," an individualized interpretation of rights, US style "democratic" values and systems, and a US sense of "moral clarity." On the material end are securing and consolidating US control over oil and other key resources, expanding US corporate power both, domestically and abroad, ensuring US hegemony in global consumption, and establishing market and corporate friendly governance and legal processes and institutions.

For Wolfowitz, the end of the Cold War offered vast opportunities for spreading US ideology and serving US interests. The use of "American muscle to advance American values around the world" (1) was crucial to ensuring US economic and political dominance globally. Use of the US' military forces

and technologies are central to this strategy and Wolfowitz had no trouble reconciling military power and commercial/economic interests with moral purpose. In a commentary on Wolfowitz's thinking on post cold war defense policy, Andrew Bacevitch notes, "By taking advantage of vast new opportunities to put US military might to work protecting human rights and advancing the cause of freedom, the United States could actually cement its position of global primacy." (2)

In pursuit of achieving this primacy, the US has moved seamlessly from directly invading and occupying countries and engineering and financing political coups (as in Afghanistan, Iraq and Haiti), to promoting "freedom and democracy" (as in Cambodia, Timore Leste and Central Asia), and threatening to withhold financial contributions to multilateral bodies such as the UN system, the Asian Development Bank and even the World Bank, unless they establish in aid recipient countries the policies and institutions that the US wants.

US thinking on post war reconstruction is clearly articulated in the mission statement of the Office of the Coordinator for Reconstruction and Stabilisation (S/CRS). Established in July 2004 in order to develop a more "robust capability" (3) to prevent conflict and "manage stabilization and reconstruction operations in countries emerging from conflict or civil strife," (4) the S/CRS reports directly to the Secretary of State. The S/CRS mission statement notes that:

"Until now, the international community has undertaken stabilization and reconstruction operations in an ad hoc fashion, recreating the tools and relationships each time a crisis arises. If we are going to ensure that countries are set on a sustainable path towards peace, democracy and a market economy, we need new, institutionalized foreign policy tools - tools that can influence the choices countries and people make about the nature of their economies, their political systems, their security, indeed, in some cases about the very social fabric of a nation." (5)

The Bush administration has requested \$124.1 million from US Congress to jump-start S/CRS operations and has asked for 'flexible spending authority' in order to allow resources to be used to "maximum effect." (6) Despite rhetoric about fostering peace, harmony and democracy, securing economic gains rank high in S/CRS planning. According to Carlos Pasqual, the Coordinator of the S/CRS, the office will build inter-agency, inter-sectoral and military-civilian teams that can move into conflict situations early in the process and take on bulk of the reconstruction work:

"To support the larger and longer-term program requirements, the coordinator's office is assessing and filling gaps across government agencies in contracts and more informal arrangements with organizations that specialize in various aspects of stabilization and reconstruction: mobilizing international civilian police, training indigenous police, developing systems of justice, providing fiscal and monetary advice, stimulating the private sector, and supporting civil society. S/CRS is also assessing the feasibility of a civilian reserve corps that could tap individuals with key skills. The goal is to organize all of these resources so that they can mobilize quickly and efficiently after a conflict to fill all the needed functions and skills." (7)

Pasqual is clear that S/CRS's work would focus on creating laws and institutions for a "market democracy," and that it will devise reconstruction contracts well in advance with private companies and NGOs. (8)

"And so we've begun a process of ensuring that we have a global network of contracts and grants and cooperative agreements with firms and individuals and think tanks and universities and NGOs so that these are pre-competed in advance in core skill areas so that individuals are identified and when, indeed, it is necessary to deploy a team of individuals to the field that you can go to those contracts and, perhaps, cut off three to six months in your response time by having these activities pre-competed in advance." (9)

The US's reconstruction ambitions are perfectly reflected in the case of Iraq. Between May 2003 and June 2004, Lt. Paul Bremer, the Head of the US-established Coalition Provision Authority (CPA) which served as the first occupation authority in Iraq, fired 500,000 state workers (including soldiers and civilians), opened the country to unrestricted imports, started to privatise state enterprises, and enacted a radical set of laws to entice multinational corporations to set up operations in Iraq. In her research on Iraq's reconstruction, Naomi Klein noted that, "Overnight, Iraq went from being the most isolated country in the world to being, on paper, its widest-open market." Klein reported that according to Joseph Stiglitz, former chief economist at the World Bank, Bremer's reforms were "an even more radical form of shock therapy than pursued in the former Soviet world." (10)

Contracts worth millions of dollars were routinely handed out by the CPA to favoured US corporations while top posts for shaping Iraq's future "sovereign" government and Iraqi civil society were farmed out to highly paid and ideologically motivated professionals from the Bush

Administration's pet think tanks and investment banks. Prominent among them are the Research Triangle Institute (RTI), the National Endowment for Democracy (NED) and Bearing Point, all of whom were tasked with constructing economic, social and political structures and institutions most conducive to US corporate interests even after direct occupation ends. (11) The bulk of the contracts for civilian construction, maintenance of the oil fields and procurement went without open competitive bidding to Halliburton, former home of Vice President Dick Cheney, and Kellogg Brown and Root (KBR), a subsidiary of Halliburton. (12)

In an analysis of the final draft of the Iraqi Constitution, Herbert Docena shows how the Constitution has written into law provisions for private ownership of Iraqi assets, including foreign ownership, and binds Iraqis to enforce the neo-liberal policies laid down in the Bremer decrees. Docena notes that, "The contents of Iraq's permanent constitution are of critical interest to those committed to reconstruct Iraq's economy along neo-liberal lines." (13) Particularly important among these are the provisions that govern Iraq's oil assets in reference to which, Docena notes, Adil Abdel Mahdi, Iraq's vice president, told an audience in Washington, just before the Iraqi elections: "[T]his is very promising to the American investors and to American enterprises, certainly to oil companies." (14)

AT HOME AS ABROAD

US companies that have benefited from lucrative reconstruction contracts abroad also benefit at home as is evident from the rush towards reconstruction in the US' southeastern Gulf Coast after it was ravaged by Hurricane Katrina. And here too, we see the vertical integration model at work. In early September, the US Federal Emergency Management Authority (FEMA) and the Army Corps of Engineers awarded at least seven no-bid contracts, most for up to \$100 million, for post-Katrina clean up, emergency housing, repair of public works and provision of basic services. Many of these companies also received no-bid contracts for work in Iraq, including KBR. KBR is a client of Joe M. Allbaugh, the former head of FEMA from 2001-2003, who now has a private lobbying and consulting firm. (15) Mr. Allbaugh is also a close friend of President Bush and was his campaign manager in 2000. (16)

Bechtel, with \$17.4 billion in annual revenues globally, is working under an informal agree-

ment setting up housing in Mississippi, with no set payment terms, scope of work or designated total value. It is

also performing reconstruction work in Iraq under a large federal contract. (17) Many of the normal contracting safeguards that should accompany contracts of such sizes have been temporarily suspended in post Katrina rehabilitation in an apparent bid to ensure that emergency federal aid gets to victims as soon as possible. Also, the Bush administration has waived prevailing wage requirements that ensure government-contracted workers in disaster areas are fairly compensated. (18)

The Army Corps of Engineers was set to award another \$1.5 billion in contracts in mid-September for post Katrina cleanup operations in Louisiana and the Gulf Coast. Although these contracts will go through competitive bidding, they will be given "expedited handling," i.e., the bidding process can last less than three days. (19) Those involved say that the costs of post-Katrina reconstruction are likely to exceed \$100 billion.

In a bid to preempt allegations of contract abuse, the Department of Homeland Security decided to send a team of investigators and auditors to the hurricane ravaged Gulf Coast to ensure that federal funds are properly distributed in rescue, relief and rebuilding work. This is the same Department that drastically cut FEMA's budget for emergency response, and undermined the capacity of Louisiana's national guard—whose job is homeland security—by shipping most national guard off to Iraq. Ironically, the team will not be able to investigate the most controversial of the Katrina contracts: a \$16.6 million contract with KBR for emergency repairs at the Gulf Coast naval and Marine facilities. This money is part of a \$500 million Navy contract that KBR won by competitive bid last July.

Homeland Security claims that it has no authority to audit the contract since it was awarded by the Pentagon. However, KBR has been under scrutiny for receiving a 5 year no-bid contract to restore Iraqi oil fields shortly before the Iraq invasion in 2003, and questions have been raised whether KBR was treated especially favourably because of its connection with Vice President Dick Cheney, who headed Halliburton from 1995 to 2000. (20) Halliburton (KBR's parent company) also has a 5 year, \$ 500 million contract with the US Navy to provide emergency repairs at military installations damaged by Katrina. (21)

Obviously Paul Wolfowitz is not responsible for the post-Katrina scandals, however it's worth keeping in mind that this is the milieu and working culture he comes from—cronyism and a shocking lack of accountability. According to Danielle Brian, director of the Project on Government Oversight, a

nonprofit government spending watchdog group, in the case of Katrina—as in Iraq—“You are likely to see the equivalent of war profiteering - disaster profiteering.” (22)

THE WORLD BANK WAY

For the World Bank, post-war reconstruction is an opportunity to apply the most egregious form of structural adjustment to countries emerging from war or natural disasters, undergoing violent internal conflicts, under foreign occupation, and/or in “transition” from communism to capitalism. The Bank is playing a significant role in shaping the economic, social and political climates in Afghanistan, Cambodia, Africa’s Great Lakes region, the Balkans, Liberia, Nepal, Sierra Leone, Timor Leste, Sri Lanka, the West Bank and Gaza, and other areas torn by war, conflicts and disasters. Common to all World Bank reconstruction programmes is the immediate application of free market reforms, including legal provisions for foreign investment, full repatriation of profits for foreign investors, private property rights, zero subsidies for food and essential services, and the now ubiquitous ‘good governance.’

The World Bank is one of the most influential institutions involved in post-conflict and war reconstruction. “Mitigating the effects of war” accounts for about 16 percent of the Bank’s total lending. (23) The Bank has a special unit to design development programmes for conflict affected countries (the Conflict Prevention and Reconstruction Unit) and a special fund to provide financing for reconstruction in “post-war societies” (the Post-Conflict Fund). It has an Operational Policy on “Development Cooperation and Conflict” (OP 2.30) that sets the scope and the terms of the institution’s interventions and explicitly opens the door for the Bank to work in conflict prevention. (24) The Bank can even intervene in countries where it is unclear who is in power and can provide grants on request from the international community as “properly represented” (e.g., by UN agencies). This means that the World Bank (and the IMF) can operate in a country in the absence of a sovereign government, as they did in Iraq and Afghanistan.

