



## KAIROS Backgrounder

# From Pittsburgh to Toronto (and on to Seoul and Paris) What's On the G20 Agenda?

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June 2010

### Introduction

At their Pittsburgh summit in September of 2009, the Group of Twenty (G20) set an ambitious agenda for their next meeting in Toronto in June of 2010 and later summits in South Korea in November of 2010 and France in 2011. The purpose of this paper is to assist KAIROS and our civil society partners in understanding some of the issues that will be on the agenda for the next three G20 Summits.

Part I deals with the overarching issue of the new status claimed by the leaders of the Group of Twenty nations – comprised of the G7 (Canada, France, Germany, Italy, Japan, the UK and the USA) plus Argentina, Australia, Brazil, China, India, Indonesia, South Korea, Mexico, Russia, Saudi Arabia, South Africa, Turkey and the European Union. In Pittsburgh they declared themselves to be the **premier forum** for deciding on issues of international economic co-operation to the exclusion of the other 173 members of the United Nations.

Part II deals with eight issues of particular interest to social justice advocates that will be on the table at the next three summits even though decisions on many of these issues may be taken in other fora such as United Nations Framework Convention on Climate Change (UNFCCC), International Monetary Fund (IMF), World Bank and World Trade Organization (WTO) meetings:

- A) Making Private Financial Institutions Contribute to Paying the Costs of the Crisis.
- B) Attempts to halt illicit capital flows.
- C) Calls for phasing out subsidies to fossil fuels.
- D) Financing Developing Countries' Climate Adaptation and Mitigation Costs.
- E) Incorporation of the International Labour Organization's Agenda on Decent Work.
- F) Rebalancing of global trade and financial flows.
- G) IMF reform.
- H) WTO Doha Round negotiations.

## Part I: A New Status for G20

The Pittsburgh Communiqué boldly designates the G20 as the **premier forum** for international economic cooperation without consulting the other 173-members of the United Nations:

Today, we designated the G-20 as the premier forum for our international economic cooperation. We have asked our representatives to report back at the next meeting with recommendations on how to maximize the effectiveness of our cooperation. We agreed to have a G-20 Summit in Canada in June 2010, and in Korea in November 2010. We expect to meet annually thereafter, and will meet in France in 2011. (Pittsburgh Communiqué paragraph #50)

At the time of the Pittsburgh summit the precise division of labour between the G8 (the G7 plus Russia) and the G20 was unclear. The precedent is that the host of each summit plays a key role in setting the agenda. From Pittsburgh the *Financial Times* reported that when the G8 meets in Huntsville in June it will “deal primarily with international relations and foreign policy” issues including security issues such as nuclear arms reductions and the threat of terrorism.<sup>1</sup> In Pittsburgh, Prime Minister Stephen Harper said that the G8 and G20 “will be distinctive summits” implying that one, the G8, will be important while the other, the G20, will not.<sup>2</sup>

John Sinclair, a senior fellow at the School of International Development and Global Studies at the University of Ottawa, notes that the Canadian delegation at Pittsburgh tried to modify the communiqué’s blunt assertion in order to protect Canada’s turn at G8 leadership. In contrast the Chinese delegation saw the shift in geopolitical power as “conforming with the tide of history”.<sup>3</sup>

When Prime Minister Harper addressed the World Economic Forum in Davos in January of 2010, he played up the role of the G8 by announcing that Canada would “champion a major initiative to improve the health of women and children in the world’s most vulnerable regions.”<sup>4</sup> A journalist with access to Harper’s aides noted that “The government is keen to see the smaller G8 survive, because it places Canada in regular close consultations with leaders of the United States, Japan and major European nations. But others, including a U.S. White House, fatigued by too many summits, would be willing to let it die.”<sup>5</sup>

In his Davos speech the Prime Minister played down any notion that the G20 should take on new initiatives. Instead he said “when the G20 resumes in Toronto, the discussion should be less about new agreements than the accountability for existing ones. Less about lofty promises than real results.”<sup>6</sup> Harper’s credibility as an agenda-setter was damaged when his Davos speech made only a passing reference to climate change just one month after the failure of the Copenhagen conference of the UNFCCC to agree on any adequate measures. Reportedly Mr. Harper was roundly criticized for not highlighting the need for more action on climate change.

Mr. Harper's efforts to play down the G20 were contradicted by the Davos speeches of the two presidents designated to host the following two G20 summits. Korean President Lee Myung-bak said "it is time for the G20 to set the post-crisis agenda, and to build the platform that will ensure the sustained and balanced growth of the world economy in the months ahead."<sup>7</sup> President Myung-bak promised to put "development issues firmly on the agenda" of the Seoul summit.

The most important speech delivered in Davos was the keynote address by French president Nicolas Sarkozy. He reportedly brought his audience to its feet in a standing ovation when he set out the ambitious agenda that France will pursue when he chairs the G8 and the G20 in 2011. Sarkozy cut to the heart of the matter by declaring that "we need a new Bretton Woods. We cannot have, on the one hand, a multipolar world, and on the other, a single benchmark currency across the globe. ... France (as) chair of the G8 and the G20 in 2011, will place the reform of the international monetary system ... on the agenda."<sup>8</sup> Sarkozy also reiterated his support for a Financial Transactions Tax saying "We cannot avoid the debate of a tax on speculation. That we wish to restrain the frenzy of the financial markets [and] finance development aid – this is good news."<sup>9</sup>

These crucial issues raised by President Sarkozy will be explored in Part II (A) and (F) below.

### **What does the handover of responsibility to the G20 mean?**

There are a variety of interpretations of what the handover portends. An article in Cuba's *Granma International* calls it "buck passing. ... The G8 was unable to deal with the global crisis, much less with controlling the tangled neoliberal financial web of the capitalist system, and had no choice but to pass it on to the G20, possibly to dilute the responsibility of the world's most developed countries for the economic turmoil into which the world has sunk, and to look to another 12 nations to share the blame."<sup>10</sup>

Mark Weisbrot, co-director of the Center for Economic and Policy Research in Washington, writes that "the expansion from the G8 to the G20 is mostly a symbolic move, since the rich countries control the institutions with actual power ... The G20 is still the G7 with 13 other countries sitting in."<sup>11</sup>

By admitting so-called "emerging" nations such as China, India, Brazil and South Africa into the G20, the industrialized countries can, to some extent, fend off calls for more fundamental change through more democratic forums like the United Nations. As Philip Stephens writes in the *Financial Times* "[T]he rich nations ... can imagine sharing power, but they assume the bargain will be struck on their terms: that the emerging nations will be absorbed – at a pace, mind you, of the west's choosing – into familiar international forums and institutions."<sup>12</sup>

While the Pittsburgh communiqué reaffirms past G8 commitments to meet the Millennium Development Goals (MDGs) and promises to provide Official Development Assistance (ODA)<sup>13</sup>, there is considerable doubt concerning whether these pledges will

be honoured. Former Canadian Diplomat Jeremy Kinsman, writing in the journal *Policy Options*, suggested that “Prime Minister Harper seems to think the G20 will be content to assume accountability for past decisions of the G8. ... Obviously, the somewhat resentful leaders of the major emerging countries are looking to decision-making on the real and future major issues, not to a past in which they were not participants.... It is a problem that there are no sanctions for non-compliance. Let’s face it: the G8’s commitments on such undertakings as aid to Africa have been ludicrously undersubscribed.”<sup>14</sup>

### **Will Harper’s Maternal and Child Health Initiative Save the G8?**

The Prime Minister’s promise to put maternal and child health prominently on the G8 agenda for Huntsville is intended to shore up the role of the G8 on development issues. Specifically, Mr. Harper has chosen to highlight the need for action on two of the Millennium Development Goals. MDG number 4 aims at reducing the mortality rate for children under five years old by two-thirds between 1990 and 2015. MDG number 5 seeks to reduce by three-quarters the maternal mortality ratio over the same period.

At Davos Mr. Harper spoke about “the appalling mortality among mothers and small children in the Third World [where] every year over half a million women die in pregnancy and nearly nine million children die before their fifth birthday.” He implied that he would take a relatively narrow approach to addressing the issue when he referred to “relatively simple health solutions [such as the provision of] clean water or the most basic treatment against infection.”<sup>15</sup>

While Canadian civil society organizations have generally welcomed the Prime Minister’s initiative, they are looking for concrete evidence of a commitment to an integrated program for saving the lives of mothers, newborns and children. A first step would involve a commitment to pay Canada’s fair share of the costs of meeting the MDGs. The Partnership for Maternal, Newborn and Child Health has determined that US\$30 billion is needed over the years 2009 to 2015 to halt unacceptably high child and maternal mortality.

The United Nations children’s fund says that Canada should contribute \$2 billion over five years in order to make a meaningful impact on maternal and child health. In late May it was revealed that “Canada is willing to put about \$1 billion toward maternal and child health – as long as other countries ante up too.”<sup>16</sup>

Canada’s inability to make an adequate contribution to this needed funding reflects the curtailment of future increases in Canadian aid announced in the 2010 federal budget. While the budget repeats a previous promise to increase international assistance spending by 8% for 2010, it announces that the Harper government will not increase Official Development Assistance after 2010 even in nominal terms to keep up with inflation. This cutback amounts to a \$4.4 billion decrease from projected aid spending by 2014. As a result Canada’s foreign aid spending is projected to fall from around 0.33% of Gross National Income in 2010 to just 0.28% of GNI in 2014, taking the country farther and farther away from the historical goal of devoting 0.7% of GNI to ODA.

