Development Needs a New International Financial Order

DOCUMENTS

The political co-responsibility of the European Union for a sustainable global financial architecture

Hearing at the European Parliament
Brussels, October 14, 2002

KAIROS EUROPA

WHO? - WHERE? - WHAT?

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FOREWORD

Globalisation and, above all, its economic implications pose new challenges to the churches. After more than two decades of worldwide political adherence to the neoliberal paradigm, we are confronted with an unprecedented gap between rich and poor, not only between the North and the South but also within countries of both the North and South. The far-reaching deregulation and liberalisation of national financial markets and the emergence of a largely unchecked international financial system have played a leading role in this process of polarisation.

With national and, too, supranational politics increasingly held hostage to maintaining the "confidence” of globally mobile capital, democratic governments are not only transferring more and more political authority and independence to international financial investors but are also serving, to an ever more increasing extent, the latters’ interests in the first place - thereby neglecting the stated objectives of enhancing economic justice and social cohesion. By strongly advocating fundamental neoliberal reforms at national, European and global levels, the European Union has actively contributed to this growing domination of politics by private profit seeking.

In the light of the above, KAIROS Europa has carried out - in cooperation with partners from churches, ecumenical organisations, unions, social movements etc. - a three year project (2000-2002) on "Development needs a new international financial order” the aim of which was to mobilise for a joint process in the churches in favour of a (more) just international financial system. In this brochure, we present a documentation of a hearing at the European Parliament. This hearing was the culmination of the above mentioned project and challenged the European Union to play a different role in the globalisation process, one which is in accordance with the needs of human development worldwide. The hearing was prepared during a preceding international consultation which took place in Brussels from October 10-13, 2002.

Ulrich Duchrow   Martin Gueck   Theo Kneifel

KAIROS EUROPA

HEARING AT THE EUROPEAN PARLIAMENT
Brussels, Oct. 14th, 2002, 2.00 - 5.00 p.m.
Rue Wiertz, Altiero Spinelli Building, Room 1G3

"Development needs a new international financial order - the political co-responsibility of the European Union for a sustainable global financial architecture"

organised by KAIROS Europa in cooperation with the World Council of Churches and the World Alliance of Reformed Churches and with the support of the Confederal Group of the European United Left.

PROGRAMME

2.00 - 2.45 p.m. **Opening by the moderator**
- Prof. Dr. Bob Goudzwaard

Experts from Civil Society introduce questions and proposals
- Dr. Seong-Won Park, World Alliance of Reformed Churches
- Dr. Rogate Mshana, World Council of Churches
- Prof. Dr. Chan Keun Lee, South Korea
- Prof. Dr. Esther Jeffers, Scientific Council of Attac France
- Hans Engelberts, Secretary General of Public Services International
- Jean-Marc Lauwers, Appel des 600

2.45 - 3.45 p.m. **Responses by representatives of the European Parliament**
- Wolfgang Kreissl-Doerfler, MEP
- Esko Seppänen, MEP

Questions and comments on the responses

3.45 - 4.45 p.m. **Responses by representatives of the European Commission**
- Gilles Hervio, Directorate General Development
- Anne Bucher, Directorate General Taxation and Customs Union

Questions and comments on the responses

4.45 - 5.00 p.m. **Concluding statement**
- Matin Gueck, Kairos Europa

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BACKGROUND

In view of the ever more appalling circumstances under which many people in many parts of the world have to live, the globally predominant policies of so-called neo-liberal globalisation are increasingly becoming the object of both widespread and far-reaching criticism. Main actors of international civil society such as worldwide church organisations, the international trade union movement and social movements like the global grassroots network ATTAC jointly and fundamentally question the overarching paradigm of the current pattern of globalisation based on the supposedly benign reign of free market forces. They call for a politically controlled world economic order, which puts people first, thus serving the global common good instead of interests of profit of just a few. In this context, special attention is given to the international financial system. Nowhere has the prevailing paradigm of globalisation, consisting of the triad of liberalisation, deregulation and privatisation, progressed as far as on the financial markets; no other sector of the world economy has triggered off as many - and sometimes devastating - crises, and contributed as strongly to a redistribution of wealth from the bottom to the top as the international financial markets.

The European Union has stated on repeated occasions, most recently at the "Rio plus ten" summit in Johannesburg, its commitment to and co-responsibility for a globally sustainable development. Yet, there is growing public concern in civil society throughout Europe that the European Union - partly due to its seeming adherence to neo-liberal doctrine - does take too few substantial steps to shape economic globalisation in the interest of worldwide solidarity. This concern particularly applies to the international financial system. In this regard actors in civil society request the European Union to actively strive for a more stable and just global financial architecture by giving its political support in favour of democratic control and political re-regulation.

THE HEARING

It is in this context that this hearing, bringing together European Union officials, politicians, trade unionists, academics and representatives of churches and social movements pursues two main objectives:
1. to analyse the nature, logic and consequences of neo-liberal globalisation and the concrete forms it takes within the international finance system, and
2. to reflect on strategies that the European Union could undertake to address the problems resulting from the unfettered globalisation of capital markets.

THE QUESTIONS

Against this background Kairos Europa wants to put to you, as representatives of the European Parliament and the European Commission, the following fundamental questions, which we would like you to answer from the perspective of your political responsibility:

■ Considering that functional failures of the international financial system are showing in a dramatic way by the frightening regularity in which crises occur (particularly on the international currency markets),
how does the European Union intend to ensure that the apparently detrimental mechanisms of global capital markets will not interfere with the stated objective of enhancing a globally sustainable development?
Should (and if so, how can) the EU engage in unilateral initiatives and multilateral cooperation in order to prevent the international community from being hit by yet another global financial (currency and/or debt) crisis
- by exercising political control of transnational capital through the establishment of collective decision-making mechanisms as well as distinct and binding procedures that would redirect global capital flows from being highly speculative to being means of production;
- by supporting measures like a currency transaction tax (even if necessary starting at the European level) and the implementation of fixed but adaptable exchange rates?

■ Considering the devastating economic, social and ecological effects of the debt crisis which the structural asymmetries on the international financial markets have long since caused in almost all regions of the South,
how does the European Union intend to end the people's suffering in these over-indebted countries?
Should (and if so, how can) the EU engage in unilateral initiatives and multilateral cooperation in order to pave the way for a substantial cancellation of the incurred private and public debts
- by introducing new measures that go beyond the evidently insufficient terms of HIPC II;
- by implementing a fair and transparent arbitration process analogous to chapter 9 of US insolvency laws and
- by developing procedures in international law of providing for the cancellation of illegitimate and "odious debts"?

■ Considering the collective pressure governments are put under by global investors "shopping" among the nations for the most profitable places to invest the world's savings and rewarding those governments offering lucrative tax laws, and having regard to the fiscal decline resulting from numerous inconsistencies and loop holes in the system of taxing capital gains,
how does the European Union intend to prevent the visible "global downward spiral" (i.e. ever lower taxes on capital gains, the acceptance of tax flight and tax evasion) from further eroding the taxation basis of nation states and, thus, their ability to finance necessary investments for a socially and environmentally sustainable development?
Should (and if so, how can) the EU engage in unilateral initiatives and multilateral cooperation
- introducing the joint establishment of financial regulations such as minimum rates for taxes on capital gains that prevent governments from competing with (i.e. "underselling") each other at the expense of all of them;
- developing an international system of legal assistance against tax flight and tax evasion and for the repatriation of stolen wealth;
- closing down tax havens altogether?

OPENING BY THE MODERATOR PROF. DR. BOB GOUDZWAARD:

A galloping horse with a lurching car behind it, tossing wildly to both sides and no real driver in the driver's seat – that is for me the best possible metaphor for the international financial markets. For indeed, these volatile, autonomous markets have lost their main orientation, which is to serve the economic life of common people. In their own wild course they now drag the car of the real economies of this earth behind themselves. Or, to say it with the words of George Soros: Inherently unstable financial markets are now drifting into drastic excesses, and it is market fundamentalism that has put financial capital into the driver's seat.

The hearing of today is entitled: Development needs a new financial order. In this context, we will hear the witnesses of the disasters, which unregulated, speculative capital flows have already caused in Asia, and which are now surfacing in Latin America and Africa, too. These witnesses are also warnings. They are meant as clear signals, which urgently need to be articulated as political demands. It is not at all by accident, that we gather here in the European Parliament, the democratic heart of the European Union. Will the European Union lay its destiny in the hands of the so-called free financial markets, or will it sit in the driver's seat to control its own destiny?

It is indeed very tempting for Europeans to think that, thanks to their own Euro currency they will escape from the dangers which already have torn several economies asunder. But in this hall, today, it will be made clear that there is an undercurrent casino-economy working and active within the European economies which, via the manipulation of bulls and bears has the potential not only to erode the European pensions, but also to undermine the European tax base, and thus to blow up the remnants of the Rhenish welfare states. These are the reasons to address here the authorities of the European Union, especially now as they stand at the threshold of an enlarged European Union.

Let me conclude by telling you from which motivation we speak here. In these days, we often hear that reference is made to the so-called vital interests of the United States. And indeed, also globalisation itself becomes more politicised and geared to serve the so-called vital interests of one hegemonic world power. But what drives us here is another vital interest. It is the vital interest of the globe as a whole, and of the whole inhabited world, the oikumene. For it is its very life and vitality which is now truly at stake.

And that makes our time a time of crucial dilemmas - Dilemmas for the churches of the North which were recently summoned by their sister-churches in the South to renew their confession by making clear in concrete acts who they really want to serve: God, or Mammon. But there is a similar dilemma for Europe as a whole, and for its political powers and authorities. Let me dare to hope, that this meeting today will reveal that Europe goes beyond the logic of its own short-term interests, because it wants to share with us the defense of the vital interests of the poor and the needy in this world, especially where this orientation asks for concrete steps of restructuring the present global monetary order. For cheap and easy solutions are alas no longer available. Every real restructuring of the economy now has to be wrested from the claims of the rich and the most powerful in this world governed by mammon.

