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What the World Bank Knows But Won't Tell You

October, 1995. In a market in Bombay a dozen one- and two-storey buildings on each side of the cramped street squeezed over a thousand of us together, where we bustled buying dates, peanuts, combs, cigarettes, and cloth. That night I got on a plane to New York. Two days later, Sunday afternoon at 2 p.m., I stood on the corner of 63rd Street and looked north up First Avenue. I could see only a dozen people on the street; the people had to be in their apartments watching football or out of the city for the weekend. Only a few cars moved. All the buildings in sight had twenty storeys or more, right up to Harlem.

Why not move some of the buildings to where the people are, or some of the people to the buildings?

Bill, one of my two closest friends, put me up for the night in the living room of his mother's Upper East Side condominium. I tried to sleep on the couch. The room, though, was five to six times as large as the room I'd grown used to sleeping in – among six to eight other people – a room six by twelve feet.

I saw my father. He lived alone in an eighteen-room house. I wanted to tell him about the wonderful woman I'd met, my fiancée. She worked for Rs 1000 a month, $34 at the exchange rate then. He took me out to a pleasant dinner that cost as much as a month of her wages, but was doubtful about contributing to the little NGO her mother had set up. For ninteen years the seven board members had each donated three days of their labour every month to help local women poorer than they. Five of them were illiterate day labourers then earning thirteen to eighteen rupees a day. They'd never received a donation from a foreign NGO because donors of foreign fund believed organizations without government backing were too unstable

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to warrant funding. The board members were dalits. Retired, my father thought himself poor; 'Nothing to spare anymore, now that I'm on a fixed income.' Fixed at about $60,000 after taxes.

I visited my brother. He showed me around the campus of the school where he teaches, the State University of New York at Albany. We walked through some passages under the central plaza until we came to one of the entrances to the library. That entry way was 20 feet high, 40 feet wide, and extended 80 feet forward, gradually narrowing into the underground passage. It was marble. There was nothing in it – no desks, windows, displays. A few days before I'd been at the J.C. College of Law in Guntur where 240 students studied for three years to get LL.B.'s. There was more marble in the empty entry way than there was concrete in J.C. College. The library at J.C. College had two *biruwas* of books. He and his wife kindly took me to a Indian dinner that cost two months of my fiancée's wages. They didn't think they could afford to contribute anything to her NGO.

November, 1999. My other closest friend John, from Boston, got off the plane in Hyderabad. A retired poor people's lawyer, he notices prices. He held a ten-rupee note. 'This is a dollar bill,' he said. He pulled out a hundred rupee note. 'And this is a ten dollar bill.' That wasn't what he'd paid for them at the currency exchange; he'd paid 21.7 cents for the 10 rupee note and $2.17 for the 100 rupee note. He knew that. What he meant was that the 10 rupee note bought in India what a dollar bought in the U.S. A short three-wheeler ride costs 10 rupees; a short cab ride in a mid-western town costs $1.25. A 20 rupee lunch is the rough equivalent of a $2 lunch. A local call is 2 or 3 rupees here, 25 cents in the U.S. If you match a wide variety of items, you may find 6 rupees to $1 for two cups of tea at the low end while electric rates and petrol rates come out to 15 to 20 rupees to the dollar. The average is 10:1.

There is nothing in the range of 5:1. Except the currency itself.

These casual observations have official confirmation now from EUROSTAT, the UN, the UNDP, and the World Bank. In 1985 the first two commissioned a study of purchasing power parity in 64 countries. The first results came in 1994. Purchasing power parity is now used routinely by the World Bank and the UNDP. In its 2001 report the UNDP assumed that one U.S. dollar spent in India purchased as much as $5.01 spent in the U.S. In its 2000–01 World Poverty Report the World Bank used a ratio of 1 to 4.775; in 1999 the figure was 4.678. The figure is usually based on statistics two years old.

In fact the discrepancies are much larger than that, because there is another major factor at work: waste. The way of life of developed countries is wasteful. Consider a single American living at the level of the U.S. GNP per capita, $32,895 before taxes. Say he considers sending a dollar to an Indian living on the Indian GNP per capita, $448, and he wants to know whether the Indian will get more benefit from the money than he does. One way to figure this out is to ask, 'If the American at the American GNP per capita gave away his excess over the world average income to Indians at the Indian GNP per capita, enough to each Indian to rise up to the world average income, how many Indians could he raise to the world average income, and what would the cost/benefit ratio be?'

First, how many Indians could he raise to the world average income? The American has $25,691 more than the gross world product adjusted for the U.S., $7,204. The Indians have $448 each, and need $945 more each to reach the gross world product adjusted for India, $1393. $25691/$945 equals 27.19, so that's the number of Indians who could live at the world average for the difference between the American's income and the world average income – that is, if the American were willing to live at the same level. That's a lot of people. If the American wants to live at $32,895, should he explain why it is better for him to have more than the average than it is for him and twenty-seven other people to share and share alike?

