PART TWO: INTERNATIONAL FINANCIAL AND MONETARY IMBALANCE: what about the fundamentals?

Chapter 1: THE INTERNATIONAL FINANCIAL CRISIS OF 2011 : A MURDERER SUMMER

About the Greek crisis and the Brussels agreement 21 July 2011

In my interventions in the media (*), I explained the reasons of the Greek crisis, the outline of the Brussels agreement dated July 21, 2011. Above all, I have explained the actions to take. Psychodrama that preceded the negotiations could be explained by the differences between Germany and France as the biggest contributors to the Union. Angela Merkel faces opposition from her people towards all aid to the Greeks, considered as unproductive, enjoying outrageous benefits and whose Riches of them practice tax evasion and capital transfers. She stressed the need the banks pay. N. Sarkozy – who wants to improve its image in the prospect of re-election in 2012, which seems to be less and less obvious – is completely invested in this case by exaggerating the risks and overestimating the results.
GDP of Greece represents only 2% of European GDP. Greek debt is 4% of the total debt of the European Union. The EU has the means to contain the crisis. European debt aggregate of all EU states, relative to GDP is 80%. This ratio is 103% in the United States. Moreover, this country faces a serious endemic debt of 14,350 billion. If there is no agreement between the Congress and B. Obama before August 2, 2011, the first world power would be bankrupt. I had bet that there would be one, but at what price? Or a decrease in social spending, as advocated by the Republicans, or raising taxes on the wealthiest taxpayers (which seems to me the best solution), following the recommendations of Democrats.
The problem is not the weight of the Greek debt, but of what I have called the dictatorship of the markets. It is the poor ratings awarded by ratings agencies that increase in the interest expense on borrowings of Greece. Let's recall that after underestimated the financial risks at the global financial crisis in 2007/2008, here they exaggerate the risk of state failure. This is the game of speculators, who buy on credit government bonds hoping to sell at a lower price. They have every interest into making them dive.
The white-collar criminals take advantage of the most sophisticated techniques to speculate with impunity against economies and public finances. All those who hold CDS (Credit Default Swaps), are rubbing their hands. Hedge funds and other speculative funds massacre actions and disseminate false information to buy stocks at low prices and sell once prices are rising. It is time for governments to show commands and impose the regulations they abandoned in the 1980s by Margaret Thatcher in the UK and Ronald Reagan in the United States. This was the euphoric period of monetarist economists and libertarians. In the first part of

my work (C.Sari, 2011) I developed largely the causes of international financial imbalances and I made proposals to end the crisis with severe control over Hedges funds, these speculative funds, and the prohibition of selling and buying stocks and financial assets on credit. We must restore the red lights and stop signs because speculators are greedy and individualistic. Hedge funds bet on short-term gain and sacrifice the long-term investment and employment.
Alongside the reform of the financial markets, it is essential to address economic governance. That's what I said on France 24 before the signing of the Brussels agreement and what Nicolas Sarkozy confirmed during his press conference that followed the signing of this agreement. This means that we are in the right. But unfortunately, the French president has accustomed us to thunderous declarations that lead nowhere. A lot of gesticulations for nothing.
The European Union will only survive with a coordination of economic policies and the construction of a model based on the real economy and not the domination of finance base. **In 1992, I wrote in an article (see my website) that the decline of industry in France omen problems in the future. At the time the technocrats and political leaders imbued with liberal ideology have squandered swathes of French industry.** This represents only 18% of GDP against 34% twenty years ago. The Germans, they are surviving because they have kept a strong industrial base. I see the same scheme in each of my visits to the Hannover Industrial Fair and during my travels in China where factories run with the German machinery and technology.

I also developed the idea that the value of the currency reflects the economic power in my first doctoral thesis on exchange rates (1987). There can be no monetary equilibrium without a solid productive base. It is the reverse which was implemented by the governments of developed and developing countries. The Washington Consensus (which devotes ultraliberalism) dominated the guidelines of financial institutions like the IMF. My study of 77 countries that have implemented structural adjustment programs imposed by the Fund is not subject to appeal; they all experienced a decline in their growth rates.
The Maastricht Treaty should be reviewed and corrected in its liberal aspects. Thus give the European Central Bank the sole objective of price stability is of monetarist essence and is therefore to say that the paradigm that leaves only care market forces to regulate the economy. **The ECB is required to be concerned about employment and growth.**

If the agreement signed in Brussels on 21 July 2011 is not accompanied by measures for growth it would only postpone the due date of the bankruptcy of Greece but also Spain, Italy, Portugal, Ireland or even France.