JOINT STATEMENT BY DR. SEONG WON PARK (WORLD ALLIANCE OF REFORMED CHURCHES), DR. ROGATE MSHANA (WORLD COUNCIL OF CHURCHES) AND PROF. DR. CHAN KEUN LEE (UNIVERSITY OF INCHEON):

(Dr. Seong Won Park) As the moderator pointed out we are participants of an international consultation of KAIROS Europa on "Development needs a new financial order". It is part of a world-wide ecumenical process in which the World Council of Churches, the Lutheran World Federation, the World Association of Reformed Churches and the Conference of European Churches together with their member churches are engaged to find a response to economic globalisation. In this undertaking we are not alone, but consider ourselves in the great tradition of human rights, equality and justice that have nurtured European culture through the centuries.
We are part of the Church universal, and as such we have learned the need of plurality, of the richness of the diverse identities and cultures that form our human family. We are learning to read the traditional Babel story of the Bible (Gen 11) under a new light. Though a certain tradition has pointed out this story as God's punishment for human pride, a new understanding is also possible. The construction of the city and tower of Babel is the mythical attempt to give the whole earth only one name, one language, one identity. The tower, as the symbol of military rule, and the city, as the symbol of economic domination, was to take the place of God (reach up to the heavens). But God descends from heaven, and in the Bible when God descends it is always to liberate. So God provides the possibility of human diversity, by giving the different peoples the right to their own land, language, family and nation. To impose one and only one system – like nowadays the neo-liberal paradigm - on the whole inhabited world is the sin of imperial Babel; but to recognize the plurality of identities, the right to different systems, of lands and peoples is the liberating will of the God of love. In this interpretation we see under a new light our commitment to a world that can, at the same time, be a place of plurality, but of mutual recognition and solidarity as well.
The abovementioned Christian groups held a consultation in last June, in Soesterberg, and have formulated their

appeal in a letter to the churches and ecumenical organisations in Western Europe. In our consultation we have also agreed in the basic content of that letter. As part of this ecumenical process we like to share with you the vision of the ecumenical movement and the European churches quoting some central paragraphs.

The Gospel promises life in all fullness for all people and the whole creation (John 10:10).[…]. Nobody is excluded from God's household of life […]. Guided by this vision, we strive for an economy in the service of life. Markets and money should enable the exchange of goods in order to satisfy and contribute to the upbuilding of human community. Today however, we see a growing domination of real life by private financial and corporate interests. Economic globalisation is guided by a logic which gives priority to accumulating capital, unbridled competition and the securing of profit in narrowing markets. Political and military power are used as instruments to secure safe access to resources and to protect investment and trade. This guiding logic is often identified as neo-liberalism. The neo-liberal economic doctrine unleashes the forces of economic globalisation in ways which do not recognise limits. This form of liberalisation has quickly resulted in profound political, social, cultural and even religious repercussions, which affect the lives of people all around the world through growing inequality, impoverishment, injustice and environmental destruction. Churches participating in the ecumenical process have affirmed that the ideology of neo-liberalism is incompatible with the vision of the oikumene, of the unity of Church and the whole inhabited earth. Extensive and growing injustice, exclusion and destruction are opposed to the sharing and solidarity associated with being the body of Christ. What is at stake is the quality of communion, the future of the common good of society and the credibility of the churches' confession of and witness to God, who stands with and for the poor.

How do we translate this more religious language in concrete terms?
It means that the justice of every system has to be measured in its consequences for the weakest members of society, who in biblical language are the widows, the orphans, the poor and the stranger.
If this is how we are going to consider the success of economic growth, then the way to measure development would be the common welfare, the existence and fulfilling of social, cultural and economic rights of the most vulnerable groups in society who are not the minority in our world, but are the majority of the population. The impact of the successive financial and economic crises throughout the world, and the most recent experience in Argentina, if considered under this view, give us a devastating image of the welfare of the few and powerful built on the hunger, the suffering and despair of the many.

From this point of view we must say that the current economic system at world level, comprising the free circulation of money, the controlled circulation of goods, and the restricted mobility of people has become a practical denial of human rights. It has not only reduced social, cultural and economic life, but it destroys humanity transferring on to virtual corporations and commodities the rights of the existing and real human persons.
In this regard, our concern is not just particular to the ecumenical movement but is based in the European traditions of politics for human rights. For the sake of the whole human kind our economic system can not impose its dynamics in such a way that it ignores the existence and the rights of other peoples, who do not or can not have a share in the markets, but also have a right to enjoy the benefits of creation. For that reason, and because it is also included in some constitutional texts of EU member states, the social responsibility of property needs to be claimed.
We need to stress the role of politics as representation of the whole of society, and not only the power game of the mighty. We ask the politicians, those who have been chosen by the people, to be builders of welfare for the whole "polis" and not just the executives of the shareholders.

Therefore, we challenge you to take into account that the logic of an "economy of unlimited growth" is incompatible with a logic of an "economy of enough for all". This means the need to consider the limits of growth from social as well as from ecological perspectives, and to draw boundaries against the casino-type circuits of speculative money. If we want Europe to keep its independent role in the world, Europe has to follow its humanist and not its imperialistic traditions with its violent thrust that often in the past have driven its most infamous dealings.
We insist that an economy that serves all people cannot be developed without the participation of civil society. The increasing number of non-voters on the one hand and the increasing number of people engaged in social movements on the other hand, make it clear that patterns of decision making have to be reviewed. The people-centred and people-driven alternatives at local and regional level ought to be the guiding principle for a change of the current paradigm of the economy.

We, as part of the ecumenical movement, want to share with you the main ideas and demands that have emerged in the course of our consultation. We want to propose some themes and actions that can be taken in order to shape the economic realm in such a way that it puts people and their basic needs and rights in first place. To that end we put to you the following considerations.

(Dr. Rogate Mshana) The international financial system is showing its functional failures in a dramatic way by the frightening regularity with which crises occur. This has been acknowledged by the European Commission arguing that there are systemic flaws in the system making it too crisis-prone – as it was stated by the working document "Responses to the Challenge of Globalisation" (February 2002).

The emerging economies of South-East Asia exhibited high levels of economic growth supported by policies including financial controls and state intervention in economic development. They lurched into crisis after controls were removed and the economies were enforced to to the whims of those with capital. The International Monetary Fund (IMF) intervened in these economies in the special interests of the investors, resulting in immense social dislocation for the people of the region, notably in Indonesia and Thailand.

The Asian crisis spread to Russia, Brazil and smaller stock exchanges and weaker economies in Latin America and Africa. This highlights the contagious nature of the weaknesses of the financial system and the vulnerability of markets across the world. The crises are taking pace in the context of a long standing and worsening debt crisis.

In the wake of the explosion of the debt crisis at the beginning of the nineteen-eighties, the IMF and World Bank intervened to bail out the commercial banks, with the least developed countries of Africa, Latin America and Asia becoming indebted to these institutions. Since then, these countries have paid the original amounts borrowed many times over, yet still owe amounts many times in excess of what was borrowed. According to UNDP sources, the debt of the developing countries has increased from $ 567 billion in 1980 to $ 1419 billion in 1992 to $ 1940 billion in 1995. Between 1980 and 1992 interest payments totalled $ 771.3 billion, plus $ 890.9 billion in repayment of principal. So in twelve years (1980 - 1992), the developing countries made 1.7 trillion dollars in debt repayments. That is they paid three times more than their 1980 debt only to find themselves three times more in debt by 1995. Since then the situation has worsened. They have been locked into a system of taking out loans to pay debt and interest on debt. These loans have been advanced on condition that countries implement structural adjustment programs, which have in turn weakened the economies of the countries and resulted in the collapse of essential services and productive capacity, resulting in severe poverty.

During the KAIROS Europa international consultation we have heard several examples demonstrating hugely damaging social consequences for the people in the countries and regions in which they occur, particularly in the countries of Central and Eastern Europe and those in the South. The economies of these countries have deteriorated to such an extent that they are increasingly unable to service debt. This is not a problem confined to the poorest countries. In fact, the crisis in Argentina, one of the wealthiest economies of Latin America, points to the vulnerability of the so called stronger economies. The impact of the crisis on the middle class in Argentina vividly demonstrates that the negative effects of the flawed international finance system are no longer confined to the world's poor.

While Europe seemed to be immune to these crises, there is significant evidence that Europe has already started to experience the consequences of the erratic and unstable financial system in a two-fold way. Firstly, social breakdown in devastated countries is impacting on the European Union in the form of the pressure of immigration and exposure to drug trafficking. Secondly, as we could witness by the crash of the stock markets in Europe, also the middle class is exposed to the volatility of the financial markets.

In sum, the international financial system reflects and deepens unequal power relations between countries of the North and the South and between the rich and poor within countries. The system prioritises shareholder accrual and is geared towards short term speculation. It runs counter to the European Union's stated commitment to sustainable development and has devastating effects on an increasing number of countries and people across the world. It is thus a system characterised by a lack of equity which needs to be challenged not only on grounds of morality, but also on the grounds of social, economic and ecological viability, and even on constitutional grounds. We recognise that some EU member countries have an article in their constitutions stating that property must also contribute to the common good. There have been lots of debates on crisis management but surprisingly little attention paid to crisis prevention.

Despite numerous attempts of the IMF and Bank for International Settlements mandated to devise the system preventing next crises, these institutions have been unable to succeed, since they have not addressed the fundamental flaws of the system in the interest of all concerned.

The negative role played by the international financial institutions (IFIs) has been a feature of both the financial market and debt crises. The World Bank and the IMF have acted in the interests of their richest members, including the countries of the European Union. The IFIs have used the financial market and debt crises to hold nation states hostage, in effect stripping them of their sovereignty. Furthermore, the resulting misery for the affected populations and their lack of transparency and accountability has further delegitimised the IFIs in the eyes of the world community.

The World Bank, IMF and the G8 have been persistent in their refusal to cancel debt. Their successive debt relief initiatives have clearly proven to be insufficient and have been geared to maintaining debt as an instrument of control over the indebted countries of the South. The recently introduced Poverty Reduction Strategy Papers (PRSPs) are the latest in a series of approaches to debt which have failed the people of the South.

Therefore participants of our consultation agree that the international financial order which is based on the neo-liberal paradigm needs to be fundamentally restructured.

■ There is a need to move away from harmful neo-liberal policies. Mechanisms have to be developed to ensure that the global capital markets will not interfere with globally sustainable development. They need to be incorporated into a democratic, transparent and accountable financial system.

■ National as well as regional authorities should be supported in efforts to regulate capital flows in the forms of capital controls and to introduce mechanisms to ensure a shift from speculative activity to investment in productive activity. There must be an acknowledgement of the need for national and regional flexibility to develop approaches most appropriate to the prevailing conditions in their areas.

■ A currency transaction tax should be introduced to limit speculative activity and generate revenue that can be used for development activities. We are in favor of the Spahn proposal which challenges the European Union to take the lead in implementing it - even if it was to be done unilaterally.

■ Starting with the three leading currencies, in analogy to the European monetary system, fixed but adaptable exchange rates should be aimed at in order to curb the crisis-prone volatility of the currency markets.

■ The debts incurred by dictatorial and oppressive regimes, such as Apartheid debt, should be declared odious under the international law. These debts should be cancelled without conditions.

■ Banks and financial capital should carry the risks of their investments instead of being allowed to shift them to the people, as it is systematically done. Illegitimate foreign debts should be cancelled, mechanisms should be established to prevent countries from falling into recurring debt traps. Fair mechanisms of lending and borrowing should be established with the involvement of civil society.

■ Wealth stolen from the South should be returned. The ecological debt and damages caused by historical plunder and present exploitation, including waste disposal, have to be compensated.

