They are Paying for our Crisis

The Effects of the Financial Crisis on the Countries of the “Third World”

Lesson materials for secondary schools
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Preface

Dear Teachers,

The most serious international financial and economic crisis since the Great Depression of 1929 still has major parts of the world in its grip. First, banks collapsed or had to be saved with state aid; now, entire national economies are threatened with bankruptcy. These include not only Iceland, Dubai or Ukraine; even such members of the euro-zone as Greece, Portugal, Spain and Ireland are under pressure. Nor is any end to the downward spiral in view for 2011. Brief periods of recovery notwithstanding - these also occurred during the Depression eighty years ago - the crisis will be with us for years to come.

With this lesson material, we want to draw your attention to a dimension of the crisis which is all too easily forgotten in light of our own worries: its effects on the developing countries. With these materials, we would like to invite you to make this aspect a topic of instruction, and particularly to assume the perspectives of the developing countries.

For us, the organizations which have compiled this material, the crisis remains an important issue, because its economic and social effects will be felt in Africa, Asia and Latin America for years to come. The poor are suffering from reductions in state expenditures and from the loss of jobs during the period of world-wide economic stagnation. The crisis boosted the number of those suffering from hunger by over 100 million in 2009. Their struggle for survival should give cause to ask again and again who and what caused the crash and how a repetition can be prevented.

The financial crisis has various causes and the effects on the economies of emerging and developing countries are also differentiated and contradictory. The goal therefore is necessarily to contribute towards an understanding of overall connections by focusing on particular aspects and areas. We also assume that you will make only selective use of the materials provided here. The individual worksheets and copy masters are therefore structured in such a way that each can also be used on its own.

These materials are oriented towards competencies (see the Competencies Grid, page 3), so as to support the acquisition of knowledge and skills which are important not only for this subject, in accordance with the Cross-Curricular Framework for Global Development Education, adopted in 2007 by the Standing Conference of German federal and state Ministers of Education and Cultural Affairs, and the Federal Ministry for Economic Cooperation and Development. The self-interview sheet (M0) may be useful in ascertaining the growth in competencies achieved with these materials.

Our primary intent is that this material support your teaching work. We hope the worksheets provided will be useful for this purpose, and that our Factsheet will help you quickly orient yourself to the contents. In addition, numerous notes and links will provide an opportunity to achieve deeper understanding of particular aspects. We appreciate your willingness to address the financial and economic crisis in your lessons - a difficult challenge, both for teachers and pupils (see M12).

Klaus Seitz
Bread for the World

Georg Wiesmaier
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# Competencies Grid

**Target group: Classes 11 -13**

<table>
<thead>
<tr>
<th>Recognition</th>
<th>Core competencies (cf. Cross-Curricular Framework for Global Development)</th>
<th>Specific competencies (topic-related)</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td><strong>K1: Analysis of global change</strong></td>
<td></td>
</tr>
<tr>
<td></td>
<td>Pupils can subject globalization and development processes to qualified analysis, applying the guiding principle of sustainable development.</td>
<td><strong>K1.1.</strong> Pupils can analyze and describe some of the causes and concrete effects of the financial and economic crisis on the global financial markets, on the real economies of the “developing countries”, and on the life situation of the people, and their implications for sustainable development</td>
</tr>
<tr>
<td>Evaluation</td>
<td><strong>K2: Critical reflection and taking a position</strong></td>
<td></td>
</tr>
<tr>
<td></td>
<td>Pupils can form opinions after critical reflection on globalization and development issues, informed by the international consensus on human rights.</td>
<td><strong>K2.1.</strong> Pupils can comment critically on the development policy effects of the financial crisis, and identify undesirable developments and responsibilities</td>
</tr>
<tr>
<td>Action</td>
<td><strong>K3: Solidarity and sharing responsibility</strong></td>
<td></td>
</tr>
<tr>
<td></td>
<td>Pupils can recognize areas of co-responsibility for humankind and the environment, and take up the challenge.</td>
<td><strong>K.3.1:</strong> The pupils become familiar with approaches to a new international financial and economic system, and can describe political and personal fields of action which could promote such a new order.</td>
</tr>
<tr>
<td></td>
<td><strong>K4: Ability to act within global change</strong></td>
<td></td>
</tr>
<tr>
<td></td>
<td>Pupils can act in times of global change … through openness and the willingness to innovate as well as through a reasonable reduction of complexity, and are able to withstand the uncertainty of open situations.</td>
<td><strong>K4.1:</strong> The pupils can reflect on the range of a political and personal influence on global structures, and recognize possibilities for their own contribution to political change.</td>
</tr>
</tbody>
</table>

The “Competencies” are taken from the German Cross-Curricular Framework for Global Development Education (2007; see above, pp. 60-1). The Cross-Curricular Framework is useful for the development of curricula and school programmes, and can be obtained online: [http://www.globaleslernen.de/coremedia/generator/ewik/de/Downloads/Dokumente/Orientierungsrahmen_20f_C3_BC_r_20Globales_20Lernen_20-__20englisch.pdf](http://www.globaleslernen.de/coremedia/generator/ewik/de/Downloads/Dokumente/Orientierungsrahmen_20f_C3_BC_r_20Globales_20Lernen_20-__20englisch.pdf)
1. Financial cystitis

The financial crisis is a symptom of the widespread expectation of the ability to permanently reap profits without producing any real added value. This illusion is based on a financial sector which has been dramatically transformed over the course of the past decades by radical technological change, globalization and state deregulation. While the banks were traditionally subordinate to and in the service of the real economy, as providers of mechanisms for payment transactions and of loans for businesses and for state budgets, this relationship has gradually been reversed. The financial markets have broken loose from the real economy, and become the dominant economic sector. This is apparent just from the quantitative dimensions: for instance, prior to the crash of 2008, the volume of credit derivatives, the notorious “toxic assets”, was $596 trillion, while global GDP in 2008 amounted to $62 trillion, or only 10.2% of this trading volume.

However, this dominant position can be seen not only from quantitative indicators. The expected profits of the financial community have become a standard for industry and major service providers as well. Profit maximization at all costs – so-called “shareholder value” orientation – have come to overshadow such other business goals as innovation, long-term market trends and the creation of jobs. Extremely short-term thinking has increasingly taken hold of the entire economy.

On top of that came numerous “innovative financial products”, the common denominator of which was the use of price differences from changes in the value of assets of all kinds – stocks, bonds, derivatives, foreign exchange, etc. – instead of sustainable added value, as the means for making a profit. Speculation – known officially as investment – became the main business model. Huge sums were invested to reinforce leverage; the risks increased accordingly. Corporate financing, especially for large corporate groups, shifted ever further away from traditional credit, and towards the financial markets, creating great dependence on that industry.

As the crisis has shown us, this dependence has even taken hold of entire countries. The major players of the financial industry are “too big to fail”, for their bankruptcy could drive even an economy the size of the USA into the abyss – and, by chain reaction, the rest of the world economy along with it. Systemic instability,
lack of transparency and the complexity of the global financial system had reached such dimensions that they were no longer controllable. The growth of the financial sector contributed greatly to a bottom-up redistribution of wealth, and a shift of wealth from the public to the private sector. All in all, a new type of financial system, known to finance economists as “finanzialization”, to others as “finance capitalism”, has emerged over the past three decades. As French President Nicolas Sarkozy put it: “I would like to state clearly that [financial global-ization] gave rise to a world in which everything was given to financial capital and almost nothing to labour, in which the entrepreneur gave way to the speculator, in which those who lived on unearned income left the workers far behind, in which the use of leverage, to an unreasonably disproportionate extent, created a form of capitalism in which taking risks with other people’s money was the norm, allowing quick and easy profits. but all too often without creating either prosperity or jobs.
http://www.cfr.org/publication/21346/sarkozys_speech_at_the_world_economic_forum_january_2010.html

This “financial bubble economy” is now in crisis, a systemic crisis, in which not only certain elements – hedge funds, credit derivatives or such very speculative pract-ices as naked short selling – are the problem. Rather, the interactions of these various parts in the “free play” of financial markets no longer subject to any politi-cal, and hence any democratic, control, is what has caused the melt-down. The claim that markets are efficient and regulate themselves best has been proven wrong.
The hope, widespread soon after the collapse of Lehmann Brothers, that the worst had passed and things would soon take a turn for the better again, proved to be misplaced; instead, the crisis has entered a new stage. With the crisis of Greece and the euro, a problem that is often too little regarded has been revealed – and has shown once again that the international financial markets have become a power which can challenge even such economically powerful regions as the euro zone, and hence Germany and France.

