

OPEX MEMORANDUM No. 148/2010

AUTHORS: PROF. STEPHANY GRIFFITH-JONES, Financial Markets Director, Initiative for Policy Dialogue, Columbia University. MANUEL DE LA ROCHA VÁZQUEZ, Fundación Alternativas. DOMÉNEC RUIZ DEVESA, Economist, International Consultant.

TO: OPEX **DATE:** 20/10/2010

SUBJECT: THE G20 SUMMIT AT SEOUL. TIME TO DELIVER: AGREEMENTS AND AGENDA FOR GLOBAL ECONOMIC GOVERNANCE

Panel: Economía Internacional

Coordinator: Manuel de la Rocha Vázquez

www.falternativas.org/opex

Depósito Legal: M-54881-2008

ISSN: 1989-2845



Director: Nicolás Sartorius

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BACKGROUND

The near collapse of the global financial system in the fall of 2008 saw the elevation of the G20 forum from a talking shop of economic finance ministers and central bankers to a summit-level meeting of head of states and governments entrusted with fostering international economic cooperation. Since the first summit in Washington in November of 2008, the G20 has been touted as a “board of trustees” of sorts of the global economy, the prime body for ensuring its stability and recovery. To be sure, the outcomes of the first three summits were impressive, not so much because of the revolutionary character of the ideas proposed -although the new policies of re-regulation and fiscal Keynesianism were indeed an important break with the recent policies of laissez faire- but because of the ability of the G20 members of agreeing to a common roadmap of policies to address the crisis and reform the global financial and economic systems. Despite its non-binding nature, these accords fostered action at all levels, from the increased lending by the International Financial Institutions such as the International Monetary Fund, the World Bank and the regional development banks, to the Basle Committee on Banking Rules.

However, over a year and a half since the London Summit, the reformist spirit and political impetus are floundering in the midst of protracted negotiations, technical details and disagreements over the way out of the crisis.

If the G20 summit in Seoul of 11-12 November 2010 fails to move forward on substantial issues of international economic policy and governance, the setback will not only be hurtful to the stability of the world financial system but also to the concept itself of a G20 as the main forum for guiding the global economic recovery. For the G20 to remain credible as the real international forum that will set the cornerstones of future, more democratic global governance, it should show some real results. It is time to deliver.

Furthermore, there is another problem about the G20, related to the fact that many countries are not represented in it; though it is a clear improvement over the G7/G8, it has no representation of smaller, poorer countries.

This policy brief identifies some of the key items of the agenda that should be agreed upon in Seoul, as well as other proposals that are necessary to address key gaps in the governance of the global economy.

1. INTERNATIONAL MACROECONOMIC POLICY COORDINATION

Unfortunately the area of economic policy coordination is the least likely to experience progress in Seoul given the deep divergence observed at the Toronto Summit. The two dimensions of this issue are the path to economic recovery and the correction of the global macroeconomic imbalances.

(i) The road to recovery

The structural as well as the perceived differences between the US and the EU in terms of the ability to finance increasing levels of government debt without risking sovereign default prevents substantive fiscal policy coordination by the developed economies. Europe has taken the path of rapid fiscal contraction in most countries even at the risk of endangering its weak economic recovery, while the US may try a new round of fiscal

stimulus to consolidate growth, though this is not so likely (and would happen only if the Democratic Party keeps the majority in Congress in the November mid-term elections). It is the status of the US dollar as the *de facto* international reserve currency that permits America further debt-financing measures, an issue unlikely to be discussed in Seoul.

The European stance is controversial. Even the IMF, at the recent ILO-IMF Conference on Job Creation warned that *“As a general strategy, most advanced economies should not tighten their fiscal policies before 2011, because tightening sooner could undermine recovery. The consolidation plans that these countries have for 2011 imply an average change in the structural balance of 1¼ percentage points of GDP. A more severe consolidation would stifle domestic demand that is still weak. Clearly, however, the fiscal situation varies across countries, requiring adaptation of this general strategy to the available fiscal space.”*

In the same report, the IMF highlighted that in a number of advanced economies, the risks of deflation remain pertinent given the relatively weak outlook for growth and the persistence of considerable economic slack.