I assume the American will answer, 'But you're saying I should accept a lower quality of life to do this. Why should I?' To answer this we have to determine how much the quality of his life is lowered in comparison to how much the quality of the lives of the Indians is improved. The World Bank and UNDP have a formula for determining the benefits of money spent at different income levels, Sen and Anand's logarithmic formula for the GDP Index. (You have to adjust the Indian figures for purchasing power parity, which is 5.0123, so the Indian per capita income is 2248, 5.0123 times $448. This year the U.S. figure also has to be adjusted because the UNDP says technical problems in the calculation forced them to use a figure of $31,872 for the US GDP per capita adjusted for purchasing power parity, .9689 of the normal 1:1 ratio for the US.)[1]

The American will have some cost. How much? He'll fall in the GDP Index from .9621 to .7086, .2534 points. The Indians will rise from .5195 to .7086, or .1891 points each. There are 27.19 Indians, so 27.19 x .1891 = 5.1416 GDPI points. So the cost is .2534 GDPI points and the benefit is 5.1416 points. There are two ways to compare these figures, by subtraction and by division. Subtraction tells us that the benefits are 4.8882 GDPI points more than the cost. But GDPI points are arcane creatures, so nobody knows what that means. The result of division makes more sense: 5.1416/.2534 = 20.2904. There is 20.29 times as much benefit as cost when the American chooses to equalize his wealth. So for any random dollar the American chooses to give to the Indians to spend, on the average, the value of that dollar increases 20.29 times. So we can answer his question,

> The reason you should do it is because the benefits are twenty times the cost. It will be the best bargain you will ever make. The only thing is, you have to think other people are at least one twentieth as important as you are. If you don't want this bargain, you must think you are twenty or more times more valuable than other people. Do you have any evidence of that?

Twenty times seems like a large difference to me. Large enough to act on.

So what does it come down to? The difference in the value of money between India and the U.S. is 20.29 times. Of that, 4.048 times is because the U.S. is that much more wasteful than India. The other 5.012 times is because that's how much the U.S. cheats India in the foreign currency exchange market.

All the international organization people – the minions of the IMF, the World Bank, the WTO, the UN, all high government officials everywhere, all the CEO's – they all know the difference in the value of money in rich and poor countries. They also know how much the developed world simply wastes. One high official mentioned to me, 'I just came back from Geneva, I paid 250 rupees for an ice cream cone.' The wealthy and powerful are bored with the issue, and why should they be enthusiastic? Changing it won't help them. They discount it: 'The real difference is that the West has realistic prices for labor. There, you buy an egg and cook it yourself, it's cheap. You buy it in a restaurant, you pay a lot. Here, you can buy labour for almost nothing.' Exactly. But does he therefore pay his servants more? Does he pay more to the vegetable vendor? He'd only stir up trouble by violating conventions; he'd spoil his servants and the vegetable vendor would think he was insane. So what to do? If the difference is to be blamed on the price of labuor, shouldn't one support labuor unions? How many people go out of their way to do that? (I know one man in Bangalore, Babu Mathew, who spent fifteen years of his life helping the unorganized sector to organize.) And if the price of labor is the issue, isn't the reciprocal of that the level of exploitation of labour? That is, profit, interest, and rent—surplus value? Who recommends lowering the levels of those? All the people 'in the know' *profit* from them. So why disturb them? Better to be blasé. 'The World Bank reports are so complicated nobody can read them.' Of course. Better to talk in circles so that the general public can't grasp the obvious truth. The rich and powerful are hardly ignorant. They're complicit. They're laughing at the ignorance of the rest of us: why don't we know what they know?

Well, because they won't say—at least not to *us*, though sometimes to each other. To us regular people they talk in circles instead. So it's not a question of enlightening them, but of enlightening ourselves. For them it's a question of becoming honest. We shouldn't envy them. Becoming honest is harder than becoming enlightened.

5.1023 is a curious figure. All people entering and leaving India are struck by the currency exchange rates, the foreigners with delight, the Indians with dread. If you don't do foreign business you don't need to notice them *inside* the country. But if you think they don't effect you if you stay inside India, you're wrong. The currency exchange rate affects the prices of every foreign article you buy, everything you buy that has part of its cost in energy, debt service, or transportation. *That is, everything.* And it affects the value of everything that goes out of the country – *and the wages paid for everything made for export.*

Why buy and sell currency at a rate so far from the rate that corresponds to what you can buy with the currency? What's the purpose?

To get at the purpose, look at the effect.

Picture an American with $70,000. He wants to put some women to work, then make a profit selling what they make. Whose labour can he buy? In the U.S. now if he wants to buy the labour of seamstresses, he'll pay $5 to $10 an hour. But in India he can have shirts sewn for 15 to 20 cents an hour, something between one thirtieth and one eightieth the price. For $10,000 he can buy enough labour to sew around 15,000 shirts at, say, 67 cents each, 31 rupees apiece. 11 rupees to the managers, 20 to the workers. With another $60,000 for materials, shipping, duty, and wages for U.S. workers, he can come out with $260,000 profit. A 370 per cent profit on his $70,000 outlay. And only $10,000 stays in India.

Or take a New York law firm, Skadden, doing private international law for multinationals. Skadden charges corporate clients $400 an hour. In New York Skadden's attorneys earn $150 to $300 an hour. Skadden set up a branch office in Mumbai. Same fees, $400 an hour of legal work time. But the Indian attorneys earn Rs 15,000 a month, now $319. The number of legal work hours in an attorney's work week varies depending on how many hours the attorney works (some New York lawyers put in as much as 120) and the percentage of hours that are counted, depending on the type of work. But it is safe to say the New York attorneys average over $120,000 a year, well over 30 times what the Mumbai attorneys make, and that Skadden's profit margin in Mumbai is at least a dozen times its profit in New York.