It is now the state, and thus the taxpayers, who are leaping into the breach to prevent the crash of the financial sector from causing a complete collapse of the real economy. Some $2 to 3 trillion in stimulus packages were pumped into the ec-onomy worldwide to counteract the economic slump. Government guarantees saved banks from collapse, or became the basis for partial nationalizations. In Germany, the federal government considered the rescue just of the “systemically relevant” bank Hypo Real Estate to be worth €140 billion. The central banks are lowering interest rates drastically, and pumping liquidity into the money economy. At this stage, the question as to the role and responsibility of the actors arises. Banks and private investors have profited from enormous dividends for years. While the profits were privatized all this time, the rescue and stimulus packages, and the resulting indebtedness of the public sector, mean that we are now witness-ing a socialization of the losses. At the same time, gigantic bonus payments are still being paid in many institutions. The $20 billion in bonuses paid at Goldmann & Sachs in 2009 show there has been no realization of where a system is going which purposefully uses the human vice of greed as an economic incentive system in or-der to enable profit maximization.
Lessons from the financial crisis (by Nobel Laureate Joseph Stiglitz)
1. Markets do not correct themselves. They must therefore be adequately regulated.
2. The banks’ incentive system rewards risky practices and leads to seriously undesirable developments.
3. Keynesian policies, which use state incentives to revitalize flagging business cycles, cannot prevent a complete collapse.
4. The monetary policy of the central banks should focus not only on the possible dangers of the inflation of consumer prices, but also those of the prices of financial assets.
5. Many new financial products are highly risky, and have no social or economic utility; they should therefore be abolished, or at least strictly regulated.

References to useful links and materials
- The state Offices for Political Education list information and web pages on the financial crisis: [www.politische-bildung.de/finanzkrise.html][German only]
- A foil presentation by Team Global suitable for upper school teaching gives a chronology of the financial and economic crisis; available for download ([www.bpb.de/files/7_RNVRC.pdf][German]
- Also available for download is the animated foil presentation by WEED: The financial crisis, causes, backgrounds, alternatives ([www.bpb.de/files/7RNVRC.pdf][German only]
- WEED’s booklet Nur ein Kollateralschaden? Die Finanzkrise – Ursachen, Hintergründe, Alternati-ven (Only collateral damage? The financial crisis and the developing countries) provides an introduction and a summary of the effects of the crisis on developing countries; 56 pp. [www.weed-online.org/themen/3978605.html]; for WEED material in English on the financial crisis, see [www.weed-online.org/themen/english/4108161.html](www.weed-online.org/themen/english/4108161.html).
- Suitable for upper school classes is a colour poster “The international financial system has failed”, size DIN A1, which presents the causes of the financial and educational crisis for discussion.
  Order from info@woek.de [in German]
- The magazine Global Lernen (Global Learning) from Bread for the World gives brief teaching tips on the financial crisis [www.brot-fuer-die-welt.de/youth index_2602_DEU_HTML.php](www.brot-fuer-die-welt.de/youth index_2602_DEU_HTML.php) for material in English, see [www.brot-fuer-die-welt.de/english/index_3416_ENG_HTML.php](www.brot-fuer-die-welt.de/english/index_3416_ENG_HTML.php)
- The December 2009 issue of the Journal of the NGO Education for Sustainable Development (GDI) focuses on the international financial crisis [www.bne-portal.de][German only].
- An interesting input for upper school pupils is the Youtube piece “The true causes of the financial crisis are being covered up” (7 min.).
- A detailed, albeit somewhat simple analysis of the financial and economic crisis and its effects on “developing countries”, the poor and women is available from Social Watch Germany’s 2009 report Berlin 2009, 72 pp. The document by nine development organizations is available as a download free of charge ([www.social-watch.de][German only].
- Nobel prize winner Joseph Stiglitz analyzes the role of the so frowned on state at the mastering of the crisis and describes the teachings to be drawn from him concisely. [German only] [www.sueddeutsche.de/wirtschaft/641/498927/text/] for articles in English by Stiglitz, see www.josephstiglitz.com/.
- “Großbanken müssen zerschlagen werden” (Big banks must be broken up). Süddeutsche Zei-tung, Oct. 21, 2009 ([www.sueddeutsche.de/finance/463/491826/][German only].
- A WIFO study addresses the huge gap between real economic investments and turnover on the financial markets; the summary is suitable for classroom discussion: [www.boeckler-boxen.de/images/impuls_2008_16_3.pdf][German only]
- The necessity and logic of a finance transactions tax are shown in compact form on the German Confederation of Trade Unions (DGB) page [www.dgb.de./2010/02/akut_finanztransaktionssteuer.pdf](www.dgb.de./2010/02/akut_finanztransaktionssteuer.pdf)
2. Effects of the financial crisis on the developing countries

The disruptions of the financial sector affect not only the actors and countries immediately involved, but also the world economy as a whole. This has in turn hit the poor countries, whose development progress has now also suffered a setback. In the “emerging nations” too, the financial crisis led to plummeting share prices, devaluation of foreign exchange holdings, and, in some cases too, write-offs of bad loans. That impact struck Mexico, Indonesia and South Africa most strongly, while China, Brazil, Thailand and India were affected to a lesser extent. In these emerging nations, the infection spread partially as a result of their integration into the international financial system – an integration which is, however, only partial. One reason for this is that the financial markets of these nations are predominantly traditionally oriented, i.e., towards providing services for the real economy. Some moreover, especially India and China, have joined in the decontrol of the financial markets of the last two decades only very selectively or not at all. What was often decried as protectionism has now, in the crisis, proved to be a blessing. Still others had intensified their regulatory regimes after the Asian economic crisis of 1997-’98, for example by re-imposing controls on the capital transactions. Most emerging nations have introduced stimulus packages to counteract the slump, with China’s reaching the gigantic sum of $400 billion. In addition, China, by the purchase of U.S. government bonds, saved the dollar – and thus also its own foreign exchange reserves – from ruin. The emerging nations are now showing positive growth rates again, with China’s even back in the double digits.

Things look different for the poorer developing countries, which are hardly integrated into the global financial system at all. Their banking systems are weak and not lucrative enough for the global players of the industry. Yet they have been pulled into the whirlpool of the crisis in a roundabout way – via the global recession of the real economy. Under the conditions of globalization, it is no longer possible to quarantine, as it were, an economic infection and isolate it from the rest of the world.

For the first time since 1945, the world’s GDP and the volume of world trade dropped. The decline in trade was also the main transmission path for the crisis. After having achieved quite high growth rates since 2003, many raw materials exporting countries, especially in Africa, saw a collapse once the crisis hit, which brought with it a drop in commodity prices, so that trade shrank not only in terms of volume, but also in value. The volume of foreign investments too declined considerably, from $621 billion in 2008 to $406 billion in 2009, or by more than one third.

Private-sector financial flows dropped by almost half. Part of that involves speculative investment, e.g. the so-called carry trade – the use of interest differences between low and high interest countries. That drop is not necessarily a disadvantage in the long run in terms of development policy, even if the abrupt withdrawal of this capital has negative effects. However, the private transfers also include the influx of loans. The recession makes the access to credit more difficult and more expensive for developing countries. That and the general costs of the crisis increase the risk of a renewed wave of indebtedness for the poor countries.

A major asset for many poor countries are remittances by labour migrants, amounting to $338 billion in 2008, three times the total of “official development
assistance” (ODA; often called “foreign aid”) from all the industrial countries. In countries like Bangladesh and Honduras, these financial flows account for a large share of gross national income (GNI); they dropped by 6% in 2009.

Finally, ODA too is under pressure. The rates of increase necessary to meet the Millennium Goals (0.7% of the GNI of donor countries by 2015) have been missed. Thus, at the G8 Summit in Gleneagles in 2005, sub-Saharan Africa was promised a doubling to $50 billion by 2010. Of that, only $37 billion will be forthcoming (see Table p. 14).

<table>
<thead>
<tr>
<th>Economic development 2007 to 2010</th>
<th>2007</th>
<th>2008</th>
<th>2009</th>
<th>2010</th>
</tr>
</thead>
<tbody>
<tr>
<td>Economic growth, world</td>
<td>+3.9%</td>
<td>+1.7%</td>
<td>-2.2%</td>
<td>+2.7%</td>
</tr>
<tr>
<td>Economic growth, “developing countries”</td>
<td>+8.1%</td>
<td>+5.6%</td>
<td>+1.2%</td>
<td>+5.2%</td>
</tr>
<tr>
<td>Economic growth, Africa south of the Sahara</td>
<td>6.5%</td>
<td>5.1%</td>
<td>1.1%</td>
<td>3.8%</td>
</tr>
<tr>
<td>World trade, growth</td>
<td>+7.2%</td>
<td>+3.0%</td>
<td>-14.4%</td>
<td>+4.3%</td>
</tr>
<tr>
<td>Foreign investment in “developing countries” (in $ billion)</td>
<td>1.247</td>
<td>840</td>
<td>385</td>
<td>-</td>
</tr>
<tr>
<td>Private capital inflow to developing countries (in $ billion)</td>
<td>1.143</td>
<td>707</td>
<td>348</td>
<td>517</td>
</tr>
</tbody>
</table>

**Additional financial needs of developing countries** due to income drops caused by the financial crisis: **$1 trillion**


Although there was another increase in overall ODA of 0.1%, from 0.30 in 2008 to 0.31% in 2009, payments by the EU countries have now already dropped considerably, by 0.7%. There were reductions in Germany of 12%, Italy and Austria of 31% and Ireland of 19%. Canada too has cut its payment by 9%, and Japan by 11%. Only thanks to strong increases by the big donors France (+17%) and Great Britain (+15%) did the overall rate increase by $823 million (+0.7%). Since the crisis is not yet over, this trend is unlikely to change before 2015. It is already foreseeable that it will not be possible to more than double total ODA by 2015, which would be necessary to fulfil the Millennium Goals.