While the G20 will not, in all likelihood, close this policy coordination gap, a summit agreement focusing on job creation as a macroeconomic goal could enhance the, so far, “jobless” economic recovery, thereby endorsing the historic September 2010 meeting of the IMF and the ILO in Oslo. In practical terms, the renewed emphasis on employment as a key pillar of macroeconomic policy could be translated by the G20 into a more moderate fiscal consolidation path and perhaps foster the return of job creation targets into the UN development indicators framework, which were part in the 1995 Copenhagen Consensus but quietly forgotten in the 2000 Millennium Development Goals.

(ii) Addressing the global macroeconomic imbalances

There is little doubt that one of the major causes of the global financial crisis was the excessive level of private debt in the US and other developed countries, fostered by stagnant salaries, cheap credit, lax or non-existent financial regulation, decay of manufacture and a perennial trade deficit. The other side of the coin is the low private consumption rates of export-driven countries such as China. The G20 acknowledged this problem early on with the so-called Framework for Balanced Growth.

The global financial and monetary system presents three basic deficiencies that have been emphasised over the years: (i) it is biased against countries running deficits, which generate global recessionary effects during crises; (ii) it relies on a national currency (US dollar) as the main world reserve currency, which generates instabilities and dependence on the US macroeconomic policies and; (iii) it generates inequities and imbalances arising from the massive transfer of resources from developing to major industrial countries caused by the growing demand for reserves by the former to manage global financial instability.

The G20 should endorse the idea promoted by the Government of Korea to set up a Global Stabilization Mechanism, a network of insurance and loan instruments aimed to cope with volatile global capital flows by providing developing countries a financial safety net in case of financial crisis, thus reducing the need to save and accumulate foreign exchange reserves. Details remain to be finalized but this mechanism would act as a framework to allow extending existing regional financial support mechanisms —

like the \$250 billion Chiang Mai Initiative in Asia and the \$750 million Europe Financial Support Fund — to assist struggling economies in conjunction with the I.M.F.

At the same time, the G20 should launch discussions, already anticipated by the French President, on a multilateral scheme to manage exchange rates, thus avoiding excessive volatility or exchange rate imbalances. This is a very sensitive issue that is giving rise to a hot disputes between the US and China. Furthermore, a move towards an international reserve currency, most probably based on the SDR, should be discussed.

2. REFORM OF THE INTERNATIONAL FINANCIAL INSTITUTIONS

(i) More ambitious reform of IMF Governance

IMF countries' quotas are set in accordance with four variables: GDP, foreign currency reserves, openness of the economy and variability of current account receipts. A member nation's quota at the IMF determines its share of votes. The current quota favours founding members Germany, France and Britain, ranking them third, fourth and fifth behind the United States and Japan. The top five members also have the power to appoint Executive Board directors.

Currently, developing countries hold 43 percent of the voting rights in the IMF and 44 percent in the World Bank, while developed countries have the majority. Upon the request of the G20 in its Pittsburgh summit in September 2009, the IMF agreed 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 quota formula as the basis" before January 2011. In addition, there is a commitment to protect the voting share of the poorest members.

Yet, even this modest reshuffle of power has proved difficult to implement and there is, as of today, considerable uncertainty as to whether final agreement will be reached by the G20 Summit. In the current negotiations to shift quotas it is undeniable that Europe is over-represented in the IMF governance. The European Union accounts for roughly 20 per cent of global gross domestic product but almost a third of IMF votes. European countries currently hold nine of the 24 executive board chairs. The IMF's managing director has always been a European, while Europeans are also over-represented among IMF staff, especially at higher levels.

The EU should lead by example and aim at more ambitious proposals, such as those contained under the 2009 Commission for Governance Reform, headed by Trevor Manuel:

- To move towards a system of multicountry constituencies of equal size for all IMF member countries, as a way to overcome the current split between those countries that appoint national representatives (that are effectively in a constituency of one) and the others. In this vein, the EU should accept a reduction of European board chairs, with a view to consolidating all of Euro countries in one single board chair.
- To raise the number of votes to veto IMF decisions: Decisions by the fund require an 85 percent vote. The United States has 17 percent of votes, giving it a blocking veto. Currently important decisions require a supermajority of 85 per cent of votes, and the US has a 17 per cent share. The BRIC countries (Brazil, Russia, India and China) also have enough votes between them to block decisions.

