Meeting of the Council of the Socialist International
United Nations, New York, 21-22 June 2010

STATEMENT ON THE GLOBAL ECONOMY AND FINANCIAL REFORM

A co-ordinated policy is needed

The word-wide financial crisis which started in late 2008 is not yet over. There are severe imbalances in the world economy and there is a great need for a well-coordinated economic policy between the world's major economies. There remains serious uncertainty on the path towards recovery, especially in Europe and also in the USA. There are fears that planned austerity measures could endanger the promising economic recovery.

To this end, this Council meeting of the Socialist International sends a strong message to the G-20 meeting in Toronto, which will take place on 26-27 June 2010, in favour of constructive coordination and jointly agreed exit-strategies from stimulus policies whilst at the same time tackling the imbalances in the world economy.

Many countries have taken on large amounts of debt in order to prevent the crisis from becoming worse. Even without such counter measures, deficits would have grown, simply because downturns lead to lower tax revenues and greater expenditures. The way that bailouts were handled in several countries has particularly contributed to the size of the long term debt.

Whilst it is natural that governments respond to these mounting deficits by making cutbacks in expenditures, it is imperative that services to the poor and basic investments, such as those in infrastructure, education and health, be maintained. To do otherwise would increase the long-term cost of the crisis and impose additional costs on its innocent victims.

It is also imperative that the financial sector be made to bear the costs of the crisis. To do otherwise would be neither fair nor efficient. The repeated bailouts are, in effect, subsidies of the financial sector, and such subsidies contribute to an over-bloated sector and undermine any incentives for change.

Moving to a more progressive tax system will not only increase the sense of social justice, but also help stabilise the economy, as such taxes act as automatic stabilisers.

Too many political leaders are now following a “cut our way out of the crisis” path, which is an unrealistic and dangerous path for recovery in the present situation. It is of great importance that there are coordinated macroeconomic policies and exit strategies and we should not expect that all countries follow an identical path with regard to austerity measures. The question of timing in exit strategies is central. Countries which have shown a trade surplus must be ready to boost domestic demand and formulate mid-term plans to cut deficits and debt. At the same time it is clear that those countries with the largest deficits must proceed more quickly with balancing public budgets.

We note that President Barack Obama has warned that big budget cuts will have a negative effect on growth and unemployment.

Today China has an increasing role in the world economy. Therefore it is vital that China be ready to appreciate its currency and give room to domestic demand.

The world must find a political way to solve the problem of global imbalances at the G-20 level. Extended multilateralism and a new financial code of conduct are needed to balance economic development; spending excesses in deficit countries and export excesses and under-consumption in surplus countries must be balanced.

Financial reform is needed
We have to strive for a totally new financial architecture if we want to prevent new financial crises from arising and the SI welcomes the G-20 decision to support a move towards this new financial architecture, but we are worried about the real commitment of many political leaders. Substantially more and better regulation than we had before the crises is needed. There is also a need to increase transparency and strengthen enforcement of the regulations. We must further act to dismantle tax havens and create automatic tax record exchange systems.

Financial sector Taxation
The IMF interim report estimated that the public debt of the G-20 countries is going to rise 40 percentage points in the years 2008-2015. When we are thinking about fiscal exit strategies it is essential to remember that it was not the public sector, but the private speculative banking sector and the application of the neo-liberal ideology, which caused the sub-prime bubble and speculative boom, which were the underlying cause of the economic and employment crisis. And it was precisely the public sector monetary and fiscal stimulus, which prevented the financial crisis from turning into another Great Depression.

This must be remembered if global and regional financial sector taxes are to be implemented, which would contribute substantially to the costs of the crisis and prevent speculation and irresponsible risktaking in financial markets. We must oblige the financial sector to pay their fair contribution.

A financial transaction tax should be implemented on a global level. This tax could bring substantial revenues and also balance boom and bust cycles in financial markets, which make economic recessions deeper. The Socialist International recognises with satisfaction that European Union is ready to endorse this new idea.

However, a bank tax, which would be levied out of banks' balance sheets, seems to have wide supportin the G-20 countries. It is of vital importance that the G-20 makes serious commitments to financial sector taxes, so that necessary buffer funds could be collected in advance.

New counter-cyclical capital requirements are needed
In all major industrialised countries the banks' capital buffers were systematically reduced, which caused increased leverage in the banking system. Equity ratios were reduced in central financial institutions. The problem with the Basel II Accord was that it allowed pro-cyclical assessment of risks.

The credit rating agencies had a central role here, as they were assessing risks of the same institutions from which they received their funding. This led to undervaluation of risks during the boom. Secondly the banks were able to externalise risks to special purpose vehicles through asset securitisation. It is clear that capital requirements should be tighter than they are now and the pro-cyclical effects of the Basel Accord should be eliminated. The rating agencies should no longer have incentives to evaluate securities in the interest of their issuers. Speculative trading and incentive structures of the banks should be controlled, with higher capital requirements.

In addition to financial sector taxation and stricter capital requirements there is an urgent need to encompass all financial institutions and instruments within regulative structures. We need statesupervised clearing houses for the OTC (over-the-counter) derivatives such as Credit Default Swaps, which would enhance transparency. We need to have the shadow banking system in control: the Volcker rule discussion in the US is a step in this direction, which would mean that large investment banks would not have the ability to play with individuals' savings and pension funds.

At the global level the Socialist International welcomes the agreement of the G-20 nations to create a Financial Stability Board, which should be given enough resources and authority to assess systemic risks at the global level. The Socialist International also expects new regulation for hedge and private equity funds.

Global governance is needed

The G-20 has made important commitments to repair both institutions and the arrangements for managing globalisation. It is crucial that these be effectively implemented, for example that the heads of the international institutions be chosen on the basis of merit. Still, it should be clear that the pace of reform is slow and the reforms on the table, while moves in the right direction, may be insufficient to address the criticism. For instance, while giving China and other emerging markets more voting rights is desirable, there is little reason to believe that it will result in fundamental changes to the behaviour of international institutions. More fundamental reforms, such as double majority voting should be considered.

There should be a commitment that these international institutions comply with the best practices of transparency and governance; this means, for instance, full disclosure consistent with the strongest Freedom of Information Acts and implementing restrictions on 'revolving doors'.

On a number of occasions, for example with respect to determination standards for bank secrecy, the international community has turned to the OECD as an independent “think thank” to act on its behalf, yet it remains an institution of the most advanced industrial countries. There is a need to create analogous international institutions encompassing both developed and developing countries.

The democratic question is a condition to the effectiveness of the economic policies. Without democracy – social, political and environmental – the people do not accept their leaders’ decisions and these decisions lose effectiveness. Citizens should be more involved in the important public choices.

We have to fight against the systematic privatisation and merchandising of the public sector which has an effect on the quality of human life. The public sector is able to give stability to the economic system in this period of break-neck private speculation.