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Potential and Limits of the G-20 for Reforming the World Economy Towards Sustainable Development

Discussion Paper

by

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Content

SUMMARY

The paper argues that the emergence of the G-20 is the result of the financial crisis of 2008 ff. Its composition reflects a new balance of power in the world. The role of emerging markets, in particular China, Brazil, India is increasing, whereas the position of the West is relatively weakened. In so far the G-20 is a historic progress compared to the G-20.

Nevertheless the G-20 is still characterised by a democratic deficit. The G-20 also aggravates the marginalisation of the UN, thus weakening democracy in the overall system of global governance.

While the democratic deficit is often legitimised with the argument, that 20 players would be more efficient than 190 the paper is sceptical about the efficiency of the G-20. The national interests are still stronger than multilateral cooperation as soon as vital interests of a country are involved. The heterogeneity of interests and big power rivalries are risking to turn the G-20 into an arena for the fight for global hegemony. Also, several emerging countries seem to have limited commitment to the G-20 and some of them (BRICS states) have started to organize themselves in a separate platform.

In the second chapter, the agenda of the G-20 is presented and the performance in implementing it is analysed. While the G-20 was relatively successful in the first period of crisis management through developing concerting actions in rescuing the financial sector and stimulating the real economy, the success in reforming the financial system is very meagre. Also with regard to problems underlying the crisis, such as the global imbalances, the currency issue or a common exit strategy from the anti-cyclical policies multilateralism has reached its limits and is not able to deliver results.

The 3rd chapter analyses the development agenda of the G-20. The so-called Seoul Consensus is seen as an ambiguous undertaking, which is still very much rooted in the traditional neo-liberal paradigm. In particular with regard to the debate on such a key-factor for development as distribution, the Seoul Consensus is lagging far behind even the IMF and the WTO.

Chapter 4 looks into the specific case of the Financial Transaction Tax (FTT), an instrument, which has a dual purpose: generating revenues and containing speculation. Here again, the heterogeneity of the G-20 made it impossible to implement such an instrument at global level by now. Nevertheless, France has put the issue on the agenda of the Cannes summit. In the meantime the EU has prepared a directive for an FTT at EU level. Given the strong commitment of France, Germany and some other European countries, the project is close to implementation at least in the Euro-zone or through a "coalition of the willing."

In chapter 5 the role of food and commodity speculation is analysed. A broad consensus is emerging, that speculation with food and commodities, among them commodities of strategic importance such as oil, has to be contained. From a developmental point of view, this is a very important issue. Food security is existential for hundreds of millions of poor people in the developing world. The issue is on the agenda of the Cannes summit. Progress in this area will be a litmus test, whether the G-20 can deliver more on regulation than rhetoric.

The final chapter discusses options for civil society strategies towards the G-20. The G-20 cannot be treated in the same way as the G-8. Already through its composition it is not appropriate to criticise it as the "masters of the world." New challenges emerge through the ambiguity of the policies of member states of the G-20. For instance: while France and Germany have taken the FTT on board, countries which are supposed to benefit from it, like India, have opposed it at the Toronto summit together with the US and the UK. Also, China has impressive successes in poverty reduction, while the human rights situation in the country is problematic. These complex issues constitute new challenges for civil society, which can only be met through improved international cooperation and common strategies.

Berlin, 23rd of September 2011

1. The G-20 – Spider in the Web of Global Governance

In the final declaration of the Pittsburgh summit the G-20 proclaimed "*the G-20 to be the premier forum for our international economic cooperation.*" The G-7/8,[1] which until the financial crisis was considered to fulfil this role, has been replaced by a new star in the skies of global governance: the G-20.

The new institution is a reaction to the biggest financial crisis since the *Great Depression* in 1929. Its emergence is accompanied by hopes that the new body[2] could provide an efficient global management of the crisis and deliver substantial reforms leading up to a new financial architecture. For instance, in a paper of the *Friedrich Ebert Foundation* under the title: *The G-20: On the Way to a ‚Global Economic Government'?* the authors write: "*The experiences by now indicate, that the G-20 has several options to become a forum for the transformation of the world economy. On the one hand it can effectuate immediate and short term measures to fight a recession, on the other hand it can develop from a fighter against the recessions to the main platform of the global economic order." (FES 2010:8)*[3]

The G-20 as a forum for the transformation of the world economy? Maybe even for a green new deal?[4] At first glance, these hopes seem to be justified, because compared to the G7/8 the G-20 is an important step forward with regard to representativity. The summits in London (April 2nd, 2009) and Pittsburgh (September 24-25, 2009) also showed a broad consensus to manage the crisis through counter cyclical policies. In addition, the summit declarations, in particular the Pittsburgh declaration, expressed clear discursive changes compared to the neo-liberal language of G7/8 summits of the decades before.