■ The financial and debt crises have been exacerbated by the unequal system of international trade. In this regard, the European Union needs to reconsider the role it has played in deepening this inequality in the form of its support for the formula of the World Trade Organisation (WTO), its unbalanced nature of the agreements, and the expansion of the scope and powers of the WTO. The European Union also needs to revisit the unbalanced nature of the agreements it negotiated with regions and countries of the South. In relation to the financial services we protest especially against the liberalisation of financial markets under GATS.

(Prof. Dr. Chan Keun Lee) Throughout the international consultation we had over the last couple of days in Brussels, we commonly shared a strong concern that there is a growing polarisation going on under the thrust of so-called neoliberal financial globalisation. A striking discrepancy in wealth and income can be observed not only between countries, but also within individual countries. Why is that so?

■ Of no doubt, public institutions both at multilateral and national levels are expected to play an important role to takkle these polarising trends and to ensure that the overall benefits of the globalising economy be distributed in a fair and just way.

■ Nevertheless, however, over the past ten years we have been witnessing a substantial decline in official development assistance which, in terms of GDP proportion of donor countries, dropped from 0.33 % in 1990 to 0.22 % in 2000 and, thus, is now even further away from the aid target of 0.7 % already agreed upon in the early 1970s.

■ Furthermore, there is the observable trend that particularly in the industrialised countries there is a considerable dwindling of tax revenues from capital. This loss of paid levies on capital is compensated by an increasing burden of taxes and mandatory social contribution on the part of wage-earners. In the European countries levies paid on labour have increased, as percentage of national income, from 15 % in 1970 to more than 25 % in 2000, whereas levies on capital have decreased considerably over the same period of time and went down to less than 10 per cent . In consequence, the growing GDP-share of general government spending has been financed predominantly at the expense of labour - a development which contributed further to the unequal spread of income and wealth within these countries.

■ Against this background, it is quite obvious that meeting the needs both for enhanced financing for development and for a more just distribution of income and wealth at national levels will require joint and resolute efforts to raise tax revenues more aggressively and fairly as a way to relax funding problems.

■ Yet, these imperatives are being increasingly undermined by the collective pressure governments are put under in the process of financial deregulation and race-to-the-bottom competition among nation states. Painful signs are as follows:

■ First, by global investors shopping among the nations for the most favourable tax jurisdictions, a visible global downward spiral has been triggered in taxation on capital, especially that on capital gains.

■ Second, numerous inconsistencies and loopholes in the taxation system such as tax havens, off-shore centres etc. further contributed to this fiscal decline by allowing for tax evasion and tax flight.

■ Last but not the least, the decreasing public revenues from taxes on capital and capital gains are followed by less public investments and the dismantling of the welfare state. This austerity policy weakens the aggregate effective demand, and therefore companies do not invest large parts of their profits in the real economy any longer but place them on international financial markets for speculation purposes.

■ In the light of all this, we feel that it is absolutely urgent to implement through adequate reforms a consistent worldwide management system of taxation as an integral part of a new international financial architecture. Most importantly, policy-makers' current obsession with shrinking expenditures should be corrected. Given the needs of having to raise additional public money, the revenue side of the budget must be reviewed fundamentally. From our perspective, such a new system would have to comprise the following elements:

■ the introduction of joint financial regulations such as minimum rates for taxes on capital gains that prevent governments from competing and underselling each other at the expense of all of them

■ the development of an international legal framework, that effectively obliterates tax flight, tax evasion and tax havens and that promotes the re-patriation of wealth stolen from the South.

■ The exploration of new sources of tax revenues such as the currency transaction tax and a carbon tax at the international level and the reintroduction of taxation on excessive individual and corporate fortune.

We call upon the European Union to engage in respective unilateral initiatives and to enhance multilateral cooperation towards these ends.

STATEMENT BY HANS ENGELBERTS, GENERAL SECRETARY OF PUBLIC SERVICES INTERNATIONAL

I would like to thank the organisers for having invited me as a representative of public sector workers to make a statement in this meeting. I will be using parts of a statement that the global unions made to the 2002 Annual Meetings of the IMF and World Bank at the end of September, and if time permits will present some trade union proposals for reforming the international financial system as formulated by the International Confederation of Free Trade Unions.

On Friday 27 September The Herald Tribune had an article under the title "The era of market fundamentalism is over". The writer Robert Weissman stated that marketization, deregulation, privatisation and the opportunities for market manipulation offered by inadequate regulation – all central elements in the rise and fall of Enron – are now discredited in the United States. And in developing countries, where their effects have been most devastating, they are the objects of widespread public opprobrium. Unfortunately, the IMF and the World Bank continue to sing from the market fundamentalist hymnal.

We cannot but agree. IFI policies to promote privatisation, market-friendly deregulation, and openness to foreign investment have been carried out on the premise that these multinational corporations were inherently more efficient and immune to corruption than any developing country public authority. The spate of corporate scandals should lead the IFIs to re-examine some of their basic premises, as well as many of the policies and practices derived from them. These include dismantling public pension programmes in favour of privatised funds, privatising basic services without ensuring adequate regulatory control, and applying macroeconomic austerity programmes that may be advantageous for the financial sector, but detrimental to the vast majority of the population. The IFIs must instead adopt alternative policies that can promote growth, regulation, and decent employment for women and men worldwide.

In the past five years, economic and financial crises have broken out in several emerging market economies, with negative repercussions sometimes on a global or at least regional scale. These have taken place in East Asia (1997), Russia (1998), Turkey (2001) and Argentina (2001). All of these cases concerned countries that the Washington-based International Financial Institutions (IFIs) had previously held up as examples to emulate, because of the free-market reforms and other policies they had carried out. Nevertheless, once the economies unravelled, the IFIs were quick to point the blame at newly discovered domestic sins rather than the polices they themselves had put forward, encouraging or condoning political leaders' overly close linkages with private sector interests, corruption by top managers, loans granted by banks under suspicious circumstances, or inadequate independent oversight of financial markets.

In 2002 the principal source of international financial instability appears to be the heart of world capitalism: large US-based multinational corporations. The recent spate of corporate collapses have brought to light incidences of company executives extracting huge personal gains from failing corporations, large financial institutions acting in connivance with corrupt corporate practices, massive accounting fraud and laughably weak regulatory control. These private sector abuses in the world's most powerful economy dwarf the level of corruption in many emerging economies and give new meaning to the term "crony capitalism".

The myriad scandals and collapses of large US corporations will have repercussions throughout the global economy. The corporate scandals only add to the structural problems of the US economy, and will probably result in slower growth and increased poverty on a global scale. Working women and men are generally the first victims of such economic difficulties. As Joseph Stiglitz, soon-to-be-fired World Bank Chief economist and future Nobel laureate stated in a January 2000 speech, referring to the East Asian financial crises: "Reckless lending by [...] financial institutions combined with fickle investor expectations may have precipitated the crises; but the costs, in terms of soaring unemployment and plummeting wages, were borne by workers".

Just as in the late 1990s, working women and men are suffering the brunt of private sector failures. Tens of thousands of workers of Enron, WorldCom and other US corporations have lost not only their jobs and wages but, in many cases, their retirement incomes, while company executives cashed in their stocks sometimes with the knowledge that the firms would fail. The impact of these corporate failures has spread throughout the world as a result, at least in part, of IFI policies. For example, Enron benefited from World Bank-financed energy privatisation in several countries.

The international repercussions of the Enron debacle are known because the company's demise began several months ago. The consequences of the numerous other corporate scandals that have been exposed since then, such as among the telecom giants, have undoubtedly not yet fully come to light.

The IFIs have not been major players in developing the "corporate governance" structures that are emblematic of the dysfunctional practices of US capitalism now coming into the light of day. However the World Bank has certainly been promoting this model in developing countries through its Corporate Governance unit, which has so far been generally impervious to trade union attempts to have that unit seriously take on "stakeholder" concerns. It is highly ironic that the Bank should do this even as US society is debating the need to curb the excesses of large corporations and establish genuine independent oversight and has adopted new legislative measures having those objectives. Likewise the World Bank's Social Protection unit continues working at a vigorous pace to promote partial or sometime complete privatisation of state-run pension systems. This echoes moves to privatise social security in the US, a project that is increasing in disfavour as the value of equities, in which much of the privatised funds would be invested, continues to prove extremely unstable.

In Latin America, where the World Bank has been promoting its "multi-pillar" system of partially privatised pensions for over a decade and a half, many have lost faith in the privatised schemes as a result of their severely reduced rates of return, due in large part to exorbitant administrative fees extracted from the funds by private financial institutions. In Argentina, an average 23% of contributions were thus lost to future retirees; this figure is many times higher than what it costs to administer public sector pension schemes. In addition, the remaining public sector components of the region's reformed pension systems have often imposed severe fiscal strain on public finances, as contributions are diverted away from the public sector despite residual obligations. In Argentina, pension privatisation was a leading cause of the public sector deficit that finally resulted in the country declaring debt default in December 2001.

We believe that the IFIs should encourage countries to develop comprehensive social protection programmes, including pensions, unemployment benefits, child support, maternity, and sickness and injury benefits. All of these programmes are important components of effective poverty reduction strategies, which both IFIs claim to be their overarching goal. The World Bank could certainly play a positive role in assisting countries to improve the sustainability, levels of benefits and coverage of public pension schemes. Unfortunately, the Bank's current approach of encouraging countries to scale down public schemes and hand contributions over to private fund operators on the pretext of decreasing the burden on the state has often left retirees in the lurch and governments with increased social responsibilities and even heavier fiscal burdens.

I could go on giving examples that privatisation is not the answer. That the new private sector development strategy lays down ground rules limiting public sector activities, that the World Bank privatisation programmes violate safeguards. We did this in our statement to the annual meetings of the IFIs. But time does not permit me.

We urged the IFIs to cease their ideologically driven campaign to pressure developing countries to privatise public services. The IFIs are doing so even to the extent of forcing governments, through loan conditions, to divest services such as water and health, which in developed countries, are generally provided by the public sector.

Market fundamentalism is not dead. The European Union also is still supporting those policies. Have the EU governments ever used their position on the Board of the IFI's to fundamentally change the policies of the IFIs. I feel that the EU is hiding behind the US Government, which only controls 17% of the vote. Major international development initiatives have recently been agreed at the International Conference on Financing for Development (Monterrey, Mexico, March 2002) and through the New Partnership for African Development (NEPAD) endorsed both by the G-8 Summit (Kananaskis, Canada, June 2002) and the Summit of the African Union in Durban (July 2002). The UN Earth Summit II in Johannesburg adopted a programme expressing a global commitment to sustainable social and environmental policies to meet the Millennium Development Goals and raise living standards worldwide. But as the examples I mentioned have shown, all too often IFI policies are lagging behind or even running contrary to a worldwide consensus for the adoption of socially-oriented policies that advance effectively basic human rights and core labour standards and can achieve higher living standards for working women and men.

