

## **Consolidating 2011's historic gains**

**New Straits Times**

**January 04, 2012**

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WHAT happens after a convulsive year? There are useful comparisons, from what followed 1648, 1789, 1848, 1968 and 1989. Of course, the first three of those were European affairs, though even the thought of a king losing his head "inspired" revolutionaries worldwide to the present day. The year 1848 showed how linkages work across borders, whereas 1968 showed the same across oceans.

There probably will never be something so eventful as 1648, because the peace of Westphalia, incarnating the rights of the individual state, remains the basis of the international system. The basis was the religion of the state, which was to be determined by individual rulers. Remember that there was, and still is, quite a way to go before all those ruled also get to choose.

Of course, there's a range of repercussions from revolutions. Muammar Gaddafi lost his head whereas Hosni Mubarak is being allowed to go quietly into the night.

But in any case, I do see a certain principle and principal lesson of past epochal years. The victors try not only to consolidate their gains but to extend them. But there are almost always losers with much still to hold on to: in the extreme case, the Egyptian army, which still has the upper hand, is trying to slow the slippage downward of that hand. The Libyan thugs had gone too far to hold on to anything.

To suggest how far "losers" can go in hanging on to their past gains, look at the larger Marcos family in the Philippines. The principals live in veritable palaces, though on upper floors or behind great gates: they don't want to flaunt the wealth, just maximise the use of its influence.

These days, most rulers salt away extra millions if not billions in safe offshore accounts. Stalin never bothered, because, after all, he owned the whole state-empire. But his daughter sought exile in the United States and was penniless until she generated books. On my last trip to Africa, I casually said to one of my most distinguished former students there that I'd heard so-and-so had a Swiss account. "Professor Scott, I assumed you knew that all African politicians have Swiss accounts."

This isn't just for a comfortable retirement; it's to finance continued political manoeuvres to stay in power. But it's more and more difficult to open those foreign accounts. The Swiss even have "standards" for what monies they'll shelter, and then the depositor pays interest on the deposit, not the other way around.

But look at how more transparent leaders have had to become. Even in Africa corruption is becoming a big issue. In India it's a tsunami. Given the size of the fortunes created through economic liberalisation, there's bound to be vast corruption. But the public won't tolerate it any more. Every day in China there's another lethal injection for someone proved to have stolen huge sums. The Chinese leadership has announced a "zero tolerance" policy for corruption, though at some point this will hit pretty close to home.

Revolution this past year wasn't just political. There's a radical new principle in economic affairs. Don't live beyond your means (USA excepted, as long as the navy rules the seas) just because you believe a rich neighbour will ultimately bail you out.

At some point, legal penalties will come in, the legal equivalent of the US marines using profligacy in Latin America as an excuse to overthrow regimes, before Roosevelt established the "good neighbour" policy in 1933. The Greek, Italian and Spanish middle-to-upper classes spent as if credit cards had no pay date, and age 50-something retirement at full salary didn't have to be paid for by someone. Their heirs are in the streets essentially asking why they should be the ones who pay for the sins of the fathers. And the only answer is, "tough luck".

Near-catastrophe in the eurozone may bring closer monetary union, but definitely a far more rigorous supervisory regime. I remember back to the time when banks inspected every documented financial source you had when you applied for a mortgage. Then they eased up until there were no requirements at all.

The same thing happened internationally with Greece, et al. They got money for which there was no conceivable pay-back source. Now, the most stringent rules are being drawn up and I believe will be rigorously enforced. 2012 is the year for the consolidation of all these gains.

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Source: <http://www.nst.com.my/opinion/columnist/consolidating-2011-s-historic-gains-1.27555>