

## **THE CLUB OF ROME**

**VIENNA 16-17 APRIL 2009**

### **AGENDA ITEM 5: REVIEW OF DEVELOPMENT CHALLENGES:**

#### **ETHICAL AND HUMANITARIAN CHALLENGES; GOALS AND STRATEGIES TO ACHIEVE SUSTAINABLE AND EQUITABLE INTERNATIONAL DEVELOPMENT**

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Allow me first to thank the Club of Rome for including me in this important meeting. Allow me also to offer congratulations to this institution for providing perhaps the only semi-official analysis to address the full measure of the multi-faceted crisis we face today.

Sad to say, governments and mainstream international institutions seem overwhelmed by complexity; they cannot seem to manage the increasingly interconnected political, social, economic and environmental variables that have created the present situation of unprecedented and dangerous instability and volatility. This may explain the recent performance of the G-20 whose principle decisions involved handing over vast sums to the International Monetary Fund and somewhat lesser ones to the World Trade Organisation or, at least, to a category labelled “trade finance”.

Although the IMF may, by 2011, change its voting quotas and give slightly more power to emerging nations, such measures are largely cosmetic. Far more important are the Fund’s longstanding practices. We are not told whether it will alter its conditionality, or “structural adjustment” packages which embody exactly the conventional neoliberal wisdom the Club of Rome has accurately identified as the factors that caused the crisis. These include [I quote here from the preparatory documents for this meeting]

excessive belief in the ‘magic of the marketplace’; determination to cut back on the role of government and a damaging concept of economic growth which does not take into account the value of public goods and natural capital.

If the IMF lends its newly found \$750 billion on the same terms as it has done for the past three decades, we will see more disasters. Working in tandem with the World Bank, the IMF has encouraged export-led growth, deregulation, privatisation and fees for healthcare and education beyond the reach of most families; while downgrading smallholder agriculture and paying no attention whatever to the environment. If these policies remain in place, they will result in even greater poverty and inequality, compounded by the increasing hardships brought about by climate change.

Let us not underestimate either the role of local elites in discouraging development. According to recent research, for the period from 1970-2004, total capital flight from 40 countries of Sub-Saharan Africa

amounted to \$420 billion (in 2004 dollars), compared to the external debt [IN 2004] of \$227 billion.... [for] every dollar in external loans to Africa in this period, roughly 60 cents flowed back out as capital flight in the same year, a finding that suggests the existence of widespread “debt-fuelled” capital flight...\*

What are we to make of this? Logically speaking, *either* the IMF knew that elites were stealing some 60 percent of all new loans to Sub-Saharan Africa but did not prevent it; therefore it was complicit in the thefts. *Or* the IMF was not aware of this phenomenon despite its vast scale and proved itself incompetent.

So my first recommendation would be this: Could we not, as a group, call for a thorough review and overhaul of IMF and World Bank conditionality packages and practices? Could we not devise safeguards so that future loans go to the purposes for which they were intended; that they genuinely contribute to reducing poverty and the stresses of climate change? This would imply a cultural revolution at the Bank and the Fund but it is one I believe we must insist on if we are to contribute to resolving the development crisis.

Loans to the South should promote food crops and conversion to fossil-fuel free economies. Since the 1980s, loans to agriculture from all sources, particularly the World Bank have declined drastically and food security has deteriorated accordingly. The Bank, especially through its semi-private affiliate the

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\* Léonce Ndikumana and James K. Boyce, “New Estimates of Capital Flight from Sub-Saharan African countries: Linkages with External Borrowing and Policy Options, University of Massachusetts [Amherst] Department of Economics and Political Economy Research Institute, Working Paper 166, 2008

International Finance Corporation, is still lending massively to fossil-fuel and coal-mining projects in the South. For years, NGOs have pleaded with the Bank to promote solar energy in sunny countries, always triggering the same response: Solar energy is “more expensive” than coal-fired power plants. Perhaps it is now—although this is doubtful—but if the Bank had invested in solar power, it is a fair bet that prices would have come down thanks to economies of scale. The Bank is not an institution that one can trust to be in charge of overseeing loans and strategies to fight climate change.

With its promise to contribute an extra \$250 billion to trade finance, the G-20 turned the spotlight back on the WTO where the Doha Round has staggered on inconclusively for nearly eight years. No one is opposed to trade rules but it is legitimate to ask which rules? for whose benefit? The WTO rules were profoundly influenced by transnational corporations; not one line in its agreements refers to worker rights, human rights or environmental protection.

Should the Club of Rome wish to remedy this, it could begin by suggesting that one revisit the Havana Charter of 1947, based on Keynesian principles, as well as Keynes’ proposal for an international trade currency called the *bancor* accompanied by vigorous financial incentives to prevent the huge trade surpluses and deficits that were instrumental in provoking the crisis we face today. Havana plus the *bancor* would also have provided much fairer standards for developing countries

Equitable development also requires that we be prepared to criticise Northern policies. With regard to trade, the European Union is foisting so-called Economic Partnership Agreements or EPAs upon the 78 African, Caribbean and Pacific countries which include some of the poorest in the world. EPAs are less about trade than about breaking down “behind borders barriers” as the Commission calls them, especially barriers to investment by European transnational corporations, access to government procurement contracts and standards pertaining to workers and the environment.