- To move to a system of double-majority voting as a measure to secure both a majority of weighted votes (each country weighted by GDP) and a majority of countries (by number). Requiring that key decisions win a majority of country votes would give developing countries for the first time the means to block major changes that they as a group are unwilling to support. Double-majority voting for elections of new presidents is now the rule at three of the regional multilateral banks.
- To aim for a more ambitious realignment of quotas, as Ministers from the developing and transition countries requested during the recent spring meetings. This would imply an increase of 7 per cent in the quotas of developing countries, based on giving greater weight in the quota formula to GDP measured at purchasing power parity and an appropriate measure of the volatility that different countries face.
- To create a Council of Ministers with effective powers to adopt the most important political decisions, thus replacing the International Monetary and Financial Committee, and to redefine in a clear way the relations between this Council, the Board and the administration.
- To change the selection process of the upcoming leader to a competitive, merit-based and transparent one: starting next year in case Strauss-Khan decides to run for the French Presidency.

In the policy realm, the following proposals are also recommended:

- To accelerate the ratification of the increase in IMF Resources: At the G-20 London Summit in 2009 it was agreed to treble the fund's lendable resources, from \$250 billion. Not all members have ratified this increase yet, with just over half of the \$500 billion already committed.
- To accelerate the implementation of the recent decisions taken last month by IMF to extend and remove limits on its so-called flexible credit line, reserved for countries with sound fundamentals.
- To expand lending and reduce the conditionality of IMF loans to low income countries, especially for compensatory lending in the case of external shocks.

(ii) Enhancing the Multilateral Development Banks

The G20 in Seoul should enhance the role of the public multilateral banks for counter-cyclical government financing of physical infrastructure, human capital formation and social services, allowing all members to borrow, by providing the World Bank and the regional development banks with sufficient capital for this purpose, as well as increasing the leverage of existing capital. This decision will facilitate the access of countries to cheap, long-term financing as an alternative to issuing sovereign debt at higher interest rates in the volatile private financial markets.

Similarly, the G20 can support the recapitalization of the International Financial Corporation (IFC), the private sector lending arm of the World Bank Group; amongst other objectives, this could help compensate for the lack of access to credit that are suffering Small and Medium Enterprises around the world.

3. INSTITUTIONALIZATION OF THE G20

The main concern of the G20 should be to become an effective forum in reaching wide-ranging agreements on the global financial and economic system and implementing them. This is certainly not assured. In addition, the G20 should enhance its legitimacy, given the fact that it is a group of countries and by definition most are excluded and it is operating outside the UN system.

(i) Transforming the G20 into a truly global inclusive forum, linked to the United Nations.

Ultimately, no matter how effective it is, the G20 will not generate enough legitimacy until it is considered a truly global inclusive forum. For this reason, the Seoul Summit could initiate formal discussions to evolve the G20 into a representative, and thereby legitimate, mechanism of international economic governance. The G20 should be linked and dependent on the United Nations, the most legitimate international body that exists today. One proposal that should be tabled and discussed would be for the G20 to evolve into a Global Economic Coordination Council, a proposal launched last year by a commission of experts gathered by President of the UN General Assembly. Such Council would be set in the framework of the UN system, which includes the Bretton Woods Institutions, and to which the WTO should become a member. It would be formed on the basis of constituencies elected through weighted votes, thus following the model of the Bretton Woods Institutions, although with formulas for representation that overcome the problems that exist in the latter. Ideally, the reform of the Global Economic Coordination Council should be undertaken in parallel with an reform of the UN Security Council.

(ii) Institutionalization of the Financial Stability Board

One of the potentially most important decisions taken by the G20 at its Summit in London, was the transformation of the Financial Stability Forum into the Financial Stability Board, which has now been charged with the coordination of the various aspects of world financial reform. Although it was a step in the direction towards a more representative and effective institution, there remain important weaknesses:

The FSB continues to be an informal ad hoc arrangement, with relatively limited power; lacks a large formal secretariat (that could be provided by the Bank for International Settlements); total lack of representation of small and medium-sized countries; absence of accountability to a representative political body.

Therefore, there is a need to move to a more representative and stronger arrangement. It is proposed that the Bank for International Settlements (BIS) play a larger role in a revamped FSB. However, for this institution to become the world financial authority a considerable enlargement of its membership is needed to transform it into a truly global institution.