The Bank’s Post-Conflict Fund (PCF) was established in 1997 to “enhance the World Bank’s ability to support countries in transition from conflict to sustainable peace and economic growth.” The PCF makes grants to governments, civil society organizations, institutions and private sector actors, to channel Bank aid as early, and in as broad a spectrum as possible. In financial year 2004 alone, the Bank disbursed US \$10.6 million; since 1998, it has disbursed US \$66.7 million to, among others,

Afghanistan, Sri Lanka, Columbia, Haiti, Azerbaijan, Rwanda, Sierra Leone, Bosnia, Croatia and the Philippines. (25)

What is remarkable about the Bank’s involvement in post-conflict reconstruction is the breadth and size of its operations, and the ease with which it repackages its usual programmes into ‘reconstruction’ mode. The Bank’s reconstruction activities span a wide spectrum, from giving policy “advice” and commissioning studies, to financing in-country activities and managing the donor funds channeled to a war torn or conflict ridden country for reconstruction. In the Great Lakes region in Central Africa, the Bank is administering a US \$350 million, multi-donor programme to demobilize and reintegrate 450,000 former combatants from Angola, Burundi, Central African Republic, Democratic Republic of Congo, Republic of Congo, Rwanda and Uganda. (26) Even the International Finance Corporation (IFC)—the bank’s private sector financing window—is into the business, and has provided financing for projects such as a luxury long-stay hotel for international development personnel in Rwanda, a luxury hotel for diplomats and development aid professionals in Afghanistan, the development of oil fields in Southwest Chad, the construction of an underground pipeline from Chad to Cameroon (to transport the oil from the Chadian wells), a greenfield cement plant in Iraq, privatization and expansion of a state owned power plant in Tajikistan, and a special loan facility to reconstruct and rehabilitate tourism facilities destroyed by the tsunami. (27)

In order to expand its reconstruction work, the Bank has developed “new products” for situations where normal lending instruments cannot apply. These allow the Bank to “position itself” early on in shaping the affected country’s development path. In a number of countries emerging from conflict, the World Bank prepares a Transitional Support Strategy (TSS). The TSS is a short to medium-term plan for comprehensive reconstruction through which the Bank can provide emergency recovery grants and loans. Angola, Macedonia, Kosovo, Timor Leste and the Democratic Republic of Congo all currently have a TSS. The Bank has also established and managed joint donor trust funds in countries such as Afghanistan, Kosovo and Timor Leste, and in the Great Lakes region in Africa. (28)

At the end of 2002, the World Bank established the Low Income Countries Under Stress (LICUS) Unit. LICUS focuses on improving development effectiveness in what the Bank calls “fragile states.” In collaboration with other development agencies and

academics, the Bank has started to create an analytical framework and “assemble the right tools” to help countries in difficult circumstances. (29) As of June 2004, target countries included the Central African Republic, Haiti, Liberia, Myanmar, Somalia, Sudan, Togo, and Zimbabwe.

In the Bank’s world, fragile states are “characterized by particularly weak institutions and performance, as measured by the World Bank’s Country Performance and Institutional Assessment ratings.” (30) Significant here is the Bank’s observation that LICUS countries have “environments that are not conducive to absorbing significant quantities of development assistance.” (31) The Bank’s approach to fragile states is actually quite similar to that of the S/CRS. Both express concerns about a proliferation of failed states that are as much a threat to the world at large as they are to their own populations.

“Many LICUS have domestic stakeholders who are attempting to initiate basic reforms. Domestic reformers in these countries are often politically weak: they require modest but timely international support to build momentum for reform efforts. This is particularly critical in LICUS countries where efforts at national reconciliation or political transition are underway: it is crucial that economic and governance improvements take place during such transitional periods, both to prevent a return to political instability and to strengthen policies and institutions in readiness for more comprehensive engagement by the international community.” (32)

In January, 2004, the Bank set up a LICUS Trust Fund to support LICUS countries during what it calls “transitional” periods, especially for those that have loan servicing arrears to the Bank. Financed by the Bank’s surplus in financial year 2003, the Trust Fund has a budget of \$25 million, and to date has disbursed \$19.1 million in grant packages to Comoros, Liberia, Central African Republic, Haiti and Sudan. According to the Bank,

“The proposed trust fund, targeted primarily to countries in non-accrual, would allow the Bank to provide modest support that would assist them as they initiate the kinds of reforms that would set the stage for arrears clearance and subsequent access to IDA financing and debt relief, on the basis of a robust track record.” (33)

In other words, the objective of the LICUS Trust Fund is to bring these “fragile” countries back under the apron strings of the World Bank and the IMF. The main reforms envisaged through Trust Fund financing include, governance, civil service, public fi-

nance, policy, institutional and judicial reforms— all the elements of a classic structural adjustment programme.

HOW IT ALL COMES TOGETHER

Despite its best effort to portray otherwise, the World Bank’s motto, “Working for a World Free of Poverty,” rings increasingly hollow with every dollar of aid it disburses.

Over the past 60-odd years of its existence, the Bank has moved through numerous fads, including emergency relief, infrastructure development, building human and social capital, meeting basic needs, financial and economic reforms, good governance and participation. By any measure of economic or social performance, the last two decades have shown rigid applications of Bank-Fund economic and financial orthodoxy to be abysmal failures. Countries indebted more than 20 years ago remain mired in debt with crippling repayment burdens that have undermined all social and environmental indicators; income poverty, inequality, unemployment, hunger and malnutrition have become entrenched conditions as result of Bank-Fund designed economic and financial reforms; social exclusion, distress migration and human trafficking are on the rise wherever the Bank and Fund have left their policy imprints; environmental and ecological destruction and forced resettlement accompany most Bank financed infrastructure projects, and; the abilities of most Bank-Fund borrowers to combat HIV-AIDS, malaria and other epidemic diseases have been undermined as a result of shrinking public expenditure budgets.

In a study on IFI involvement in Afghanistan, Anne Carlin notes that IFIs are seeking “new lines of business” at a time when large borrowers such as India and China turn to other sources for major projects. (34) In order to keep middle income clients such as India and China, the IBRD has cut its loan fees and raised the maximum amount it would lend to a single country by \$1 billion, to \$14.5 billion. (35) According to a senior Bank official, India has complained that it find the costs of borrowing from the Bank too onerous and is unwilling to borrow if the costs of borrowing are not reduced.

Post conflict/war reconstruction provides an excellent opportunity for the World Bank to carve out a new role for itself and keep institutional irrelevance at bay. “Nation building” and supporting “fragile states” to achieve “sustainable exits” from conditions of conflict offer useful shields to the Bank to deflect unfavourable attention away from its poor record with structural adjustment, debt relief and white elephant infrastructure projects. The ascent of Paul Wolfowitz to the Presidency of the Bank thus suits the Bank’s interests of self perpetuation.

Although Wolfowitz comes to the Bank presidency without any development experience, he does bring the extremely valuable experience of overseeing the reconstruction of Iraq during which, he demonstrated his commitment to corporate-led development. It matters little that in the two years since it was invaded, Iraq has descended into chaos, food, water and medicines are scarce, security is practically non-existent, and the country is wracked with sectarian conflicts. More important is the fact that US corporations have control over all the plum contracts for rebuilding the structures that Wolfowitz's war destroyed. Vertical integration at its best.

In mid-September, the World Bank's Board approved a plan for using as much as \$500 million in loans to the Iraqi Government. In 2004, Wolfowitz's predecessor, James Wolfensohn committed \$3-5 billion for reconstruction and agreed to manage the Iraq Trust Fund. The Bank is now considering sending staff back to Iraq to oversee the huge sums of reconstruction funds that will be channeled through the Trust Fund, since an internal Bank report has warned that "there are high and unprecedented risks" to the Bank's work in Iraq, arising from the inability of Bank experts to travel around the country and oversee aid disbursement. (36)

An interesting facet of the World Bank's LICUS programme is that it endows the Bank with the capacity to designate countries that are at threat of becoming "fragile states." Similarly, Carlos Pasqual's S/CRS office has requested the US National Intelligence Council to identify every six months a group of countries that they consider to be at the "greatest risk of instability." From among these, the CRS will select countries on which it will "focus a more intensive planning process." (37) Both, the Bank and S/CRS then, are in a position to make state failure a self-fulfilling prophesy through their respective post war reconstruction programmes.

Paul Wolfowitz's past experience in the US Administration is likely to serve him well in his new job at the World Bank.

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"If we appreciate the achievement of "beating" the G8 and the

FOCUS ON T

ASSESSING THE G8 DEBT PROPOSAL & ITS IMPLICATIONS

By Soren Ambrose*

IFIs... this victory could be part of building serious momentum for the global justice movement as it moves toward the WTO meetings in Hong Kong and other key events. Unfortunately it appears that the G8 proposal will be perceived by many progressive campaigners as another defeat, albeit with some potentially positive aspects."

(This report is in two parts. The first is a close reading of the G8 debt plan and some of the interpretations and proposals about the plan that have emerged since July. The second is an analysis of its implications.)

PART ONE: WHAT IS THE G8 TRYING TO SAY?

The G8's proposal for debt cancellation, announced at the end of a Finance Ministers' meeting on 11 June 2005 and reaffirmed in the summit communiqué of 8 July 2005, could be the most significant development in international debt policy in the last ten years. (1) Leaks from the IMF and World Bank now indicate that those institutions, along with non-G8 European governments, are bending the rules of interpretation to try to retain the power they hold over Southern countries' economic policies. These efforts are opposed by the US and UK governments; the conflict over how the plan will be implemented is likely to be addressed, and possibly resolved, at the IMF/World Bank annual meetings on September 24-25 in Washington.

Civil society organizations have themselves had notably different interpretations of the G8 Finance Ministers' statement and its implications. This report will attempt to clarify what the G8 has said and committed to, and look at some of the implications of the statement for debt campaigners. It will also attempt to analyze the reasons for the varying interpretations.

Two caveats on the analysis of the G8 statement: 1) The G8 (and its predecessor, the G7) has a history of not acting on its statements, so we should not confuse the words on paper with deeds not yet done – though we should also consider the impact of the words alone; 2) The G8 controls between 50 and 60 percent of the voting power on both the IMF and World Bank boards; its determinations generally become policy at those institutions. Nonetheless, what we have now is still a proposal, which will be discussed at the IMF/World Bank annual meetings in Washington, DC in late September. Fundamental

proposals such as this one require an 85% majority to pass, so it could, technically, be blocked, and in fact a group of non-G8 European countries is threatening to do exactly that at the IMF. Indeed, it appears that one of the key strategies of those leading the rearguard actions to subvert the G8 proposal at the World Bank is to define any number of consequences of the proposal as ones constituting "fundamental change" to the International Development Association (IDA), the Bank's division lending to low-income countries.