The economic problems have **negative effects on the social situation** in many developing countries. Even if economic growth is not the same thing as social development, the conclusion is inevitable that long-term poverty reduction will require, as a necessary albeit not a sufficient condition, sustained economic growth in the “Third World countries”. A weak world economy, the collapse of world trade and extreme price fluctuations for many raw materials, including food, are however causing enormous economic stress for developing countries and reducing their options in the struggle against poverty. The World Bank predicts that the economic parameters for the developing countries will see an upturn again after 2010. However, even this means that some time will be needed to reach even the pre-crisis level again. Thus, even an optimistic scenario means the crisis has brought these countries three to five lost years.

The poor are even harder hit. They are more vulnerable to “external shocks”; for them, unemployment and lower income immediately threaten their livelihoods. In addition, the already meagre state funding of such basic social services as

### Food Speculation

Farmers have always been able to use so-called futures to sell their harvests early. Quantities, prices and delivery dates can be fixed even while the ears are still on the stalks, which lets both farmers and grain merchants hedge against bad weather and large price fluctuations. Now however, speculators too are using this instrument: they may buy bills of sale, say for wheat, cheap, and bet on a price rise. If the demand for these futures is strong, other market participants see it as a signal that prices will indeed rise, and they too then get into the market, giving rise to a self-fulfilling prophecy. If the grain is then in fact more expensive on the agreed delivery date, the speculators cash in.
health and education are cut back in times of crisis. The World Bank estimates that the governments of developing countries cut their state expenditures for health and education by $11.6 billion from 2008 to 2009. This has an immediate impact on those sections of the population which are dependent on these services.

One per cent less growth means one per cent higher infant mortality, according to UNICEF, the United Nations children’s relief organization. The World Bank has examined and summed up the social results of the financial and economic crisis: “Preliminary estimates for 2009 to 2015 forecast that an average 200,000 to 400,000 more children a year, a total of 1.4 to 2.8 million, may die if the crisis persists,” http://web.worldbank.org/WBSITE/EXTERNAL/NEWS/0,,contentMDK:22067892~pagePK:64257043~piPK:437376~theSitePK:4607,00.html;”(World Bank 2009). That however would call the long-term development goals into question

The food crisis too must be addressed in this context. As an immediate result of the financial crisis, according to the World Bank, the number of hungry people rose by approx. 100 million people in 2009, to around one billion. One important factor is speculation in food, including such important staple foodstuffs as rice, maize, grains and oil. A rapid increase in prices began in 2007, resulting in a doubling by July 2008. If the price of the daily ration of rice in Haiti increases from 30 to 60 cents within six months, the result is that thousands will go hungry. There have been food uprisings in 30 countries. What had happened? Because of the crisis, hedge funds and other institutional investors moved out of their traditional markets and sought new investment possibilities. They discovered commodities, including food, and bought futures massively. That resulted in a price bubble.

When the crisis finally led to a drop in demand for commodities, the bubble burst, and food prices dropped by half again. Among the poor in the countries of the global south, the speculators’ sally into the food market left a trail of starvation, misery and sorrow, ruined lives and permanent damage to the health of millions of children.

References to useful links and materials

- For an overview of teaching materials on the financial crisis and secondary literature on the impacts on development policy, see the Globales Lernen newsletter archive. www.globaleslernen.de
- The results of the crisis for the developing countries are examined in detail in a dossier in Le Monde diplomatique (German: www.monde-diplomatique.de/pm/.dossier/finanzen.id, 200909110211; English: http://mondediplo.com), incl. an article by Joseph Stiglitz also published in the Nation, July 13, 2009 www.thenation.com/article/global-recovery-global-recession.
- The Overseas Development Institute ODI addresses the economic changes caused by the crisis in some African countries (as of: February 2010) www.odi.org.uk/resources/.
- For the social impact of the financial crisis, see The Global Financial Crisis: Assessing Vulnerability for Women and Children (World Bank 2009; google and download).
- For the indebtedness situation of the LDCs in the wake of the financial crisis, see Schuldenreport 2010 (Debt report 2010), www.erlassjahr.de (as of: February 2010); the British sister organization is the Jubilee Debt Campaign, www.jubileedebtcampaign.org.uk/
3. Effects

Which conclusions can then be drawn from the financial and economic crisis? Shortly after the outbreak of the crisis, it was the conviction of almost all governments that the financial markets would have to be regulated more strongly. As then-German Finance Minister Peer Steinbrück put it, “No financial product, no financial market player and no single financial market may remain unregulated and unsupervised.”

Today, some two years later, the balance sheets of reform are disappointing. Changes are being implemented only slowly, and the danger exists that the casino system is to continue, with a few restrictions. Some banks and investment companies are once again showing good profits – and precisely in the areas which had led to the emergence of the finance bubble and ultimately to the melt-down. Even the German federal government is complaining about the slow progress of reform. At the press conference after the German-French summit of June 14, 2010, German Chancellor Angela Merkel said: “We are not yet satisfied with what has been achieved since the first G20 meeting. We believe that regulation must be pushed forward vigorously.”

One basic dilemma that has emerged is that reforms within the framework of nation-states can achieve no effect whatever, except to some extent in the case of the biggest player, the USA. In all other cases, multilateral agreements are necessary. Negotiations therefore take place to different topics at different levels, including the G20, the G7, the International Monetary Fund, the level, the euro-zone and the Basel Committee on Banking Supervision, to name only the most important ones. That however makes a difficult and lengthy process of agreement inevitable. In the EU for example, the followed issues are currently being negotiated:

- The Directive on Hedge Funds and Private Equity find (so-called “locusts”), Directive on Alternative Investment Fund Managers
- The Directive on Derivatives
- The regulation of rating agencies
- The creation of European supervisory authorities for banks, funds and insurance companies.

In addition, a Europe-wide responsibility fee is to be imposed, with which the banks are to be forced to help pay for their rescue packages. Moreover, the EU will adopt the proposals of the Basel Committee on Banking Supervision, which provide for strict requirements for maintaining capital buffers.

In all these plans, there are still many details which are yet unresolved and the objects of controversies, and there is also intense pressure from the financial lobby. Currently (July 2010) therefore, it is not possible to foresee what the ultimate results will be.

Reforms in the interest of developing countries

For the developing countries, all reforms which increase the stability and crisis-resilience of the international financial system are advantageous. Development needs a stable and dependable environment.

Moreover, there are development-specific reforms tailored to the needs of the Global South. These include, first, greater say in the multilateral institutions concerned with
finance. That means that the group of the poor countries must be represented in the G20 as well, and that a voting reform at the IMF and the World Bank must give them adequate influence. To avoid crisis-induced over-indebtedness, access to fresh capital as unconditioned financial aid must be guaranteed for the group of the poorest countries. As insurance of last resort against debt crises, there should be a right to national bankruptcy – similar to the bankruptcy laws which nations provide for businesses and private households, so as to enable well-ordered debt relief, while sheltering vulnerable groups. And as a “firewall” against infection, developing countries should be allowed to introduce controls over capital transactions without sanctions from the IMF or other institutions.

**Tax evasion and illegal capital exports** have reached gigantic proportions worldwide, and are greatly weakening the nation-states’ scope of action. For developing countries, this is a particularly serious problem. The African Union for example claims that some $22 billion are withdrawn illegally from Africa every year through capital flight – an amount equal to more than half of all the ODA that Africa receives. According to the NGO Global Financial Integrity, some $10 trillion which resourceful rich people from all imaginable countries have hidden from the taxman are stashed in such tax havens as Switzerland, the Cayman Islands, the Bahamas, the Netherlands Antilles, or Costa Rica. **Closing these tax havens** would be a first step towards more tax justice.

Finally, the Millennium Development Goals must be adequately funded and the promised increase in ODA fulfilled. Particularly in times of crisis, the existential significance of these transfers for vulnerable groups is ever greater. It is an alarming signal that German ODA declined in 2009 for the first time in a long time (see Table, p. 14).