Or take IBM. IBM managers have a formula for fixing the pay of employees in the U.S. First estimate the employee's productivity. Half that amount goes to support the employee: one sixth of the total is wages, one sixth is fringe benefits, and one sixth supports the employee's work station. The other half is profit. Consequently if the employee earns $60,000, the managers believe the employee is producing $360,000. In India IBM is free to vary the formula because the work that an Indian in Bangalore does for Rs 20,000 a month a worker in the U.S. would have to be paid $5,000 a month to do. So if the productivity of the Indian worker is $360,000 a year, IBM can spend roughly $5000 on salary, $5000 on fringe benefits, and $5000 on the work station, keeping $345,000 for investors instead of $180,000.

If the value of the rupee depended on its purchasing power, what would happen in these three cases?

This year the World Bank uses the ratio of 5.0123 to calculate the purchasing power of the rupee against its value on the foreign currency market. The Bank says that while the Indian per capita income is $448, the purchasing power of that income is actually $2248. This means that one U.S. dollar spent in India buys on the average goods and services that would cost $5.01 in the U.S., and 100 rupees converted to dollars and spent in the U.S. will buy there what can be purchased here for 19 rupees and 95 paisa.

The shirt importer would have to pay $50,123 to India instead of $10,000. In itself, that wouldn't change the wages of the Indian workers. Instead it would change the value of the rupees they are paid in. If the workers wanted to buy any foreign goods, instead of getting the value of 19.95 paisa per rupee, they would get the full rupee value. The American entrepreneur would lose $40,123 of his $260,000 profit, bringing him down to $219,877. He would claim this was a major injury that would make him lay off workers to get popular support for his greed. But it's not a substantial injury to anyone but him, because it wouldn't make him pay any less to his workers in the U.S. or India or charge any more to his customers. He'd try to pass the cost on, of course, but basically all would have happened is that the possibilities for unearned income would have gone down with the declining level of extraction of value from Indian laborers. The real impact is that $40,123 would stay in India to be used at Indian discretion instead of going to the U.S. to be used by the entrepreneur and his investors to extract more money from poor countries.

Skadden would have to pay $1,600 a month ($19,200 a year) to its lawyers instead of $319 ($3828 a year). This puts a small dent in Skadden's profits and decreases the inequality between its New York and its Indian attorneys from roughly 30:1 to 6:1. And IBM would have to spend in India $75,000 of the $360,000 the Indian worker produces instead of only $15,000. It would, of course, claim that its investors are being robbed when their earnings per worker fall from $345,000 to $285,000. But I'd think the worker's claim would be better.

What is the theoretical basis for this way of thinking about the world average income? The law of the diminishing returns of satisfactions. Different versions of the law of diminishing returns have lingered in economic theory for 200 years, accepted but usually ignored. Jeremy Bentham, John Stuart Mill, and Bertrand Russell all clearly applied the rule to consumption, satisfaction, happiness, pleasure, benefits, or welfare – lots of synonyms are used. It's simple. It just says that each repetition of a pleasure is less satisfying than the previous one. Russell used chocolates: the second bite of a chocolate is less exciting than the first, the twentieth less than the nineteenth.

Make a series: 1, ½, 1/3, ¼, 1/5, 1/6, 1/7, 1/8, 1/9, 1/10 to estimate the relative satisfaction from repeated consumption. By that estimate, if I eat ten chocolates, I get 2.929 times as much satisfaction as if I eat one chocolate. It doesn't matter how much I draw out the decimal, it can never reach 2.93 if I eat only 10 chocolates. If I give the chocolates to ten people, each of them gets one unit of satisfaction. So there's no way I can ever get as much as 30% of the satisfaction that ten people can get.

The longer the series gets, the bigger the difference. Say someone has 20 chocolates and decide to eat them himself instead of giving them out to 20 people. To his 2.929 units of satisfaction from the first ten, he now adds 1/11, 1/12, 1/13, 1/14, 1/15, 1/16, 1/17, 1/18, 1/19, 1/20. Try it on a calculator. He gets only .669 units for the second ten, less even than would be obtained if he gave just one of them to just one other person! The total of 20 increments is now just 3.598 – compared to the 20 units if 20 people ate them. Can it get better for the hoarder? No, it can only get worse. With every step his own increments approach zero while a new person's first taste remains at one.

Now I can tinker with the rule. As the hoarder I can argue that my satisfaction declines more slowly than that, or that the longer the time interval between tastes, the more each subsequent satisfaction resembles the previous one in intensity, duration, or lovability. I can argue that some people get more satisfaction out of life than others. I can plead the specialness of my own case; I can say the consumption of anything is more pleasurable to me than to you. There may be some truth to any particular exception, though the specialness of your case is likely to be as plausible as the specialness of mine. In the long run, the exceptions tend to cancel each other out. What I'm stuck with is the rule: in general, repetitions lose interest, so satisfaction is greatest when things are most evenly distributed.

In general, when a person who has more than the average gives some of the excess to someone under the average, there is more total satisfaction than when he consumes the amount in excess.

