



LATINDADD's contributions to the United Nations Conference on the World Financial and Economic Crisis and its impact on Development

The current International Financial Institutions (IFIs) have increased inequality and have not benefited the sectors of the population most in need. Otherwise they have produced a growing concentration of income. This is something that has been pointed out by international civil society for a long time.

The globalization derived from the IFIs policies has been channeled and increased by the **commercial and financial interconnection** that takes processes to a global level and it has converted itself into an effective vehicle, not only for moving goods and capitals, but also for transmitting problems. At the end of 2008, the volatility of this and the unreal financial bubbles became obvious, **opening up a series of parallel crises in the industrialized countries that will soon affect the real economy in the rest of the world.** According to ECLAC, the estimated growth rate for Latin America during 2009 is -1.7%. This has been dragged down mainly because of the fall of Mexico and Central American countries, which are the countries most committed to Free Trade Agreements. Furthermore, the price of commodities –the main source of exportation for Latin America- has plummeted and exportations have come to a halt, despite the fact that for years it has been claimed that exportations would boost countries economies and development. The slow down in the economy has had a massive impact on employment and the ILO has predicted that between 2.3 and 3.2 million jobs could be lost in Latin America as a consequence of the crisis. Furthermore, on top of the economic and social crises, is the environmental crisis generated by climate change.

The financial, economic, food, energy and climate crisis have not been produced by developing countries. On the contrary, **it is a consequence of the model of consumption and production which plunders natural resources**, that has been chosen by industrialized countries. However, it is the least developed countries and the poorest populations who will be most affected by the multiple crises generated in the northern countries. Furthermore, due to the commercial and political agreements and the conditions imposed by the IFIs, developing countries are not able to develop anti-cyclical policies to avoid the fall of their economies.

In order to confront this situation **immediate measures coordinated by both the international communities and by each country separately are needed.** At the *national level*, countries in the region have formulated anti-crisis plans, in order to incentive the trade sector, supposedly boosting the economy. *At the global level*, the industrialized countries have paid out substantial rescue packages to financial institutions and have tried to stipulate coordinated responses through an extraordinary meeting of the G20.

However, what all this shows is the need for a coordinated meeting of all of the countries in the world, within the UN framework, in order to draw up a New International Financial Architecture. The G20 represents a mere 10% of the world's countries, which makes it far from a legitimate forum for making decisions of global interest. For this reason **we express our appreciation for the initiative to hold a Conference on the World Economic and Financial Crisis and its impact on development in the United Nations**, along with the creation of a Commission of Experts to contribute to the topic. We also agree with the G77



Declaration which illustrates that *“the UN is still the only universal organism to provide a democratic voice for the “non consulted” and “non represented.”*

The Public Debt and the role of the IFIs

The Bretton Woods Institutions, created over 65 years ago, have become useful instruments for managing international economic and financial policies at the whim and convenience of industrialized economies, i.e. the G8. The explosion of the crisis has evidenced **their illegitimacy and incapacity to contribute to development**, instead promoting policies to favor the interests of large groups with political, economic and financial power.

Until now, the IFIs **have pushed developing countries to become indebted. This inhibits the indebted State from financing their public costs to reduce poverty and inequality** and deteriorates their capacity to implement domestic development policies due to:

- The imposed condition that the State must implement structural adjustment policies based on a primarily exportation orientated model of growth, liberalizing the economy and flows of capital and making them dependant on external markets and the volatility of the dollar.
- The methodology of debt sustainability keeps payment capacity above considering possibilities for attending social debt.
- Credits given to corrupt regimes who have economically, politically and juridically violated human rights, which has produced a huge amount of illegitimate and odious debt.
- The financing of projects which extract the natural resources and damage the environment, exacerbating global warming and displacing populations and indigenous communities.

Faced with this type of debt, initiatives to alleviate the debt have not been effective in reducing poverty in hugely indebted countries. Prepayment operations and reprofiling medium income countries' debt have been characterized by exchanging the old external for new internal debt. This hides the real weight of public debt and does not necessarily mean a saving for the country.

Specifically **in the context of the crisis, the financing programmes that are being implemented to facilitate trade and solve liquidity problems only serve to increase levels of debt** and do not constitute an effective solution to the structural problems of financing for development. In this sense, the global crisis has demonstrated that the measures taken by multilateral credit agencies have not solved old problems such as inequality, but rather have gradually accentuated them. So **they are illegitimate for addressing resources and giving solutions to current problems and should be replaced by a different kind of financial organization.**

Therefore we appreciate that various proposals regarding the crisis incorporate some of the ideas planted by international civil society regarding debt policy. We highlight what is written in the draft Declaration of the Conference¹:

¹ Draft of the Final Declaration (revised). 18th May 2009.
<http://www.un.org/es/comun/docs/?path=http://www.un.org/ga/president/63/interactive/financialcrisis/outcomedoc180509.pdf>



“We affirm that the appropriate measures must be taken to minimize the impact of the crisis on the indebtedness of developing states and to avoid a new debt crisis.” (*Draft Outcome Document, par. 29*).

“Countries must be afforded the necessary policy space to enact the types of tailored and targeted responses to the crisis that have been established in developed States. We call for a reformed lending paradigm and the prompt end to unwarranted conditionalities, which curtail the individualized options available to developing countries and needlessly exacerbate the financial, economic and developmental challenges faced by these countries.” (*Draft Outcome Document, par. 21*).