For too long, the IMF and World Bank have responded to calls for change with positive rhetoric but not enough concrete action. Now is the time to respond dramatically and effectively. I urge the representatives of the European Union to use their position and that of European governments to open up the IMF and World Bank, cancel crushing debt, and put an end to policies that reward corporate greed at the expense of sustainable, equitable, and democratic development around the world.

Our response should include elements of the following, which are described in detail in a report called Trade Union Proposals for reforming the International Financial System:

- A small globally uniform tax on all private foreign exchange transactions, also known and popularized as the Tobin tax.
- A fair international debt arbitration and bankruptcy process.
- Closer co-ordination of major currencies.
- Tougher requirements for banks.
- "Speed bumps". These are a form of temporary capital controls aimed at discouraging inflows of short-term capital and were employed in Chile for a period in the early 1990s. In most cases, these regulations require that capital in-flows remain in the target country for a specific time; in Chile's case it was 12 months.
- Incorporating labour and human rights and social protection within IMF/World Bank policies.
- Seeking diversification of economic activity based on domestic demand.
- Strengthening capital controls.

STATEMENT BY PROF. DR. ESTHER JEFFERS, UNIVERSITY OF PARIS 8, MEMBER OF THE SCIENTIFIC COUNCIL OF ATTAC FRANCE

Capital market liberalization has been imposed despite the fact that there is no evidence showing it favors economic growth. International institutions (the IMF and the World Bank), international bankers, and the US treasury department argue that it helps countries' economies grow faster. Free markets are presented as the solution to the problems of emerging countries in Asia, Latin America, Africa and Europe - one size fits all.

Financial globalization is supposed to lead to a better allocation of capital flows on a world scale. But that ignores the highly speculative nature of financial markets. The fact is that free market reforms have led most of the developing countries to high rates of unemployment, high inflation, and deep economic crises. The collapse of Argentina in 2001 is one of the latest examples in a series of financial crises that have broken out in a repeated and accelerated way in the past few years. Neoliberal globalization has not accomplished what its advocates promised it would, instead it has brought more inequalities and more financial instability on a world scale. Over the past decade the number of people living in poverty has actually increased by almost 100 million: in 1990, about 2.7 billion were living on less than 2$/day, and in 1998 about 2.8 billion were living with less than 2$/day. At the same time, total world income has increased by an average of 2.5 % annually.

The IMF and the World Bank have been incapable of regulating the crises. They have failed not only to promote stability, but many of the policies that they advocate have greatly contributed to global financial instability. The growing number of financial crises shows how deep the problem is. Since 1994–95 we have seen the Mexican crisis, then East Asia in 1997: Thailand, the Philippines, Korea, Indonesia, and Malaysia; in 1998: Russia and Brazil, and in 2001: Turkey and Argentina. Those countries suffered when inflows of speculative money, that had poured in after capital market liberalization, suddenly flowed out, leaving behind collapsed currencies and devastated economies.
The IMF's insistence on developing countries maintaining tight monetary policies and austerity programs has led to interest rates that increase unemployment and make the recession worse. The reasoning behind raising interest rates is that they make a country more attractive for capital. Initially, funds from foreign banks and international investors pour into the country, attracted by the high rate of return. However, when doubts begin to arise as whether these returns will be maintained, capital flows quickl change direction, leaving in their wake an increased number of firms in distress, and an increased number of banks facing non-performing loans. In the final analysis, the recession becomes worse.

And once a country is in crisis, IMF funds and programs not only fail to stabilize the situation, but in many cases make matters even more difficult, especially for the poor. These programs typically include higher interest rates, as well as cutbacks in government spending and tax increases. Anger grows as the poor in Latin America, Africa, and other parts of the world have to face cuts in fuel and food subsidies and cutbacks in health spending. The costs are always borne disproportionately by the poor. They have no alternative to express their anger but in the streets.

Every time a crisis breaks out, the IMF pleads that the liberalization of capital movements is irreversible and will help economic growth, and that the crisis is not due to financial globalization, but to the lack of prudence on the part of the country's authorities, and their failure to take the steps necessary to prepare their country for the transformations in the world economy. Furthermore, it claims that all the agreements it makes with borrowing countries are negotiated and freely entered into by those nations seeking the help of the Fund. In point of fact, however, all the power is in the hands of the IMF, because countries desperately need funds they will not receive if they do not comply with the IMF's recommendations. Not only can the IMF refuse allocation of its own funds but, in and of itself, such a decision sends highly negative signals to the markets.

Advocates of capital market liberalization contend that capital market controls impede economic efficiency and that economies experience more rapid growth without these controls. But without any capital controls, emerging economies are unable to fight off speculative attacks. When faced with speculation, developing countries and emerging economies are expected to defend their currencies by simply surrendering their dearly obtained foreign exchange reserves. Once these reserves have been exhausted, the countries are all too often pushed into debt in foreign currencies. Demanding countries not establish capital market controls during speculative attacks is like demanding a ship's crew throw down their arms when pirates attempt to loot the ship.

What happened during the collapse of the Thai baht in 1997 shows that when speculators believe that a currency will devaluate, they try to move out of the currency and into dollars. With free convertibility and no control, it's easily done. As traders sell the currency, its value is weakened, fulfilling their own prediction. The government tries to support the currency. It sells dollars from its reserve, buying up the local currency to sustain its value. But eventually the government runs out of dollars and the currency plummets. The speculators can move back into the currency and make a nice profit and the magnitude of the returns can be enormous. Contrary to neoliberal doctrine, capital flows must be controlled nationally and internationally. The proposal to tax foreign exchange transactions is motivated by various objectives, but the most important ones are:

1. The reduction of exchange-rate volatility by "throwing sand into the gears" of world financial markets

2. The redistribution of resources, in particular between the North and the South

3. Imposing constraints on the international financial system and the process of globalization

On November 19, 2001, the French National Assembly adopted an amendment to the 2002 Finance law that institutes a tax on transactions on the currency markets at a rate between 0.01% and 0.1% which will be enforced when similar laws are adopted by other countries in the European Union. This kind of tax could be implemented by the European Union. This is an opportunity for the European Union to make a big difference.
This tax would be used to give the means

to countries which need it to finance a sustainable development. The United Nations Development Program and UNICEF estimate that 80 billion dollars annually for ten years would be enough to guarantee every human being living on this planet access to basic education, basic health care, food, drinking water and sanitation and gynecological and obstetric care for women. Sources of funding must be found for socially just and ecologically sustainable development.

That is why we urge the European Union to:

1. Adopt such a tax on currency transactions that would liberate considerable sums of money for development.

2. Cancel the debt of the developing countries: if the third world's external public debt were to be entirely canceled without paying the creditors, it would represent barely 5% of their portfolios. But, for the populations liberated at last from the burden of debt, the same amount would represent on the average two to three times the amount required annually to satisfy basic human needs, as defined by the United Nations.

3. Raise official development aid to at least 0.7% of the GDP: the present level of Official Development Aid (ODA) does not balance out the negative effect of debt repayment. It is about five times less than the amount repaid by the Third World in external debt servicing. In 2000, ODA represented a mere 0.22% of the GDP of the most industrialized countries.

4. End Structural Adjustment Policies, which subject third world countries to the appetites of the multinational firms. The policies and practices of the International Monetary Fund and the World Bank have caused widespread poverty, inequality, and suffering among the world's peoples and damage to the world environment. They should be suspended. These institutions share the responsibility for an unjust world economic system.

5. Reinforce control and supervision of banks: they are major actors on the currency markets. They have been responsible, along with investment funds, for international flows of speculative money. Supervision of them is inadequate and reserve requirements are insufficient to prevent the risk of bank failures.

6. Eliminate tax havens which contribute to speculating, inflating the financial bubble, laundering billions of dollars, and evading taxes.

These measures will not solve all the problems, but they are steps toward more justice and real development

STATEMENT BY JEAN-MARC LAUWERS, APPEL DES 600, BELGIUM

My name is Jean-Marc Lauwers, and I represent a Belgian organisation called "Appel des 600" which is an organisation established in 1996. It is called "Appeal of the 600" because there were about 600 people from trade unions and academic institutions who launched the appeal in order to achieve more fiscal justice in Belgium. Two of our main objectives are to raise the issue of fiscal and banking secrecy in Belgium and to establish a register of what people own in Belgium. In 1998 we joined ATTAC France, later ATTAC Belgium was established; these are the two organisations which we work with. I think that I should maybe stress the fact that when I talk about raising the issue of banking secrecy in Belgium and establishing a register of what people own we find that in Belgium in particular, a country which has a small economy wide open the world ,when you talk about finances and a very mobile fiscal base, those objectives have their own international dimensions. I was asked today to talk to you about taxes and taxes on development.

I would say first of all that you cannot separate taxes and public services. I think it is interesting to mention this because over the last two decades neo-liberalists have spoken above all of fiscal pressure quite autonomously. They have never thought about the other side of the coin, namely: what exactly are taxes for? Neoliberalism says obviously that there are too many taxes, that too many taxes kill the golden goose, as they say. But I think it is a matter of financing collective choices what taxes are for; and you also have to stress the fact that taxes are paid on an annual basis, and their use is debated every year in the budget. In this regard, financing public services is, of course, one of the major points. Democracy means you do not leave anybody abandoned in society, no matter what their income might be or what they might own – every individual has the right to health, has the right to quality education, has the right to access to culture and to regular and effective public transport. I think before we talk about taxes, it is useful to remind us of all of this.

So, we would reaffirm the principles of democratic taxation: the first thing to say is that people should be on an equal level playing field when looking at the paying of taxes. This has been a principle since 1791, and Article 13 of the universal declaration of the rights of man says that to maintain public order and to pay for the expenses of administration a common contribution is essential, and it should be shared equally between all citizens on the basis of their ability to pay. But it is clear that at the end of the eighteenth century and in the course of the nineteenth the power to contribute or the ability to pay was not the same as it is today in society. Today the ability to pay is determined by how much you earn, by how much profit companies make, by how much profit buildings make, and above all by how much profit you make on the stock markets - from dividends, from bonds maturing. There is a financial inheritance as well as what one has earned. In Belgium, just to give you a few figures, in 1950 the real estate owned represented two thirds of the overall capital enjoyed by an individual household. By the end of the 1990s, the financial holdings represented two thirds of what four million households owned. So there has been a fundamental change in the options that people have made, and it has been a progressive change.

The second major principle is that taxation should be re-distributive. This is the principle of progressive taxation. I do not want to talk much about that second principle, but I think that we should nevertheless recognise that principally we are talking about income tax and progressive taxes on what is inherited wealth.

And then the third major principle which I think is important is also softening the impact of taxation on small incomes and small amounts of capital. In a general way, there are minima imposed on individuals and there are various exemptions for certain percentages or capital owned in other taxation systems or schemes.