So the most satisfying distribution is equality. Except for the people whose satisfaction comes from feeling superior to others. That's an expensive form of satisfaction.

The United Nations Development Programme accepts the law of diminishing returns. Through 1997 the UNDP accepted a radical form of it, the British economist Anthony Atkinson's formula by which all consumption between the average and twice the average counted at the rate of the square root of its price, consumption between twice the average and three times the average counted at the rate of the cube root of its price, and so on. Then they seemed to realize that the implication was that the rich countries were so wasteful that there was no way they could justify hanging on to what they had.

So Anand and Sen made up a new formula for them that makes the rich countries look less selfish. Atkinson's formula had made for a very sharp turn in the graph when the world average income was reached; it showed that money spent below the average increased welfare unit for unit, but all income between the 1998 report's average (for 1995 figures) of $5990 and $40,000 gave the benefit of only $321. This pays homage to the average, as I would on the basis of my conclusion that in general the law of diminishing returns makes equality the most satisfying distribution. But the $321 result was clearly implausible and didn't jibe well with the rest of the Human Development Index. Anand and Sen's formula adjusted the natural logarithm to the income range between $100 and $40,000, which is more reasonable, but still suffers the faults of any such formula. It admirably assumes, for instance, that there is no difference in the benefits of an income of $40,000 and one of $200,000,000, which is basically true for health, longevity, and education, but certainly not for power over others. Less admirably, it overlooks the difference between the poorest 10 per cent of Sierra Leone's citizens, who earn only $20 a year adjusted for purchasing power parity, and the poorest 5 per cent of Indians, who earn about $100 each. And it is not at all admirable that it tends to put us back to sleep where Atkinson's formula had some power to wake us up.

But there's a benefit. Even the World Bank has accepted the law of diminishing returns (regarding human benefits) in the form of using purchasing power parity in its accounting. It accepts Anand and Sen's formula for discounting the value of money in deriving the Gross Domestic Product Index, which is one of the three components of the UNDP's Human Development Index. This does not mean, of course, that the World Bank acts on the assumption that its borrowers should improve their ratings on the GDP Index – let alone the Human Development Index – or that the declining importance of successive increments of money on the GDP Index implies that the poorest countries should be helped at the cost of the richest. But there is no way to escape from the implication: the GDP Index implies that money is used better by the poor than by the rich. Which is true. And obvious to anyone who thinks about it for five minutes.

Why is it a benefit for the World Bank to admit the obvious? Because it has then admitted the crucial item in the best arguments against nearly everything it has done and represented for fifty years.

The world economy is always presented to us in terms of its value at current rates of exchange. That is, we are given the value that all the goods and services exchanged in a year would have if they were sold on the international market at the rates the foreign currency exchange markets now impose. But the purchasing power parity studies tell us that what $1 can buy in India would take $5.01 to reproduce in the U.S.A. – or $6.91 in Japan! What is the point of trying to understand the Indian economy by calculating how much one year's production could be *sold for* to the U.S?-that's 447.3 billion dollars. What we want to know is, how much is it *worth in India to*

Indians? – and for that we have to multiply that figure by the purchasing power of the rupee, which is 5.0123 times its value on the foreign currency exchange market. (5.0123 x 447.3 equals 2 trillion 242 billion dollars ($2,24,200 crore) the amount the Indian economy would cost to reproduce in the U.S.-and the value it actually yields to Indians.)

Adam Smith and the other classical economists always complained that while exchange value could be measured, actual use value could not be. Purchasing power parity for the first time in history makes it possible to measure something closer to use value than exchange value. So why do the conventional economists go on fooling us with exchange value figures when they now know the degree of distortion in the international currency exchange market?

Look at the picture (Table 1) we're generally given of the 'largest economies' in the world economy for 1999.

Look at the changes from traditional perception: China has up to second place from seventh, above even Japan. India has moved from eleventh place to fourth, above Germany, France, the U.K., Italy, Brazil, Canada, and Spain. These changes make intuitive sense: did you really believe that Canada or Spain produced more than India, or that Italy produced more than China? Adjust your perception and it is easy to see why China's human rights record never affects U.S. trade with China, as U.S. law says it should: China, not Japan, is the world's second largest economy, and one the U.S. can exploit through the undervalued Yuan. It should also be easy to see why the U.S. suddenly was jolted into siding with India against Pakistan: in real terms, India's economy is nine times as large as Pakistan's, so the U.S. was not going to lose India as a trading partner because of a border dispute and a nuclear bomb. Especially when the Rupee is undervalued even more than the Yuan.