(iii) Establishment of the International Court for Sovereign Debt Restructuring

One central problem of the current international financial architecture is the absence of an effective mechanism to handle debt crises, similar to the bankruptcy procedures that exist in all national legislation. The current structure is fragmented (Paris and London clubs, and collective action clauses), and most negotiations tend to take place through ad hoc initiatives, including those for low-income countries (the Heavily Indebted Poor

Countries Initiative and the subsequent Multilateral Debt Relief Initiative). This mix of fragmented and ad hoc arrangements has proven to be suboptimal, in terms of guaranteeing both a timely response to crises and horizontal equity in the treatment of different debtors and well as creditors. This used to be a problem mainly for developing countries, but became now also important for high income countries.

So, it is imperative to set up an International Court for Sovereign Debt Restructuring (ICSDR) so government debt, when it is impractical to resort to international rescue packages, can be orderly restructured in a similar way as corporate bankruptcy procedures at the national level. Such an institution will make sovereign defaults less traumatic and more predictable for creditors, while reducing the risk of exchange rate collapses. The G20 could take a major step forward by agreeing in Seoul to the need to establish the ICSDR and giving a mandate to a UN sponsored group of experts with a balanced composition of developed and developing countries to prepare a technical proposal.

4. INTERNATIONAL DEVELOPMENT ISSUES

During the last G20 meeting a Development Working Group (DWG) was set up with a view to come up with proposals and initiatives to be discussed and approved at the Seoul Summit.

As part of the agenda of the DWG, eight pillars or sectors have been identified and a matrix of detailed actions is being discussed for each of those sectors. However, it is far from clear whether it is convenient to expand the role of G20 from core financial and economic policy issues to international development issues (beyond development finance, i.e. counter-cyclical financing), or as proposed by some experts into global political and security concerns.

In the first place, it should be remembered that the G20 is an informal group, and as such it is not part of the UN system and does not aim to replace it. International development is a long term, bottom-up process that requires agreement and coordination at the regional, national and local level, and as such it is far from evident what is the value added of G20 in this field. There are already plenty of high-level fora and working groups at the UN, the *Bretton Woods* institutions, and the Development Assistance Committee of the OECD, which deal with development issues and that have made progress in improving the delivery of aid, notably: commitments made to reach the MDGs in 2015, the Paris Declaration and the Accra Agenda for Action on Aid Effectiveness, and the Monterrey Agenda and Doha declaration, in the area of financing for development.

Moreover, by overreaching to so many areas, the G20 risks being ineffective at a moment when it needs to consolidate its role as the main global body for financial economic policy coordination, particularly after the relative failure of the Toronto summit. Rather than drafting new long matrixes with numerous sectors, actions and indicators that are likely to be forgotten, it would be most appropriate if G20 threw its weight behind the implementation of the commitments made during the recent UN MDG Summit, and those under the aid effectiveness and the financing for development agendas, as well as provided broad support to the development process, particularly of low income countries. At the same time, the G20 could concentrate on a very few number of key initiatives that could have important beneficial effects for developing countries. Here, we propose at least three areas:

(i) Establishment of an Automatic Shock Facility for Developing Countries

The effective provision of the global public good of financial stability requires a package of preventive measures (regulation, supervision, taxation on the financial sector, etc.) so a full-blown financial collapse could be avoided. However, it also requires a package of measures to provide financing when crises do occur to protect developing countries from the effects of those crises.

During the recent financial crisis the World Bank and regional development banks have played an important and critical counter-cyclical role for many developing economies including for low income as well as small and vulnerable economies. The significant additional financing provided by these institutions was important in mitigating the effects of the crisis that were transmitted through the trade, financial and remittances channel. However, the response was not always effective due to considerable weaknesses in the criteria and processes followed to set up and disburse the funds to the worst affected countries, and due to the limited amount of funds available. Indeed, one of the most critical gaps in the current international financial architecture is the lack of sufficiently large established and permanent automatic compensatory facilities with low or no conditionality for external shocks.

It is therefore proposed the creation of significantly large compensatory financing mechanisms that have low or no conditionality, that disburse loans quickly and that have a high level of concessionality, especially for low income countries, but also for highly vulnerable small economies. This proposal should be part of the Global Stabilization Mechanism that is being promoted by Korea and is explained above.