After reminding us all of these major principles, I want to situate taxation over the last two decades and talk about the liberalisation of capital and the development of financial markets. It was said earlier on that the liberalisation of movements of capital started with a bang at the beginning of the 1980s. It accelerated in the course of the 90s; with regard to the European Union, on July 1st, 1990, liberalisation of capital and the movement of capital was brought in by law. And I would remind you that at the same time as liberalising movements of capital there had to be fiscal harmonisation regarding the way savings were treated. Two draft directives were produced by the European Union in 1998/1999 whereby capital movements were liberalised but there was no harmonisation of the fiscal treatment of savings. This liberalisation of capital flows went hand in hand with the implementation of plans to set up structures to follow and monitor capital movements. I would refer in particular to SWIFT which is a company established under civil private laws, based in Belgium, and established at the initiative of the banking world.

The second important point over the last two decades has been the development of the financial markets. You can put it in another way: you can say that the banking intermediaries have been established. The economy has been financed less and less from bank loans, and more and more directly from the financial market. This is because of the shift in the value of shares. Now the value of these movables has developed to such an extent that now 24 hours a day it is possible to buy, to sell, to deal. And there have been financial crises, and people are now finding themselves in a more fragile world of shares or options and therefore have taken refuge in government-backed securities or bonds.

These movements and trends are important, because the two trends, liberalisation and the development of the financial markets, have led in fact to a situation where in the economy you have a very mobile fiscal basis although other fiscal bases are more or less inflexible: things like wages, real estate. But everything else is becoming more and more mobile; this results in the fact, as said earlier, that countries, states, regions, cities and collective local authorities are competing against each other. Thus, major companies – the so-called multinationals – have had the opportunity of making their own deals, of creating their own markets. And this is why you can see over the last two decades that there has been a significant reduction of taxes on capital.

I would like to quote a few passages from the report produced by Mr Monti when he was the commissioner in charge of taxation in the European Union. This report was published in 1997; it shows the changes in taxation between 1981 and 1995. It reveals that the implicit taxation rates - in other words, the amount of tax levied on the relevant base – with regard to labour had been on the increase of seven per cent, but that they had fallen by more than ten per cent for the other production factors, capital in particular. With regard to reforms for more radical changes, I would just mention that states have been trying to, and must indeed, recapture control of capital movements. They have been trying to re-appropriate control of structures that are used to transfer capital. I am talking here specifically about having very strict audits of international clearing companies and also companies like SWIFT as mentioned earlier. It is also necessary to combat speculation, particularly using a taxation system to do so, through the establishment of a speculation tax, but also by re-distributive taxation rates on stock exchange gains.

In conclusion, I want to add the additional measure to de-fiscalize ordinary people's savings meaning their relatively small deposit accounts. This would engender new attractions for a non-speculative financial product that allows for long-time financing and would help with housing projects, land management projects and projects that meet long-term needs.

STATEMENT BY WOLFGANG KREISSL-DÖRFLER (MEP):

Good afternoon, ladies and gentlemen. I first of all would like to thank you all warmly for the invitation here today. I am from the Socialist faction in the European Parliament, and I am an MEP since 1994. I have been sitting in the Foreign Trade Commission for a very long time, and I was involved with the report on the Multilateral Agreement on Investments. In this report the European Parliament made its position quite clear, namely that it did not want to have the treaty adopted in the proposed format. I am equally interested in World Trade Organisation issues, in particular with regard to agricultural policies.

Everything that has been said here today so far, I as an individual would support, and I cannot but say: put these arguments forward more strongly because obviously we want to maximalise the necessary pressure. What we are seeing at the moment in the debate on the reform of the structures of the international financial markets is simply that all the proposed reforms are intended to keep weaker countries in and reinforce their position in the existing system - without any thought being given to the fact that these growth-dominated financial markets as they are, are not going to solve any problems. We are trying to integrate people into a system that does not really work anyway.
We presently face major banking crises, not only in Germany, but all around us. Particular countries are presently specifically affected, like Brazil and Argentina. I agree with the remarks made with regard to both countries earlier: Argentina was driven into servicing the debts left by the military dictatorship at high political cost. After the ’64 coup in Brazil, the same thing happened there with the military, and basically the same method was applied when it was clear in ’84 that the ship was sinking. So they were left with the debt. I simply hope that my friend Lula will win in the Brazilian presidential elections. If he does of course that does not mean that he will be able to change the financial system because developing countries are all prisoners of the system. This pressure has been exerted again and again. Obviously there is a massive task facing the European Union within the WTO or within the European Union itself.
Obviously there are quite a few MEPs who are in favour of the demands that have been voiced here today. But unfortunately we can also tell you, I have to tell you, that the overwhelming majority in this parliament is not convinced yet of the need for change. We got a structurally conservative and liberal majority here in the parliament. But some things have changed; if you look at the debates that were held in 1994 in the Foreign Policy Committee with Sir Leon Brittan, and look at what is happening now with Pascal Lamy, things have changed; the terms of debates have shifted. Gradually, the European ministers of finance of the 15 member states are beginning to understand, even if they have not all quite got to the same point, that they have to change the system somehow.
In Germany we are sort of on the edge of the abyss, and we recognise that the old methods are not working, and that we cannot solve the problems with the present structure. There are a couple of things that one has to differentiate between what the European Union has to do in terms of development policy, and what it does in order to use the strength of the twelve Euro countries and what will happen particularly with the management of the EU enlargement. We are going to have 450 million people in the Union. That is quite a single market, and the European Union of course has corresponding duties and obligations, and power - if it wants to use it. So what is happening in development policy is that there is more and more of a danger of foreign development policy being undervalued and lowered in the ranking. People are withdrawing to the classic developing policy action field, giving more aid to emergency activities such as in Afghanistan for example, or in Iraq if there were a new government there. But development policy is being tailored to geopolitical policy, and I am sorry to admit that as I am also in the development committee of the European Parliament.
We need to have more money for developmental co-operation - there is no question about that. But we must, and I have to emphasize this, we must involve every country and not exclude some of them.

The programme “Everything but arms“ is very welcome but it is a drop in the ocean basically because over such a long period sensitive products like sugar for example and rize have been taken out of the system. Goods that developing countries produce have been left out. Overall, if you increase the financial means available you have to decide what you are going to do with them. And it is necessary to accelerate the de-blocking of funding from the European Union on the one hand but on the other to pursue initiatives on a firm and faster basis. Look at Brazil with 280 billion US-Dollars of external debt - in 1980 I think there were about 150 billion. Just looking at serving the interest while seeing the effect that this has on the investments in the educational system, you can see what state Brazil is getting into. The European Union on the basis of its strength and its co-operative work, whether it is in the international financial institutions or other international bodies, can make its voice more and more strongly heard and can make it clear that we want to have a different financial structure. If debts for example were cancelled obviously countries will incur further debts because that is what happens. But it should be done in a controlled way where states are helped to use the released money in their internal development.

And if one talks about international investment then the European Union can develop a kind of code of conduct of its own. It could say to Europe-based companies: you only get support from the Union if the investments in these countries are also used to develop the country and not just to provide cheap goods for the European Union on other people’s backs. That is one thing that we can try to do. But the problem of course is always to what extent are we likely to get a majority for this? And secondly, to what extent can we actually get this through these various institutions? Well, there we need support from the governments and people involved in the respective ministries of developing countries. Of course, not every body is working along the same lines, and governments unfortunately are not necessarily representing the wishes of their people. If we hear that developing countries are against social and ecological standards, even minimum standards, I do not have to stress that this is not necessarily the position of the people, of the majority of the people. So the European Union as a counter strategy to all of this, has to support projects in such countries: In the educational sector, to give people the possibility of being able to evaluate themselves what is going on - and not what usually happens, to just send EU observers to the elections to see what goes on there. The other thing is to have a strategy for opening up markets here.

This particularly applies to agricultural policies although I would warn you that an increased quota of imports certainly does not mean that the income that for example Brazil might get from its sugar or from its coffee, would necessarily benefit the majority of is population. The European Union can demand land reform but they cannot put it into practice itself. The country concerned has to do its own land reform - on the spot. So the concept of good governance used sensibly applies both to our own countries and to others.
In the financial sector it is necessary of course - and actually mostly we are talking here about private loans, not public loans - to bail in all actors, when there are difficulties of payments and settlement - and not, as has happened in the South-east Asian crises, only the debtors whereas the creditors were bailed out while other people have been left with nothing. You have to have much clearer rules of the game and start discussing how credit allocation should work at all: What basic criteria should be followed; on what basis do we want to provide state support? We cannot ban private loans but at the same time we do not necessarily have to support some of them. This is a kind of thing that one has to make clear to private creditors. It has to be made clear to them that any debts they incur are not going to be picked up by the tax-payer, and that settlement and recovery have to be done some other way. But the problem with all these suggestions is: To what extent can we actually get them legally based. Well, the European Union can do that. We have a European legislative framework. If the Americans do not want to act along the same lines people usually say: "Well, you cannot do anything." I do not agree. I think that we need to get out of that; we should have a clear, independent line of our own - about both financial organisations and social policy for the European Union, for these 450 Million people that are going to be citizens of it. And this gives a corresponding signal vis-à-vis the outside world.

I also would like to mention that the WTO actually needs to be reformed. What has happened so far as a result of Seattle and Doha was just to keep people quiet. In the future, structurqal changes will have to occur urgently.

There is lots more that I might have liked to say. I am glad that I was able to listen to other speakers as well, and I know that people here are thinking along the same lines. Unfortunately we are not in the majority. I know that. But when I look at the changes between 1994 and now and also look at the differences in the parliamentary debates here, including the differences in the attitude of the public due to the fact that the WTO has been founded, and you can see what that means in the financial press.

And thanks to Attac and other movements like this there is more grassroots activity. And the European Parliament is very open to all these ideas, and if you look to the coalition discussions going on between the Greens and the Social Democrats in Berlin at the moment you can see that one of the subjects being discussed is a different kind of corporate taxation of shares and taxes on capital gains. At least it is an issue that has attracted attention to that extent. I am very sorry but I have to stop now. Thank you.

STATEMENT BY ANNE BUCHER, "HEAD OF UNIT" OF THE DIRECTORATE GENERAL FOR TAXATION AND THE CUSTOMS UNION:

Thank you very much for inviting us and raising questions regarding our policies. I mean, basically you would not be surprised if you know a bit the Commission's papers that we largely share your objectives and your concerns. But I would like, at this stage, to focus on implementation issues. And I think if we do not want to loose credibility we have to have very very concrete proposals, and we should not underestimate the difficulties and the complexities of the matters we are dealing with. I mean not only technicalities; we are also talking of things on which there is such a diversity of views among the different countries that it is extremely difficult to get to a compromise or an international consensus, to a common language between countries. I suppose you are already familiar with this, but when we are dealing with complicated issues like taxation, which is a prime issue of national sovereignty, it is extremely difficult to come to an international consensus. When I think of taxation issues there are quite a lot of economic trade-offs - of what it costs, who pays. When you consider for example the equity-efficiency relation it is not that easy to design the right tax. I am not going to cover all the issues you raised; rather I will mainly look at the issue of taxation which is my field of competence. I would like to respond on two points. One is the issue of the repeated call for international taxes and in particular a currency transaction tax. And the second issue is the need to fight financial abuses at the international level and in particular harmful tax practices.