The 2010 federal budget also claims that “Canada has already met its commitment to double aid to Africa.” In fact, when Prime Minister Paul Martin promised to double aid to Africa at the Gleneagles summit it was from an expected base of \$1.4 billion in 2003-04 doubling to \$2.8 billion in 2008-09. As it turns out Canada only disbursed \$1.05 billion to Africa in 2004. The Harper government then used this lower figure as its baseline to justify its claim that a 2009 disbursement of \$2.1 billion in aid to Africa has met the Gleneagles promise.

Persons knowledgeable in international development are quick to point out how all the MDGs are inter-related and the impossibility of addressing one without progress on other related goals. Stephen Lewis, Canada’s former Ambassador to the UN, deputy director of UNICEF, and special envoy for HIV/AIDS in Africa, objects to “an announcement without any dollar” commitment or a focus on gender inequality.<sup>17</sup> In fact the Canadian government has cut the number officials working on gender equality which is the focus of MDG number 3.<sup>18</sup>

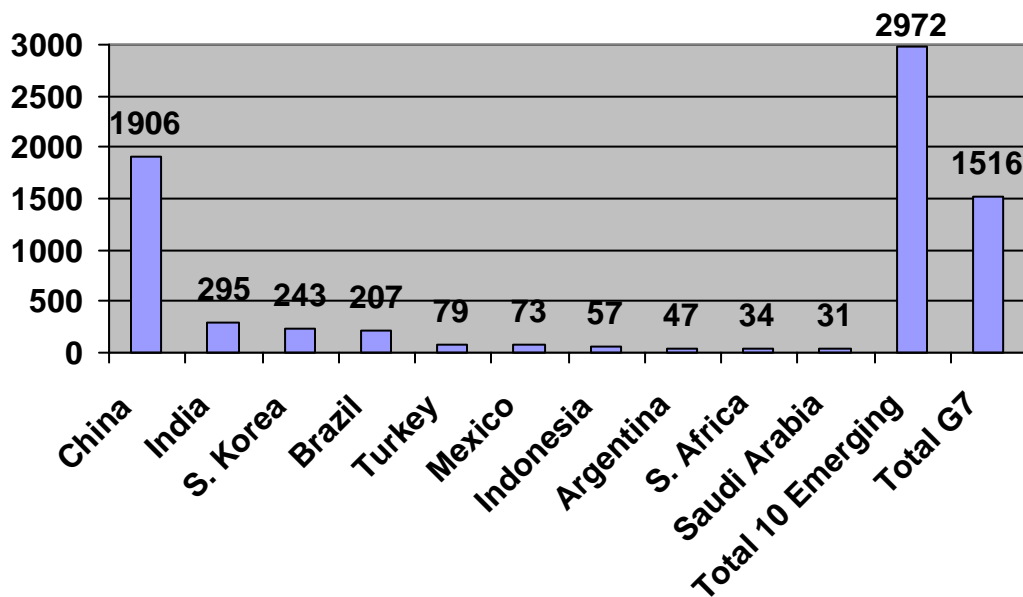
Moreover, the MDGs for maternal and child health cannot be separated from MDG number 6 calling for a halt and a reversal of the spread of HIV/AIDS. AIDS is responsible for 61,000 of the 350,000 deaths every year of women in childbirth or pregnancy.<sup>19</sup> 59% of those living with AIDS in Africa are women who too frequently pass on the deadly virus to their children due to lack of adequate medication and health care. Half of all children born with HIV in the developing world die before reaching their second birthday. Less than 15 per cent of the children who need antiretroviral treatment get it.

An analysis by the International AIDS society shows that, as of the end of 2008, G8 countries had committed only half of the funds needed to fulfill their promise of universal access to prevention, treatment and care for persons with HIV by 2015. As a result of donors reducing AIDS funding at the same time as new treatment guidelines are being introduced “barely one-third of the 14 million people with HIV [worldwide] have access to the medicine they need.”<sup>20</sup>

## G7 Wants Emerging Countries' Reserves Made Available to the IMF

A major reason why the G7 seeks enhanced cooperation with the “emerging” countries through the G20 is so that a portion of the US\$3 trillion worth of foreign exchange reserves these countries have amassed can be channelled through the IMF.<sup>21</sup> The graph below shows how the foreign exchange reserves of 10 emerging market countries invited to the first G20 leaders meeting held in Washington in November of 2008 were at the time twice as large as those of all the G7 countries combined.

**Figure 1 G20 Foreign Exchange Reserves  
Billions of US Dollar equivalent (September 2008)**



(reproduced from KAIROS Policy briefing Paper No. 16 [What Kind of a “New” Bretton Woods will Emerge from the Crisis?](#))

Prior to the Washington G20 Summit UK Prime Minister Gordon Brown proposed that developing countries lend substantial amounts of their foreign exchange reserves to the IMF.<sup>22</sup> This led to talk of a type of “grand bargain” whereby in return for a greater voice in an overhauled financial architecture, large developing countries would make a greater contribution to the IMF. France’s Finance Minister, Christine Lagarde, bluntly signalled that any new voting power for emerging nations in the Fund must involve a willingness on their part to contribute more funds to the IMF. Prior to a São Paulo, Brazil meeting of the G20 Finance Ministers she said: “There is a saying in English, ‘He who pays the piper calls the tune.’ More influence without more funds? That doesn’t exist.”<sup>23</sup>

It appears that some of the emerging countries are indeed taking up this offer. China has lent US\$50 billion to the IMF and Russia and Brazil have lent US\$10 billion each. Thus Brazil has been transformed from being one of the harsher critics of the IMF to a *de facto* supporter.<sup>24</sup> The irony of this reversal has not been lost on President Lula da Silva who

commented: “I spent 20 years of my life carrying a banner and shouting in the street, in the gates of factories, on platforms: 'Get out IMF' ... And these days, I called my finance minister and told him: 'We are going to loan money to the IMF.’”<sup>25</sup>

The idea that Southern country reserves should be used to finance recovery from the crisis has merit **as long as the funds are spent internally within developing countries or dispersed among other developing countries through pooled efforts such as the Bank of the South or the Chiang Mai initiative.** However, as will be discussed in part II (G) below it is problematic when the funds are channelled through the IMF and lent with the usual IMF conditions attached. It is also problematic when most of these developing countries’ reserves continue to be invested in Northern countries in low-yielding instruments such as US Treasury bills. (See Part II (F) below).

### **Another vision: Global Economic Coordination Council**

Another vision of how global economic policies might be co-ordinated is contained in the [Report of the Commission of Experts of the President of the United Nations General Assembly on Reforms of the International Monetary and Financial System](#) popularly known as the Stiglitz Commission initially tabled in the UN in June of 2009 and reissued in September of 2009.

The Commission, chaired by Nobel laureate economist Joseph Stiglitz, contains many cogent critiques of the failures of existing international institutions, especially the IMF, the World Bank and the WTO.<sup>26</sup> The Commission also challenges the legitimacy of the G7 and G20 as unrepresentative, self-selected groups.<sup>27</sup>

A key recommendation of the Stiglitz Commission is for the establishment of a Global Economic Coordination Council (GECC). This proposal constitutes a more democratic alternative to the self-aggrandizing declaration by the G20 leaders. The Global Economic Coordination Council would be “at a level equivalent with the General Assembly and the Security Council. Its mandate would be to assess developments and provide leadership in addressing economic issues that require global action while taking into account social and ecological factors. Based on this mandate it would promote development, seek consistency of policy goals and policies of major international organizations, and support consensus building among governments on efficient and effective solutions for global economic, social and environmental issues. ... The GECC could also promote accountability of all international economic organizations...”<sup>28</sup>

This description implies the GECC’s mandate would fall short of the powers of an Economic Security Council as recommended by the Commission on Global Governance in 1995. According to John Foster and Anita Anand “A new Economic Security Council would replace ECOSOC and consist of 23 members who would have responsibilities for international financial and development activities. The IMF, World Bank and WTO – virtually all finance and development activities – would be under the authority of this body. There would be no veto power by a nation, nor would there be any permanent member status for any nation.”<sup>29</sup>

Closely tied to the Stiglitz Commission's recommendation for the establishment of a Global Economic Coordination Council is the call for "an Intergovernmental Panel of experts tasked with the assessment and monitoring of ... systemic risks in the global economy ... [that] could serve as an internationally recognized source of expertise in support of better coherence and effectiveness in the global governance system, fostering dialogue between policy makers, the academic world, international organizations and recognised social movements."<sup>30</sup> It would be modelled on the "very successful example of the Intergovernmental Panel on Climate Change (IPCC)."

These two recommendations, if implemented, would shift the balance of power away from the G7 that now dominate decision-making in the International Financial Institutions and give more power to the G192, that is all United Nations members.

### **Global Governance Group**

It appears that some non-G20 countries have accepted its new status and are seeking more access to its deliberations. A diverse group of 23 countries, calling itself the Global Governance Group (3G), has written to the UN Secretary General suggesting ways that participation in the G20 might be expanded to take into account the interests of smaller countries. The Global Governance Group is composed of the Bahamas, Bahrain, Barbados, Botswana, Brunei, Chile, Costa Rica, Guatemala, Jamaica, Liechtenstein, Malaysia, Monaco, New Zealand, Panama, the Philippines, Qatar, Rwanda, San Marino, Senegal, Singapore, Switzerland, the United Arab Emirates and Uruguay.<sup>31</sup>

Among this groups' proposals are the following:

- That the G20 should recognize the UN as the only global body with universal participation and unquestioned legitimacy.
- That the G20 consult with the wider UN membership before its summits.
- That the UN Secretary general and UN Sherpa participate in G20 summits and preparatory meetings.
- That there be flexibility in the G20 process to provide for participation of non-members in discussions on specialized issue.
- That regional organizations like the Association of South East Asian Nations and the African Union be invited to participate in G20 deliberations in the way that the European Union now participates.