SUMMARY OF G8 PROPOSAL

The G8 has proposed 100% cancellation of IMF, World Bank, and African Development Bank debt for those countries that have completed the HIPC program (the Heavily Indebted Poor Countries debt scheme devised and administered by the IMF and World Bank since 1996). The total number of such countries at the time the proposal was made was 18: Benin, Bolivia, Burkina Faso, Ethiopia, Ghana, Guyana, Honduras, Madagascar, Mali, Mauritania, Mozambique, Nicaragua, Niger, Rwanda, Senegal, Tanzania, Uganda, and Zambia. Fourteen of them are in Africa and four in Latin America and the Caribbean (for the latter group, the proposal is flawed for not including debts to the Inter-American Development Bank). Another ten countries (Burundi, Cameroon, Chad, Congo-Kinshasa, Gambia, Guinea-Conakry, Guinea-Bissau, Malawi, Sierra Leone, São Tomé & Príncipe) are currently progressing through the HIPC program and would, according to the UK government and others, receive the same offer once they completed it. Ten additional countries (Central African Republic, Comoros, Congo-Brazzaville, Côte d'Ivoire, Laos, Liberia, Myanmar/Burma, Somalia, Sudan, Togo) are eligible to enter the HIPC program but have not yet done so. If they do, and they complete the program's requirements, they would also get their multilateral debts cancelled.

This offer exceeded the expectations of many observing the process, as it went well beyond the formal proposal made by the UK, which did not include IMF debt, and would only have paid off ten years of debt servicing rather than cancelled debt stock. But criticism focused on the relatively small number of countries included and the plan's grounding

in the HIPC program as its organizing framework. HIPC has long been viewed by many civil society organizations as little more than a way to bribe countries to stay on the IMF/World Bank debt treadmill. Completion of the program requires a commitment to three to six years of devastating structural adjustment programs and close monitoring by the IMF. In recent years the World Bank and many donor countries have acknowledged HIPC's failure to serve its stated purpose of making countries' debts "sustainable." If HIPC rules are not altered, very few additional countries will be added to the 38 now eligible. The UK's Make Poverty History (MPH) campaign has estimated that at least 62 countries require debt cancellation if they are to have any chance of meeting the UN Millennium Development Goals.

The good news is that there are no conditions or requirements other than completing the HIPC program. For the 18 countries that have completed the HIPC program, that means, in essence, unconditional debt cancellation; for the 10 countries already involved in HIPC, it means no additional conditions beyond what they have already agreed to. The IMF and World Bank are now (August 2005) scrambling to find ways to change the G8's plan; they want to make the cancellation "revocable" if countries do not continue to meet IMF/World Bank rules. They are using references to "good governance" and other seemingly innocuous hortatory phrases in the G8 document to re-insert themselves into the process after the G8, at long last, seemed to have taken explicit steps to sever the fate of some indebted countries from the long arm of the IMF and World Bank.

For the 18 countries that already meet the HIPC criteria, this proposal, if implemented fully, would mean more money left for national budgets, which often devote between 25 and 50 percent of revenues to debt payments. Should countries remain resolute in not taking out future IMF/World Bank policy-based loans, it would also mean liberation from debts the institutions have manipulated to impose economic policies that have devastated these countries for up to 25 years. This new concession by the G8 could be the beginning of policy sovereignty and economic democracy for these countries.

But for many countries in need of comprehensive debt cancellation, this plan offers nothing. Some analysts have concluded that the plan would cancel about 10% of the debt that needs to be eliminated, according to MPH statistics. This figure has little real-world meaning, however: for the countries in question, it is either 100% of multilateral debt or zero. And the potential benefits of the plan cannot be measured solely by percentages or dollar amounts, since the

political benefits of being freed from foreign domination are not reducible to numbers.

THE ACTUAL STATEMENT

The G8 Finance Ministers' communiqué of 11 June comes in two parts. It should be remembered that the meeting at which it was issued was not planned solely to discuss debt, but to discuss broader questions of development. The first part of the communiqué is a general statement on the broader subject at hand, including vague assertions that ideas like a global tax on airplane fuel to fund development will be considered. The second part is the actual proposal on debt; it differs in tone from most such communiqués in that it talks of "commitments" and outlines a program in some specificity.

The debt proposal should therefore be seen as distinct from the main part of the communiqué, which is filled with disconcerting tributes to the power of liberalization, privatization, and market forces. The second section is, in fact, referred to in the general statement (point 7) as an annex. After disingenuously patting themselves on the back for the dubious success of the HIPC program, they write: "However we recognise that more still needs to be done and we have agreed the attached proposal. We call upon all shareholders to support these proposals which we will put to the Annual Meetings of the IMF, World Bank and African Development Bank."

Below we look at the complete text of the proposal, which runs to just one page, and offer some interpretative commentary, section by section:

(Note: the official text is italicized and highlighted in red; both are indicated here simply by "quotation marks")

"G8 PROPOSALS FOR HIPC DEBT CANCELLATION
Donors agree to complete the process of debt relief for the Heavily Indebted Poor Countries by providing additional development resources which will provide significant support for countries' efforts to reach the goals of the Millennium Declaration (MDGs), while ensuring that the financing capacity of the IFIs is not reduced. This will lead to 100 per cent debt cancellation of outstanding obligations of HIPCs to the IMF, World Bank and African Development Bank."

COMMENT: The proposal is defined as an extension of the HIPC program. This is unfortunate, as it maintains the link between debt cancellation and the program's insistence on strict adherence to "structural adjustment" policies for at least 3 years, as gauged by the IMF. To the degree that the new plan validates HIPC and, if implemented, encourages the 20 countries that could yet qualify for cancellation to follow HIPC rules more faithfully, this is a major drawback. The final sentence above, however, is

encouragingly precise in stating that 100% of IMF, World Bank, and AfDB debt will be cancelled for eligible countries. This represents the first acceptance by the G7/G8 of the call for 100% multilateral debt cancellation that has been pushed since the Jubilee campaigns of the mid and late 1990s. The insistence on using the HIPC framework means the list of countries will be limited to 38, barring changes in eligibility criteria. A recently-leaked document from the World Bank, however, lists the following countries as ones which could qualify for HIPC in the next year: Haiti, Nepal, Kyrgyzstan, Eritrea, Sri Lanka, Bangladesh, Bhutan, and Tonga.

What is unexpectedly good here is that completion of the HIPC program is the sole criterion for qualifying for debt cancellation. Unless “governance” standards (see below) are formulated into conditions – which the anti-cancellation forces at the institutions are now arguing for – this means most countries will get debt cancelled without having to meet any additional economic policy conditions. For the 18 countries that have completed HIPC, there are no conditions left to fulfill, and for those who have already started the HIPC program and hope to qualify, there are no conditions beyond those they have already agreed to and started implementing.

“Additional donor contributions will be allocated to all IDA and AfDF recipients based on existing IDA and AfDF performance-based allocation systems. Such action will further assist their efforts to achieve the MDGs and ensure that assistance is based on country performance. We ask the World Bank and IMF to report to us on improvements on transparency on all sides and on the drive against corruption so as to ensure that all resources are used for poverty reduction. We believe that good governance, accountability and transparency are crucial to releasing the benefits of the debt cancellation. We commit to ensure this is reaffirmed in future bilateral and multilateral assistance to these countries.”

COMMENT: The first sentence basically means that the money donated by wealthy countries to compensate the institutions for the repayments they will forego is to be distributed to all of the countries funded by the respective institution (rather than just the countries getting debt cancelled). It also states that the controversial systems in place for determining allocations (the Country Performance and Institutional Assessment [CPIA] at the World Bank/IDA and its analog at the AfDB) will be used to allot the funds. [IDA is the International Development Association, the part of the World Bank that makes low-interest loans to the most impoverished countries; the African Development Fund (AfDF) is the African Development Bank’s equivalent of IDA.] While the fact that some countries not included in the plan would see their

IDA funds boosted can be seen as positive (if one overlooks the fact that those funds are part of conditioned loans), the reliance on the perverse CPIA, while expected, is not good news.

The remainder of the paragraph is not entirely clear. It requests that the international financial institutions report to the G8 on transparency and corruption issues, though it appears that this refers to all recipients of IDA and AfDF funds – not just the 18 countries benefiting from the proposal. Given the G8 summit communiqué’s attention to the problem of rich countries tolerating, and even abetting, corporate corruption in developing countries, the reference to “on all sides” may even refer to wealthy countries and international institutions as well as developing countries. The last sentence suggests that future loans and grants – to the 18? to all developing countries? – will be conditioned on demonstrating corruption and democratic reforms. These sorts of rules, unfortunately, can become just as onerous as the customary economic requirements.

“Key elements:

** Additional donor contributions will be allocated to all IDA and AfDF recipients based on existing IDA and AfDF performance-based allocation systems.*

** 100 per cent IDA, AfDF and IMF debt stock relief for Completion Point HIPCs.”*

COMMENT: This second point is crucial: the British proposal would have simply made debt service payments, and only for ten years. Debt stock cancellation means the debt is wiped out.

“ For IDA and AfDF debt, 100 per cent stock cancellation will be delivered by relieving post-Completion Point HIPCs that are on track with their programmes of repayment obligations and adjusting their gross assistance flows by the amount forgiven.”*

COMMENT: The worrisome phrase here is “on track with their programmes of repayment obligations.” This suggests that one requirement to qualify for debt cancellation will be that the country has not fallen behind in debt servicing to any creditor since completing HIPC. None of the proposal’s first 18 beneficiaries are in danger of being excluded on these grounds. Recent leaks from the IMF and World Bank suggest that they would like to twist this phrase to mean that benefiting countries should be subjected to on-going conditions. The World Bank, in particular, in a PowerPoint presentation for the Board of Executive Directors (“G8 Debt Relief Proposal: Preliminary Estimates and Issues”) by Geoffrey Lamb, a World Bank Vice President, quotes the phrase “on-track with their programmes” and poses the question: “Does this mean conditionality?” [“conditionality” is the World Bank’s

obfuscating way of saying “conditions”]. Lamb conveniently truncates the phrase so that the term “repayment obligations” is omitted. Those obligations, of course, would be ended once the debt cancellation was effected, meaning no occasion for additional conditions – but only if you have the patience to read the whole sentence.