1.2. The G-20 – a historic step forward compared to the G-8

While the G-7/8 was a pure undertaking of the industrialised countries the G-20 has a real global dimension. The G-8 represented 13% of the world population, whereas in the G-20 countries live 65,5%. The G-20 represents 88% of global GNP and 80% of world trade (for further details see annex). Each continent is represented. The emerging economies, first and foremost China, India and Brazil are members. Through Indonesia, which has the biggest Muslim population in the world, the Islamic world is somehow present in the G-20.

With its composition the G-20 takes into account fundamental and historic changes in the international system. The rise of China, India and Brazil as big powers in the international arena is changing the global balance of power. The uni-polar world, which had emerged after the end of the Cold War, has come to an end. The G-20 reflects the development towards a multi-polar world, towards more economic, political and cultural diversity. The G-20 is an adjustment to the new realities.

Of course, this is a process which is far from having reached its end, and the US are still the number one in terms of military and economic strength and political influence and will remain so for a while, but the trends are clearly developing towards a multi-polar world.

However, a multi-polar international system is not automatically an emancipatory one. The European 19th century was also based on a multi-polar system, with the British Empire as *primus inter pares*, France, Russia, Prussia (later on Germany) and Austria-Hungary. The

[1] The enlargement of the G-7 to the G-8 after the end of the cold war was not a full adoption of Russia. The G-7 finance ministers continue until today to meet without their Russian colleague.
[2] The G-20 as a summit of heads of states met for the first time in November 2008, although the institution as such has already been established as an advisory board to the G-8 in 1999 as a reaction to the Asian crisis. Initially the body consisted of finance ministers and central bankers.
[3] Translation from German: P.W.
[4] The Pittsburgh Leaders Declaration includes a whole chapter on „Energy Security and Climate Change", where they say among others: „*we are working for a resilient, sustainable, and green recovery.*

system was very unstable and led to several wars, among them the German French war of 1870 and finally World War I.

1.2. The democratic deficit of the G-20

In spite of its increased representativity the G-20 still bears many traces of the previous era:

1. It has been established by the US under the Bush administration, which convened the group for the first time as a forum of heads of states (Washington November 16th, 2008). There was no bottom-up process of constituting, but a top-down selection.
2. Particularly lamentable is the absence of poor countries. This deficit is not compensated through the fact, that some of them are invited as "*guests*" or observers to the respective host governments of the summits.
3. There is a bias towards the old world, with four European countries[5] and the *EU* being represented. From a global point of view, there is no justification for such a strong European presence.
4. With regard to the Arab world the selection of the Saudi regime has been determined more by geo-political interests of the US than by the desire to integrate this part of the world. This is particularly problematic in the light of the recent changes in Arab countries. The fact that the biggest country of the region, Egypt with its population of 80 million, is not represented is a serious weakness.
5. The participation of the *IMF*, the *World Bank*, *the European Central Bank*, the *Financial Stability Board* and the *Basle Committee on Banking Supervision*[6] makes sense, as these institutions play an important role for the global financial and economic system. However, the exclusion of the UN[7] and its sub-organisations such as the *UNCTAD* deepen the general trend to further marginalize the UN.
6. As the G-20 is an informal institution without executive power, the implementation of decisions is transferred to the existing formal multilateral institutions, in particular the IMF.[8] The Fund thus takes over the function of a de facto executive arm of the G-20. With its record of the past decades, the IMF has proved to be a spearhead of neo-liberal hegemony
7. The marginalisation of the UN may gain a new quality because the presence of the emerging countries gives considerable legitimacy to the G-20. There is a risk that some countries seem to be so proud to be now part of the club that solidarity with the group of the poor and non-G-20 countries might be weakened, unless there are compensatory measures. At the same time, it is not known by now, in how far the Southern member-countries really try to make a difference. There is little transparency on what the emerging countries are doing in the G-20 and which strategies they have.

So, although being a progress compared to the G8, the G-20 is after all far from complying with the standards of a global democracy meeting the challenges of the 21st century.

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[5] France, Germany, Italy, UK

[6] Interestingly the WTO is not part of the G-20, although with the negotiations on the liberalisation of financial services in the framework of an Annex to the GATS it is an important player in the global financial system.

[7] The UN General Secretary is invited as a guest to the summits, which does not really change the discrimination of the World Organisation.

[8] The Fund was mandated to provide and administer 800 bn. USD for rescue measures and countercyclical lending. Hungary, Iceland, Pakistan, Ukraine, Lithuania, Latvia and others were saved from bankruptcy but now have to undergo structural adjustment programmes. Also in the case of Greece the Fund plays, alongside with the EU, a key role. In addition the IMF provides expertise fort the G-20. A spectacular case was the report on how to make the financial industry participate in the cost of the crisis, released at the Toronto summit.

3. How efficient is the G-20?

The democratic deficit of the G-20 is often justified with the argument that the UN with its more than 190 members would be inefficient. Important and urgent problems could not be dealt with properly with the participation of so many players. Therefore, a smaller body with the most relevant players would be more efficient.

However, efficiency and democracy cannot per se be seen as contradictory. The inclusion of a constituency, which is as broad as possible, is a prerequisite to make solutions really work. Although democracy is a value in itself, it also carries instrumental value, as it is a means to solve problems within the respective constituency. Inclusion might be more efficient than exclusiveness. Criticism, opposition or even obstruction of those who are excluded can turn into an infringement of efficiency.