Advantages of such facilities would be to ensure, on an anticipatory basis and prior to a crisis, that **additional financing is identified and that responses are more predictable and quicker**.

Such facilities could be created in the World Bank/IDA, in the RDBs and reformed or recreated in the IMF. Such an approach for financing could be complemented by bridge financing from the IBRD if a major shock happens, for which IDA does not have enough resources at the time for a significant crisis response.

(ii) Addressing global inequality

In the aftermath of the current crisis there is an emerging view about the importance of growing inequality as one of the causes of global crises past and present. The rise in recent decades of inequality, especially in-country inequality, and its relationship to growth performance within countries has been widely remarked and studied. The internal imbalances due to inequality and extreme concentrations of income have had different consequences depending on the institutional and political circumstances of different countries. In some countries, and particularly in the United States, increasing inequality may have led to increased indebtedness of the household sector and thus was an important factor in explaining the subprime mortgage crisis. Consumption was propped up by periodically very low interest rates, and financial products that encouraged high indebtedness. In other countries, such as China, lagging household income and large corporate profits have resulted in high national savings and a strong export orientation to compensate for relatively weak domestic demand.

In summary, the debate over the causes of widening inequality suggests that the pressures of intensified global competition and technological change are stretching the earnings distribution and hollowing its middle range, and that the ability of employment

and social protection institutions to counteract these trends was weakened over the same period of accelerating Globalization. The G20 should consider measures to reduce global and intra-country inequality as part of its mandate.

(iii) Approving the Concept of a Social Protection Floor

In light of this, the recent proposal coming out of the ILO-IMF meeting on Jobs Creation to explore the concept of a global minimum social protection floor should be incorporated in the G20 Agenda. At the Oslo meeting agreement also emerged on the central role that effective social dialogue can play in building the consensus needed to tackle the difficult adjustment challenges created by the crisis, and to ensure that the social consequences of crisis and its aftermath are taken fully into account.

5. ENHANCING REGULATION OF THE INTERNATIONAL FINANCIAL SYSTEM

(i) The new Basle Agreement on Capital Standards and Banking Regulation

Since the outset of the global financial crisis, insufficient international and national financial regulation (or lack of thereof) was identified as one of the main culprit of the meltdown. The regulation concerning banking and other financial corporations, as well as financial derivatives, was either lacking or faulty. In particular, the light-touch regulation that inspired the Basle II rules allowed banks to determine the ratios of capitalization according to the estimates of their own models. Such an approach caught most financial entities unprepared (undercapitalized) to cover losses derived from higher loan delinquency, bad bets and lack of liquidity in the money markets.

In September of 2010 the Basle Committee on Banking Rules, after lengthy negotiations, agreed to a Basle III agreement, which effectively is a return to setting specific and more stringent ratios of bank capital, reserves and liquidity, while trying to correct the pro-cyclical bias of international lending.

Basel III includes **a number of positive elements**, such as increasing risk weighted capital requirements, introducing a leverage ratio for solvency, an additional capital buffer and a countercyclical buffer (through dynamic provisioning based on expected losses) and introducing liquidity provisions. The cumulative effect of the new capital ratios will mean that it will be more expensive for banks to raise capital than it looks at first sight. The new regulations will be gradually phased in, some of them through a transition period of up to 2019.

One of the most revolutionary aspects of Basel III is its attempt to establish liquidity risk as an independent pillar of regulatory action and supervision. Thus, Basel III introduces liquidity ratios to internationally active banks on a consolidated basis. While their implementation is too slow and the measures themselves could be more robust, this direct approach to regulating liquidity is very positive. Problems of liquidity were central to the crisis, and in part were the result of previous regulation having practically abandoned liquidity regulation.

Overall assessment of the Basle III package:

The new Basle III Agreement is a step (albeit insufficient) on the right direction. Although during the negotiation process capital ratio increases have been made more flexible and favorable to banks compared to the initial draft, they are still more stringent than what is actually in place. It is clear that under the current period of slow-

growth and reduced credit a rapid enforcement of the new ratios could lead banks, some of which are still ailing, to cut lending even more, thereby further weakening the pace of the recovery. So, the timing and speed of the regulatory tightening is important. However, nine to ten years seem to be clearly an excessive transitional period. The alternative approach would be to impose appropriate capital requirements now, and restructure and force to raise capital for banks that are too weak to function in their role of credit provider.