Without reference to the demands of the Global Governance Group, Prime Minister Harper has invited five non-G20 countries to attend the Toronto Summit on their own behalf and not as representatives of other groups. Spain and the Netherlands will attend again just as they attended previous summits. Vietnam, current head of the Association of South East Asian Nations, is invited, as is Malawi, the current chair of the African Union. So is Ethiopia, current chair the New Partnership for African Development (NEPAD) and a country that played an important role in Copenhagen in legitimizing the Copenhagen Accord against the wishes of other developing countries as discussed in part II D below.

## **Part II: Significant Issues Raised in Pittsburgh to be Revisited in Toronto**

### **A. Making Private Financial Institutions Contribute to Paying the Costs of the Crisis**

Prior to the Pittsburgh Summit then German Finance Minister Peer Steinbrück published an op ed in the *Financial Times* describing how financial market participants gained “significant benefits from financial bailouts ... but are not pulling their weight” in accepting responsibility for finding solutions or paying for the costs of the crisis. Steinbrück said G20 nations “average support for the financial sector is more than 30 per cent of gross domestic product (including capital injections, guarantees, treasury lending and asset purchases, liquidity provision and other central bank support.)”<sup>32</sup>

Accordingly, he proposed a Financial Transactions Tax (FTT), applied across all G20 countries, to ensure that all financial market participants contribute equally to the costs of government bailouts. He proposed a tax rate of 0.05% on all trades of financial products (including equities, bonds, derivatives, and foreign exchange) that could yield up to US\$690 billion a year or about 1.4% of world GDP.

Steinbrück concluded by saying the idea of a FTT would be addressed at Pittsburgh by Chancellor Angela Merkel with support from British Prime Minister Gordon Brown and French President Nicholas Sarkozy.

However the Pittsburgh G20 Communiqué does not explicitly endorse an FTT. Instead it says:

We task the IMF to prepare a report for our next meeting with regard to the range of options countries have adopted or are considering as to how the financial sector could make a fair and substantial contribution toward paying for any burdens associated with government interventions to repair the banking system. (#16)

Shortly after the Pittsburgh summit IMF Managing Director Dominique Strauss-Kahn threw cold water on the idea of any kind of an FTT. He said the IMF’s mandate was not to study “the over simplistic Tobin tax” on foreign exchange transaction which he termed an “old idea” from the 1970s that would not work today. Rather he said the mandate is to study “some special funding coming from the financial sector.”<sup>33</sup>

However, the debate on the possibility of not just a tax on foreign exchange transactions, as originally proposed by James Tobin, but also on many other kinds of financial transactions did not end with Strauss-Kahn’s early dismissal. Civil society groups from around the globe have mobilized in support of an FTT. Over ninety Non-Governmental Organizations sent a letter to Strauss-Kahn urging the IMF to “pay serious consideration to proposals for financial transaction taxes as a key tool for ensuring that the financial sector helps pay for government bailouts of their industry.”<sup>34</sup>

Opponents of any kind of transactions tax try to confuse the public by alleging that such taxes are not feasible. In fact there are many examples of such taxes already in existence. For instance, Britain levies a “Stamp Duty”, a 0.5% tax on purchases of shares of UK companies. Other specific financial transaction taxes exist in Austria, Greece,

Luxembourg, Poland, Portugal, Spain, Switzerland, Hong Kong, China, and Singapore. The state of New York levies a stamp duty on trades taking place on both the New York Stock Exchange and on NASDAQ. Rodney Schmidt, an economist with the North-South Institute in Ottawa, has demonstrated that levying a tax at the point where currency trades are settled effectively eliminates the possibility that such a tax could be easily avoided.

When the G20 finance ministers met on Nov. 7, 2009 in Scotland, British Prime Minister Gordon Brown grabbed headlines with a speech endorsing an FTT as a way of forcing private financial institutions to pay some of the costs of the crisis. However, Canadian Finance Minister James Flaherty, US Treasury Secretary Timothy Geithner and IMF chief Strauss-Kahn rejected Brown's overture.

During the December Copenhagen conference Prime Minister Brown and President Sarkozy once again stated their support for an FTT as one way to fund climate change adaptation and mitigation measures in developing countries.

### **Iqaluit Meeting of G7 Finance Ministers**

When Finance Minister James Flaherty hosted G7 finance ministers for a fireside chat in Iqaluit, Nunavut, on February 5-6, 2010 there was no official communiqué. Nevertheless the meeting did result in a consensus among the G7 on the need for some kind of universal tax on banking institutions. Going into the meeting Flaherty repeated his position that there should be no new taxes on the financial institutions that are responsible for the global crisis. However, the British, French and German ministers all went to Iqaluit with mandates to support an international Financial Transactions Tax.

A report from Iqaluit noted that US Treasury Secretary Timothy Geithner "had come around to the idea" of some kind of a global tax.<sup>35</sup> The French economy minister, Christine Lagarde, announced that "We were all in agreement that it had to be a universal taxation or universal levy or instrument..."<sup>36</sup>

After Iqaluit the debate shifted from whether there should be a levy to what kind of a tax or fee should be implemented. Will it be a broad financial transactions tax? Or a requirement that finance companies pay into insurance funds? Or a tax on windfall profits earned in the wake of the financial crisis? Or some combination of these options?

### **IMF Interim Report**

When the IMF presented its interim report for the G20<sup>37</sup> in April of 2010 it laid out three options:

- 1. A Bank Levy** - a tax on financial institutions' balance sheets (most probably on their liabilities or possibly on their assets) whose proceeds would most likely be used to create an insurance fund to bail them out in any future crisis rather than making taxpayers pay for bailouts.

2. **A Financial Transactions Tax** – on a broad range of financial instruments including stocks, bonds, currencies and derivatives.
3. **A Financial Activities Tax or “FAT”** - on bank profits and bankers’ excessive remuneration packages with the proceeds going into general government revenues.

Much of the IMF’s report is devoted to the first option of a levy on all major financial institutions balance sheets. Initially it could be imposed at a flat rate and later it could be refined so that the institutions with the most risky portfolios would pay more than those who took on fewer risks. Such a levy could be modeled on President Obama’s proposed Financial Crisis Responsibility Fee that would raise US\$90 billion over 10 years from US banks with assets of more than US\$50 billion. If Obama’s proposal is approved by the US Congress the proceeds would go into general government revenues. They would be used to pay the costs of the current crisis rather than go into an insurance fund in anticipation of the next one.

While the IMF does not endorse an FTT, it concedes that “The FTT should not be dismissed on grounds of administrative practicality.” This is important because the Fund might have rejected it outright. However, the IMF interprets its mandate from the G20 quite narrowly and does not endorse the FTT on the grounds that it “does not appear well suited to the specific purposes set out in the mandate from the G-20 leaders.”<sup>38</sup> This narrow interpretation is regrettable since an FTT would in fact have many benefits, including a role in deterring excessive speculation, that go beyond raising revenues to pay for some of the costs resulting from the financial and economic crisis.

In the lead up to the Toronto Summit all three options remain in play. In fact, the three options are not mutually exclusive. Some combination could be implemented. Despite efforts by the Harper government to dismiss any kind of new levy or tax, the FTT remains under discussion.

On March 30, 2010 Germany’s new finance minister, Wolfgang Schauble, announced plans for a “measured bank levy” that would force German banks to pay between €1 billion and €1.2 billion a year into a fund to cover bail-outs in a future crisis.<sup>39</sup> French economy minister Christine Lagarde attended the German cabinet meeting that made the decision, calling it “a very useful contribution to the international debate” about financial regulation. Mr. Schauble said that he would “modify” his plan if international agreements demanded, implying that the debate on what kind of a tax or levy might finally be implemented is far from over. The German civil society alliance for an FTT criticized their government’s decision as inadequate because the revenues would be too small and because it would only apply to future crises without doing anything to deter reckless speculation.

Ms Lagarde said that France would introduce a similar levy with the revenues accruing to general government coffers rather than a special insurance fund. She also said that a bank levy and an FTT “are not necessarily mutually exclusive, but the one that is likely to progress fast is the levy on banks, rather than the financial transaction tax.”<sup>40</sup>

## **FTT Best Option for Deterring Risk**

All three options need to be evaluated in terms of whether or not they deter excessive risk taking which is at the core of the financial crisis. A levy on financial institutions for an insurance fund is a poor candidate for deterring risk. It might even encourage firms to take more risks knowing that a bailout fund is available.

A tax on financial transactions, by raising the transactions costs, would help to curb speculation on financial markets but would not be sufficient by itself. An FTT would have to be accompanied by stronger rules and regulations on financial institutions' activities, the best means to deter excessive risk taking.

The third option, the FAT, has political appeal since hard working people struggling to make ends meet instinctively know that high bank profits and executive bonuses are unrelated to the effort required to earn them. Indeed as Martin Wolf, economics editor for the *Financial Times*, explains banks are earning windfall profits due to the availability of virtually "free money provided by central bank[s]" to commercial banks at near zero interest rates for lending to their customers at higher rates. Wolf defends an excessive profits tax on the grounds that "It is reasonable to recoup not only the direct fiscal costs of saving banks but even some of the wider fiscal costs of the crisis... to make the pain ahead for society much more bearable."<sup>41</sup>

An FTT at a rate of 0.05% would be small enough not to dissuade individuals investing in stocks or bonds for medium- or long-terms, but big enough to curb short-term speculative trading done by traders who sometimes buy and sell the same financial instrument five times in a single day. A 0.05% FTT would cost someone purchasing a \$1,000 bond with the intention of holding onto it until maturity just 50 cents.

Most importantly, the revenue potential of an FTT is significant. A study done by Stephen Schulmeister at the Vienna-based WIFO Institute estimates that a global FTT at a rate of 0.05% would yield approximately US\$650 billion in annual revenues. This estimate assumes that a tax at that level would lead to a 65% decline in the volume of transactions. Civil society groups call the FTT the "Robin Hood Tax" since it would raise revenues principally from the better-off, mostly in developed countries, for spending on fighting poverty and climate change at home and abroad.