Also worrisome, for some, is the provision that aid flows from IDA and AfDB for individual countries would be reduced by the amount of debt cancellation. This gets into the “additionality” debate which divided Northern NGOs during the lobbying campaigns on this program. Some NGOs, including most of the larger ones, insisted that debt cancellation should not result in reduced aid flows, and in fact should mean a net increase. Others in the North viewed elimination of debt with no additional conditions as significantly more important than the maintenance of aid flows, especially when those aid flows represent highly-conditioned loans or grants from the international financial institutions. The UK proposal to the G8 reflected the pro-additionality position, while the US proposal mandated a proportional cut in aid for countries receiving debt cancellation. In this and other regards, the US position seems to have carried the day in the final G8 proposal. Jubilee South and other Southern-based progressive organizations, to the extent they involved themselves in the debate, were generally aligned with the position downplaying the importance of aid flows (see, for example, sign-on statement from African Social Forum, Lusaka, December 2004).

“Donors would provide additional contributions to IDA and AfDF, based on agreed burden shares, to offset dollar for dollar the foregone principal and interest repayments of the debt cancelled. Additional funds will be made available immediately to cover the full costs during the IDA-14 and AfDF-10 period. For the period after this, donors will commit to cover the full costs for the duration of the cancelled loans, by making contributions additional to regular replenishments of IDA and AfDF.”

** The costs of fully covering IMF debt stock relief, without undermining the Fund’s financing capacity, should be met by the use of existing IMF resources. In situations where other existing and projected debt relief obligations cannot be met from the use of existing IMF resources (e.g. Somalia, Liberia, and Sudan), donors commit to provide the extra resources necessary. We will invite voluntary contributions, including from the oil-producing states, to a new trust fund to support poor countries facing commodity price and other exogenous shocks.*

** Globally and on this basis we are committed to meeting the full costs to the IMF, World Bank and African Development Bank. We will provide on a fair burden share basis resources to cover difficult-to-forecast costs, in excess of existing resources, to the IMF, IDA*

and AfDF over the next three years. Subject to further analysis by the institutions we will provide up to \$350-500 million for this purpose. We are also committed, on a fair burden share basis, to cover the costs of countries that may enter the HIPC process based on their end-2004 debt burdens. We will also seek equivalent contributions from other donors to ensure all costs are covered and we will not jeopardize the ability of these institutions to meet their obligations. Utilize [sic] appropriate grant financing as agreed to ensure that countries do not immediately re-accumulate unsustainable external debts, and are eased into new borrowing.

We call upon all shareholders to support these proposals which would be put to the Annual Meetings of the IMF, World Bank and African Development Bank by September.”

END OF STATEMENT

COMMENT: The most important thing in this final section is the repeated reference to “commitments” made by the G8 – unusually strong language for this group, which usually prefers vague pledges. Nonetheless, the fact that arrangements for the “financing” of the debt cancellation are left imprecise concerns some campaigners. This may not be unreasonable, since, as noted, the G8 has a poor track record in keeping its promises.

RECENT DEVELOPMENTS AT THE IMF & WORLD BANK

The documents leaking out of the World Bank indicate that it will argue that the G8 and other wealthy countries must make more substantial, binding financial commitments if the program is to be implemented as outlined. The most recent paper by Geoffrey Lamb at the World Bank (“The G8 Debt Relief Proposal: Assessment of Costs, Implementation Issues and Financing Options,” co-authored with Danny Leipziger and dated 6 September 2005) in fact argues that the best solution would be for the donor countries to provide cash now to cover full compensation for the debts to be cancelled – funds that would have fallen due over the next 40 years. Failing that, the Bank suggests that the donor countries provide legally-binding promissory notes. Anything less, argue Lamb and Leipziger, would mean that the Bank’s board should view the debt deal as mandating a “fundamental change” to IDA, a legal term that triggers a requirement that the facility’s articles of agreement be amended, a long process that requires an 85% super-majority vote. That process would make the deal vulnerable to the already-announced objections of non-G8 European countries such as Belgium and Norway to the program. Because European countries are greatly over-represented in the board’s voting allocations, this exposes the deal to the real prospect that it could fail despite the G8’s support – almost certainly an unprecedented situation. The fact that certain members of the G8

– France, Japan, and Germany in particular – have demonstrated uneasiness with the agreement they made increases the risk.

The Lamb-Leipziger paper from the World Bank and proposals made by some European directors at the IMF advocate that on-going conditions be attached to the cancellation, in part to limit the amount of cancellation that would have to be “financed” (i.e., some countries would disqualify themselves by failing to meet conditions). The greater motivation for such proposals, however, is certainly the institutions’ interest in perpetuating the power they wield over the economies of Southern countries. Their unflinchingly arrogant attachment to controlling countries’ economic policy-making, is, as always, remarkable.

Until the World Bank has the full amount, dollar-for-dollar, that cancellation will “cost” it in its own accounts, it will continue to wail that it cannot afford to cancel the debt. The Bank in fact has entire departments devoted permanently to pressing donor countries for more funding with the argument that it is under-funded.

The IMF and the World Bank are tremendously wealthy institutions. Repeated studies have shown they can cancel the debt of over 20 countries outright with no effect on their programs. And would many people argue that the positive impact of debt cancellation, so widely hailed now by the leaders of the G8 countries, would not justify some rearrangement of priorities – perhaps subsidizing one less oil pipeline through the rainforests for the world’s most profitable companies – if that were required?

Whether campaigns emphasize the illegitimacy of these debts or the fact that they are the biggest obstacle to development in dozens of countries, there should be no question that canceling them should be the highest priority. Now that the US and UK have been forced to adopt, to some extent, this position, we must defend what is positive in the G8 proposal, including the commitment it makes to deal with the question of resources. How the institutions and the governments that control them want to balance their books is their business, not ours. We should not take on the responsibility of locating funds to maintain the health of an international financial system whose injustices we have exposed so well.

Some civil society advocates of “additionality” may object to this perspective. It will be their burden to explain why getting more new World Bank loans or grants is more important than having IMF, World

Bank, and African Development Bank debt eliminated.

More fundamentally, the G8 debt proposal has exposed the dedication of the institutions’ staff, and many of the donor countries, to continuing to use the IMF and World Bank as instruments to perpetuate the unjust global economic system, and the key role played by the manipulation of international debt in making that possible. The desperation that characterizes many of these maneuvers is a gauge of the significance of the challenge posed by the G8 proposal to the status quo. The proposal itself, for all its manifest shortcomings, is unprecedented, as it represents the success of years of campaigning by civil society groups – campaigning that has finally forced the two governments most identified with establishing and maintaining the structures of global inequality, the United States and the United Kingdom, to call for a break with the systematic crippling and domination of weaker countries’ economies. It applies to far too few countries, and is cast as the culmination of a heavily-conditioned HIPC program, but the precedent of at last providing for the release of 18, and as many as 38, countries from the cycle of debt domination is one that must be preserved and expanded upon. It is the establishment of this precedent that the staffs of the IMF and World Bank and the representatives of governments accustomed to being seen as more generous and reasonable than the US and UK – the Scandinavians, the Dutch, the Belgians – are trying to block. Never have we come so close to forcing this kind of break, and never has the hypocrisy and lust for power that undergirds the system been more vividly on display.

(1) The Finance Ministers’ statement, rather than the G8 summit communiqué, is the authoritative document. The summit communiqué’s reference to debt reads: “The G8 has agreed a proposal to cancel 100% of outstanding debts of eligible Heavily Indebted Poor Countries to the IMF, IDA, and African Development Fund, and to provide additional resources to ensure that the financing capacity of the IFIs is not reduced, as set out in the statement of 11 June.” (point 29, page 27, “Africa” section).

PART TWO: WHAT DOES IT ALL MEAN? WHAT IS TO BE DONE? RESPONSES FROM DEBT CAMPAIGNERS

Most of the responses to the G8 debt proposal from campaigners, with the exception of the enthusiastic roars coming from Bob Geldof

and Bono, have characterized it as disappointing – or, to use Christian Aid’s formulation for the G8 summit as a whole, “vastly disappointing.”

Measured against what campaigners were demanding – in most cases 100% multilateral debt cancellation for 62 countries without conditions – the G8 proposal certainly did fall short. Any response would have to highlight the amount left undone. Many reactions adopted an indignant, even angry tone:

* *Jubilee South*: “The multilateral debt cancellation being proposed is still clearly tied to compliance with conditionalities which exacerbate poverty, open our countries further for exploitation and plunder, and perpetuate the domination of the South. [...] Even if the debt cancellation were without conditionalities, the proposal falls far too short in terms of coverage and amounts to demonstrate a bold step towards justice by any standard.”

* *George Monbiot, Guardian (UK) columnist*: “Anyone with a grasp of development politics who had read and understood the ministers’ statement could see that the conditions it contains – enforced liberalisation and privatisation – are as onerous as the debts it relieves.”

* *Demba Moussa Dembele, director of Forum for African Alternatives (Senegal)*: “At the moment this is nothing but a promise. [...] Therefore we will wait to see how this decision is put into action and with what conditions. Caution is necessary also because the ‘creditor’ countries are longtime masters of the arts of duplicity, manipulation, and concealment.”

* *Jayati Ghosh, coordinator of IDEAS (India)*: “[E]ven otherwise well-informed and progressive people in the developing world were fooled into thinking that, for a change, the leaders of the core capitalist countries were actually thinking about doing some good for people desperately in need of it. [...] The G8 debt relief deal is actually a paltry and niggardly reduction [...]. And this pathetic amount is being traded for yet more major concession made by the debtor countries, in terms of sweeping and extensive privatisation of public services and utilities, which is about all that is left for governments to sell in these countries, as well as large increases in indirect taxes which fall disproportionately on the poor.”

* *Oxfam (UK)*: “Oxfam welcomed the Finance Ministers’ agreement but said it did not go far enough, only covering between 10 and 20 per cent of what’s required and not extending to all the countries that need it.”

* *John Hilary of War on Want (UK)*: “The G8 has given less than 10% of our demand on debt cancellation and not even a fifth of what we called for on aid.”

* *Richard Bennett of Make Poverty History (UK)*: “A small minority of the world’s poorest countries will have significant debt cancellation if this deal is agreed. This is a step forward,

as we have publicly acknowledged, but does not even come close to ending the debt crisis.”