The purchasing power parity figures show that India, China, the Russian Federation, Mexico, and Brazil – in that order – are all being punished by the currency exchange market. And who does that market get its marching orders from? The IMF and the World Bank. Who controls the IMF and the World Bank? The bankers of the countries that have the largest investments in them: the U.S., Japan, Germany, France, the U.K. – that is, primarily the countries that have overvalued currencies, the countries whose leaders the Rockefellers organized into the Trilateral Commission: the U.S., Western Europe, and Japan. And what do they vote for? They vote to maintain the ability to buy labor and materials cheaply and to sell their own products at a good

TABLE 1

1.	USA	9125.1 billion	produced by	28.04 crores of people
2.	Japan	4346.9 billion	produced by	12.68 crores of people
3.	Germany	2111.9 billion	produced by	8.20 crores of people
4.	United Kingdom	1441.8 billion	produced by	5.93 crores of people
5.	France	1432.3 billion	produced by	5.90 crores of people
6.	Italy	1171.0 billion	produced by	5.75 crores of people
7.	China	989.5 billion	produced by	126.48 crores of people
8.	Brazil	751.5 billion	produced by	16.82 crores of people
9.	Canada	634.9 billion	produced by	3.05 crores of people
10.	Spain	595.9 billion	produced by	3.99 crores of people
11.	India	447.3 billion	produced by	99.27 crores of people

See what happens when we multiply those figures by the purchasing power parity ratios of the currencies of those countries and re-rank them:

	Country	Value at Exchange Rate	PPP Ratio	PPP Value
1.	U.S.A.	9125.1 billion	0.9689	8867.7 billion
2.	China	989.5 billion	4.583	4534.9 billion
3.	Japan	4346.9 billion	0.7425	3151.3 billion
4.	India	447.3 billion	5.0123	2242.0 billion
5.	Germany	2111.9 billion	0.923	1949.2 billion
6.	France	1432.3 billion	0.9371	1342.2 billion
7.	United Kingdom	1441.8 billion	0.9118	1314.6 billion
8.	Italy	1171.0 billion	1.0915	1278.1 billion
9.	Brazil	751.5 billion	1.5729	1182.0 billion
10.	Russian Fed.	401.4 billion	2.722	1092.6 billion
11.	Mexico	483.7 billion	1.6566	801.3 billion

profit. Consequently their currencies are generally overvalued and the currencies of the countries they exploit for labor and materials are undervalued. They talk about 'level playing fields' but neglect to mention that they've tipped the entire board with the currency exchange rates. They talk about their abhorrence of tariffs but neglect to mention that they don't need tariffs any more because of their new ability to control exchange rates and because their profits come from hi-tech products for which the WTO's regime of intellectual property rights guarantees them a monopoly.

All right, so the Indian economy is really a quarter the size of the U.S. economy, not one twentieth as large as we've been told for so long. What difference does this make?

It changes the meaning of international trade figures. The World Bank says India now exports $33.626 billion in merchandise and $11.067 billion in commercial services, a total of $44.693 billion, 10.1 per cent of the Indian economy normally valued at $442.2 billion. That is the number of dollars it costs to *purchase* those exports. But how much would the exports cost to produce in the U.S.A.? 5.0123 times as much, $224.015 billion and that's how much it is worth to the U.S.A., or rather to entrepreneurs and multinationals in the U.S.A. If India exported to the world indiscriminately, since the average purchasing power parity ratio of the world is 1.342, the value would be $164.598 billion. What happens is that India is paid $44.693 billion and the U.S. and other importing countries credit something between $119.905 billion and $179.321 billion to their own accounts. It just came to them, out of thin air. But it doesn't go to the citizens of those countries, as consumers. Indian goods sit on the shelves next to American goods, so the prices of the Indian goods are raised to match the American prices. That $120 to $180 billion is pocketed by the middlemen – it goes as profit straight to the banks and stock exchanges and comes out in dividends and increasing stock values as part of the gross unearned income of those countries. And that is why the bankers won't consider determining currency exchange rates by purchasing power parity – or establishing a single currency for the world. But the real blow is this: if it weren't for the currency exchange rates, that $120 to 180 billion would have had to be paid to India. It is as if last year goods and services valued at $120 to 180 billion dollars were simply stolen from India. Since $119.9 billion is 5.348 per cent of $2,242 billion, the correct valuation of the Indian economy, and $179.3 billion is 7.998 per cent of it, the entire Indian economy would be 5.35 to 8 per cent larger than it is. For every hundred rupees you have, you would have had 105.35 to 108.

If 5.35 to 8 per cent of India's yearly production is being stolen by export at artificially low exchange rates, what happens to imports? India imports $42.742 billion in merchandize imports and $14.192 billion in imported commercial services, a total of $56.934 billion. But this is $56.9 billion paid out of the Indian economy at standard currency exchange rates. How much sacrifice of Indian labor and energy did it take to pay out this money? The Indian economy is undervalued by 5.0123 times. So if the energy that went into the payment for these goods and services had to be produced in the U.S.A., there it would cost $285.37 billion, but the goods and services received for that amount are worth only $56.934 billion, a loss of $228.436 billion, 10.19 per cent of the yearly productivity of the Indian economy at its correct valuation. If those goods and services were purchased from the world at random, since the average world level of exploitation through currency exchange rates is 1.324, the real value of the imports would be as high as $75.38 billion. In that case India's loss would be $209.99 billion, a loss of 9.366 per cent of GDP adjusted for purchasing power parity.

In sum, India loses somewhere between 14.72% (5.35 per cent on exports and 9.37 per cent on imports in the limiting case that trade is random) and 18.19 per cent (8 per cent on exports and 10.19 per cent on imports in were that trade is with countries like the U.S. Trade wholly with western Europe and Japan would make the figures higher.) Through exports India is drained of labor and materials; through imports it is drained of labor to make the payments.