Civil society groups maintain that revenues from an FTT should not only pay for the costs incurred by governments to bail out financial institutions but also be used to indemnify Southern countries who have suffered massive losses from a crisis that is not of their making. Some NGOs suggest that half the revenues should be used for covering the cost of the bailouts and the other half dedicated to meeting the needs of developing countries for fighting poverty and the costs associated with climate change.

A study by the Trade Union Advisory Committee to the OECD estimates that the additional resources needed each year over the period 2012 to 2014 to finance the Millennium Development Goals, climate change and the budget deficits of developed

countries amount to US\$696 billion.<sup>42</sup> He asserts that a FTT is the only viable option for raising sufficient revenues to meet these needs.

The Trade Union Advisory Committee to the OECD breaks down the needed spending as follows:

Additional resources needed to finance climate change adaptation and mitigation in developing countries	US\$ 156 billion
Additional resources needed to meet the Millennium Development Goals	US\$ 168 billion
Additional resources needed to meet budget deficits in developed countries resulting from the financial crisis	US\$ 372 billion
Total	US\$ 696 billion

### **Support for an FTT is Growing... Except in Canada**

Those in favour of a FTT include Lord Adair Turner, chairperson of Britain’s Financial Services Authority and billionaire financiers George Soros and Warren Buffet. The European Parliament and the president of the European Commission José Manuel Barroso have called for an FTT as have the governments of Belgium and Austria. Japan’s Vice Finance Minister Naoki Minezaki has endorsed an FTT as have government officials in Australia and the former governor of the Reserve Ban of India, both G20 countries.<sup>43</sup> 350 economists from dozens of countries have issued an open letter endorsing an FTT.<sup>44</sup>

As presidential candidate, Barack Obama expressed support for a tax on U.S. financial transactions. In a [speech](#) in La Crosse, Wisconsin on October 1, 2008 he said: “I’ve proposed a Financial Stability Fee on the financial services industry so Wall Street foots the bill -- not the American taxpayer. And as I modernize the financial system to create new rules of the road to prevent another crisis, we will continue this fee to build up a reserve so that if this happens again, it will be the money contributed by banks that’s put at risk.”

While President Obama has not yet fulfilled this commitment he has turned to Paul Volcker who was US Federal Reserve Chair from 1979 to 1987, instead of Treasury Secretary Geithner, for advice on how to reform the financial system. Obama has taken up Volker’s proposals for limiting the size of banks and preventing banks from trading in risky securities on their own account. Volcker told a House of Representatives financial services committee that he is “very interested [in the idea of a FTT since] maybe ... a big tax on financial engineers [will deter them from making up] all these new ... highly complex, opaque financial” instruments so rapidly.<sup>45</sup>

The most vocal opponent of a FTT is the Canadian government. In his Davos speech Prime Minister Harper said that while he supports “strengthened financial sector regulation ... Canada will not go down the path of excessive, arbitrary or punitive regulation of its financial sector.”<sup>46</sup> Later it became clear that this means the Prime

Minister intends to use his influence as host of the G20 “to kill the proposal” for a FTT in part because it runs counter to the government’s advocacy of lower taxes.<sup>47</sup> Canadian opposition to any tax on financial transactions has caught European officials by surprise.<sup>48</sup> As one European diplomat told *Embassy* newspaper: “We were definitely taken aback by this, especially in light of the good momentum we built in Iqaluit.”<sup>49</sup>

On May 18<sup>th</sup> Prime Minister Harper took the extraordinary step of sending five cabinet ministers out to make speeches in Mumbai, Shanghai, Washington and Ottawa all in opposition to any kind of bank tax. However, events in Europe may well overtake Mr. Harper’s efforts.

The financial crisis affecting Greece and other European countries has led to renewed support for an FTT. Speculation on European bond markets and against the Euro has added to turmoil on world markets. Chastised by opposition parties for her failure to include endorsement of an FTT in a package of measures for dealing with the European crisis, Chancellor Merkel has decided to throw the full weight of her government behind a renewed call for an FTT. Merkel has announced that she is determined to press for a decision at the June G20 summit.<sup>50</sup> Merkel has openly criticized Harper’s intransigence saying that countries which were less affected by the crisis should not block efforts to make the finance industry pay for the costs of the crisis.

Her Finance Minister, Wolfgang Schauble, told the *Financial Times* that if no decision is taken in Toronto then “we will work intensively to see if we cannot have a transaction tax at a European level.”<sup>51</sup>

On June 3 and 4 Harper took the further extraordinary step of flying to London and Paris to personally lobby Prime Minister David Cameron and President Sarkozy against a bank levy. But he failed to persuade them to drop their support for some kind of bank tax. Harper emerged from the meetings saying that he anticipates a “lively debate” on the topic at the Toronto summit.<sup>52</sup>

At their June 5 meeting in Busan, Korea, the G20 finance ministers negotiated until 5 o’clock in the morning before agreeing only on the need to develop a set of principles for how to make the financial sector contribute to paying for the burdens associated with repairing the banking system. The UK, Germany, France, the US and the International Monetary Fund reportedly arrived expecting “discussion of a global levy to be postponed until after the Toronto G20 summit in June to avoid a dispute in Canada.”<sup>53</sup>

Instead of agreeing on a proposal, the finance ministers announced that the IMF would deliver its final report on options to the Toronto summit. The issue could be taken up again at an October 22-23 G20 finance ministers meeting in Gyeongju, Korea and at the November Summit in Seoul. After the Busan meeting, the European Union announced that it would forge ahead with plans for its own banking levy. Germanys Deputy Finance Minister said “Over and above the bank levy, we should introduce a financial transactions tax. We will try to reach a global consensus but if that is not possible, we should move ahead in Europe.”<sup>54</sup>

## **B. Illicit capital flight and tax reform**

It is estimated that in 2006 alone developing countries lost between US\$859 billion and US\$1.06 trillion in “illicit capital outflows”.<sup>55</sup> This broad category includes both money accumulated through illegal activities such as trade in contraband goods and transactions that may be legal in some instances or illegal in others that avoid capital controls or shelter wealth abroad out of the reach of a country’s tax authorities. Tax evasion by wealthy individuals costs developing countries an estimated US\$64 billion to US\$124 billion a year.<sup>56</sup> Christian Aid calculates that corporations that avoid taxes through transfer pricing and false invoicing annually cost developing countries US\$160 billion in lost corporate tax revenue.<sup>57</sup>

The Pittsburgh G20 Communiqué makes two references to illicit capital flight:

Our commitment to fight non-cooperative jurisdictions (NCJs) has produced impressive results. We are committed to maintain the momentum in dealing with tax havens, money laundering, proceeds of corruption, terrorist financing, and prudential standards. ... (#15)

As we increase the flow of capital to developing countries, we also need to prevent its illicit outflow.... (#42)

However, there is a huge gap between the modest efforts by the G20 to give the appearance that they are attempting to deal with illicit capital flight and the measures needed to actually address the problem. The communiqué from the April 2, 2009 G20 meeting in London announced that the Organization for Economic Cooperation and Development (OECD), another group controlled by the wealthiest industrial countries, would immediately publish a list of jurisdictions that were not in compliance with OECD standards on transparency and exchange of information on taxation.

Peter Gillespie, an analyst with Ottawa-based Inter Pares, recounts what happened next: “Astonishingly, within days of the close of G20 meeting, the OECD blacklist was empty. Intense diplomatic pressure had successfully [moved four countries to the grey list.] ... Both the Swiss and Liechtenstein governments were outraged to be named on the grey list. Switzerland threatened to retaliate by not paying its annual dues to the OECD, an extraordinarily self-righteous response from a country that is the world leader in laundering thefts from poor countries.”<sup>58</sup>

The OECD standards themselves are very weak. They only cover bilateral treaties when multilateral action is needed. Moreover, the burden of proof lies with the authority requesting an investigation into transactions, requiring them first to make a strong case, something that is beyond the capacity of most developing countries. Most problematic of all is that the OECD approach only deals with individuals who avoid taxes without touching the activities of transnational corporations.

In contrast to the weakness of the G20 and OECD response to the issue of illicit tax avoidance, the Stiglitz Commission names the fact that “the principal sources of tax

evasion, tax secrecy, money laundering, and regulatory arbitrage have been through on-shore tax havens in developed countries' financial centres. .... The biggest money laundering cases involved banks in London, New York and Zurich." The Commission goes on to denounce the "discriminatory targeting of the small international financial centres in developing countries while turning a blind eye to lax rules in developed economies." Instead of relying on the OECD it calls for multilateral cooperation to establish fair rules for all through a new intergovernmental body to strengthen international tax cooperation under the United Nations.<sup>59</sup>

Fraser Reilly-King, co-ordinator with the Halifax Initiative, notes how the model the G20 has followed to tackle this problem "is deeply flawed, leaving the major financial centres where this happens untouched." Instead Reilly-King proposes that "In 2010, Canada should help plug the leaks in government revenue by advocating for the adoption of procedures that make the exchange of tax information automatic and for country-by-country reporting on accounts by multinational companies."<sup>60</sup>

### C. Phasing out subsidies to fossil fuels

KAIROS' study [Pumped Up: How Canada subsidizes fossil fuels at the expense of green alternatives](#) explicitly calls for removing subsidies from oil, coal and natural gas in favour of investments in conservation and renewable forms of energy. As documented in *Pumped Up* Canadian subsidies to the oil and gas industries alone amounted to C\$1.4 billion in 2002. Recently the Pembina Institute has estimated that due to significant growth in the oil and gas sector since 2002, total subsidies are now probably close to \$2 billion a year. This estimate does not include the new subsidies allotted to coal-fired electricity plants and tar sands operators by the Canadian and Alberta governments for dubious investments in Carbon Capture and Storage (CCS). (see KAIROS Policy Briefing Paper #21: [The Costs and Risks of Carbon Capture and Storage](#) November 2009)

The 2006 Stern Review on the economics of climate change indicated that worldwide subsidies to fossil fuels were then worth some US\$200 billion a year versus just US\$10 billion for renewable sources of energy. More recent studies estimate that global subsidies for fossil fuels are considerably higher. For example, the [Global Subsidies Initiative](#) says the figure is at least US\$500 billion a year with US\$400 billion of that going to end-users of fossil fuels and US\$100 billion to producers.