Let me start with the issue of international taxes. I have listened carefully to your speeches. In our Directorate General, we have been reviewing the literature on the currency transaction tax extensively, and we understand that the rational is two-fold. It is a bit like killing two birds with one stone: on the one hand, improving international financial stability and on the other hand the tax is extremely attractive because it raises revenues. We have reflected upon this, and we are still fighting with a lot of technicalities. We have difficulties in finding a way forward. Some of you might be familiar with our conclusions which we have put in the Commission's report on the responses to the challenges of globalisation. I think we are always struggling with the issues of feasibility, efficiency and equity. There was a reference by one of the speakers to the proposal for a treaty on the currency transaction tax. Let me just comment on this one. We have looked at it. And there are as many currency transaction taxes as you have people looking at it. So if you take all of them, you have to raise a particular problem of either feasibility or efficiency or equity. If we take the example of the Belgian proposal, I mean this proposal which has been put to the Belgian parliament. We understand that foreign exchange markets have increasingly diversified. They have become even more complex, and for instance this proposal assumes that you can tax individual transactions in foreign exchange. But right now the situation is not that simple. If somebody wants to purchase a currency he can give an order. And it does not mean that there is immediately a transaction taking place. There are a lot of intermediaries, and in fact most of the foreign exchange transactions only generate a transfer of foreign exchange and capital at the end of the day, or when the positions of the operators are balanced. This is why there have been other proposals which have been also discussed in other forums like the Schmidt proposal of taxing the balances of banks through electronic payment systems. We have looked at this as well. And we have talked it over with our colleagues of the financial department. And again I mean it is true that technically it looks feasible; it would be also extremely attractive as an easy way of taxing transactions. But we have to realise that these electronic payment systems are not universal; they are not all connected with one another, and the participation in these systems is voluntary, none of them is compulsory.

This brings me to the other issue which I wanted to mention. We have also looked at other international taxes, such as the CO2 tax or the tax on cerosine for international flights or the tax on exports of arms. To have such taxes you really need to be able to identify the taxpayer, you really need to be able to legally define the tax base, the taxable event. There is a number of preconditions which we find hard to meet for instance in the case of electronic payment systems because it is not compulsory to participate in these systems. I could refer to other examples we have been looking at. We have also asked our legal experts to look at the legal issues of the currency transaction tax. If we take the currency transaction tax applied unilaterally by the European Union - and here I am not talking of efficiency in terms of stabilising exchange rates for peripheral currencies - just in terms of feasibility: What would you take into account? You would have to apply it to all EU currencies not only the Euro. What would you do with the transactions outside the European Union? For instance, if you look at the Belgian proposal it says that if a transaction in Euro is taking place outside the Union, and if the country where it took place did not apply the currency transaction tax, then Belgium would tax the transaction. But how would you do that in concrete terms, for instance if the transaction took place on another continent? How would you apply the tax? There are numbers of exemptions which are foreseen also in the proposal which according to our legal experts would not be compatible with the four freedoms of the single market. So it is; we are not against it. We are looking at the various proposals. We are thinking about them. But we find it extremely hard to reconcile the efficiency, the feasibility and the equity concerns regarding the tax.

Let me come to the second point I wanted to respond on: the issue of how to cope with the increasing international dimension of tax policies. I have heard it before and I think we all agree that all governments are aware that their tax policies are increasingly influenced by the tax policies of the others, and that tax competition on mobile bases is taking place. There also is a growing awareness as well that we should fight the abuses of the financial systems and in particular harmful tax practices and the emergence of tax havens. I think the European Union has been working a lot in this direction, and it has been said before that we should increase tax coordination. At the EU level, the tax package introduced in 1997 is one step into this direction.

But I think we are also making progress at the international level, in particular through the OECD forum on harmful tax practices. I do not know how you assess progress, but the identification of tax havens and the possibility of taking defensive measures against non co-operative jurisdictions are, from my perspective, real progress within a period of five years. Also what is now happening as a result of the Monterrey Conference, namely the implementation of an international tax dialogue (ITD) which we will start next year will be an initiative in the same direction. I like to hear what you think of these initiatives. I mean you might think it is too slow, it is not enough. We find it has required an enormous effort to initiate a dialogue in an area in which it is extremely difficult to get any kind of coordination with regard to taxes. Thank you very much.

STATEMENT BY GILLES HERVIO, "HEAD OF UNIT" OF THE DIRECTORATE GENERAL FOR DEVELOPMENT:

Thank you. I also will try to be clear. Obviously many things that have been said challenge directly the issue of development. I would like to come back nonetheless to various issues and share with you some questions that we are considering in the context of development. The first thing I would like to say is that I agree with what was said earlier on about the need to improve coordination between the European Union and all the international financial institutions. It is very clear that the weight that we actually represent is not at all reflected in the way our voices are heard in these international institutions. But the willingness of the member states to do this is not particularly clear. It is fairly clear that all the lobbying, all the work that is being done is only going to really work if we try, as we are trying, to get the Union's voice heard much more strongly in the World Bank for example or the WTO. Of course, the bank is dominated still by the

United States - we know that. Now, on development issues I think there are three different questions really. The first is resources. How do we increase resources that are required for development? Secondly, modalities for getting the money into development. And thirdly, the conditions that would allow the aid to be effectively spent in order to really combat poverty. And it is with regard to this last point that we in the Development DG are trying to focus most of our energy on.

On the first point I think the position of the Commission is very clear. We are trying to increase resources made available at the world level for development, and we constantly remember the 0.7 per cent target. Our General Director this year toured European capitals, and these were the signals that he was giving. But we are still of course very far from getting what we want. Whether it comes from extra taxation or a new tax or whether it comes from a decision taken about alternative ways of financing, does not really matter to me. To me the important thing is the overall amount we get, which can then be spent on development. What is important is to change the way in which the money goes to a particular country. At the moment there are very different channels that are used. The oldest, most traditional one is to fund projects. You know the difficulties that there are for countries in managing projects with the different procedures that everybody has. The second is budgetary support provision, and this is provided in particular through grants for structural changes which you criticised but which at least enable us to direct significant amounts of money into state budgets. The third matter is debt reduction. Now I think that there is a danger in wanting to stress too much the aim of reducing debt. Why? Because the criteria that are used for it essentially are the criteria drafted by the most indebted countries and there by the people who have the most money. The criteria need to focus much more on the needs of development and how to combat poverty and reduce it. It is more then just saying: Well there is a debt outstanding which is causing all the trouble. I would like to draw your attention to these issues. One can finance by debt reduction; this is a very quick and easy thing to do but it does include a danger. Because the criteria used for allocating the money may not be the fairest.

The third point I would like to draw your attention to is the importance of watching closely what is happening with regard to debt initiatives before going beyond the question of debt. Now firstly, financing debt reduction has still not been organised. We still need a billion to finance our initiative. The Commission has intervened very strongly since the beginning of the debt reduction initiative - way beyond what it should be doing as a creditor actually. It has been doing it to reduce its percentage of debt but of course we have very little debt outstanding from poor countries. We are their donors, and we are looking at the possibility of going further to allow ways of funding and covering the present initiative. But pressure has to be exerted at every level, especially on the Untied States so that it is not only Europe that is involved in reducing debt. Where things get more complicated is in trying to make sure that the money is actually used to reduce poverty. And I would draw your attention to the fact that we are not talking here only about financing.

We know very well that corruption is still a massive problem in many countries. I am not talking about corruption in the past, we know it is there; we know that policies are sometimes inappropriate, but they are pursued regardless in some of these countries. It is not enough to say we will throw money at them more quickly. There is a real question of trying to make sure of what the final impact of the money we are giving will be on combating poverty.

Therefore a new concept has been introduced, the PRSP. This new concept is important because we hope it is going to allow us to be more effective in dealing with the debt in a less intrusive way, less interfering and less forcing countries to do xyz but concentrating on the final result. So our new policy is to go for the results we want rather than how it is done. The PRSP is a new concept which has been accepted by the World Bank, and in fact it has even been backed by the IMF and other financial institutions. Now take Rwanda as an example. I was there last week, and we are far from seeing that concept actually being followed. I saw a family; it was to meet 55 conditions in order to get support for something. The World Bank has these endless, very detailed conditions that have to be met before money can be disbursed. But there is an opportunity there: I think we should see it and not just reject the whole thing as being pointless. Since there is something that can help. Because after all it enabled us to talk to World Bank and the IMF, and they actually agreed that they should be a bit more consistent and bit more to the point in what they ask for, and reduce all the nick picking that was going on and concentrate more on the results. The result being that there are more children in schools, that there are more girls in school and more women getting maternity care. This kind of thing is more important than whether there are 28 or 30 privatised companies in the country. So it was an opportunity for us to emphasize the need for results-oriented approaches. We would like to be able to have a discussion with the International Monetary Fund and the World Bank about leaving a country more room to make choices about policies to follow in order to obtain results.

I was a bit anxious when I heard the MEP speaking towards the end when he started talking about having to impose conditions on loans and ask countries to do this and not do that. This is a very dangerous approach. I think that we should stand well back from anything like that. We should be respecting the choices countries make and give them aid to achieve results that we want but let them get on with how do to it. One finial point: privatisation. We very much agree with the doubts that have been expressed about the impact of some privatisations. Our impression is that in some cases they have been useful, in others much less so and in some cases they have had negative impacts. We are in the process in the Commission of working on a position paper on privatisation which should be put to the Parliament and the Council. We want to look in practical terms and as objectively as we can at what the results of certain privatisation operations have been in some countries. And I think that there again we need to learn the lessons from the debates we have at European level and avoid the kind of divisive approach some of us have adopted towards developments outside the Union. It is a complex issue but I think we need to be more objective and less ideological - not just in this area. But very often people privatise for the sake of privatising and not for the well-being of the people concerned. Thank you.

Moderator:
I thank you. Now it is time for a dialogue. If you have a question or a remark to one the representatives of the Commission, please make it clear to whom you direct it. So we are not gathering questions but we make it an open dialogue so that you even can come back to the answer which is given if you think it was not fully satisfactory.

Question from the audience:
I would like to ask a question on the millennium development goals. Are we still having any credibility in the world? At the World Social Summit we had an action programme, where governments committed themselves. Then in 2000 in Geneva we saw that nothing has happened that these were just empty promises. People will no longer have any faith in politicians, people will no longer have any faith in governments because they will say: It is all empty promises, it is all lip service. How are we going to change that some of these governments really stick to their commitments?