From Tax reform to Tax Justice

Whilst industrialized countries can finance huge recuperation packages with taxpayer’s money, developing countries financial options are dramatically reduced by the crisis. Developing countries are losing income due to the overwhelming fall in exportations, the withdrawal of remittances and the speedy withdrawal of the FDI and it is hoped that the ODA will fall abruptly. In this context, taxation is the only way developing countries have to financing their expenditures. Therefore, long term global actions should be orientated towards **generating sustainable changes so as these earnings are sufficient, equally earned and directed towards the countries that need it the most**. These measures should include the elimination of tax havens and the creation of global financial taxes and taxes to protect the environment against climate change.

At the national level, in order to establish a secure and sustainable way to recover from the international economic crisis, it is necessary to design and implement a new tax system for developing countries that allows their States to resolve the problem of poverty and inequality in the long term. **This system should be based on the criteria of justice** through the increase in tax burden on the direct taxation of those companies that make most profits via the elimination of *onshore tax havens*² established by trade and international finances.

It is important to highlight that the new taxation system should **increase resources collected within developing countries so as their historic dependence on the resources they can obtain by getting into debt is eliminated**. This is even more important given that globalization has forced a greater opening for trade, limiting the possibilities for increasing duties. Therefore it is of vital importance that the tax burden can increase to reach a similar level to the average obtained in industrialized countries, allowing developing countries **to go from being indebted States to a fiscal States**. Along these lines, it is crucial that they make an effort to improve the degree of fulfillment of transparency standards and the regulation of different tax jurisdictions. This should be done in an environment that allows sharing information and technical assistance on tax issues from which developing countries could benefit. It should also be carried out within the UN framework.

Furthermore, **developing countries should increase the tax burden eliminating the onshore tax havens installed in the economic sectors where the FDI has allocated during the last 5 years**. These sectors are the traditionally traded sectors: **agriculture, energy and mining**. Therefore there has been a double loss due to the decrease in

² <http://www.nytimes.com/2009/05/22/opinion/22iht-edlet.html>



duties caused by the liberalization of trade and the exoneration of taxes for the profitable primary sectors that could have boosted the economic and human development of the developing countries. It has been proven that this speculative and tax evasion process has led to the concurrence of various crises which makes it **vital to eliminate the tax privileges given to the FDI** that are focused on determined economic sectors of basic products, because they cause international speculative processes that culminate in global scale economic crises.

Towards a Regionalization of (Global) Finances

In order to get out of the crisis, LATINDADD considers that it is fundamental to focus on two main aspects.

Firstly, the management of the public debt of emerging countries –given their already bulky burden of social debt- is a huge challenge, especially considering that instruments such as the Monterrey Consensus have not produced the necessary changes in policy to make the debt an effective instrument for financing development. Countries could try for a new financial system if they regain the control of their natural resources. Therefore, urges a **solution to debt problems and financial needs**. In this sense, although we appreciate what has been said on this in the Draft Document of the Declaration, we consider it important to:

- Keep promoting **debt audits** which could be crucial for the annulment of illegitimate debt (such as Norway did with 5 countries).
- Push for improved **mechanisms for debt conversion** in order to free up resources for development projects and to curb and adapt to climate change; and
- Make the **ecological debt** generated by northern countries (and of which we are creditors), more visible.

“... it is necessary for creditor and debtor countries to work in open and close collaboration to promote responsible financing and fair and transparent handling and management of external debt in order to assure that all countries are capable of fulfilling their obligations regarding human rights.”³

Secondly, it's important a **new global economic and financial order** based on the regulation, supervision and control of capital. Furthermore, **global institutions** should **push for the strengthening of regional organisms** to generate more financial independence. This would end the dollar dependence and would avoid the abuses and damages of extra-regional public debt. Moreover, it would increase intraregional trade exchange and reduce its costs, strengthening internal growth that is more independent of global processes. In this sense, the new regional order should:

- **Encourage for the creation of regional development banks.** Latin America has taken a step in this direction with the creation of the **Bank of the South**, made up of 7 South American countries (Argentina, Bolivia, Brazil, Ecuador, Paraguay, Uruguay and Venezuela) and which has an initial capital of 7 thousand million dollars. The objectives of this bank are to **finance the economic, social, and sustainable development of the region, strengthen integration, reduce asymmetries** and

³ Cephas Lumina, independent expert from the UN Human Rights Council on debt and human rights.



promote the equal distribution of investments within countries. Furthermore, the Bank of the South is substantially different to the current IFIs in that its decision making structure gives every country the right to one vote, regardless of the amount it contributes.

- **Create a regional Monetary Unit.** In relation to this, LATINDADD has been approaching for a **South American Monetary Unit**⁴, similar to the Euro, which seeks to eliminate the instability that comes from the ups and downs of the fragile US currency. The methodology used for the construction of the currency basket shows that in the last few years, the dollar has devalued more than 50% compared to the South American currencies **basket**.

Therefore, the establishment of a system of fixed, flexible exchange rates between South American countries, which could fluctuate within determined ranges that are maintained through certain coordination of monetary and exchange policies among members of UNASUR (Union of South American Countries), has been proposed.

- **Have a new system of global reserves that replaces the current system and which is complementary to other regional agreements**, such as the ASEAN+3 and the Regional Compensation System (Sistema Único de Compensación Regional – SUCRE) agreed on by countries that are part of the Bolivarian Alternative for America (Alternativa Bolivariana de las Américas - ALBA) integrated by Bolivia, Cuba, Dominican Republic, Honduras, Nicaragua, San Vicente and the Grenadines and Venezuela.

Finally, what should be the top priority in the new world order and in global relations generated because of the crisis is a demand for multilateralism and cooperation as mechanisms for global development.

⁴ The UMS proposal was written by the economist Oscar Ugarteche, chief researcher from the Institute of Economic Operations from the National Autonomous University of Mexico and Coordinator of the Latin American Economic Observatory www.obela.org