In a speech prior to the Pittsburgh summit, President Obama gave impetus to the issue when he said that phasing out subsidies to fossil fuels would reduce global greenhouse gas (GHG) emissions by 12% by 2050.

The Pittsburgh G20 Communiqué incorporates a lower prediction of a 10% GHG reduction by 2050:

Inefficient fossil fuel subsidies encourage wasteful consumption, distort markets, impede investment in clean energy sources and undermine efforts to deal with climate change. The Organization for Economic Cooperation and Development (OECD) and the IEA have found that eliminating fossil fuel subsidies by 2020 would reduce global greenhouse gas emissions in 2050 by ten percent. ... we commit to:

Rationalize and phase out over the medium term inefficient fossil fuel subsidies that encourage wasteful consumption. As we do that, we recognize the importance of providing those in need with essential energy services, including through the use of targeted cash transfers and other appropriate mechanisms. This reform will not apply to our support for clean energy, renewables, and technologies that dramatically reduce greenhouse gas emissions. We will have our Energy and Finance Ministers ... develop implementation strategies and timeframes, and **report back to Leaders at the next Summit**. We ask the international financial institutions to offer support to countries in this process. We call on all nations to adopt policies that will phase out such subsidies worldwide. (#29)

On March 18, 2010 a deputy finance minister wrote a secret memorandum to Finance Minister Jim Flaherty warning that “As host of the June Leader’s Summit in Toronto, Canada will be expected to lead by example in delivering on the commitments agreed to in Pittsburgh.”<sup>61</sup> The memo warns of potential embarrassment for Canada if Ottawa undertakes no actions to reduce fossil fuel subsidies. It says “Canada would need to carefully manage the G20 commitment ... [since] justifying inaction could be challenging if others are taking action.”

There is no evidence that Canada will announce any substantial subsidy cuts at the Toronto Summit. A Finance Department statement simply says that discussions about subsidies are ongoing before adding that there is no “common definition” at the G20 of what constitutes a subsidy.<sup>62</sup> In fact the leaked memo reveals that the scope of any commitment to phase out subsidies has been contentious within the G20. The Pittsburgh communiqué implies that the focus would be on consumption subsidies. However the US has pressed for the inclusion of production subsidies. The memo notes that the Obama administration has taken steps to eliminate 12 different tax incentives for fossil fuel industries.

The G20’s goal of a 10% drop in GHG emissions by 2050 is taken from [a study done by the OECD](#) that focuses on consumption subsidies. In fact the OECD’s projection of a 10% emission reduction is for the removal of subsidies **in emerging economies and developing countries only**. The OECD study goes on to point out how removing energy subsidies from within developing countries would actually benefit industrialized countries since it “would lower the demand for, and thereby the world prices of, fossil fuels. **As a result, emissions would rise in other (mainly developed) countries, limiting the decline in world emissions.**”<sup>63</sup>

While the authors of the OECD report expect the increase in world emissions due to the removal of subsidies to be counterbalanced by binding emission caps in developed countries, no agreement on effective, binding caps emerged from the December 2009 Conference of the Parties of the UNFCCC in Copenhagen. (see KAIROS Policy Briefing Paper #23 [Copenhagen Accord or Discord?](#) February 2010)

[Oil Change International](#) estimates that subsidies to the fossil fuel industries in OECD countries amount to US\$57 billion a year, to which should be added another US\$10 billion in international subsidies to fossil fuel extraction, primarily for the benefit of Northern countries.

Steve Kretzmann, director of Oil Change International writes:

Eliminating fossil fuel subsidies is a great idea, if it’s done right. This is certainly the right time, but the G20 is likely not the right place.... [The] Obama proposal for subsidy removal in the U.S. is only partial at best... In the U.S. and the rest of the industrialized world, we generally have production subsidies, which also serve as corporate welfare to the oil and coal industry who return the favor with lavish campaign contributions. But in the developing world, consumption subsidies,

which make access to energy and fuel affordable to the poor, are far more common.

It is these consumption side subsidies in the developing world that the OECD and the IEA have been focused on as market distortions. ... However, the intent of these subsidies is generally not to increase consumption of fossil fuels per se—rather it's usually simply to help make access to energy and transport affordable to the poor.

This is not the place to start levelling the playing field for clean energy.

A better idea would be eliminating [international subsidies](#) via institutions like the [World Bank](#), the U.S. Export-Import Bank, or the Overseas Private Investment Corporation—all of which ... gave billions last year to the fossil fuel industry, and all of which could be important sources of public funds for clean energy. These institutions actually use our tax dollars to build infrastructure for fossil fuel extraction and use in the developing world. So, if we don't end this practice first, we're essentially saying to the rest of the world that we'll use our public funds to support Exxon, Chevron, and Shell to build carbon intensive infrastructure in the developing world, but we'd like the developing world to remove the subsidies that make use of that infrastructure affordable to its population.

Meanwhile the fossil fuel industry continues to pull in [at least \\$67 billion](#) in production subsidies from the rich countries around the world. That's more than three times more than the U.S. and others have put up to fight climate change internationally.<sup>64</sup>

## D. Financing Developing Countries Climate Mitigation and Adaptation Costs

According to Trade Union Advisory Committee to the OECD, US\$156 billion a year will be needed over the period 2012 to 2017 by developing countries to pay for the costs of mitigating their greenhouse gas (GHG) emissions and adapting to the impacts of climate change.<sup>65</sup> At Pittsburgh G20 leaders failed to resolve an ongoing dispute concerning the amount of financing that would be made available from industrialized countries and whether it would come from public or private sources.

A central issue in debates on climate financing involves the role of “market-based” sources of funds such as sales or auctions of carbon dioxide emission permits under cap-and-trade systems and purchases of offsets from projects in the South deemed to be contributing to emission reductions. (See KAIROS Policy Briefing Paper #20: [Pricing Carbon: A Primer](#) November 2009 for an explanation of carbon cap-and-trade systems and offsets.) During negotiations in Bangkok leading up to the UNFCCC conference in Copenhagen Canada defended market-based measures, saying it was “false argument” to suggest that the public sector should be the main source of finance.<sup>66</sup>

A background paper prepared for the Pittsburgh G20 summit called global carbon markets a “central vehicle” for mobilizing funds to fight climate change. However, no decisions were taken at Pittsburgh presumably due to lack of agreement among the industrialized countries and emerging country members of the G20. Instead the Pittsburgh communiqué asked the G20’s finance ministers to

report back at their next meeting [scheduled for November 7 in Scotland] with a range of possible options for climate change financing to be provided as a resource to be considered in the UNFCCC negotiations at Copenhagen. (#33)

But no progress was made on this issue at the November 7<sup>th</sup> finance ministers’ meeting leaving the issues unresolved prior to the Copenhagen conference in December.

The Pittsburgh summit did, however, weigh in on the contentious issue of what role multilateral financial institutions should play. The communiqué mandated a significant role for the World Bank in climate financing:

The World Bank and other multilateral development banks are also critical to our ability to act together to address challenges, such as climate change... The World Bank ... should strengthen ... contributions to financing the transition to a green economy through investment in sustainable clean energy generation and use, energy efficiency and climate resilience; this includes responding to countries needs to integrate climate change concerns into their core development strategies, improved domestic policies, and to access new sources of climate finance. (#24)

Many civil society organizations object to giving the World Bank a central role due to its history of supporting fossil fuel projects. While the proportion of World Bank funding going to renewable energy and energy efficiency projects is increasing, the Bank still

funds many oil, gas and coal projects. According to [data compiled by the Bank Information Center and Greenpeace](#) over the three fiscal years 2007 through 2009 the World Bank funded US\$6.6 billion worth of fossil fuel projects, while it spent US\$5.4 billion on renewable energy and energy efficiency projects.

Although the G20 finance ministers as a group failed to agree on climate financing issues, prior to the Copenhagen conference the European Union pledged that it would contribute up to 50 billion Euros annually to a fund worth 100 billion Euros (US\$148 billion) a year by 2020 on the condition that other countries made similar commitments. On Dec. 11, 2009, while the Copenhagen conference was underway, French president Nicolas Sarkozy and UK prime minister Gordon Brown reiterated the goal of achieving 100 billion Euros worth of financing by 2020 and proposed “to ensure predictable and additional finance ... [by making] use of innovative financing mechanisms, such as ... a **global financial transactions tax** and the reduction of aviation and maritime emissions **and the auctioning of national emission permits.**”<sup>67</sup> Thus the idea of using an FTT, as discussed in part II (A) above, to raise funds for climate measures was again broached during the Copenhagen conference.

However, the debate on climate finance at Copenhagen did not build on the Brown/Sarkozy proposal for an FTT nor on the goal of raising 100 billion **Euros** a year. Instead US Secretary of State Hillary Clinton set the agenda when she addressed the conference with a vague offer of a 100 billion **US dollar** annual fund that would only be available by 2020 if China and other countries cooperated in what became known as the “Copenhagen Accord.” After President Obama arrived the next day secret negotiations began outside of the official conference agenda among 26 US-selected countries that included most of the members of the G20 but not Canada.