Furthermore, it is not the number as such which determines the capacity to find common solutions, but the configuration of interests. As we can learn from the Cold War, the bi-polar system, although mainly determined by only two players, could not deliver solutions for global problems.

Looking at the G-20 from the point of view of interests of its members we realize that the increase in representativity is accompanied by an increase in differences and conflicts of interests, which are deeply rooted in the specific situation and structure of the respective member country.

The most important of them are:

- the upcoming rivalry between the US and China as a superpower of the future, which in its essence is a conflict over future hegemony,
- the strategic conflict of interests between the "*new comers*" and the established powers, the latter ones trying to preserve their position, the others to climb up the ladder,
- the economic competition and the competition for strategic resources between the major groups and countries,
- the different degrees of affectedness by the crisis and hence the different strategies to overcome them,
- the different development models such as the state centred and interventionist concept of China, Russia and to a lesser extent India and Brazil, or the Continental European model of social market economy and the Anglo-Saxon model of free market capitalism,
- the different political cultures, ranging from the Western type of democracy, via post-communist rule based on majority vote like in Russia, to a feudal regime (Saudi Arabia) and finally the Chinese version of communism.

By now, the image and the agenda of the G-20 are still very much shaped by the G7, whereas there seems to be not very much influence of the emerging countries. There is practically no visibility of own positions of these countries. This might lead to the impression that the G-20 is dominated by the West. However, it might also be a sign for little commitment for the G-20 and they might have certain reservations to accept the G-20 as the leading platform of global governance.

In addition, some of the emerging countries organize themselves in a separate forum, the BRICS states, which consists of Brazil, Russia, India, China and since April 2011 also South Africa. This process is at the very beginning, and it is not yet clear where it leads. In terms of power politics it could be the attempt to create a power centre outside the G-20, which then might be used to influence more efficiently the G-20. On the other hand the differences and the heterogeneity of interests among the BRICS are also considerable.

All these are new developments and it is difficult to predict their outcome. Behind this background, the expectations into the capacity of the G-20 to really deliver substantial solutions to the global problems should not be too high.

1.4. Informality and efficiency

The G-20 is, like the G7/8 an informal body. It has no formal rules and procedures; it has no headquarters and no formal leadership. The chair is rotating from summit to summit. The G-20 has no formal executive (this is why the IMF has de facto taken this role) and – the most important factor – its decisions are not legally binding.

Nevertheless, there might be an interest in informality, because:

- it can serve for the members as a space of communication, of debate, of learning;
- it may serve as an early warning system for upcoming conflicts;
- it can help to prepare decisions either in formal multilateral institutions or simultaneously at national level;
- it can shorten decision making processes which otherwise would have to go through long-winded procedures;
- it can be an element of soft pressure on the members.

But in spite of these advantages, informality cannot override the fundamentals of the basic interests among the member states.

1.5. Toronto and Seoul – the limits of multilateralism emerge

Whereas Pittsburgh was very much marked by the severity of the crisis and the determination to implement strong regulation, there was a loss of momentum at the Toronto summit. There was an increasing illusion that the crisis would be over.

In addition, the chair of the summit was one of the few industrialised countries, which were not so heavily affected by the crisis.[9] The conservative Canadian government was very reluctant to promote further regulation. According to reports from Canadian NGOs the government even lobbied some emerging countries to support them, in particular with regard to any attempt to make the financial industry pay for the crisis. Even such a modest instrument as a bank levy, as advocated by the US and the Europeans, was blocked. Instead the language of the Toronto final declaration was strikingly stressing that practical measures had to be adapted to the respective national circumstances. One of the key sentences for the spirit of the summits says: *"We recognize that these measures will need to be implemented at the national level and will need to be tailored to individual country circumstances." (p .3)*

The Canadian attitude was supported by some emerging countries. The Indian finance minister for instance declared with regard to the proposal of Germany and France to introduce a Financial Transaction Tax (FTT*): "I do believe instead of taxation there should be better regulation. Taxation is not the alternative*." (IST 2010:1)

A second major controversy in Toronto was the issue of the "*exit strategy*." Whereas the US still stuck to the necessity of counter cyclical policies, including fiscal expenditures, the Europeans – very much under German pressure – advocated austerity programmes in order to

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[9] In fact, the financial industry in Canada was much more regulated than in the US. For instance there were strong restrictions for credit derivatives, which played a major role for the crisis.

begin immediately with the reduction of public debt. The consensus from the London and Pittsburgh summit had been broken under the pressure of conflicting interests.

After all, Toronto and Seoul summits confirm, that the national interests[10] of the members, in particular those of the bigger powers largely determine the dynamics of the G-20. They obviously use the G-20 as an arena for the struggle over influence and for a new balance of power in a multi-polar world.