**Which lessons should be drawn from the financial crisis?** In the context of this crisis, there is no avoiding some fundamental questions – for everything indicates that we are facing profound and radical change. The financial crisis is not the only global challenge: parallel to it, climate change is intensifying, and important raw materials are becoming scarce, with petroleum heading the list. At the same time, the international system is changing rapidly. The centuries-old dominance of Europe and its North American offshoots will be brought to an end in the foreseeable future by the rise of such new powers as China, India or Brazil. Such times of radical change also provide an opportunity for new thinking, for new concepts. In times of crises, the obsolete can more easily be changed, and new questions raised: what are the economy and the financial sector there for? In what kind of an economic system do we want to live? How much government, how much market do we need? How much independent dynamics and how much distance from the real economy do we want to grant the financial sector? How much regulation is indispensable? Comprehensive answers to these questions would certainly more than exhaust the time frame available for a school class. Nonetheless, it would be good to awaken an awareness for the fact that this crisis is about much more than the question of whether a bank’s minimum capital buffer should be fixed at nine or 11 per cent.
## ODA Development, 2008 - 2009

<table>
<thead>
<tr>
<th>Country</th>
<th>2009</th>
<th></th>
<th>2008</th>
<th></th>
<th>Change ‘08 – ‘09</th>
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<tr>
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<td>10,908</td>
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<td>607</td>
<td>0.19</td>
<td>703</td>
<td>0.21</td>
<td>618</td>
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<td>Great Britain</td>
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<td>11,500</td>
<td>0.43</td>
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<td><strong>0.31</strong></td>
<td><strong>122,296</strong></td>
<td><strong>0.30</strong></td>
<td><strong>123,119</strong></td>
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<td>Of which EU net payers</td>
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<td>70,974</td>
<td>0.43</td>
<td>70,838</td>
</tr>
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</table>

## References to useful links and materials

- For the various positions of German political parties on the regulation of the financial markets for Bundestag election in 2009, see [www.forium.de/redaktion/bundestagswahl-2009-was-versprechen-die-parteien-den-privatanlegern/1/](http://www.forium.de/redaktion/bundestagswahl-2009-was-versprechen-die-parteien-den-privatanlegern/1/) [German only].
- For a longer article of the impact and challenges of the financial crisis for development policy, see the VIDC Institute in Vienna: [www.vidc.org/index.php?id=507](http://www.vidc.org/index.php?id=507) [German only].
- For articles on the "systemic issue" and the current political discussion about the crisis, see the web sites [www.attac.org](http://www.attac.org) and [www.kapitalismuskrise.org/](http://www.kapitalismuskrise.org/) [German only].
Glossary

Bank Levy
The German federal government will introduce a bank levy in January 2011, which would mandate that financial institutions pay into a fund for 10 years, according to a graded schedule; this fund would then be used to manage crises. The annual revenue is to amount to €1.2 billion, so that over the 10 year period, €12 billion would accrue. Considering the dimensions of the rescue packages needed in the current crisis – Germany’s Commerzbank alone needed €17 billion – this is completely inadequate.

Deregulation, liberalization
Freeing the financial markets from rules and restrictions was the professed goal of the generally “neo-liberal” orientation of policy in most countries since the eighties. Financial oversight was relaxed and practices and products were authorized which have since proven to be very dangerous. Cross-border deregulation is called liberalization. It particularly refers to the free floating of exchange rates, the opening of capital markets for foreign traders, and the abolition of controls on capital transactions.

Derivatives
Derivatives are contracts derived from another, so-called “underlying”, transaction, which are tradable as securities. The most widespread derivatives are futures, which allow a producer of agricultural products to secure a fixed sales price for purchase at a future time, such as after the harvest; this is a hedge against future price fluctuations. The futures dealer assumes the price risk. Other important basic types of derivatives are options (basically a future, but without a mandatory maturity date), swaps (switching one derivative for another, e.g. commodities futures for currency futures) and loan syndications (transformation of a loan into a tradable security). Originally, derivatives were a kind of insurance. However, they were used in an ever more complex manner, and increasingly for speculative transactions. The volume exploded into the trillions, and at the time the crisis hit, it amounted to several times the global domestic product. Credit default swaps, in which insurance policies against credit failure are traded, have been known since the melt-down as “toxic assets”; they were one of its main triggers.

Financial Transaction Tax (FTT)
The FTT is conceived as a minimal tax – some 0.05% to 0.1% is the usual level under discussion – on the purchase and sale of all types of financial assets (shares, loans, derivatives, foreign exchange). This would make short-term speculation which seeks to make use of minimal price fluctuations unprofitable. Such transactions would then cease, and the speculation and instability of the markets would be reduced. The German federal government is now favourable to an FTT, provided it is established internationally, or at least within the Eurozone. France, Austria, Belgium and Greece have also voiced their support for an FTT; the USA and Great Britain have rejected the idea, however (as of June 2010).

Real economy
The real economy is essentially the term covering the production and delivery of goods and services – in other words, all economic activity other than the financial or monetary sector.

Subprime
Mortgages issued to customers despite their weak credit standing (credit-worthiness) are known as “subprime”. During the five years prior to the crisis, the subprime market grew very strongly in the USA. Even persons receiving welfare aid and other underprivileged groups got such loans at apparently very favourable terms. However, after one or two years, the really tough stipulations came into effect, and the debtors fell into a debt trap. Since this involved millions of cases, the subprime crisis became a trigger for the
financial crisis.

**Loan syndication**
Loan syndication is a means for turning claims – e.g. instruments of indebtedness or loans – into tradable securities. The original credit risk of the bank can thus be transferred out. However, that obviates the connection between bank borrowing and bank lending; it disappears behind an incomprehensible and non-transparent chain of transactions.

**Added value**
Added value describes the increase in monetary value that is created by economic activity – the input-output relationship. Added value can be accomplished by productivity improvements and technological progress, but also by improved sales proceeds, demand expansion or savings on the advance performance side.
Suggestions for the Teaching Process

In the following are some suggestions regarding each of the worksheets. We assume that you will use the materials only selectively. The worksheets should thus be used separately and independently. For a rough orientation regarding the facts of the financial and economic crisis, we recommend our “Factsheet” (L1): the links and references to materials should also help. The lesson materials are oriented towards competencies (cf. the Competency Grid). We present the respective competencies below once again.

All materials pages contain work tasks to be accomplished by individual pupils or by small groups.

M0 Competency self-test
The “self-test” is intended for the pupils, to permit them to assess themselves in terms of their knowledge of the international financial and economic crisis, and its implications concerning development policy.

The self-test should be filled out at the beginning and at the end of the teaching unit. The before-after differences between the self-assessments of competencies indicate the growth in competency achieved.

Certainly, the financial and economic crisis has many different causes, and still more financial-economic, real-economic and social effects. Therefore, the lesson plan must limit itself to elucidating a few key areas of the topic, with no claim to completeness, and enable deeper understanding.

The model of sustainable development (M1), formulated in the international community in 1992 as a common objective, could initially provide a certain political and normative orientation. It might also move pupils to take note again of the continued existence of a crisis which is still not felt by most people, at least in Germany (M2). An important factor for comprehension of what has happened in the financial markets is an understanding of the paths on which billions in speculative profits can be achieved without any real economic added value (M3). Such profits may be pleasant for those who get them, but they have serious implications for the economic and social development in certain countries (M4). Concretely, this might mean that because of the downturn due to the world economic crisis and dropping commodity prices, many thousands of people in Zambia may lose their jobs (M5).

M1 The model of sustainable development
In 1992, the countries of the world agreed to pursue “sustainable development”. They did so with the knowledge that the four dimensions of the model specified potentially conflicting goals, and that it would be necessary to make concrete decisions depending on the situation and point of departure as to what would best accord with sustainable development (SD). The answers are often different in rich countries than in developing countries. Unlike other SD models based on a triangle of economic, ecological and social dimensions, ours adds a fourth dimension, that of “good governance”, which is also of key importance for achieving sustainable development.

The concept of SD has a wide, almost inflationary, range of uses. Numerous definitions exist. The Rio Declaration of 1992 speaks of development which meet[s]...
developmental and environmental needs of present and future generations” (Principle 3). What exactly that means must continually be decided anew in each context, and in view of clear conflicts of goals. In Germany, such disputes are primarily evident between the economic and the ecological dimensions; climate protection vs. meat consumption, brown coal open-cast mining in such places as Garzweiler vs. conservation of nature, life-span extension for nuclear power stations vs. termination of this technology because of the lack of any permanent disposal site for nuclear wastes. In the “Third World”, other conflicting goals are often central: should DDT be reintroduced as an insecticide, because it is the most effective means for fighting malaria, despite the health dangers it brings with it? Should expanded export earnings from such crops as sugar cane be sought by means of the expulsion of small farmers? Should the poor gather firewood, thus clearing out the last trees and bushes?

It is important to recognize these conflicting goals, and to understand that unilateral maxims seldom do justice to economic, ecological, social and political reality.

**M2 What financial crisis?**
The worksheet points out the fact that the financial and economic crisis can easily escape our perception, and in Germany seems to most people to be a thing of the past. Our view should be directed towards the developing countries and the poor – the almost invisible victims of the crisis.