* *Alex Wilks, coordinator of the European Network on Debt & Development (EURODAD)*: “In actual fact, the official plan may only write off 10% of low-income country debt. Not a penny more. The G8 proposals are a step forward, but will by no means resolve the developing country debt crisis.”

* *Collective statement of 19 major African NGOs, also endorsed by nine international NGOs*: “The debt package provides only 10% of the relief required and affects only one-third of the countries that need it. [...] both packages [debt and aid] are still attached to harmful policy conditionality.”

* *The Committee for the Cancellation of Third World Debt (CADTM, based in Belgium)*: “The creditors’ hold on those countries’ [the 18 HIPC graduates] economies is extremely strong, and the G8 ministers merely proposed some debt relief and intended to reinforce conditionalities linked to new loans.”

* *African Network & Forum on Debt & Development (AFRODAD, based in Zimbabwe)*: “The recent solutions offered by the G8 for the Debt crisis in poor countries are nothing short of the continuation of the chains of slavery and bondage for the citizens in those countries. [...] they are just raising people’s hopes unnecessarily as the world waits to see the devil in the details. [...] The deal only represents one eighth of what Africa needs in terms of debt cancellation, as this means canceling only US \$40 billion out of Africa’s burgeoning debt stock of over US\$330 billion. The agreement does not address the real global power imbalances but rather reinforces global apartheid.”

* *John Pilger, syndicated columnist & film-maker*: “The truth is that the debt relief the G8 is offering is lethal. Its ruthless “conditionalities” of captive economies far outweigh any tenuous benefit.” And elsewhere: “it says that debt relief to poor countries will be granted only if they are shown ‘adjusting their gross assistance flows by the amount given’: in other words, their aid will be reduced by the same amount as the debt relief. So they gain nothing.”

Many of these responses were directed nearly as much to the perceived hyperbolic descriptions of the deal in the mainstream media, especially in the UK, the site of the G8 summit, and by UK officials like Gordon Brown. Many of the columns, articles, and statements responding to the debt proposal are motivated, often explicitly, by the concern that many people will believe the campaign has completely succeeded, and so there is no further need to pay attention to development issues.

The sensationalized treatment of the deal was, in part, a consequence of the success of the Make Poverty History campaign in capturing media attention in the weeks and months before the summit. Many in MPH campaign would probably argue that its success was in fact taken too far by the celebrity power of rock stars Bob Geldof and Bono, who were treated as campaign spokespeople, despite the absence of any official connection. Once debt, aid, and

trade became identified with celebrities, any hope of sophisticated analysis in the media was sacrificed.

Not everyone's experience of the news was like that of people in the UK, however. Those reading the opinions of debt campaigners or the alternative/left press (right up to the "Guardian" and "New Statesman" in the UK) certainly got a more sober viewpoint. In Kenya and other African countries, it was virtually impossible to keep track of all the opinion articles scorning the offer of debt cancellation, blaming poor leadership for the continent's economic crises, and concluding that Africans should not rely on charity from the North, for only Africans can rescue Africa.

STRATEGIC RESPONSES

It is, no doubt, good for activists pressing for an end to rampant injustice to gauge developments against what should be, rather than simply against what is perceived as practically possible. But is that enough? Is it not necessary for activists to also engage in hard-headed analysis informed by strategic and political realities?

Should we be judging our success, or the progress made on debt cancellation, on the basis of whether the G8 leaders admit they've been wrong to design all their policies to benefit wealthy investors and corporations, even when it means increased poverty? What are the real chances that they would do anything of the sort, given that they have never in the last 10 years, and probably much longer, said anything that suggested an inclination to question the wisdom of the dominant neo-liberal economic paradigm? The leaders' individual power, and the power of their countries and corporations, is rooted in that system; attaining an explicit rejection of it from the G8 is a long-term aspiration at best.

The G8 is an exclusive, illegitimate club of the people running the world, with no official legal status and thus accountable to no one. With a varying degree of democratic constraints, these people control a dominant portion of the world's money and military force. However much success activists may have in building a "movement," we remain far from being the sort of force that can determine the G8's positions. Whatever lip service the G8 leaders may pay to activists' demands, their actions are politically determined, and ordinarily prioritize the interests of their most influential constituencies – the business sector and the wealthy individuals who can fund political parties. Any time they depart from those priorities, we should look at what political forces are making that happen.

We should, then, look at the results of G8 summit not with the expectation that we will secure all our demands, but always with an expectation that the politicians will try to neutralize whatever noise we've been able to make, and then continue serving their usual constituencies, though perhaps glossing the news with some high-minded rhetoric. Until we have assembled a much stronger global force – one that has real political leverage – we should not delude ourselves that the G8 is going to become an ally.

We also must not fall into the trap of evaluating our work as debt activists solely on the basis of what the G8 says or does. Advocacy aimed at the G8 is just one of our tools. Our overall strategy must take whatever comes out of the G8 and use it, if possible, to augment other tactics. The momentum this G8 plan could give to repudiation campaigns, for instance, is a major opportunity; recognizing that requires refusing to take what the G8 says as the last word on what debt campaigners can do.

If the most serious analyses of the G8 proposal just explain how it failed to meet the movement's demands, we are failing to look at what has been gained and how, and we are failing to plot a strategy for exploiting the new situation so as to attain more of those demands in the near future. Yes, the critiques of the G8 deal are, in most respects, correct; but it is at least as accurate to say that, even if the promises are not kept, this is the biggest success debt campaigners have had. It puts the G8 on the record as supporting the logic and need for 100% elimination of multilateral debt, and as implicitly acknowledging that the HIPC debt scheme has failed and, by extension, that the impact of the corporate-globalized economy is unsustainable, at least in some places. These are very valuable statements (or, in the latter example, logical extrapolations). Yes, they apply to far too few countries at the moment, but they will serve as the bulwark of ongoing debt campaigns as we struggle to expand this victory.

And, if the pledges are kept, it will mean 100% multilateral debt cancellation for 14 African countries, and substantial multilateral debt cancellation for four Latin American countries (the exclusion of the Inter-American Development Bank from the deal means it is less impressive in Latin America). And that cancellation is, if the deal is read literally, to take place without additional conditions. Dismissing a development which might very well have considerable tangible benefits for the most vulnerable people in these countries risks compromising our credibility with them and other observers.

The promises of the G8 Finance Ministers' statement alone substantially change the context faced by campaigners in Northern, and especially G8, countries. Should they become reality, they will shift the field of play for all campaigners. To downplay or ignore these facts in civil society responses to the plan was not only inaccurate, but risks scuttling entirely the campaigning momentum that had built up before the summit.

Activists should recognize that they have, after years of campaigning, but still against the odds, had a real impact on the G8. We are, for the moment at least, "players" in global politics. The strategic response is to consider what actions we can take while we have this status in order to expand our impact. Viewed this way, the G8 plan should be seen not as business-as-usual, but an opportunity to continue acting – and not only in terms of advocacy aimed at Northern institutions and governments. If we act, we may be able to change things more; if we focus our efforts on critiques, we take ourselves out of the game.

AN EMPIRICAL GAUGE OF THE IMPACT OF THE G8 PLAN

As outlined in the earlier analysis of the G8 statement, there are moves afoot within both the IMF and World Bank to subvert the G8's plan. Non-G8 European directors at the IMF are threatening to block the program unless they are able to impose the same devastating conditions they always have. At the World Bank, senior management is busily misinterpreting the G8 statement and finding artful ways to re-institute conditions.

These unusual maneuvers in both institutions are perhaps the best evidence that the G8 statement really does signal a break with debt policy as it has been practiced until now; it is a significant threat to business-as-usual. The assumption by many commentators that the plan, as outlined, really does include ongoing conditions is contradicted by these desperate attempts to re-attach the conditions.

These rear-guard measures may succeed, especially because some of the G8 countries – France, Japan and Germany in particular – were apparently dragged along with the proposal despite serious reservations. What is disconcerting is that the responses from civil society leaders, meant by many to prevent demobilization of the activist community, may have the paradoxical effect of discouraging those activists

ligible or a vehicle for re-imposing IMF conditions? If this turns out to be our present reality, we will have fallen into the trap of wallowing in our familiar state of going from failure to failure, when a more active interpretation could have energized our activists with a success and prodded them to active engagement to preserve, and maybe improve or expand, the victory.

THE MEANING OF THE DEAL FOR MOST SOUTHERN COUNTRIES

In Kenya it became clear that even in a country that was excluded from the deal, the results can be positive. A prominent cabinet member denounced the G8 for excluding Kenya, not once but nearly daily for a week, often on national television. Two members of Parliament advocated repudiation or a suspension of payments. These developments, and a recognition that the terms of this plan likely exclude the possibility of one that will benefit Kenya in the near future, have caused Kenyan campaigners to see an opening to argue for full repudiation. They are now building a campaign around this demand of their government – arguably the strongest demand Southern campaigners can make. Instead of asking leaders of rich countries to grant cancellation, they are demanding genuine accountability from governments that are too often accountable chiefly to their donors.

For campaigners in Southern countries, outside the 18 beneficiaries, the most significant impact of this proposal may not be the precedent set by the G8, but the impetus it gives to campaigns for more radical solutions. In the final analysis, it is only when power relations are transformed that debt and other economic justice campaigns can be considered won, so moving closer to empowering citizens and governments in the South is ultimately more important than deducing what more can be achieved with the G8. This is not to trivialize the work of Northern campaigners, who should keep pressuring their governments and the IFIs, but rather an acknowledgment that liberation can only come from within the countries being oppressed. Northern campaigners should be urging their governments NOT to collect the debt.

In this regard, it is potentially significant that between the 11 June announcement and the G8 summit, the African heads of state decided at a meeting of the African Union in Sirte, Libya, to call for comprehensive debt cancellation for the entire continent – the first such unified call. At least two presidents of benefiting countries, Abdoulaye Wade of Senegal and John Kufuor of Ghana, responded to the deal by saying it would only have real meaning in the context of continent-wide cancellation. Activists

now have the opportunity to use these statements to pressure their governments to repudiate, or at least demand a much better deal.

The example of Nigeria is fresh in people's minds: when the lower house of the federal legislature called for repudiation of the entire external debt, and President Olusegun Obasanjo demurred but said it may come to that, the country's bilateral creditors instantly became significantly more willing to make a deal at the Paris Club. The merits of the deal Nigeria got in June 2005 are the subject of fierce debate, but the important thing for campaigners is the successful deployment of a credible threat of repudiation, which can be held up to other countries. Another lesson from Nigeria may well concern the dangers of a top-down campaign: since the pressure for repudiation came largely from legislators, once they are satisfied with a deal, the pressure can easily disappear. But one of the civil society campaigners, Justice Egwere of the Civil Society Action Coalition on Education for All in Nigeria, drew the logical conclusion from the G8 Summit, saying, "The message from Gleneagles is clear to us in Africa. We will intensify our call to our governments that have not secured debt cancellation to strongly consider repudiating unjust and odious external debt."