The resulting Copenhagen Accord, negotiated behind the backs of most UN member countries and in defiance of accepted UN procedures, promised that developed countries would provide US\$30 billion in “new and additional” financing for adaptation and mitigation measures undertaken by developing countries over the years 2010 to 2012. An annex to the Accord attached to the version obtained by the *New York Times* lists three pledges: European Community US\$10.6 billion; Japan US\$11 billion; and just US\$3.6 billion from the USA amounting to US\$25.2 billion or 84% of the total.

Countries like Canada that were not involved in the secret negotiations were invited to table their pledges for GHG emission reductions by February 1, 2010. In January 2010, Canada submitted its national emission reduction target for 2020 under the Copenhagen Accord. Disturbingly, the Canadian government submitted a lower target than the already inadequate one it brought into the Copenhagen summit. Since 2007, the federal government had been committed to a target of lowering Canada’s GHG emissions to 20% below 2006 levels by 2020, which is equivalent to 3% **below** 1990 levels. Canada’s new target is to reduce emissions to 17% below 2005 levels by 2020, which is equivalent to 2.5% **above** 1990 levels.

Unlike the target date for emission reduction targets there is no timeline for making pledges to what the Accord calls the “Copenhagen Green Climate Fund.” If Canada were to contribute a proportion of the US\$30 billion sought for the period 2010 to 2020 equivalent to our historical share of other global funds, that is 3% to 4% of the total, Canada’s contribution would be between US\$900 million and US\$1.2 billion or US\$300-\$400 million a year. But Finance Minister Flaherty failed to include any commitment whatsoever to this fund in his 2010 budget.

The Copenhagen Accord also says that “developed countries support a goal of mobilizing jointly 100 billion dollars a year by 2020 to address the needs of developing countries.” Where these funds might come from is uncertain as the Accord says “This funding will come from a wide variety of sources, public and private, bilateral and multilateral, including alternative sources of finance” and promises “a governance structure providing for equal representation of developed and developing countries.” As Jeffery Sachs observes “Experience with financial aid for development teaches us that announcements about money a decade from now are mostly empty words. They do not bind the rich countries at all.”<sup>68</sup>

While there is no reference to a role for the G20 in the Copenhagen Accord, the issues of climate finance will likely be taken up again at the June G20 summit in Toronto. By then the prospects for US legislation establishing a carbon cap-and-trade system may be clearer. The current Kerry-Lieberman bill now before the US Senate emphasizes using money raised through the sale of carbon credits for paying down government deficits and giving rebates to US consumers rather than funding climate mitigation and adaptation programs in developing countries. Moreover, the bill puts emphasis on the purchase of highly dubious offsets from Southern countries. (for a critical analysis of carbon trading and offset purchases see KAIROS Policy Briefing Paper #20:[Pricing Carbon: A Primer](#) November 2009)

The most troubling feature of the new Copenhagen Green Climate Fund is that it will only be accessible to those countries that agree to sign the Accord. While some developing countries, including Ethiopia, have signalled their acquiescence to the Accord during the final conference assembly, others, including Venezuela, Bolivia, Nicaragua, Cuba and Sudan have spoken out boldly against it. A notable opponent was Ian Fry, the negotiator for Tuvalu a small island state whose very existence is threatened due to the rise in sea levels that will result from climate change. At Copenhagen Fry declared: "In biblical terms it looks like we are being offered 30 pieces of silver to betray our future and our people ... our future is not for sale."<sup>69</sup>

A senior African diplomat involved in UN climate negotiations told *The Observer* newspaper: “The pressure to back the [Accord] has been intense. It was done at a very high level and nothing was written down. It was made very clear by the EU, UK, France and the US that if [developing countries] do not back them they would suffer.”<sup>70</sup> Accordingly, the US has withheld climate funds promised for Bolivia, Ecuador and other countries that have refused to sign the Accord. These countries, however, are not bowing to this pressure. At the World People’s Conference on Climate Change and the Rights of

Mother Earth held in Cochabamba Bolivia in April, Ecuador ridiculed the United States for cutting US\$2.5 million in promised climate aid by publicly pledging to hand over the same amount to the US if it would sign the Kyoto Protocol on greenhouse gas emissions.<sup>71</sup>

This political manipulation of climate funds is most alarming as it constitutes a form of blackmail for the poorest countries that will face serious droughts, floods, cyclones and food shortages due to climate change in the years ahead. It also deprives them of avenues to protest the lack of transparency in which the Copenhagen Accord was forged.

The promise of equal representation for developing countries on a governance structure of the Copenhagen Green Climate Fund does not guarantee that it will not fall under the control of the World Bank. While the Accord says “a High Level Panel will be established under the guidance of and accountable to the Conference of the Parties to study the contribution of the potential sources of revenue, including alternative sources of finance...” there is no indication of how this panel will be established.

Despite the Harper government’s wish to keep discussions of climate issues muted or off the agenda, they are likely to be raised in Toronto as the US and other signatories want the Copenhagen Accord to be treated as a legitimate and serious response to the climate crisis prior to the next conference of the UNFCCC in Mexico in December of 2010.

## **E. International Labour Organization Agenda for Decent Work**

The International Trade Union Confederation (ITUC) has lobbied for putting the issue of decent work at heart of economic recovery plans as an alternative to neoliberal deregulation of labour markets that leads to lower wages and even greater exploitation of workers, especially in low-income countries.

The Pittsburgh Communiqué includes a long overdue recognition of the importance of decent work and the role for the International Labour Organization (ILO) in promoting it:

The prompt, vigorous and sustained response of our countries has saved or created millions of jobs. Based on International Labour Organization (ILO) estimates, our efforts will have created or saved at least 7 – 11 million jobs by the end of this year. Without sustained action, unemployment is likely to continue rising in many of our countries even after economies stabilize, with a disproportionate impact on the most vulnerable segments of our population. As growth returns, every country must act to ensure that employment recovers quickly. ... We agree that the current challenges do not provide an excuse to disregard or weaken internationally recognized labour standards. To assure that global growth is broadly beneficial, we should implement policies consistent with ILO fundamental principles and rights at work. (#43)

The ITUC notes that the section of the communiqué on labour issues entitled “Putting Quality Jobs at the Heart of the Recovery”, responds to trade union demands for a focus on job creation and job quality (not just workers’ employability as in earlier drafts). The statement calls for “recovery plans that support decent work, help preserve employment, and prioritise job growth” and refers to training and income support for the unemployed, particularly those “most at risk”, although there is no explicit reference to women or youth anywhere in the document. It emphasises that recovery should not be sought through attempts to drive down labour costs by removing workers’ rights, with a statement that “current challenges do not provide an excuse to disregard or weaken internationally recognised labour standards” and that “to assure that global growth is broadly beneficial, we should implement policies consistent with ILO fundamental principles and rights at work.”

Paragraph #44 provides a series of examples of active labour market policies with regard to training and education programmes, particularly in new technologies and lifelong skills development.

There is an important reference to the need for other institutions – clearly implying the International Financial Institutions and the WTO, among others – to take ILO policies and standards into account, in the statement that “The international institutions should consider ILO standards and the goals of the Jobs Pact in their crisis and post-crisis analysis and policy-making initiatives” (#46).

The ITUC welcomes the promise to hold a meeting of G20 Labour ministers in 2010 as an opportunity for trade unions to push for the implementation of the ILO [Global Jobs Pact](#) adopted in June 2009 and “commit our nations to adopt key elements of its general framework to advance the social dimension of globalisation” (#46).

After G20 labour and employment ministers met in Washington on April 20-21, 2010, the ITUC welcomed a reiteration by the ministers of many of the promises made at Pittsburgh with respect to job creations. The ITUC noted the ministers’ emphasis on “the importance of infrastructure investment, support for services such as health, education and public safety, and investing in green jobs – all of which are key priorities from the global union [movement].”<sup>72</sup> However, the ITUC also warned that “with pressures rising from some quarters to cut back on recovery programmes and reduce public deficits the risk is that premature ‘exit strategies’ could tip the global economy back into a recession with catastrophic results. The risk would be that mass unemployment could become ‘the new normal’.”<sup>73</sup>

While the Pittsburgh communiqué instructed Labour Ministers to report on whether further measures are desirable, there was no commitment made at the Washington meeting to any follow-up action beyond a previous mandate to present a training strategy to the Toronto Summit. Since there was no response to the Global Unions’ call for the establishment of a tripartite task force to track implementation of the recommendations, the ITUC concludes that forceful advocacy in the run up to the Toronto Summit will be necessary to make this happen.

## **F. Rebalancing of Global Trade and Financial Flows**

Analysts overwhelmingly agree that the pattern of world trade and financial flows whereby a few countries, particularly the US, run chronic balance of payments deficits, while others, particularly China, run huge surpluses is unsustainable.

The issue is how to achieve a new balance. Ben Bernanke, chair of the US Federal Reserve, says the solution is for Asian countries to spend more and save less while US citizens spend less and save more. Although the US has toned down its public demands for China to revalue its currency, the renminbi, upward as a means of achieving an adjustment in trade flows, this remains its goal. The IMF's Managing Director Dominique Strauss-Kahn, continues to put pressure on China to revalue its currency. In criticising China's exchange rate Mr Strauss-Kahn declared the IMF would not stop what he called its "ruthless truth telling" even if it made it unpopular, insisting that the renmimbi is undervalued.

While China has allowed modest revaluations, it resists foreign pressure to change its export-oriented model which is expedited by an effective peg of the renminbi to the US dollar. President Obama made no progress on persuading China to revalue during his November 2009 trip to China.