We read headlines in the press almost daily about events or developments which are at least indirectly connected with the financial and economic crisis. The worksheet lists eight such headlines: *Unemployment* (A) rose only briefly due to the financial crisis, and was kept manageable by means of the short-time work regulation; Germany’s Expenditures on *Education* (B) are still relatively low compared with other OECD countries, which has long been apparent, not only since the crisis; the worldwide increase in *Hunger* (C) can be explained by increased grain prices, which are influenced by a number of factors, including speculation; dropping domestic *Auto Sales* figures (D) in 2010 are certainly also the result of the “cash-for-clunkers” premiums paid out in 2009, and thus indirectly a result of the crisis; however, they have also been caused by a structural excess in production; continued *Bonus Payments* (E) to managers, even those of such insolvent companies as the German retailer Karstadt-Quelle, or those rescued by government money, highlight that the mistaken incentives which bonuses provide have still not been abolished; increased German *Armaments Exports* (F) can hardly be considered the result of the crisis; the demand on the Chinese government to *Revalue* (G) the exchange rate of the yuan/renminbi to the dollar to a more realistic level it has been on the table for some time, and has gained in urgency during the crisis (weak dollar – weak yuan – good Chinese exports); the fact that Germany’s larger ruling party, the CDU, sees a major *Tax Reform and Reduction* (H) as unrealistic is the result of the financial crisis, which has led to a rapid increase in public indebtedness.

Of course, you can update the assignment to check business and politics headlines for crisis references: assign small groups to evaluate newspapers of the current week.
M3 How to make money at the casino
The worksheet presents six different ways to make millions through speculative transactions on the financial markets, with no added value being produced. The purpose of M3 is to elucidate this faulty design of the unbridled financial markets (“casino capitalism”). Each small group is asked to present one of these forms of speculative transaction to the class, with critical assessments in the class discussion desired.

M4 Effects of the financial crisis on...
The worksheet calls on individual pupils, or better yet, small groups, to undertake independent research. The assignment is to closely examine the economic and social effects of the financial crisis on a certain country, to be determined jointly. It would be desirable to have industrial countries, emerging nations (e.g. China, India, Brazil), and also “poor countries” (such as most African countries) considered equally.

It will not be possible in all cases to find answers to all the question complexes on the worksheet. However, the results, each compiled on one page, should at least provide a rough picture of the effects of the crisis, so as to enable cautious observations and conclusions.

M5 “I accuse”
The worksheet asks for empathy with a Zambian miner who, due to the crisis and the falling demand for copper, has lost his job – along with 10,000 of the 30,000 Zambian copper mine workers. The pupils should place themselves in his situation of rage and helplessness, and take a position in the “I” form.

The assignment shows the difficulty of “accusing” an anonymous crisis. Systemic compulsions and dependences often seem to leave little individual room for economic decisions, and thus raise the systemic question: what responsibility is there to maintain an economic system which victimizes those who bear no blame for the crisis?

Beyond awareness of certain effects of the crisis, pupils are also called upon to take a critical position on these developments. The worksheet M6 provides a number of rows of figures, the relations of which are to be commented upon critically. The same applies to a detailed description of the effects of the crisis on Africa (M7). Here, one might be also possible to proceed further still, for example to address other important actors who bear a share of the responsibility for the crisis and its effects: national governments of “low income countries”, which often do not use their potentials to move towards poverty alleviation, and instead enrich themselves, for example through flight of capital; the IMF, which failed to recognize the threats to the international financial system in time, and to design adequate counter-strategies, or non-governmental organizations concerning developmental policy, which have hitherto tended to overlook the financial markets.

K.2.1 The pupils can comment critically on the effects of the financial crisis on development, and identify undesirable developments and responsibilities.
**M6 Numbers games**

The scope of economic distortion becomes apparent through comparisons between financial markets and the real economy, between bank rescue packages and expenditures for ODA or AIDS treatment. Pupils are asked to assign numbers (dollar values) to certain areas. More important than the correct assignment, which very few pupils will probably achieve in all ten categories, is the interpretation of the differences and the question as to how these dubious relationships can be changed. This should be discussed in detail in class.

<table>
<thead>
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<th>B: Foreign exchange markets</th>
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<tr>
<td>Source: BIS</td>
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<td>Source: Estimation of Global Financial Integrity</td>
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<td>J: Worldwide health expenditures</td>
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<tr>
<td>Source: Media Trial and Development Law</td>
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<td>H: Assets</td>
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<td>Source: Forbes List, 2010</td>
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<td>C: ODA (2009)</td>
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<td>Source: OECD 2010</td>
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<td>Source: Averting HIV</td>
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<td>F: School attendance</td>
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<td>Source: UNESCO</td>
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</table>

**M7 Africa and the financial and economic crisis**

This brief paper summarizes important real-economic and social effects of the crisis for Africa south of the Sahara. It can be addressed by small groups, or else assigned to a small group for a topic essay.

The special impact of the crisis on Africa is due to the fact that most countries are hardly involved at all in the international financial markets, but are on the other hand hit particularly hard by the real economic effects of the crisis. Even small growth losses have a potentially devastating potential in countries where many people live in extreme poverty. The point here is to become aware of this survival crisis.

Comprehensive or effective measures for preventing future financial crises, or for ensuring that the poor do not have to pay the bill for the financial crisis engendered by the rich, are apparent neither in the national nor in the international discussion. All we can therefore do here is to show single steps which can contribute to consolidating the financial sector, strengthening the real economy, and cushioning negative impacts on the poor. An important measure in this context would be the introduction of a financial transactions tax, its goals, and also the controversial political assessments of it, with which pupils should become familiar (M8a pro; M8b, con). Another necessary reform to be addressed involves the dynamics of the banking sector, the lending policies of which
are frequently based on dubious motives (M9). Finally, the question of the significance of tax honesty and tax justice should be raised. Contrary to the neo-liberal credo, the weakening and financial bleeding of governments also means the loss of ability to shape policy, which is all the more urgently needed in times of crisis. Tax flight is thus an extremely dubious kind of behaviour (M10). Moreover, other such topics as the function and scope of ODA, the policy of controlled financial markets in China, or debt relief for developing countries (see German: www.erlassjahr.de; English: www.jubileedebtcampaign.org.uk) could be addressed.

M8a and M8b The financial transactions tax
The demand to make speculative, economically unproductive profits less attractive by means of a tax has been around for several decades, under the term “Tobin tax”. The conclusion has grown, in the context of the financial crisis, that these speculative transactions severely endanger the stability of the financial market. After such a tax had long met with disapproval, all parties represented in the German Bundestag with the exception of the liberal FDP have now adopted the concept. The German federal government is arguing in favour of such a tax, both within the EU and at the G20. Pupils can find arguments pro and con on the worksheet. The German text of the parliamentary hearings of May 17, 2010 is accessible under www.bundestag.de.

M9 Bankers under pressure to sell
According to popular opinion, bankers and bank clerks are serious, friendly and conscientious people whom one can trust. An anonymous survey conducted by the German services labour union VerDi indicates that such a perception could be a serious misconception today. Bankers and bank clerks report of pressure to sell and of workplace controls, of rigid specifications and of the compulsion to sell somewhat dubious financial products to their customers. As in the case of bonus payments to managers, this too shows that the wrong incentives have been instituted. The topic could be deepened by a visit to the class by a labour union official who deals with the banking sector.

M10 Can saving taxes be a sin?
According to the neo-liberal Zeitgeist, paying taxes is uncool. Accordingly, those among the rich and famous who transfer their places of residence abroad for tax reasons can count on a certain amount of public sympathy. The worksheet addresses such a move made by Bono, famous not only as the singer in U2, but also for his commitment to causes in Africa. This form of tax evasion deserves to be addressed critically, since it means that money which governments need in order to run our communities is being systematically withheld from them. Tax honesty and tax justice are important prerequisites so that governments can get a grip on the crisis – and this applies to “industrialized” and “developing” countries alike.

A key problem when addressing “global topics” is always the feeling of powerlessness in view of complex world contexts upon which one has no direct influence. Especially the peculiarities of the financial crisis, in which even the terminology is unfamiliar to most of us, conveys to us a feeling of being controlled. These feelings should be picked up as a central theme in the lesson. M12 is an attempt to raise this issue. After all, we could invest our money in such a way that it is not used
for dubious speculative transactions or for non-sustainable investments. Such “ethical investment” (cf. M11) would be a small step towards demonstrating responsibility in handling money; there are a number of position papers and project descriptions on this issue. In Germany, the new Fair World Fund (www.fairworldfonds.de/fileadmin/USER/Download/Fachpublikation_Entw.pol.Kriterien_von_Brot_fuer_die_Welt_und_SUEDWIND.pdf) attaches special importance to the solidity of financial investments in terms of development policy, and therefore could be a particularly interesting source of information in this context. In Britain, see www.ethicalinvestment.org.uk. At the same time, the question as to which investments are desirable from the point of view of development policy would also be an interesting topic for deeper study in upper school classes. A detailed ethical reflection as to why financial investments should be done responsibly is provided by a recent paper by the German Conference of Catholic Bishops; it is suitable material for religion or ethics classes www.dbk.de/fileadmin/redaktion/diverse_downloads/presse/wag-br_018-ethisches_investment.pdf.