A second critical aspect with Basel III refers to off-balance sheet instruments. Many of the banks which looked well capitalized before the crisis suffered the biggest losses during the crisis, due to mispricing of securitized assets on balance sheets and to off-balance sheet activities which escaped the prudential capital ratios.

In this respect Basel III does not forbid or directly prohibit certain activities or the use of risky instruments, like the recently approved US Dodd-Frank bill. In spite of this, if properly implemented, the new Agreement will substantially limit the emission of securities for credit arbitrage reasons and will thereby limit one of the most lethal instruments for banks before the crisis.

The Basle Committee and other regulatory bodies should be encouraged by the G20 to make further progress on banking regulation, by endorsing and expanding the latest financial reform in the US which banned proprietary trading by banks (i.e. investments made on their own account by either investment or commercial banks), otherwise known as the *Volcker Rule*. Such a regulation weakens conflicts of interest and may reduce purely speculative operations, especially those funded by deposits, that may be ex ante or ex post government guaranteed. The ultimate goal should be to separate commercial and investment banking so the implicit government guarantee on deposits does not extend to entities engaging in financial speculation as opposed to lending to consumers and companies.

In general, Basel III (like most regulation) is an ex-post regulation which cannot foresee future regulatory arbitrage, through future loopholes. For this reason, stronger and especially faster mechanisms for responding to regulatory arbitrage need to be found (and are not part of Basel III). Moreover, the new Agreement is not comprehensive enough, and as such, will increase the incentives for regulatory arbitrage, as it sets severe limitations on banks, while leaving other financial sectors untouched (e.g. money market funds).

The appropriate response should be a more robust and comprehensive form of increasing regulatory coverage that included all financial intermediaries and instruments in an equivalent way, in equivalent core capital requirements regime in order to avoid asset-shifting. This is not an easy task, but is essential. Both US and EU regulation are moving in this direction, but too slowly and not comprehensively enough.

The step of creating a systemic regulator, both in the US and in Europe, is an important move forward; however, the question is whether they will be sufficiently strong and comprehensive. The further question is how much more should in the medium term the international institutional regulatory structure be coordinated, with a view towards the creation of a global financial regulator. Naturally issues of governance, e.g. participation of developing countries, and autonomy from financial interests, would be crucial here.

(ii) Derivatives

The financial products known as derivatives are basically bets on whether an economic asset or variable will increase in value, such as commodity prices, interest rates and so on. In this respect, they are not different from stocks. However, unlike publicly listed traded securities in the stock markets, most derivatives are traded “over the counter”, which increases counterparty risk. Lots of those bets going wrong simultaneously amplified the financial shock that began in July of 2007 in the US subprime mortgage market. Hence, the first step to rationalize to the derivative markets is to set up clearing houses for all these financial products, thereby increasing transparency and reducing counterparty risk.

(iii) Taxing the international financial transactions: Towards a Global Currency Transaction Levy

The predominance gained by the financial sector of the economy has been facilitated not just by the de-regulation espoused by the neoliberal economic program from the 1980s onwards but also by a conspicuous lack of significant taxation of financial transactions, equivalent to the Value Added Tax in the markets of products and services. As a result, to an important degree, the financial sector has become a receiver of investment itself in addition or instead of the traditional role of facilitator of scarce resources to the productive economy. The introduction of a new international financial tax could discourage, even if marginally, financial speculation by redirecting capital to productive investments in the private sector, while helping the financing of global public goods such as the reversal of climate change, disease prevention and control and international development.

The debate on an international financial transaction tax has been mixed with proposals to introduce new taxes on the financial sector, thus confusing the rational and objectives on both types of taxes.

Proponents of new taxes on bank assets or bank debt argue that the banks are responsible for the financial crisis and that the receipts could be used to finance a bail-out fund so taxpayers will not be affected by future banking crisis. However, banks already pay corporate taxes while some countries such as Spain do already have such guarantee funds. Furthermore, the bank tax was cause already of a major disagreement in the G20 summit of Toronto since countries with stable banking systems like Canada rejected the punitive character of the proposal. Thus, it is unlikely that the Seoul summit will produce a different outcome.