Since then tensions between the US and China over the currency issue have risen and fallen periodically. Some members of the US Congress want the Treasury department to declare China a "currency manipulator" and to punish China with import tariffs. There is a concern that the differences between the US and China could undermine the Toronto Summit and even call into question the continued existence of the G20 itself.<sup>74</sup> Others argue for setting aside the debate on currency values so as to preserve the G20's "common stand on economic recovery."<sup>75</sup>

In this context South Korean officials present themselves as best placed to mediate between the US and China, raising the possibility that the currency issue might be downplayed in Toronto and taken up again in Seoul in November. In the words of one Korean official "If you tell China to do something directly about its currency, China can do nothing without losing face. We have a good relationship with Chinese economy officials and can engage more on fundamental [issues that impact the] currency, like promoting domestic consumption."<sup>76</sup>

The Pittsburgh G20 communiqué wording on the issue of global imbalances appears to have been carefully crafted so as not to offend any member:

"We recognize that the process to ensure more balanced global growth must be undertaken in an orderly manner. All G-20 members agree to address the respective weaknesses of their economies.

G-20 members with sustained, significant external deficits pledge to undertake policies to support private savings and undertake fiscal consolidation while maintaining open markets and strengthening export sectors.

G-20 members with sustained, significant external surpluses pledge to strengthen domestic sources of growth. According to national circumstances this could include increasing investment, reducing financial markets distortions, boosting productivity in service sectors, improving social safety nets, and lifting constraints on demand growth. (#2)

### **More Fundamental Change Needed**

However, the Pittsburgh communiqué does not discuss the need for a fundamental revamping of the global financial system. Proposals that urge China to revalue the renminbi upward and spend more while US spends less and tries to export more do not address the basic problem pointed out by economist Robert Triffin fifty years ago. The “Triffin dilemma” refers to how a global monetary system based on a national currency, that is the US dollar, has a fundamental flaw. To increase world liquidity the US must continue to run current account deficits. But these deficits cannot continue to grow forever. Sooner or late the immense US debt owed to other countries undermines confidence in the dollar.

While turmoil on world markets augmented by speculators betting that Greece and other European countries will not be able to make debt payments has resulted in a temporary rise in the value of the US dollar, its underlying weakness remains. The unspoken fear that few dare talk about publicly is that there will be a loss of confidence in the US dollar. A sudden run on the greenback could lead to a jump in US interest rates and an even worse economic crisis.

Another fear is that despite official talk about the value of a “strong dollar,” the US will allow inflation to increase and accept a gradual decline in its currency in order to effectively repudiate a portion of its immense external debt by making payments in dollars worth less than those it borrowed. Humberto Campodonico cites the work of two US academics, Joshua Aizenman and Nancy Marion, who describe how the temptation for the US to erode its debt through inflation is higher now than it was after World War II. Back then the US owed only 5% of its debt to foreign creditors. Now it owes nearly half to foreigners due to the liberalization of capital flows. Aizenman and Marion conclude that “A government that has lots of nominal debt denominated in its own currency has an incentive to try to inflate it away so as to decrease the debt burden.”<sup>77</sup>

French President Nicolas Sarkozy begins his January 2010 Davos speech by identifying “imbalances in the world economy” as the “root of the problem.”<sup>78</sup> He declares that “Financial deregulation was introduced in order to be able to service the deficit of those who were consuming too much with the surplus of those who were not consuming enough. The perpetuation and accrual of these imbalances was both the driving force and the consequence of financial globalization.”

The French President goes on to say “the globalization of savings gave rise to a world in which everything was given to finance capital and almost nothing to labour, in which the entrepreneur was displaced by the speculator, in which those who lived by unearned

income left the workers far behind, in which the use of leverage ... reached unreasonable proportions; and all this created a form of capitalism in which taking risks with other people's money became the norm, allowing quick and easy profits but all too often without creating either prosperity or jobs.”

Later in the speech Sarkozy circles back to a discussion of the need for a new Bretton Woods to deal with the under-valuation of some currencies and exchange rate instability. As noted in Part I above Sarkozy promises to put the reform of the international monetary system on the agenda for when he chairs the G8 and the G20 in 2011. However, he says relatively little about his vision for a new monetary order.

### **A New Reserve System.**

But another G20 country, China, is winning more and more backing for its proposal to establish a new global reserve system. Similarly, the Stiglitz Commission has also proposed a plan for a new reserve system that would be a more lasting solution to the problem of global imbalances.

China wants to head off losses on its US\$2.5 trillion worth of foreign exchange reserves, most of which are held in dollar-denominated instruments, by establishing a new international reserve system wherein Special Drawing Rights (SDRs), a reserve asset created by the IMF, would replace dependence on the US dollar.

While the G20 leaders at their second meeting in London in April of 2009 did agree on a new issue of Special Drawing Rights their proposal is flawed. Under the G20's plan 60% of the new allocation of SDRs worth US\$350 billion will go to developed countries due to their larger quotas within the IMF. Only US\$19 billion worth of the new issue would go to the poorest countries because of their low quotas within the IMF.

The Stiglitz Commission adds a redistributive dimension to the proposals for an expanded role for SDRs by advocating the adoption of the proposal for a “development link” made by the UNCTAD panel of experts in the 1960s whereby more or perhaps all of the new internationally created currency would be allocated to developing countries.<sup>79</sup>

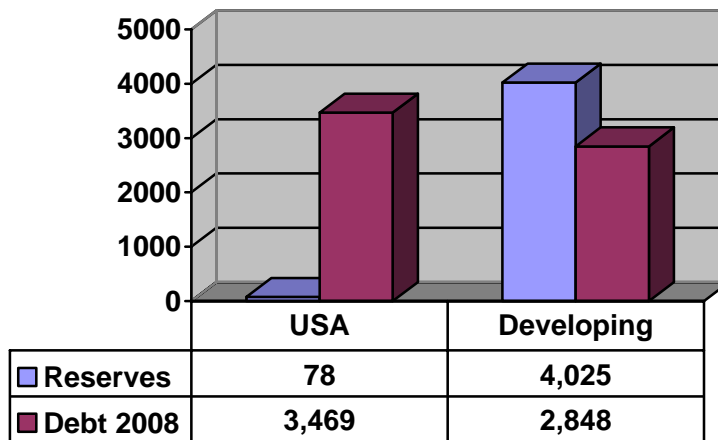
Although the US and Canada have been unwilling to endorse the Chinese proposal for a new reserve system, it is slowly gaining adherents, including from other members of the G20. Russia and India have signalled their support. On the eve of the 2009 G8 Summit meeting in L'Aquila, Italy, French economy minister Christine Lagarde also indicated her support, challenging the dollar's supremacy “in a world that has changed because of the crisis and the growing role of emerging countries.”<sup>80</sup>

The Stiglitz Commission recommends the use of an international asset like the SDR in a new global reserve system. The UN expert panel says a new reserve system is needed to overcome two problems: first, the imbalance created by developing countries' excessive accumulation of foreign exchange reserves and second, the instability of the current international reserve system with its overdependence on the US dollar whose future value

is likely to deteriorate given the USA’s enormous international debt. As shown in Figure 2 the US net international debt exceeds the long-term external debts of all developing countries put together.

In Stiglitz’ words: “The existing system, with the US dollar as reserve currency, is fraying. The dollar has been volatile. There are increasing worries about future inflationary risks. At the same time, putting so much money aside every year to protect countries against the risks of global instability creates a downward bias in aggregate demand weakening the global economy.”<sup>81</sup>

**Figure 2 US and Developing Countries External Debts and Foreign Exchange Reserves 2008<sup>82</sup>**  
(Billions of US dollars equivalent)



In 2007 developing countries lent US\$3.7 trillion to developed countries at low interest rates while they borrowed money from these countries at higher rates. The cost to developing countries of investing their reserves in low-yielding assets is estimated at US\$130 billion a year, a sum greater than the value of all Official Development Assistance.<sup>83</sup> The hard earned savings of low-income countries are misdirected to subsidizing over-consumption in the US and other Northern countries.

As Jane D’Arista explains “the international reserve function of the dollar-based key currency system creates a uniquely ironic imbalance in the global economy as the current account surpluses of emerging economies are loaned to the US to finance the public and private borrowing that supports its growth.”<sup>84</sup> D’Arista adds “one of the more pressing issues in dealing with global imbalances is to find ways to recycle these countries’ savings back into their own economies in support of development strategies that increase demand and income more equitably across their household and business sectors and reduce dependence on exports for growth.”<sup>85</sup>

The Stiglitz Commission notes that the current system also has costs for the United States and argues that there would also be advantages for the US if it were to accept a new global reserve system:

The United States also incurs costs associated with its role as supplying global reserves. The demand for global reserves has led to increasing current account deficits in the United States that have had adverse effects on U.S. domestic demand; when dollars are held to meet increased demands for liquidity in surplus countries, they fail to produce any countervailing adjustment in foreign demand. This necessitates the U.S. maintaining persistent fiscal deficits, if it wishes to keep the economy at or near full employment—with the exception of periods of “irrational exuberance,” such as the tech bubble of the late 1990s. In addition, periodic needs to correct these deficits require contractionary monetary or fiscal policies that have adverse domestic effects on the U.S. economy. ... Maintaining U.S. monetary policy autonomy, as would be required to respond effectively to the current crisis, is a major reason for the U.S. to move to a global reserve system, in addition to the benefits it would receive from a more stable global financial and economic system.<sup>86</sup>

The Stiglitz commission’s recommendation for a new reserve system would overcome the Triffin dilemma. If dollars could be exchanged for a new international currency through a “substitution account” held by the authority issuing the new international currency then a large amount of dollar reserves would be removed from circulation circumventing the foreign exchange market. This would avoid putting downward pressure on the dollar without affecting the total amount of international reserves.<sup>87</sup> The proposal of the Stiglitz Commission could be the key to overcoming the global imbalances. (See KAIROS Policy Briefing Paper #19: [Financial Crisis: An Opportunity for a New Global Order](#). November 2009)

## G. IMF reform

Changes in IMF voting rights symbolize shifts in global economic power. But they occur at a very slow pace. Reportedly winning more influence in the World Bank and the IMF is China's top priority for participation in the G20.<sup>88</sup> In April of 2008 a marginal redistribution of IMF quotas was approved but it did little to change the actual balance of decision-making power within the IMF. China's share of votes was raised from 2.9% to 3.7% as of December 2008. Russia's voting share went up from 2.6% to 2.7% and six oil-exporting countries (Saudi Arabia, Kuwait, the United Arab Emirates, Qatar, Brunei and Bahrain) saw their voting power decline from 4.5% to 4.3%. Meanwhile, the USA allowed its share to fall from 17% to 16.8% but crucially it remains above the 15% threshold needed to give it veto power over major policy decisions.