In the WTO and also via bilateral and plurilateral agreements, the rich countries are also trying to make their trading partners reduce tariffs to very low levels. If poor countries comply, as many are doing, they will face two major consequences: their infant industries will be immediately destroyed—we have plenty of proof for that—and their national incomes will be sharply reduced.

Many smaller, weaker countries receive over 20 percent of their receipts from tariffs and such countries are not often able to substitute other taxes to make up the shortfall. The United Nations has estimated that present proposals for further trade deregulation would cost developing countries \$63 billion.

Trade produces few if any benefits for poor people in poor countries. Under pressure, the World Bank has had to pare down its earlier inflated estimates from several hundred to a mere \$80 billion annually with only \$16 billion of that going to a handful of developing countries. The G-20 and others have spread the idea that rampant protectionism is endangering the world. This is not the case; however, present proposals seek to maintain maximum advantages for the rich and promote more deregulation for the poor. This is not the road to equitable development or environmental protection.

As for official development aid, it clear that despite promises made to the United Nations since the 1970s, ODA is never going to reach the goal of 0.70 percent of GDP. OECD country aid now amounts to about \$100 billion a year, much of it tied to purchases from donor countries or earmarked for countries like Iraq or Israel, chosen for broader foreign policy reasons. In any case, ODA will probably decrease because of the financial crisis and, even worse, the remittances sent home by migrants are also set to decline as these workers are the first to lose their jobs. At present, the UN estimates that remittances supply poor countries with at least \$200 billion, probably much more, and at a minimum double the amount of official development aid.

Other obstacles to development financing are transnational corporations and their massive use of tax havens and transfer pricing to create fictitious accounts that penalise both producer and consumer countries. These corporations see taxes as a cost, not as a necessary contribution to the well-being of society in general and the countries where they operate in particular. To reduce their taxes, they employ battalions of lawyers and accountants, thus depriving both developed and developing countries of much-needed income. [As the transnational accounting firm Ernst and Young says on its website,

Transfer pricing affects almost every aspect of an MNE (MULTINATIONAL ENTERPRISE) and can significantly impact its worldwide tax burden. Our...professionals help MNEs develop transfer pricing strategies, tax effective solutions and controversy management approaches that best fit their objectives.

Let us hope they may indeed need “controversy management approaches” because it would be positive if their strategies provoked public outcries.]

Agricultural subsidies and dumping by wealthy Northern countries and their harmful effects on small farmers in the South are too well known to require further elaboration. It is, however, worth remembering that the policies of the rich world all too often close off the avenues of social and economic success in the poor one.

If Northern farmers supply Southern markets more cheaply than local farmers can do; if industrial fishing fleets leave no catch for local fishermen; if the products from mature industries can easily undersell locally produced goods; if transnational banks refuse to lend to small local businesses and if OECD governments help to prop up corrupt and dictatorial regimes—then we should not be surprised when thousands of ordinary men and women are desperate enough to risk their lives trying to reach our shores. Climate change will swell these numbers. We have not even begun to appreciate the tide of humanity that will soon try to reach the North. For the moment we are playing ostrich and treating immigration purely a security and policing problem.

Let me now recommend a few all-purpose strategies, with an emphasis on financial strategies, which, if combined with a decent respect for the knowledge and creativity of ordinary people, not just elites, could transform the development scenario. Particularly since the G-20 meeting, I fear that new proposals will be greeted with some variant of the traditional objection: “It’s a great idea but we can’t afford it, we’ve already committed over a trillion dollars”. This is wrong: we can afford it. Despite all appearances, the world is still awash in money.

Among the development strategies that should be financed as a matter of urgency is the promotion of local farming and food sovereignty but not on the basis of expensive inputs and the so-called Green Revolution. Although the green revolution in India undoubtedly helped to make the country self-sufficient in food grains, it was not without huge social costs. The system requires expensive agricultural inputs—seeds, fertilisers, irrigation, pesticides—well beyond the reach of poor farmers. In India and other green revolution countries, the poor, became indebted, lost their land and are now living in city slums. Fifty percent of the world is now urban and it was in the poor urban peripheries

that last year's thirty-some food riots took place. A great many of the rioters were ruined and hungry ex-food producers. We can't afford another huge wave of failed family farmers joining their ranks. Biological or organic, low-input, rainfed agriculture based on local knowledge and improvements to local systems can be as productive as Green Revolution high-cost agriculture, but it has scarcely been given a try.\*

As for industrial strategies, local industries need time to grow and prosper. From the 19<sup>th</sup> century onwards, every country that has succeeded has used policies of targeted government spending for certain industries, programmes to keep food cheap for workers and above all high tariffs. The United States had the highest tariffs of all, often until the end of World War II. Now we use WTO rules to prevent the poorer countries from using the very recipes that led to northern success. They should be allowed to go at their own speed in reducing tariff and other safeguards.