To impose austerity policies would strengthen the recession and therefore less tax revenue, more unemployment, less consumption and more misery and poverty.
Europe must look to its neighbors to the south of the Mediterranean on

concrete projects such as solar, water, industrial co-productions and real mutually beneficial cooperation.

The difficulties of the European Union should not hide the acquires. The euro has protected the euro zone turbulence of the 2008 crisis, which comes from the United States. Without this monetary union national currencies have soared and interest rates have reached double-digit levels.

My project to build a Maghreb economic community takes into account lessons learned from the European experience and devises a specific Maghreb model based on economic convergence and the introduction of a common currency (to coexist with national currencies) and non-sole. It to intervene much later.
The introduction of the euro is the result of economic and political agreements. Despite the relative stability of exchange rates between European currencies provided by the EMS currencies of southern Europe (French Franc, Italian Lira, Spanish Peseta, Greek Drachma, Portuguese Escudo) lived under the shadow of Dutchmark and under its rule (see Camille SARI (1987)). After German reunification, the Bundesbank interest rates practiced “assassin'' interest rates, which forced other partners to follow suit so that their currencies do not drop too much relative to key currencies. The acceleration of the establishment of a single currency was a concession from Chancellor Kohl to French President Francois Mitterrand, who after much hesitation accepted the absorption of the GDR by the FRG. In return the Bonn authorities obtained from their partner – in exchange for giving up their precious'' Deutsche'' – plans of austerity and drastic industrial restructuring which condemned swathes of their economies. This was the period when deindustrialization rose sharply. The share of industry in GDP decreased from 21% in 1996 to 16% in 2009. It would be incorrect to blame everything on the euro. I was in charge of economic development in many areas of Eastern Paris and I attended restructuration-relocation of SMEs as large groups in the 1980s. Abandons of the Machine-tool, for example, and more generally capital goods was made on behalf of harmful liberal economic policies. A contrario, German industry provided a more radiant image, which paled French companies I accompanied at the Hanover Fair, the first industrial exhibition in the world. If Germany is the largest exporter in the world is in part thanks to its industry that occupies 30% of GDP. That said, without the single currency, the effects of the financial crisis in 2008 would have had much larger disastrous consequences. The EU currencies would have been attacked, forcing central banks to raise their respective interest rates (degrading more consumption and investment) and inject billions to curb speculation in foreign exchange markets. The euro has helped to facilitate exchanges of goods and services and reduce transaction costs. Germany is the largest trading partner of France. Spain is the leading provider of Portugal (40% of Portuguese imports) and the first investor.

The Greek crisis is a drop of water; the European Union and the IMF have the ability to control it. German procrastination has delayed a lasting solution to the

Greek crisis. Germans feel they do not have to pay for an "exotic" country which grants 14 months of wages to its employees, who lied about the numbers of its deficits to join the euro zone and which parties have concessions besides their electorate. They originally requested that the private creditor banks contribute to the effort; something the French refused because it could lead to turmoil on financial markets. To refuse a massive assistance to Greece would create a climate of panic and a second crisis after that caused in 2008, when the United States abandoned Lehmann Brothers.
In these negotiations, which resembled a game of poker, European countries and the IMF eventually reach an agreement. What concerns them and creates uncertainty about the stock market is rather the domino effect and the debt crisis of other countries like Spain and Portugal, or even Italy and Ireland. Pressure mounts so that these countries apply policies of austerity and reduce their public deficits without talking about privatization of public enterprises (In the Greek situation, this could bring € 50 billion). **The problem is that by focusing on rigor in the management of public finances, Europe is mired in recession. What is needed is a dosage or even to rescale debts.** We forget in all this the colossal debt of the United States, which reached $ 15,000 billion. This country will repay its creditors, including the Arab countries in funny money. Besides the QE2 (quantitative easing 2) operation is to buy back the FED, the U.S. central bank $ 600 billion of debt from U.S. Treasury. Clearly it is about printing money. Only the first world power can afford this kind of operation. The U.S. dollar is the only national currency playing an international role.

Reform of global finance arises as a problem that continues to prevail in the current debate?