This does not exclude that there can be a multilateral consensus in certain cases. As long as the national interests converge, like on the issue of countercyclical policies in London and Pittsburgh, such a consensus can be formulated. But as soon as the national interests are conflicting, the consensus is breaking.

1.6. The UN – an alternative to the G-20?

Many NGOs, progressive scholars and political forces favour the UN as the appropriate institution to deal with global economic and financial issues. The UN as a universal body has indeed much more democratic legitimacy. It is a formal international institution and is embedded in international law. Its composition reflects the reality of the planet much more than exclusive institutions, like the G-20.

However, the US and its Western allies have constantly weakened the position of the UN over decades, in particular on economic issues. Although the *Economic and Social Council* (ECOSOC) was initially meant to become as important as the *Security Council,* the Cold War established the IMF and the World Bank as the decisive institutions to deal with economic issues. Their governance structures attribute to the US and the other rich countries a dominant position. They have been and still are instruments for hegemony.

In the nineties the WTO was established – also outside the realm of the UN. Also sub-organisations with economic competence, such as the UNCTAD or the UNDP have been systematically weakened and marginalised by the West. It is therefore not surprising that the UN has also been kept out of the G-20.[11]

The basic reason is the principle of *one country one vote,* which gives poor and/or smaller countries voice and influence, whereas the position of the bigger powers is - formally – equal to the poorer and smaller countries. In addition, the UN gives voice and influence to countries, which do not comply with the geo-political interests of the US and its allies. A recent example is the recognition of Palestine through the general Assembly. In other words, the formal structures of the UN run against the realities of geo-political power relations.

This will not change in the foreseeable future. At the contrary, as already mentioned above, there is the risk, that the participation of the emerging countries might further weaken the UN.

One might deplore this situation and it is absolutely necessary to strive for a change. However, the realities of the balance of power have also to be taken into account. It makes therefore no sense to consider the UN as a counter veiling force or an alternative to the G-20.

[10] *National interest* in this context means the position as defined by the government. Of course, this does not necessarily mean that this reflects the interests of the society and its majority.

[11] The Secretary General is invited as a „guest" to the summits. One might ask, whether this is an honour or a humiliation.

2. The Agenda of the G-20

The agenda of the G-20 is centred on economic issues, in particular management of the financial crisis and financial regulation. This is not surprising, given that the rise of the group is a direct result of the 2008 crash.

The Seoul summit in November 2010 also addressed deeper roots of the crisis such as the global trade imbalances. Also development came on the agenda (see chapter 3).

The French presidency for the 2011 summit in Cannes has put currency issues, taxation of financial transactions and commodity speculation on the agenda. And of course the crisis of public debt in many industrialised countries and the next wave of banking crisis and recession will be big issues.

2.1. Crisis management – some successes

The management of the financial crisis in its first stage 2008-2009 was to a certain extent successful, because unlike in the Great Depression of the 1929 there was a concerted anti-cyclical reaction, which used two main instruments:

- rescue packages for the banking sector,
- stimulus programmes for the real economy.

Many details of these measures can be criticised. In particular they were serving too much the interests of the financial industry. Often they were socially unbalanced or gave away the chance for structural changes as in the case of the old fashioned programmes for the automobile industry. But they did not make the fundamental mistake of 1929, to leave the solution to the markets. The bankruptcy of Lehman Brothers was the last case, where the market had settled the problem. Although some countries (Greece, Portugal etc.) continued to have heavy problems the overall picture soon changed towards recovery and the worst case as in 1929 could be prevented. In particular the fast recovery of the emerging economies gave positive impulses to the world economy – at least by now (September 2011).

The G-20 contributed to build a consensus for an anti-cyclical response to the crisis and showed, that multilateral cooperation can make a difference.

But already at the Toronto summit and in Seoul 2010 the momentum was slowing down. The illusion emerged, that the crisis would be over and the world could return to normal. The Seoul summit was characterised by strong controversies about the exit strategies to the rescue and stimulus policies and how to deal with the global imbalances. The conflict is continuing and even sharpening with the second phase of the US policies of quantitative easing in September 2011 while Germany and the Northern Europe favour strict austerity.

2.2. Financial reforms – poor performance

In particular the Pittsburgh summit discussed a large package of financial reforms. Some really important deficits of the financial sector were addressed, such as:

- poor supervision,
- insufficient capital requirements,
- the role of shadow banking,
- risky instruments such as derivatives and practices such as leverage,
- the flaws of the rating agencies.

The US, the EU and several individual countries started reform processes. However the result is very meagre. These reforms:

- are too slow and come to late, such as the Basle III agreement on capital requirements which will fully enter into force only in 2018,
- are watered down by the lobby of the financial sector as in the case of the EU directive on Hedge Funds (AIFM directive),
- are blocked by political opponents as the Republicans in the US or the UK in the EU.

The main problem of these reforms is however, that they remain far below what is required by the dramatic situation. It is like fighting a fire with buckets. The proposals are limited to re-establish financial stability. Of course financial stability is public good and deserves support also from civil society. But stability is not enough. What is at stake is the whole system of financialisation, or what Keynes called the *casino system*, i.e. the dominance of speculation and the rule of finance over the real economy. The world does not need stability for the casino, but it's closing!