Debt and economic justice campaigners in Africa and other parts of the Global South have a network called Jubilee South, which has recently opened an Africa secretariat in Kenya (with which the author is associated). If the repudiation campaign takes off in Kenya, Jubilee South will be well-positioned to encourage other campaigns to adopt the strategy. A strong demand for repudiation from many countries could be substantially more powerful than one restricted to a single country.

OF GRATITUDE AND POLITICS

Another concern of some of the critics of the G8 plan seems to be that if campaigners do anything other than criticize it, they will be seen as "approving of," "grateful to," or "working with" the G8. This reductive view of political activism is unwarranted. Acknowledging the ways in which the G8 debt plan is a victory in no way obligates us to express gratitude to governments for taking actions that should never have been necessary in the first place, nor to lose sight of the fact that the G8 and the IFIs remain very much the enemies of social and economic justice. What such a viewpoint implies is simply that we activists are achieving something – forcing the G8 and the IFIs to take steps most of them do not want to take. That's politics.

If we appreciate the achievement of "beating" the G8 and the IFIs in this case, this victory could be part of building serious momentum for the global justice movement as it moves toward the WTO meetings in Hong Kong and other key events. Unfortunately it appears that the G8 proposal will be perceived by many progressive campaigners as another defeat, albeit with some potentially positive aspects.

In a similar vein, many campaigners refused, in the year before the G8 summit in Scotland, to take the US debt proposal to the G8 seriously, on the grounds that the Bush Administration is deceptive, motivated only by self-interest, and wantonly unilateralist. All true, of course, but to extrapolate from those truths to viewing everything the US government says as simply a trap is to misunderstand politics and the strategic openings it can provide. As criminal as many of the Bush Administration's actions are, it must be acknowledged that it is the most radical administration the US, and perhaps any G8 country, has seen in modern times. It is willing to overturn precedents, disregard international norms, and break with tradition. In most cases this has been destructive, but when applied to a system as corrupt as the one managed by the IMF, World Bank, and G8, it can generate opportunities. Again, there is no reason to express solidarity with the Bush Administration, but there is ample reason for activists to identify and exploit the existing political openings, including the tensions among G8 governments.

European campaigners' dismissal of the US proposal – which called for 100% multilateral cancellation, apparently unconditional, for 41 countries, using the resources of the IFIs – and their virtual endorsement of the British proposal – which called for paying the debt service for ten years of about 25 countries that met strict conditions, using new donations from wealthy countries – could have given the G8 a green light to adopt a plan like the UK's. Such a plan, which probably would not have had US participation, would have been far worse in almost every respect than what was achieved. Yet the British government was allowed to label it "100% debt cancellation" – a transparently dishonest claim – without organizations questioning them for several months. This put several large mainstream organizations in the UK in the uncomfortable position of having supported a proposal substantially less progressive than what the G8 ultimately approved.

Fortunately, some British organizations began challenging the UK proposal in the weeks just before the G8 Finance Ministers' meeting. Also fortunate – though only in this one case – was the fact that the US wields the most power within the G8, and the Bush

Administration likes to use it. Just as any reasonable statement on climate change at the summit was scuttled by the US, so the final result on debt ended up looking more like the US proposal than the UK's – despite the insistence of campaigners in the UK, France, and elsewhere that such a result was impossible.

Another factor encouraging European groups to favor the UK proposal was the “additionality” question. This was a clear case of “moving the goalposts” from the Jubilee demands: no longer was 100% unconditional debt cancellation sufficient – the demand now was that benefiting countries realize a net increase in revenue flows as a result of cancellation. This position, adopted by most UK groups, largely de-politicized debt. Instead of being about power relations, instead of freedom from debt meaning policy sovereignty, everything came down to adding up the numbers. Even John Pilger, a commentator known for seeing the political meaning of economic decisions, fell into this trap in the passage quoted above. That this position became conventional wisdom throughout Europe (while hardly infecting North America at all), to the extent that one of its advocates claimed that “Jubilee 2000 was always about increasing revenue flows,” and a draft position paper declared that a deal for debt cancellation without additionality was “worse than no deal at all,” is nothing short of astonishing. The virus that apparently swept across Europe made campaigning organizations the allies of the World Bank and IMF in discounting the politics of economic domination, and in some cases even had people prioritizing the preservation of IMF and World Bank loans (and the domination, and new debt, that goes with them) over the emancipation of countries from debt and from the continuing devastation of structural adjustment imposed by outsiders using the weapon of debt.

Debt is a political instrument, one that traps countries in the snare of conditions and never lets go, subjecting millions to national policies that must please corporate interests before addressing their own. It's uncertain whether this new deal from the G8 will actually liberate countries from that insidious arrangement, but there can be no doubt that it will do more to move them toward liberation than new aid money will (especially if it comes from the World Bank or IMF!). Even for those who prefer to live in a political vacuum, it is widely agreed that debt cancellation is the most effective way to mobilize funds for developing countries.

“FINANCING”

Many Northern groups found themselves lobbying their governments not on the provisions of the final debt program, but rather on how it would be “financed.” This is another manifestation of the logic of “additionality”: campaigners taking on the assumption that it is important to preserve the financial health of the World Bank and IMF, so that they can continue to make loans for destructive projects and in support of devastating economic conditions.

When it appeared that the plan might die altogether because of disagreements over how to compensate the institutions for the payments they would no longer be able to count on, even those opposed to discussing financing could not argue against the strategic logic of promoting financing plans. But now that the G8 plan has been formalized, the institutions and even some campaign organizations are expressing concerns that the financing mechanisms are not substantial enough.

We should resist playing into the IMF and World Bank's hands by attaching any legitimacy to their ostensible concerns regarding financing. The G8 took the unusual step of “committing” to the debt cancellation, and (alas) to compensating the IFIs. If we are serious about our position that the debts are illegitimate, and if we accept that nothing is more important for development than debt cancellation, then we should say that taking the most effective step for the development of the most impoverished countries should take priority over any other development agenda. The IMF and World Bank have billions of dollars at their disposal; they have no excuse for not canceling the debts that have paralyzed whole continents. These institutions know that private banks regularly write off bad loans, which means that they have to figure out how to do without the previously-anticipated income. The IFIs can do the same. Engaging in coming up with ways to find the funds to balance those institutions' books should be distasteful to us, especially if we believe that a financially healthy IMF and World Bank are greater dangers than a few unemployed economists in Washington, DC.

THE POLICY SUPPORT INSTRUMENT

The ominous undercurrent during all the discussions leading up to the G8 plan has been the suggestion that the IMF should create a new “facility” that would allow it to continue imposing conditions on countries even when it is lending no money. This looks very much like a way to ensure continued IMF domination of countries even after they have their debt to the IMF cancelled, or after they take a sovereign decision to avoid the IMF. Getting a “pass” from

such a facility could become a condition of getting any other assistance, investment, or trade deal.

Now the IMF is going public with the plan, called the Policy Support Instrument (PSI). Its test case is Nigeria, in conjunction with its Paris Club deal: to reassure the Paris Club, which normally requires a country to be under and IMF plan to negotiate with it, Nigeria will be formally “monitored” by the IMF despite taking no loans from the institution.

The PSI has the potential of mitigating or eliminating the political benefits of debt cancellation. As it is considered by the IMF board, campaigners will need to organize serious pressure to prevent its approval, or at least to limit its scope.

THE FINAL WORD

Economic justice won an incomplete but real victory on June 11th. Let’s work to extend it rather than find ways to pronounce it a defeat.

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Note: Solidarity Africa Network in Action calls for 100% multilateral and bilateral debt cancellation without externally imposed conditions. The Network advocates for the active participation of people in designing and implementing economic and other kinds of policies that affect them. We believe that this requires the elimination of the debts used to constrain public space for decision-making, and the eradication of the influence of international financial institutions (IFIs) on policy-making. The Network recognizes debt as a tool of control and domination and its resolution as a moral and human rights imperative.

WAR, THE 21ST CENTURY & AMERICA'S FUTURE: FROM 9/11 TO HURRICANE KATRINA

Tom Reifer*

[This is an edited version of a longer article, the full text of which is available on the Focus website]

In this article, Tom Reifer argues that "...ultimately it was the rains of Hurricane Katrina and floods that followed that exposed the deeper fault lines of race, class and gender running right through the heart of US society. Years of neglect of the nation's human capital and physical infrastructure - after decades of tax cuts for the wealthy and deficit-financed militarization funded by offshore borrowing - most recently for the Iraq war - were also dramatically exposed in the failure of the government planning for, and response to, Hurricane Katrina."

THE dawn of the second millennium brought both change and continuity in terms of war and the American system. Well before the terrorist attacks of September 11, 2001, the Bush administration was pursuing an increasingly aggressive foreign and military policy. In this context, as Mary Kaldor notes

"it can be argued that the cuts of the early 1990s are equivalent to the reductions that can be expected in the normal post-1945 US military procurement cycle....During the downturns, military R&D is always sustained, designing and developing the systems to be procured in the next upturn. As new systems reach the more expensive development and procurement phases, this has always coincided with renewed preoccupations with threats of various kinds."(1)

Such a focus on new threats was apparent long before September 11, 2001. The attacks of that day and the real threat from Al Qaeda presented neoconservative hawks with a perfect opportunity to implement ambitious plans for high US military spending and aggressive overseas policies outlined long before, including pulling out of international treaties and moving forward with plans for the militarization of space.

The current trajectory of neoliberal militarization at home and abroad is the refocusing of the US government on the "war on terror", including a substantial reorganization of the Federal Government, replete with a new Department of Homeland Security.