Nonetheless, the G20 could focus on a different target, a small, non-distortive, global currency transaction levy (CTL) of 0.005 per cent on foreign-exchange transactions on all major currency markets at points of global settlement. Given existing infrastructure, it would be easy and cheap to implement, practically immediately. Global collection mechanisms avoid the domestic revenue problem, as part of the funds would go directly into a Global Solidarity Fund for development and mitigating climate change.

At the recent UN Summit on the MDGs presidents Sarkozy and Zapatero announced that they will push for agreement on the FTT, while representatives from several countries that belong to the Solidarity Levies Group declared their intention to explore the way of scaling it up. At the EU level the ECOFIN also discussed this proposal, but no decision has been taken.

Ideally, such a tax would be done at the multilateral level (or, rather, for the major currencies), but studies show it could be applied to individual major currencies. Thus a coalition of the willing, eg the Leading Group of countries and/or the EU could move forward leading by example. It could serve as a pilot (to be applied for 4-5 years), if it worked well, it could be extended both in time and/or to other financial transactions. The G20 could reach a higher dimension of international economic cooperation by introducing the first global tax in history which receipts (at least partially) will be directly used for the global commons.

(iv) Fight against tax havens, tax evasion and money laundering

Under the slogan, "Tax Havens are a thing of the past" at the G20 Summit in London in April 2009 an ambitious agenda to tackle tax havens, combat illicit flows of money and increase transparency in the international financial system was set out. The G20 commissioned the OECD to publish a list of tax havens with a clear deterrent intention. The lists drawn up by the OECD are divided into three different categories:

- A black list, which includes jurisdictions that have not shown any desire to move towards greater transparency;
- A grey list, which details jurisdictions agreeing to comply with the OECD's standards with at least 12 jurisdictions;
- A white list, which contains jurisdictions that have substantially applied the OECD's transparency standards, signing more than 12 new tax treaties.

The G20 member states agreed to implement sanctions to tax havens that would not adhere to OECD standards in March 2010. Many states that had been identified as secrecy jurisdictions suddenly began to make more commitments to exchanging information for tax purposes.

However, over one and a half years after the London Summit progress has been very slow and the initial impetus is quickly evaporating. The criterion of 12 new tax treaties is so easy to achieve that most of jurisdictions have escaped the grey list and therefore the possibility of being sanctioned. OECD's lists are related strictly to tax cooperation. Many OECD leaders would like to see this work duplicated in the FATF's anti-money laundering work and in the Financial Stability Board's prudential regulation work.

Often, legislations in tax havens deliberately make it impossible to access or gather the tax information to be exchanged. One important aspect of this opacity is the lack of information of the beneficial owners of trusts and foundations.

Despite the G20 having reiterated on numerous occasions (G20 London declaration and St. Andrews communiqué, as well as those of the G20 in Toronto) that alternative solutions should be found so that developing countries can benefit from this new climate of tax cooperation, very little actions have been undertaken in this respect:

- G20 members have not set up a multilateral tax cooperation initiative and poorest countries do not have the administrative resources or power to negotiate the OECD model of bilateral agreements with all tax havens.

- In the same way, the OECD's current 'on-request' model, which places the burden of evidence of tax fraud on the administration requesting the information and leaves the decision to accept the request for information in the hands of the tax haven, needs to be replaced by a system of automatic exchange of information.

Therefore, to maintain credibility it is time for the G20 to deliver in this realm. At the minimum G20 leaders should agree in Seoul to the following actions:

- Speed up the creation of a new list of tax havens, which should be more much tougher. The new list should be more complete and objective than the one proposed by the OECD and it should be based on assessment criteria which include financial regulation and money laundering.
- Launch an initiative aimed at multilateral tax cooperation based on the OECD and Council of Europe Convention on Mutual Administrative Assistance in Tax Matters, in which both developed and developing countries could participate. Strongly urge tax havens to sign the convention, so that those which refuse to do so will be considered as uncooperative.
- Support the implementation of an automatic exchange of information system, using the European Saving Tax Directive (STD) as a template for a global standard. For this purpose the STD should be reviewed, according to the European Commission proposal, extending its scope of application to all legal entities and legal structures like trusts (not only to individuals) and to all kind of incomes (not only interests of savings).

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