As the G-20 has not understood the fundamental reasons for the crisis it is not surprising, that the problems are still not under control. Even some in the elites begin to understand that they have underestimated the crisis and failed to meet the challenges. Thus, the German minister of finance said: "*With regard what has to be implemented … we have not even made it half way.*"[12]

3. G-20 and Development

On the initiative of Korea, development was put on the agenda of the Seoul summit and a commission was established. The initial motive behind the Korean initiative was to present the Korean experience – or how this experience was perceived by the conservative government – as a model for the developing world. The first draft for a respective document came from the finance ministry and was falling far behind the level of discussion reached in the development community. Compared to this initial move the so-called *Seoul Consensus* was an improvement.

3.1. An ambiguous undertaking

Nevertheless, the Seoul Consensus is still an ambiguous undertaking. Because one might ask, why the G-20 should not stick to their core agenda, the financial crisis. There are institutions in the UN-system like UNDP, UNCTAD, FAO etc., which have a long-standing expertise in the area of development. Putting development on the agenda of the G-20 is another step towards marginalising the UN. Furthermore, the decisive stake holders, the poor countries are not represented in the G-20. The approach could therefore be qualified as somehow paternalistic.

On the other hand, the experience of the emerging countries with their own development could be a productive force. China, India and others still consider themselves as developing countries. And in fact, looking for instance at India, which has the largest poverty population worldwide, there are good reasons to talk about development in the G-20.

Also the global crisis heavily affected the poor countries and continues to hit them. The *Millennium Development Goals* (MDGs) will not be reached by 2015. And of course poor countries have a strong interest in a sound economic environment. Development needs stability and predictability. Therefore it makes sense to deal with development in the G-20.

[12] Schäuble in an Interview June 18th 2011. http://www.bundesfinanzministerium.de/nn_82/DE/Presse/Reden-und-Interviews/20110618-Boersenzeitung.html?__nnn=true

However, the poor countries should be officially involved and the G-20 should draw on the enormous expertise of the existing development organisations such as UNCTAD.

3.2. The Seoul Consensus

The rationale of the Seoul Consensus on development is „inclusive growth." It does not represent a paradigmatic change compared to the traditional approach of growth. The element of *inclusion* is more like an annex to the existing building.

The Consensus articulates general basic principles – among them a focus on growth and participation of the private sector - and identifies nine priority areas for action, such as infrastructure, private investment and job creation, trade, financial inclusion, food security and transfer of know how.

Yet, a fundamental deficit of the concept is the absence of the most important issue for development: distribution. Even the IMF is more advanced in that respect. Former IMF president Strauss-Kahn for instance said some weeks before his fall: "*The tendency was to downplay inequality, to see it as a necessary evil on the road to riches. But the crisis and aftermath have fundamentally altered our perceptions. The lethal cocktail of prolonged high unemployment and high inequality can strain social cohesion and political stability, which in turn affects macroeconomic stability. Inequality might have been one of the 'silent' causes of the crisis.*" (IMF 2011a)

The Seoul Consensus is much closer to the old neo-liberal Washington Consensus than to the present debate. It is surprising, that the experience of countries like China, which pulled 400 million out of poverty with different strategies than those of the Seoul Consensus are obviously not reflected. The same is true for Brazil, which with its *bolsa familial* and similar measures achieved considerable success in poverty reduction too, and other countries.

4. The Case of the Financial Transaction Tax

The idea to tax financial transactions is not new and has already been suggested by Keynes. In 1972, with the end of the Bretton Woods system, Nobel price winner James Tobin proposed to tax currency transactions in order to cool down the markets. In the mid nineties, the concept re-emerged again. This time it was the UNDP (Ul Haq et al. 1996), which featured a "Tobin Tax" as a new source to finance development. After the Asian crisis 1997/98 civil society put the tax on its agenda. At present, the concept is - under the label *Financial Transaction Tax* (FTT) – close to its implementation in Europe. France, Germany, Austria, Belgium and others as well as the European Commission are in favour.

The FTT introduces a tax on trade in all kinds of financial assets: shares and all commercial papers such as bonds, treasury obligations, certificates, derivatives, etc. Other categories of financial transfer, such as day-to-day payment transactions and the credit system, are not affected. This also applies to interbank transactions, central bank business and the foreign bank transfers of labour migrants.

Basically, the FTT can be compared to the value added tax. Whereas the purchase and sale of each pound of butter and each T-shirt is charged with the value added tax, the trade in financial assets is tax exempt. This represents an enormous duty free shop for all who can afford to shop there.