Together these are the main stresses that create inflation for those sectors of the economy that are able to respond by raising prices and poverty for those sectors that are only able to respond by restricting consumption. The greatest injury, of course, is to those people who can't respond to inflation by raising their own wages, thereby passing it on to others. And those are the poorest and most powerless people in society. So the real cost of India's exploitation through international trade is being paid by India's farmers, servants, and day laborers. That is the primary source of the money that international bankers pretend comes to them out of thin air.

So why look at the Indian economy in terms of purchasing power parity? In the conventional picture India is an extremely poor country, with a GDP of only 4.9 per cent the U.S. GDP and a per capita income only 1.36 per cent of the U.S. per capita income. In the purchasing power parity picture of the economy, per capita income is 7.053 per cent of U.S. per capita income but, with 3.54 times as many people, a GDP over a quarter of the U.S. GDP. If you don't look at purchasing power parity, you get this story: India exports 44.69 billion, 10.1 per cent of its total economy, and imports $56.93 billion, 12.9 per cent of its economy, a deficit of $12.24 billion, or 2.8 per cent of the economy. But then you're only looking at the flow of money, not at the goods and services themselves, and the flow of money drastically misrepresents the flow of goods and services because the money flow is fixed by exploitative currency exchange rates. If you *do* look at purchasing power parity, you must conclude that India is exporting a great deal more goods and services than it imports, but receives very little money for the exports and gives a vast overpayment for the imports, losing 15 to 18 per cent of its income to unfair trade each year, plenty to account for inflation and deepening rural poverty.

If you don't understand purchasing power parity, you can't see

India's strength. And because you can't see its strength, you can't see how its strength is being sapped. You sense it, of course; you know something is wrong with the picture you're given. But you can't see quite what it is. It is the international bankers' legalized theft of all poor countries.

How did banks acquire this power? In 1943 it was obvious that Germany, Italy, and Japan had to lose World War II, so Roosevelt turned his attention to designing the postwar situation most advantageous to the United States. He knew, first, that the United States then had 6 per cent of the world's population, 50 per cent of its wealth, and 70 per cent of its industry and that the only way for the U.S. to maintain a large portion of this advantage was to enforce its access to the world's resources – to cheap labor, and to open markets. He saw the main threat to U.S. access as 'economic nationalism,' the sane policy of other countries to use their own resources to their own advantage. The main advocates of economic nationalism at the time were communists and socialists (in the 1970's OPEC countries too adopted economic nationalism, but set in a wholly different doctrinal context.) Roosevelt believed that the only way to prevent the success of communism in Italy, France, Japan, and Germany was to revive those economies as rapidly as possible. The effect of this would be to decrease the percentage of the world's wealth and industry in U.S. hands. Therefore Roosevelt conceived of his problem as how to slow down the inevitable erosion of American dominance. The solution had to be an international network because the U.S. had to give up some of its relative superiority to achieve its goal.

Second, Roosevelt knew that the depression of 1929 was not caused by unusual errors of bankers and industrialists, but by normal and basic policies. Among the basic policies that caused the depression were the banking practice issuing loans deposits couldn't cover and that of giving interest, both of which caused inflation to exactly the extent that productivity failed to increase. Inflation was a means to taking exchange value from all persons holding a currency and giving it to creditors. When a bank's liabilities vastly exceeded its holdings, the bank was exposed to risk, for example, it was vulnerable. In the 1930s the U.S. has passed legislation to limit lending, but the government had no intention of tampering with the basic principles by which banks made money – and those principles required exposure and either inflation or expansion. This vulnerability would increase as the capitalist countries recovered because the international banking system linked currencies together, so that a depression in Germany, for instance, would again be able to spread to the U.S. Consequently Roosevelt knew that the maintenance of U.S. dominance depended on finding a means to control the international banking and currency systems so that another depression would not spread from one capitalist country to another.

Third, World War II had exposed the weakness of the European powers' political control of their colonies. It was clear that nearly all the colonies of the world would be independent within fifteen to twenty years. This would mean an enormous increase in the world wide demand for both democracy and wealth, and an increase in the difficulties dominant countries would have in controlling weaker countries. If an international organization were created to replace the League of Nations, the new countries would demand some democratic say in it. So Roosevelt had a third need for an international network, and he knew he had to take his opportunity quickly, before the world's new countries could refuse to cooperate.

The U.S. Federal Reserve Bank provided a model for Roosevelt. Alexander Hamilton had designed it so that no vote of the U.S. Congress could affect its operation, and therefore the U.S. money supply would always remain in the hands of U.S. plutocrats, not the representatives of the people.

Roosevelt and Churchill's first goal was to create international economic institutions that would be insulated from international political institutions. If they created the United Nations first, the members would have to have a vote in the creation of economic institutions. So they created the economic institutions first.

In 1943 in Bretton Woods, New Hampshire, allied economists, bankers, and bureaucrats designed the World Bank, the International Monetary Fund, the General Agreement on Tariffs and Trades, and the World Trade Organization. The plan for the World Trade Organization was held in abeyance for forty-five years until the other three had prepared the ground for it. The World Trade Organization is a world economic government. When the UN was formed in 1945 the Bretton Woods Institutions were placed 'under its auspices' but, just as the Federal Reserve Bank cannot be affected by any vote of the U.S. Congress, no vote of the UN can affect any activity of the World Bank and IMF. Hence they are not subordinate to the UN. To change this would require changing the UN Charter, which can only be changed by a vote of the Security Council, where the U.S. has a permanent veto.