Gilles Hervio:
I can really share your concern. That is why we keep on pushing. My feeling is that we are confronted with a severe problem in the development area because we have not many things to show as a result of development efforts of more than thirty years. We are in front of the problem to convince our populations that development policies can at the end deliver some positive results for the populations in the South. That is the feeling I have as somebody really involved since thirty years in development issues. I find myself confronted with a lot of scepticism now when I speak of development outside of our world of committed people. What did we achieve? I think that is why we must not miss the HIPC initiative and need to ensure that within one, two or three years we can show that this HIPC initiative had some positive results. And my feeling is that we have really to concentrate on what is important, namely some results for the countries under the HIPC initiative. If we are able to show these positive results my feeling is that we shall be much more credible by showing that there are in the end some results if you give much more money to these countries. It is not too evident at this stage - I have to admit this. But of course I personally would like to have much more money for development now.

Question from the audience:
Should we not start to support developing countries so that they have more power to pressurize European governments, the American government and the Japanese government to stick to some of the commitments. At present, we are talking about the agricultural policy, about opening up our markets. But nothing is happening. I mean: can developing countries really export their articles, their commodities freely into our countries? I think, politically we might have to start helping some of the developing countries to become a political force so that there is a little bit more of a balance of power in the institutions like the World Trade Organisation. That might benefit, and I think it might be in the self-interest of some of the governments, at least of those that are willing. There are of course some governments who are more willing than others. So perhaps some of the development assistance should go into facilitating developing countries to become a political force thereby creating more checks and balances when the negotiations take place.

Peter Rundell, Directorate General for Development:
I very much agree that the inability of developing countries to resource their negotiating teams is a major block to the negotiations being effective, generating results that do help to reduce poverty. The Commission has been very concerned to develop what gets known as TRTA - trade-related technical assistance - providing support to countries to develop their capacity both to analyse what outcomes would be good for them, what kind of deals would be good, and to develop the negotiating capacity to get towards those results. It is obviously too early for that, since this is an initiative which is only a couple of years old, and the Doha Development Round itself is only just being launched. So I could not produce a table of results for you yet. But yes, it is something we are very aware of, and, yes, it is something we are working on, and it is one of the areas were the Commission is trying to play a leading role. Because it is an area were the Commission has a good deal of experience internally since it is the trade-negotiating body.

Question from the audience:
I would like to raise three questions. My first question concerns development aid and how it is to be defined. Development aid should be understood in a different sense in the context of the South. It should be linked to criteria other than those that have been used so far, because there has not been good consultation. In view of the enlargement of the Union and the new steps it is taking, we need to know whether we are going to redefine the concepts of development aid on the basis of the 0.7 per cent, or are we going to continue as we do? That is my first question. The second one is on debt. You emphasized that in terms of debt there are dangers about the level of debt reduction. I would agree with you, but if you are just going to talk about danger and wave your finger at us there are differences. Some of the richest countries are the most indebted and some of the poorest belong to the least indebted. So there are mistakes in the analysis, and perhaps we should have a real balance-sheet drawn up of what debt actually means, and why different concepts have to be used for the South. There is no point in cancelling debt if it does not benefit anybody because debts are some kind of war imposed by Western powerful countries with the United States at the head of them. And if there is a war then the United States can sell arms and can get people in even more debt. These countries should be dispensed from their debt. So these situations are created on purpose to make people get more indebted when they are not even in a position to pay the first round of debts. And you are making them incur more debt. How can the European Union pursue a policy on this? Because the United States just do this. Is the EU just going to watch? Do you think that you could not help? Do you think that the enlargement will be meaningful enough to stand up to the United States?

Gilles Hervio:
Well, the enlargement is not going to change anything about obligations on aid. 0,7 per cent is the decisive figure, and it is not even a European figure. Rather it is a figure which was adopted worldwide. The fact that we are enlarging should not mean anything at all in terms of changes on debt. I think there is always some interest in having debts cancelled as a means of financing. You can have some form of financing which cancels the debt. You can have a form of financing which goes directly to the country. The position of the Commission on this is that only gifts should be given

and not loans to developing countries. That is all we do now. So there is not any supplementary debt being incurred owing to the support that we give. But once you use that channel of debt cancellation there are various criteria that have to come into play. And maybe other criteria will be relevant in some countries than others. Finally debt cancellation means no more debt but it means no more loans as well. It will prevent many countries from getting access to financing. You say: We are poor, so we have no more right to a loan in effect. I think that this is a very dangerous consequence. It is as if you put it to an individual and say: Well you are poor, so I will cancel your debt but you are not getting any more money. People need loans. You could get into an absurd situation where a country no longer had a right to take out a loan. Financing would be available but the financing institution says: No, you cannot have it, because you got, for example, the African Development Bank. Go and get your loan there since it has got millions of dollars available for loans. The need is huge. There is a problem there, and I think you have to be careful about debt.

Question from the audience:
My question is on the implementation of the currency transaction tax. I agree totally that it is not very easy, and I agree totally that there are a lot of aspects to be considered from a technical point of view. But I think the technical point of view is not the most important part of it because technical aspects could be worked out if there was a political will to implement the tax. Once there is the political will, and the Union decides to go ahead and gives the example I think you know that we certainly could work out the technical aspects. They are not the hardest part. I think the hardest part is to convince the Union that it could make a difference and yes, it could give an example to the rest of the world.

In her response, Mrs Bucher said that every time we meet someone who is convinced of the tax, we also find a different version of how to implement it. Yes, that is true, but it shows how rich and how important the discussion is around these questions. It means there are a lot of people who are convinced. They say: yes, there are a possibilities, there are solutions. We at Attac did some simulations on the feasibility of the tax but I believe also that Professor Spahn has put out a document of more than 50 pages, trying to see if we implement two taxes, one in normal times when the currencies are in the corridor, and another tax which is much higher in times when the currencies go outside of the corridor. Professor Spahn's research underlines the feasibility of the tax, and therefore I do believe that there are possibilities to sit down and work out how to do it technically if the political will was there.

Let me raise one more aspect regarding the tax. You said that there was also a problem in terms of the identification of the currency flows. If I am not mistaken the international clearing firms, in order to execute financial operations, have to give them codes. As far as I know this code is called ISIN. I think that if this code for each operation was decided on internationally by an organisation in charge of such a question, maybe it would be possible to start identifying and tracing all these movements of capital.

My last question is on development. I think we are very far away from the 0.7 per cent, and this goal was set some decades ago already. That is a very long time, you know. We have not made any progress in this regard. And the biggest danger today is not to say that the criteria are going to be wrong. It is just to give to the countries that are the most indebted. Is that the biggest danger? I believe the biggest danger today and the real problem today is that some of these countries have paid more than once their debt. If you look at these amounts that were paid in servicing the debt I believe that the South has given to the North more than the North has given to the South. And if you look at the ODA, the ODA is five time less than what the South gives in servicing the debt. I agree that there are a lot of problems in the South such as corruption. I am not trying to say that governments in these countries are good, no – they are far from perfect. But what I am saying is that today the biggest danger is that the burden of the debt on these countries is being carried on and with ever worse effects on the poorest in these countries. We cannot let this go on forever. Thank you.

Anne Bucher:
Regarding the question of the political will, I think that a tax is not a matter of political will. Any tax has to have a strong legal foundation. And if you do not have it written in a law or in a treaty, the tax cannot be enforced. And so the political will is as good as the objective of the 0.7 per cent goal. So that is the first difficulty we have. And when you think of the examples of supranational taxes, there are only few of them. The EU is one of the few bodies that make use of them. And if you think of the difficulties we have had at EU level to reach the level where we are with defining our own resources and having contributions through customs duties or VAT. Think of the legal architecture which is behind all this, of the controlling institutions which are behind all this; in spite of all this the system has still moved over the years towards a simple contributory system. And everything has been done to remove from the design of the system elements of tax. So I think you need a bit more than just political will when you talk about the implementation of the tax. And that is what we found extremely difficult to define. It is true that the discussion is very rich. I do not think the discussion is closed. This is not at all our point of view. It requires a lot of discussion among technical experts. You mentioned that you can trace individual transactions. That is not what we have been told by our experts in payment systems at EU level. We have to carry on discussing it. Maybe transactions on foreign exchange are not feasible, maybe transactions on financial markets are easier to implement. You can raise several questions and you can think of different types of taxes, and this debate is going on at EU level, too.

Question from the audience:
My questions are addressing both DGs present. The first one stresses the tax issue. I fully agree that a tax needs a legal basis, as you say. In my understanding laws are built on constitutions. In my constitution in Germany we have an article 14.2 which says that every property has to serve the common good. Now, if capital goes out of the country and does not pay taxes for the common good that amounts to breaking my constitution. If there is a law that prohibits that capital can be taxed, this law is against my constitution. If the EU allows capital owners in Germany to go to Luxembourg - a member state of the EU, as you know - in order to avoid taxes, then the EU is helping to violate my constitution. So what is more: a constitution or a law? And how is the EU tackling this question? I know about the technical difficulties and everything but it is a serious question, and the churches in this process that we are representing are looking at this issue from the question of constitutional

rights. And if you are now in the EU trying to bring about a European constitution I hope that at least Germany and other countries that have these clauses in their constitution, watch out that this is written into the European constitution. Therefore, all technicalities given, I think we as citizens have constitutional rights, and whenever the European Union is not really responding in the long run, there will be a discrediting of the EU. The EU should help our governments, and our governments should help the EU. We are raising these issues vis-à-vis the German government as well.
As far as the development DG is concerned, I would like to raise the following question. As far as I understand development is one of the cross-cutting tasks of the EU. We understand that the EU in the WTO's GATS negotiations are really fostering a kind of dogmatic privatisation. I was very happy to hear that you argue for a differentiated way. We ourselves are working on a different kind of property order which in a differentiated way links all forms of property as to how they serve best people in their local and regional setting. I am sure that this is a guiding principle for development. Is the development DG of the Commission involved in the WTO negotiations on GATS looking at the effect of the privatisation of the provisions for basic needs? Just to give you a few examples. Think of California and the experiences there stemming from the privatisation of energy. In this connection, even the Wall Street Journal remarked in an editorial that what privatisation had promised was far way off its actual results. And think of Cochabamba in Bolivia where the privatisation of water nearly brought about a civil war. If we get - with the support of the EU - more and more privatisation of basic services in Europe as well, what is your respective DG doing in order to really follow the principles you have established earlier on, namely looking at the effects, at the results. This is a very critical issue. Regarding these GATS negotiations and the stance the EU is taking, we cannot see so far that the EU is taking the differentiated approach, which you announced.