The FTT allows two birds to be killed with one stone:

a. It would have a steering effect and reduce speculation. A large part of speculative business exploits the smallest exchange rate fluctuations, even in the realm of one hundredth of one per cent. When leverage is applied, i.e. foreign capital is used, then there is already enormous potential for profit if several hundred millions are brought into play, especially if these deals are repeated again and again over a short period. In particular computer base high frequency trade, which effectuates automatically deals within nano-seconds would be hit by such a tax. If the computer makes ten thousand transactions per day, the tax would be levied ten thousand times. A considerable proportion of these deals would already cease to exist if there were tax rate of about 0.1%, since they would no longer be profitable.

b. The FTT would raise very large amounts of income even with a small tax rate, when one considers the huge turnover on the financial markets. A tax rate of only 0.1% would lead to revenues of 734.8 billion US dollars worldwide in a scenario where trade volume is only slightly reduced because of the tax. This would amount to 321.3 billion in Europe and 313.6 billion in North America. Even the massive increase in the US budget deficit could be completely paid off within eight years with the income from the FTT. And in an even shorter time in Europe. Additionally, the FTT could provide a large contribution to financing public goods such as climate protection and social justice.

Tax collection would be technically very easy and inexpensive, since all stock exchange transactions are already registered on electronic platforms. A simple electronic labelling tag could forward the tax revenue automatically to the tax office. Tax evasion or tax fraud would be unlikely since dodging the platforms would be turn out to be more expensive than the tax.

As a result of the financial crisis, the Financial Transaction Tax (FTT) has become an issue in the G-20. The Pittsburgh summit mandated the IMF to explore how the financial sector could contribute to the burden of the crisis. In a study prepared for the Toronto summit in July 2010, the IMF comes to the conclusion, that such a tax would be feasible, although there would remain some reserves.

However, the Toronto summit did not reach a consensus. There was strong opposition from the US, Canada, Australia and the UK. Also India was speaking out against the FTT.

Nevertheless, the French presidency has put the issue on the agenda again for the Cannes summit. Sarkozy has commissioned a study from Bill Gates on "*innovative sources of finance for development*" to be presented in Cannes. The study will be in favour of the FTT as instrument to finance development without going into deeper details.

In the meantime the EU Commission has presented a draft directive for a regional FTT in the EU, which is quite close to the proposal of civil society (for further details see: WEED 2011)

It is very probable that such a tax will be implemented in the near future, be it in the EU, the Euro-zone or in "coalition of the willing" with France, Germany and others.

The whole process has been supported by a strong civil society campaign.

5. The Case of Food and Commodity Speculation

"*Do you enjoy rising prices? Everybody talks about commodities – with the Agriculture Euro Fund you can benefit from the increase in value of the seven most important agricultural commodities.*" With this advertisement the *Deutsche Bank* tried in spring 2008 to attract clients for one of its investment funds.

At the same time, there were hunger revolts in Haiti, Cameroon and other developing countries, because many poor could not pay any more the exploding food prices. In fact, between the end of 2006 and March 2008 the prices for the seven most important

commodities went up by 71% on average, for rice and grain the increase was 126%·(FAO 2010).
The poor are most hit by the hike in prices. Whereas households in industrialised countries spend 10%-20% for food, in low-income countries they spend 60%-80%. As a result, the number of people falling below the absolute poverty line increased by more than 100 million until 2010. Furthermore, the price explosion has negative macroeconomic effects: deterioration of the balance of payment, fuelling inflation and new debt. High food prices are also a threat to the basic human right to food.

5.1. Speculation boosts price increase

The price increase has several explanations. There are long term factors, such as increases in demand, insufficient agricultural productivity in several developing countries, structural adjustment programmes crowding out local food production in favour of cash crops and bio-fuels, as well as short term factors such as bad harvests and the depreciation of the dollar. But these factors alone cannot explain the dramatic increase in such a short time.
Speculation comes in, as some people and institutions "*enjoy rising prices*" like in the Deutsche Bank advertisement above. Speculation is boosting the prices for food. This is now acknowledged by the mainstream of the financial community, among others the *World Bank,* the *IMF* and the *Commodity Futures Trading Commission – CFTC* in the US.
The French presidency for the 2011 G-20 has set the issue of commodity speculation on the agenda. Of course, the industrialised countries are first and foremost concerned with speculation on oil prices. Given the strategic importance of oil, too much volatility has a destabilising effect on the entire economy. On the initiative of France a high level expert meeting in the fore field of the Cannes summit has already started to work. As a first measure an inventory of commodities is under preparation. The EU is already preparing a directive, which aims at reducing speculation in commodity markets.
From a development point of view, such initiatives are steps into the right direction. Besides the issue of food security, commodity prices are of paramount importance for many developing countries, be it as exporters or importers. Therefore, eliminating commodity speculation is good for development.