The operating budget of the UN is two and a half billion dollars, the size of the budget of the city of Detroit without its school system. The UN can afford to hire a total of 79 human rights lawyers, a bit less than one half-time lawyer dedicated to insuring human rights in each country. The Bretton Woods Institutions, on the other hand, have combined budgets in hundreds of billions of dollars. So saying that the Bretton Woods Institutions are 'under the auspices' of the UN is like hiding an elephant under a mouse. But the concealment is effective because most people don't think about the charters of international institutions – and most of those who do don't think about the political implications of the economic facts hidden by the legal documents. The lawyers talk about the law, the economists talk about the economics, the politicians talk about politics, and the reporters report on the three conversations separately, so the basic relationships never have an occasion to appear in the news.

Voting in the World Bank and IMF is in proportion to amount of money a nation has invested in them. The U.S. presently holds 19 per cent of the investment, and thus gets 19 per cent of the vote; the G7 countries together always hold at least 45 per cent of the vote and can always obtain another 5 per cent or more from client countries like Israel, Belgium, and Spain. So the bankers of the G7 countries always control the institutions. It is a pure plutocracy.

The Bretton Woods Institutions are therefore devoted to increasing the security and profit of the richest people on earth – for that matter, the richest white men on earth. To them, the United Nations' main purpose is to make it appear that there is some democracy at an international level. (That this 'democracy' is entirely illusory can be seen by the dozens of General Assembly votes on the order of 170 to one where the one is the U.S. and 172 to two where the two are the U.S. and Israel, and the U.S. sees no need to change the policy at issue.) The real political news of the world must be inferred from news on the business pages because politicians can no longer control their budgets. In any country where IMF and World Bank loans – or even just loans they approve – form a substantial proportion of the governmental budget, representatives of the Bank and IMF can threaten to shut down the government at any time by refusing to release money for the government payroll unless their conditions are met. The WTO has now taken the final step to becoming the *de facto* world government: it has the power to directly require countries to pass legislation on pain of exclusion from the world economy. The world government is a pure plutocracy.

There's a cascade of power: first the interlocking boards of directors of the multinationals, then the U.S. government, which they control, then the G7 and UN, which the U.S. government controls, then the plutocratic world government of the World Bank, the IMF, and the WTO, which the G7 control: and what do they want? To keep their control. That's what keeps the money flowing in. And what's the biggest threat to them? The idea that equality is good. They proclaimed victory in 1990 when the USSR dissolved: they pretended that equality was just the cruel delusion of a totalitarian state. To crush it, they tried to make people believe the dream was crushed when that state collapsed. But that hadn't happened because the dream of equality didn't begin in 1917. In India, it began in 566 BCE, with the Buddha's birth in the republic of the Sakyas, and all over the east has been preserved to some degree by Buddhist priests and nuns. In the west it was alive for a while in Athens, not in Plato and Aristotle, but in Democritus and Leucippus; and in Rome among the Stoics, the Gnostics, and among slaves in rebellion. It was alive among the Cathars and Albigensians in the eleventh to fourteenth centuries, in Munster, Germany, in 1534, and among the Anabaptists. In England the Levelers, the Diggers, and the Quakers had it, and later Godwin and Wollstonecraft, Wordsworth, Shelley, Blake, and Byron, then Engels and Marx and the working class intelligensia. It was alive from 1776 to 1789 in the U.S. among the anti-Federalists, and from 1789 to 1800 in France. In 1848 it broke out all over Europe, and in 1870s in the U.S. when workers took over twelve U.S. cities. And in the last century it has had a variety of struggles – in union struggles everywhere, in 1917 in Russia, in the Spanish Civil War, the revolutions in Mexico in 1910, in China, in Cuba, in Vietnam, and Nicaragua, in Allende's electoral victory in Chile, and in India in West Bengal and Kerala; in the U.S. in the Civil Rights, anti-war, and women's movements: and each of these efforts has had a different mixture of success and failure. One basic problem is always that the surrounding countries are ruled by hierarchical powers that don't want their own citizens to witness the success of equality, and will stoop to anything to prevent equality from spreading. A second is that equality doesn't come in one flavour, but in three: economic, political, and social because there can be equality or inequality of three main things: wealth, power, and status, and equalizing one doesn't equalize the others.

Now in the face of all this, the plutocrats want us to believe that the demise of the USSR somehow proved that equality is foredoomed, that all the rest doesn't count, that there was just some aberration between 1917 and 1990, a fluke. But to get rid of the ideal of equality they'll have to take us back to a time before 1789. They can't allow people like Robespierre to speak. They're ready to go back to that time – morally and politically. They're ready to rule like Louis XIV or Talleyrand or Metternich, but behind facades of democracy. They think the purpose of 'democracy' is to elicit popular support for elite decisions. That's the 'good governance' the World Bank always talks about, and 'institution building' is its effort to strengthen elite control in poor countries so that money can be extracted from them more easily.