In her inaugural speech, Christine Lagarde (of legal training) commended the work accomplished by her predecessor D.Strauss Khan, a brilliant economist. Already in 1980, when he was my teacher, he enjoyed respect from his peers at the University Paris X, one of the best at the time in economics. I do not think the new CEO of the IMF will do better, but she will have a role in coordinating and negotiating compromises, as her law formation commends to do business. Her flexibility is reduced; she will deal with a staff of brilliant economists such as the French Olivier Blanchard and Chinese Min Zhu, special adviser of Dominique Strauss-Kahn, who is appointed to a job of Assistant General Director.

The dominant ultra-liberal ideology permeated the policies of international financial institutions, including the IMF. If at the present time, it is recognized that the recommendations of the Funds have failed, it is essential to take stock.
The obvious failure of these ultra liberal policies – which adverse effects on the economies of developing countries I have criticized in all my work – imposed to change doctrine.

More generally it is States including the U.S. and Europe that take major

decisions. We have seen in the past a use of the IMF by the United States for its faithful allies.
The three files that mark the mandate of Christine Lagarde are the reform of the international monetary system, the regulation of international finance and the support for heavily indebted countries.
Erratic fluctuations of the dollar is not the only cause of disturbances that affect the evolution of peripheral currencies. Other multiple factors are involved in the destabilization of the monetary system. The current debate on the economic and financial globalization has only just begun. Solutions out of the crisis are proposed together but without a majority consensus around them. A "new Bretton Woods" with the basis of fixed exchange rates must be based on a multilateral monetary institution, with sufficient authority to impose all, without the dominance of the dollar. This device will manage the international payments system.

China, Russia and to a lesser extent France and Germany during the G20 called for a recasting of the international monetary system. The dollar should fade in favor of a new international currency. The banking, financial and economic crises of 2007/2009 triggered this request. The problem of international currency is closely linked to the global banking and financial organization and the liberal logic of any market.

60% of foreign exchange reserves are held by the oil economies, China, Russia, Japan ...

As the dollar was the only international currency and U.S. financial markets the only liquid markets, access to other countries international means of payment are necessarily going through debt the U.S. financial system against other countries. Many countries use the dollar as a fixed reference (PEG). Amongst others, it is the case of Saudi Arabia and the Gulf countries and some Latin American and Asian countries.

Currently the United States, who have a right of veto within the Bretton Woods institutions are hegemonic especially since the dollar is the international reserve, commonly accepted by central banks around the world. They thus had ample opportunity to conduct countercyclical policies, while developing countries and to a lesser extent other developed countries were forced to pursue policies of austerity.

China places nearly $ 1,250M in foreign exchange reserves (estimated at $ 3300M) to purchase U.S. Treasury while condemning this currency. The Chinese need to lend to their best U.S. customers. The Middle Eastern sovereigns have a different logic dictated more by geo-strategic considerations. That is why Saudi Arabia (whose sovereign wealth fund is estimated at $ 300M) and the United Arab Emirates (whose foreign exchange reserves are around $ 875M) keep fixed rates (peg) between their currencies and the respective U.S. dollar.

That said, the United States could not indefinitely appeal to the global savings while they might repay their debtors in funny money.
If the United States systematically and permanently live beyond their means by consuming beyond their productive capacity, it is due to the privileged status of their currency.

The accumulation of public U.S. financial assets involves considerable risks. They are contained by the grace of an international monetary system based on the “dollar king”.
The general hypocrisy and insidious on which the system of global finance was held for the first source of our current ills rests. Dishonesty on the part of financial institutions and incompetence on the part of policy, these are the fruits of the crisis.
The globalization of finance leads to a maximum deregulation of capital flows while disempowering private financial actors sit in case of error risk assessment on the state and ultimately the taxpayer. The critical mass of financial institutions enables them, in case of threat of bankruptcy, forcing the government to intervene, at the risk of sinking into the system as a whole. The argument of systemic risk is understood as the mechanism for shifting to the State the responsibility of private financial actors who nevertheless derive their huge profits of a system they want to deregulate and supposed to work according to the law of the market, so on penalty of wrong economic choices.
It is incomprehensible that the G8 and the G20 did not go further in regulating financial markets. One may question the ability of governments to change the rules of the game. Their role is to socialize the losses and privatize the profits.