**M11 What do you want to achieve with your money?**

The worksheet presents the classic four banker’s criteria for financial investments, but adds the question as to the “sustainability” of the investment. In addition, pupils should address assessment criteria for ethical financial investments. Here too, unqualified support for such investments is less the issue than is a discussion of the question of whether one would in fact be willing to accept the possible loss of yield from this type of investment, and how the ethical criteria formulated can in fact be maintained in practice.

**M12 A Letter**

The letter at the end, which pupils should answer in writing, expresses the feelings of powerlessness in the face of global, complex and anonymous structures. The intent of the letter is to stimulate reflection of one’s own feelings and make them communicable with others.
Competency Self-Test
What do I know about the financial and economic crisis?

The financial crisis is a major issue which has been in the news for some time. The financial and economic crisis, and especially its effects on the people of the developing countries, is the topic of this teaching unit.

Please indicate by crossing in one of the two columns on the left those areas in which you already have some knowledge and competency on the topic of the financial and economic crisis, those where you do not. The intent is to permit you to arrive at a self-assessment which is as accurate as possible – only for yourself. After the end of the teaching unit, you should repeat the competency self-test to see which new competencies you have acquired; this time, use the two right-hand columns.

<table>
<thead>
<tr>
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<th>Before</th>
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<tr>
<td>1</td>
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<td>9</td>
<td>Yes</td>
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Please mark with a cross (X)
The Model of Sustainable Development

Assignments

- "Sustainable development" is a concept which is not precisely defined, and is understood and used by many different people in very different ways. Try to formulate a brief definition of the term as you understand it.
- The model described above was adopted by all countries on earth in 1992, as a common goal of international policy. What value would you attach to such a worldwide agreement?
- The model names four dimensions: the economic, the ecological, the social and the political. Numerous conflicting goals exist between these dimensions. Please give some examples of such conflicting goals, e.g. between economics and ecology, between justice and growth, etc., (a) in our society; (b) in emerging nations like China; and (c) in poor developing countries, such as Tanzania.
- Which effects could the financial crisis have on "sustainable development"? Describe possible effects on the economy or the ecology, on social justice and for the potential to move towards good governance.
What Financial Crisis?

A: Everyone is talking about the big crisis, but it hasn’t really even happened. Unemployment only has risen a little and for a short period in our country, and anyway, the German economy is doing well again now, all in all.

Note:

B: I think the real crisis is happening in the poor countries. There, children die because there is no money for clean water or vaccines. The governments have no money for them, because of lower prices for their raw materials.

Note:

C: The world seems to have somehow coped with the financial and economic crisis quite well. Worldwide, economies are growing again and world trade is up. The crisis was yesterday: today, things are looking up again worldwide.

Note:

D: What the financial crisis means will be felt by people who still know nothing about it: our children and their children. They will later have to pay off a gigantic mountain of debt, because of the debts we’ve incurred.

Note:

Please grade these statements with numbers between 1 and 6 in the column on the right.
1: I agree with the statement completely.
6: I think the statement is completely wrong.

Then justify your note.

Headlines from the business pages of German-language newspapers

<p>| | |</p>
<table>
<thead>
<tr>
<th></th>
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<tbody>
<tr>
<td>A</td>
<td>Der Standard, Vienna 25 Feb. 2010</td>
</tr>
<tr>
<td></td>
<td>Unemployment increases in Germany once again</td>
</tr>
<tr>
<td>B</td>
<td>ZEIT-Online 8 Sep. 2009</td>
</tr>
<tr>
<td></td>
<td>OECD study: Germany is stingy with expenditures for education</td>
</tr>
<tr>
<td>C</td>
<td>ZEIT-Online 12 Oct. 2009</td>
</tr>
<tr>
<td></td>
<td>Hunger was never greater</td>
</tr>
<tr>
<td>D</td>
<td>ZEIT-Online 2 March 2010</td>
</tr>
<tr>
<td></td>
<td>Car sales in Germany drop.</td>
</tr>
<tr>
<td>E</td>
<td>Handelsblatt 15 March 2010:</td>
</tr>
<tr>
<td></td>
<td>Millions in bonuses for USB investment boss</td>
</tr>
<tr>
<td>F</td>
<td>BILD-Online 15 March 2010:</td>
</tr>
<tr>
<td></td>
<td>Germany doubles export of armaments.</td>
</tr>
<tr>
<td>G</td>
<td>Financial Times Germany 14 March 2010:</td>
</tr>
<tr>
<td></td>
<td>China rejects demand to revalue the renminbi</td>
</tr>
</tbody>
</table>

Assignments

1. How do you assess the discussion of the financial and economic crisis? Please read the statements in the upper table and grade the four positions. Explain afterward why you made these decisions.

2. The seven headlines from business section describe various observations. Please explain (a) what is behind these reports; (b) what the issue discussed could have to do with the financial crisis; and (c) what further factors are significant here.
How to Make Money at the Casino

A: Your bank has made huge mortgage loans to financially strapped homeowners, who can hardly repay them. However, you succeed in selling your credit claims off by combining them and issuing them as a syndicated loan. These securities have been judged as secure and reliable by the agencies engaged to assess them, and can be sold off profitably, although they are largely based on uncollectable debts.

B: You are speculating that the US dollar will rise in value today against the Japanese yen. Therefore, you bought ¥300 million worth of dollars this morning. Two hours later, you exchange the dollars back to yen. Since the dollar rose in price against the yen by 2 cents, you have earned ¥1.8 million or €14,800. Of course such a speculative move can also go sour if the exchange rates do not develop as expected.

C: You sell Greek government bonds worth $50 million on the stock exchange, although you have not even acquired these bonds yet. At the same time, you agree on a certain future time and a certain price for this sale. This “short selling” deal earns you $1 million, since at the set date, you can in fact buy Greek bonds considerably cheaper, and then sell them at the agreed price.

D: You have heard that the grain harvest in Australia will be very lean this year, so you order 80 million tonnes of wheat on the Chicago commodities trading market. That makes the wheat supply scarcer, and the price rises, particularly since the Australians are also exporting less wheat. After two months, you sell your 80 million tonnes of grain again, and have made a fat profit of over $100 million, because the wheat price has now risen.

E: You are managing a hedge fund which has plenty of money at its disposal. You buy securities on a large scale for a certain company at the stock exchange on day X. Its shares immediately climb, because they have evidently become an attractive investment. After the price rise, you sell these shares again, betting that the share price at the time of sale will be higher than at the time of purchase. Thus, you can manipulate the stock market yourself, and make money on it.

F: Your investment company has found out that interest rates in Germany are considerably lower than in Argentina. You therefore take out a loan of €50 million in Germany, and lend it out again in Argentina, where you can collect a higher interest rate. The interest difference brings you a profit of over €1 million (“carry trade”).

Assignments for small groups:
1. Copy this page, cut it into pieces, and give each piece to a pair of pupils.
2. In each pair, have each member explain to the other how speculative profits can be achieved in the particular case. Attempt to concretely describe the possible negative effects of such speculation.
3. Make a list of these speculative practices, in the order of which you consider least acceptable, and explain why.
Write an article:
Effects of the Financial Crisis

Assignment
You are the editorial staff team of the respected weekly paper Viewpoint, and have been assigned to write a piece about the effects of the financial crisis on country X. Which country your team is to describe should be discussed with your teacher. Size: one A4 page, or 300 to 500 words. The target group: readers interested in politics who are not experts on international economic issues.
The task of writing such a piece is definitely demanding. It will especially require intensive Internet research.

The following areas are covered by the assignment:
1. What are the effects of the international financial and economic crisis on the economic growth and foreign trade, or the financial sector, of your country?
2. What has the social development since 2007 been like? Have there been changes in the areas of poverty, infant mortality or basic education?
3. Has the government spent less money on health or education since 2007?
4. What are the future prospects for the country?
5. How might a pithy headline sound?
6. Finally, compile the article on one A4 page, with a photo, if appropriate. It can be assumed that you will not be able to describe all the issues completely.

Tips for your research

- Economic prospects for the developing countries: Search word for the search engines: World Bank GEP 2010.
- Poverty trends in developing countries: Search word: UN Millennium Development Goals, Report 2009
- Statistical data for the social and economic development in particular countries: Search word: World Bank DDP data query
- Statistical overview of country-related information on poverty trends and on the fulfilment of the Millennium Goals: www.worldbank.org (Data & research > Key indicators “millennium development goals” GO > Country tables [specify country]).
- Data sheet on development aid policy: Search word: OECD DAC
- Government pages and statistical data in particular countries: Search word “[country name] government”.
“I Accuse”

The economic crisis has caused the worldwide demand for copper to decline considerably. Zambia, with major copper exports, has been particularly badly hit. Some 10,000 of its 30,000 miners have lost their jobs.