So they are willing to take us back to 1750 – with appropriate disguises, of course, pretending the politicians, not the CEO's, are in control, pretending the kings are elected, pretending there are serious choices in the elections, that the elections are fair and meaningful, pretending that economic inequality doesn't create political inequality, pretending that you can humiliate, intimidate, and starve people and then get their votes in fair and clean elections. With these pretences, they'll take us back to 1750. They'll claim, of course, that they're modernizing and developing everything; they'll make the glory of their technological future vivid in our minds, they'll claim that all the human-rights abuses are done by the backward elements of old regimes they've tried very hard to reform. But the record of the actions in which they've had the most freedom and initiative, unfettered by the will of local people and invisible to public oversight, shows the truth: the CIA has always taught and supported torture, and everywhere it has gone, the authoritarianism of governments has increased, not decreased. All their posturing about democracy and governance only means they want to make elite control more subtle, effective, and manipulative. The truth is, they didn't like the French Revolution. They don't want that kind of thing to happen again. Anywhere.

But if they take us back to 1750, will they succeed in crushing the idea of equality? No. Why not? Because the ideal of equality has deeper roots than they think.

Equality is inseparable from communication. If you argue with me, it is because you think that in some way your argument should be as good for me as it is for you; otherwise you wouldn't bother. You have to believe that you and I share some concepts, perceptions, and interests, and some way of putting them together. You have to think we have equal possession of those things.

And what is 'some way of putting them together?' Logic. We share it. All human languages share logic. In talking about the real world, we don't open our mouths without relying on logic. We can try to fool ourselves, we can try to fool others, but when it comes down to deciding whether there is food to eat, we rely on logic: there is or there isn't, not both, and not neither. Logic is connected to our actual relationship to the world. It's so basic that chimpanzees show a grasp of it.

So if they think they can just go back before 1750 to get rid of equality, they're wrong. They'll have to make us more stupid than chimpanzees.

Are they willing? A few of them are: it's the basic fascist project. H.G. Wells in *The Time Machine* pictured a future in which the powerful had become cave-dwelling Molochs who survive by eating the surface-dwelling innocent and hypnotized Eloi. During the Cold War the Pentagon produced plans for the U.S. political and technological elite to survive nuclear holocaust by dwelling underground for decades: supposedly they'd eventually emerge to take over a virgin earth uncluttered by the rest of us or littered with only a few of us living in Stone Age conditions. The planners are willing to become Molochs: if there were any of us left, we'd be the Eloi.

I wouldn't have believed ideologues like these existed if I hadn't talked to some of them. In 1982 at a conference on nuclear war at Rutgers University in Newark, New Jersey, a cluster of government agencies and right-wing think-tanks decided to go on the ideological offensive by sending representatives to convince the conference-goers that nuclear war was not to be feared. One woman argued that it wasn't true that nothing would be left after a nuclear war—there would be 'structures' left, frames of buildings that could be rebuilt. One young man argued that a pre-emptive first strike could satisfy Aquinas' requirements for a just war.

Will there be a nuclear war from which the elite will emerge after many years? I don't think so. But that's not the real problem. The problem is that there is no way these people are not able to contort their minds. They're capable of being comfortable with the idea of world-wide nuclear war.

Why? Because they have entirely lost their sense of belonging to the human race, at least if we're part of it. In the strictest sense, they've lost their humanity.

The demand for equality comes from a sense of humanity.

That's why they're so contemptuous of the idea of equality. They hold humanity in contempt.

Why? We're not like them. We don't feel like aliens. We feel we're connected to other people.

We haven't learned to lie as well as they have. They can lie persistently without giving in to the temptation to share their feelings with other people. That's the price of devoting oneself to controlling other people. We haven't paid it, but they have. And by paying it they've acquired a lot of power we haven't got. There's a lot of power on the dark side.

The words come from *The Empire Strikes Back* but it's not science fiction. It isn't new. It's just the age-old mentality of all occupying armies. *Every* invasion is accomplished by people who think this way. Alexander, Caesar, and Akbar before he converted to Buddhism; Columbus, Cortes, and Pizzaro, Cornwallis and Churchill, Napoleon and de Gaulle. Colonists and imperialists; Hitler, Goebbels, and Goering; Teddy Roosevelt, Patten, McArthur, Truman, J. Edgar Hoover and Nixon. Most bureaucrats can't advance without it, most politicians can't win without it. They learn to look at us, whom they sometimes claim to serve, as conquered and degraded people who deserve nothing better than what we get because we haven't got the strength to get more. For them, might makes right: they are right because they won and we are wrong because we lost; therefore, they think they are right to cheat and abuse us. Their philosophy goes back at least to Callicles, Thrasymachus, and Alcibiades in Plato's *Dialogues*, and it's healthy in much of the *Mahabharata* and in Kautilya. 'Force and fraud,' Hobbes wrote in 1651, when kings were always bankrupt, 'are the foundations of the state.' We can add 'bribery' now that so many states have enough money to use it for more than maintaining armies and courtiers.

In the new world order the wealthy (corporate managers and investors) come first, the powerful (politicians, jurists, and the military) second, and the opinion makers (priests, intellectuals and professionals) third. The rest of us, nearly all of humanity, they count as workers and outcastes, not worth educating or consulting. If anything I have said here comes as a surprise to you, it is because the international rich, powerful, and prestigious think it better that you have no informed opinion on these issues.