Reallocation of IMF votes on such a minor scale serves to re-establish the legitimacy of the IMF but still leaves developing countries underrepresented and largely powerless.

At Pittsburgh the G20 agreed on further minor changes to quota allocations in favour of emerging countries:

Modernizing the IMF's governance is a core element of our effort to improve the IMF's credibility, legitimacy, and effectiveness. We recognize that the IMF should remain a quota-based organization and that the distribution of quotas should reflect the relative weights of its members in the world economy, which have changed substantially in view of the strong growth in dynamic emerging market and developing countries. To this end, we are committed to a shift in quota share to dynamic emerging market and developing countries of at least five percent from over-represented to under-represented countries using the current IMF quota formula as the basis to work from. We are also committed to protecting the voting share of the poorest in the IMF. ... [W]e agree that a number of other critical issues will need to be addressed, including: the size of any increase in IMF quotas, which will have a bearing on the ability to facilitate change in quota shares; the size and composition of the Executive Board; ... As part of a comprehensive reform package, we agree that the heads and senior leadership of all international institutions should be appointed through an open, transparent and merit-based process. We must urgently implement the package of IMF quota and voice reforms agreed in April 2008. (#21)

According to the *Financial Times*<sup>89</sup> US proposals tabled at Pittsburgh for increasing the share of IMF votes allocated to emerging countries by five percentage points at the expense of European countries caught the UK and France by surprise.

While the effect of a five percentage point shift in quotas reduces the share of votes allocated to developed countries from 57% to 52%, the majority of votes remain in their hands. Moreover, the US will retain its veto power over major decisions which can be blocked with 15% of the votes.

The promise of more votes serves to ensure that emerging countries continue to support the IMF and legitimise its policies. As Bernd Nilles of CIDSE said in a news release at the time of the Pittsburgh summit “The rearrangement is not conceived in the interest of the poorest, but in the interest of ensuring emerging countries that now have more money are willing to share it in the existing institutions.”

While the change in voting rights and the end of the practice whereby the Managing Director of the Fund is always a European and the President of the World Bank is always a US citizen may be symbolically important in terms of restoring a veneer of legitimacy to these institutions, a more crucial issue is the power they exercise over the economic policies of the countries to which they lend.

The G20 seems incapable of recognizing how neoliberal policies are root causes of the economic crisis. In the words of the Stiglitz Commission:

At the global level, some international institutions continue to recommend policies, such as financial sector deregulation and capital market liberalisation that are now recognized as having contributed to the creation and rapid diffusion of the crisis. ...

The current crisis reflects problems that go beyond the conduct of monetary policy and regulation of the financial sector; it has exposed a flawed understanding of the functioning of markets.

There was a widespread belief that unfettered markets are, on their own, quickly self-correcting and efficient.

This suggests that it is necessary to review the policies currently advocated by international institutions, such as the International Monetary Fund, the World Bank, the regional development banks, and the World Trade Organisation...<sup>90</sup>

An early draft of the Stiglitz Commission report warned that “desirable reforms within existing institutions may occur too slowly. These concerns have been increased as a result of the appearance of large discrepancies between official discourse on changes in IMF operating policies and their official implementation in lending agreements that appear to require fiscal tightening, inflation targeting and even tight constraint on nominal wage growth in the public sector.”<sup>91</sup>

However, this warning was deleted from the final report issued in September of 2009.

A [recent study by the Center for Economic Policy Research](#) found that 31 out of 41 current loan agreements with the IMF imposed pro-cyclical policies such as cutting government spending or raising interest rates.<sup>92</sup>

## H. WTO Doha Round

The World Trade Organization already obliges financial market deregulation through its General Agreement on Trade in Services (GATS) and its Financial Services Agreement (FSA). These measures contributed to the spread of the financial crisis. The WTO's Doha agenda includes measures that would liberalize financial services even further.

The Pittsburgh G20 Communiqué states:

We remain committed to further trade liberalization. We are determined to seek an ambitious and balanced conclusion to the Doha Development Round in 2010, consistent with its mandate, based on the progress already made ... We note that in order to conclude the negotiations in 2010, closing ... gaps should proceed as quickly as possible. We ask our ministers to take stock of the situation no later than early 2010, taking into account the results of the work program agreed to in Geneva following the Delhi Ministerial, and seek progress on Agriculture, Non-Agricultural Market Access, as well as Services, Rules, Trade Facilitation and all other remaining issues. We will remain engaged and review the progress of the negotiations at our next meeting. (#49)

Nearly every G7 or G8 communiqué ever issued since 1975 has stated the leaders support for completing either a General Agreement on Tariffs and Trade or a WTO round of multilateral trade negotiations with little evident effect. It is the kind of declaration that would be noticed only if it were not included.

The International Trade Union Confederation observes how trade was dealt with remarkably briefly in just two paragraphs in the Pittsburgh communiqué (#48-49) that amount to a commitment to take no protectionist measures and to conclude the World Trade Organisation's Doha Round in 2010, with no details of any new ideas on how that is to be achieved.

John Hilary, a researcher with the British NGO War on Want writes that the "claim that the poorest will benefit from the conclusion of the Doha round is utterly without foundation. Academic assessments concur that the deal currently on the table will mostly benefit the world's richest countries, as well as certain export sectors in powerful developing countries. The World Bank's analysis shows that 80% of gains from the Doha round will go to high-income economies, and that the six countries of China, Thailand, India, Indonesia, Argentina and Brazil will scoop up almost all the rest.

"By contrast, the countries of sub-Saharan Africa are set to lose out once again, as are other states that will see their existing trade preferences eroded, such as Bangladesh. Just as the Uruguay round left the least developed countries hundreds of millions of dollars worse off than when they started, so too will the Doha round. Within individual countries, too, it is the poorest and most vulnerable who are set to suffer."<sup>93</sup>

The Stiglitz Commission warns against pursuing further liberalization of the financial sector through the Doha negotiations. In fact it calls for a rollback of some measures that have proven harmful:

Commitments and existing multilateral agreements (such as GATS) as well as regional trade agreements, which seek greater liberalization of financial flows and services, need to be critically reviewed in terms of their balance of payments effects, their impacts on macroeconomic stability and the scope they provide for financial regulation. ... This is of particular importance for small and vulnerable economies with weak institutional capacities.<sup>94</sup>

Once again a sentence critical of the actual policies of the IMF that appeared in an early version of the Stiglitz Commission report just after the passage cited above was expunged from the final report:

The IMF needs to adhere to its Articles of Agreement and should not promote capital account liberalization such as those proposed in bilateral, plurilateral and regional trade and investment agreements.<sup>95</sup>

The WTO continues to press for further deregulation and privatization of the financial sector, principally through its GATS and the FSA. For individual countries and the global community to adopt new public oversight over the financial sector, not only should financial services talks in the WTO's current Doha Round be suspended, but also existing WTO rules constraining regulation of financial services should be rolled back.

According to a briefing note from Our World is Not for Sale, as part of its Doha negotiating position the European Union continues to request that many countries limit the capital reserve requirements they impose on financial institutions at a time when solutions to the financial crisis demand higher reserve requirements.

A review of progress towards completing the WTO Doha round will be on agenda for the Toronto summit.

## Conclusion

While we do not know what will be the outcome of the Toronto Summit, the above analysis suggests progress will be minimal. The Harper government has put enormous efforts into blocking decisions on any kind of bank tax despite the need for additional revenues to pay for the costs of the crisis and to fight poverty and climate change. If the Harper government's position prevails financial institutions will escape, for the time being, having to bear responsibility for the economic crisis they sparked.

Similarly, the Harper government has endeavoured to give the crucial issue of climate change a very low profile despite pleas from UN Secretary General Ban Ki-moon and Mexican President Felipe Calderon. Apparently, Canada will not announce any action to reduce its subsidies to fossil fuels even though a deputy finance minister has warned of the potential embarrassment for Canada.

In contrast Korean President Lee Myung-bak and French President Nicolas Sarkozy have laid out much more ambitious goals for future G20 summits. Rather than blocking initiatives, the South Koreans have portrayed themselves as honest brokers able to mediate between the G7 and the so-called "emerging" countries without forgetting the needs of the other 173 members of the UN.

The success of the G20 in 2010 may well depend on the diplomatic skills of the South Koreans given Prime Minister Harper's determination to minimize the scope for new initiatives.

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*KAIROS: Canadian Ecumenical Justice Initiatives unites eleven churches and religious institutions in work for social justice in Canada and around the globe.*

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<sup>4</sup> Rt. Hon. Stephen Harper. Statement by the Prime Minister of Canada. Davos, Switzerland. 28 January 2010. Ottawa: Office of the Prime Minister.

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<sup>6</sup> Rt. Hon. Stephen Harper. *Op. cit.*

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