How can countries afford health, education and other public goods? This is not just a problem for the South: Northern governments also claim that the Welfare State is a thing of the past and public services are too expensive. But as inequalities increase and common goods disappear, social cohesion dissolves and people are plunged into a world where every man is enemy to every man, *Homo Lupus Homini*, as Hobbes said. Such a situation is unacceptable and here are ways to prevent it.

Elites and gatherings like the G-20 show no signs of understanding that citizens are justifiably outraged at the huge sums being spent to save the banks. The five trillion dollars already provided may be only the beginning. People have not yet discovered a way to vent their anger collectively, but they will not forget. Nor should we. The banks have been saved with our money and despite all our present and future sacrifices, we are receiving absolutely nothing in return. Instead, we must pay twice, with massive losses of jobs and savings and for many, their homes—all for the greed, mistakes and recklessness of a tiny minority that is not punished but rather continues to rake in large salaries and bonuses.

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\* For several studies on this point, google the work of Jules Pretty at Essex University or the Oakland Institute in Oakland, California.

The only solution is to nationalise the banks, place them under social control and treat them as public utilities. Their job is to serve society. Financial credit should be a common good, available [obviously under certain rules] to all, at cost or below cost. The financial institutions should be handed a list of legal requirements, first of all that they must start lending money again. This is the a-b-c of banking and it is inadmissible that despite all the handouts, many banks have virtually ceased to lend. The credit system is paralysed and the first order of business is to get money circulating again. .

Social control also means that the uses for this money are to be determined by social and ecological needs. Criteria for loans should be, first, that small and medium enterprises, SMEs, take precedence, particularly over transnational corporations. In Europe, SMEs represent 99 percent of all businesses and provide over 70 percent of employment and one can assume the figures are similar in many parts of the world. Right now, however, many SMEs are failing, not because they are poorly managed but because they can't get credit.

Priority for loans should go to SMEs with an environmentally sound project—in alternative energy, construction, lightweight materials, organic food and so on; to projects that reduce dependency on fossil fuels and emit a minimum of greenhouse gasses. Further priority should be given to cooperative SMEs based on employee participation because we need simultaneously to strengthen the social economy. If we do not innovate ecologically in the industrialised countries, and improve technologies that we can then pass on to the South, we will lose the battle against climate change.

Here are a few further suggestions:

--The harmful effects of transfer pricing are well documented. To stop them and to prevent theft and capital flight, tax havens must be closed down and countries required to exchange tax information. The Tax Justice Network calculates that this would free up at least \$250 billion yearly in tax receipts for various governments.

--Stop talking about debt cancellation and cancel it—but in exchange for immediate environmental and social action. Countries could receive debt forgiveness in proportion to their willingness to nurture and replant forests,

invest in alternative energies, protect biodiversity, give priority to health and education and so on.

--Technologies for energy conservation and alternative energies should not be subject to the TRIPs [intellectual property] provisions of the WTO. These technologies must be made freely available; if absolutely necessary, corporations can be compensated for the use of their technologies by other means.

--Tax international financial transactions, including currency trading and purchases of stocks or bonds. The tax would be at a very low rate—say one to five basis points. This is not a new idea—over a hundred countries signed on for it at a United Nations meeting in September 2004. The far more modest airplane ticket tax now applied by about eighteen countries and collected by a small UN agency, shows that international taxation can work.

--In the North we have spent decades reducing taxes on the richest citizens. The idea of a progressive income tax is now more than a century old. Let's put it back on the agenda.

--Commit to a full review of European and North American policies as they relate to immigration “push factors”. We need to face the future without ideological blinders and recognise our mistakes and our responsibilities.

An ecologically and humanly balanced future for North and South is possible. Perhaps we will move towards what some people call de-growth and others, like the ecological economist Herman Daly, call the steady-state economy. We can provide employment for all if we concentrated on shifting towards production for long-term use, eliminating waste, recycling materials and above all providing services for people and the planet. Our societies will continue to be complex but they must also become much more resilient.

The financial means to effect this conversion exist; I have suggested some of them. They would entail very few sacrifices for the North, provide employment and give much more freedom to the South. We already have the ideas, the tools, the technology and the skills. The obstacles are not technical, financial or economic; they are intellectual, political and ideological. Let me end with a quote from a great man who said

All for ourselves and nothing for other people seems in every age of the world to have been the vile maxim of the masters of mankind.

That was Adam Smith in *The Wealth of Nations*, 1776. Either we learn to keep the market but eliminate the rapacity and environmental destructiveness of globalised capitalism or it will destroy us. Either we learn to deal with complexity, or complexity will overwhelm us in a tsunami of chaos and violence.