The embrace of multiple wars in the 21st century, against the so-called Axis of Evil, notably Iraq, and Al Qaeda, led to enormous rises in US military-related spending, now totaling well over \$500 billion annually, when one includes not only the formal military budget, but money for ongoing operations and the Homeland Security Department, under which a host of agencies, including the Federal Emergency Management Agency (FEMA) are now housed.(2)

The economic stimulus of federal spending, notably increases in the military budget, are believed by many experts to have clearly minimized the period of economic recession in the early years of the 21st century, though with less of an effect than during past bouts of military Keynesianism.(3) In the second quarter of 2003, from April to June, the war with Iraq and related US military actions led to the biggest increase in military spending - some 44.1% - since Fall 1951, the time of the enormous leap in military spending ushering in the Korean War boom. Military spending accounted for a full 1.69 percent of the rise in GDP in the second quarter of 2003, or some 70% of the total increase. (4) In the first quarter of 2004, the economy grew at 4.2%, with military spending again making up a significant portion of the rise, accounting for up to \$17.4 billion of the GDP increase of \$108.5 billion in the first quarter, after adjusting for inflation. (5)

As one commentator recently noted: "The military is now the de facto welfare state. The armed forces and the Department of Veterans Affairs are the two largest health care providers in the United States. The military is also a major bankroller of higher education through the GI Bill."(6)

Nevertheless, today, as during the new Cold War (beginning in the late Carter years), the trillions of dollars for the new militarism, financed regressively through offshore borrowing and from the wealthy awash in tax cuts, has mortgaged public investment - in the words of Mike Davis "the fiscal equivalent of several New Deals" - for generations.(7) According to one recent estimate, while Vietnam cost US taxpayers some \$600 billion (in current dollars), the costs for the Iraq war could be over \$700 billion, assuming the US stays there for ten more years; another estimate, looking at operation in Afghanistan, Iraq and America's presence in the Middle East calculates

even higher costs:

“...if American military presence in the region lasts another five years, the total outlay for the war could stretch to more than \$1.3 trillion, or \$11,300 for every household in the United States.” (8)

And as during the late 1970s and 1980s, America’s debt-financed militarization has been accompanied by continuing declines in federal aid to the cities and disaster protection, this at a time when millions of whites were moving from America’s largest metropolitan centers to suburbs, while millions of Latinos, Asians and Blacks were moving into increasingly impoverished, abandoned and decaying metropolises. (9) Metropolitan New Orleans is something of a statistical anomaly here, being the only large metropolitan region of the country where African-American out-migration has occurred in each decade since 1965, according to the Brookings Institution. (10) Nevertheless, the city of New Orleans still had an overwhelmingly black majority population, all the more so with the substantial white-flight from the metropolitan region. Thus, like other large cities, the overlay of race and class concentrated in space – an American apartheid - meant that federal cutbacks to urban areas would hit these groups the hardest. (11)

Estimates by Demetrios Caraley and others indicate that cutbacks in federal aid of some 64% cost cities an average amount of \$26 billion annually from 1980-1990 (in constant 1990 dollars); during part of this same period, from 1979 to 1985, deficit-financed military spending rose from some \$150 to \$300 billion annually, financed by the most regressive possible means, though tax-cuts for the rich and overseas borrowing. (12)

“Spent on cities and human resources, these immense sums would have remade urban America into the Land of Oz instead of the urban wasteland it has become.

“The social burden of servicing this deficit may be measured by comparison to the annual combined budgets of America’s fifty largest cities. In 1980 the interest payments on the federal debt were twice as large as the aggregate big-city budgets; today they are six times larger. Alternately, the \$300 billion 1990 deficit was simply equal to the annual interest costs on a federal debt soaring toward \$5 trillion.” (13)

While the speculative boom of the 1990s led to fantasies of permanent economic nirvana among the well-to-do, the bursting of the bubble - except in the housing market, still waiting to pop - it was thought, would bring fiscal reality to bear among sentient beings. Not so for the Bush administration, content to continue on a relentless path of ever

higher military spending and tax cuts for the wealthy, seeking what commentators called a “Gucci and guns budget,” the President and Republican Congress’s answer to the Johnson administration’s program of Guns and Butter. (14)

Yet it was on the battlefields of Indochina that the hopes of the Great Society were ultimately buried, as the President presented Congress with spending request after spending request to finance his war. Today, another round of bills for Presidential war is again leading to drastic devaluations of citizenship in the US, most especially among urban constituencies of color. Once again, the true costs of the war and the bombs, as Martin Luther King, Jr., argued in the case of Vietnam, are exploding in the ghettos of America, or you could say in the fallen levees of the Gulf States, being felt both in the widespread flooding of the region as well as dramatically with massive federal cuts in health, education, human services and disaster preparedness at home, especially to the nation’s metropolitan areas. (15)

DECADES OF NEGLECT BEAR BITTER FRUIT

With the overlap of race and class, the burden of America’s late 20th century wars fell most heavily on Latinos, Blacks and Asians in urban areas, as federal monies to cities dropped to a mere trickle. New Orleans is roughly two-thirds to three-quarters African-American and out of a total poverty rate of roughly 28% (relative to 9% in the US as a whole), some 84% of those living in poverty are Black; 35% of Blacks were in poverty in the city in 2000, compared to just 11% of whites, with some 50,000 households without cars, 35% of Black households and only 11% of whites. (16) In the New Orleans Metropolitan region, almost 15% of persons lived in poverty and over a quarter of the children; only seven other US cities had higher incidences of poverty, with New Orleans ranking 64th in median household income among the country’s 70 largest cities. (17)

As far as “acts of god” or “nature” are concerned the intensity of hurricanes is believed by many to be increasing due to global warming, a condition of course related to human induced climate change as a result of greenhouse gas emissions, not helped of course, by the US refusal to join the Kyoto Protocol to the United Nations Framework Convention on Climate Change, a widely adhered to international treaty on global warming. (18) And then of course there is the devaluing of citizenship in America’s urban areas, as money flowed away from these areas and instead went into lily-white suburbs and edge cities. And in

New Orleans, as is widely known, “money flows away from water,” as wealthier citizens take the higher ground and leave the poor to fend for themselves in the face of approaching hurricanes.

The results of Hurricane Katrina were part of the end result of this process of the political and social enfranchisement of white suburban-citizens, in inverse proportion to the disenfranchisement of poor urban constituencies of color, replete with the Federal neglect of much-needed protection against hurricanes, dangers made more intense by development encroaching on and steadily eroding wetlands. (19) Yet money for tax cuts for the rich, highway projects, military spending and wars abroad - benefits from which accrued largely to suburbs and edge cities - continued unabated. Moreover, as Mike Davis said, this was arguably the one of the most predicted and foreseen disasters, perhaps in the history of the world. (20)

After the Asian tsunami, “New Orleans was the No. 1 disaster we were talking about,” recalled Eric L. Tolbert, then a top FEMA official. “We were obsessed with New Orleans because of the risk. (21) Nevertheless, tens of thousands of evacuees crammed into the Superdome and convention center, many of whom were bereft of food and water for some three to four days. Reporters and others noted that local, state and federal officials were often nowhere to be found. Even on day five, sufficient help had not arrived. The majority black city, as important culturally for African Americans and the US as Harlem, with over a fifth of the population living in poverty, mostly black, was left to bear the brunt of the hurricane on its own. In the end, some 80% of the city was under water, and substantial portions of the rest of the Gulf States. Over a thousand died as the city of New Orleans and substantial portions of the Gulf States were flooded.

Senior regional officials in the US Army Corp of Engineers had long warned of the dangers of a Hurricane on the Gulf Coast, particularly the vulnerable city of New Orleans, sitting largely below sea level and sinking, along with the levees. Congress did authorize money for the Southeast Louisiana Urban Flood Control Project or SELA, in the 1990s, aimed at shoring up levees and constructing pumping stations; yet after 2003, money tapered off, despite the fact that some \$250 million in outstanding projects were left to be done. As early as 2004, the New Orleans Times-Picayune began to report that local officials and Army Corps of Engi-

neers representatives attributed the funding cuts to the rising costs of the war in Iraq.

Facing record deficits, the Bush administration cut costs – and cut corners – by including in its 2005 budget only about a sixth of the flood-prevention funds requested by the Louisiana congressional delegation. (22) Essentially, as costs for the Iraq war grew, money for hurricane and flood control efforts declined. Moreover, some 30% of the National Guard and roughly half of their equipment are in Iraq, including a sizeable number from the Gulf States, from one-third of those in the Louisiana National Guard and even great numbers from Mississippi. Many of those in the National Guard have full time jobs as firefighters, police officers and medical personnel and so would ordinarily function as first responders during crises such as Hurricane Katrina. The Governmental Accountability Office noted in July 2005 that fully one-third of the units of the National Guard were low on essential equipment, as this had gone to units getting ready to go to Iraq in upcoming months. (23) Moreover, when the Army Corps of Engineers requested some \$105 million for hurricane preparation and flood relief programs, the Bush administration shaved that money to some \$40 million, though President Bush and Congress did agree on passage of a \$284.2 billion “pork-filled highway bill with 6,000 pet projects, including a \$231 million bridge for a small, uninhabited Alaskan island. (24)

Among those concerned with the budget cuts for ASELA and New Orleans was Alfred C. Naomi, senior project manager for the Army Core of Engineers, frustrated as an intense hurricane season was predicted at the same time as \$71 million was cut from the New Orleans district budget, to prepare for exactly these type of storms: “A breach under these conditions was ultimately not surprising,” Naomi said... Since 2001, the Louisiana congressional delegation had pushed for far more money for storm protection than the Bush administration has accepted. Now, Mr. Naomi said, all the quibbling over the storm budget, or even over full Category 5 protection, which would cost several billion dollars, seemed tragically absurd.

“It would take \$2.5 billion to build a Category 5 protection system, and we’re talking about tens of billions of losses, all those lost productivity, and so many lives and injuries and personal trauma you’ll never get over,” Mr. Naomi said. (25) As the Wall Street Journal noted: “Despite decades of repeated warnings about a breach of levees or failure of drainage systems that protect New Orleans from the Mississippi River and Lake Pontchartrain, local and federal officials now concede there weren’t sufficient preparations for a catastrophe of this scale. (26) Mainstream news organization in the US and abroad openly commented that they had seen better

disaster relief in the Third World. (27)

In the Gulf States of the US, tens of thousands of citizens were abandoned, unable to evacuate, and left for days and days without food, water, protection, or medical attention by local, state and federal officials, who seemed unaware or uncaring of their plight, with President Bush not even cutting his vacation short until days after Hurricane Katrina struck. The Pentagon, occupied in Iraq, with critical equipment and National Guard units away, was initially nowhere to be found, even though according to a 1993 Government Accounting Office Report, for disasters such as Hurricane Katrina, the “DOD is the only organization capable of providing, transporting, and distributing sufficient quantities of items needed”. (28) As many observed, the pictures of the suffering, stranded and abandoned seemed more reminiscent to many of scenes from Bangladesh, Haiti or Baghdad (after the US invasion) in the Third World than of the United States of America. In a turning of the tables, scores of countries now turned around to give aid to the US, including some of the poorest countries on the planet.