5.2. How speculation influences food prices

Speculation is a bet on the future price of a commodity or financial asset. Speculators have no intention to really deliver or buy a product. They have no link to production and consumption; they enter the market because they expect that they can profit from changing prices.
For the recent price explosion speculation contributes in several manners:

- A large part of international trade in agriculture is made with the help of derivatives, especially *futures*. For example, in a futures contract, a farmer agrees in January to sell his not yet existing July harvest to a trader at a fixed price. The risk of price volatility lies with the trader. If the prices in July are higher, the trader makes a profit, if they are lower he makes a loss, whereas the farmer no longer has worry about the price in July. For him this deal has the character of insurance. This is why this type of speculation is called *hedging*. Of course, the trader wants a risk premium for this future contract, which at the end increases the overall price of the commodity. This procedure is not without alternatives. For instance, it would be possible to organise a mutual insurance among the farmers or to have state guaranteed prices. But under the given conditions, this type of speculation is reasonable as long as it is made by specialised and experienced traders and if there is no external market disturbance.
- However, the financial crisis has pushed hedge funds and other institutional speculators to enter the commodity markets. As business opportunities in the financial

markets are drying up as a consequence of the crisis, they desperately seek for new areas to make profit. Thus, they have discovered the commodity markets, particularly oil and agricultural commodities. This has boosted demand and, consequently the prices. In 2007 trade in agricultural derivates increased by 32% (UNCTAD 2008). Between June 2005 and June 2007 the face value of commodity derivatives traded o*ver the counter*[13] increased by 160% although real production did not increase. The price increases developed in the futures market first.

- The bubble in the futures markets also influences the spot markets.[14] Under the influence of increasing prices in derivative trade, producers or traders hold back delivery, as they expect higher prices at a later stage. In other words, the bubble in derivative prices seduces them to behave as speculators.
- The oil price is a strategic price, i.e. its price gets included into the prices of all other products. This is also the case for agricultural commodities. Their production and distribution requires oil for tractors and other machines, for fertilizers and transportation to the markets. As oil in itself is a commodity, whose price is very much driven by speculation, the speculative boost of the oil price comes in top of the price of the agricultural commodity. Expert estimate, that approximately 25% of the oil price is determined by speculation (Kemfert 2008). Thus, speculation in oil works as an indirect factor for the increase in prices of agricultural commodities.
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5.3. Is speculation on falling prices a good thing?

Since the climax of the commodity prices in July/August 2008 commodity prices have fallen again. By mid September the oil price had fallen by 30% from its peak. This highlights the impact of speculation. This drop within a few weeks has absolutely nothing to do with fundamentals, such as new supply, a slow down of demand, "*peak oil*" etc. It is largely due to speculation on falling prices. In particular hedge funds have engaged in *naked short selling*. Naked short selling means that you sell an asset, which you don't own. Generally you borrow the asset from someone who owns it before you sell it. Then if the price of the asset goes down, you buy it back at the lower price and return it to the original. In the first eight months on 2008 the revenues of short selling have increased by 10% (Credit Suisse 2008). In the meantime (September 2011), food prices have reached again the level of July 2008.

Although short selling contributes to falling prices, there is no reason to welcome it as good speculation, because it can increase volatility by making prices overshoot downwards, just as speculation can do upwards. In both cases financial transactions affect the prices of items in the real economy apart from fundamental changes in supply and demand.

Short selling on certain items was banned temporarily by in the US, the UK, Germany and other countries in September 2008. It had accelerated the fall of the share price of financial institutions such as *Lehman Brothers.* In 2010, Germany banned naked short selling.[15]

5.4. Banning speculation

Technically it is easy to prevent the speculation on food commodities. It can be achieved through the combination of the following measures:

- Introducing a trade register where only traders who are hedging are allowed;
- Creating regulation that can take action to prevent and bubbles that hedging might produce;

13 Ten percent of trade in derivatives goes through stock or commodities exchanges and is therefore standardized and under supervision. The remaining 90%, not traded through an exchange, is called "over the counter". This trade is completely unregulated and intransparent.

14 In the spot market, a deal is settled within at maximum three days

- Requiring that all trade be conducted on exchanges and transparently rather than over the counter;
- Preventing hedge funds and other institutional speculators, which are not listed from trading.

It is a question of political will, whether speculation on agricultural commodities is allowed to contribute to undermine food security and increase hunger and misery.

For developing countries the issue will be the litmus test, whether the G-20 is capable to deliver on such a vital issue for the billion people who are threatened by hunger.

6. Civil Society and the G-20

The emergence of the G20 confronts civil society with new challenges. Whereas the relative homogeneity of the G-7 made it easy to confront the group as an entity, which had the ambition to lead the world, although representing only 13% of the world's population, the heterogeneity and a relative representativity makes it impossible to look at the G20 in the same way as on the G-7.

Furthermore, the last three decades were determined by neo-liberalism as the dominant paradigm. The G-7 was one of the main promoters of neo-liberalism, while the majority of civil society was opposing it. Today, the financial crisis also stands for the bankruptcy of neo-classics and monetarism. The G-20 as whole, however, cannot be identified with neo-liberalism. The rhetoric of the Pittsburgh declaration and many of its proposals are not compatible with neo-liberalism, not to speak of the economic model of single G-20 members, such as China, Brazil, Argentina and others.

6.1. New Alliances?

China for instance, had impressive success in poverty reduction, the economy is strictly regulated by the state and finance has to serve the real economy. There are elements in the Chinese economic model, which are considered to be attractive by many developing countries.