Photo: Penkoedkabundilink School, Zambia.

Assignment

This mine worker from Zambia lost his job because of the financial and economic crisis. His existence and the survival of his family are thus endangered. Now please imagine yourself in his situation. Write an indictment against those responsible for the global financial and economic crisis. Describe your situation. State why you think may be to blame – be they individuals or governments. Formulate demands. Write in the “I” form (approx. 100 words or more): “I accuse”.
### Numbers Games

<table>
<thead>
<tr>
<th></th>
<th>Value</th>
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<tbody>
<tr>
<td>A: AIDS care</td>
<td>$1,168,000,000,000,000</td>
</tr>
<tr>
<td>B: Foreign exchange market</td>
<td>$60,000,000,000,000</td>
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<tr>
<td>C: ODA</td>
<td>$11,900,000,000,000</td>
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<tr>
<td>D: Rescue packages</td>
<td>$10,000,000,000,000</td>
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<tr>
<td>E: Armament expenditures</td>
<td>$4,100,000,000,000</td>
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<tr>
<td>F: School attendance</td>
<td>$1,464,000,000,000</td>
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<tr>
<td>G: Tax flight money</td>
<td>$11,900,000,000</td>
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<tr>
<td>H: Assets</td>
<td>$342,000,000,000</td>
</tr>
<tr>
<td>I: World GDI</td>
<td>$90,000,000,000</td>
</tr>
<tr>
<td>J: Worldwide health expenditures</td>
<td>$7,000,000,000</td>
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</table>

Please enter the terms below into the left-hand column above, in the appropriate order!

- **A: AIDS care**: Global expenditures for medicine for all AIDS patients.
- **B: Foreign exchange market**: Annual turnover on the foreign exchange markets
- **C: ODA**: Annual worldwide expenditures for ODA
- **D: Rescue packages**: Global costs to rescue the financial sector (crisis, 2008-'09)
- **E: Armament expenditures**: Global annual armaments expenditures (2008)
- **F: School attendance**: Amount additionally needed to send all children to school
- **G: Tax flight money**: Tax flight money invested abroad
- **H: Assets**: Assets of the 10 richest individuals in the world
- **I: World GDI**: Value of the world’s economy (gross national income – GNI)

### Assignments for small groups

1. Consider the monetary values that these terms (A through I) represent. Then match the terms to the dollar values in the right-hand column of the table. You do not have to know the exactly correct assignment. Then ask your teacher for the correct match, and enter it onto your sheet.
2. Then write comments on the correct answers. Compare the amounts for each area. Which differences do you consider most remarkable, or perhaps outrageous or unacceptable?
3. What political possibilities and perspectives exist to change the amounts in particular areas (A through I), either up or down?
Africa and the Financial/Economic Crisis

1. What was initially a financial crisis in the rich countries now means real economic decline for most countries in Africa, and a survival crisis for the poor there.

2. Symptoms of economic decline include: Declining world trade (2009:-14.4%), falling commodity prices, reduced inflows of capital (2007: $30 billion, 2008: $21 billion, 2009: $13 billion), declining investments, reduced foreign worker remittances, etc. tourism earnings have also dropped (Kenya 2009: -20%, Namibia, Senegal, Tanzania: -17%).

3. Overall, the developing countries lack about $1 trillion as a result of the crisis, according to the World Bank, in order to continue expenditures at their previous levels. According to ODI 2010, Africa south of the Sahara (i.e., all of Africa other than the five North African nations) has suffered crisis-related growth losses amounting to $84 billion in 2010, over the figures of the previous years.

4. Economic growth was 1.1% in sub-Saharan Africa in 2009, after 5.1% in 2008 and 6.0% in 2007. This lower growth rate has also caused social impacts. Since 2008, the number of people in poverty has risen again. For 2009, the World Bank estimates an additional 50 million in “extreme poverty”, and another 50 -90 million in 2010. Moreover, the Bank estimates, some 200,000 to 400,000 children in the “Third World” will die due to poverty and hunger as a result of the crisis, many of them in Africa.

5. The “poorest countries”, and the poor within each country, are most vulnerable to the survival crisis and most affected by it. Since they lack possibilities for precaution and self-protection against hard times, they are existentially threatened by cuts in the already low state support for health or education. The governments of the “poor countries” collect considerably less tax revenue due to the crisis, and spent approx. $11.6 billion less on social services in 2009 than they had in 2008.

6. World Bank and IMF “rescue packages” do exist, but their amount has been too low so far, and they cannot compensate for the loss of private funding flows. ODA is once again threatening to break its own promises. Germany for example promised to spend 0.51% of its gross national income on ODA in 2010; the actual share was 0.38% in 2009, and in 2010, it is estimated to climb to somewhere between 0.38 and 0.40%. All in all, this development in the wake of the financial crisis makes it “near to impossible” to achieve the “Millennium Development Goals” – the promise to reduce worldwide poverty in key areas drastically by 2015, according to the world trade conference UNCTAD.

Assignments

1. Download or print out the paper. Mark statements in the margins which you consider notable (!), or about which you have questions (?)
2. Compose a statement about each section, summarizing its contents.
3. Prepare for a “visit from an expert”. That means: formulate three remarks, objections or questions in writing which you would like to address to this expert in connection with the statements made here.
The Financial Transaction Tax (FTT)

The concept of the FTT is to tax the purchase and sale of all types of financial assets – stocks, loans, derivatives, foreign exchange, etc. – at a very low rate; levels between 0.05% and 0.1% are being discussed. This would make short-term speculation, especially computer-assisted high-frequency trading, which tries to make use of minimal worldwide exchange-rate fluctuations in the range of seconds and milliseconds, unprofitable. These transactions would cease, and thus reduce speculation and instability in the markets. The German federal government supports the idea of an FTT, provided it is established internationally, or at least in the eurozone. France, Austria, Belgium and Greece have now also come out in favour of an FTT; however, as of June 2010, the USA and Great Britain reject it.

Bundestag, Plenary minutes of January 29, 2010
From the speech by MdB AXEL TROOST (Left Party)

In our motion, we call upon the Federal Government to undertake the following. First: The Federal Government shall, in such international organizations as the UN and the International Monetary Fund, in groups of countries such as the G-20 and the OECD, and in the European Union, firmly support the introduction a financial transactions tax. Second: The Federal Government shall regularly inform the parliament and the public about the progress of these negotiations. Third: While these negotiations are in progress, the Federal Government shall present a parallel bill for the introduction of a financial transactions tax in Germany. ... We know that numerous counter-arguments are constantly being raised; I would like to address two of them: First, it is claimed that such a tax would punish the innocent and the small investors. However, a close look at our motion shows that we assume that in case of solely national tax, the rate of 0.01 per cent is to be imposed. The maximum tax rate under discussion is 0.1 per cent. Second, it is said again and again that such a move would be possible only at the global level. In the past, this was surely a widespread counter-argument. Today however, that is in our view nothing but an ignorant excuse, because many investigations have now indicated that its introduction at the EU level would be feasible and functional. In addition, many countries worldwide are coming to take a positive view of the financial transactions tax, even those with major financial centres. I therefore appeal to all in this House – I appeal especially to the colleagues of the CDU, particularly to those who have repeatedly said that we need a worldwide financial transactions tax – to make use of the presently favourable situation resulting from the fact that the Prime Minister of Great Britain, Gordon Brown, has now ventured forth very far. ... The French National Assembly did the same as long ago as the autumn of 2001. Both countries – that was the discussion at that time – either already have a tax on stock exchange sales now, in the case of Belgium, or in the case of France, a President Sarkozy who is quite openly calling for a financial transactions tax. Hence my urgent appeal to the colleagues of the CDU: it is past time to free yourselves from the hammerlock of the FDP, which wants to prevent any measure whatever in this area.

Assignments
1. The financial transactions tax is controversial. What do you yourself think of the proposal to levy a minimal tax on finance transactions, so that short-term speculative transactions would be less attractive?
2. Analyze the speech of MdB Dr. Axel Troost. In what points would you support his arguments (!); where do you consider them questionable or inadequate (?)?
3. What credit do you give to the objection that a national transactions tax would endanger the position of Germany as a financial centre?
The Financial Transaction Tax

The FTT is designed to tax all financial market transactions at a very low rate; levels between 0.05% and 0.1% are being discussed. This would affect short-term speculation, especially short-term trading to make use of minimal exchange-rate fluctuations, with no value added to the real economy. These transactions would become less attractive due to the FTT. Many experts, and also governments, such as Germany and France, support the idea of an FTT and have called for its implementation, even if it could not be introduced immediately worldwide. Unlike the "Tobin tax", a financial transactions tax would affect not only foreign exchange transactions, but all types of financial transactions.