INCOMPETENT AND UNCARING

The US Federal Government response was widely criticized, as were the actions of local and state officials. Singled out for criticism in particular was the head of FEMA, Michael Brown, former commissioner of the International Arabian Horse Association, with no disaster management experience but importantly, a friend of Joe M. Allbaugh, manager of Bush’s 2000 Presidential campaign and his first director of FEMA. FEMA became a dumping ground for Bush’s cronies, despite the President’s rhetoric about securing the homeland. Hurricane Katrina had touched down on Monday, August 29. On September 2, Bush’s hailed Brown’s work by saying, “Brownie, you’re doing a heck of a job,” even though Brown was to admit on the fourth day of the flooding of New Orleans that “the federal Government did not ever know about the convention center people until today,” something also revealed in an extraordinary National Public radio interview with Homeland Security Director, Michael Chertoff, in which it appears he first heard of the plight of these tremendous numbers of suffering people. (29) Days after the Hurricane touched down though, on August 31, Chertoff said: “We are extremely pleased with the response. (30) Eventually the incompetence and embarrassment was too much even for the administration and at least Brown was relieved of overseeing the post-storm relief effort, a job which was then given to Admiral Thad W. Allen of the Coast Guard. (31) Soon thereafter, Brown resigned.

Still there was good news for some in the aftermath of the destruction, much as with the bungled occupation of Iraq. Many of the same players that profited from the invasion and reconstruction of Iraq stood to benefit immensely from reconstruction efforts after Hurricane Katrina, notably Vice President Cheney’s old firm Halliburton, its subsidiary Kellogg, Brown and Root (KBR), and the Shaw Group, a firm making some \$3 billion annually, which announced it had gotten two contracts of up to \$100 million each in early September 2005, one from FEMA and the other from the Army Corps of Engineers; in this they were helped along by the former FEMA director Mr. Allbaugh, now a highly-paid consultant for private corporate firms such as these. Other firms expected to or already getting lucrative work include Bechtel and the Fluor Corporation. Danielle Brian, head of the Project on Government Oversight, said Katrina, like Iraq before it, would bring the “greedy and the self-interested out of the woodwork.”

President Bush was also quick to suspend the Davis-Bacon Act, which mandates prevailing wages for federally funded contracts, for the work of the reconstruction of the region, though wages in the area are already low, often under \$10 an hour. When it comes to workers wages, it seems the costs are too high; when it comes to corporate contracts, however, it appears no profits are too high. Already, many of the questionable practices used in the reconstruction of Iraq are now being implemented in this largest effort at reconstruction in the history of the US – which could total several hundred billion dollars - including non-competitive contracts and cost-plus provisions that guarantee profit regardless of the amount a firm spends. (32) Somehow, when it comes to money for the nation’s cities, its poor, or disaster preparedness, costs must be cut, while tax cuts are given to the rich; for corporate America, its war profiteers and military-corporate vultures of disaster-reconstruction capitalism, however, it seems that money from taxpayers is no object.

After decades of underinvestment in the nation’s cities, including human capital and physical infrastructure, Hurricane Katrina exposed many of the problems of US society once thought solved, with widening inequality, poor jobs and a faltering system of health, education and human services. Yet the wars of the late 20th and 21st century – from the new Cold War to the wars in the Gulf - their capital intensive nature, their legions of corporate mercenary soldiers, their financing from offshore borrowing and from tax cuts for the wealthy, instead are serving to increase poverty in the Global South, both at home and abroad. (33)

TIME FOR A NEW DEAL, BASED ON PEACE AND JUSTICE

The task now is to seize upon this exposure of the shame of America revealed in its vulnerable poor, impoverished persons of color and poor whites, to take up the clarion call for peace with social justice once again. What is needed to begin with is the withdrawal of US troops in Iraq and the using of the resources gained for true democratic reconstruction at home and abroad, including in Iraq, in ways that benefit the people, not market hungry military-corporate profiteers. And in a hopeful sign, already Katrina is eroding support among the American public for the Iraq War. (34)

What is needed, as during the New Deal, when massive public works helped to lift some of the poorest of the nation's citizens out of poverty – notably second-generation immigrants on the white side of the color line and their parents, some 40 million in all – is a broad commitment to democratic reconstruction and renewal at home and abroad. Yet this time, a bolder strategy of reform would need to include persons of color, notably African-Americans and the burgeoning population of Latinas and Latinos. And now is also the time to make the connections between the war at home and abroad, between the struggle for peace, civil rights, and social justice, as did Martin Luther King, Jr.. For the disaster of America's wars in the Persian Gulf are intimately related with the disaster in the Gulf States of the US. Thus the largest US anti-war coalition, United for Peace and Justice, put out a statement on the aftermath of Katrina entitled: "After Katrina, Fund Full Recovery on Gulf Coast, Not War on Iraq. (35)

The period of Reconstruction after the Civil War was a time of great hope, especially for African Americans. With the defeat of Reconstruction in the late 19th century, as with the turning back of the much hoped for second Reconstruction in the late 1960s and beyond, and with it the demise of the civil rights movement and the black freedom struggle, the clock was turned back on African Americans and the struggle against poverty and for social justice in the other America. (36) President Bush announced that the reconstruction of the Gulf Coast would be among the largest such efforts in world history. Yet Bush continues to press for making his tax cuts for the wealthiest permanent, a move that would cost some \$1.5 trillion over the next decade. This, along with other news coming out about the planned reconstruction, including the possible suspension of environmental laws, and of Bush's chief political advisor Karl Rove's prominent place as the official in charge of plans to rebuild the region,

indicate how far Bush's plan is from the vision of the New Deal. (37) Jesse Jackson spoke of a "Hurricane for the poor and a windfall for the rich."

There is, however, another path. Now, as part of the broader movement for global peace and justice, perhaps the African American freedom struggle could be taken up once again, to renew "America's unfinished revolution" of Reconstruction, so as to benefit not only the descendants of slavery but all residents of the US and the rest of the world as well. Such an alternative democratic vision is one consonant with the call to action and solidarity of the World Social Forum. The time for peace and social justice is now. For these are the challenges of our times.

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By Phyllis Bennis and Eric Leaver and the IPS Iraq Task Force, August 31, 2005. <http://www.ips-dc.org/iraq/quagmire/IraqQuagmire.pdf>, p. i.

9. Mike Davis, *Dead Cities*, p. 253.

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11. On white flight, see *New York Times*, "What Happens to a Race Deferred," Jason DeParle, Sunday, September 4, 2005, Section 4, pp. 1,4, and <http://www.gnocdc.org/tertiary/white.html>. Douglas S. Massey & Nancy A. Denton, *American Apartheid: Segregation & the Making of the Underclass*, Cambridge: Harvard University Press, 1993. For a visual representation and statistics on this system of residential segregation and related elevation levels, showing how upper-income whites occupy the high ground, giving their more protection against the floods, while many Blacks live in lower-lying areas, see The Greater New Orleans Community Data Center. <http://www.gnocdc.org/> See also U.S. Census Bureau, *Racial & Ethnic Residential Segregation in the United States: 1980-2000*, Issued August 2002 (<http://www.census.gov/prod/2002pubs/censr-3.pdf>).

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13. Mike Davis, *Dead Cities*, Ch. 13, p. 259, 253, and pp. 239-273.

14. It should be noted, though, that the freezing of domestic spending goes back to President Carter and the Democratic Congress of 1978 during the period of the mobilization of the have coalition against the have-nots, part of the rise of the broader New Right culminating in Reaganism. "1978 was the first year of Reaganomics. A congress two-thirds controlled by Democrats endorsed the legislative agenda of the Business Roundtable by freezing social spending, deregulating the transport and phone industries, and supporting Carter's move towards higher interest rates." Mike Davis, *Prisoners of the American Dream*, New York: Verso, 1986, p. 137. Welding together Reagan's New Right coalition was military Keynesianism and the financial overaccumulation its regressive financing allowed for. The vast expansion of money capital was fueled here by the doubling of the military budget, deregulation and tax cuts, and the regressive financing of the U.S. deficit, especially from the issuance and rollover of some \$13.5 trillion in marketable securities by the Federal Government from 1981 to 1990, ushering in the hegemony of Wall Street, the global capital markets, hedge funds, the IMF and World Bank, and the related Washington Consensus, the effects of which were soon seen in recurrent financial crises, from Asia to Latin America. See Roy Smith, *Comeback*, Cambridge, MA: 1993, p. 87. See also Jagdish Bhagwati, "The Capital Myth: The Difference Between Trade in Widgets & Dollars," *Foreign Affairs*,

May/June 1998, pp. 7-12. See also Gordon De Brouwer, *Hedge Funds in Emerging Markets*, Cambridge University Press, 2001. See also Financial Stability Forum Working Group on Highly Leveraged Institutions, Washington, D.C., March 2000. Available at FSF website: <http://www.fsforum.org>. See also E. Ray Canterbury, *Wall Street Capitalism: The Theory of the Bondholding Class*, Singapore: World Scientific Publications, 2000. See also Robin Broad, *Unequal Alliance: The World Bank, the International Monetary Fund & the Philippines*, Berkeley: University of California Press, 1988. See also Robert Wade & Frank Veneroso, "The Asian Crisis: The High Debt Model Versus the Wall Street-Treasury-IMF Complex," *New Left Review*, March/April 1998, Number 228, pp. 3-24, and Robert Wade and Frank Veneroso, "The Gathering World Slump and the Battle Over Capital Controls," *New Left Review*, Number 231, September/October 1998, pp. 13-42.

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16. Mike Davis, *Dead Cities*, Chapter 13, pp. 239-273. See also *Los Angeles Times*, "Images of Evacuees Spark a Racial Debate," Thomas Alex Tizon, Saturday, September 3, 2005, p. A11. *New York Times*, "What Happens to a Race Deferred," Jason DeParle, Sunday, September 4, 2005, Section 4, pp. 1,4. *New York Times*, "A Delicate Balance is Undone in a Flash, and a Battered City Waits," Peter Applebome, Christopher Drew, Jere Longman and Andrew C. Revkin, pp. A19, 22-23. The census of 2000 indicated the African-American population was 67.3%. A recent *Wall Street Journal* piece, "New Architecture: As Gulf Prepares to Rebuild, Tensions Mount Over Control," Jackie Calmes, Ann Carns & Jeff D. Opdyke, Thursday, September 15, 2005, A1, 10, estimates the population as "more than 75% African-American."

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