On the other hand, the situation of human rights and democracy in China contradicts the values civil society is striving for and the increasing engagement of China in developing countries, particularly in Africa, has highly problematic dimensions. Land grabbing for instance is one of them. It is not only a problem in itself but makes other countries copy this approach. Thus India for instance has also joined the land grabbing practices.

What are the consequences for civil society strategies? Is it legitimate to make (tactical) alliances with China? Can civil society involvement in the G-20 contribute to make some of the emerging countries more open towards civil society?

Another crucial issue is the UN. As described above, the UN is further marginalized by the G-20. There are no signs that the emerging countries inside the G-20 would particularly care for the UN, not to speak of solidarity with the poor countries. In some cases it even seems as if they would be very much flattered to belong to the club of the rich and powerful.

Part of this problem is the question of the expansion of the G-20 agenda. How to react, if the agenda is further enlarged, for instance to issues of climate change and environment, or so called should security issues, i.e. the question of war and peace. The G-7 also started with a purely economic agenda. Gradually other issues such as terrorism, war (for instance the Soviet war in Afghanistan), education and others came on the agenda.

These are some of the open questions, and there are many others. Independently from how one is answering them, there is a need to strengthen cooperation of civil society in order to develop common strategies towards the G-20.

6.2. International civil society cooperation

There is an interesting tradition of shadowing the G-7 through alternative summits from below and in several cases of strong mass protest against the G-7, as for example at the Genoa summit in July 2001. Civil society in the G-7 countries has developed routines to deal with the summits. But the alternative events, as spectaculous they might be from time to time, are only one element in a civil society strategy. What counts much more is the capability to influence continuously the political position of a country from inside in the international arena and in the G-20.

It is time to invite civil society in the new member states of the G-20 to engage also in shadow activities whenever a summit is taking place in their country. After the first G-20 in an emerging country in Korea 2010, the 2012 summit will be held in Mexico, 2013 it will be in Vladivostok. Earlier or later the summit will be hosted in India, South Africa, Brazil, Indonesia etc.

But independently from whether a country hosts a summit, civil society should accompany continuously the work of the G-20 and confront it with its own alternatives.

The dialogue programme of EED and WEED is meant to support this process.

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Appendix: The G-20 in figures

	Population 2010 (Mio)[1]	GNI absolute nominal 2009 (bn. USD)[1]	GNI per capita 2009 (USD)[1]	Foreign trade turnover 2009 (bn. USD)[1]		Military expenditure 2009[2]		Relative poverty	
Country				Exports	Imports	absolute constant figures (2009) USDm	% of GDP	60% of median income (mid-2000s)[3]	Share of population below national poverty line (2004-2010)[4]
Argentina	40,4	297,6	7580	65,6	49,1	3179	1	--	--
Australia	22,3	900,7	43590			19799	1,9	20,3	--
Brazil	195	1562,4	8090	177,3	178,2	28096	2	--	21,4
China	1338,3	5034,5	3650	1333,3	1113,2	114300	2,2	--	2,8
Germany	81,7	3377	42410	1359,7	1195,1	46848	1,4	17,2	--
European Union (27)	502,1	16294,6	34152	6008,9	5860,9	--	--	16[5]	--
France	64,9	2671,2	42610	610,7	662,1	61285	2,5	14,1	--
UK	62,2	2203,9	41080	601,6	653,1	57424	2,7	15,5	--
India	1170,9	1372,6	1220	270,4	331,7	34816	2,8	--	27,5
Indonesia	239,9	520,4	2160	130,3	115,2	6009	0,9	--	13,3
Italy	60,5	2079,4	35130	506,4	514,8	38198	1,8	19,7	--
Japan	127,4	5171,1	37520	636,1	620,8	51420	1	20,8	--
Canada	34,1	1317,3	41950	383,6	406,5	20164	1,5	19	--
Mexico	113,2	867,9	8680	243,6	256,2	4859	0,5	25,3	--
Russia	141,7	1181,8	9290	341,6	250,9	52586	4,3	--	11,1
Saudi Arabia	27,4	381,2	16190	201,9	160,6	42917	11,2	--	--
South Africa	50	276,4	5730	77,5	79,9	3735	1,3	--	23
South Korea	48,1[6]	836,9[7]	17315[7]	363,5[7]	323,1[7]	24270	2,9	20,8	--
Turkey	72,8	696,4	9060	142,8	150	15634	2,7	24,3	18,4
USA	309,1	14011	46330	1578,4	1964,7	687105	4,7	23,9	--

1 Source: World Bank Data (http://data.worldbank.org/)
2 Source: SIPRI (http://www.sipri.org/)
3 Source: OECD Data (http://stats.oecd.org/index.aspx)
4 Source: United Nations Data (http://data.un.org/)
5 Source: Eurostat (http://epp.eurostat.ec.europa.eu/portal/page/portal/eurostat/home/)
6 Source: Population in 2010, UN Data (http://data.un.org/)
7 Source: UN Data for 2009 (http://data.un.org/)