Bundestag, Plenary minutes of January 29, 2010
From the speech by MdB Dr. h.c. Hans Michelbach (CDU/CSU):

Among other things, a financial transactions tax is under discussion. In my opinion however, something like that is only conceivable internationally. Its effects would have to be intensively analyzed. It is also a fact that Germany is the engine in this matter. The IMF has received an assignment to conduct an investigation and to submit a report and an analysis of its effects to the G-20. As regards the issue which has particularly been the impulse here to introduce a new tax, such as a financial transactions tax, I have to say clearly: Mr Tobin too ultimately only wanted to tax cross-border measures. Remember: this supporter of the taxation of financial services always said: "My tax, my system will only work cross-border." ...That means what you are demanding at the national level cannot work at all. For this reason, I am very critical with regard to such a national tax. Financial market actors would have no problem shifting their transactions to other countries. For that reason, isolated national measures and new distortions of competition are really the last thing we need. ... I therefore say quite clearly: international measures are what is being considered here, not isolated national measures, such as those which you are unfortunately demanding in your motion. One thing is certain: the introduction of a financial transactions tax could only be effective if it were levied worldwide. I am convinced of that. Especially in view of the global financial markets, market participants would otherwise shift to financial centres with no financial transactions tax. The result would therefore be a weakening of our domestic financial markets. I would in conclusion like to make the offer to you that we push forward concrete objectives together, so as to avoid excesses in the future. Once again, I would like to warn against isolated national measures. Please show your willingness to move away from this proposal. National solutions are not effective enough. They must rather be coordinated internationally to be successful. Isolated German measures will not be useful, and this Federal Government will not implement them. At issue is not the question of the appropriate label, but rather how we will be able to accomplish our goals together.

Assignments
1. The financial transaction tax is controversial. What do you yourself think of the proposal to levy a minimal tax on finance transactions, so that short-term speculative transactions would be less attractive?
2. Analyze the speech by MdB Dr Hans Michelbach. In what points would you support his arguments (!); where do you consider them questionable or inadequate (?)?
3. What credit do you give to the argument that a national transactions tax would send a positive signal to other countries?
**Bankers under Pressure to Sell**

**Statements of bankers and bank clerks:**

“Everybody knows that we are long since no longer acting in the interests of the customer, but only have to unload the products of the bank, come hell or high water. No-one is making any money, apart from the bank (issue surcharges!). We consultants no longer know what all we are supposed to dish up and sell to our customers. All this is no longer normal!”

“These days, the customers’ desires are no longer important, all that counts is: how do I get enough commission from a customer; today’s bank bosses don’t give a damn whether the customer loses some of his money, or all of it. These guys are the only ones responsible for the disaster in Germany, and for that, they are royally rewarded with gratifications and bonuses.”

“I think it is very sad that we are no longer acting in the interest of the customers any more, but only see our own profit.”

“Nothing has been learned from the crisis; on the contrary, since the profits are evaporating, the pressure has become even greater. But those responsible aren’t interested, they are responsible for the crisis, but aren’t being called to account. On the contrary, they are being rewarded with millions in bonuses. The ‘little’ banker has to pay for it!”

“I work as a branch office director of a big bank: in no sense has there been any new thinking! Profit, profit, profit, come hell or high water! It doesn’t matter how or with what means. It is unbelievable that customers still go along with these lies in sales. I hope very much that there will be intensive legal regulations and fee counselling.”

**Assignments**

1. Are the incentives placed mistakenly? What is your judgement of large bonus payments to managers running into the millions, even if they have led their companies to ruin, or if rises in share price prove to be short-lived, or as pseudo-successes resulting from manipulations at the end of a quarter? Write a concise statement of 50 words or less.

2. Many bankers and bank clerks complain about the compulsions to which they are subject. What is your judgement of the “success” of a consultant who has proven able to talk to old people into taking out a loan contract on a 20 years’ term.

3. Invite a union representative responsible for the banking area to your school for a talk, or research for more information about it on the Internet.
Can Saving Taxes Be a Sin?

The Hague. Bono, the Irish fighter for a better world who is known for his commitment to Africa, is engaged in the practice known to bankers and financial wizards as “Holland routing”, so as to keep from having to pay taxes. The Irish rock band, under the name U2 Ltd., has its corporate seat in Amsterdam. The reason: Bono and U2 want to save taxes. A lot of taxes. They are on the run from the Irish treasury, which taxes the incomes, and recently also the royalties, of artists. So, thought, Bono & Co., let’s head for Amsterdam. For here in the Dutch capital there is no tax on royalties. Bono and U2 save millions of Euros. So U2 had to fork over only €280,000 in taxes to the Dutch treasury for 2007, although the probably most successful rock band in the world had reported earnings of some €25 million in the Netherlands last year, as entries for U2 Ltd. at the Amsterdam Board of Trade indicate. The fact that Bono is now on display as a tax refugee, has confused and annoyed many U2 fans, and of course, too, the Irish treasury, since its revenues, due of the severe world economic crisis which has struck Ireland especial hard, have dried up.... However, Bono claims, his tax evasion in Ireland has nothing to do with his commitment to the poor of the world.

Assignments
1. Bono and his group U2 want to save taxes. Is that reproachable? Is there any difference in your judgement of a case where small earners cheat on their income tax statements, and when millionaires transfer their residences abroad?
2. Is there an inconsistency between Bono’s work for Africa and his tax behaviour?
3. Franz Beckenbauer has moved to Switzerland and Michael Schumacher to Austria. Write a 200 word essay in which you either explain your acceptance for such a decision, or justify the opinion that such behaviour is antisocial.
What do you Want to Achieve with your Money?

<table>
<thead>
<tr>
<th>Criteria for the choice of a financial investment:</th>
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<tbody>
<tr>
<td>Is the financial investment safe from loss?</td>
<td>Security</td>
</tr>
<tr>
<td>Do you want to be able to access your money at any time?</td>
<td>Availability</td>
</tr>
<tr>
<td>For how long should the money be invested?</td>
<td>Investment horizon</td>
</tr>
<tr>
<td>What yield (interest) do you expect?</td>
<td>Yield</td>
</tr>
<tr>
<td>new: Is my money to be invested for sustainable ends?</td>
<td>Sustainability</td>
</tr>
</tbody>
</table>

Aspects for the appraisal of “ethical financial investments”

- Working conditions
- Job provision
- Support of women
- Child labour
- Climate protection
- Corruption
- Minimum wages
- Tax honesty
- Transparency
- Environmental soundness

Assignments

1. Please explain in 20 words or less what “ethical financial investment” means.

2. The four classic criteria in investment counselling are to be supplemented by a fifth criterion, that of social and ecological sustainability. Do you see such a demand as realistic or desirable? How do you view the fact that in Germany, only 0.7% of financial investments are “ethical”? Which three criteria would be the most important to you if you were to invest a large sum of money?

3. Don’t parents, the boards of associations, or parishes have a duty to increase the money entrusted to them as much as possible? As a father or mother, write a fictitious letter to your child, in which you give reasons why you have invested €10,000, for his future, ethically, and have thereby accepted a low interest rate of 2%, resulting in a sum, after 20 years, of €14,859, although you could have made a standard financial investment at 4% interest, and after 20 years had a total sum of €21,911.

4. “Investing ethically” is easier said than done. Please select three areas from the table which seem to you particularly important for ethical investment. Then try to formulate concretely what should be especially taken into account in these areas (formulate criteria). Finally, compare your criteria with those of your neighbours. What special difficulties do you see in arriving at clear criteria?
Dear Mr. B.,

At the end of the teaching unit about the financial crisis, in which I worked on a paper with our group, I would like to write to inform you of what we discussed in our group yesterday. We are concerned not only about the fact that we found the topic of the financial crisis extremely difficult, and hardly ever knew at which points we should go into more detail, and what we could leave out. We also had problems with the topic of the financial crisis generally, because it is extremely unsatisfactory to address. Everything happens at the global level. It involves billions or trillions, and if even governments are helpless in the face of what the banks and financial markets are doing, we certainly don’t know how we can have any influence on this at all, or what we should do. We don’t really understand the secrets of the stock exchanges and the financial markets anyway, and certainly see no chance of being able to do anything to prevent such a crisis from happening again, or ensuring that developing countries can be helped to better deal with the crisis.

At the end of such a teaching unit, all of us are upset and helpless, and don’t know where to go from here. Of course, we could sign a petition at ATTAC or close our savings accounts and take them to an ethical bank. But we can’t turn the big screws. Therefore, we think that topics like the financial crisis or globalization don’t belong in school. They just leave a feeling of helplessness, and their effect is that we will forget the whole thing as fast as possible afterwards. Even if this is disappointing for you, we really wanted to say it to you honestly.

With best regards:

Jens H.

Assignment
Can you understand Jens’ arguments, or see where he is coming from? How do you yourself see the purpose of addressing such topics as the “financial crisis” or “globalization” in school?