Anne Bucher:
I am not an expert on the German constitution so I will have difficulties in responding. But maybe this point brings me back to a point I made in the beginning. When you talk of international taxes, any kind of taxes, you have to be extremely precise on what it means. And foreign exchange transactions is not the same thing as taxes on capital flows. And capital is not the same thing as property. What I want to insist on is that the currency transaction tax is not a way of taxing all forms of capital movements. If you are talking about capital flight, then this a problem that can only be approached through tax co-ordination at the international level. And that is being done, for example through the OECD Forum on harmful tax practices where they have identified and agreed upon what is to be considered as harmful tax practice. The OECD has had negotiations with 41 third countries - rich countries as well as poor countries -, and with 31 countries the OECD has come to an agreement; these countries will work out conditions for making their tax systems more transparent and to have proper controls of capital movements. And further now we are thinking about how to reward countries for co-operating with the OECD in fighting tax evasion. There are still some countries which have refused to sign an agreement with the OECD. And there is theoretically the possibility to apply in 2003 defensive measures against these non-co-operative countries. This is the situation at the international level.
What is the situation at the EU level? Basically, the EU treaty says that we have to eliminate what we call tax obstacles or distortions between member states. And for this reason there is a principle that there should not be an evasion of taxation or double taxation for any financial flow - be it related to goods, capital or income. All the EU directives, which have been drawn up in the field of VAT, duties, direct taxation, savings taxation, exactly address the issue you are mentioning, namely that there are goods or capital circulating within the Union without being taxed. So this is a very complex issue, and the taxpayers are clever. So this is sort of an endless job. And member states do not agree easily. Taxation is an area which is managed by unanimity; so before you get to a unanimity between members states a lot of compromises have to be introduced in the proposals for directives. That is about the situation we are in.

Mrs. Johanesson, Directorate General for Development:
I would like to respond to the second question. I am not going to talk specifically about GATS, and part of the reason is that trade and development issues are usually dealt with by the DG on Trade rather than the DG on Development. This was seen as a way to actually mainstream development issues within the trade policy portfolio. So the team who worked on that within DG Development was actually transferred to DG Trade. That is the first response to that.
The second thing is: you talked about cross-cutting issues. I think here you are referring to what is called the Coherence Article in the treaty. And this says that the European Community has to take account of its developmental objectives in policies or activities in other areas which are likely to affect developing countries. Now that is not easy. If you think of something like the reform of the Common Agricultural Policy you can see how difficult that is to achieve. That is something which is very important and something which people working in DG Development work on a lot. And one of the ways we are trying to do this is through the introduction of impact assessments which look at the implications of major policy proposals before they are introduced, including the impacts on developing countries. So this actually started in the trade area, and these assessments are being done for the Doha Development Round and the new Economic Partnership Agreements being negotiated between the EU and African, Caribbean and Pacific countries. While those negotiations are going on there are also studies taking place to look at the potential impacts. But more broadly than trade there was a communication from the Commission just before the summer break in which it committed itself to introduce this kind of impact assessment for all major policy proposals - not just in the trade area. These are going to be introduced in January. What is going to happen is that every year when the policy portfolios of the commission are agreed upon, they are going to identify their major policy proposals which should be subjected to this kind of process. They are going to look at the social, environmental and economic impacts, both within the EU and outside. Again, this is not going to be easy but I think it is a major step forward in trying to ensure that this kind of coherence happens.

Question from the audience:
If you talk about trade this means you necessarily talk about competition. And competition seems to be the priority number one in the European Commis-

sion. What about basic human rights - where are they? I will give you an example: We just had a fresh-water conference in Bonn where the conference agreed - and this has got to do with the IMF and the World Bank - that privatisation should not be a condition for loans. But at the same time Mr Lamy puts out that he wants water as one of the areas where we need to discuss privatisation - and he is offering it. Who decides about what policy in the European Commission? Where is the power? I mean, did you not give away some of the power by shifting issues to the DG on Trade? If this happens, then you know that competition is going to be priority number one. How consistent are we in the EU, saying one thing at a fresh-water conference in Bonn and actually doing contrary things. It was not Lamy who was in Bonn but somebody else from the Commission.

Gilles Hervio:
Just one sentence. I think that you can imagine that we are confronted with these kinds of problems every day. Regarding privatisation, I fully agree that we as the European Commission did not take care enough, in my view, over the last years. That is why we have decided to have this inter-service group to look at what was done, and to try to be much more active in this area instead of a silent approach which we practised for too long. So in the past we were maybe, in some cases, not involved enough in these questions. That is why we now want to try to change.

Question from the audience:
I listened carefully to what Mrs Bucher said about the difficulties in implementing the international currency transaction tax. I think you pointed out three constraints. Regarding your first constraint, namely the huge diversities of the foreign exchange market products. I think if you really want to levy the foreign exchange transactions on the basis of the nominal amount of the financial derivatives, you would certainly face tremendous technical difficulties of implementation. But what is really important? That is the real cash settlements that will go into the pockets of the speculators, right? So I think we do not have to pay attention to the nominal amount of the currency transactions. What is important is the real settlement in the end. And in relation to your second constraint I think most of the transactions in the currency markets are finally settled through one of the clearing systems. And I do not think there are so many clearing systems in the world. If you were up to imposing taxes on some criminal organisation which usually carry their money in plastic bags, you in fact would need a very sophisticated taxation system. But if we leave such criminal transactions aside, it is absolutely feasible to levy taxes through the few clearing houses that there are. Most of the settlement of the international payments go through these few clearing systems.

Anne Bucher:
I think you might be right. But every time you consider one case - and we could talk about derivatives and we could talk about the geographical coverage of the payment systems - every time you look at a case you find that there is always a risk of dislocation. And this will weaken in the end the efficiency of your tax both from a stabilisation point of view and from a revenue-collecting point of view. Anybody can create a payment system over night, anybody can locate it where he wants. I can only explain it in simple words. It is like a market place, a couple of traders can decide that they will meet every week in the middle of the forest and start trading, and that also applies to payment systems. You do not need any legal organisation for this. Therefore there is right now no overarching settlement system. There is one which is being developed but it is not there yet. So I agree with you. There must be a way. And we are still looking for it, but every time we have been looking at concrete solutions we have not found them. And it is a bit the same thing for the derivatives. These financial products have diversified over the years, and if you tax one type of product there are so many others so close to the one you tax that the transactions will be made in the non-taxed form of financial products. It is impossible to have a comprehensive coverage of foreign exchange markets right now.

Question from the audience:
Argentina has been mentioned several times. In a sense, it is a particular situation and I do not want to prioritise Argentina vis-à-vis other countries or regions of the world that are finding themselves at the abyss. But I am from Argentina. Nonetheless, I could also be a European. All my great grandfathers were Europeans. I have Italian, Dutch and Spanish grandfathers. Practically, I am a child of the European Union. Yet, I am a foreigner here. When my grandparents went to Argentina they were fleeing from hunger in Europe. Now the hunger is in Argentina.

I would like you to do an investigation on privatisations. In Argentina, I use European phones, drink European water and my money is being kept in captivity in European-owned banks. When the people of Argentina came to Europe to ask for help the response by the Europeans was: Go and settle your problems with the IMF and the World Bank, only then we will see what we can do.

Being a priest, I am - against this background - reminded of this parable of the little lamb that went to the shepherd and told him: the dog went crazy, it is behaving like a wolf. Who will protect us? And the shepherd said: Go and settle your problems with the dog, and then we will see what we can do. I suppose you can imagine the outcome. The lambs were killed, they were eaten by the dog. And the dog became so mighty and blood-thirsty that it was able to attack the shepherd as well. This is what we are experiencing in our country. In the biblical language the priests are God's shepherds but are governors as well. This is just a parable, but nevertheless we do not want responses such as: we will see what we can do later on. And anyhow, even though you may say many well-meant things here, we have learned that good words alone often do not work. For the time being, we have resorted to pans. Let us see what we will need next. But while I was talking here for these four minutes, twenty children in Argentina have died of starvation. That is all I want to say.

Moderator:
We have come to the end of this hearing. Before I close this afternoon's meeting, I would like to invite Martin Gueck from Kairos Europa to give some concluding words. But before that I want to thank especially the interpreters for their work. Moreover, I would like to thank the representatives of the Commission and the European Parliament for their willingness to take part in this hearing.

CONCLUDING STATEMENT BY MARTIN GUECK, KAIROS EUROPA:

Given that we are already running late I am afraid I have to be very short. I think that in the course of this hearing it has become clear that the positions are still wide apart - this particularly goes for the positions expressed by the representatives of the European Commission as compared to ours. But despite these differences, in my view there is at least a common understanding about one thing which is that something has to change in terms of the international financial system as it is causing ever more negative effects both with regard to what is known as the South but also here in Europe.

I remember the hearing that Kairos Europa organised in the European Parliament back in 1994 on the issue of the international financial system. At that time the representatives of the European Commission and to some extent also the MEPs, laughed at us because we were, even back then, voicing such fundamental criticism of the structures and procedures of the international financial markets. Now in 2002, we are no longer laughed at since even the worst of the crisis scenarios which we already anticipated then in 1994, have become a sad reality.

So nowadays, there is no question as to whether at all the international financial system ought to be reformed, it is now rather a matter of what the reforms should look like. Quite obviously, the dramatic crises that have taken place in the meantime, in countries such as Mexico, Russia, Thailand, Brazil, Turkey and now Argentina, contributed to fundamentally rethink the alleged imperatives of neoliberal globalisation in the field of financial markets. And I must say that already now I am very anxious to know how this argument will look like in three years time when we will come back to the European Parliament to continue our discussions with you as representatives of both the Commission and the Parliament. I am really keen so see what you will have to say then. Anyhow, we are going to stay very much on the ball, and we are going to keep a very keen eye on what the various institutions of the European Union will do and how they will respond to our requests. And I do feel reasonably confident that there will be a degree of progress in the foreseeable future.

It is certainly becoming clear after Seattle and Genova that civil society as such, that churches, trade unions and social movements are getting more and more dissatisfied with what is going on. There is increasing awareness of the fact that the financial markets as they are right now, are not working and that this neoliberal globalisation is really affecting people badly. And I hope very much that this massage is going to get through to the political level and that things will change for the better eventually. Such a change is not only of existential importance for the people in the South, it is also essential for us in Europe. It is quite evident that neoliberal globalisation is causing negative repercussions in Europe too. And we are witnessing the increasing dissatisfaction of Europeans with what is going on, as we can see in the election outcomes: look at the Netherlands, look at France and other European countries too, where nationalist groupings are gaining increasing support and even some of the neo-fascist parties are now seeing a huge upswing in their votes. And they are of course very critical of the whole idea of European integration. I do not think that we can let this go on. In order to solve our problems both at home and globally, we need economic as well as political integration at supranational level. But such an integration has to serve ordinary people and not just those who know how to play on the international financial markets.

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